



ANNUAL INFORMATION FORM

For the financial year ended April 30, 2010

Dated August 27, 2010

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ITEM 1 PRELIMINARY INFORMATION**1.1 General**

As used in this annual information form (AIF), unless the context otherwise requires, the terms “we”, “us”, “our”, “COTI” or the “Company”, mean or refer to Critical Outcome Technologies Inc.

Except as otherwise stated, all dollar amounts are in Canadian dollars (\$CAD).

All information in this AIF is as at April 30, 2010 unless otherwise indicated.

1.2 Cautionary Statement Regarding Forward-Looking Statements

This AIF contains certain statements, which constitute “forward-looking statements” within the meaning of applicable Canadian provincial securities laws concerning the Company’s plans for its operations and other matters. Forward-looking statements are necessarily based on a number of estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies. All statements, other than statements which are reporting results as well as statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future are forward-looking statements. These forward-looking statements reflect the current expectations or beliefs of the Company based on information currently available to the Company. Forward-looking statements 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 forward-looking statements, 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 discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or 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 “forward-looking statements”. The Company operates in a highly competitive and regulated environment that involves significant risks and uncertainties, which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation: lack of product revenues and history of operating losses, dependence on third party synthesis and contract research organizations, ability to develop proprietary compounds and obtain patent protection for its products, risks related to protecting trade secrets and proprietary expertise, uncertainties related to research, dependence on key personnel, risks related to defence of third-party intellectual property infringement claims, ability to negotiate licensing agreements with biotech or pharmaceutical companies, risks related to meeting projected time-frames, risks related to pre-commercialization of potential product, uncertainties related to forecasts, unforeseen emergency situations, risks related to legislative actions, new accounting pronouncements and increased insurance costs, lawsuits related to secondary market liability, dilution of investment for current shareholders, common share price volatility, risks related to pricing of future equity offerings, risks relating to Federal investment tax credits, no expectation that COTI will pay dividends in the near future, risk related to COTI’s projections and assumptions regarding the anticipated market for its products, competition, ability to obtain regulatory approvals for COTI’s drug candidates, risks relating to government regulation of the manufacture, marketing and sale of COTI’s drug candidates, risks related to healthcare system reforms,

risks related to rapid technological change, and other risks and uncertainties related to the Company's prospects and business strategy described under Risk Factors in this AIF. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the forward-looking statements. Forward-looking statements are made based on management's beliefs, estimates, and opinions on the date the statements are made and the Company undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change except as may be required by applicable securities laws. Although the Company believes that the assumptions inherent in the forward-looking statements are reasonable, there can be no assurance that the forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements as forward-looking statements are not guarantees of future performance and accordingly readers should not place undue reliance on forward-looking statements due to the inherent uncertainty therein.

ITEM 2 CORPORATE STRUCTURE

2.1 Name, Address and Incorporation

The legal and commercial name of the Company is Critical Outcome Technologies Inc. The Company's registered and head office is located at Suite 213, The Stiller Centre, 700 Collip Circle, London, Ontario N6G 4X8.

COTI is a London, Ontario based company resulting from the amalgamation on October 13, 2006 of Aviator Petroleum Corp. (Aviator), a public capital pool company (CPC), 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 as a CPC 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 TSX Venture Exchange (TSXV) under the symbol COT on October 30, 2006.

On November 27, 2007, the Company completed an acquisition of all 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 2005 to develop a library of small cell lung cancer molecules discovered by COTI using its drug discovery technology.

On May 1, 2008, the Company amalgamated with DDP, its wholly owned subsidiary, under the *Business Corporations Act* (Ontario).

2.2 Inter-corporate Relationships

The Company had no subsidiaries as at the date of this AIF.

ITEM 3 GENERAL DEVELOPMENT OF THE BUSINESS

3.1 Three Year History

During the past three years, the Company has expanded its operations and technology platform, further advanced the development of a number of its compounds, established new research programs and entered into two collaborations utilizing its platform technology, CHEMSAS®. This has been

accomplished by executing on the Company's business strategies, hiring experienced and capable employees, engaging qualified, respected, professional consultants and establishing relationships with preferred contract research organizations.

The principal events influencing the general development of the Company's business in the last three years are described below under three major headings:

- Product Development
- Board of Directors, Advisory Boards and Management
- Capital Financing

Product Development

In October 2007, the Company announced the signing of a pilot project agreement with Merck Serono, a division of Merck KGaA of Darmstadt, Germany (Merck), to identify drug development candidates for a specific oncology cellular target. This project was the first collaboration for the Company using its innovative drug discovery technology CHEMSAS[®]. The project served to further validate the technology as a revenue creating initiative aligned with COTI's goal of accelerating the process of getting novel treatments to market. COTI commenced the project in February 2008 and delivered lead discovery candidates to Merck in May 2008. COTI subsequently provided synthesis management services on Merck's behalf until receiving notification in August 2009 that Merck had decided to discontinue the pursuit of the compounds under the pilot project.

In November 2007, the Company announced the acquisition of 3015402 Ontario Inc. (formerly 6441513 Canada Inc.) operating as DDP Therapeutics (DDP). DDP was formed in 2005 to develop a library of small cell lung cancer (SCLC) molecules discovered by COTI using its CHEMSAS[®] technology. The acquisition brought these compounds, which were some of the earliest discovered by CHEMSAS[®], and the most developed at the time of acquisition, back in-house. COTI's current lead compound, COTI-2, was the most advanced compound of this library.

Following the acquisition of DDP, the Company focused most of its research & development (R&D) program resources on moving COTI-2 forward to obtain both scientific and commercial validation of CHEMSAS[®]. These R&D experiments included:

- broadening the therapeutic indications for COTI-2 beyond SCLC the (original target) both as a single agent and in combination therapy;
- assessing the efficacy and toxicological outcomes of COTI-2; and,
- determining the primary mechanism of action (MOA).

The major impacts surrounding these development efforts are discussed below.

- (a) In June 2008, the Company announced confirmatory experimental results that identified a novel and potential first in class MOA for COTI-2. Experiments conducted in triplicate confirmed that COTI-2 had a profound effect on caspase-9 activation through inhibition of AKT/PKB promoting cell death at very low concentrations in susceptible human cancer cells. The resulting activation of caspase-9 led to a vigorous apoptosis or programmed cell death in cancer cells. In October 2009, the Company announced further experimental evidence that COTI-2 specifically inhibited the activation of the

protein AKT2, and to a lesser extent AKT1 but not AKT3, thereby preventing its cancer promoting activities. The ability of COTI-2 to target AKT/AKT2 in susceptible cancer cells makes it a potentially valuable commercial asset with a broad market for two important reasons:

- Abnormal expression or activation of AKT/AKT2 is commonly found in a range of 20-90% of solid tumors depending upon the type of human cancer including endometrial, ovarian, pancreatic, colon, brain, leukemia, breast, SCLC and non small cell lung cancer (NSCLC).
 - The abnormal expression or activation of AKT/AKT2 has been associated with the emergence of resistance to many standard chemotherapeutic agents in many human cancers thus COTI-2 may be a valuable addition in a combination therapy with these standard agents.
- (b) In February 2009, the Company announced the completion of a series of *in vitro* experiments in seven different human cancer cell lines representing colon cancer and NSCLC using COTI-2 alone, and in combination with either Tarceva® or Erbitux®. The results indicated:
- COTI-2, as a single agent, inhibited proliferation of human colon cancer cell lines (HCT-15, HCT-116, HT-29, COLO-205, and SW620) and human NSCLC cell lines (H292 and H1975) at concentrations in the nanomolar range;
 - COTI-2, in combination with either Tarceva® or Erbitux® (administered at concentrations that, as single agents, did not significantly inhibit proliferation of any of the cell lines) had a greater-than-additive capacity to reduce growth in all five colon cancer lines, regardless of KRAS status (normal/wild-type versus mutant); and,
 - COTI-2 in combination with Tarceva® (administered at concentrations that, as a single agent, did not significantly inhibit proliferation of any of the cell lines) had an additive or greater-than-additive capacity to reduce growth in both NSCLC cell lines.

These results were significant as COTI-2's anti-cancer activity acted to overcome the resistance associated with up to 50% of colon cancer tumors and up to 30% of NSCLC tumors that contained a KRAS gene mutation rendering them less responsive to commonly used and otherwise effective cancer drugs like Tarceva® and Erbitux®.

- (c) In May 2009, the Company announced positive results from animal experiments providing strong supportive evidence for the continued evaluation of COTI-2 in combination with conventional first line single agent therapy for the treatment of endometrial cancer. Up to 40% complete tumor regression was observed in the combination treatment groups (Paclitaxel® plus COTI-2) while no complete regressions occurred in the Paclitaxel® alone treatment group. The combination treatment with Paclitaxel® plus COTI-2 was associated with a statistically significant improvement in absolute survival compared with the Paclitaxel® group. The tumor growth inhibition was 71.5% greater in the Paclitaxel® plus COTI-2 treated animals compared with Paclitaxel® alone. The combination treatments were well tolerated.

- (d) In July 2009, the Company announced positive results from animal experiments providing strong supportive evidence for the continued evaluation of COTI-2 in combination with conventional single agent therapy for the treatment of ovarian cancer. Tumor growth inhibition was significantly greater in the COTI-2 plus Doxil[®] treated animals compared to the Doxil[®] control group treated animals. The effectiveness of the combination treatments with COTI-2 was apparent early in the study (day 4) and increased throughout the remainder of the study. The combination treatments were well tolerated.
- (e) In August 2009, the Company announced the results of *in vitro* experiments designed to assess the toxicity of COTI-2 in healthy human white blood cells (WBCs). A comprehensive evaluation of more than 25 sensitive human cancer cell lines indicated that these cells are between 500 and greater than 3.3 million fold more sensitive to apoptotic cell death induced by COTI-2 compared with normal WBCs harvested from healthy human subjects. Traditional anticancer drugs have shown toxicity to both cancer cells and healthy tissues with little selectivity. These results provided evidence that COTI-2 was much more toxic to cancer cells than healthy human WBCs.
- (f) In August 2009, the Company also announced important positive test results from a series of experiments in ovarian cancer designed; first, to estimate the oral maximum tolerated dose (MTD) for COTI-2; second, to evaluate the effectiveness of oral COTI-2 alone; and third, to compare the effectiveness of oral COTI 2 plus Doxil[®] to that of Doxil[®] alone. Oral COTI-2 alone and in combination with Doxil[®] showed superior treatment results compared to Doxil[®] alone as measured by significant tumor growth inhibition in an animal model of an aggressive human ovarian cancer (A2780). These results are summarized in Table 1.

Table 1: Ovarian Xenograft Test Results

Maximum Tumor Growth Inhibition @ p<0.05	Treatment Group	Comparison Group
62.8%	COTI-2 at or below MTD	No drug treatment
79.2%	COTI-2 at or below MTD + Doxil	No drug treatment
80.2%	COTI-2 at or below MTD + Doxil	Doxil alone

- (g) In December 2009, the Company announced that oral COTI-2 was effective as a single agent and in combination with Gemcitabine[®] in an animal model of human pancreatic cancer. Results of these experiments indicated that chronically administered oral COTI-2 was well tolerated as a single agent with efficacy comparable to the first line agent Gemcitabine[®], and there was enhanced efficacy in combination with Gemcitabine[®].
- (h) In January 2010, the Company announced that oral COTI-2 was effective in a second animal model of human pancreatic cancer (PANC-1) as a single agent and in combination with Abraxane[®]. Chronic oral treatment with COTI-2 as a single agent or in combination with Abraxane[®] was well tolerated with no treatment deaths or observable toxicity over the duration of the study.

- (i) In March 2010, the Company announced results from a series of animal experiments with COTI-2 as a single agent against an aggressive strain of triple negative human breast cancer (TNBC), MDA MB 231luc. None of the study groups had any evidence of metastatic disease spread using whole body fluorescent imaging. Treatment with oral COTI-2 as a single agent was well tolerated with no treatment deaths or observable toxicity over the duration of the study. The results support further evaluation of COTI-2 in combination with other agents like taxols for the potential effective treatment of TNBC.

In January 2010, the Company announced a development agreement with the Translational Genomics Research Institute (TGen) to work together to obtain approval of clinical trials for COTI-2. TD2, TGen's Scottsdale, AZ based drug development subsidiary, will work with COTI to complete the investigational new drug (IND) enabling research necessary to gain U.S. Food and Drug Administration approval of clinical trials.

In addition to COTI-2 R&D, the Company had the following major developments in other areas:

- (a) In September 2008, the Company announced it had entered into an agreement with a major pharmaceutical company (Partner) to advance up to six drug candidates from COTI's HIV-1 integrase inhibitor program, identified using its CHEMSAS[®] drug discovery process. Under the agreement, COTI would retain intellectual property ownership of the drug candidates, including any data resulting from preclinical experiments. COTI would manage the synthetic chemistry process associated with these select drug candidates with a third party contractor. The cost associated with synthesis would be shared between the two parties. Upon completion of synthesis, the Partner would manage, conduct, and fund agreed upon preliminary preclinical experiments as part of its evaluation of COTI's compounds. Once the final experiments were completed and the results received by COTI, the Partner would have an exclusive time period to negotiate a licensing agreement for the compounds. Should an agreement not be reached within the period, COTI would be able to engage other potential partners for its HIV-1 integrase inhibitor program. In April 2010, the Company reported the completion of synthesis and delivery of three novel HIV-1 integrase inhibitors under the agreement. The Partner is currently engaged in the agreed upon preclinical experiments. This testing is expected to be completed in the fall of 2010.
- (b) In July 2009, the Company announced that it was undertaking the discovery and optimization of novel lead compounds for the treatment of Alzheimer's disease (AD). The COTI scientific team focused their research efforts on the area of secretase, a class of enzymes that cut the amyloid precursor protein into three fragments. Sequential cutting by beta secretase and gamma secretase produces the beta amyloid peptide fragments that accumulate into the "plaques" or scars found in the brains of people with AD. COTI's novel, optimized lead compounds targeted against AD have since undergone extensive computational and human medicinal chemistry optimization, a chemical synthetic feasibility review and an intellectual property assessment. The first six dual secretase inhibitors on three different scaffolds are ready for synthesis and preclinical evaluation once funding is available.
- (c) In September 2009, the Company announced the implementation of the next generation upgrade of its proprietary platform technology CHEMSAS[®] version 10A. The

automation and upgrade resulted in a four-fold increase in the number of projects that can be worked on at any given time.

