Management Discussion and Analysis of the Financial Condition and Results of Operations for the fiscal year ended April 30, 2011

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Overview

The following management discussion and analysis (MD&A) is a review of the financial condition and results of operations of Critical Outcome Technologies Inc. ("COTI" or the "Company") for the year ended April 30, 2011, and has been prepared with all information available up to and including July 12, 2011. This MD&A is intended to assist in understanding the dynamics of the Company's business and the key factors underlying its financial results. This analysis should be read in conjunction with the audited financial statements and notes thereto for the year ended April 30, 2011. *The financial information contained herein has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") unless specifically identified otherwise. The information as presented herein represents unaudited disclosure.* All dollar amounts are expressed in Canadian dollars. Quarterly interim reports, the Company's Annual Information Form (AIF) and additional supplementary information concerning the Company can be found on SEDAR at www.sedar.com.

Forward-looking Statements

This MD&A contains certain statements based upon forward-looking information ("forward looking statements" or "FLS") concerning the Company's plans for its operations and other matters within the meaning of applicable Canadian provincial securities laws. FLS are necessarily based on estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies. All statements that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future are FLS. FLS are subject to a variety of risks and uncertainties that may cause the actual events or results of the Company to differ materially from those discussed in the FLS, and even if such actual events or results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on, the Company.

Any statements that express or involve discussion with respect to predictions, expectations, beliefs, plans, projections, objectives, or assumptions of future events or performance (often, but not always, using words or phrases such as "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "estimates" or "intends", or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved) are not statements of historical fact and may be FLS. The major FLS included in this MD&A are set out in Table 1.

Table 1: Forward-looking Statements

MD&A Section Heading	Nature of Forward-Looking Information Disclosed
The Business	• Intends to sell or license its targeted molecules • Plans for further testing activities on COTI-2 leading to an IND filing and readiness for a Phase 1 clinical trial • Plans for future application of the CHEMSAS® technology on a collaboration basis • The Company's commercialization strategy for collaborations

MD&A Section Heading	Nature of Forward-Looking Information Disclosed
Liquidity and Capital Resources	• Expectations for future expenditures on patents and computer software • Intentions as to the future use of private placement proceeds • Plans for future research and development projects and additional financing raises • Expectations of future long term contractual commitments • Sufficiency of cash resources to carry out operations for fiscal 2012
Financial and Operational Progress and Outlook	• Scientific experiments planned to optimize the licensing value of COTI-2 • Forecasted expenditures on COTI-2 and the Acute Myelogenous Leukemia (AML) program • Scientific plans for the AML program and the eligibility to apply for future government funding • Plans to develop and market the HIV-1 integrase program for co-development • Plans to apply for government funding of the HIV-1 integrase program
Industry and Economic Factors Affecting Performance	• The expected continuation of losses until a revenue transaction is secured • Plans to negotiate future licensing agreements • Plans to raise additional financing through different venues and mechanisms available to the Company
Changes in Accounting Policies Including Initial Adoption	• The progression of the IFRS (International Financial Reporting Standards) transition plan and project completion estimates • The unlikely adoption of new accounting standards issued by the Accounting Standards Board as the Company is not anticipating any that are applicable to COTI

The basis for the FLS is management's current reasonable expectations, estimates, projections and assumptions. By their nature, they are not guarantees of future performance as they involve significant risks and uncertainties.

The main assumptions used by management to develop the forward-looking information include the following:

- An ability to obtain sufficient financing to support working capital requirements and fund further research and development initiatives over the long term
- An ability to further develop the CHEMSAS® technology for internal and collaborative purposes
- A continuation of favourable preclinical test results from the COTI-2 program and an ability to meet the requirements for regulatory approval
- Obtaining patent protection for the Company's compounds and other intellectual property

- An ability to attract and retain skilled and experienced personnel and to maintain relationships with third party clinical research organizations

Management of COTI considers the assumptions on which the FLS are based to be reasonable. However, management cautions the reader that because of the many risk factors set out in the Company's AIF, including those specifically described below which are of particular importance to the assumptions above, actual results could differ materially from those expressed or implied in the FLS. These assumptions may prove to be wrong, and as such, undue reliance should not be placed on FLS.

The main risk factors that will influence the Company's ability to realize on its FLS include:

- The ability to raise sufficient financing for continuing operations and development
- The ability to establish customer relationships leading to licensing agreements for the Company's compounds
- The ability to generate customer demand for outputs from the CHEMSAS® technology
- Continued favorable preclinical test results
- The ability to meet regulatory requirements to commercialize compounds in particular COTI-2, the Company's lead oncology compound
- The ability to obtain patent protection for the Company's compounds
- The ability to raise sufficient financing to maintain the Company's workforce

The forward-looking information is provided as of the date of this MD&A and the Company does not undertake any obligation to publicly update or revise any forward-looking information, whether because of new information, future events, or otherwise, except as required by securities laws.

The Company

COTI is a London, Ontario based company resulting from the amalgamation on October 13, 2006 of Aviator Petroleum Corp. (Aviator), a public company listed on the TSX Venture Exchange (TSXV), and Critical Outcome Technologies Inc., a private company, under the provisions of the *Business Corporations Act* (Ontario). The amalgamation constituted the qualifying transaction for Aviator pursuant to the policies of the TSXV. The amalgamated company adopted the name Critical Outcome Technologies Inc. and its common shares were listed and posted for trading on the TSXV under the symbol COT on October 30, 2006.

On November 27, 2007, the Company completed an acquisition of all the outstanding common shares in the capital of 3015402 Ontario Inc. (formerly 6441513 Canada Inc.) operating as DDP Therapeutics (DDP), in which the Company had, up to the date of the acquisition, a 10% ownership interest. DDP was formed in early 2005 to develop a library of small cell lung cancer molecules discovered by the Company using its drug discovery technology.

On May 1, 2008, the Company amalgamated with this wholly owned subsidiary under the laws of the Province of Ontario.

The Business

COTI is a biotechnology company focused on applying its proprietary computer-based technology, CHEMSAS®, to identify, profile, optimize and select potential new drug candidates at the discovery stage of preclinical drug development and thereby reduce the timeline and cost of getting new drug therapies to market.

The Company is developing focused portfolios of novel, proprietary and optimized small molecules as potential drug candidates for specific therapeutic targets in diseases that have high morbidity and mortality rates and currently have either poor or no effective therapies. COTI has concentrated on developing drug candidates for the treatment of various cancers, human immunodeficiency virus (HIV), Alzheimer's disease and multiple sclerosis. Cancer types specifically targeted include small cell lung, adult myelogenous leukemia (AML), ovarian, endometrial, pancreatic, brain, breast and colon.

Although the Company intends to sell or license its targeted molecules following synthesis and completion of confirmatory preclinical tests, the Company may also choose to take particularly promising individual molecules forward through various preclinical tests to Phase 1 clinical trials. In this regard, COTI is currently focused on preparing for an investigational new drug (IND) clinical trial submission based on the positive preclinical results achieved for COTI-2, its lead cancer molecule, against a number of cancer indications. Current testing initiatives and planning target an IND filing in calendar 2012. At this stage, this compound would be available for licensing or co-development as a Phase 1 ready compound.

The Company also seeks to leverage CHEMSAS® to identify targeted lead candidates of commercial interest to pharmaceutical, biotechnology, research and academic organizations on a collaborative basis. The Company's preferred commercialization strategy for collaborations involves an upfront fee and a shared risk/reward revenue model delivered through a series of milestone payments based on preclinical and clinical test results. This service offering provides prospective customers with an efficient and cost effective approach for generating discovery stage compounds while enhancing value to COTI and its shareholders from the underlying CHEMSAS® technology. This collaboration approach resulted in two engagements with multinational pharmaceutical companies in the past few years, one for a cancer target and the other for an HIV target.

Overall Performance and Selected Annual Information

The Company's major focus during the fiscal year ended April 30, 2011 (FYE 2011) was on scientific development and marketing efforts for its lead oncology compound, COTI-2. Only minor development occurred on other scientific programs primarily using internal scientific staff resources. Despite the further advancement made on COTI-2, the Company was not able to secure a licensing deal during FYE 2011 and accordingly there were no revenues generated in FYE 2011. See Table 2 for selected financial information for the Company for the current and prior two fiscal years.

