Critical Outcome Technologies Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations

As at March 31, 2008

Fiscal 2008 – Third Quarter Interim Period ended January 31, 2008

The following discussion and analysis explains trends in Critical Outcome Technologies Inc.'s ("COTI" or the "Company") financial condition and results of operations for its third quarter ended January 31, 2008. This management discussion and analysis (MD&A) is intended to assist in understanding the dynamics of the Company's business and the key factors underlying its financial results. This document has been prepared as at March 31, 2008 and should be read in conjunction with the Company's interim consolidated financial statements of January 31, 2008 and the annual audited financial statements for the year ended April 30, 2007 and notes thereto which can be found on SEDAR at www.sedar.com. All dollar figures are Canadian dollars.

This MD&A contains certain statements which constitute "forward-looking statements" within the meaning of the *Securities Act* (Ontario) and applicable securities laws. These forward-looking statements by their nature are not guarantees of future performance and are based upon management's current expectations, estimates, projections and assumptions. COTI operates in a highly competitive and regulated environment that involves significant risks and uncertainties which could cause actual results to differ materially from those anticipated in these forward-looking statements. Management of COTI considers the assumptions on which these forward-looking statements are based to be reasonable, but as a result of the many risk factors, cautions the reader that actual results could differ materially from those expressed or implied in these forward looking statements.

Company Overview

COTI is a reporting issuer, based in London, Ontario, resulting from the amalgamation on October 13, 2006 of Aviator Petroleum Corp. ("Aviator", a public company listed on the TSX Venture Exchange ("TSXV") under the symbol "AVC") and Critical Outcome Technologies Inc. (a private company) under the provisions of the Business Corporations Act (Ontario). The amalgamation constituted the qualifying transaction of Aviator pursuant to the policies of the TSXV. The amalgamated company adopted the name Critical Outcome Technologies Inc. ("COTI").

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

In developing its technology, COTI has focused on novel, proprietary, small molecules used to treat cancer and HIV. This focus has been on cancers with high morbidity and mortality such as acute leukemia in adults, hormone resistant breast cancer, hormone resistant prostate cancer, small cell lung cancer and colorectal cancer, which currently have either poor or no effective therapies.

Using CHEMSAS® the Company is developing a pipeline of highly optimized libraries of 6-10 small molecules for specific therapy targets and plans to license these libraries to interested

pharmaceutical partners for human trials and further drug development. Currently, the libraries in various stages of development in the pipeline are targeted at small cell lung cancer, colorectal cancer, HIV integrase inhibitors, chronic and acute leukemia and multiple sclerosis.

In addition to its targeted library pipeline the Company may also take particularly promising individual molecules forward for development beyond the library development stage. These molecules would follow the same development process and approach as the library molecules except the process would involve some additional preclinical (*in vitro* and *in vivo)* testing and clinical human studies (Phase 1 only). These compounds will then be available for licensing or co- development with a pharmaceutical partner. In this regard, on December 18, 2007 COTI announced its intention to prepare a Phase 1B Health Canada clinical trial submission based on the positive preclinical results achieved from COTI-2, its lead cancer molecule.

Acquisition of DDP Therapeutics

Effective November 27, 2007 the Company completed its acquisition from Whippoorwill Holdings Limited, 2080084 Ontario Inc. and Dr. Wayne Danter (Sellers) of all the outstanding common shares in the capital of 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 on the terms announced by the Company on September 17, 2007. Ownership of DDP prior to completion of the Share Purchase consisted of: COTI 10%, Dr. Wayne 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 (discussed below) 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 matures for payment on July 31, 2008 and bears 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. One-half of the remaining Share Consideration will be issued on the first to occur of: the issuance by the U.S.

Food and Drug Administration (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 of the Molecule; or the issuance of a final patent in respect of any of the Molecules by European or US patent authorities. The final balance of the remaining 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 US or Europe; or the issuance of a final patent in the US 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, the Company has the option to either; (i) issue the remaining 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.

