Management Discussion and Analysis of the Financial Condition and Results of Operations

For the fiscal year ended April 30, 2012

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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, 2012, and has been prepared with all information available up to and including July 11, 2012. 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, 2012. These financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). These were the Company's first annual financial statements prepared in accordance with IFRS and IFRS 1, First-Time Adoption of IFRS (IFRS 1). Prior to adoption of IFRS, the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles (CGAAP). The Company adopted IFRS effective May 1, 2010. Further discussion related to the impact of the transition to IFRS is noted where appropriate throughout this MD&A, including, but not limited to, the section *Changes in Accounting Policies including Initial Adoption* below.

The information as presented herein represents unaudited disclosure.

All dollar amounts are expressed in Canadian dollars. The Company's presentation currency is the Canadian dollar.

Quarterly interim reports, the Company's Annual Information Form (AIF), annual audited financial statements 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
Our Business	• Intends to license its targeted molecules • Plans for further testing of COTI-2 leading to an investigational new drug (IND) filing and readiness for a Phase 1 clinical trial • Intention to develop portfolios of small molecules for specific therapeutic targets • Plans for future application of the CHEMSAS® technology on a collaboration basis • The Company's commercialization strategy for collaborations
Liquidity and Capital Resources	• Expectations of future expenditures on patents and computer software • Plans for future research and development projects • Plan to obtain additional financing
Financial and Operational Progress & Outlook	• Progressing with scientific experiments for COTI-2 to optimize the licensing value of the drug candidate • Progressing with *in vitro* testing for the AML 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 adoption of new accounting standards issued by the Accounting Standards Board in future periods

The basis for the FLS is management's current 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
- 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 as 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 any individual 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 including maintaining the Company's workforce
- 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
- The ability to continue favourable preclinical test results from the Company's lead oncology compound, COTI-2
- The ability to meet future regulatory requirements to commercialize compounds, in particular COTI-2
- The ability to obtain patent protection for the Company's compounds

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. 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.

Our 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's long-term business model is to license its targeted molecules following synthesis and completion of confirmatory preclinical testing to the IND ready stage in order to address pipeline needs of pharmaceutical and biotechnology companies.

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, acute myelogenous leukemia (AML), ovarian, endometrial, pancreatic, brain, breast and colon.

The Company is currently taking a particularly promising oncology molecule, COTI-2, forward through various preclinical tests to Phase 1 clinical trials as commercial validation of both the compound's viability as a clinical drug candidate and the underlying CHEMSAS® technology used to discover it. In this regard, COTI is currently focused on preparing for an IND clinical trial submission based on the positive preclinical test results achieved for COTI-2, its lead cancer molecule, against a number of cancer indications. Current testing initiatives and planning would enable an IND filing in calendar 2013. Upon acceptance of an IND filing, COTI-2 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 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 targeted 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, 2012 (FYE 2012) was on two major commercialization efforts. First, scientific development and marketing efforts toward a license agreement for its lead oncology compound, COTI-2, and second, research and development (R&D) partnering deals using COTI's underlying Artificial Intelligence platform, CHEMSAS®. A secondary scientific focus was the Company's acute myelogenous leukemia (AML) program, anticipated to be the next licensing program once a deal for COTI-2 is achieved.

Some development also occurred on other scientific programs during the year primarily using internal scientific staff resources as they were available to position the Company for success beyond fiscal 2013.

Significant scientific developments in 2012 for COTI-2 included:

- Receipt of a composition of matter patent from the United States Patent and Trademark Office (USPTO);
- Completion of pharmacodynamic (PD) testing with results demonstrating clear evidence of COTI-2's ability to significantly inhibit the growth of cancer cells that over express AKT/AKT2 confirming it as a promising targeted therapy candidate;
- Establishment of a clear relationship between the dose of COTI-2 and reduced levels of Akt/Akt2 protein, activated AKT/AKT2 in tumour tissues and observed tumour growth inhibition;
- Completion of pharmacokinetics (PK) testing demonstrating COTI-2 is an orally effective and selective allosteric modulator/inhibitor of AKT/AKT2 with low toxicity;
- Demonstration that COTI-2's PK profile supported consideration as a once-daily orally administered compound, an ideal attribute for a chronic cancer therapy;
- Identification of several viable oral formulations meeting scientific thresholds for advancement to Phase 1 clinical testing;
- Development of a plasma detection method for COTI-2 for use in the final IND two species toxicity studies and a Phase 1 clinical trial;
- Receipt of a second USPTO patent protecting COTI-2 for its synergistic effects in combination therapies comprised of COTI-2 and members of other classes of anti-cancer agents; and,
- Podium presentations on COTI-2 at a number of scientific conferences during the year that raised the profile of COTI-2 in both the scientific and business development spheres; including Discovery on Target: Emerging Targets for the Kinase Inhibitor Pipeline held in Boston and Emerging Targeted Oncology Partnering Forum held in San Francisco.

The achievement of two of the three risk reduction milestones (PK and PD studies and identification of a Phase 1 oral formulation) set out as objectives for COTI-2 in 2012, positions the Company to complete the third milestone, two species toxicity testing, and other final tests necessary for an IND submission in fiscal 2013. This will position COTI-2 positively for licensing with a broad base of potential licensees. With respect to R&D deal efforts, we participated in two submissions for government funding with a partner late in April and May 2012 indicative of traction we are gaining for the use of CHEMSAS® as a discovery engine for commercial purposes.

Table 2 below sets out selected financial information for the Company for the FYE 2012 and the prior two fiscal years.

Table 2: Selected Financial Information

	FYE 2012	FYE 2011	FYE 2010 [1]
Revenue	$ -	$ -	$ -
Loss before finance income	2,609,139	2,004,093	3,558,758
Finance income (loss)	17,988	2,715	(1,552)
Loss and comprehensive loss	2,591,151	2,001,378	3,560,310
Basic and diluted loss per common share	$ 0.04	$ 0.04	$ 0.08
Dividends declared and paid	-	-	-
Total assets	$ 4,148,976	$ 4,703,497	$ 4,838,016
Long term liabilities	-	-	-

[1] Prepared and presented under CGAAP, except total assets, which are presented under IFRS.