Table 2: Selected Financial Information

	FYE 2009	FYE 2010	FYE 2011
Revenue	$ 49,158	$ -	$ -
Loss before other income	(4,095,362)	(3,715,290)	(2,259,429)
Other income	176,343	154,980	204,503
Loss and comprehensive loss	(3,919,019)	(3,560,310)	(2,054,926)
Basic and diluted loss per common share	$ (0.08)	$ (0.08)	$ (0.04)
Dividends declared and paid	-	-	-
Total assets	6,917,125	4,835,094	4,700,819
Long term liabilities	$ -	$ -	$ -

Revenues generated in FYE 2009 came from contract collaboration services with a multinational pharmaceutical company on a cancer target. The Company did not generate such revenue in FYE 2010 or FYE 2011, rather the HIV project was treated as a co-development with synthesis cost reimbursement being treated as a reduction in the synthesis cost reported by COTI and the co-development partner covering the cost of *in vitro* testing directly at their expense.

Other income was generated from two sources; first, interest earned on cash, cash equivalents and short-term investments and second, refundable investment tax credits (ITC) from eligible research and development (R&D) expenditures.

Interest income decreased year over year as the average balances of cash, cash equivalent and short-term investment balances were lower on average and drawn down to finance working capital requirements.

The Company historically recognized ITC income when received, as there was uncertainty as to ultimate collection. Beginning in FYE 2011, the Company recognized ITC's in the year earned because collectability is now considered reasonably certain given the Company's seven year history of filings and collections. Refundable Ontario and Quebec ITCs earned were recorded in FYE 2011, and when added to the FYE 2010 ITCs received, results in the higher level of "Other income" reported.

The decreasing loss before "Other income" and "Loss and comprehensive loss" since FYE 2009 is primarily the result of decreasing R&D expenditures year over year and reductions in stock-based compensation year over year. Spending on R&D in FYE 2009 was at its highest level since Company inception in 2006 but was been scaled back on a focused and managed basis as a means of conserving cash resources as sources of additional financing were explored. The decline in stock-based compensation reflects three major factors; first, differences in the number of options granted year over year, second, changes in the fair value assigned to granted options using the Black-Scholes pricing model resulting from the major assumptions of volatility, the Company share price and exercise prices, and third, recoveries resulting from forfeitures of unvested options.

The decrease in total assets from FYE 2009 to FYE 2010 is attributable to draw-downs in cash and short-term investments throughout the year to fund R&D activities and working capital requirements. The decrease in total assets from FYE 2010 to FYE 2011 is primarily attributable to amortization taken on the Company's intangible assets, most notably on the Company's molecules. The cash and short-term investment position at FYE 2011 was $149,245 higher than the prior year due to a private placement that raised gross proceeds of $2,000,000 in the fourth quarter of FYE 2011.

Financial Review of Full Year Operations

Revenues

There were no operating revenues in FYE 2011 or FYE 2010. The Company continued to pursue a licensing agreement for its preclinical lead oncology compound, COTI-2, during FYE 2011 with several interested parties but without reaching mutual agreement on contractual terms.

ITC income of $194,429 was recognized in the year, comprised of tax credits earned in FYE 2011 for eligible expenditures incurred in the year and $122,244 in tax credits received for eligible expenditures incurred in FYE 2010. The FYE 2010 ITC income relates to tax credits received for eligible expenditures earned in FYE 2009. In FYE 2011, the Company commenced recognizing ITC income in the year earned rather than in the year of receipt, as collection is now deemed reasonably certain. This change was treated as a change in accounting estimate and accounted for on a prospective basis.

The Company earned $10,074 in interest income on its cash and cash equivalents and short-term investments in FYE 2011 compared to $18,194 in FYE 2010. This decrease of $8,120 primarily reflects the lower average balances held by the Company during FYE 2011 (FYE 2011 - $1,212,934; FYE 2010 - $2,216,301).

Operating Expenses

Operating expenses decreased from $3,715,290 in FYE 2010 to $2,259,429 for FYE 2011, a decrease of $1,455,861. Three major expense items, as set out in Table 3, accounted for $1,421,456 of the comparable yearly change or 97.6% of the total decrease.

Table 3: Major Expense Items – Comparative Years

Expense	FYE 2011	FYE 2010	Change
Stock-based compensation	$ 22,113	$ 570,732	$ (548,619)
Research and product development	593,013	1,117,010	(523,997)
General and administration	897,642	1,246,482	(348,840)
	1,512,768	2,934,224	(1,421,456)
Other expenses	746,661	781,066	(34,405)
Total	$ 2,259,429	$ 3,715,290	$ (1,455,861)

The lower stock-based compensation expense for FYE 2011 compared to FYE 2010 primarily resulted from the recovery of $110,509 in previously recognized stock-based compensation expense on 300,000 unvested options cancelled upon the resignation on June 30, 2010 of the Company's previous CEO and recovery of $48,484 on the re-measurement of stock options issued to consultants in prior years. In addition, options granted to the Board of Directors in FYE 2010 were assigned a larger fair value using the Black-Scholes option pricing model and they vested immediately upon grant, resulting in the stock-based compensation expense being fully recognized in FYE 2010 compared to vesting over time on Board options granted in FYE 2011 and hence only partial recognition in FYE 2011. Table 4 provides a breakdown of the components of stock-based compensation expense for FYE 2011 and FYE 2010 respectively.

Table 4: Stock-Based Compensation Expense

	FYE 2011	FYE 2010	Change
Compensation recognized on new option grants	$ 123,820	$ 437,420	$ (313,600)
Compensation recognized on existing options	57,286	133,312	(76,026)
Compensation adjusted on cancelled options	(110,509)	-	(110,509)
Compensation adjusted on re-measured options	(48,484)	-	(48,484)
	$ 22,113	$ 570,732	$ (548,619)

R&D activity was reduced in FYE 2011 as a strategic decision was made to reduce the Company's cash usage and thereby lengthen the Company's operational timeline while seeking additional financing. Table 5 provides a breakdown of R&D expenses for the past two comparative years by major expense type.

Table 5: R&D Expenses

	FYE 2011	FYE 2010	Change
R&D testing, consulting and materials	$ 128,831	$ 339,245	$ (210,414)
Synthesis	68,686	315,888	(247,202)
	197,517	655,133	(457,616)
Labour including benefits	374,269	434,545	(60,276)
Other	21,227	27,332	(6,105)
Total	$ 593,013	$ 1,117,010	$ (523,997)

For FYE 2011, R&D testing, consulting and materials decreased $210,414 due to reductions in the extent of testing. Consistent with FYE 2010, the majority of this cost focused on the Company's lead oncology compound, COTI-2, with spending on COTI-2 of $123,086 or 95.54% in FYE 2011 and $277,745 or 81.87% in FYE 2010.

For FYE 2011, synthesis costs decreased $247,202 compared to FYE 2010. In FYE 2011, $61,865 or 90.07% of synthesis expenditures focused on COTI-2, compared to $66,617 or only 21.09% in FYE 2010. The majority of synthesis cost expenditures in FYE 2010 were focused on the Company's collaboration projects.

R&D labour costs decreased $60,276 in FYE 2011 compared to FYE 2010. This decrease related primarily to the allocation of $53,049 of the Chief Scientific Officer's (CSO) salary costs to general and administrative (G&A) salary expense. The allocation was based on time commitments in his various roles as President, Chief Executive Officer (CEO) and CSO following the assumption of the additional role of CEO in July 2010. The Company also recovered $16,368 in salary costs from government assistance received for its acute myelogenous leukemia (AML) project with the National Research Council of Canada Industrial Research Assistance Program (NRC-IRAP). There were no changes in R&D staff levels during the comparable years.

Table 6 provides a breakdown of G&A expenses by major expense type for FYE 2011 and FYE 2010. The decrease in G&A of $348,840 for FYE 2011 compared to FYE 2010, related primarily to decreased salaries and benefits, director compensation, and travel expenses offset by an increase in professional fees.

Table 6: G&A Expenses

	FYE 2011	FYE 2010	Change
Salaries and benefits	$ 379,196	$ 554,319	$ (175,123)
Corporate governance	83,669	149,638	(65,969)
Promotion and travel	21,409	78,293	(56,884)
Professional fees - financing efforts	-	41,831	(41,831)
Professional fees - other	261,657	248,755	12,902
	745,931	1,072,836	(326,905)
Other	151,711	173,646	(21,935)
Total	$ 897,642	$ 1,246,482	$ (348,840)

Salaries and benefits for FYE 2010 reflected staff levels that included a full-time CEO. The comparable FYE 2011 salaries and benefits were lower following the former CEO's resignation. This decrease in CEO salary was partially offset by a year to date salary allocation of $53,049 as noted in R&D labour costs above.