The common shares issued under the Share Purchase were subject to a four month hold from the date of closing the Share Purchase until the close of business on March 29, 2008.

As part of the acquisition of DDP, the Company negotiated an amendment to an existing consulting agreement between DDP and Dr. Wayne Danter, the President of the Company. Under the consulting agreement, upon the Company or DDP obtaining a Phase Three Financing, Dr. Danter is entitled to a bonus payment based upon the net proceeds of the financing and provided certain milestones are met at the time the Company or DDP obtains 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 which was paid in February 2008.

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 has been accounted for as a purchase of assets because DDP does 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 (discussed below) plus cash paid, plus the assumption of certain liabilities and

payment of transaction costs, was $3,165,287. The consideration was allocated to the assets acquired and liabilities assumed based on the estimated fair values on the date of acquisition as follows:

Assets acquired:	
Cash	$ 15,178
Other receivables	82,673
Intangible assets - molecules	3,149,432
Future tax assets	913,336
	4,160,619
Less liabilities assumed:	
Accounts payable and accrued liabilities	81,996
Future tax liabilities	913,336
	995,332
Net assets acquired	$ 3,165,287
Consideration given:	
Cash paid	$ 187,858
Common shares issued	2,004,017
Debt assumed	812,142
Acquisition costs paid	161,270
	$ 3,165,287

As part of the accounting for the acquisition, the Company reversed existing valuation allowances on its books as of the date of the acquisition to the extent of the value of net taxable temporary differences assumed on the purchase.

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 would be added to the Molecules (intangible asset) with an increase in share capital, if share consideration, or a reduction in cash, if a cash payment.

The Molecules acquired represent intangible assets and accordingly must be amortized over their useful lives to the Company. In addition, the Company must also assess as part of its accounting practices whether there has been any impairment of these long lived assets. Amortization of the intangibles will commence in the fourth quarter 2008 which is the first full quarter following the acquisition of the Molecules in accordance with the Company's detailed review and development plan for the Molecules. Based upon the development activities during the two months since acquisition to the end of third quarter on January 31, 2008, the Company has determined there has been no impairment in the value of the Molecules during the intervening period.

Private Placement

On November 29, 2007 the Company completed a brokered private placement of 2,857,143 common shares offered to accredited investors in Ontario at $1.40 per common share for gross proceeds of $4,000,000. The Company retained Northern Securities Inc. to act as agent in completion of the private placement. Total costs of the placement were $334,118 including the agent's fee of $280,000 for net proceeds of $3,665,882.

The private placement received acceptance from the TSX Venture Exchange (TSXV) on November 29, 2007. The common shares issued under the offering were subject to a four month hold from the date of closing the private placement until the close of business on March 29, 2008.

The proceeds of the private placement are planned to be used for product development, research and development, and other corporate purposes with $630,000 having been paid as the cash component of the total consideration paid by the Company to purchase the shares and promissory notes of DDP as discussed above.

Results of Operations

For the three month period ended January 31, 2008 (Q-3 2008) the Company incurred a net loss of $(269,404) or $(0.01) per share compared to a net loss of $(501,997) or $(0.01) per share for the corresponding period in 2007 (Q-3 2007). These results reflect a general increase in expense levels offset by a decline in synthesis costs and stock option compensation as the Company increased its business activity in advancing its technology forward in the third quarter of fiscal 2008 compared to the third quarter of fiscal 2007.

For the nine month period ended January 31, 2008 the Company recorded a net loss of $(1,289,830) or $(0.03) per share compared to a net loss of $(779,082) or $(0.03) per share for the nine month period ending January 31, 2007. The more recent period reflects nine months of operations, primarily devoted to developing the Company's technology, compared to the nine months ending January 31, 2007 which included six months of the pre-financing and pre-public listing development stage of the Company.