Board of Directors, Advisory Boards, and Management

In May 2007, the Company announced that Mr. Scott Baker had been appointed Chief Operating Officer (COO) of the Company to lead COTI's internal business operations and external stakeholder relationships with a focus on supporting DDP on behalf of COTI in the development of the SCLC library and the acquisition of DDP.

In July 2007, the Company announced that the consulting contract of Mr. Dean Gendron, who had acted as Vice President of Strategic Relationships with a focus on the Company's 2006 public financing, expired effective June 30, 2007. Mr. Dean Gendron continued to serve as a Director of the Company.

In December 2007, the Company announced that following the acquisition of DDP in November 2007, additional skilled professionals would be added to the science, finance, and business development departments. The Company also announced that Mr. Scott Baker, COO, had left COTI to pursue a leadership position within the branded pharmaceutical industry.

In July 2008, Mr. Gendron advised he would not be standing for re-election as a director of the Company at the Annual General Meeting of the Company convened in September 2008.

In September 2008, the Company strengthened its Board with the election of two new directors at the Annual General Meeting, Mr. Douglas Alexander and Mr. Michael Cloutier. Both were well respected business executives with successful track records, Mr. Alexander in financial management and Mr. Cloutier in pharmaceutical company management.

In November 2008, the Company announced that Mr. Michael Cloutier was appointed Chief Executive Officer (CEO) of the Company effective October 31, 2008. Mr. Cloutier succeeded Mr. John Drake who had been the Company's CEO since 2005. Mr. Drake continued as the Chairman of the Board. Mr. Cloutier had more than 26 years of pharmaceutical industry experience having held a number of senior management roles in Canada and internationally including: VP Human Resources Global Marketing at AstraZeneca in the United Kingdom (2007-08); President and CEO of AstraZeneca Canada Inc. (2003-07); President and CEO of Pharmacia Canada (2000-03).

In January 2010, Mr. Mark Hlady resigned from the Board for personal reasons.

Also in January 2010, Dr. Rainer Engelhardt accepted a new position as Assistant Deputy Minister, Infectious Disease and Emergency Preparedness Branch of the Public Health Agency of Canada and, in accordance with the employment conflict of interest policies of the Government of Canada, resigned from the Board.

Capital Financing

The Company completed two securities offerings on a private placement basis during the past three years as well as realized cash generation on the exercise of warrants issued prior to fiscal 2008. A history of these financings is summarized in Table 2.

Table 2: Three Year History of Capital Financing

	Fiscal Year	Description	Gross Proceeds	Net Proceeds
1	2008	Exercise of warrants	\$ 2,387,305	\$ 2,374,206
		Private placement ⁽¹⁾	4,000,000	3,665,882
		Exercise of stock options	68,400	67,948
2	2009	Exercise of warrants	636,422	633,936
3	2010	Private placement ⁽²⁾	1,063,349	999,075
			\$8,155,476	\$7,741,047

Notes:

- (1) In November 2007, the Company announced the completion of a brokered private placement of 2,857,143 common shares offered to qualified purchasers in Ontario. The issue price was \$1.40 per common share for gross proceeds of \$4,000,000. Proceeds of the private placement were used for product development, research and development, and other corporate purposes with \$630,000 being paid as the cash component of the total consideration payable by COTI to purchase the shares and promissory notes of DDP.
- (2) In April 2010, the Company completed the first tranche of a non-brokered private placement and issued 3,038,141 units for gross proceeds of \$1,063,349. Each unit consisted of one common share and one-half a common share purchase warrant with each whole warrant exercisable into one additional common share at a price of \$0.55 until October 27, 2011. In addition, 105,607 compensation warrants exercisable for one additional common share at a price of \$0.40 until October 27, 2011 were issued.

In addition to securities issuances described above, the Company also issued 1,431,441 common shares with a market value of \$2,004,017 at November 27, 2007 to the shareholders of DDP as part of the consideration paid for the acquisition of DDP.

3.2 Significant Acquisitions

The Company made no business acquisitions in the fiscal year ended April 30, 2010.

3.3 Recent Developments

In May 2010, the Company announced the receipt of a favourable Pre-Investigational New Drug gap analysis report from an independent team of scientific and regulatory consultants that reviewed the novel oncology drug candidate preclinical science data package for COTI-2. There were no deficiencies identified. The gap analysis is conducted prior to an initial meeting with the U.S. Food and Drug Administration (FDA) to identify potential deficiencies in the preclinical development program of a new chemical entity being considered for human clinical trials.

In May 2010, the Company completed the second tranche of a non-brokered private placement that followed the closing of a first tranche in April 2010. The aggregate gross proceeds of both tranches were \$1,102,850 through the sale of 3,151,001 units at a price of \$0.35 per unit. Each unit consisted of one common and one-half a common share purchase warrant. Each warrant is exercisable into one common share at an exercise price of \$0.55 per share for a period of 18 months from the date of issue.

In June 2010, the Company announced it had signed a Contribution Agreement that provided COTI with non-repayable funding of up to \$300,000, in addition to technical and business oriented advisory services, from the National Research Council of Canada Industrial Research Assistance Program. The funding is to support a project with an estimated total cost of \$955,470 to develop novel multi-kinase targets for the treatment of acute myelogenous leukemia (AML).

3.4 Changes in Management

Mr. Michael Cloutier, the Company's CEO as at April 30, 2010, resigned effective July 1, 2010. Mr. Cloutier remains as a member of the Board of Directors and continues to have an important role in advising the management team. Dr. Wayne R. Danter, COTI's founder and current President and Chief Scientific Officer (CSO), was appointed the Company's President, CEO, and CSO effective July 1, 2010.

Effective July 1, 2010, Mr. Michael Barr, the Company's Director of Business Development and Marketing, was appointed Vice President of Business Development and Marketing.

3.5 Future Plans

The Company's operational objectives for fiscal 2011 are as follows:

- (a) COTI-2
Completion of IND enabling studies, receipt of IND number, enrolment of first patient for a Phase 1 clinical trial and a licensing agreement.
- (b) HIV Integrase Inhibitor Co-Development Program
Completion of preclinical validation testing and potential licensing agreement with a global pharmaceutical development partner.
- (c) Acute Myelogenous Leukemia Program
Completion of synthesis and preclinical testing and identification of licensing customers.
- (d) Alzheimer's Disease Program
Launch of a co-development partnership for the Company's novel dual secretase approach.
- (e) Customer Lead Discovery Collaboration
Launch of 1-2 partnerships undertaken on a fee for service model.
- (f) Small Molecule Due Diligence Tool
Launch of a web based small molecule due diligence tool.

In order to realize these objectives the Company will require additional funding. Specific funding sources have not yet been finalized. Funding may include a licensing agreement for COTI-2/HIV compounds, additional equity capital raises, government funding or debt.

ITEM 4 DESCRIPTION OF THE BUSINESS

4.1 General Description of the Business

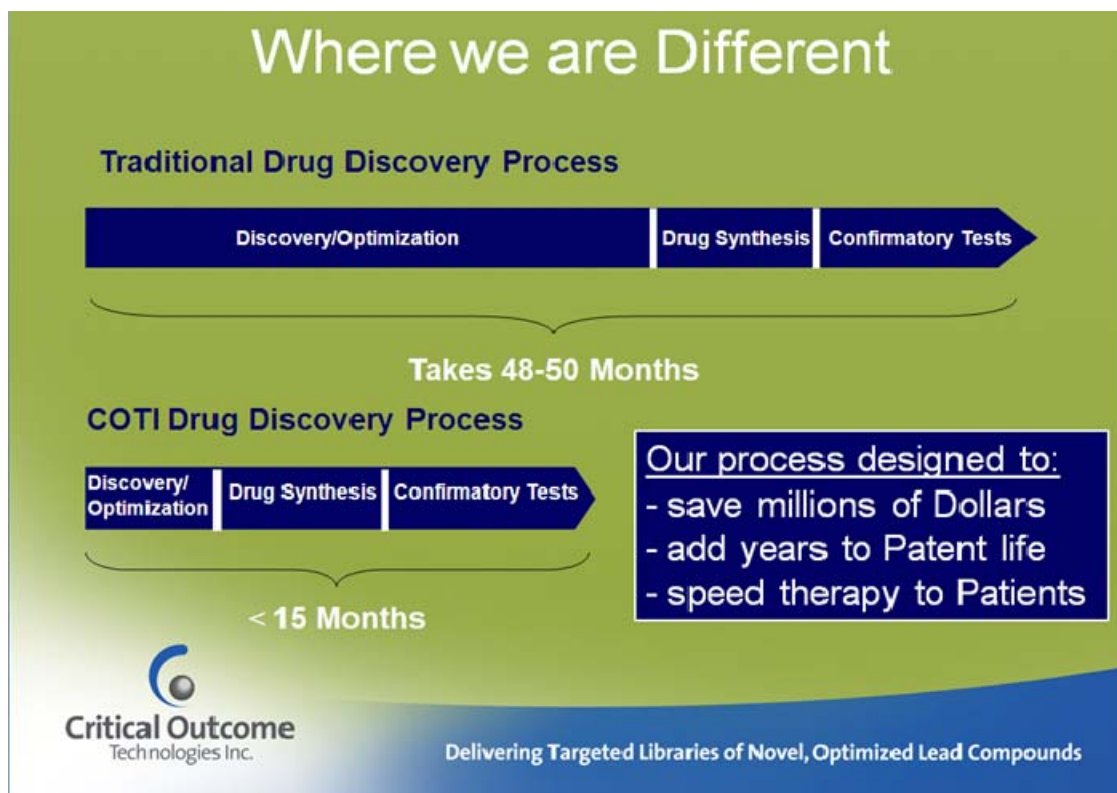
COTI is a biotechnology company focused on applying its proprietary computer-based technology, CHEMSAS[®], combined with expert medicinal chemistry, to identify, profile and optimize commercially viable drug candidates at the discovery stage of preclinical drug development and thereby reduce the timeline and cost of getting new drug therapies to market.

4.2 Business Value Proposition

In the 2006 Industry Report of the Pharmaceutical Research and Manufacturers of America (PRMA Report), it was noted that the current drug development process takes 10-15 years, costs approximately US\$800 million and forces companies to evaluate more than 5,000 potential drugs for each successful FDA new drug approval. Since that time, various sources, such as Recap.com, have reported this cost has grown to over US\$1 billion. One of the major factors that causes development to be so expensive is that in traditional drug discovery and pre-clinical drug development, the evaluation of compounds relies on a costly cycle of drug design and synthesis; followed by drug testing; followed by optimization; followed by re-synthesis and testing of each compound as it is optimized. This cycling consumes significant resources of time, labour, material and facilities and as a result is correspondingly expensive and inefficient. COTI believes it has developed a better way to get safe and effective new therapies to people in need on a timelier and more cost effective and efficient manner.

Our approach is disease specific drug discovery, optimization and pre-clinical development using a specially developed process that combines a series of computer models based on proprietary algorithms and input from human medicinal chemists. Figure 1 highlights the traditional drug discovery process and timeline and illustrates that COTI's process called CHEMSAS® is designed to reduce the discovery optimization segment and thereby reduced the timeline of identifying lead compound candidates at the end of the confirmatory test stage to 15 months from the current 48 to 50 month timeline.

Figure 1: Comparison of the Discovery/Optimization Timeline



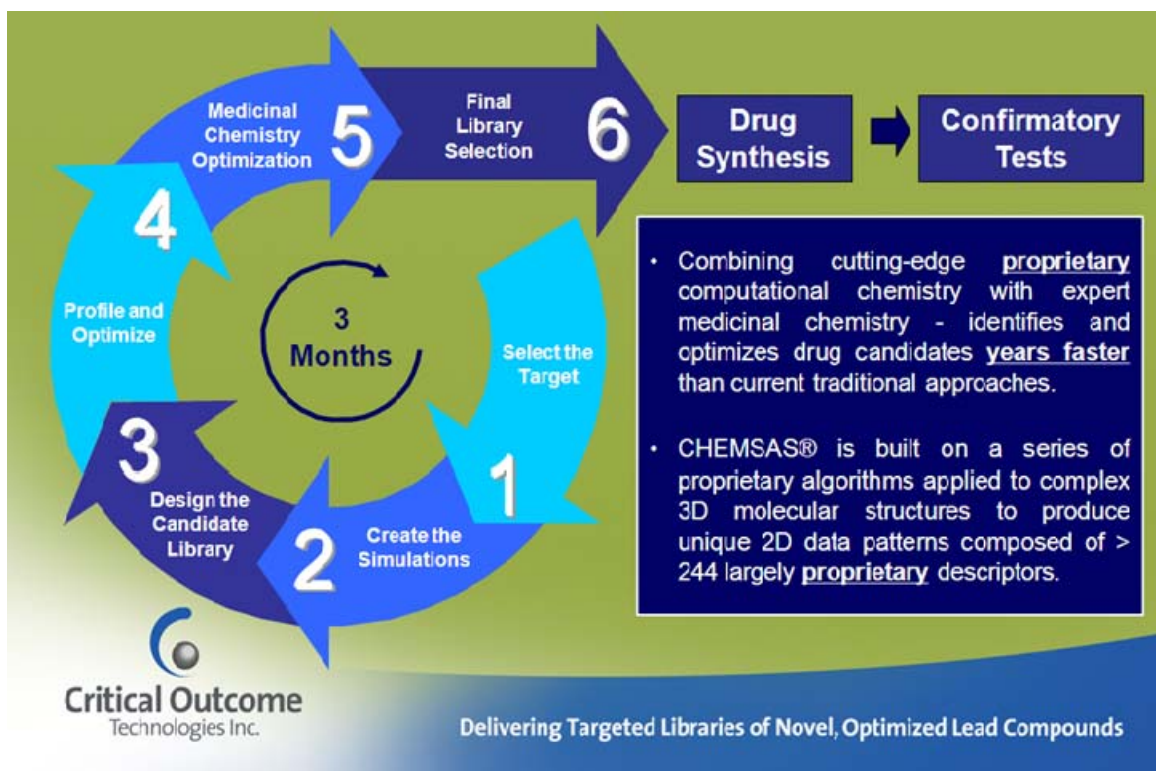
4.3 CHEMSAS® Technology

CHEMSAS® is an acronym for “computerized hybrid expert molecular structure activity screening”. The name is derived from the basic underlying principal that guided the development of the Company’s technology that molecular structure determines biological activity. Using this basic principle, the Company applied a proprietary process framework and a significant number of computer based technologies to create a multi-staged platform technology. CHEMSAS® is thus based upon a hybrid of computational technologies and proprietary algorithms that allow accurate prediction of biological activity from the molecular structure.