Corporate governance costs decreased in FYE 2011 primarily due to; fewer meetings of the Board of Directors and its committees, two fewer members on the Board, and a reduction effective May 1, 2010 in the meeting fees paid by cash.

The Company incurred professional fees and travel costs during the first four months of FYE 2010 in efforts to facilitate a non-brokered private placement as reflected in the expense for "Promotion and travel" and "Professional fees – financing efforts". A decision was made to discontinue these financing efforts in August 2010 due to unfavourable market conditions and consequently costs relating to the financing effort during this period were expensed. The financing efforts in FYE 2011 were successful and accordingly the financing related costs were capitalized as share issuance costs and recorded against the private placement proceeds as part of share capital with no expense recorded.

"Professional fees – other" increased primarily due to two consulting contracts initiated in the last quarter of FYE 2010 that were in place during most of FYE 2011. These two consulting arrangements contributed $122,785 to professional fee costs in FYE 2011, with comparable

expense of $39,215 in FYE 2010. The increase in these consulting costs in FYE 2011 was offset partially by decreases in human resource consulting costs of $33,390, intellectual property consulting costs of $12,742 and legal costs of $17,144.

Analysis of Fourth Quarter Fiscal 2011

Summary financial information for the comparative fourth quarter periods ending April 30, 2011 and 2010 (Q4-F'11 and Q4-F'10) is set out in Table 7.

Table 7: Comparative Fourth Quarter Periods

		Q4-F'11	Q4-F'10	Change
Revenue		$ -	$ -	$ -
Expenses:	General and administration	186,047	312,262	(126,215)
	Research and product development	136,478	165,637	(29,159)
	Amortization	119,904	118,832	1,072
	Sales and marketing	56,775	53,997	2,778
	Stock-based compensation	47,025	174,243	(127,218)
	Foreign exchange loss	5,588	6,936	(1,348)
	Interest and bank charges	323	1,130	(807)
Loss before other income		(552,140)	(833,037)	(280,897)
Other income		74,434	1,711	72,723
Loss and comprehensive loss		$ (477,706)	$ (831,326)	$ (353,620)
Basic and diluted loss per common share		$ (0.01)	$ (0.02)	
Weighted average number of common shares outstanding		54,093,041	46,822,623	

The drop in G&A expenses from Q4-F'10 to Q4-F'11 is primarily due to decreased salaries and benefits of $51,571 and decreased patent write-offs of $30,060 for patent filings that management determined would not continue in development. There were no patent write-offs recorded in Q4-F'11. The Q4-F'10 salaries and benefits included $60,000 related to a full-time CEO, whereas Q4-F'11 salaries and benefits reflected $12,136 in salary allocation to G&A for the non-R&D activities of the President and CEO who is also the CSO.

The decrease in R&D expenses from Q4-F'10 to Q4-F'11 is due to a reduction in salaries and benefits of $19,587 and convention costs of $8,126. The decrease in salaries and benefits is attributable to the accrual of IRAP-NRC salary recoveries of $5,410 for the AML project and $12,136 in salaries allocated to G&A for the activities of the CSO. No R&D conventions were attended in Q4-F'11 compared to Q4-F'10 when the CSO was invited by US Oncology to present at the US Oncology Translational Oncology Program Science Summit in Houston, Texas.

The decrease in stock-based compensation expense from Q4-F'10 to Q4-F'11 is due primarily to the grant of fully vested options issued to employees in Q4-F'10, which were assigned a value of $103,659 with no comparable grant issued in Q4-F'11.

Financial Results Two Year Quarterly Summary

Table 8 summarizes the financial results of COTI by quarter for the past two fiscal years.

Table 8: Summary of Quarterly Financial Results

FYE 2011	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
Revenue	$ -	$ -	$ -	$ -	$ -
Loss before other income	(552,204)	(510,123)	(644,962)	(552,140)	(2,259,429)
Other income	2,932	124,952	2,185	74,434	204,503
Loss	(549,272)	(385,171)	(642,777)	(477,706)	(2,054,926)
Loss per common share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.04)

FYE 2010	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
Revenue	$ -	$ -	$ -	$ -	$ -
Loss before other income	(986,899)	(1,119,391)	(775,963)	(833,037)	(3,715,290)
Other income	7,810	142,713	2,746	1,711	154,980
Loss	(979,089)	(976,678)	(773,217)	(831,326)	(3,560,310)
Loss per common share	$ (0.02)	$ (0.02)	$ (0.02)	$ (0.02)	$ (0.08)

The majority of the variation by quarter across the years, and year over year, is explained by three expense categories as set out in Table 9.

Table 9: Selected Quarterly Expense Categories

FYE 2011	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
General and administration	$ 239,404	$ 226,842	$ 245,349	$ 186,047	$ 897,642
Research and product development	196,312	134,769	125,454	136,478	593,013
Stock-based compensation	(69,317)	(35,473)	79,878	47,025	22,113
Total of expense categories	$ 366,399	$ 326,138	$ 450,681	$ 369,550	$ 1,512,768
Total expense for the period	$ 552,204	$ 510,123	$ 644,962	$ 552,140	$ 2,259,429
Expense categories as a % of total expense	66.4%	63.9%	69.9%	66.9%	67.0%

FYE 2010	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
General and administration	$ 329,615	$ 317,812	$ 286,793	$ 312,262	$ 1,246,482
Research and product development	425,860	292,037	233,476	165,637	1,117,010
Stock-based compensation	33,602	309,992	52,895	174,243	570,732
Total of expense categories	$ 789,077	$ 919,841	$ 573,164	$ 652,142	$ 2,934,224
Total expense for the period	$ 986,899	$ 1,119,391	$ 775,963	$ 833,037	$ 3,715,290
Expense categories as a % of total expense	80.0%	82.2%	73.9%	78.3%	79.0%

The variation in G&A expenses year over year is due primarily to the salary and related costs of a full-time CEO throughout FYE 2010. This salary and related costs contributed only two months worth of expense in FYE 2011 as the CEO resigned effective June 30, 2010. The other major contributor was a decrease in the corporate governance costs, primarily lower director's fees as discussed in Financial Review of Full Year Operations.

R&D efforts and expenditures ramped up in Q3-F'09 and the momentum was maintained until Q3-F'10. In Q4-F'10, a strategic decision was made to reduce R&D activity to extend the Company's operational runway. This strategy was maintained during FYE 2011.

The variability in stock-based compensation in the quarters and year over year is due to multiple factors, including the timing of when options are granted, the vesting terms assigned to options, the Black-Scholes assumptions, expense recoveries for options where it was determined that they would not vest and option remeasurements.

Liquidity and Capital Resources

Analysis to FYE 2011

At the end of FYE 2011, the Company had cash, cash equivalents and short-term investments of $2,094,621 compared to $1,945,376 of cash and cash equivalents at FYE 2010 reflecting an increase of $149,245 as summarized in Table 10.

Table 10: Summary of Capital Resources [(1)]

	FYE 2011	FYE 2010	Change
Increase (decrease) from:			
Operating activities	$ (1,598,224)	$ (2,365,805)	$ 767,581
Investing activities excluding changes in short-term investments	(149,942)	(233,392)	83,450
Financing activities before issuance of common shares and warrants	-	(102,443)	102,443
(Decrease) in capital resources before issuance of common shares and warrants	(1,748,166)	(2,701,640)	953,474
Net proceeds from issuance of common shares and warrants	1,899,904	999,075	900,829
Increase (decrease) in capital resources	151,738	(1,702,565)	1,854,303
Less: unrealized foreign exchange loss on capital resources	2,493	4,518	(2,025)
Capital resources - beginning of period	1,945,376	3,652,459	(1,707,083)
Capital resources - end of period	$ 2,094,621	$ 1,945,376	$ 149,245

(1) Capital resources = cash, cash equivalents and short-term investments
The presentation of capital resources is not consistent with GAAP wherein cash is equal to cash and cash equivalents. Cash equivalents are those investments with maturity of 90 days or less from the date of acquisition.

Investing activities in FYE 2011 related primarily to intangible asset expenditures for patents and computer software. The Company conducts periodic reviews of its intangible assets for impairment, including its most recent analysis at FYE 2011 to ensure the carrying value of these assets are not impaired. Investment in such items will continue into the future as the Company relies heavily on computing technology to run its CHEMSAS® process, and investing in patents for the molecules identified from the process ensures that the value of this intellectual property is protected for licensing.