Summary of Quarterly Results

Table 1, which appears on page 6, sets out the operating results for the eleven most recent quarters of the Company.

The Table shows revenue for the project commencement fee on the Company's pilot project with Merck Serono which started in the current quarter. Over the eleven quarters revenue is observed to be extremely modest consisting of screening and contract service revenue as the

Company focused on developing its molecular libraries. The increasing annual loss trend reflects the Company's ramp up of product and business development activities for its molecule libraries as well as the administrative costs of increased business activity and the requirements of a public company.

Total synthesis costs of $266,389 were incurred during Q-3 of FYE 2007 through Q-1 of FYE 2008. There was only $314 in synthesis costs incurred during the quarter ended January 31, 2008. The Company expects synthesis costs and in vivo and in vitro testing expense to increase substantially for the balance of fiscal 2008 and 2009. This will occur as the Company conducts further synthesis and *in vitro* and *in vivo* confirmatory testing on the SCLC Molecule library, as well as additional molecules in the multiple sclerosis and HIV libraries.

Table 1: Quarterly Results Summary

FYE 2008	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Total
Revenues	$ -	$ -	$ 30,822	$ 30,822
Total loss before other income	(524,674)	(604,035)	(331,269)	(1,459,978)
Other income	24,216	84,067	61,865	170,148
Total net loss	$ (500,458)	$ (519,968)	$ (269,404)	$ (1,289,830)
Net loss per share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.03)

FYE 2007	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Total
Revenues	$ 2,500	$ -	$ -	$ -	$ 2,500
Total loss before other income	(163,088)	(191,259)	(515,696)	(675,470)	(1,545,513)
Other income	-	77,262	14,391	23,877	115,530
Total net loss	$ (163,088)	$ (113,997)	$ (501,305)	$ (651,593)	($1,429,983)
Net loss per share	$ (0.01)	$ -	$ (0.02)	$ (0.02)	$ (0.05)

FYE 2006	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Total
Revenues	$ -	$ 30,000	$ 2,500	$ -	$ 32,500
Total loss before other income	(37,235)	(56,286)	(73,437)	(430,400)	(597,358)
Other income	(220)	220	6,649	(220)	6,429
Total net loss	$ (37,455)	$ (56,066)	$ (66,788)	$ (430,620)	$ (590,929)
Net loss per share	$ -	$ (0.01)	$ (0.01)	$ (0.04)	$ (0.06)

Contained in the total loss before other income is significant non-cash expense related to stock option compensation recorded in the five most recent quarters totaling $792,766 as set out in Table 2. This represents 32.4% of the total loss before other income recorded during this period.

The Company's cumulative stock option compensation since inception totals $1,043,766 of the total deficit reported to date of $3,651,437 or 28.6%. The potential cash raise from the exercise of all stock options granted during the five quarter period set out in Table 2 and outstanding at March 31, 2008 is $1,263,400.

Table 2: Stock Option Compensation Summary

Fiscal Year	Interim Period	Stock Option Compensation
2008	Q3 – Jan 31, 2008	$(14,687)
2008	Q2 – Oct 31, 2007	223,075
2008	Q1 – July 31, 2007	159,909
2007	Q4 – April 30, 2007	210,764
2007	Q3 – Jan 31, 2007	213,705
	Total	$792,766

Financial Condition

As at January 31, 2008 the Company had available cash and cash equivalents of $5,061,088 compared to $2,417,801 at April 30, 2007. In addition, the Company held $999,202 in short term investments with none held at April 30, 2007. This total increase in cash resources of $3,642,489 is due primarily to funds generated from the November private placement which netted $3,665,882 and the exercise of common share purchase warrants over the nine months as set out in Table 3.

Table 3: Warrant Exercise Summary

Quarter	Warrants Exercised	Gross Proceeds
Q1 – July 31/07	1,571,665	$ 944,824
Q2 - Oct 31/07	530,477	356,338
Q3 – Jan 31/08	724,500	475,951
Total	2,826,642	$ 1,777,113

The Company also generated cash on receipt of interest income of $61,865 on its excess cash balances during the quarter ended January 31, 2008.