As noted, no revenue was generated during the recent three years of operation. While focusing on getting COTI-2 to a licensing deal, the Company has continued to promote its CHEMSAS® technology in a variety of ways such as podium presentations to garner co-development projects with pharmaceutical, biotechs and scientists in academia. These efforts have led to the Company participating in two academic institution submissions for government funding in recent months; one late in FYE 2012 and another subsequent to the year end.

Finance income was generated from two sources: first, interest earned on cash, cash equivalents and short-term investments and second, foreign exchange. The increase in FYE 2012 reflects a foreign exchange (FX) gain of $9,177 compared to FX losses in the prior two years. These losses offset the modest interest income received in those years on the Company's cash, cash equivalent and short-term investment balances. The Company has limited foreign exchange exposure as it seeks to utilize quality Canadian suppliers when possible to qualify for Canadian investment tax credits, particularly those that are refundable.

The "Loss before finance income" and the "Loss and comprehensive loss" have fluctuated primarily resulting from year over year changes in R&D expenditures and share-based compensation. Spending on R&D has been managed based upon the timing of experimental results and the Company's available cash resources. The fluctuation in share-based compensation reflects three 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 the exercise price, and third; recoveries resulting from forfeitures of unvested options.

The decrease in total assets from FYE 2010 to FYE 2012 is attributable to drawdowns in cash and short-term investments throughout the year to fund R&D activities and working capital

requirements and the annual amortization of intangibles primarily the Company's molecules, as set out in Table 3.

Table 3: Changes in Total Assets

Asset type	FYE 2012	FYE 2011	FYE 2010
Cash and cash equivalents	$ 901,130	$ 1,794,621	$ 1,945,376
Short-term investment	$ 817,541	$ 300,296	$ -
Molecule amortization	$ 409,053	$ 388,896	$ 388,896

Financial Review of Full Year Operations

Revenues

There were no operating revenues for the year ended April 30, 2012 (FYE 2012) or the year ended April 30, 2011 (FYE 2011). The Company continued to pursue a licensing agreement for COTI-2 during FYE 2012 with several interested parties but without reaching agreement on contractual terms.

The Company earned $10,812 in interest income on its cash and cash equivalents and short-term investments in FYE 2012 compared to $10,073 in FYE 2011. The interest rates and average invested balances were relatively consistent year over year.

Operating Expenses

Operating expenses increased from $2,004,093 for FYE 2011 to $2,609,139 for FYE 2012, an increase of $605,046. This increase related primarily to $126,107 in higher research and development expenses and an increase in general and administrative expense of $425,197.

a) Research and Product Development Expense (R&D)

Table 4 provides a comparative breakdown of R&D expenses by major expense types for the respective years.

Table 4: R&D Expense – Comparative Years Ended April 30

	FYE 2012	FYE 2011	Change
R&D testing, consulting and materials	$ 255,169	$ 128,831	$ 126,338
Synthesis	171,164	68,686	102,478
	426,333	197,517	228,816
Labour including benefits	353,297	387,673	(34,376)
Share-based compensation	6,126	-	6,126
Other	29,700	21,227	8,473
	815,456	606,417	209,039
Government assistance	(96,607)	(13,675)	(82,932)
Total	$ 718,849	$ 592,742	$ 126,107

Overall R&D expenditures for FYE 2012 increased primarily due to an increase of $228,816 for synthesis and *in vitro* and *in vivo* testing (R&D testing) focused primarily on COTI-2 and to a lesser extent the Company's AML project.

R&D testing, consulting and materials increased by $126,338 related to spending toward completing three key risk reduction tests identified of importance to prospective licensees for COTI-2. The focus on COTI-2 is consistent with FYE 2011 with spending of $188,055 or 73.7% of these costs in FYE 2012 and $123,086 or 95.5% in FYE 2011 on COTI-2.

For FYE 2012, synthesis expenditures increased by $102,478 compared to FYE 2011. In FYE 2012, synthesis expenditures related 65.1% to COTI-2 and 34.9% to the AML project compared to $61,865 or 90.1% of synthesis expenditures focused on COTI-2 in FYE 2011.

R&D labour costs decreased $34,376 in FYE 2012 compared to FYE 2011. This decrease related primarily to the allocation of a greater proportion of the Chief Scientific Officer's (CSO) salary costs to general and administration expense. There were no changes in R&D staff levels during the comparable years.

The Company also recognized an increase of $82,932 in government assistance year over year through a grant from the National Research Council of Canada Industrial Research Assistance Program (NRC-IRAP) for the AML project. The grant of $96,607 received in FYE 2012 for eligible expenditures related to $75,000 in contractor costs in R&D testing and synthesis and $21,067 in internal labour costs associated with the project.

b) General and Administration Expense (G&A)

Table 5 provides a breakdown of G&A expenses by major expense type for FYE 2012 and FYE 2011. Two major expenses contributed to the increase in G&A, an increase of $244,967 in share-based compensation and an increase of $183,283 in professional fees.

Table 5: G&A Expense – Comparative Years Ended April 30

	FYE 2012	FYE 2011	Change
Amortization	$ 497,248	$ 488,278	$ 8,970
Professional fees	444,940	261,657	183,283
Salaries and benefits	394,348	379,782	14,566
Corporate governance	72,386	83,669	(11,283)
Insurance	58,881	59,342	(461)
Rent	37,384	31,539	5,845
Promotion and travel	31,323	21,409	9,914
Other	30,226	60,830	(30,604)
	1,566,736	1,386,506	180,230
Share-based compensation	213,288	(31,679)	244,967
Total	$ 1,780,024	$ 1,354,827	$ 425,197

The share-based compensation increase in FYE 2012 was primarily due to the FYE 2011 recovery of $110,509 in previously recognized share-based compensation expense on 300,000 unvested

options cancelled on June 30, 2010 and recovery of $48,484 on the re-measurement of stock options issued to consultants in prior years.