Net proceeds generated from the issuance of common shares and warrants occurring late in FYE 2010 were used to fund internal R&D activities and general working capital requirements in FYE 2011. Although no specific R&D targets were set at the time of the FYE 2010 private placement, $197,517 was incurred in FYE 2011 for contracted research activities.

Of the total $2,000,000 in gross proceeds raised in Q4-F'11, $1,085,000 was designated as funding for general working capital purposes, $765,000 was designated for COTI-2 contract development activities, with the remaining $150,000 designated for transaction closing costs.

No options or warrants were exercised during FYE 2011.

The Company's working capital at FYE 2011 was $1,947,744 compared to $1,705,078 at FYE 2010, an increase of $242,666. Working capital has remained relatively consistent year over year, primarily because of financings raised in Q4 in both years. Current assets continue to remain highly liquid as there are no restrictions on the use of these assets and cash equivalents are invested in instruments with maturities of three month or less. Short-term investments are held in a flexible guaranteed investment certificate cashable without penalty after June 30, 2011.

The Company's exposure to fluctuations in the recoverability of its financial assets is limited as cash not required for current purposes is held in interest bearing cash accounts and short-term investments. Miscellaneous receivables are of high credit quality. The short periods to maturity of these instruments and their capacity for prompt liquidation result in future settlement amounts that are consistent with carrying values. Given the nature of the Company's financial liabilities, there is also limited risk that future settlement amounts will differ from carrying values. The Company does not have any derivative financial instruments, nor does it engage in hedging transactions, as risk exposure is limited.

The Company's long-term contractual obligations are summarized in Table 11.

Table 11: Contractual Obligations

Obligation	Total	2011	2012
Premises rent [(1)]	$ 9,345	$ 9,345	$ -
Research and development contracts	30,870	30,870	-
Total contractual obligations	$ 40,215	$ 40,215	$ -

[(1)] The premises lease agreement expired on May 31, 2009 and has been extended on a month to month basis with a 90 day notice period.

Future Plans Impact

The Company has formulated goals for the upcoming year to advance the testing for COTI-2 in enhancing its attractiveness to potential licensees and to move the AML project forward. The Company expects to continue its efforts in raising financing over the next year to accomplish these goals and advance other R&D projects.

The Company has the potential to raise additional funds through the exercise of stock options and warrants if the future share price exceeds the exercise prices for these securities. At July 12, 2011, the Company has the potential to raise $4,811,275 on the exercise of the warrants and $2,313,808 on the exercise of stock options if they are all exercised. The details of outstanding warrants and stock options are set out in the Company's audited financial statements, however,

a summary of potential gross proceeds based upon "in the money" securities appears in Table 12. The Company cannot predict the likelihood or timing of exercise because it cannot predict future market prices nor gauge the many factors that would influence warrant and option holders exercising their purchase right under these securities.

Table 12: Summary of Potential Warrant and Option Exercise

Security description	In the money [(1),(2)]	Out of the money [(1)]	Total
# of warrants	13,007,500	1,681,750	14,689,250
Gross proceeds on exercise	$3,902,250	$ 909,025	$ 4,811,275
# of stock options	1,122,710	2,894,475	4,017,185
Gross proceeds on exercise	$ 184,395	$ 2,129,413	$ 2,313,808
Total gross proceeds on exercise	$4,086,645	$ 3,038,438	$ 7,125,083

(1) Based upon COTI's closing common share price as at July 11, 2011 on the TSXV.

(2) "In the money" is defined as the closing share price of common shares being greater than the exercise price of the underlying security to buy a common share.

The Company has discretion in many of its budgeted activities and plans to manage these activities in fiscal 2012 within the limits of available cash resources. The Company is taking steps to address future going concern risk by actively seeking potential customers, partners and collaborators as a means of furthering molecule development and generating revenue streams; pursuing alternative sources of financing, including but not limited to, raising capital in the public market and securing government grants. While the Company has a track record of fiscal responsibility and obtaining financing, there is no certainty that any of the aforementioned strategies will enable the Company to alleviate the going concern risk in future years.

Off-Balance Sheet Arrangements

The Company has not historically utilized, nor is it currently utilizing any off-balance sheet instruments.

Foreign Exchange Exposure

During FYE 2011, the Company recorded a foreign exchange loss of $5,699 compared to a loss of $14,949 in FYE 2010. The loss recorded in FYE 2011 reflects $2,493 in unrealized losses resulting from holding foreign currency balances at the year end, compared to $4,518 in unrealized losses at FYE 2010. The foreign currency exposure in FYE 2011 was immaterial and unchanged from FYE 2010.

Related Party Transactions

Related party transactions of a material amount that occurred in the current and prior year are set out in Table 13 below. The share purchases were measured at an arm's length exchange amount consistent with all other participants in the private placement.

Table 13: Related Party Transactions

Name	Relationship	Nature of transaction	Amount 2011	Amount 2010
Various	Directors and officers	Gross proceeds on 616,001 units sold to directors and officers in the April 2010 private placement representing 20% of the gross proceeds of the private placement.	$ -	$ 215,600
K. Ferguson	Director	Repayment of shareholder advances and notes payable.	-	62,849
		Interest paid on interest bearing notes.	-	2,312
G. Kelly	Officer	Repayment of shareholder advances and notes payable.	-	17,633
		Interest paid on interest bearing notes.	-	1,299
Various	Directors and officers	Gross proceeds on 3,740,000 units sold to directors and officers in the March 25, 2011 and April 7, 2011 private placements representing 30% of the gross proceeds of the private placement.	$ 598,400	$ -

Contingent Transaction

Upon the purchase of DDP Therapeutics in November 2007, the Company became contingently liable for the issuance of 1,431,441 common shares as part of the purchase consideration should certain development milestones be subsequently achieved by any molecule from the small cell lung cancer (SCLC) library acquired under the purchase. One half of this contingent share consideration is payable upon the first occasion any molecule achieves one of the following milestones:

a) when the Company is given notification of acceptance of an investigational new drug filing (IND) and an IND acceptance number is received; or,
b) when either the United States (US) or the European patent authorities issue the Company a final patent.

The second half of this contingent share consideration is payable upon any molecule achieving both milestones.

If by November 27, 2015, the eighth anniversary date of the transaction, these milestones are not achieved and the contingent consideration not paid, and if the Company has not abandoned its efforts to develop and commercialize the molecules by this anniversary date, the Company is required to:

a) issue the contingent consideration of 1,431,441 common shares at fair value, or
b) pay cash consideration equal to the amount by which the fair value of the molecules purchased in the transaction exceed the amount invested in the molecules by the Company. If the fair value of the molecules purchased in the transaction is less than the amount invested in the molecules by the Company, no consideration is payable.

The Company's lead oncology compound, COTI-2, is a molecule from the small cell lung cancer (SCLC) library acquired under the purchase. On May 13, 2011, the Company received a Notice of

Allowance from the United States Patent and Trademark Office (USPTO) for its US patent filing related to COTI-2. Based upon the timing of the USPTO approval process, COTI anticipates the patent being issued in Q2-F'12. Upon receipt of the patent, the Company will issue 715,720 common shares to the former shareholders of DDP (which includes the Company's current Chairman and the current President & CEO) representing one half of the contingent consideration for meeting the milestone requiring the issuance of a final patent in either the United States or Europe.

The achievement of the second milestone is not determinable at this time due to the high degree of uncertainty inherent in drug discovery and development in general and by the Company's financial capability to develop and evaluate COTI-2 or any of the other molecules from the SCLC library. The value of the contingent consideration issuable upon milestone achievement or upon the eighth anniversary date of the transaction is not determinable at this time as it is based on fair values in effect at the time such consideration becomes payable.

Subsequent Event – Consulting Agreement

Effective June 1, 2011, the Company entered into an executive management consulting services agreement with one of its directors (Consultant). The agreement has a six month term with two, three month renewal periods that automatically renew unless either party gives 30 days notice of intent not to renew. The Consultant will be paid a daily rate for invoiced time as services are provided. If the first renewal term is not exercised, the Company shall pay a contract termination fee of $9,300. Under the agreement, the Consultant also received 200,000 stock options on June 21, 2011 with 50,000 options vesting on each of the following dates: September 1 and December 1, 2011, and March 1 and June 1, 2012. The options have a five year life and an exercise price of $0.35. The Consultant is also entitled to certain cash bonuses based upon his material contribution to the Company successfully achieving any or all of a license agreement, a collaboration agreement or a financing.

Outstanding Share Information

Outstanding share information as at the close of business July 12, 2011 is set out in Table 14.