The Company's current assets increased to $6,259,113 on January 31, 2008 from $2,522,551 at April 30, 2007. As discussed above this is driven by the increase in cash and short term investments.

Current liabilities increased $451,626 to $789,592 on January 31, 2008 from $337,966 at April 30, 2007. This provides working capital of $5,469,521 at January 31, 2008. The increase in current liabilities primarily reflects increases in accounts payable and amounts due to shareholders as set out in Table 4.

Table 4: Changes in Current Liabilities

Account	Change	Explanation
Accounts payable and accrued liabilities	$103,198	Accrued salary, DDP consulting bonus and vacation pay $62,660, payable increase for annual insurance bill of $34,325
Due to shareholders	363,492	$370,000 note on DDP purchase repayable in July 2008
Current portion of capital lease	(15,064)	Cumulative reduction from monthly lease payments.
	$451,626	

Subsequent to January 31, 2008 and to the date of this MD&A, the Company realized additional cash on the exercise of 225,375 warrants for gross proceeds of $157,763. At March 31, 2008 the Company had available cash, cash equivalents and short term investments of $5,915,496.

Management believes it has sufficient cash resources to carry out its operations for the next 18 months at expected operating levels. However, in light of uncertainties associated with the development of its molecule libraries, including identifying and securing suitable pharmaceutical customer prospects, further financing may be required to support the Company's operations in the future.

Operating Revenues

The Company generated $30,000 USD in operating revenue in the three month period ended January 31, 2008 compared to no revenues in Q-3 2007.

The Company realized $61,865 in other income from interest earned on its excess cash balances in the three months ended January 31, 2008 compared to $14,391 in the comparable period for 2007.

During the three month period ended January 31, 2008, the Company continued to focus on developing its libraries and building customer relationships for the sale or license of its two lead molecule libraries for; small cell lung cancer and multiple sclerosis.

On October 17, 2007 the Company announced that it had signed a pilot project agreement with Merck Serono, a division of Merck KGaA of Darmstadt, Germany, (Merck Serono) to identify drug development candidates for a specific oncology cellular target. The scope of the project consists of COTI utilizing its proprietary technology CHEMSAS® to discover 4 to 6 novel drug candidates built on 2 to 3 scaffolds against a specific cellular target of strategic importance to Merck Serono. Merck Serono will then evaluate the COTI-identified compounds and decide, at its own discretion, to synthesize and test the suitability of the molecules as leads for the cellular target. Merck Serono has the option to develop, independent of COTI, derivatives of the compounds identified by COTI. Merck Serono has agreed to provide confirmatory data to COTI demonstrating superiority of the derivative versus the COTI-proposed compounds.

Under the financial terms of the agreement, COTI was entitled to invoice for a non-refundable project commencement fee once data transfer from Merck Serono initiated the project. This occurred during the quarter as noted above. Additional payments will be earned and invoiced based upon achievement of individual milestones in the preclinical development of the drug candidates discovered by COTI.

The initial phase of the pilot project is moving forward as planned and the Company is scheduled under the agreement to provide the compounds identified for the target on May 5, 2008.

The Company is in continuing discussions with a number of Pharma companies on other pilot projects as an opportunity to further validate its technology via a revenue-driven initiative. The pilot project strategy is consistent with COTI's goal of accelerating the process of getting novel treatments to market and supports the business development focus of developing relationships with major pharmaceutical companies for COTI's own compounds

Operating Expenses

For the three month period ended January 31, 2008 total operating expenses were $362,091, a decrease of $154,297 compared with $516,388 for the comparable prior year period. Q-3 2007 included a charge for stock option compensation in the amount of $213,705 compared to a recovery of $14,687 reported in Q-3 2008. This recovery related to previously expensed compensation for unvested stock options which expired or were cancelled under the stock option plan during the quarter. Operating expense levels adjusted for this stock option compensation would be $376,798 in Q-3 2008 compared to $302,683 in Q-3 2007. Major expense changes for Q-3 2008 compared to Q-3 2007 are set out in Table 5.