As a small molecule drug discovery engine, CHEMSAS® is adaptable to a wide range of targets and profiling possibilities. In addition to increasing the speed of identifying potential lead drug candidates, the system, through its rigorous computational predictive capabilities, identifies drug candidates with an increased probability of clinical success. The process can model and optimize specific desirable biological activities of molecules such as (i) efficacy against specific targets, (ii) pharmacokinetic properties (i.e., absorption, distribution, metabolism, excretion (ADME)), (iii) Cytochrome P450 metabolic interactions, (iv) acute *in vivo* intra-peritoneal and oral toxicity, (v) P-glycoprotein transport interactions, and (vi) potential mutagenicity. The output of the system is a detailed profile of a potential drug candidate at the earliest stage of development.

Figure 2 sets out a high level overview of the basic steps in the CHEMSAS® process.

Figure 2: High Level Outline of the CHEMSAS® Approach



To ensure that CHEMSAS® remains a cutting edge technology, new and/or modified prediction models are constantly updated and refined. New molecules are continuously added to the CHEMSAS® database and new computational versions of tests and assays are also being developed in order to make the CHEMSAS® predictive capabilities as comprehensive as possible and allow COTI to find molecules for new and important therapeutic targets that can be developed and sold or licensed.

4.3.1 Benefits of CHEMSAS®

Our approach to drug discovery has the following benefits:

- (a) allows us to discover and develop potential new therapies faster, cheaper and more efficiently by doing most of the discovery work in computer simulations providing decreased cost and increased speed of outcome than our competitors who still largely rely on traditional methods
- (b) attractive to pharmaceutical and biotechnology partners because of:
 - a faster time to market – lead compounds can complete the preclinical work and get in to clinical trials two years or more faster than the traditional approach;
 - an increase in potential profit by reducing the cost for licensees of more expensive and time consuming internal drug discovery processes; and
 - an increase in the potential revenue generating period under patent protection – faster time to market allows a greater period for revenue generation under patent protection of potentially more than two years.

4.3.2 Proof of Concept

The CHEMSAS® process has undergone repeated internal and external multistage scientific validation throughout its evolution from a process that was limited to predicting *in vitro* efficacy against 10 different types of cancer in 1999 to a sophisticated broad based discovery engine targeting potential new drugs for pre-clinical development in a broad base of diseases. The development of individual computerized tests involves extensive internal validation at each stage in the development process. The earliest external scientific validation was carried out in 2003 on two COTI compounds identified as potential treatments for leukemia at the Research Laboratories of the London Regional Cancer Program by the Program's Director, Dr. James Koropatnick, an internationally recognized expert in cancer biology. The overall predictive accuracy of these early efficacy models was greater than 90%. A second external and blinded validation was carried out on 10 previously unseen test molecules provided by Dr. Koropatnick with the results that overall the computer predictions of both *in vitro* efficacy and acute animal toxicity were accurate more than 80% of the time. All predictive models have undergone considerable evolution and development since those early experiments. Today an optimal overall predictive profile is based upon 64 simulations and 264 variable outcomes that help to distinguish potential successful from unsuccessful drugs.

4.4 Business Application

Our vision is to be a reliable and cost-effective provider of small libraries of highly optimized compounds that are targeted against common and important diseases, and which will help our customers fill their pipelines with drug candidates that have a high potential for success. Using CHEMSAS®, the Company is

developing optimized novel, 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. Following synthesis and completion of a core group of confirmatory *in vitro* and *in vivo* efficacy and toxicity tests, the Company's business model is to license or co-develop these molecules with interested pharmaceutical, biotechnology, and drug development partners for further drug development and human trials.

In addition to licensing its targeted programs, the Company may also take particularly promising individual molecules forward through various preclinical tests and Phase 1 clinical trials. This activity involves additional preclinical testing and the associated costs with making an investigational new drug application (IND filing) in the United States or a new drug submission (NDS) in Canada and a plan for human Phase 1 clinical studies. These compounds are then available for licensing or co-development with a pharmaceutical partner. In this regard, the Company continues to prepare for a Phase 1 clinical trial submission based on the positive preclinical results achieved from COTI-2, its lead cancer molecule, against a number of cancer indications. COTI-2 is an allosteric inhibitor of AKT2 that has shown positive preclinical test results in a broad number of cancers where elevated levels of AKT are exhibited. Testing initiatives and planning currently target an IND filing in 2011.

The Company also engages in discovery stage collaborations with multinational pharmaceutical and biotechnology organizations in identifying lead candidates for targets of commercial interest to these prospective partners. This collaboration approach leverages the capabilities of CHEMSAS® to provide an additional revenue stream that complements the Company's concurrent development of its own novel drug candidates. The Company's preferred commercialization strategy for collaborations incorporates an upfront fee and a shared risk/reward revenue model delivered through a series of milestone payments based on preclinical and clinical test results. Management believes this service offering to prospective customers represents an efficient and effective approach for them in providing discovery stage compounds while enhancing value to the Company and its shareholders from the underlying CHEMSAS® technology. To date the Company has participated in two collaborations; one a cancer target and the other an HIV target, and seeks to build further business upon these initial engagements.

4.5 Licensing Revenue Model

The Company anticipates generating revenues through licensing of its compounds on a basis consistent with that of other biotech and pharmaceutical companies. The licensing agreement typically consists of the following four components: an upfront cash payment upon signing the agreement, development milestones as the licensed compound advances through additional preclinical and clinical testing to FDA approval, commercial milestones on sales as a drug, and finally, sales royalties.

Revenues from collaboration projects are expected to follow a similar approach with the exception of the upfront payment. The payment for the discovery and confirmatory test phase of such initiatives is typically negotiated on a project-by-project basis. The uniqueness of each project and partner preferences are major factors for this approach. For example, if the disease target is a new project directed by the collaborating partner then COTI seeks an upfront service fee to cover the cost of developing the target specific additions to CHEMSAS® and applying the CHEMSAS® process in identifying lead compounds. Negotiated project milestones are typically used to trigger payments. Second, if the collaboration is a compound from COTI's own portfolio then cost sharing or development cost funding by the partner to a specific milestone is a common approach. Licensing revenues of a similar nature consistent with those for COTI's own compounds are anticipated under the collaboration should the partner decide to proceed following the initial discovery and confirmatory phase.

The Company’s business model is to license its compounds following the completion of discovery and a core group of confirmatory lab tests. However, until the acceptance of the underlying CHEMSAS® technology as a reliable drug discovery engine by industry participants, the Company may have to conduct additional preclinical testing including the testing necessary to take a compound through to an IND filing with the FDA and even through Phase 1 clinical trials. Accordingly, the value of any licensing agreement is a function of many factors such as the compounds impact on the disease target, the novel nature of the compound, the strength of the patent protection, the number of therapeutic indications, and market size, among others factors. As a general rule, with all other factors being consistent, the value of a licensing agreement increases as one moves a compound with continuing success along the development path toward FDA approval. This increase in revenue reflects the decreasing risk that a compound will fail given each hurdle it passes in the development cycle. This increase is typically spread across all the revenue components of the licensing agreement; that is the upfront payment, developmental milestones, commercial milestones and royalties would all increase as negotiated in the licensing agreement.

To illustrate this effect, Table 3 sets out how this is reflected in licensing agreements for an important therapeutic target in oncology treatment, the cell signalling pathway. The cell signalling pathway has three important areas that have been targeted for treatment in recent years; PI3K, AKT and mTOR. The table illustrates the range of values for discovery stage, Phase 1 human clinical trial candidates and Phase 2 human clinical trial candidates. As noted, Phase 2 candidates garner much larger licensing agreements than discovery stage candidates do.

Table 3: Licensing Agreements in the Cell Signalling Pathway in the Past Five Years

<p>Sanofi Aventis <i>Exelixis (May 28, 2009)</i></p> <p>US\$1.16B deal PI3K Target Phase 1 and Phase 1/2 candidate</p>	<p>Genentech <i>Piramed (Nov 30, 2005)</i></p> <p>US\$230M deal PI3K Target Drug discovery candidate</p>
<p>Merck & Co. <i>Ariad (Jul 12, 2007)</i></p> <p>US\$1B deal mTOR Target Phase 2 candidate</p>	<p>Roche <i>Piramed (Apr 15, 2008)</i></p> <p>US\$185M acquisition PI3K Target Phase 1 candidate</p>
<p>Astra Zeneca <i>Astex (Jul 27, 2005)</i></p> <p>US\$275M deal Akt Target Drug discovery candidate</p>	<p>Merck <i>Ariad (Jul 12, 2007)</i></p> <p>> US\$1B deal mTOR Target Phase 2 candidate</p>

The licensing agreements illustrated above reflect all potential revenues for the agreements; however, much of these revenues may or may not be realized in the future depending upon the success of the compounds as they move further through development and ultimately to becoming treatments. Typically the upfront payment in cash is only a small part of the overall deal and the size of this payment varies based upon the development stage of the compound; with drug discovery candidate upfront payments being less than Phase 2 ready candidates all factors being equal. As noted above, the terms of the licensing agreement and consequently the upfront payment can be affected by many factors such as

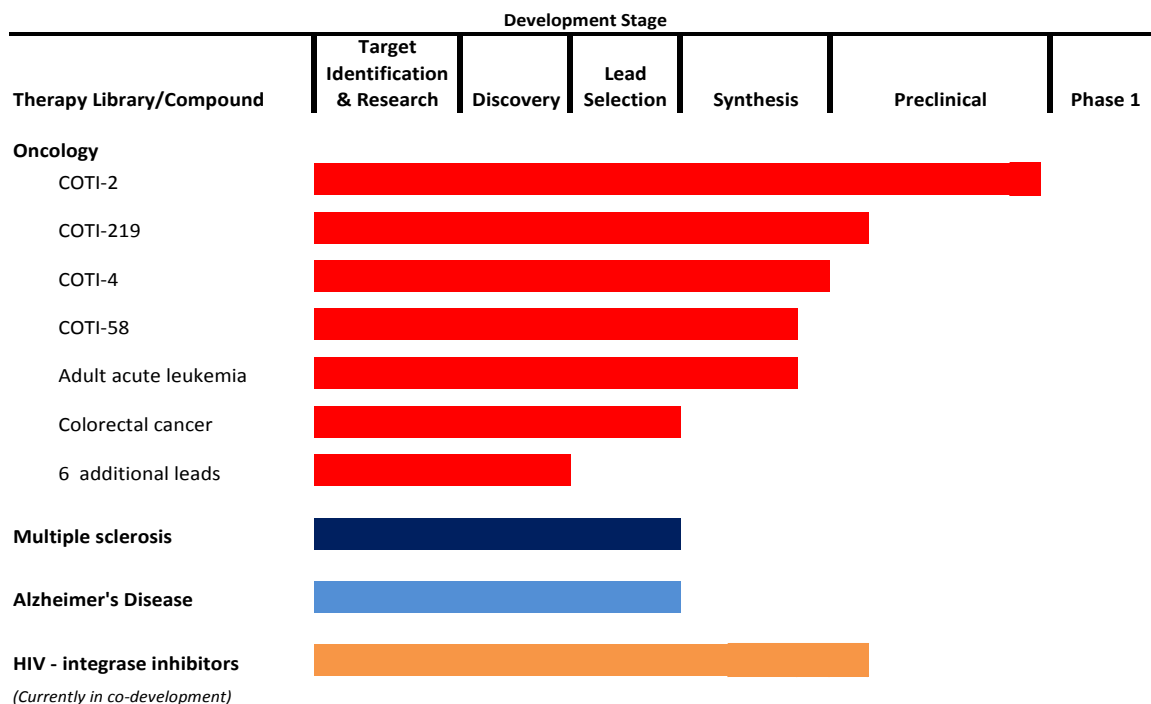
the novel nature of the compound (i.e., first in class), market indications, market size, market share potential and competitive treatments.

As noted above under the heading Business Application of the CHEMSAS® technology, the Company is developing drug candidates for specific therapeutic targets in diseases that have high morbidity and mortality rates and currently have either poor or no effective therapies. The intent of this strategy is directly aimed at those markets with a strong potential for achieving financially rewarding licensing agreements. The Company, however, provides no guarantee and can make no assurances that the compounds it seeks to develop and license will achieve licensing deals similar to or consistent with those discussed for the cell signalling pathway. The above illustration is intended only to provide a general outline of how the licensing agreements work and some of the many factors that could influence any licensing agreement that COTI is able to achieve

4.6 Product Development

Using its proprietary CHEMSAS® process, COTI has discovered and developed highly optimized portfolios of small molecule drug candidates against a variety of different cell signalling and disease targets. COTI has concentrated on developing drug candidates for the treatment of various cancers, HIV, multiple sclerosis, and Alzheimer’s disease. Cancer types specifically targeted include small cell lung cancer, adult acute leukemia, ovarian, endometrial, pancreatic, brain, breast and colorectal cancer. The Company’s compounds in various stages of development at April 30, 2010 appear in Figure 3.

Figure 3: Product Pipeline and Stage of Development



The ability to develop this pipeline of drug candidates is a function of resources both human and financial. The Company’s development focus is to advance COTI-2 through the completion of the final preclinical testing necessary for an IND filing with the U.S. Food and Drug Administration. This development is also supportive of ongoing licensing discussions for the compound. The Company’s

secondary focus is on its adult acute leukemia project. Patents have been granted in Europe and the United States and government funding to assist with this project has been approved as noted above.

4.7 Research and Development

As CHEMSAS® is a platform technology, the Company is currently evaluating alternative fee for service applications of the technology to meet the needs of a variety of end users for profiling prospective compounds in the discovery stage or at later stages of preclinical development to assist in the decision making process of these users. The basis of such offerings is to address the scientific need to identify potential problems with drug candidates as early as possible and thus save time, resources, and money. These applications include a web based offering and are currently in the business case evaluation and product prototype phase. Testing and evaluation of these offerings is expected to be completed in fiscal 2011.