Table 14: Outstanding Share Information

	Outstanding	Expiry Date
Common shares		
Authorized - unlimited		
Issued	62,487,494	
Fully diluted [(1)]	81,193,929	
Weighted average outstanding [(2)]	52,817,397	
Common share warrants		
$0.40 compensation warrants	105,607	Oct 27/11
$0.40 compensation warrants	643	Nov 27/11
$0.30 compensation warrants	385,500	Sep 24/12
$0.30 compensation warrants	82,000	Oct 6/12
$0.30 compensation warrants	40,000	Oct 20/12
$0.55 warrants	1,519,070	Oct 27/11
$0.55 warrants	56,430	Nov 27/11
$0.30 warrants	8,152,500	Sep 24/12
$0.30 warrants	2,187,500	Oct 6/12
$0.30 warrants	2,160,000	Oct 20/12
	14,689,250	
Common share stock options		
$0.01 - $0.50	2,101,001	Sep 9/14 - Jun 20/16
$0.51 - $1.00	1,566,184	Jan 11/12 - Jan 17/15
$1.01 - $1.50	250,000	Mar 25/12 - Jul 15/13
$1.51 - $2.00	100,000	Oct 8/12
	4,017,185	

[(1)] Assumes conversion of all outstanding common share stock options and warrants.

[(2)] Weighted average shares outstanding calculated from May 1, 2010 to July 12, 2011.

Financial and Operational Progress Outlook

Financial Outlook for FYE 2012

The Company continues to meet with prospective partners and anticipates that it will be in a good position to reach revenue by negotiating a licensing deal for COTI-2 in calendar 2012. As announced on April 12, 2011 the Company is responding to meaningful scientific and business feedback from prospective partners by initiating a series of three experiments that address risk reduction points common to prospective partners. These experiments have a fiscal 2012 budget cost estimate of $962,000 and will strengthen the scientific profile of COTI-2 making it more valuable to a potential partner through the reduction in the risk profile of the compound. Information from these scientific experiments will be shared with prospective licensees as it becomes available and all experiments are targeted for completion by the end of the first quarter of calendar 2012. The Company is focused on getting COTI-2 to a licensing agreement

not only for the monetary benefit to its shareholders but the opportunity this presents for further development in the clinic and ultimately for oncology patients.

With the reduction in R&D expenditures in FYE 2011, the ITC refund expected to be received in FYE 2012 is somewhat lower than in FYE 2011. The increased R&D expenditures budgeted for FYE 2012 are planned to be placed with contract research organizations in the most cost effective manner considering the opportunity for refundable ITCs in identifying least cost best value suppliers.

As noted earlier, the Company is looking to complement the development of COTI-2 and its ultimate licensing by advancing other compound projects along parallel tracks. To facilitate both the completion of COTI-2 testing and advancing other programs, management will need to seek additional financing and continues to pursue opportunities in this regard. It is management's intent to move development forward carefully within the context of its ability to finance such development as it has in past years. The ability to obtain the necessary financing is paramount to realizing on the development plans and achieving a licensing agreement for COTI-2 in fiscal 2012.

The AML project, which developed only modestly in FYE 2011, is expected to progress more robustly with route to synthesis, synthesis and *in vitro* testing planned for FYE 2012. Budgeted spending on the project for FYE 2012 is expected to be offset through recovery of approximately $100,000 from an NRC-IRAP funding commitment available in FYE 2012. To realize on this recovery, the Company must incur $50,000 in internal labour expenditures and $136,364 in third party research expenditures in the upcoming year.

Expenditures on G&A and sales and marketing activities for FYE 2012 are expected to remain consistent with those incurred in FYE 2011.

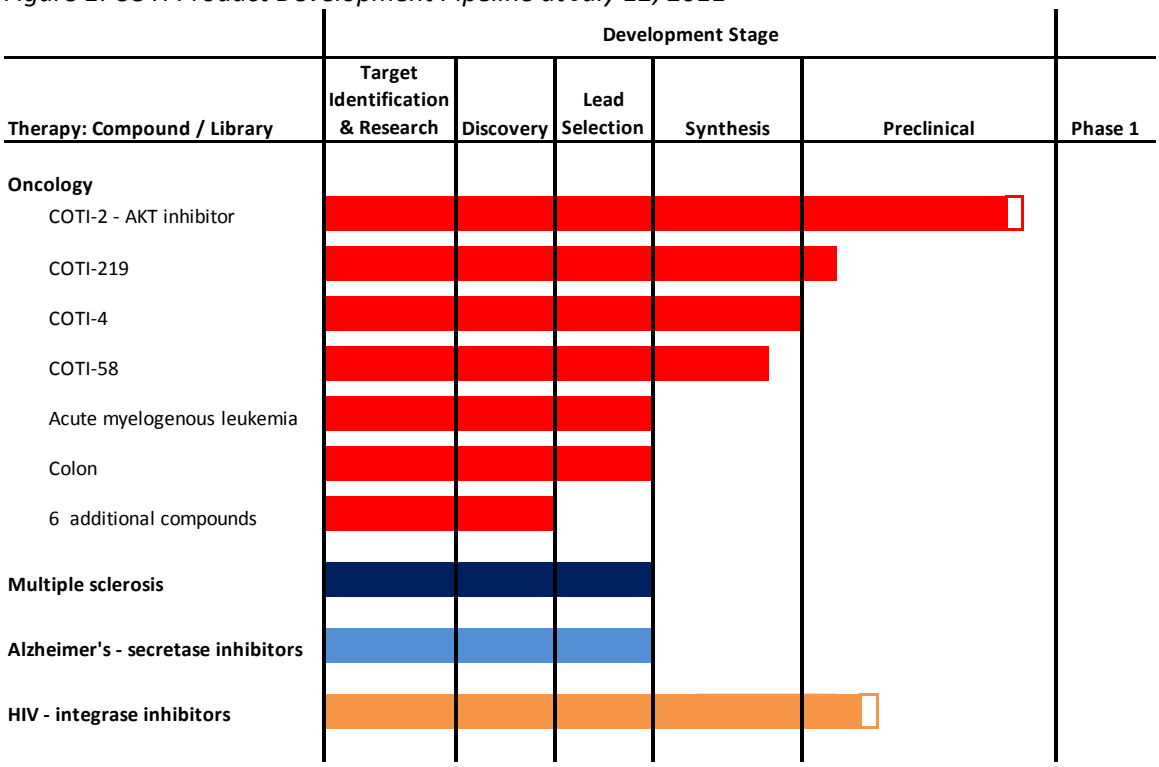
Expenditures on intangible assets and capital assets are also anticipated to remain consistent with spending in these areas in FYE 2011 of approximately $150,000. As in FYE 2011, this spending is primarily on the Company's patent portfolio.

Product Development Progress – Q4-F'11 and Future Outlook

The Company continued to make progress in developing its drug candidate pipeline during FYE 2011. Figure 1 highlights the development status of specific compounds and libraries to the date of this report.

The Company has a number of drug compounds and programs whose further development remained on hold during Q4-F'11 because of limited financial resources. These include oncology compounds COTI-4, COTI-219 and the colorectal cancer portfolio, the multiple sclerosis program and the Alzheimer's disease project. Modest development continued on the AML project and HIV program using internal resources during the quarter. The Company is exploring a variety of ways to realize value on these compounds or further their development through co-development projects.

Figure 1: COTI Product Development Pipeline at July 12, 2011



Note: A clear box indicates the progress made in the quarter for a particular library or compound.

COTI-2

In May of FYE 2011, the Company received a favourable pre-investigational new drug (pre-IND) gap analysis report from an independent team commissioned to assess the completeness of the COTI-2 development program as it prepared for a Phase 1 clinical trial. A thorough analysis of the preclinical data package for COTI-2 revealed no deficiencies in the COTI-2 program. Following this report, the Company made progress on the development of COTI-2 toward an IND filing with efforts focused on the completion of select *in vivo* tests and an optimized oral formulation.

During the past year, Company representatives attended international pharmaceutical partnering events, scientific conferences, and held on-site meetings at the head offices of several global pharmaceutical companies. During these in-depth scientific and business meetings, the Company identified three scientific experiments that address risk reduction points common to prospective partners. On April 12, 2011, the Company announced that it was commencing work on three milestone studies. The studies to be completed are:

1. A pharmacodynamic xenograft study designed to demonstrate that Akt/Akt2 is a target for COTI-2 in the intact organism with a human tumour that produces increased amounts of Akt.

2. The completion of an optimal oral formulation for COTI-2 that can be used for investigational new drug (IND) enabling experiments and Phase 1.