Table 6 provides a comparable breakdown of the components of total share-based compensation expense for all the functional areas of the Company for the respective years that includes the G&A share-based compensation

Table 6: Share-Based Compensation Expense – Comparative Years Ended April 30

	FYE 2012	FYE 2011	Change
Recognized on new option grants	$ 84,188	$ 123,819	$ (39,631)
Recognized on existing options	137,796	67,795	70,001
Re-measurement of consultant options	-	(112,784)	112,784
Reversal of unvested cancelled options	-	(110,509)	110,509
	$ 221,984	$ (31,679)	$ 253,663

Professional fees increased in FYE 2012 by $183,283 related to consulting contracts in four areas: implementation of the IFRS accounting framework, financing, licensing and investor relations.

The $30,604 reduction in other expenses year over year reflects the write-off of patent costs on abandoning certain patent efforts totaling $37,423 that occurred in FYE 2011 without a similar occurrence in FYE 2012.

c) Sales and Marketing Expense (S&M)

Table 7 provides a breakdown of S&M expenses by major expense type for FYE 2012 and FYE 2011.

Table 7: S&M Expenses – Comparative Years Ended April 30

	FYE 2012	FYE 2011	Change
Salaries and benefits	$ 174,908	$ 182,190	$ (7,282)
Marketing and travel	52,602	60,789	(8,187)
Other	13,956	7,974	5,982
	241,466	250,953	(9,487)
Share-based compensation	2,571	-	2,571
Total	$ 244,037	$ 250,953	$ (6,916)

S&M expenses decreased by $6,916 year over year. The decrease in salaries primarily reflects a reduction in personnel in March 2012. Consultant fees grouped in the "Other" expense category in the table offset this head count reduction.

d) Investment Tax Credit Income (ITC)

ITC income of $133,771 was recognized in FYE 2012 compared to $194,429 in FYE 2011 reflecting a decrease of $60,658. The larger refundable tax credits in FYE 2011 reflected both refundable Ontario and Quebec ITCs accrued for FYE 2011 and ITCs received for prior years. The

Company historically recognized ITC income when received, as there was uncertainty as to ultimate collection. Beginning in FYE 2011, the Company recognized ITC income in the year earned because management considered collectability reasonably certain given the Company's seven-year history of filings and collections.

Analysis of Financial Results Fourth Quarter Fiscal 2012

Summary financial information for the comparative fourth quarter periods ended April 30, 2012 and 2011 (Q4-F'12 and Q4-F'11) is set out in Table 8.

Table 8: Summary Financial Information Fourth Quarter Comparison

	Q4-F'12	Q4-F'11	Change
Expenses (Income):			
Research and product development	$ 223,134	$ 133,893	(89,241)
Sales and marketing	58,180	55,599	(2,581)
General and administration	446,631	352,618	(94,013)
Investment tax credits	(50,326)	(72,185)	(21,859)
	677,619	469,925	(207,694)
Loss before finance income	(677,619)	(469,925)	(207,694)
Finance income:			
Interest income, net	610	1,926	(1,316)
Foreign exchange gain (loss)	(3,806)	(5,586)	1,780
	(3,196)	(3,660)	464
Loss and comprehensive loss	(680,815)	(473,585)	(207,230)
Weighted average shares outstanding	63,585,703	50,892,298	
Loss per common share	$ 0.01	$ 0.01	

Revenues

There were no operating revenues in the quarter ended April 30, 2012 (Q4-F'12) or in the comparable quarter ended April 30, 2011 (Q4-F'11). The Company continued to pursue a licensing agreement for COTI-2, during Q4-F'12 with several interested parties but without achieving an agreement.

Operating Expenses

Operating expenses increased from $469,925 in Q4-F'11 to $677,619 in Q4-F'12, an increase of $207,694. Three major expenses accounted for this quarterly change: R&D expense increased $89,241; G&A expense increased $94,013; and ITC income declined $21,859.

a) Research and Product Development Expense (R&D)

Quarterly R&D expenditures increased year over year due to the increased synthesis costs for COTI-2 and increased R&D testing for COTI-2 and the AML compounds. Table 9 provides a breakdown of R&D costs by major expense types for the comparable quarterly periods ended April 30, 2012 and 2011 respectively.

Table 9: R&D Expense – Fourth Quarter Comparison

	Q4-F'12	Q4-F'11	Change
R&D testing, consulting and materials	$ 101,400	$ 37,552	$ 63,848
Synthesis	45,614	8	45,606
	147,014	37,560	109,454
Labour including benefits	96,948	98,295	(1,347)
Other	9,358	3,878	5,480
	253,320	139,733	113,587
Government assistance	(30,186)	(5,840)	(24,346)
Total	$ 223,134	$ 133,893	$ 89,241

R&D testing, consulting and materials increased $63,848 for Q4-F'12 compared to Q4-F'11 related to experiments incurred for both COTI-2 and the AML compounds that finished synthesis late in Q3-F'12. The synthesis cost increase of $45,606 related to oral formulation work on COTI-2. The Company also realized an increase of $24,346 in government assistance for eligible expenses on its AML project with $25,499 realized on R&D testing and synthesis and $4,687 on internal labour associated with the project.

b) General and Administration Expense (G&A)

Table 10 provides a breakdown of G&A expenses by major expense types for the comparable quarterly periods ended April 30, 2012 and 2011 respectively.