The Company is continually working on improving its CHEMSAS® platform by adding new simulations, descriptors and tests, as well as enhancing and modifying the latest working version.

4.8 Competitive Conditions

CHEMSAS® Platform

COTI has developed a unique, novel proprietary process to discover drug candidates predicted to have a high probability of success. For the purposes of finding potential lead compounds for a specific cell level target in a specific therapeutic area there can be many sources of competition. What differentiates these competitors is the scientific capability in their people and technology or process used to arrive at such compounds. Competitors include pharmaceutical companies, biotech companies, drug discovery companies, university research labs and individual scientists. It is clear that pharmaceutical companies have R&D departments that identify lead compounds in a way unique to each company. However, drug discovery and development is a complex, challenging and expensive activity. This is evidenced by the high cost to bring a successful compound to market of greater than \$1 billion as noted above under the heading Business Value Proposition. Despite competitive processes to find drug therapies, the ultimate goal is to find a successful compound. COTI believes its computational process is a more cost effective and higher success rate approach based upon predictive probabilities. As noted under the heading Intellectual Property below, the Company has chosen not to patent its proprietary process but rather maintain it as a trade secret. The Company firmly believes that this represents a competitive advantage and that the patenting process would result in a very high risk of providing a detailed roadmap for other parties to follow in engineering a competitive process or in re-engineering/enhancing their own existing process.

Drug Candidates

In the actual therapeutic space where the products of the CHEMSAS® technology are to be used, there can be treatments in use and in development. COTI's compounds must compete with these in the particular therapy areas COTI has chosen. To enhance its opportunity for success, COTI is focused on areas of unmet medical need; that is in a therapeutic area where current treatments are not particularly effective. This strategy is further supported in the evaluation of the predictive outcomes for COTI compounds in confirmatory testing. COTI looks to complete the confirmatory tests (efficacy, toxicity, etc.) where possible using human cell lines and compared to current standard therapies used for the disease target. The intent is only to take forward a compound that is at least as good or better in a

particular pharmacokinetic property than a current therapy. This approach was described under the heading General Development of the Business Three Year History above, where animal xenografts conducted in particular human cell lines against specific oncology targets were compared against current therapies for these targets. Finally, the Company only takes compounds forward for its own account from the CHEMSAS[®] system that are able to achieve the highest level of patent protection, thus ensuring the compounds are unique and novel within the therapeutic patent space and consequently of the most appeal to licensees.

4.9 Intellectual Property

The pharmaceutical industry attaches major importance to patents and the protection of industrial secrets for new technologies, products, and processes. COTI’s success depends in part on its ability to obtain patents or rights thereto, protect its commercial secrets, and carry on its activities without infringing the rights of third parties.

The Company has chosen not to patent its proprietary drug discovery search engine, CHEMSAS[®], but rather has kept it a trade secret. This conscious decision serves to protect the process, as disclosure in a patent application would provide other companies with a significant opportunity to improve their own software based modeling systems.

The Company seeks to patent the portfolio drug candidates generated for the selected specific therapeutic targets identified from CHEMSAS[®] at the most desirable patent level. The Company also seeks to ensure that these are unique and novel compounds for the disease targets by surveying the patent space around its therapy targets to identify areas of open patent space that would reduce the likelihood of patent issues or challenges at the time of, and subsequent to, filing. COTI’s patents typically include the following intellectual property: the relevant molecule scaffolds, the synthesis formula(s) and the supporting test data related to the therapy target.

COTI’s approach is to initially seek protection in the United States, Canada and select international countries under a patent co-operation treaty filing (PCT) filing. Patents have been filed on compounds targeting adult acute myelogenous leukemia, small cell lung cancer and HIV integrase inhibitors.

A summary of molecule patents is set out in Table 4.

Table 4: List of Patents and Patent Status

	Compound ID	Program Description	Country	Patent Number	Filing Date	Status
1	COTI-001	Protein tyrosine kinase inhibitors	Canada	CA2542007	Oct 9/03	Granted
2	COTI-001	Protein tyrosine kinase inhibitors	U.S.	10/531107	Nov 7/05	Granted
3	COTI-001	Protein tyrosine kinase inhibitors	Europe (10 Countries)	EP1551824	Oct 9/03	Granted
4	COTI-002 /COTI-003	Protein tyrosine kinase inhibitors	Canada	CA2494061	Jul 31/03	Granted
5	COTI-002 /COTI-003	Protein tyrosine kinase inhibitors	U.S.	US2006069105	Jul 28/05	Granted
6	COTI-002 /COTI-003	Protein tyrosine kinase inhibitors	Europe (7 Countries)	EP1542989	Jul 31/03	Granted

	Compound ID	Program Description	Country	Patent Number	Filing Date	Status
7	HIV1	Compounds and Method for Treatment of HIV	Provisional	61/320,223	Apr 1/10	Pending
8	COTI-2 /COTI-219	Composition and Method for Treatment of Cancer	Canada	CA2673683	Jan 11/08	Pending
9	COTI-2/ COTI-219	Composition and Method for Treatment of Cancer	U.S.	2008/0171744	Jan 11/08	Pending
10	COTI-2/ COTI-219	Composition and Method for Treatment of Cancer	Europe	EP2121681	Jan 11/07	Pending
12	COTI-2/ COTI-219	Composition and Method for Treatment of Cancer	Israel	199689	Jan 11/07	Pending
13	COTI-2/ COTI-219	Composition and Method for Treatment of Cancer	Japan	2010-515693	Jan 11/07	Pending
14	COTI-2/ COTI-219	Inhibitor Compositions and Cancer Treatment Methods	U.S.	12/505,295	Jul 17/09	Pending
15	COTI-4	Composition and Method for Treatment of Cancer	Canada	CA2008/002293	Dec 24/08	Pending
16	COTI-4	Composition and Method for Treatment of Cancer	U.S.	12/810,722	Dec 24/08	Pending
17	COTI-4	Composition and Method for Treatment of Cancer	Europe	08865722-6	Dec 24/10	Pending

The Company has registered trademarks as set out in Table 5.

Table 5: List of Trademarks

	Name	Description	Country	Meaning
1	CHEMSAS®	Acronym for the Company's proprietary drug discovery search engine	Canada and U.S.	Computerized Hybrid Expert Molecular Structure Activity Screening
2	HAALT®	Acronym for combination oral therapy that results in changing highly lethal cancers into chronic longer term illnesses	Canada	Highly Affective Anti-Neoplastic Longer-Term Therapy
3	Highly Affective Anti-Neoplastic Longer Term Therapy	Term for combination oral therapy that results in changing highly lethal cancers into chronic longer term illnesses	Canada	

4.10 Economic Dependence

The Company does not currently have any customer that could create a situation of substantial dependence upon this customer for revenue to support the Company’s operations. In the use of its contracted R&D suppliers, COTI has developed a preferred supplier list with several alternative contractors for synthesis and each of the confirmatory testing services that may be required. Accordingly, the Company has not created a situation of dependence on any supplier for the Company’s requirements.

4.11 Employees

The number of employees on staff at each of the last three year ends is summarized in Table 6.

Table 6: Number of Employees at the End of the Year

Year End	Number
2010	10
2009	10
2008	5

4.12 Facilities

The Company does not own any physical facilities but leases 1,600 square feet of commercial office space in the Stiller Centre for Technology Commercialization, a building located in the University of Western Ontario Research Park. Commercial office space is appropriate for the Company’s computer laboratory activities as all synthesis and preclinical testing activities are performed by third party service providers, thus precluding the need for any in-house traditional “wet lab” facilities. The Company’s two year lease on this space, at a rate of \$3,115 per month, expired on May 31, 2009, but has been extended since then on a month to month basis subject to a 90 day notice period to terminate by either party.

ITEM 5 RISK FACTORS

The biotechnology industry is generally regarded as high risk given the uncertain nature of developing drug candidates. COTI operates in the earliest stage of the drug development cycle, the discovery stage, which is in the initial preclinical segment of the cycle. The realization of COTI’s long-term potential is dependent upon the successful development and commercialization of molecule drug candidates found using COTI’s proprietary technology and in expanding the use of this technology as a profiling service for third party customers in various ways. The major operating, investment and financial, and industry risk factors affecting realization of this potential are set out in Table 7. A detailed description of each risk and uncertainty follows the table.

Table 7: List of Categorized Risks

List of Risks by Category		
Operating	Investment & Financial	Industry
<ul style="list-style-type: none"> • Lack of Product Revenues - History of Operating Losses • Trade Secrets and Proprietary Expertise • Uncertainties Related to Research • Dependence on Third Party Synthesis and Contract Research Organization • Patents • Pre-commercialization • Dependence on Key Personnel • Costs Stemming from Defence of Third-Party Intellectual Property Infringement Claims • Negotiate Adequate License Deals • Meeting Projected Time-Frames • Unforeseen Emergency Situations • Uncertainties Related to Forecasts • Legislative Actions, New Accounting Pronouncements, Increased Insurance Costs • Lawsuits Related to Secondary Market Liability 	<ul style="list-style-type: none"> • Financing Requirements • Dilution • Share Price Volatility • Access to Capital • Income Tax Matters • Dividends 	<ul style="list-style-type: none"> • Unproven Market • Competition • Regulatory Environment • Government Regulation • Healthcare System Reforms • Rapid Technological Change

5.1 Operating Risks

5.1.1 Lack of Product Revenues - History of Operating Losses

COTI has not recorded any revenues from the sale of drug compounds or compound libraries during its first three full years as a public company. COTI has an accumulated deficit since its inception through to April 30, 2010 of \$11,743,308. This deficit is expected to increase in the near term as COTI continues its product development efforts, develops relationships with prospective customers, and ultimately develops licensing agreements. Operating losses are expected to be incurred until upfront licensing payments, milestone payments and royalty payments are sufficient to generate revenues to fund its continuing operations. COTI is unable to predict with any certainty when it will become profitable, or the extent of any future losses or profits.

Any milestone payments and future royalties arising from licensing of COTI’s products will be reduced or increased by the outcomes of such products in future development. This is because the results of early pre-clinical research may not be indicative of the results obtained in later stages of pre-clinical or clinical research that may affect milestone payments and future royalties. In addition, milestone payments and royalties are subject to the business success or failure of COTI’s partners both to market the product and to remain profitable themselves.

5.1.2 Trade Secrets and Proprietary Expertise

In addition to patents, COTI relies on trade secrets and proprietary expertise to protect its intellectual property. The Company requires its employees, consultants, outside scientific collaborators and sponsored researchers and other advisors to enter into confidentiality agreements. These agreements provide that all confidential information developed or made known to the individual during the course of the individual's relationship with COTI be kept confidential and not be disclosed to third parties except in specific circumstances. In the case of COTI's employees, the agreements provide that all of the technology conceived by the individual during the course of employment with COTI is COTI's exclusive property. These agreements may not provide meaningful protection or adequate remedies in the event of unauthorized use or disclosure of COTI's proprietary information. In addition, it is possible that third parties could independently develop proprietary information and techniques substantially similar to those of COTI or otherwise gain access to COTI's trade secrets.

COTI currently has the right to use certain technology under a license agreement with a third party. COTI's failure to comply with the requirements of this material license agreement could result in the termination of such agreement and this could cause COTI to terminate the related development programs and cause a complete loss of its investment in such programs. Under these circumstances, COTI may not be able to rely on its intellectual property to protect its products in the marketplace.

5.1.3 Uncertainties Related To Research

COTI's research programs, like other biotech and pharmaceutical companies, are based on scientific hypotheses and experimental approaches that may not lead to desired results. In addition, the timeframe for obtaining proof of principle and other 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 the particular 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 these programs 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. Development of these compounds will require further investigation into the mechanism of action of the molecules where these are not fully understood. Unsatisfactory results obtained from a particular study relating to a program may cause COTI to abandon its commitment to that program or to a product candidate being tested. The discovery of unexpected toxicities, lack of sufficient efficacy, poor physiochemical properties, unacceptable ADME properties and DMPK (drug metabolism and pharmacokinetics), inability to increase scale of manufacture, market attractiveness, regulatory hurdles, as well as other factors, may make COTI's targets, lead compounds or product candidates unattractive or unsuitable for human use and COTI may abandon its commitment to that program, target, lead compound or product candidate. In addition, preliminary results seen in animal and/or limited human cell line testing may not be substantiated in larger controlled clinical trials.

5.1.4 Dependence on Third Party Synthesis and Contract Research Organizations

COTI depends on independent preclinical investigators, contract research organizations and other third party service providers to conduct synthesis and preclinical tests for its drug candidates and plans to continue to do so in the future. Although the Company does not anticipate any difficulty in obtaining such services, no assurance can be given that the Company will be able to obtain these in a timely manner.

The Company relies heavily on these parties for successful execution of preclinical tests, but does not control many aspects of their activities, as the investigators are not its employees. These third parties may not complete activities on schedule, or may not conduct the testing in accordance with protocols or regulatory requirements. COTI bears responsibility for ensuring that its preclinical testing is conducted in accordance with the quoted investigational plan and protocols of the tests.

5.1.5 Patents

COTI's success depends to a significant degree on its ability to develop proprietary compounds or libraries of compounds for specific therapy targets and to obtain patent protection for its products in Canada, the United States and other countries. Success also depends, in large part, on COTI's ability to protect its competitive position through maintaining and defending these patents, trade secrets, trademarks and other intellectual property rights. To assist in the successful filing and maintenance of its patents the Company utilizes external expertise including a patent consultant, patent agent and attorneys and patent annuity service bureaus for the respective legal jurisdictions as deemed necessary.

COTI files patent applications as appropriate for each compound covering the mechanism of action, synthetic process, and therapeutic indication. While COTI seeks to develop molecules that are effective against an unmet medical need and that are in an open patent space, publications of discoveries in scientific or patent journals tend to lag behind the date of the actual discoveries by several months. For this reason, COTI cannot be certain that it will be the first inventor or that it was the first to file a patent application for such invention. Consequently, patents may not be granted for every patent application submitted. In this regard, during fiscal 2008 COTI encountered a delay in the development of its multiple sclerosis program in the form of a potential intellectual property overlap with another organization. Management continues to evaluate its options as it relates to advancing this program, which include waiting to see how the other patent is prosecuted, an in-licensing strategy or commencing development of a new series of molecules that would not have any potential overlap.