3. An IND enabling 28 day/acute toxicity study in two animal species using the optimally formulated COTI-2.

To date, the cumulative scientific *in vitro* and animal data strongly support a conclusion that the protein(s) Akt/Akt2 are important cellular targets for COTI-2 in many types of cancer cells. The first study noted above, is designed to demonstrate a clear pharmacodynamic relationship between blood levels of COTI-2 and the level of phosphorylated or active Akt/Akt2 in the tumours from COTI-2 treated animals compared with control animals. Given the importance of this confirmatory data to potential partners, a series of animal experiments commenced at a prominent Canadian cancer research laboratory in April 2011.

Results confirming a significant relationship between blood levels of COTI-2 and reduced levels of phosphorylated Akt/Akt2 in tumour tissues relative to observed tumour growth inhibition would represent powerful confirmatory evidence that Akt/Akt2 are cellular targets for COTI-2 in susceptible cancer cells. This new data will be important to potential licensing partners because it can provide insight into target selectivity, identify potential off target toxicities and suggest a clinical development strategy. The Company anticipates completion of these by late July/early August 2011.

On May 18, 2011, the Company announced that it was initiating the second project noted above to develop an optimal oral formulation of COTI-2 for use in humans. The objective of this oral formulation is to maximize the amount of an orally administered dose that is absorbed into the body and reaches systemic circulation. While the Company conducted experiments on this throughout FYE 2011, COTI sought to engage a recognized industry leader to enhance dramatically its own efforts. Xcelience Formulation Development, LLC of Tampa, Florida has a record of accomplishment in formulating more than 100 development stage small molecules for clinical use and commenced this project work in May 2011. Following their optimization work, COTI will conduct two confirmatory experiments on the optimized formulation, first, an *in vivo* pharmacokinetic experiment and second, an *in vivo* xenograft efficacy test. This formulation and confirmation work is expected to be completed by the end of Q2-F'12 or early Q3-F'12.

Once an optimal oral formulation is established, the Company will engage in additional scientific work related to data submissions necessary for an IND filing but also necessary to support the acute toxicology studies forming part of the IND test results and the subsequent Phase 1 clinical study. In addition to the 28 day acute toxicology study noted as the third milestone experiment above, the Company will also complete single dose maximum tolerated dose and dose range finding experiments as part of the toxicology studies using the optimized formulation prior to completing the 28 day toxicity study. The toxicology studies are expected to commence in Q3 F'12.

Acute Myelogenous Leukemia

The Company continued modest development of its AML compounds as part of a project being co-funded by the National Research Council of Canada Industrial Research Assistance Program (NRC-IRAP), as announced on June 29, 2010. The Company recognized $5,410 in government assistance in Q4-F'11 and $16,368 for FYE 2011 related to optimizing the compounds in computer simulations in preparation for synthesis. The compounds are expected to undergo

route to synthesis design and enter synthesis in Q1-F'12. Figure 1 previously showed the AML project development to be partially completed for synthesis and this has been changed in the current figure to reflect that the final lead compounds have not been synthesized. The prior disclosure was reflecting that the parent scaffolds had been synthesized and while accurate in this regard was inconsistent with progress on the ultimate compound to be taken forward in preclinical development.

On February 17, 2011, the AML contribution agreement with NRC-IRAP was mutually amended to reflect a reduction in the financial contribution of $300,000 over the two government years of 2010-11 and 2011-12 to $110,958. The amendment was initiated because of funding constraints within the Company that precluded spending on the project sufficient to recover the NRC-IRAP contribution allocated for fiscal 2011. The Company is eligible to apply for further AML funding once NRC-IRAP is able to accept funding requests for its fiscal 2012-13 year. The Company anticipates making this application in Q1-F'12 to reinstate the total contribution to the project to the original amount of $300,000.

Collaborations and Co-Development Projects

HIV-1 Integrase Co-development

Development efforts on the HIV integrase inhibitor program continued in Q4-F'11. Unfortunately, late in Q4-F'11 the co-development project concluded with COTI's major pharmaceutical partner as the Company was advised by the partner that they were suspending all HIV-related work not already in an advanced clinical trial phase.

On May 5, 2011 the Company announced that it was seeking a new pharmaceutical partner to continue the development of its novel scaffolds for inhibiting HIV-1 integrase, as part of a program with the potential to lead to a new drug therapy to help fight the HIV virus. The continuance of the program was based upon the positive results from the first phase of the program highlighted as follows:

- a novel HIV integrase compound that is unlike the diketo acid type moiety approach of current therapy in use or in development
- an entirely new binding mode that may be advantageous for patients who are resistant to the current class of HIV integrase inhibitors
- interaction with the active site of the viral enzyme
- initial confirmatory *in vitro* testing demonstrating good inhibitory activity in a biochemical HIV integrase assay at nanomolar concentrations
- all intellectual property rights for the compounds residing with COTI

In Q4-F'12, the Company also made a submission to a new initiative of the NRC-IRAP called the Canadian HIV Technology Development Program (CHTD), which is part of a wider Canadian HIV Vaccine Initiative under a collaboration between the Government of Canada and the Bill and Melinda Gates Foundation. The National Research Council announced this program initiative on January 25, 2011. The project submission seeks financial support to move COTI's HIV integrase research forward on compounds that are characterized as being virocidal with a different binding mode than current integrase treatments and with activity against Isentress® (raltegravir,

the only integrase treatment on the market) mutant strains. Subsequent to year end, the Company was advised that project approval and funding was being delayed on all CHTD program submissions until September 2011. Whether funding will be obtained at that time is unknown but the Company hopes that such funding will assist in financing further development of these compounds in FYE 2012.

Industry and Economic Factors Affecting Performance

The biotechnology industry is regarded as high risk given the uncertain nature of developing drug candidates and limited access to capital. On the other hand, success in this industry can be highly rewarding. COTI operates in the discovery and preclinical stage of the drug development cycle. The realization of COTI's long-term potential is dependent upon the successful development and commercialization of molecules discovered using the Company's drug discovery technology either for its own account or in collaboration agreements for others, and in utilizing the technology to provide profiling and screening services on a fee for service basis. The major industry and economic risk factors affecting realization of this potential in FYE 2011 remained substantially unchanged from the analysis discussed at length in the Company's prior year AIF and annual MD&A.

The three risk categories having the greatest affect on the Company during the year were:

1. the lack of product revenues;
2. securing adequate licensing agreements; and
3. financing requirements.

Lack of Product Revenues

COTI has not recorded any revenues from the sale or license of any drug compounds or compound libraries since it became a public company in October 2006. COTI has an accumulated deficit since its inception through to April 30, 2011 of $13,798,234. This deficit is expected to increase in the near term as COTI continues its product development efforts, develops relationships with prospective customers, and strives to obtain licensing and collaboration agreements. Operating losses are expected to be incurred until upfront licensing, milestone and royalty payments are sufficient to generate revenues to fund continuing operations. COTI is unable to predict with any certainty when it will become profitable, or the extent of any future losses or profits.

Securing Adequate Licensing Agreements

The Company's ability to commercialize its products successfully will depend first, on meeting the scientific due diligence requirements of prospective customers and second, on its ability to negotiate satisfactory licensing terms with pharmaceutical and biotechnology organizations for preclinical compounds. While continued positive test results during this fiscal year, including the most recent efforts on developing an optimal oral formulation of COTI-2, generate positive feedback from potential licensees, efforts have not translated into a contractual agreement. Licensing discussions during FYE 2011 continued to find an increasing interest for earlier stage deals, as the focus on late stage compounds during the past three years has diminished the

availability of good compounds in the mid to late stages of clinical development held by companies looking to license. This was reflected in an increasing number of early stage deals in many therapeutic areas during calendar 2010 and into 2011. Industry media coverage continues to highlight the productivity challenges of pharmaceutical industry R&D spending in generating new compounds (The Financial Times, Feb 9/11, Drugs: Supply Running Low) but there is no certainty that licensing deals can be successfully negotiated for COTI's preclinical compounds.

Financing Requirements

The Company is seeking additional funds to continue to develop its R&D programs and move compounds more rapidly through development in calendar 2011 and 2012. The Company intends to raise these funds through public or private equity offerings, convertible debt, and collaborations with other pharmaceutical and biotechnology organizations or from other sources. If adequate funding is not available, COTI may be required to delay, reduce, or eliminate one or more of its R&D programs or obtain funds through corporate partners or others who may require it to relinquish significant rights to product candidates or obtain funds on less favourable terms than COTI would otherwise accept. COTI's success in obtaining future capital requirements will depend on many factors, such as establishing and maintaining investment industry relationships, collaborative partnering relationships and the general economic conditions and availability of capital in the equity markets for biotechnology companies.