Table 5: Major Expense Changes Q3-2008 Compared to Q3-2007

Expense	Q3-2008 January 31 2008	Q3-2007 January 31 2007	Variance Favourable (Unfavourable)
Stock option compensation	$ (14,687)	$213,705	$ 228,392
Salaries and benefits	210,190	103,174	(107,016)
Professional fees	70,707	40,237	(30,470)
Synthesis	314	97,940	97,626
Total	$266,524	$ 455,056	$(188,532)

- There were no stock options granted during Q-3 2008.

- The increase in salaries and benefits reflects the higher staffing levels in Q3-2008 compared to Q3-2007 and the milestone bonus accrual of $30,356 on the DDP purchase.

- The professional fees increase relates to increased consulting for: accounting support; legal costs related to the increased business activity in the Company; HR support; intellectual property support for the Company's molecule patent strategy; and relationship and strategy support in marketing the compounds to potential Pharma customers. The costs for human resource, sales and marketing and IP support activities were not incurred in the comparable prior period.

- Synthesis costs were not incurred during Q-3 2008 as research and development costs were primarily for analytical studies of $12,399, internal computer-lab labour costs, as well as patent activities wherein such costs of $42,433 were capitalized to patents.

Income Taxes

The Company is not in a taxable position as it has not generated a profit since inception. The Company has temporary timing differences that could give rise to future tax assets as well as non-capital losses and research and development expenditures which may be applied to reduce taxable income of future years. Details of these balances can be found in note 12 of the Notes to the Financial Statements for the interim consolidated financial statements of January 31, 2008. Management cannot discern when a profit will occur so it is possible that the Company will not realize some of these tax benefits.

Liquidity and Capital Resources

Operating Activities

For the three month period ended January 31, 2008 operating activities used $1,266,647 in cash. This compares with cash used of $661,340 in the three month period ending January 31, 2007. This increase in cash usage in Q3-2008 is due primarily to the change in non-cash operating working capital which reflected the short term cash investments of $999,202 as discussed above.

For the nine months ended January 31, 2008 operating activities used $1,832,908 in cash while the comparable nine month period ending January 31, 2007 used $747,335 in cash. Adjusting for the short term investments of $999,202, results in this increased usage being $86,371 over the comparable Q-3 2007. The increased usage is indicative of the higher operational activity level in the Q-3 2008 period compared to six months in Q-3 2007 being a period before financing and going public.

Investing Activities

For Q3-2008 the Company used $741,466 in investing activities compared to only $19,375 in Q3-2007. In Q3-2008 the Company invested $42,433 in patents compared to $8,295 in Q3-2007. The Company also recorded an investment in equipment and leaseholds in Q3-2008 of $25,069 related primarily to computer software. In addition, the Company purchased the remaining 90% of the shares of DDP Therapeutics it did not already own consisting of:

Promissory notes and interest	$ 442,142
Shares acquired for cash	187,858
Acquisition costs	43,964
	$ 673,964

In the nine months ended January 31, 2008 the Company used $1,001,772 in investing activities compared to $38,335 in the comparable period ending January 31, 2007. Total patent investments in Q-3 2008 were $59,740 compared to $27,255 in Q-3 2007. For the nine months ended January 31, 2008 the Company invested $150,762 in office furniture, equipment, leaseholds and computer software compared to $11,080 in Q3-2007. In addition, the cash investment in DDP Therapeutics totaled $791,270 as $117,306 in due diligence costs were incurred prior to Q-3 2008 for total acquisition costs on the transaction of $161,270.