COTI cannot assure that patents will be granted on its applications in Canada, the United States or any other country, as it has no control over the prosecution of such applications by the patent granting bodies. COTI also cannot assure that the scope of its patents will be sufficiently broad to offer meaningful protection. In addition, issued patents could be successfully challenged, invalidated or circumvented so that COTI's patent rights would not create an effective competitive barrier.

COTI operates to avoid infringing patents issued to its competitors. While it may be aware of patent applications and patents belonging to competitors, there is always a possibility that a competitor's patent might require COTI to alter its products or processes, pay licensing fees or stop certain activities. The publication of discoveries in the scientific or patent literature frequently occurs substantially later than the date on which the underlying discoveries were made and patent applications were filed. Because patents can take many years to issue, there may currently be pending applications of which COTI is unaware that may later result in issued patents that its products infringe. Such developments could cause financial harm to the business.

5.1.6 Pre-commercialization

Certain compound libraries or individual compounds are expected to be commercialized in the next year. While COTI's technology is used to optimize molecules before synthesis and testing takes place, not every molecule that COTI identifies can be guaranteed to be a success in pre-clinical development.

Further, competitors may develop alternative products and methodologies to treat the diseases COTI targets and this could reduce the interest in, or desirability of COTI's compounds. Finally, COTI does not know whether any of its potential product development efforts will prove to be effective in humans.

5.1.7 *Dependence on Key Personnel*

The Company's focus is the development of intellectual property. As a result, it depends heavily on the skills and knowledge of certain members of its management, operations, and scientific staff. The loss of service from one or more could adversely affect the operations.

The Company's ability to manage growth effectively will require it to continue to implement and improve its management systems and to recruit and train new employees. COTI expects operating expenses and staffing levels to increase in the future. To manage this growth, COTI must expand its operational and technical capabilities and its employee base while effectively administering multiple relationships with various third parties. There can be no assurance that COTI will be able to successfully attract and retain skilled and experienced personnel and manage its expanding operations effectively.

5.1.8 *Costs Stemming from Defence of Third-Party Intellectual Property Infringement Claims*

COTI cannot guarantee that it will not have to defend its intellectual property rights. In the event of an intellectual property dispute, COTI may be forced to defend its intellectual property assets, which could involve litigation or proceedings declared by a patent office or by a trade commission. COTI's involvement in any patent litigation, interference, opposition or other administrative proceedings will likely cause the Company to incur substantial expense and the efforts of its technical and management personnel will be significantly diverted. The abandonment of an intellectual property in which COTI has significant investment could even occur. An adverse determination in litigation could subject the Company to significant liabilities.

5.1.9 *Negotiate Adequate License Deals*

The Company's ability to commercialize its products successfully will depend on its ability to negotiate licensing agreements with biotech or Pharma companies for preclinical compounds. While industry reviews of the productivity of pharmaceutical industry R&D spending in generating new compounds indicate pharmaceutical company pipelines are not producing enough successful drugs, there is no certainty that licensing deals can be successfully negotiated for COTI's preclinical compounds. Major pharmaceutical companies are seeking assets with as low a risk profile as possible hence late stage clinical compounds with lower risk profiles having successfully reached as far as, or through, Phase 3 clinical trials and beyond. While it may seem a reasonable strategy to have a drug development pipeline across the entire development cycle there is no certainty that COTI can be a licensed provider of compounds to the preclinical segment of this pipeline. There is also no certainty that COTI can obtain acceptable license pricing terms to indicate a commercially viable market for its products.

5.1.10 *Meeting Projected Time-Frames*

COTI sets goals and makes public statements regarding the timing of the accomplishment of objectives material to its success such as the commencement and completion of various preclinical testing and anticipated regulatory submissions. The actual timing of these events can vary dramatically due to factors such as delays or failures in COTI's preclinical testing, or delays in achieving successful synthesis. There can be no assurance that the Company's preclinical testing will be completed on time and that COTI will be able to commercialize its products as planned.

5.1.11 Unforeseen Emergency Situations

Despite the implementation of security measures, any of the Company's, its collaborators' or its third party service providers' internal computer systems are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failure. Any resulting system failure, accident, or security breach that causes interruptions in its operations could result in a material disruption of its drug discovery programs. To the extent that any disruption or security breach results in a loss or damage to its data or applications, or inappropriate disclosure of confidential or proprietary information, COTI may incur liability as a result. Its drug discovery programs may be adversely affected and the further development of its product candidates may be delayed. In addition, COTI may incur additional costs to remedy the damages caused by these disruptions or security breaches.

5.1.12 Uncertainties Related to Forecasts

COTI's expectations regarding the success of its drug discovery technology and its business are based upon forecasts that are dependent on external companies and organizations that are not under COTI's control and, as a result may not be realized. COTI's revenue forecasts are based upon development milestones that COTI needs to achieve in order to be successful. The actual timing of these events may vary significantly due to factors beyond its control such as delays or failures in pre-clinical or clinical studies, the uncertainties inherent in the regulatory approval process or delays in obtaining customers for the drug candidates. There can be no assurance that licensors will make regulatory submissions or receive regulatory approvals as forecasted or that these will adhere to COTI's forecasted schedule. The failure to do so could have an adverse effect on its forecasts and business success.

5.1.13 Legislative Actions, New Accounting Pronouncements, Increased Insurance Costs

Compliance with changing regulations regarding corporate governance and public disclosure, notably with respect to the conversion of Canadian public entities to International Financial Reporting Standards (IFRS) effective for financial years beginning after January 1, 2011, and internal controls over financial reporting (ICOFR) if COTI were to become a TSX issuer compared to its current status as a TSXV issuer, may result in additional expenses. Changing laws, regulations and standards relating to corporate governance and public disclosure create uncertainty for small public companies such as COTI. These uncertainties coupled with inherent risks in clinical trials, should COTI choose to complete a Phase 1 trial, can result in increased insurance costs.

5.1.14 Lawsuits Related To Secondary Market Liability

Securities legislation in Canada has recently changed to make it easier for shareholders to sue the Company and its directors. These changes could lead to frivolous lawsuits that could take substantial time, money, resources and attention or force the Company to settle such claims rather than seek adequate judicial remedy or dismissal of such claims.

5.2 Investment and Financial Risks

5.2.1 Financing Requirements

The Company needs to seek additional funds to continue to develop its clinical and discovery programs and to move its compounds more rapidly through development in fiscal 2011. The Company intends to raise these funds through public or private equity offerings or collaborations with other

biopharmaceutical companies and/or from other sources. There can be no assurance additional funding will be available on terms acceptable to COTI that would lead to the successful commercialization of its products. If adequate funding is not available, COTI may be required to delay, reduce, or eliminate one or more of its product development 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 collaborative partnering relationships and the general economic conditions and availability of capital in the equity markets for biotechnology companies.

5.2.2 Dilution

The raising of additional equity capital will result in an immediate and substantial dilution of investment for current shareholders. If warrants of COTI issued in connection with an equity offering are subsequently exercised into COTI common shares, an investor will experience further dilution. Similarly, the Company has issued stock options as compensation to its board members for their services and to certain employees which if exercised would result in further dilution for current shareholders.

5.2.3 Share Price Volatility

The Company's common shares are publicly traded and are subject to various factors that may make the Company's share price volatile. A number of factors influence the volatility in the trading price of COTI common shares as a publicly traded company, including changes in the economy and the financial markets, industry related developments, and the impact of changes in COTI's operations. The market prices for securities of biotechnology-based companies, including those of COTI, have been historically volatile.

Numerous factors besides those listed in this AIF, including many over which the Company has no control, may have a significant impact on the market price of common shares including:

- (a) clinical and regulatory developments regarding the Company's products and product candidates and those of its competitors;
- (b) acquisitions, strategic partnerships or joint ventures involving the Company or its competitors;
- (c) other announcements by the Company or its competitors regarding technological, product development, sales or other matters;
- (d) patent or other intellectual property achievements or adverse developments;
- (e) arrivals or departures of key personnel;
- (f) government regulatory action affecting the Company's product candidates in the United States, Canada and foreign countries;
- (g) the Company's operating performance and the performance of competitors and other similar companies;
- (h) the public's reaction to the Company's press releases;
- (i) the breadth of the public market for the Company's common shares;

- (j) changes in economic conditions, general market conditions and fluctuations for the emerging growth and biopharmaceutical market sectors;
- (k) reports of securities analysts regarding the expected performance of the Company; and
- (l) events related to new or threatened litigation.

In recent years, the stock market has also experienced extreme price and trading volume fluctuations that often have been unrelated or disproportionate to the operating performance of individual companies. These broad market fluctuations may adversely affect the price of common shares, regardless of the Company's operating performance. In addition, sales of substantial amounts of common shares in the public market after any offering, or the perception that those sales may occur, could cause the market price of common shares to decline. Furthermore, shareholders may initiate securities class action lawsuits if the market price of the Company's stock drops significantly, which may cause the Company to incur substantial costs and could divert the time and attention of its management.

5.2.4 Access to Capital

In seeking to raise equity capital, COTI will have to price the offering in relation to the current market's perception of value. Among the factors to be considered in determining the price of the COTI common shares are: COTI's future prospects, the market prices of securities and certain financial and other operating information of companies engaged in activities similar to COTI; the prospects of the industry in general; and COTI's financial and operating record of accomplishment as disclosed by information from recent periods. Accordingly, the offering price may not be indicative of the market price for COTI common shares after the offering, which price may decline below the issue price of the offering.

5.2.5 Income Tax Matters

COTI is eligible for investment tax credits (ITCs) in respect of scientific research and experimental development (SRED) expenditures. There is a risk that the Canada Revenue Agency could conclude that some or all of the expenditures filed for ITCs were not incurred on SRED activities and, therefore, could reduce or disallow claims for ITCs, including refundable ITCs. Federal ITCs are treated as a reduction in income taxes otherwise payable for public companies and as refundable ITCs provincially. Any unused ITCs are eligible to be carried forward for 20 years. These ITC programs are subject to change by the various government levels and may or may not be available in future years or at current levels.

5.2.6 Dividends

The payment of dividends in the future will be dependent on COTI's earnings and financial condition and on such other factors as its Board of Directors considers appropriate. Unless and until COTI pays dividends, shareholders may not receive a return on their common shares. There is no expectation that the Board of Directors of COTI will pay dividends on the COTI common shares in the near future.

5.3 Industry Risk

5.3.1 Unproven Market

Much of COTI's strategy is based upon the belief that the drug candidates that it is developing have a high probability of becoming effective therapies in areas of unmet medical need. Notwithstanding the estimated market potential for its products and product candidates, no assurance can be given that

COTI's projections and assumptions will prove to be correct owing to, in particular, competition from existing or new products and the yet to be established clinical viability of its identified drug candidates or changes in disease frequency or biology.

The Company believes that there can be many different applications for products successfully derived from its technologies and that the anticipated market for products under development will continue to expand. No assurance, however, can be given that these beliefs will prove to be correct due to competition from existing or new products and the yet to be established commercial viability of such products.

5.3.2 Competition

The biotechnology industry is highly competitive. COTI competes with companies around the world that are engaged in the development of pharmaceutical products. They include; biotechnology, pharmaceutical, chemical, and other companies; academic and scientific institutions; government agencies; and public and private research organizations. Many of COTI's competitors have substantially greater financial and human resources than it does. Accordingly, COTI's success is predicated upon finding appropriate licensees and in selecting strong contract partners for the pre-clinical activities of *in vitro* and *in vivo* testing, synthesis, and potentially PK/Tox testing.

5.3.3 Regulatory Environment

The Company's business model is to license its compounds prior to clinical trials. Licensing revenues are anticipated to include revenues for development and commercial milestones as well as royalties on drug sales. At present, none of the Company's drug candidates has received regulatory approval for commercial sale.

Numerous statutes and regulations govern human testing and the manufacture and sale of human therapeutic products in Canada, the United States and other countries where potential licensees would likely market compounds licensed from COTI. The process of obtaining necessary regulatory approvals is lengthy, expensive, and uncertain.

The completion of the clinical testing of our drug candidates and the obtaining of required approvals are expected to take years and require the expenditure of substantial resources. There can be no assurance that clinical trials will be completed successfully within any specified period, if at all. Clinical trials for COTI's drug candidates require that the licensees identify and enrol a large number of patients having the disease under investigation. Licensees may not be able to enrol a sufficient number of patients to complete clinical trials in a timely manner. Patient enrolment is a function of many factors including, but not limited to, design of the study protocol, size of the patient population, eligibility criteria for the study, the perceived risks and benefits of the therapy under study, the patient referral practices of physicians and the availability of clinical trial sites. If the licensee has difficulty enrolling a sufficient number of patients to conduct the clinical trials as planned, it may need to delay or terminate ongoing clinical trials. Further, clinical trials may be delayed or suspended at any time by the licensee or by regulatory authorities if it is determined at any time that patients may be exposed to unacceptable health risks, including the risk of death, or that compounds are not manufactured under acceptable GMP conditions or with acceptable quality. Any failure or delay in obtaining regulatory approvals would adversely affect COTI's potential milestone and royalty payments. No assurance can be given that COTI's drug candidates will prove to be safe and effective in clinical trials or that they will receive the requisite protocol approval or regulatory approval to realize on milestone and royalty receipts.

Further, no assurance can be given that current regulations relating to regulatory approval will not change or become more stringent. There are no assurances the licensee can scale-up, formulate, or manufacture any compound in sufficient quantities with acceptable specifications for the regulatory agencies to grant approval or not require additional changes or additional trials be performed. The agencies may also require additional trials be run in order to provide additional information regarding the safety, efficacy or equivalency of any compound for which the licensee seeks regulatory approval. Foreign markets other than the United States and Canada impose similar restrictions. Even if the regulatory authority approves a drug, COTI may not obtain approval for an indication whose market is large enough to obtain commercial milestone or royalty payments.

5.3.4 Government Regulation

Even if regulatory authorities approve any of the Company's drug candidates, the manufacture, marketing, and sale of such products will be subject to strict and ongoing regulation. Compliance with such regulation is expensive and consumes substantial financial and management resources. If the licensee, or any future marketing collaborator or contract manufacturer, fails to comply with applicable regulatory requirements, it may be subject to sanctions including fines, product recalls or seizures, injunctions, total or partial suspension of production, civil penalties, withdrawal of regulatory approvals and criminal prosecution. Any of these sanctions could delay or prevent the realization by COTI of milestone and royalty payments.