COTI is a Tier 2 issuer on the TSXV and accordingly is not required to file an AIF; however, the Company voluntarily filed its first AIF on August 30, 2010 to strengthen its ability to raise public financing. This filing enables the Company to proceed with a short form prospectus offering at a later date should the Company determine this to be an appropriate course of action at that time.

Despite the Company's financing efforts and successful track record, there can be no assurance additional funding will be available on terms acceptable to COTI.

Changes in Accounting Policies Including Initial Adoption

(i) Change in Accounting Policies

The Company did not change any of its accounting policies in FYE 2011.

(ii) Adopted in FYE 2011

The Company did not adopt any new accounting standards in FYE 2011 as no new standards were issued by the CICA that required adoption.

(iii) To be Adopted in Fiscal 2012

The Canadian Institute of Chartered Accountants issued new accounting standards that will apply to the Company for Fiscal 2012 and beyond. These standards are described below.

a) International financial reporting standards (IFRS):

Canadian publicly accountable enterprises are required to adopt International Financial Reporting Standards (IFRS) for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparative financial statements for the prior fiscal year. IFRS uses a conceptual framework similar to Canadian GAAP (CGAAP), but there can be significant differences in recognition, measurement and disclosure. For COTI, the change to reporting financial results under IFRS will be required for the interim and annual financial statement reporting periods of its fiscal year ending April 30, 2012. However, in order to provide comparative data for this reporting period the Company will need to capture its financial results under IFRS commencing with its April 30, 2011 year end. To accomplish this, off-line financial statement reconciliations under IFRS are being prepared.

A formal IFRS transition group was established by the Company that includes representation from the Board of Directors, senior management and external advisors. Selected members of the Audit Committee of the Board provided governance oversight and received regular progress reports on the advancement of the conversion to IFRS. Finance staff are executing the IFRS transition plan and implementing the findings into the financial reporting process. The Company's auditor, KPMG LLP, was engaged to provide technical accounting advice on the interpretation and application of IFRS for the implementation decisions made by management.

In order to prepare for the transition and gain the financial reporting expertise necessary to implement IFRS, the Company's finance staff and members of the Audit Committee have engaged in activities designed to increase their knowledge of IFRS. Training has been accomplished through formal course attendance, informal instruction and self-study.

The Company's IFRS transition plan encompassed three phases at inception. These phases and their status are outlined below.

- Diagnostic – this phase involved the preparation of a high-level diagnostic analysis of the key financial statement items expected to be impacted upon transition to IFRS. As part of this process, the Company identified key data requirements and process modifications that would be required before transition occurred. The Company completed the diagnostic phase of its IFRS transition plan during FYE 2009.

- Development – this phase involved a more detailed analysis of the impact of IFRS on key financial statement items and focused on implementation differences and issue resolution. During this stage of the transition process, management will finalize financial statement component evaluations (CEs) and make decisions on accounting policy options. The development phase will conclude with the preparation of a model set of financial statements prepared in accordance with IFRS.

- Implementation – this phase involves the execution of changes to financial reporting and business processes that will enable the Company to compile financial statements that are compliant with IFRS. Accounting policies compliant with IFRS will be approved and entrenched in the financial reporting system.

At the end of FYE 2010, it was expected that the development phase of the IFRS transition would be complete and fully implemented by the end of FYE 2011. However, progress towards this goal was delayed in Q4-F'11 as management's efforts were focused on financing and with limited internal resources, management was not able to finalize all CEs within the original time frame.

In FYE 2011, the Company did make significant progress towards completion. At April 30, 2011, the Company had completed draft CEs for 100% of the accounting standards applicable to the Company. Of the twenty-five CEs prepared as part of the transition, six were finalized and approved by the Audit Committee. An additional eleven CE's have gone through the advisor review process and are awaiting approval. The final eight CEs are in draft form and will go through the advisor review process in Q1-F'12. The Company expects to finalize all CEs by the end of Q1-F'12.

The process of drafting model financial statements compliant with IFRS has commenced and completion is anticipated to coincide with the finalization of the CEs. Draft financial statement notes were completed in conjunction with the preparation of the CE's, therefore the Company believes that it is well positioned to prepare high-quality financial statement notes for its Q1-F'12 reporting. The implementation phase of the transition plan is expected to commence in Q1-F'12 thereby enabling the Company to prepare the interim comparative financial statements on a timely basis.

In anticipation of issuing its first set of IFRS compliant financial statements for the interim period ending July 31, 2011, the Company plans to engage its auditor for assurance services. The extent of auditor involvement in the first set of interim financial statements prepared under IFRS has yet to be determined.

The operational implications of accounting policy changes are limited as the Company is not subject to debt covenant restrictions and does not have any externally imposed capital requirements. IT and data system implications are expected to be limited as the Company uses an off-the-shelf accounting software package. Certain adjustments and reconciliations are prepared outside of the accounting software package and current processes are deemed sufficient to capture any new data required under IFRS. The impact on the system of internal controls currently in place in the Company is not expected to be significant, as the small size of the organization does not support the need for further controls. Existing governance controls in regards to financial reporting are being enhanced by IFRS training undertaken by the finance department.

Taxation impacts are expected to be limited as the Company does not currently generate taxable income nor does it recognize any of its net deferred tax assets under CGAAP.

The anticipated implications upon transition to IFRS based on the accounting standards for the CE's finalized at April 30, 2011 are outlined in Table 15.

Table 15: Implications of Finalized Component Evaluations

No.	Component evaluation	Accounting policy alternatives and/or changes	IFRS 1 implications	Anticipated impact on the opening balance sheet	Significant disclosure implications
1	Equipment	Equipment will be measured using a cost model rather than a revaluation model based on fair value. Equipment additions will be componentized in situations where individual elements are sufficiently dissimilar to warrant separate measurement.	The Company will not elect to apply the fair value or revaluation as the deemed cost upon transition using the available exemption provision.	No adjustments to the opening balance sheet are anticipated as equipment is carried at cost under CGAAP. An increase in Net Book Value of $12,147 is anticipated upon transition to reflect the componentization of certain pieces of equipment had it been done since COTI's inception.	A detailed reconciliation of opening and closing cost and accumulated amortization will be included in the financial statements.
2	Business combinations	No accounting implications are anticipated. COTI's past acquisition transactions were accounted for as a "purchase of assets" and a "reverse takeover", not a "business combination" under CGAAP. The accounting treatment under IFRS is consistent with CGAAP for both of these transactions.	No exemption is applicable, as prior transactions did not constitute business combinations.	No adjustments to the opening balance sheet are anticipated.	None anticipated as no new business combinations occurred in FYE 2011 nor is any anticipated in FYE 2012.

No.	Component evaluation	Accounting policy alternatives and/or changes	IFRS 1 implications	Anticipated impact on the opening balance sheet	Significant disclosure implications
3	Leases	No accounting implications are anticipated. COTI's arrangements are monthly rentals. IFRS does not require that these arrangements be recognized as finance leases.	None anticipated.	No adjustments to the opening balance sheet are anticipated.	None anticipated as there were no finance leases outstanding in FYE 2011 nor are any anticipated for FYE 2012.
4	Development stage company	No accounting implications are anticipated. IFRS does not specifically address the accounting and disclosures required for development stage companies.	None anticipated.	None anticipated.	None anticipated.
5	Earnings per share	No accounting implications are anticipated. IFRS and CGAAP are consistent for COTI given the current net loss position.	None anticipated.	None anticipated.	None anticipated.
6	Borrowing costs	No accounting implications are anticipated. COTI does not currently engage in activities that meet the criteria for capitalization of interest costs.	None anticipated.	None anticipated.	None anticipated.

Table 16 sets out the implications of those CE's that have gone through the advisory review process and are awaiting finalization.