Financing Activities

For the three month period ended January 31, 2008 the Company generated $4,134,752 in cash from financing activities compared to generating $977,124 for the three months ended January 31, 2007. Equity financing from a private placement which closed in November 2007 for a net

amount of $3,665,882, combined with common share warrant and option exercises of net $472,626 provided $4,138,508 in cash from common share issuances. The $1,016,917 of cash generated from financings in Q3-2007 related to a private placement of $1,000,000 in January 2007 for net proceeds of $984,233 and common share warrant and option exercises for net proceeds of $32,684.

Related Party Transaction

Milestone payment

As part of the acquisition of the DDP shares the Company negotiated an amendment to an existing consulting agreement between DDP and Dr. Wayne Danter, the President of the Company. Under the consulting agreement, upon the Company or DDP obtaining a Phase Three Financing, Dr. Danter is entitled to a bonus payment based upon the net proceeds of the financing and provided certain milestones are met at the time the Company or DDP obtains the financing on any of the ten SCLC Molecules. A Phase Three Financing is defined as a successful financing with a biotech or pharmaceutical company in the development of the SCLC. The milestones and bonus payments are as follows:

Percentage of net proceeds to be paid to consultant	Milestone achieved by company
1%	Preclinical *in vitro* and *in vivo* testing of three drug candidates for safety and efficacy has commenced (PK/tox testing invoked)
2%	An investigational new drug application has been filed with the United States Food and Drug Administration for human tests of any of the drug candidates
2%	Phase 1 clinical trial of any drug candidate has commenced

Net proceeds means the gross amount realized from the Phase Three financing less the direct costs incurred by the Company in completing such financing. It was agreed that the financing completed by the Company to acquire the shares of DDP and fund the development of the SCLC, net of the cash used to acquire the promissory notes, constituted a Phase Three Financing. This triggered a payment of the first milestone calculated as $30,356 which was paid in February 2008.

Promissory note

The Company issued a promissory note in the amount of $370,000 payable to Whippoorwill Holdings Limited (WHL) in exchange for the assignment of the promissory note held by WHL from DDP as part of the DDP purchase transaction. As part of the closing price the Company paid accrued interest of $35,369 to WHL. The promissory note matures for payment on July 31, 2008 and bears interest at the rate of 5% per annum. Since the purchase, and to the date of this report, the Company has paid interest of $4,764 on this note.

Outstanding Common Shares

Outstanding share information at the close of business March 31, 2008 is set out in Table 6.

Table 6: Outstanding Share Data

		Outstanding	Expiry Date
Common shares			
Authorized - unlimited			
Issued		44,937,653	
Fully diluted		48,833,847	
Weighted average outstanding [(1)]		40,958,463	
Common share purchase warrants			
$0.40 warrants		166,666	April 18/08
$0.40 agent warrants		73,805	Oct 12/08
$0.60 warrants		1,000,000	July 15/08
$0.70 warrants		1,165,723	April 12/08 to Jul 17/09
		2,406,194	
Common share options			
	$0.64	1,035,000	Jan 11/12
	$0.70	50,000	Jan 14/12
	$1.34	150,000	Mar 25/12
	$1.00	130,000	April 30/12
	$1.34	25,000	May 10/12
	$2.00	100,000	Oct 8/12
		1,490,000	

(1) Weighted average shares outstanding calculated from May 1, 2007 to March 31, 2008.

Critical Accounting Policies and Estimates

The financial statements of the Company were prepared in accordance with Canadian GAAP with the exception of the new CICA handbook section 1530 on Comprehensive Income as discussed below.

Certain accounting policies require management to make estimates, assumptions and judgments relating to the reported amounts of revenue and expenses, assets and liabilities and disclosure of contingent assets and liabilities. Estimates and assumptions used by management are based upon past experience and other factors deemed reasonable in the circumstances. Management regularly evaluates the assumptions and estimates that are used in the preparation of the Company's financial statements. Since these estimates and assumptions involve varying degrees of judgment and uncertainty, the amounts reported in the financial statements could vary materially in the future from current estimates.