5.3.5 Healthcare System Reforms

In Canada and in many other countries, pricing and hence profitability of some or all prescription pharmaceuticals and biopharmaceuticals are subject to government control. This emphasis on managed healthcare, such as the November 2009 U.S. government healthcare bill, is expected to continue and will put pressure on the pricing of pharmaceutical products. Election of new or different political or government officials in large market countries could lead to dramatic changes in pricing, regulatory approval legislation and reimbursement that could have material impact on product approvals and commercialization of COTI's licensed products. Continuing efforts to contain or reduce the costs of healthcare may limit the commercial opportunity for COTI's compounds and reduce any associated milestone and royalty revenues and profits through a licensee.

5.3.6 Rapid Technological Change

As discussed above, the industry in which COTI operates is characterized by rapid and substantial technological change. There can be no assurance that developments by others will not render COTI's products or technologies non-competitive or that COTI will be able to keep pace with technological developments. COTI's competitors may have developed or may be developing drug candidates that are competitive products.

ITEM 6 DIVIDENDS

COTI has not, since the date of its incorporation, declared or paid any dividends on its common shares and does not currently have a policy with respect to the payment of dividends. For the immediate future, COTI does not envision any earnings arising from which dividends could be paid. COTI anticipates that it will initially retain future earnings and other cash resources for the operation and development of its business that would preclude the payment of dividends. The payment of dividends

in the future will depend on revenues, net income, positive cash flow, COTI's financial condition and such other factors as the directors of COTI consider appropriate.

ITEM 7 DESCRIPTION OF CAPITAL STRUCTURE

7.1 Authorized and Outstanding Capital

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of preference shares, issuable in series, of which 49,871,215 common shares and no preference shares were issued and outstanding as of the date of this AIF. The following is a summary of the material provisions attached to the common shares and preference shares.

Common Shares

The holders of the common shares are entitled to receive notice of and to attend all meetings of the shareholders of the Company and shall have one vote for each common share held at all meetings of the shareholders of the Company, except for meetings at which only holders of another specified class or series of shares are entitled to vote separately as a class or series. Subject to the prior rights of the holders of the preference shares or any other shares ranking senior to the common shares, the holders of the common shares are entitled to (a) receive any dividends as and when declared by the Board of Directors, out of the assets of the Company properly applicable to the payment of dividends, in such amount and in such form as the Board of Directors may from time to time determine, and (b) receive the remaining property of the Company in the event of any liquidation, dissolution or winding-up of the Company.

Preference Shares

The Board may issue preference shares at any time and from time to time in one or more series, each series of which shall have the designations, rights, privileges, restrictions and conditions fixed by the Board. The preference shares of each series shall rank on a parity with the preference shares of every other series, and shall be entitled to priority over the common shares and any other shares of the Company ranking junior to the preference shares, with respect to priority in the payment of dividends and the return of capital and the distribution of assets of the Company in the event of the liquidation, dissolution or winding-up of the Company.

7.2 Options to Purchase Common Shares

Table 8 shows the number of unlisted stock options to purchase common shares of COTI issued and outstanding as at April 30, 2010. Other than the common shares to be issued upon the exercise of the outstanding options, 1,492,472 common shares remain available for future issuance under the Company's Stock Option Plan.

Table 8: Outstanding Stock Options at April 30, 2010

Date of Grant	Quantity	Exercise Price	Expiry Date
Feb 12/10	246,808	\$0.47	Feb 11/15
Oct 31/08 ⁽¹⁾	500,000	\$0.50	Oct 30/13
Sep 10/09	537,039	\$0.50	Sep 9/14
Jan 18/10	50,000	\$0.50	Jan 17/15

Date of Grant	Quantity	Exercise Price	Expiry Date
Mar 15/10	50,000	\$0.50	Mar 14/15
Jan 12/07	715,000	\$0.64	Jan 11/12
Jan 18/10	150,000	\$0.65	Jan 17/15
Mar 15/10	150,000	\$0.65	Mar 14/15
Jan 15/07	50,000	\$0.70	Jan 14/12
Jun 10/08	226,628	\$0.75	Jun 9/13
Feb 17/09	327,889	\$0.90	Feb 16/14
May 1/07	130,000	\$1.00	Apr 30/12
Jul 16/08	100,000	\$1.20	Jul 15/13
Mar 26/07	150,000	\$1.35	Mar 25/12
Oct 9/07	100,000	\$2.00	Oct 8/12
Total	3,483,364		

Note:

- (1) The Company's CEO at the April 30, 2010 year end resigned effective June 30/10. 300,000 unvested stock options granted to this CEO expired July 1, 2010. An additional 200,000 vested options will expire if unexercised by September 28, 2010.

7.3 Warrants to Purchase Common Shares

As a result of a private placement completed in two tranches, in April and May 2010, the Company issued common share purchase warrants and compensation warrants to acquire common shares of the Company. The summary details regarding these warrants are set out in Table 9.

Table 9: Outstanding Warrants at the Date of the AIF

Date of Issue	Quantity	Exercise Price	Expiry Date
Apr 28/10	1,519,070	\$0.55	Oct 27/11
Apr 28/10	105,607	\$0.40	Oct 27/11
May 28//10	56,430	\$0.55	Nov 27/11
May 28/10	643	\$0.40	Nov 27/11
Total	1,681,750		

7.4 Principal Holders of Voting Securities of the Company

To the knowledge of the directors and executive officers of the Company, except as set out in Table 10, no persons or companies beneficially own, directly or indirectly, or exercise control or direction over, voting securities of the Company carrying more than 10 percent of the voting rights attached to any class of voting securities of the Company as of the date of this AIF.

Table 10: Individuals Owning Greater Than 10% of Voting Shares

Name	Number of Common Shares	Percentage of Common Shares
Dr. Wayne R. Danter	7,279,163	14.6%
John C. Drake	5,537,681	11.1%

ITEM 8 MARKET FOR SECURITIES

8.1 Trading Shares and Price

The Company’s common shares are listed and posted for trading on the TSXV, under the trading symbol COT. Table 11 sets out the market price ranges in Canadian dollars per common share and aggregate trading volumes on a monthly basis as reported by the TSXV during the most recently completed financial year.

Table 11: Common Share Trading Prices in Fiscal 2010

Month	High (\$CAD)	Low (\$CAD)	Volume
May 2009	1.100	0.680	372,500
June 2009	0.800	0.650	169,300
July 2009	0.910	0.650	276,600
August 2009	0.840	0.400	320,400
September 2009	0.620	0.440	157,100
October 2009	0.650	0.330	472,800
November 2009	0.650	0.400	347,700
December 2009	0.400	0.310	190,600
January 2010	0.690	0.340	369,000
February 2010	0.540	0.400	144,400
March 2010	0.500	0.350	663,800
April 2010	0.420	0.355	505,600

ITEM 9 DIRECTORS AND OFFICERS

9.1 Name, Occupation and Security Holdings

The following information related to each director and officer of COTI is set out below; name, province and country of residence, positions held by them with COTI, their principal occupation during the preceding five years, the period of service as a director, the number and percentage of securities of each class of voting securities controlled or directed, directly or indirectly, Board Committee membership and participation. The information as to shares beneficially owned, directly or indirectly, or over which control or direction was exercised as set forth in the table has been furnished by the respective individual. Each term of a director is for the period from the last Annual General Meeting until the next Annual General Meeting. The information presented below is as of the date of this AIF.

<p><u>John C. Drake</u> LLB London, Ontario President of Drake Goodwin Corp. Director Since: February 20, 2007</p>	<p>Mr. Drake is the President (since April 1985) and Founding Partner of Drake Goodwin Corporation, a London, Ontario private investment firm with diverse interests. Mr. Drake is also a partner in Cassandra Capital L.P., a private venture capital firm specializing in early stage technology investments. He is currently Vice Chairman of Children’s Choice Learning Centers, a private company and a leading provider of corporate childcare in the United States. From 2002-2008 Mr. Drake was Chairman of DGM Bank and Trust Inc., a privately owned offshore bank located in Barbados. He is also co-owner of Redtail Golf Course, an exclusive private golf course located outside of Port Stanley, Ontario. Mr. Drake has provided extensive support to community events and was appointed an Honorary Colonel of the 1st Hussars of the Royal Canadian Armoured Corps in 1999. Mr. Drake obtained his BA and LLB degrees from the University of Western Ontario and has been a member of the Law Society of Upper Canada since 1973.</p>												
<p>Other Public Company Directorships in the past five years</p>													
<ul style="list-style-type: none"> • 2009-2010 iLOOKABOUT Corp., a TSXV listed company – Chairman of the Board since May 2009. • 2006-2008 Discovery Air Inc., a TSX listed company 													
<table border="1"> <thead> <tr> <th style="text-align: left;">Board/Committee Membership</th> <th colspan="2" style="text-align: center;">Attendance</th> </tr> </thead> <tbody> <tr> <td>Board (Chair)</td> <td style="text-align: center;">9 of 11</td> <td style="text-align: center;">82%</td> </tr> <tr> <td>Governance and Nominating</td> <td style="text-align: center;">1 of 2</td> <td style="text-align: center;">50%</td> </tr> <tr> <td>Combined Total</td> <td style="text-align: center;">10 of 13</td> <td style="text-align: center;">77%</td> </tr> </tbody> </table>		Board/Committee Membership	Attendance		Board (Chair)	9 of 11	82%	Governance and Nominating	1 of 2	50%	Combined Total	10 of 13	77%
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5,537,681	502,244	71,428	11.10%										

<p><u>Dr. Wayne R. Danter</u> MD, FRCPC London, Ontario President, Chief Executive Officer, and Chief Scientific Officer Director Since: October 13, 2006</p>	<p>Dr. Danter is one of the founders of COTI and the inventor of the CHEMSAS® process. He trained at the University of Western Ontario (UWO) in Internal Medicine and Clinical Pharmacology and is responsible for the discovery and profiling of the Company's small molecule portfolios, collaboration projects with pharmaceutical partners, and continued development of COTI’s proprietary technology CHEMSAS®. Dr. Danter also plays a significant role in developing the business applications of COTI's proprietary technology. Prior to full time employment with COTI in 2005, Dr. Danter was an Associate Professor of Medicine at UWO.</p>												
<p>Other Public Company Directorships in the past five years</p>													
<p>None.</p>													
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Common Shares	Stock Options	Warrants	% Ownership										
7,279,163	333,836	71,428	14.60%										

<p><u>Michael S. Cloutier</u> Burlington, Ontario President and Chief Executive Officer, Canadian Diabetes Association Director Since: September 18, 2008</p>	<p>Mr. Cloutier has over 27 years of pharmaceutical industry experience having held a number of senior management roles in Canada and internationally. These roles have included; November 2008 - June 2010 CEO of Critical Outcome Technologies Inc.; 2007-08 VP Human Resources Global Marketing at AstraZeneca in the UK; 2003-07 President and CEO of AstraZeneca Canada Inc.; 2000-03 President and CEO of Pharmacia Canada following the merger of the Searle division of Monsanto with Pharmacia and Upjohn; 1998-2000 President of Searle Canada. Mr. Cloutier also has international experience as the former Senior Director, Operations for Searle in Latin America/Canada. Mr. Cloutier is also the President and CEO of 5WH Leadership, a management consulting services company.</p>			
	<p>Other Public Company Directorships in the past five years</p>			
	<ul style="list-style-type: none"> • 2004-2010 Chair of the Board of Governors for the Canadian Stroke Network. • 2006-2010 Chair of the Board of Governors at Sheridan College Institute of Technology and Advanced Learning. • 2003-2010 Vice Chair of the Canadian Orthopaedic Foundation. 			
	<p>Board/Committee Membership</p>		<p>Attendance</p>	
	Board		10 of 11	91%
	Combined Total		10 of 11	91%
<p>Equity Ownership⁽¹⁾</p>				
Common Shares	Stock Options	Warrants	% Ownership	
322,858	288,889	21,429	0.65%	

<p><u>Douglas S. Alexander</u> CA London, Ontario Professional Corporate Director Director Since: September 18, 2008</p>	<p>Prior to his current role as a Professional Corporate Director, Mr. Alexander served as Chief Financial Officer of various Canadian public companies for 15 years, the most recent being from 1999 to 2004 as Executive Vice President and Chief Financial Officer of Trojan Technologies Inc., an international environmental technology company. Mr. Alexander is a Chartered Accountant and a Chartered Director, having graduated in 2009 from the Director's College, a joint venture between McMaster University and the Conference Board of Canada.</p>			
	<p>Other Public Company directorships in the past five years</p>			
	<ul style="list-style-type: none"> • 2005-2010 Hydrogenics Corporation, a NASDAQ and TSX listed company – Chairman of the Board since March 2009. • 2003-2005 Stuart Energy Systems Corporation, acquired by Hydrogenics Corporation in January 2005. • 2005-2008 Saxon Financial Inc., a TSX listed investment management firm acquired by MacKenzie Financial Corporation, a subsidiary of IGM Financial Inc. in September 2008. 			
	<p>Board/Committee Membership</p>		<p>Attendance</p>	
	Board		10 of 11	91%
	Audit		4 of 5	80%
Compensation ⁽²⁾		1 of 2	50%	
Combined Total		15 of 18	83%	
<p>Equity Ownership⁽¹⁾</p>				
Common Shares	Stock Options	Warrants	% Ownership	
30,000	114,871	15,000	0.06%	