Table 10: G&A Expense – *Fourth Quarter Comparison*

	Q4-F'12	Q4-F'11	Change
Professional fees	$ 130,953	$ 56,612	$ 74,341
Amortization	129,413	119,952	9,461
Salaries and benefits	91,361	86,685	4,676
Corporate governance	16,370	12,647	3,723
Insurance	14,153	14,603	(450)
Promotion and travel	9,782	5,579	4,203
Rent	9,346	2,946	6,400
Other	5,578	8,308	(2,730)
	406,956	307,332	99,624
Share-based compensation	39,675	45,286	(5,611)
Total	$ 446,631	$ 352,618	$ 94,013

Most expense categories increased in Q4-F'12 compared to Q4-F'11. The major change occurred in professional fees, which increased $74,341 from $56,612 in Q4-F'11 to $130,953 in Q4-F'12. This increase is primarily due to consulting contracts related to the audit of the transition to the IFRS accounting framework, financing, licensing and investor relations.

c) Sales and Marketing Expense (S&M)

Table 11 provides a breakdown of S&M expenses by major expense types for the comparable quarterly periods ended April 30, 2012 and 2011 respectively.

Table 11: S&M Expense – Fourth Quarter Comparison

	Q4-F'12	Q4-F'11	Change
Salaries and benefits	$ 34,078	$ 45,949	$ (11,871)
Marketing and travel	13,527	8,610	4,917
Other	10,575	1,040	9,535
	58,180	55,599	2,581
Share-based compensation	-	-	-
Total	$ 58,180	$ 55,599	$ 2,581

S&M expenses increased from $55,599 in Q4-F'11 to $58,180 in Q4-F'12. The decrease of $11,871 in salaries and benefits, resulted from a reduction in personnel in the department in March 2012, and was partially offset by an increase in consulting costs of $9,250 included in the "Other" expense category.

d) Investment Tax Credit Income (ITC)

ITC income of $50,326 was recognized in Q4-F'12 compared to $72,185 in Q4-F'11, relating to scientific research and development tax credits earned on eligible expenditures in the quarter. The decrease of $21,859 relates primarily to the timing of eligible R&D testing expenditures and the change in recognition of ITCs on an accrual basis as opposed to a cash basis in FYE 2011 as discussed in the full year analysis.

Financial Results Two Year Quarterly Summary

Table 12 summarizes the financial results of COTI by quarter for the past two fiscal years.

Table 12: Summary of Quarterly Financial Results

FYE 2012	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
Revenue	$ -	$ -	$ -	$ -	$ -
Loss	(642,256)	(648,530)	(619,550)	(680,815)	(2,591,151)
Loss per common share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.04)

FYE 2011	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
Revenue	$ -	$ -	$ -	$ -	$ -
Loss	(558,950)	(334,498)	(634,345)	(473,585)	(2,001,378)
Loss per common share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.04)

The majority of the variation by quarter across the two years and quarterly year over year is explained by four expense categories as set out in Table 13.

The overall trend line for operating expenses in FYE 2012 was relatively consistent from quarter to quarter with a range of approximately $625k to $677k. The four major expense areas also reflected this consistency having a range of approximately $565k to $619k. Only research and product development showed a wider quarterly variance. This reflects the nature and timing of R&D testing and synthesis for COTI-2 and the AML project.

Table 13: Selected Quarterly Expense Categories [(1)]

FYE 2012	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
General and administration	$ 374,143	$ 424,333	$ 361,305	$ 406,956	$ 1,566,737
Research and product development	205,941	120,008	163,640	223,134	712,723
Investment tax credit income	(29,889)	(19,888)	(33,669)	(50,326)	(133,772)
Share-based compensation	41,181	66,717	74,411	39,675	221,984
Total of expense categories	591,376	591,170	565,687	619,439	2,367,672
Total expense for the quarter	$ 649,095	$ 657,773	$ 624,652	$ 677,619	$ 2,609,139
Expense categories as a % of total expense	91.1%	89.9%	90.6%	91.4%	90.7%

FYE 2011	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
General and administration	$ 360,708	$ 351,097	$ 367,233	$ 307,468	$ 1,386,506
Research and product development	196,374	137,220	125,255	133,893	592,742
Investment tax credit income	-	(122,244)	-	(72,185)	(194,429)
Share-based compensation	(57,156)	(90,878)	71,069	45,286	(31,679)
Total of expense categories	499,926	275,195	563,557	414,462	1,753,140
Total expense for the quarter	$ 562,451	$ 335,758	$ 635,959	$ 469,925	$ 2,004,093
Expense categories as a % of total expense	88.9%	82.0%	88.6%	88.2%	87.5%

(1) The presentation noted in this table does not conform to the functional presentation in the Company's interim and annual financial statements. Share-based compensation included in General and administration, Research and product development and Sales and marketing in the financial statements has been removed from the functional disclosure and shown separately in this table.

The variability in the comparable quarter year over year is primarily due to share-based compensation recoveries in FYE 2011. This is particularly evident in Q1-F'11 and Q2-F'11. These recoveries related to share-based compensation costs recovered on unvested share options that were cancelled and the remeasurement of consulting share option grants. The year over year fourth quarter comparison shows an increase of $204,976 in Q4-F'12 primarily due to an increase in R&D expense and consulting costs include in G&A partially offset by higher ITCs recognized in Q4-F'11.

Liquidity and Capital Resources

Analysis to FYE 2012

Table 14 summarizes the changes in capital resources for FYE 2012 and FYE 2011. At FYE 2012, the Company had cash, cash equivalents and short-term investments of $1,718,671 compared to $2,094,917 in cash, cash equivalents and short-term investments at FYE 2011 reflecting a decrease of $376,246.