COTI has identified one critical accounting policy and estimate related to stock-based compensation and other stock-based payments, which is highly uncertain at the time of the estimate and is reasonably likely to occur from period to period. Changes in this estimate could have a material impact on the Company's financial condition, changes in financial condition or results of operations as discussed below.

Stock-based compensation and other stock-based payments

Stock-based compensation and other stock-based payments are accounted for using the fair value based method, whereby compensation cost is measured at fair value as determined by a Black Scholes valuation model (BSM) at the date of grant, and are expensed to stock-based compensation over the award's vesting period.

The BSM uses subjective assumptions such as expected price volatility, expected life of options, future dividends, and risk free interest rates. Changes in these input assumptions can significantly affect the fair value estimate. The most significant assumption impacting the valuation of the option in the BSM is expected volatility.

a) Price volatility

During the initial start up period of being a public company estimates of volatility had to be made without benefit of trading history. In this regard the Company placed reliance on the historic experience of three comparable biotech companies which went public in the preceding calendar year of 2005. Simple statistical data was used looking at variance around average trading prices, highs and lows and how this might relate to COTI. The initial stock-based compensation grants in January 2007 used a volatility rate of 60%. As trading data accumulated a mathematical model used in the BSM was adopted. As a public company for only six months at April 30, 2007 and with a relatively low share trading price the impact of small price changes had a significant impact on the volatility calculation. The rate was determined for this period to be 145%.

The Company is using this mathematical model for volatility within the BSM on a go forward basis using a rolling six month trading history calculation on the basis that more recent price data is a better measure of expected volatility than older price data since the factors affecting recent prices are likely to be more relevant than historic events affecting more distant prices. In addition, a shorter but yet statistically viable time frame removes the smoothing affect of a longer time frame. The volatility calculated up to the end of each quarterly interim period using the BSM is applied to any options issued during the subsequent quarterly period. The rolling six month volatility calculations for the past four quarters are as follows:

	Days	Volatility Calc
April 30/07	181	145%
July 31/07	181	103%
Oct 31/07	184	120%
Jan 31/08	184	89%

b) Expected life of options

For the quarter ended January 31, 2008, total stock-based compensation expense of $19,449 was calculated using the Black Scholes option pricing model for unvested stock options. This expense was offset by the reversal of $34,135 in cumulative expense recorded in prior periods for unvested options which expired in Q-3 2008. This net credit to expense of $14,687 highlights the change in estimate associated with the underlying assumption that all stock options granted would be exercised.

HB section 1530 Comprehensive Income

This standard requires that the Company present comprehensive income and its components in a separate financial statement that is displayed with the same prominence as other financial statements. This means that certain gains and losses arising from changes in fair value will be temporarily recorded outside the statement of earnings in a new statement of comprehensive income. The Company will be preparing this statement for its annual audited financial statements of April 30, 2008 and on an ongoing basis for subsequent quarterly reporting.

Unrealized gains or losses on qualifying hedging instruments, foreign currency and unrealized gains or losses on financial instruments held for sale will be included in comprehensive income. The Company does not currently use hedging instruments and has only very minor exposure to foreign denominated accounts payable.

The Company has determined that the carrying value of its short term financial assets and liabilities, including cash and cash equivalents, other receivables, accounts payable and accrued liabilities, due to shareholders and other advances, approximates their fair value because of the relatively short periods to maturity of these instruments.

The fair value of the notes payable and the obligation under capital lease approximates their carrying value because the interest rate charged approximates current market rates of interest.

Cash equivalents have maturities of less than three months and short term investments have maturities of less than one year and are at market rates. Both cash equivalents and short term investments are in high quality securities with ratings of greater than single A from both

Dominion Bond Rating Services and Standard & Poors. It is the intention of the Company to hold these highly liquid securities to maturity.