<p><u>Dr. Kathleen A. Ferguson</u> MD, FRCPC London, Ontario Associate Professor of Medicine, University of Western Ontario Director Since: October 13, 2006</p>	<p>Dr. Ferguson is one of the founders of COTI. She is a graduate of the University of Western Ontario (UWO) Medical School and trained in Respiriology at UWO. She completed her Clinical Research Fellowship at the University of British Columbia in 1994 and has been a Faculty Member at UWO since that time. She has been an Associate Professor of Medicine at the Schulich School of Medicine at UWO since 2000. She is active in clinical practice, clinical research and teaching. In addition to clinical respirology, her other clinical interests are in Sleep Disordered Breathing and Smoking Cessation. Her main clinical research efforts are aimed at improving the diagnosis and treatment of sleep apnea. Her extensive background in scientific research and her years of clinical experience are an important resource for COTI in developing applications for its technology in the medical and pharmaceutical fields.</p>			
	<p>Other Public Company Directorships in the past five years</p>			
	<p>None.</p>			
	<p>Board/Committee Membership</p>		<p>Attendance</p>	
	Board		11 of 11	100%
	Compensation ⁽²⁾		1 of 2	50%
	Governance and Nominating (Chair)		2 of 2	100%
Combined Total		14 of 15	93%	
<p>Equity Ownership ⁽¹⁾</p>				
Common Shares	Stock Options	Warrants	% Ownership	
4,038,972	249,922	93,000	8.10%	

<p><u>Bruno Maruzzo</u> Toronto, Ontario President of TechnoVenture Inc. Director Since: October 13, 2006</p>	<p>Mr. Maruzzo has worked with a variety of public and private technology companies in the computer and life science sectors, where he held positions in a range of areas including business development, corporate development, investor relations, engineering and general management. He also worked in the venture capital field sourcing, assessing, and making investments in early-stage, technology-based companies in Canada and the US. He holds Masters Degrees in Biomedical Engineering and Business Administration from the University of Toronto.</p>			
	<p>Other Public Company Directorships in the past five years</p>			
	<ul style="list-style-type: none"> • 2003 to present Pinetree Capital, a TSX-listed company. • 2007 to present Hamilton Thorne Limited (formerly Calotto Capital), a TSXV-listed company. • 2008 to present Minati Capital, a TSXV-listed company. • 2008 to present Drift Lake Resources, a TSXV-listed company. • 2008 to present Cleanfield Alternative Energy, a TSXV-listed company. • Mar 2010 to present Diagnos Inc., a TSXV-listed company. 			
	<p>Board/Committee Membership</p>		<p>Attendance</p>	
	Board		11 of 11	100%
	Audit		4 of 5	80%
	Compensation ⁽²⁾		2 of 2	100%
Combined Total		17 of 18	94%	
<p>Equity Ownership ⁽¹⁾</p>				
Common Shares	Stock Options	Warrants	% Ownership	
35,000	319,467	5,000	0.07%	

<p><u>Murray Wallace</u> FCA London, Ontario CEO of Granite Global Solutions Director Since: April 23, 2007</p>	<p>Mr. Wallace is the CEO of Granite Global Solutions, a risk management company and Chairman of Park Street Capital Corporation, an investment and consulting company. He is a Fellow of the Institute of Chartered Accountants of Ontario (FCA). He began his business career in Regina in 1972 and held various positions with the Government of Saskatchewan, including that of Deputy Minister of Finance and Deputy Minister to the Premier. Over his 35-year career, Mr. Wallace has held several senior executive roles with prominent organizations including Saskatchewan Government Insurance, National Trust, Royal Trust, Wellington Insurance, Avco Financial Services Canada, and Axia NetMedia. From 2004 until May 1, 2010, Mr. Wallace was also a director of Western Surety Co., a private company with diverse business interests headquartered in Regina, Saskatchewan.</p>															
<p>Other Public Company Directorships in the past five years</p> <ul style="list-style-type: none"> • 2004-2010 Terravest Income Fund, a TSX listed unincorporated open-ended investment trust. • 2007-2010 Canada Pension Plan Investment Board, a federal crown corporation. • 2004-2007 Ipsco Inc., a TSX listed company. 																
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<p><u>Gene Kelly</u> London, Ontario Chief Financial Officer Director Since: n/a</p>	<p>Mr. Kelly has thirty years of business experience in finance, accounting and operations following graduation with an Honours Business Administration degree from the University of Windsor in 1980. For the sixteen years prior to joining COTI full-time on January 1, 2007, his career developed through various positions of increasing responsibility at the Cuddy Group of Companies, a large, private, entrepreneurial, multi-national agrifood business. Positions held included: January 1989 Assistant Controller - Cuddy Farms Canada; December 1989 Controller - Cuddy Chicks Limited and Assistant Controller - Cuddy Farms Canada; July 1990 Controller - Cuddy Farms Canada, Cuddy International Corporation and Cuddy Chicks Limited; March 1993 Director of Financial Projects & Audit - Cuddy International Corporation; September 1995 Director of Financial Planning & Analysis - Cuddy Farms and Controller - Cuddy Farms Canada; February 1998 Vice President Strategic Implementations - Cuddy Farms; April 1999 Vice President Commodities & Industry Affairs - Cuddy Food Products; March 2001 Director of Finance - Cuddy Farms; November 2003 Director of Quality Assurance & Process Improvement - Cuddy Farms.</p>												
<p>Other Public Company Directorships in the past five years</p> <p>None.</p>													
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<p><u>Michael Barr</u> London, Ontario Vice President of Business Development and Marketing Director Since: n/a</p>	<p>Mr. Barr has ten years of experience in business development and marketing following graduation with an Honours Business Administration degree from the Richard Ivey School of Business at UWO in 2000. Mr. Barr was selected by his peers as Valedictorian of his graduating class. Following graduation, he joined 3M Canada where his career advanced through three progressive marketing roles. Following his time at 3M Canada, he became a Managing Partner with the Ivey Business Consulting Group (IBCG). During his tenure with IBCG, Mr. Barr was responsible for sales and delivery of client engagements including market assessments, business plans, and new product launch programs for clients including GM Canada and General Electric. He subsequently joined COTI full-time on May 8, 2006.</p>			
	<p>Other Public Company Directorships in the past five years</p>			
	<p>2008-2010, Sunshine Foundation of Canada -- President of the Board since January 2008</p>			
	<p>Board/Committee Membership</p>		<p>Attendance</p>	
	<p>n/a</p>		<p>n/a</p>	<p>n/a</p>
	<p>Equity Ownership ⁽¹⁾</p>			
	<p>Common Shares</p>	<p>Stock Options</p>	<p>Warrants</p>	<p>% Ownership</p>
<p>10,600</p>	<p>190,426</p>	<p>-</p>	<p>0.02%</p>	

Notes:

(1) Number of common shares, stock options and warrants beneficially owned, directly or indirectly, or controlled or directed.

(2) The Compensation Committee membership was reconstituted following the resignation of two directors in January 2010 who were members of this Committee.

As of the date of this AIF, the directors and officers of COTI as a group, beneficially owned, directly or indirectly, or exercised control or direction over common shares of the Company totalling 18,914,791, which represents 37.93% of the outstanding shares of the Company.

9.2 Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the best of the Company’s knowledge, no director, executive officer or shareholder holding a sufficient number of securities of the Company to materially affect the control of the Company is, or within the 10 years prior to the date hereof has been, a director or executive officer of any other company that, while that person was acting in that capacity (i) was the subject of a cease trade order or similar order or an order that denied the company access to any exemption under securities legislation for a period of more than 30 consecutive days, (ii) was subject to an event that resulted, after the director or executive officer ceased to hold such position, in the other company being the subject of a cease trade or similar order or an order that denied the company access to any exemption under securities legislation for a period of more than 30 consecutive days, or (iii) within a year of that person ceasing to act in that capacity, was declared bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, other than Mr. Maruzzo as described below.

To the best of the Company’s knowledge, no director or executive officer of the Company, or any shareholder holding sufficient securities of the Company to materially affect control of the Company has:

- (a) within the 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold that person's assets;
- (b) been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority; or
- (c) been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

Mr. Maruzzo was a director of CCPC Biotech Inc. (TSX: CBO), which was subject to a cease trade order issued by the Alberta Securities Commission on July 19, 2002 for failure to file required financial information and a similar order issued by the British Columbia Securities Commission on September 4, 2002. Trading of the company's shares remained suspended until the company was delisted on November 19, 2003. The management information circular of CCPC Biotech Inc., dated February 27, 2004, refers to the company's financial difficulties resulting in part from unauthorized advances from the company to its CEO, who later declared personal bankruptcy. The company was voluntarily dissolved on December 16, 2004.

Mr. Maruzzo was also a director of Materials Protection Technologies Inc. (TSX: YTP; now quoted under the symbol MTXLF on NASDAQ OTC) which was subject to a cease trade order issued by the Ontario Securities Commission on May 22, 2002 for failure to file required financial information due to the company's financial difficulties, and similar orders issued by each of the British Columbia Securities Commission on May 29, 2002 and the Alberta Securities Commission on June 21, 2002. Trading of the company's shares remained suspended until the company was delisted on June 20, 2003.

Mr. Maruzzo was also a director of World Wise Technologies Inc. (CDNX: YWW) and along with other insiders of the company, subject to individual cease trade orders issued by the Ontario Securities Commission on February 21, 2003 as a result of the company's failure to make statutory filings due to lack of funds. The company was delisted in June 2003 from the CDNX.

9.3 Conflicts of Interest

The Company is not aware of any existing material conflicts of interest between the Company and any director or officer of the Company, nor is it aware of any potential conflicts of interest other than as set out below.

Certain directors and officers of the Company currently, or may in the future, act as directors or officers of other companies and, consequently, it is possible that a conflict will arise between their duties as a director or officer of COTI and their duties as a director or officer of such other company. There is no certainty that while performing their duties for the Company, that the directors or officers will not be in situations that could give rise to conflicts of interest, nor is there any certainty that any such conflict, if it arises, will be resolved in favour of COTI. However, the directors are required by law to act honestly and in good faith with a view to the best interests of the Company and its shareholders and to disclose any personal interest that they may have in any material transaction that is proposed to be entered into with the Company and to abstain from voting as a director for the approval of any such transaction.

ITEM 10 PROMOTERS

Within the two most recently completed financial years, or during the current financial year, there have not been any promoters of the Company.

ITEM 11 LEGAL PROCEEDINGS AND REGULATORY ACTIONS

COTI was not a party to, or subject to, any legal proceedings during the year either directly or indirectly. The Company does not contemplate any legal proceedings on its part and is not aware if any other party contemplates any such proceedings.

The Company was not involved in any actions before a securities regulatory authority, a court or other regulatory body during the most recently completed financial year and has not incurred any penalties or sanctions nor been involved in any settlement agreements.

ITEM 12 INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The transactions in which directors or executive officers of COTI or any shareholder holding, on record or beneficially, directly or indirectly, more than 10% of the issued common shares, or any of their respective associates or affiliates, had any material interest, directly or indirectly, in any material transaction with COTI within the three years preceding the date of this AIF are set out below. There were no such transactions in either fiscal 2010 or 2009 with the three transactions described below occurring in fiscal 2008.

12.1 Acquisition of DDP Therapeutics

Effective November 27, 2007 the Company completed an acquisition from Whippoorwill Holdings Limited, 2080084 Ontario Inc. and Dr. Wayne R. Danter (Sellers) of all the outstanding common shares in the capital of 3015402 Ontario Inc. (formerly 6441513 Canada Inc) (Share Purchase) operating as DDP Therapeutics (DDP) not already owned by the Company and the purchase of two 5% promissory notes owing by DDP to two of the Sellers. Ownership of DDP prior to completion of the Share Purchase consisted of: COTI 10%, Dr. Wayne R. Danter, President of COTI, 10%; Whippoorwill Holdings Limited, a wholly owned company of Mr. John Drake, the CEO of COTI, 40%; and 2080084 Ontario Inc., an unrelated party, 40%.

The purchase price under the Share Purchase was determined to be \$4,270,894 based on 90% of the net book value of DDP using an agreed value for the 10 small cell lung cancer (SCLC) molecules (Molecules) owned by DDP of \$5,500,000. Proceeds from a contemporaneous \$4.0 million private placement in the amount of \$630,000 were used to acquire the promissory note of 2080084 Ontario Inc., pay the accrued interest on the promissory notes and make cash payment of \$187,858 for the common shares of DDP. The Company also issued a promissory note in the amount of \$370,000 payable to Whippoorwill Holdings Limited in exchange for the assignment of the promissory note held by Whippoorwill Holdings Limited from DDP. The promissory note matured for payment on July 31, 2008 and bore interest at the rate of 5% per annum.

The balance of the purchase price was paid in common shares of COTI (Share Consideration). One-half of the common shares issuable for the purchase price for DDP was satisfied by the issuance of 1,431,441 common shares of COTI to the Sellers at the same issue price per share paid on the private placement (\$1.40) and 1,431,441 common shares of COTI, representing the other one-half of the purchase price,

have been conditionally allotted and reserved for issuance to the Sellers upon the Molecules achieving certain development milestones (Contingent Share Consideration).

One-half of the Contingent Share Consideration will be issued on the first to occur of: the issuance by the U.S. FDA of notification of acceptance of an investigational new drug (IND) filing in respect of any of the Molecules and receipt of the IND acceptance number in respect to any Molecules; or the issuance of a final patent in respect of any of the Molecules by European or U.S. patent authorities. The final balance of the remaining Contingent Share Consideration will be issued to the Sellers on the first to occur of: the issuance by the FDA of notification of acceptance of an IND filing for any Molecule in respect of which a final patent has been issued in the United States or Europe; or the issuance of a final patent in the United States or Europe for any Molecule in respect of which the FDA has given notice of acceptance of an IND filing and has issued the IND acceptance number document.

Should the milestones not be reached by the eighth anniversary of the closing of the acquisition of DDP, the Company has the option to either; (i) issue the remaining Contingent Share Consideration to the Sellers, or (ii) pay the Sellers the amount, if any, by which the fair value of the Molecules exceeds the amount invested in the Molecules by COTI, including the amount of the investment of Share Consideration issued to the Sellers up to that point. The determination of the fair value of the Molecules shall be made by agreement between the Company and the Sellers or, failing such agreement, shall be determined by arbitration as described in the definitive documents. The amount of the investment by the Company in the Molecules shall be verified by the Company's auditors if requested by the Sellers. If the fair value of the Molecules at that time is less than the amount invested in the Molecules by the Company, no amount shall be payable to the Sellers.

At April 30, 2010, no milestone under the agreement had yet been achieved by the Molecules and accordingly no Contingent Share Consideration has been issued. As an asset purchase transaction, the contingent consideration will be accounted for at the time that the contingent consideration is settled. The amount of consideration given up at the time the additional consideration is paid will be added to the cost of the Molecules (intangible asset) with an increase in share capital if share consideration, or a reduction in cash if a cash payment.