Table 14: Summary of Changes in Capital Resources [(1)]

	FYE 2012	FYE 2011
Increase (decrease) from:		
Operating activities	$ (1,973,061)	$ (1,718,752)
Investing activities	(145,484)	(149,942)
Decrease in capital resources before issuance of common shares and warrants	(2,118,545)	(1,868,694)
Proceeds from issuance of common shares and warrants	1,638,439	1,899,904
Proceeds from exercise of stock option	18,974	-
Investment tax credit recoveries, net	89,412	122,302
Issuance cost of common share contingent consideration and warrant amendments	(5,245)	-
Interest paid	(2,001)	(1,661)
(Decrease) increase in capital resources	(378,966)	151,851
Less: unrealized foreign exchange loss on capital resources	(2,720)	2,310
Capital resources - beginning of period	2,094,917	1,945,376
Capital resources - end of period	$ 1,718,671	$ 2,094,917

(1) See Use of Non-GAAP Financial Measures

The difference in capital resources primarily reflects the higher net cash proceeds from private placements completed late in each fiscal year with the FYE 2011 financing netting $259,183 more in cash proceeds than the FYE 2012 financing.

In Q4-F'12, the Company completed a private placement and issued 11,250,000 units at $0.16 per unit for gross proceeds of $1,800,000. Each unit consisted of one common share and one common share purchase warrant with each warrant exercisable into one additional common share at a price of $0.30 for a period of 18 months from the date of issue. Cash costs of the private placement amounted to $159,279 and the Company issued 726,686 compensation warrants valued at $33,190 using a Black-Scholes option-pricing model. The compensation warrants are exercisable into one additional common share at a price of $0.30 for 18 months following the closing date of each tranche.

This funding strengthened the Company's cash position at FYE 2012 and improved its liquidity going forward. The funds raised in this placement will be used primarily to achieve specific development milestones for COTI-2 previously announced by the Company as key value building milestones for the compound.

Investing activities in FYE 2012 consisted of $3,204 in computer equipment, $61,805 in computer software and $80,475 in patent costs. The Company conducts periodic reviews of its intangible assets for impairment, including its most recent analysis at FYE 2012 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.

While certain options and warrants were "in the money" during FYE 2012 there was only limited exercise of these securities. As highlighted in Table 14, the Company realized net cash proceeds of $18,974 from the exercise of 116,279 share options during FYE 2012. There were no warrants exercised during the year, consistent with the prior year's experience.

ITC recoveries declined in the year based upon two primary factors. First, there was a reduction in the pool of eligible expenditures, as many expenditures made outside the provinces of Ontario and Quebec are not eligible for refundable tax credits for public companies such as COTI. Second, there was a decrease in total R&D expenditures in FYE 2011 compared with FYE 2010 reducing cash recoveries in the subsequent year.

The Company's working capital at FYE 2012 was $1,588,254 compared to $1,953,489 at FYE 2011. Current assets continue to remain liquid, as there are no restrictions on the use of these assets. Cash equivalents are invested in instruments with maturities of three months or less. Short-term investments are held in flexible guaranteed investment certificates, which are cashable without penalty. Current assets decreased to $1,929,759 at FYE 2012 from $2,297,132 at FYE 2011 for a decrease of $367,373, primarily due to the decrease in cash and cash equivalents. Current liabilities decreased $2,138 to $341,505 at FYE 2012 from $343,643 at FYE 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. Miscellaneous receivables are of high credit quality being almost exclusively from various government bodies. 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 15.

Table 15: Contractual Obligations

Obligation	Total	2013	2014
Premises rent [(1)]	$ 9,345	$ 9,345	$ -
Research and development contracts	93,807	89,907	3,900
Total contractual obligations	$ 103,152	$ 99,252	$ 3,900

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

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 and other projects forward as resources permit. In order to accomplish this, the Company will need to obtain additional cash resources.

The Company will continue its efforts to obtain these resources over the next year to accomplish its goals and alleviate going concern risk. This includes 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.

The Company has discretion in many of its activities and plans to manage these activities in a manner to sustain operations until the necessary financing is available to meet its goals for COTI-2 and the Company's other initiatives.

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 the future.

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 2012, the Company recorded a foreign exchange gain of $9,177 compared to a loss of $5,699 in FYE 2011. The gain recorded in FYE 2012 reflects $2,720 in unrealized gains resulting from holding foreign currency balances at the year end compared to $2,311 in unrealized gains at FYE 2011.

Related Party Transactions

Related party transactions of a material amount that occurred in the current and prior year are set out in Table 16 below.

Table 16: Related Party Transactions

Name	Relationship	Nature of Transaction	Amount	
			2012	2011
Various	Directors and officers	March 25 and April 7, 2011, participated in a private placement acquiring 3,740,000 units representing 30% of the total private placement	-	$ 598,400
Mr. Michael Cloutier	Director	May - June 2011, exercised 116,279 options at $0.165 each [(1)]	$ 19,186	-
Dr. Brent Norton	Director	June 21, 2011, granted 200,000 options under a consulting agreement [(2)]	-	-
Mr. Michael Cloutier	Director	June 30, 2011, 88,889 options expired	-	-
Various	Directors	September 28, 2011, 756,098 options were granted as retainer compensation for directorship responsibilities	-	-
Dr. Wayne Danter	Director	Issued 78,399 common shares under contingent consideration release [(3)]	18,032	-
Mr. John Drake	Director	Issued 313,303 common shares under contingent consideration release [(3)]	72,060	-
Various	Directors and officers	October 20, 2011, the exercise price on 157,550 warrants was amended from $0.55 to $0.37 [(4)]	-	-
Various	Directors	January 11, 2012, 260,000 options expired	-	-
Various	Directors and officers	March 23, 2012, participated in a private placement acquiring 837,500 units representing 7% of the total private placement [(5)]	134,000	-
Mr. John Drake	Director	March 25, 2012, 150,000 options expired	-	-
Mr. Murray Wallace	Director	April 30, 2012, 130,000 options expired	-	-
Dr. Brent Norton	Director	Consulting agreement fees paid [(2)]	$ 202,887	-

[(1)] On May 5, 2011, 58,139 stock options issued under the Company's stock option plan were exercised for gross proceeds of $9,593. On June 22, 2011, a further 58,140 stock options were exercised for gross proceeds of $9,593.