Table 16: Implications of Component Evaluations Completed Advisory Review

No.	Component evaluation	Accounting policy alternatives and/or changes	IFRS 1 implications	Anticipated impact on the opening balance sheet	Significant disclosure implications
1	Stock-based compensation	Stock-based compensation will be calculated using the graded method rather than the current straight-line method.	The Company will elect to retain the historical accounting treatment for stock options, which have vested before transition to IFRS. Any unvested options will be remeasured in accordance with IFRS 2.	An adjustment (if any) to the opening balance sheet has yet to be quantified.	Transitional disclosures will be required for any adjustment to stock-based compensation.
		The measurement of stock-based compensation will incorporate anticipated forfeitures rather than recognizing forfeitures only when they occur.	Any unvested options will be remeasured at transition, incorporating anticipated forfeitures into the calculations.	An adjustment (if any) to the opening balance sheet has yet to be quantified.	Transitional disclosures will be required for any adjustment to stock-based compensation. Additional disclosures are anticipated around COTI's estimates of expected forfeitures, volatility, etc.
		The measurement date for options granted to consultants will change from the date of completion of the underlying contract to the grant date of the options because the services provided by the consultants are similar to those services that could be provided by an employee.	The Company will elect to retain the historical accounting treatment for stock options, which have vested before transition to IFRS. Any unvested options will be remeasured in accordance with IFRS 2.	An adjustment (if any) to the opening balance sheet has yet to be quantified.	Transitional disclosures will be required for any adjustment to stock-based compensation.

No.	Component evaluation	Accounting policy alternatives and/or changes	IFRS 1 implications	Anticipated impact on the opening balance sheet	Significant disclosure implications
2	Intangible assets	Intangibles will be measured using a cost model rather than a revaluation model based on fair value since there is no active market for COTI's intangible assets.	The Company cannot apply the fair value revaluation for the deemed cost exemption in IFRS 1 upon transition as there is no active market for COTI's assets.	No adjustments to the opening balance sheet of a material amount are anticipated.	A detailed reconciliation of opening and closing cost and accumulated amortization will be included in the financial statements.
3	Impairment	The recognition and measurement of an impairment loss differs between CGAAP and IFRS due to differences in the underlying amounts, which determine if an impairment loss should be recognized, and how the impairments are calculated. However, these differences are not expected to affect COTI's intangible assets at transition.	None anticipated.	None anticipated.	Disclosure of the composition of "cash generating units" is anticipated, as well as disclosure of the recoverable amount in instances where there is a material impairment loss.
4	Accounting policies, estimates and errors	No accounting implications are anticipated. IFRS and CGAAP are consistent for COTI given current circumstances.	None anticipated.	None anticipated.	More disclosure is anticipated for those areas, which involve judgment. Areas where more disclosure is anticipated include impairment and carrying values of intangible assets and equipment, stock-based compensation estimates, research and development accruals, and

No.	Component evaluation	Accounting policy alternatives and/or changes	IFRS 1 implications	Anticipated impact on the opening balance sheet	Significant disclosure implications
		Retroactive restatement requires the use of a 3rd balance sheet (i.e. opening balance sheet) where a change in accounting policy, correction of an error, or reclassification occurs.	As stipulated in IFRS 1, a 3rd balance sheet is also required when COTI first transitions to IFRS.	None anticipated.	deferred taxes. A 3rd balance sheet is also required when COTI first transitions to IFRS. Specific disclosures are also required upon transition to IFRS.
5	Provisions and contingencies	Although the criteria for the recognition of provisions and contingencies have changed, this change is expected to have no impact on the Company.	None anticipated.	None anticipated.	None anticipated.
6	Employee benefits	IFRS and CGAAP are relatively consistent as it relates to employee benefits currently provided by COTI. The only potential change anticipated upon transition would be to recognize the prepaid portion of employee payroll taxes for interim periods as IFRS requires that government payroll taxes be recognized over the entire year, rather than as they are paid.	None anticipated.	The adjustment at transition to IFRS has been calculated at $5,805 and is considered immaterial.	IFRS requires disclosure of all employee benefits for key management personnel and directors. Since the Company uses a functional approach in the presentation of its income statement, employee benefits will need to be disclosed separately in the notes to the financial statements.

No.	Component evaluation	Accounting policy alternatives and/or changes	IFRS 1 implications	Anticipated impact on the opening balance sheet	Significant disclosure implications
7	Investment tax credits and government assistance	No accounting implications are anticipated. IFRS and CGAAP are consistent for COTI given current circumstances.	None anticipated.	None anticipated.	None anticipated.
8	Financial instruments	No accounting implications are anticipated. IFRS and CGAAP are consistent for COTI given current circumstances. COTI will not be electing to apply the requirements of IFRS 9 upon transition to IFRS, as the effective date is not until January 1, 2013.	None anticipated.	None anticipated.	None anticipated.
9	Revenue recognition	No accounting implications are anticipated as COTI has had very limited revenue transactions to date. No revenue transactions occurred in FYE 2011.	None anticipated.	None anticipated.	None anticipated.
10	Inventories	No accounting implications are anticipated, as COTI does not recognize any inventory in its financial statements.	None anticipated.	None anticipated.	None anticipated.
11	Related party transactions	No accounting implications are anticipated. IFRS and CGAAP are consistent for COTI given current circumstances.	None anticipated.	None anticipated.	More disclosure surrounding related parties is anticipated, specifically surrounding key management personnel compensation.

Table 17 below sets out those CEs drafted but not submitted for advisor review.

Table 17: Component Evaluations Drafted for Advisor Review

No.	Component evaluation	Accounting policy alternatives and/or changes	IFRS 1 implications	Anticipated impact on the opening balance sheet	Significant disclosure implications
1	Foreign currency translation	No accounting implications are anticipated. IFRS and CGAAP are consistent given that COTI is a stand-alone entity. It does not have a foreign parent nor does it have any foreign subsidiaries.	None anticipated.	None anticipated.	None anticipated.
2	Income taxes	No accounting implications are anticipated. IFRS and CGAAP are consistent given that COTI does not currently generate any taxable income nor does it recognize any future tax assets.	Deferred tax adjustments may affect disclosures if any adjustments are recognized upon transition to IFRS, which have tax effects.	None anticipated.	More disclosure is anticipated, specifically in regards to the major components of tax expense and an explanation of changes in the applicable tax rates compared to the previous accounting period.
3	Events after the reporting period	No accounting implications are anticipated. IFRS and CGAAP are consistent for COTI given current circumstances.	None anticipated.	None anticipated.	CGAAP does not require disclosure of the authorization date of financial statements nor does it require disclosure of who gave the authorization. IFRS requires such disclosure, which in COTI's case would be the Board of Directors giving authorization.

No.	Component evaluation	Accounting policy alternatives and/or changes	IFRS 1 implications	Anticipated impact on the opening balance sheet	Significant disclosure implications
4	Statement of cash flows	No accounting implications are anticipated however there may be changes in presentation upon transition. For example, the statement of cash flows prepared under IFRS will present interest received within the operating activity reconciliation, rather than disclosing supplemental cash flow information separately.	None anticipated.	None anticipated.	None anticipated.
5	Interim financial reporting	No accounting implications are anticipated however there may be changes in presentation upon transition. For example, period disclosures within the cash flow statement under CGAAP include the interim period and year to date, for both the current fiscal period and the comparative period. Under IFRS, only the year to date period requires disclosure for the current fiscal period and the comparative period.	The Q1 interim financial statements are expected to have significantly more disclosure that what has historically been published in COTI's quarterly filings.	None anticipated.	For the first set of interim financial statements prepared in the first year that COTI adopts IFRS, specific disclosures are required under IFRS 1.
6	Segment reporting	No accounting implications are anticipated. IFRS and CGAAP are consistent for COTI given that it does not have any reportable segments.	None anticipated.	None anticipated.	None anticipated.

No.	Component evaluation	Accounting policy alternatives and/or changes	IFRS 1 implications	Anticipated impact on the opening balance sheet	Significant disclosure implications
7	Presentation of financial statements	No accounting implications are anticipated however there may be changes in presentation upon transition. The most notable change for COTI will be the addition of a statement of changes in equity under IFRS, which is not currently required under CGAAP.	None anticipated.	None anticipated.	Several disclosure differences will arise upon transition, though none will have a material impact to the financial statements.

Changes to the financial statements upon transition to IFRS are not expected to affect materially the financial statement information reported or substantially affect the structure of the financial statements. At present, the Company believes the greatest impact of the first time adoption of IFRS will be in the nature and extent of financial statement note disclosure, which is expected to increase significantly. There are some subtle differences in the requirements for preparing interim financial statements under IFRS and CGAAP that will also need to be implemented by the Company.

The Company is actively monitoring the activities of the AcSB and the International Accounting Standards Board (IASB) for any new accounting standards they might issue leading up to the conversion. The early application of newly issued accounting standards is not envisioned where the effective date is after transition to IFRS. The Company will modify its analyses of accounting standards to incorporate new accounting requirements as they are issued.