The Business Conduct Review Committee of the Board of COTI, composed entirely of independent Directors of the Board, recommended completion of the Share Purchase to the Board and the Board unanimously approved completion of the Share Purchase. The Share Purchase received final acceptance from the TSXV on November 29, 2007.

The acquisition of DDP was accounted for as a purchase of assets because DDP did not meet the definition of a business under EIC 124 of the CICA Handbook. Total consideration, as determined by the issuance of common shares at the same share price of \$1.40 paid on the private placement plus cash paid, plus the assumption of certain liabilities and payment of transaction costs, was \$3,172,967. The consideration was allocated to the assets acquired and liabilities assumed based on the estimated fair values on the date of acquisition as set out in Figure 4.

Figure 4: Schedule of Purchase Consideration and Allocation

Assets acquired:	
Cash	\$ 15,178
Other receivables	93,516
Intangible assets - molecules	3,111,169
	3,219,863
Less liabilities assumed:	
Accounts payable and accrued liabilities	46,896
	\$ 3,172,967
Net assets acquired	
	\$ 3,172,967
Consideration paid:	
Cash	\$ 637,105
Common shares issued	2,004,017
Debt assumed	370,000
Acquisition costs paid	161,845
	\$ 3,172,967

12.2 Bonus Payment

As part of the acquisition of DDP, the Company negotiated an amendment to an existing consulting agreement between DDP and Dr. Wayne R. Danter, the President and CSO of COTI. Under the consulting agreement, upon the Company or DDP obtaining a Phase Three Financing, Dr. Danter was entitled to a bonus payment based upon the net proceeds of such a financing and provided certain milestones were met at the time the Company or DDP obtained the financing on any of the Molecules. It was agreed that the financing completed by the Company to acquire the shares of DDP and fund the development of the Molecules, net of the cash used to acquire the promissory notes, constituted a Phase Three Financing. This triggered a milestone payment in the amount of \$30,359 to Dr. Danter that was paid in February 2008.

12.3 Repayment of Note

Under the terms of the acquisition of DDP on November 27, 2007, the Company acquired a promissory note owing to one of the Sellers of DDP, Whippoorwill Holdings Limited (WHL). WHL is an investment holding company, wholly owned by Mr. John Drake who was a shareholder, director and officer of COTI at the time of the transaction. The note was for \$370,000 bearing interest at the rate of 5% and maturing on July 31, 2008. A portion of the note, in the amount of \$16,753, was paid by the Company in closing legal costs of WHL with the balance of \$353,247 paid on maturity of the promissory note on July 31, 2008.

ITEM 13 TRANSFER AGENT AND REGISTRAR

COTI’s registrar and the transfer agent for its common shares in Canada is:

Computershare Investor Services Inc.
 Suite 600, 530 8th Avenue SW
 Calgary, Alberta T2P 3S8
 Tel: 403-267-6800
 Fax: 403-267-6593

ITEM 14 MATERIAL CONTRACTS

No material contracts have been entered into by COTI other than contracts entered into in the ordinary course of business.

ITEM 15 THE AUDIT COMMITTEE AND AUDITORS

A summary of the membership, responsibilities and activities of the Audit Committee is set out below. The Company has adopted a Charter for the Audit Committee, a copy of which is attached as Schedule “A”.

15.1 Composition of the Audit Committee

Table 12 sets out the members of the Audit Committee and their qualifications for this role.

Table 12: Audit Committee Membership and Qualifications

Director	Relationship	Financially Literate ⁽¹⁾
Murray Wallace, FCA - Chair	Independent ⁽¹⁾	Yes
Douglas Alexander, CA	Independent ⁽¹⁾	Yes
Bruno Maruzzo, MBA	Independent ⁽¹⁾	Yes

Note:

(1) As defined in NI 52-110.

15.2 Relevant Education and Experience

The members of the Committee are each experienced senior business executives. Mr. Wallace is a Fellow of the Institute of Chartered Accountants of Ontario and Mr. Alexander is a member of the Institute of Chartered Accountants of Ontario. Mr. Maruzzo does not have a formal accounting designation, however, he has many years of experience in evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company’s financial statements. Based on their experience, each member has an understanding of the accounting principles used by the Company to prepare its financial statements, the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals, and reserves by the Company and an understanding of internal controls and procedures for financial reporting. Each of the members of the Committee have been involved actively at a supervisory level in the financial and accounting management of small companies and have demonstrated ability to address financial and accounting issues.

15.3 Audit Committee Oversight

At no time since the commencement of the Company’s most recently completed financial year was a recommendation of the Committee to nominate or compensate an external auditor not adopted by the Board.

15.4 Non-Reliance on Certain Exemptions

At no time since the commencement of the Company’s most recently completed financial year has the Company relied on the exemption in Section 2.4 of National Instrument (NI) 52-110 (de minimus Non-audit Services), the exemption in Section 3.2 of NI 52-110 (Initial Public Offerings), the exemption in Section 3.4 of NI 52-110 (Events Outside Control of Member), the exemption in Section 3.5 of NI 52-110 (Death, Disability or Resignation of Audit Committee Member), or an exemption from NI 52-110, in whole or in part, granted under Part 8 of NI 52-110.

15.5 Pre-Approval Policies and Procedures

The Committee has established an Auditors’ Engagement Services Policy (Pre-approval Policy) setting out the services that the independent auditors are permitted to perform and which are pre-approved by the Audit Committee in accordance with the Committee’s policy. Unless a type of service to be provided by the independent auditor has received general pre-approval, it must receive specific pre-approval prior to such service being provided to the Company by the independent auditors.

15.6 Auditors

The auditors for the Company are:

KPMG LLP
Chartered Accountants & Licensed Public Accountants
Suite 1400, 140 Fullarton Street
London, Ontario N6A 5P2

15.7 External Auditor Service Fees

The aggregate fees billed by the Company’s external auditors in each of the last two fiscal years are set out in Table 13.

Table 13: Two Year Auditor’s Fees Summary

Financial Year Ending	Audit Fees	Audit Related Fees	Tax Fees	All Other Fees	Total Fees
April 30, 2010	\$57,250	\$6,000	\$12,725	\$1,500	\$77,475
April 30, 2009	\$68,250 ⁽¹⁾	-	\$18,000	-	\$86,250

Note:

(1) Includes \$13,250 related to the April 30, 2008 final audit fees.

The audit related fees in fiscal 2010 were primarily related to advice on unrealized foreign exchange presentation, stock-based compensation pricing research and the continued applicability of Accounting Guideline 11: Enterprises in the Development Stage presentation. Tax fees in fiscal 2010 related to review of the quarterly tax provision documentation and disclosure, review of the draft 2009 tax returns

and advice on SRED, ORDTC and OBRI tax credit filings. All Other Fees in the table related to review and advice on a report on Stock Based Compensation Alternatives for Director Compensation prepared by management for the Board.

Tax fees in fiscal 2009 related primarily to assistance with the SRED documentation preparation and quarterly tax provision review of documentation and disclosure.

ITEM 16 INTERESTS OF EXPERTS

KPMG LLP, Chartered Accountants and Licensed Public Accountants, who provided the auditors' report accompanying the Company's annual financial statements in respect of fiscal 2010, have confirmed to the Company that KPMG LLP is independent in accordance with the Rules of Professional Conduct as outlined by the Institute of Chartered Accountants of Ontario.

ITEM 17 ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, is contained in the Company's information circular for its most recent annual meeting of shareholders that involved the election of directors. Additional financial information is provided in the Company's financial statements and management's discussion and analysis for the most recently completed financial year. Copies of the above and other disclosure documents, and additional information relating to the Company, may be found, examined and/or obtained through the internet by accessing the Company's profile on the SEDAR website at www.sedar.com.

Schedule "A"

AUDIT COMMITTEE CHARTER

August 6, 2009

1. PURPOSE

The Audit Committee is a committee of the Board of Directors of Critical Outcome Technologies Inc. (the "Corporation") established to assist the Board of Directors in fulfilling its oversight responsibilities for the accounting and financial reporting processes of the Corporation and audits of the Corporation's financial statements by carrying out the activities described in this Charter in the manner detailed by this Charter.

2. COMMITTEE MEMBERSHIP

- (a) The Board of Directors, immediately upon their election by the shareholders of the Corporation, shall appoint an Audit Committee to serve for the forthcoming year. Each member of the Audit Committee shall serve at the pleasure of the Board of Directors until the member resigns, is removed or ceases to be a director of the Corporation.
- (b) The Audit Committee shall consist of not less than three Directors, none of whom shall be officers or employees of the Corporation or any of its affiliates.
- (c) The Board of Directors shall designate a member of the Audit Committee to serve as Chairman.
- (d) Each member of the Audit Committee shall:
 - (i) be a member of the Board of Directors of the Corporation;
 - (ii) be independent according to the definition of independence applicable to members of audit committees under National Instrument 52-110 ("NI 52-110") entitled "Audit Committees" of the Canadian Securities Administrators, unless otherwise approved by the Board of Directors in accordance with NI 52-110; and
 - (iii) have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements, unless the financial statements are otherwise approved by the Board of Directors in accordance with NI 52-110.
- (e) The Chief Financial Officer of the Corporation shall act as secretary of the Audit Committee.

3. MEETINGS

- (a) Meetings of the Audit Committee shall be held at least four times a year. The meetings will be scheduled to permit timely review of the Corporation's interim and annual financial statements.
- (b) Additional meetings of the Audit Committee may be called by the Chairman, any member of the Committee or the external auditors of the Corporation.
- (c) Not less than 72 hours' notice of meetings of the Audit Committee shall be given by the Chief Financial Officer together with any meeting materials, unless waived by all members of the Audit Committee.
- (d) Meetings of the Audit Committee may be held by means of conference telephone.
- (e) A resolution signed by all members of the Audit Committee shall be as effective as if passed at a meeting of the Audit Committee that was duly called and held.

4. REPORTING

- (a) The Chief Financial Officer will arrange for the preparation of minutes of the meetings of the Audit Committee in sufficient detail to convey the substance of all discussions held.
- (b) The Chairman may report orally to the Board on any matter in his/her view requiring the immediate attention of the Board.

5. RESPONSIBILITIES

In fulfilling its responsibilities, the Audit Committee shall:

- (a) review the Corporation's annual and interim financial statements and Management Discussion and Analysis prior to public disclosure of such information by the Corporation;
- (b) review the annual and interim earnings press releases, and any other press releases containing financial information related to earnings, prior to public disclosure of such information by the Corporation;
- (c) satisfy itself, on behalf of the Board of Directors, that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements (other than the public disclosure referred to in (a) above) and periodically assess the adequacy of such procedures;
- (d) satisfy itself, on behalf of the Board of Directors, that the Corporation's annual financial statements are fairly presented in accordance with Canadian generally accepted accounting principles, and recommend to the Board whether the annual financial statements should be approved;
- (e) satisfy itself, on behalf of the Board of Directors, that the Corporation's interim financial statements are fairly presented in accordance with Canadian generally accepted

accounting principles and, approve such interim financial statements on behalf of the Board of Directors as appropriate;

- (f) satisfy itself, on behalf of the Board of Directors, that the information contained in the Corporation's Annual Report to Shareholders and other financial publications such as Management's Discussion and Analysis, the Annual Information Form, if applicable, and the information contained therein is fairly presented in all material respects;
- (g) satisfy itself, on behalf of the Board of Directors, that the Corporation has implemented appropriate systems to identify, assess and mitigate significant business risks;
- (h) satisfy itself, on behalf of the Board of Directors, that the Corporation has implemented appropriate systems of internal control over financial reporting (which may include an internal audit function) and that these are operating effectively;
- (i) satisfy itself, on behalf of the Board of Directors, that the Corporation has implemented appropriate systems of internal control to ensure compliance with legal, regulatory and ethical requirements;
- (j) establish procedures, for the receipt, retention and treatment of complaints received by the Corporation, if any, regarding accounting, internal accounting controls or auditing matters;
- (k) establish procedures for the confidential, anonymous submission by employees of the Corporation of concerns, if any, regarding questionable accounting or auditing matters;
- (l) satisfy itself, on behalf of the Board of Directors, that the external audit function has been effectively carried out and that any matter which the independent auditors wish to bring to the attention of the Board has been addressed; and
- (m) at least once per year, meet with the external auditors and management in separate sessions to discuss any matters that these groups believe should be discussed with the Audit Committee or that the Audit Committee believes should be discussed with these groups.

6. RELATIONSHIP WITH AUDITORS

- (a) The Audit Committee shall recommend to the Board of Directors the external auditor to be nominated for appointment at the Corporation's annual meeting for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation.
- (b) The Audit Committee shall satisfy itself, on behalf of the Board of Directors, that the external auditor is "independent" in accordance with applicable laws and regulatory requirements.
- (c) The Audit Committee shall recommend to the Board of Directors the compensation of the external auditor.

- (d) The external auditor is required to report directly to the Audit Committee and the Audit Committee has the authority to communicate directly with the external auditor.
- (e) The Audit Committee shall be directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditors' report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditor regarding financial reporting.
- (f) The Audit Committee shall review and approve the Corporation's hiring policies regarding current and former partners and employees of the current and former external auditor of the Corporation.

7. PRE-APPROVAL OF NON-AUDIT SERVICES

- (a) The Audit Committee shall pre-approve all services to be provided to the Corporation or its subsidiaries by the external auditor at a cost to the Corporation, individually or in aggregate, of \$25,000 or more, other than the professional services rendered by the external auditor for the audit and review of the Corporation's financial statements or services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements.
- (b) In addition to the Pre-approval threshold amount noted in (a), the pre-approval requirement is also satisfied where:
 - (i) the Audit Committee delegates authority to pre-approve non-audit services to one or more members, which pre-approval must be presented by the member(s) to the full Audit Committee at its next scheduled meeting; or
 - (ii) the Audit Committee adopts specific policies and procedures for the engagement of non-audit services provided that: (i) the pre-approval policies and procedures are detailed as to the particular service, (ii) the Audit Committee is informed of each non-audit service, and (iii) the procedures do not include delegation of the Audit Committee's responsibilities to management.

8. AUTHORITY TO ENGAGE EXTERNAL ADVISORS

The Audit Committee has the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties and to set and have the Corporation pay the compensation for such advisors.