(2) Effective June 1, 2011, the Company entered into an executive management consulting services agreement with one of its directors (Consultant). The Consultant was paid a daily rate for invoiced time as services were provided. Under the agreement, the Consultant also was granted 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 was 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. Compensation paid under the agreement during the FYE 2012 included: $169,667 for services and $33,220 in bonuses.

The agreement expired on May 31, 2012 and a new agreement is currently in negotiation with the consultant continuing to provide services on terms consistent with the pre-existing agreement.

(3) 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 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 is 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.

COTI-2 is a molecule from the SCLC library acquired under the purchase. On October 11, 2011, the Company received a patent from the United States Patent and Trademark Office (USPTO) for its US patent filing related to COTI-2. Upon receipt of the patent, the Company issued 715,720 common shares to the former shareholders of DDP (which includes the

Company's current Chairman and the current President and 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 fair market value of this consideration was determined as $164,616 based upon the fair value of the common shares at the close of business on October 11, 2011, the date when the patent was granted.

The Company has determined that the achievement of the second milestone for COTI-2 does not meet IFRS guidance provided in IAS 37, Provisions, which states that where the event is "more likely than not" to occur such event should be recognized. Major factors considered in the likelihood determination included: the uncertainty inherent in the remaining testing for COTI-2 prior to filing an IND application; the cost, time and expertise required in the IND application and approval process itself; and the Company's current financial capacity to develop COTI-2 successfully through to achieving this milestone.

(4) On October 20, 2011, common share purchase warrants scheduled to expire October 27 and November 27, 2011 were amended. Directors and officers held 286,570 warrants representing 18.2% of these outstanding warrants. Under the rules of the TSXV, insiders are limited to amendment of pricing to a maximum of 10% of the outstanding warrants. Accordingly, 157,550 warrants were eligible for amendment at the new price of $0.37 with the balance of 129,010 warrants remaining at the pre-amendment exercise price of $0.55.

(5) Details related to the private placement are described under Liquidity and Capital Resources. The share purchases were measured at an arm's length exchange amount consistent with all other participants in the private placement.

Outstanding Share Information

Outstanding share information at the close of business on July 11, 2012 is set out in Table 17.

Table 17: Outstanding Share Information

	Outstanding	Expiry Date
Common shares		
Authorized - unlimited		
Issued	74,453,214	
Fully diluted [(1)]	104,589,228	
Weighted average outstanding [(2)]	65,372,143	
Common share warrants		
$0.30 warrants	12,500,000	Sep 24 - Oct 21/12
$0.30 compensation warrants	507,500	Sep 24 - Oct 21/12
$0.37 warrants	1,446,480	Jan 31/13
$0.55 warrants	129,020	Jan 31/13
$0.30 warrants	11,250,000	Sep 23 - Oct 27/13
$0.30 compensation warrants	726,686	Sep 23 - Oct 27/13
	26,559,686	
Common share options		
$0.01 - $0.50	2,855,144	Sep 9/14 - Oct 17/16
$0.51 - $1.00	521,184	Jun 9/13 - Feb 16/14
$1.01 - $1.50	100,000	Jul 15/13
$1.51 - $2.00	100,000	Oct 8/12
	3,576,328	

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

[(2)] Weighted average shares outstanding calculated from May 1, 2011 to July 11, 2012

Financial and Operational Progress & Outlook

Financial Outlook from Q4-FYE 2012 into FYE 2013

The Company continues to meet with prospective licensing partners and anticipates that it will complete the studies for COTI-2 required for an IND filing, in calendar 2012.

As announced on April 12, 2011, the Company responded to scientific and business feedback from prospective licensing partners by initiating a series of three experiments to address risk reduction points common to these prospects during FYE 2012. These experiments were intended to strengthen the scientific data package 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 is shared with prospective licensees as it becomes available.

At October 31, 2011, the first of the three experiments was completed as discussed in the Q2-F'12 MD&A and as announced in a series of press releases dated June 26, August 16 and October 20, 2011. The second set of experiments related to finding a Phase 1 oral formulation were started in Q1-F'12 and continued to progress in Q3-F'12 with the identification of eight viable formulation candidates as announced in January 2012. The last of the three experiments related to two species toxicity studies will commence in the third quarter of calendar 2012 based upon the selection of the Phase 1 oral formulation from the candidates identified. The Company should then be well positioned to negotiate a licensing deal as it files its COTI-2 IND as a prelude to Phase 1 human clinical trials.

The Company continues to seek out R&D development projects with pharmaceutical and biotech companies as well as research scientists for commercial validation of the technology. This is expected to continue in FYE 2013.

R&D expenditures historically have been conducted with contract research organizations in the most cost effective manner considering the opportunity for refundable ITCs in identifying least cost, best value suppliers, and this is anticipated to continue as the Company works through the final testing to an IND filing. The Company anticipates receiving approximately $98,000 in refundable ITC in the fall of 2012.

The Company's strategy to complement the development of COTI-2, and its ultimate licensing, by advancing other drug discovery projects along parallel tracks, continued during Q4-F'12 with the Company's AML program and is expected to continue in fiscal 2013 within the context of the Company's ability to finance such development.

Expenditures on G&A and S&M activities for FYE 2013 are expected to increase as the Company utilizes various consultants in pushing forward toward a licensing agreement for COTI-2.

Expenditures on intangible assets and capital assets in FYE 2013 are anticipated to be consistent with spending levels in FYE 2012. This spending is primarily on the Company's patent portfolio and computer software and totaled $145,484 in FYE 2012.

Product Development Progress – Q4-F'12 and Future Outlook

The Company continued to make progress in developing its drug candidate pipeline during Q4-F'12 with primary focus on COTI-2 and secondary focus on the AML project.

COTI-2

During the quarter, the Company continued development of COTI-2 by carrying out additional experiments and laboratory work in preparation for an IND clinical trial submission. A summary of key milestones in this development is set out below.

- On February 1, 2012, the Company announced that it had successfully identified a small group of oral formulation candidates capable of being used in completing the two species toxicity testing for the COTI-2 clinical submission package and in the Phase 1 human clinical trial. The next step in the formulation project is to select the best

candidate from the group based upon a number of criteria including ease of manufacturing, efficacy, and pharmacokinetic profile, including bioavailability. Completion of this final selection process is expected in the summer of 2012.

- Both Health Canada and the United States Food and Drug Administration require a validated detection method for measuring a drug's concentration in human plasma as part of the Phase 1 IND submission package. On February 8, 2012, the Company announced it had engaged Algorithme Pharma Inc. of Montreal, Canada, an internationally recognized contract research organization, to develop and validate the final method to be used for preclinical and Phase 1 studies for COTI-2. The development of a robust detection method was successfully completed in Q4-F'12 with the validation to be completed in the summer of 2012.

- The formulation and detection method work produced test results that could further enhance COTI's understanding of COTI-2's mechanism of action (MOA) in addition to the AKT protein inhibition identified to date. As MOA understanding is an important consideration to prospective licensees, the Company will conduct further experiments in these areas during Q1-F'13, which may provide additional scientific data of importance in licensing discussions.

Acute Myelogenous Leukemia (AML)

Like many other cancers, AML is the result of multiple gene mutations that affect multiple cell signaling kinase pathways. With few exceptions, traditional therapies targeting a single abnormal kinase have produced disappointing long-term results. Following the January 24, 2012 announcement concerning the completion of synthesis of the AML compounds, the Company initiated confirmatory *in vitro* efficacy studies. Studies completed in Q4-F'12 indicate that three of the six compounds synthesized to target multiple kinases commonly mutated in AML had positive test results meeting the targeted thresholds to move forward in the next studies.

Subsequent to the year end, the Company received notice of approval of a further $100,000 funding grant from NRC-IRAP for the third year of the AML program. Funding received for the initial two program years ending March 31, 2012 totaled $110,958.

Other Projects

Because of limited financial resources, the Company has a number of drug compounds and programs whose further development remains on hold or moves modestly forward based upon available internal labour. For example, using its knowledge base, built through drug compound work in oncology with CHEMSAS®, the Company has been developing a computer simulation of a cancer cell designed to run on a tablet that will assist clinicians in personalizing optimal chemotherapy. A provisional patent has been filed on this unique approach.

The Company is exploring a variety of ways to realize value on these compounds and its technologies or further their development through co-development projects.

Collaborations and Co-Development Projects

HIV-1 Integrase Co-development

As previously announced, the Company made a submission to a new initiative of the NRC-IRAP called the Canadian HIV Technology Development Program. In December 2011, the Company was advised that while its project proposal had strong scientific merit, concerns on the ability of the Company to take on more projects given its current financial capabilities, prevented the program administrator from approving a grant for 2012.

While the Company has identified a number of parties with interest in the scientific program, this project is being put on hold until further resources can be obtained to move it forward.

Collaboration with a University Tech Transfer Office

During Q3-F'12, the Company made a proposal to provide its CHEMSAS® services to a university tech transfer office and research scientist in pursuit of lead candidates for organ transplant dysfunction. Subsequent to Q4-F'12, the Canadian Institute of Health Research advised the research scientist that the submission for grant funding was not approved.

Industry and Economic Risk 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 R&D 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 2012 remain substantially unchanged from the analysis discussed at length in the Company's prior year AIF and the risk factors discussed in the quarterly MD&As for Q1 to Q3-F'12.

The four risk categories having the greatest affect on the Company during the quarter were:

1. uncertainties related to research
2. the lack of product revenues;
3. securing licensing agreements; and,
4. access to capital.

Uncertainties Related to Research

Like other biotech and pharmaceutical companies, COTI's research programs are based on scientific hypotheses and experimental approaches that may not lead to desired results. In addition, the timeframe for obtaining test results may be considerably longer than originally anticipated, or may not be possible given time, resources, and financial, strategic, and scientific

constraints. Success in one stage of testing is not necessarily an indication that a particular compound or program will succeed in later stages of testing and development. It is not possible to guarantee, based upon studies in *in vitro* models and in animals, whether any of the compounds made for a therapeutic program will prove to be safe, effective, and suitable for human use. Each compound will require additional research and development, scale-up, formulation and extensive clinical testing in humans. COTI believes its CHEMSAS® process serves to mitigate or reduce this risk by virtue of its profiling across many variables in identifying compounds with high probability of successfully become drugs, however, it remains a probability only and failure can occur. COTI's lead compound, COTI-2, continues to progress through preclinical testing and perform as predicted.

Lack of Product Revenues

The revenue cycle for drug development is a long one; typically 5 to 10 years depending upon the point along development that monetization of the asset occurs. Since inception as a public company in October 2006, COTI has worked to develop relationships with prospective customers, and strived to obtain licensing and collaboration agreements for its own products and therapeutic targets of interest to partners. The continued development of COTI-2 and the nurturing of relationships with licensees concerning the strong scientific test results are critical to achieving a revenue realization stage. Accordingly, 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 or biotechnology organizations for preclinical compounds. While continued positive test results during fiscal 2012 generated positive feedback from potential licensees, these test outcomes have not translated into a contractual agreement to date. Licensing discussions during Q4-F'12 continued to find interest for early stage deals of novel compounds or classes of compounds. This reflects the macro events occurring within the pharmaceutical industry such as; the large number of blockbuster drugs that continue to come off patent protection; the need to find drugs to replace the revenues lost to generic competition and lower margins on the unprotected brand; and the continued productivity challenges of the pharmaceutical industry in generating new compounds from their R&D spending (*see Forbes – The Truly Staggering Cost of Inventing New Drugs, February 10, 2012*).

Access to Capital

The Company continually monitors its cash resources to support its R&D programs in an effort to move its compounds, particularly COTI-2, as rapidly as possible through development. These efforts were highlighted under Liquidity and Capital Resources where the Company outlined the closing of a non-brokered private placement in Q4-F'12. If additional funding cannot be obtained, 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 its 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, achieving a licensing agreement for COTI-2, and the general economic conditions and access to capital in the equity markets for biotechnology companies. Despite the Company's financing efforts, there can be no assurance additional funding can be obtained.

Use of Non-GAAP Financial Measures

Management has included a non-GAAP financial measure, Capital Resources, to supplement information contained in the MD&A. This non-GAAP measure does not have any standardized meaning prescribed under IFRS and therefore it may not be comparable to similar measures when presented by other issuers. Capital Resources is defined and calculated by the Company as cash, cash equivalents and short-term investments. This differs from IFRS disclosure where cash and cash equivalents are included in the Statement of Financial Position as cash and the Statement of Cash Flows is reconciled to this cash balance. Short-term investments are disclosed separately in the Statement of Financial Position and changes in short-term investments are disclosed separately in the Statement of Cash Flows in determining cash. The short-term investment is a guaranteed investment certificate encashable at any time up to its maturity date and with such high liquidity characteristics is a readily available source of capital. The use of Capital Resources and the inclusion of short-term investments in this measure set out the Company's view on readily available cash, which Management believes provides more meaningful information with respect to the liquidity of the Company.

Table 18: Reconciliation to Capital Resources

	April 30/12	April 30/11
Cash and cash equivalents	$ 901,130	$ 1,794,621
Short-term investments	817,541	300,296
Capital resources	$1,718,671	$ 2,094,917

Changes in Accounting Policies including Initial Adoption

First-time adoption of IFRS

The Company's 2012 financial statements have been prepared in accordance with International Financial Reporting Standards. These are the Company's first financial statements prepared in accordance with IFRS and IFRS 1, First-Time Adoption of IFRS. Prior to adoption of IFRS, the Company prepared its financial statements in accordance with CGAAP. The Company adopted IFRS effective May 1, 2010. The impact of adopting IFRS is fully described in the notes to the 2012 Financial Statements.

The impact upon adoption was not significant to the Company's financial statements and should not have any material effect going forward if comparing IFRS financial statements with the Company's financial statements under CGAAP prior to the adoption of IFRS.

Future Accounting Policy Changes

Certain pronouncements have been issued by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretation Committee that are mandatory for annual periods beginning subsequent to the current reporting period. Many of these updates are not applicable to COTI or are inconsequential to the Company and have been excluded from the discussion below. The remaining pronouncements are being assessed to determine their impact on the Company's results and financial position as follows:

(a) IAS 1 - Presentation of Financial Statements

In June 2011, the IASB published amendments to IAS 1 - Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income (OCI), which is effective for annual periods beginning on or after July 1, 2012. These changes will apply retrospectively with early adoption permitted.

The amendments require that an entity present separately the items of OCI that are reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. Consequently, an entity that presents items of OCI before related tax effects will also have to allocate the aggregated tax amount between these categories. The existing option to present the profit or loss and other comprehensive income in two statements has remained unchanged. The Company intends to adopt the amendments in its financial statements for the annual period beginning on May 1, 2013. The Company does not expect adoption to have a material impact on its financial statements.

(b) IFRS 7 - Financial Instruments – Disclosures

In October 2010, the IASB amended IFRS 7 - Financial Instruments: Disclosures. This amendment enhances disclosure requirements to aid financial statement users in evaluating the nature of, and risks associated with, an entity's continuing involvement in derecognized financial assets. The amendment is effective for the Company's interim and annual financial statements commencing May 1, 2012. The Company is assessing the impact of this amended standard on its financial statements but does not expect there to be any material impact as it has not had historically, nor does it anticipate having, derecognized financial assets in the near future.

(c) IFRS 9 - Financial Instruments – Classification and Measurement

In October 2010, the IASB issued IFRS 9 - Financial Instruments – Classification and Measurement (IFRS 9). IFRS 9 reflects the first phase of the IASBs work on the replacement of International Accounting Standard 39, Financial Instruments: Recognition and Measurement, and deals with the classification and measurement of financial assets and financial liabilities. IFRS 9 eliminates the existing IAS 39 categories of held to maturity, available-for-sale, and loans and receivables and establishes two primary measurement categories for financial assets and liabilities, amortized cost and fair value.

Gains and losses on re-measurement of financial assets measured at fair value are recognized in profit or loss, except that for an investment in an equity instrument, which is not held-for-trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in Other Comprehensive Income. The election is available on an individual share-by-share basis. Amounts presented in OCI will not be reclassified to profit or loss at a later date.

For financial liabilities measured at fair value under the fair value option, changes in fair value attributable to changes in credit risk will be recognized in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, the entire change in fair value will be recognized in profit or loss. Amounts presented in OCI will not be reclassified to profit or loss at a later date.

IFRS 9 is effective for annual periods beginning on or after January 1, 2013 and the Company intends to adopt IFRS 9 in its financial statements for the annual period beginning May 1, 2013. The Company does not expect IFRS 9 to have a material impact on its financial statements.

(d) IFRS 12 - Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12 - Disclosure of Interests in Other Entities (IFRS 12). IFRS 12 establishes new and comprehensive disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. This new standard is effective for the Company's interim and annual financial statements commencing May 1, 2013. The Company is assessing the impact of this new standard on its financial statements.

(e) IFRS 13 - Fair Value Measurement

In May 2011, the IASB published IFRS 13 - Fair Value Measurement (IFRS 13), which is effective prospectively for annual periods beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date i.e. an exit price. The standard also establishes a framework for measuring fair value. It also sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements; and for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 explains how to measure fair value when it is required or permitted by other IFRS. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practical exceptions to fair value measurements that currently exist in certain standards. The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on May 1, 2013. The Company does not expect IFRS 13 to have a material impact on its financial statements.