Management Discussion and Analysis of Financial Condition and Results of Operations

Fiscal 2010 - Second Quarter
for the three and six months ended October 31, 2009

Table of Contents

Management Discussion and Analysis

Overview

The following discussion and analysis is a review of the financial condition and results of operations of Critical Outcome Technologies Inc. ("COTI" or the "Company") for the quarter ended October 31, 2009, and has been prepared with all information available up to and including December 9, 2009. 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 analysis should be read in conjunction with the audited financial statements and notes thereto for the year ended April 30, 2009. The financial information contained herein has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the information as presented herein represents unaudited disclosure. All dollar amounts are expressed in Canadian dollars. This MD&A and other quarterly interim reports and additional supplementary information concerning the Company can be found on SEDAR at www.sedar.com.

Forward-looking Statements

This MD&A contains certain statements, 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. Management of COTI considers the assumptions on which these forward-looking statements are based to be reasonable, but because of the many risk factors, cautions the reader that actual results could differ materially from those expressed or implied in these forward-looking statements.

The Company

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) 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 for Aviator as a CPC pursuant to the policies of the TSXV. The amalgamated company adopted the name Critical Outcome Technologies Inc. and listed on the TSX Venture Exchange (TSXV) under the symbol COT.

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 early 2006 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 laws of the Province of Ontario.

Our Business

COTI is a biotechnology company focused on applying its proprietary computer-based technology, CHEMSAS®, to identify, profile 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.

Using CHEMSAS®, the Company is developing optimized libraries of 6 to 10 novel, proprietary, small molecules as potential drug candidates for specific therapeutic targets in diseases that have high morbidity and mortality and currently have either poor or no effective therapies. Following synthesis and completion of a core group of confirmatory in vitro and in vivo tests, the Company plans to license or co-develop these molecules with interested pharmaceutical partners for further drug development and human trials. Currently, libraries in various stages of development include small cell lung cancer, adult acute leukemia, colorectal cancer and other cancers, HIV integrase inhibitors, multiple sclerosis and secretase inhibitors for the treatment of Alzheimer's disease.

In addition to licensing its targeted libraries, 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 would then be available for licensing or co-development with a pharmaceutical partner. In this regard, COTI continues to prepare for a Phase 1 clinical trial submission based on the positive preclinical results achieved from COTI-2, its lead cancer molecule with a number of cancer indications. Testing initiatives and planning for this event currently target an IND filing in early 2011.

The Company is also in discussion with several multinational pharmaceutical and biotechnology organizations related to leveraging CHEMSAS® in identifying lead candidates for targets of commercial interest to these prospective partners. This collaboration approach is seen as 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 that 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.

Results of Operations Review

For the three months ended October 31, 2009 (Q2-F'10), the Company reported a net loss of $976,678 or $0.02 per common share compared to a net loss of $725,002 or $0.02 per common share on October 31, 2008 (Q2-F'09). This increased loss of $251,676 resulted from five main sources: increased general and administration costs of $123,497, increased stock based compensation of $285,936, decreased interest income of $29,494, offset by decreased research and product development costs (R&D) of $56,749 and investment tax credit refunds of $137,301.

For the six months ended October 31, 2009, the Company reported a net loss of $1,955,767 or $0.04 per common share compared to a net loss of $1,583,773 or $0.03 per common share on October 31, 2008. This increased loss of $371,994 resulted from increased R&D costs of $167,216, increased general and administration costs of $194,299, increased stock based compensation of $86,917 and decreased interest income of $60,701, offset by investment tax credit refunds of $136,786.

Revenues

There were no operating revenues recorded during the quarter or during the six months ended October 31, 2009. Revenues of $5,982 were recorded in Q2-F'09.

The Company earned $5,412 in interest income in Q2-F'10 compared to $34,906 in Q2-F'09. The decrease reflects the lower cash, cash equivalent and short-term investment balances held by the Company as illustrated in Table 1, as well as the lower interest rates available during the current quarter compared to Q2-F'09.

Table 1: Comparative Summary of Cash, Cash Equivalents and Short-term Investments

	October 31, 2009	October 31, 2008
Cash	$ 180,664	$ 134,431
Cash equivalents	939,418	1,457,735
Short-term investments	1,099,999	3,643,607
Total	$ 2,220,081	$5,235,773

Operating Expenses

The Company changed its financial reporting approach for income statement presentation in the current quarter, switching from a nature of expense or transactional presentation approach to an operational or functional presentation. This change was implemented to harmonize external financial reporting with the internal financial reporting utilized by management and to render the Company's financial results more comparable to the financial reporting approach used by other biotechnology companies. A reconciliation of the nature of expense approach to the functional approach for the comparative figures of the prior year three and six month periods ending October 31, 2008 as previously reported appears in Table 2.

Table 2: Reconciliation of operating expense presentation from the nature of expense approach to the functional approach for the three and six months ended October 31, 2008

	Functional Expense Categories							
Nature of Expense Categories	Research and product development	General and administration	Stock-based compensation	Amortization	Marketing	Foreign exchange loss	Interest and bank charges	Nature of expense 3 month YTD
Research and product development	$ 267,282	$ -	$ -	$ -	$ -	$ -	$ -	$ 267,282
Salaries and benefits	78,181	87,745	-	-	34,394	-	-	200,320
Stock-based compensation	-	-	24,056	-	-	-	-	24,056
Amortization of molecules	-	-	-	97,224	-	-	-	97,224
Professional fees	-	55,043	-	-	-	-	-	55,043
Marketing	1,713	6,389	-	-	22,772	-	-	30,874
Corporate Governance	-	26,144	-	-	-	-	-	26,144
General and administration	1,610	24,944	-	-	865	-	-	27,419
Amortization of equipment	-	-	-	34,306	-	-	-	34,306
Interest and bank charges	-	-	-	-	-	-	1,613	1,613
Amortization of patents	-	-	-	1,572	-	-	-	1,572
Amortization of trademark	-	-	-	37	-	-	-	37
Foreign exchange loss	-	(5,951)	-	-	-	5,951	-	-
Functional reporting totals	$ 348,786	$ 194,314	$ 24,056	$ 133,139	$ 58,031	$ 5,951	$ 1,613	$ 765,890

	Functional Expense Categories							
Nature of Expense Categories	Research and product development	General and administration	Stock-based compensation	Amortization	Marketing	Foreign exchange loss	Interest and bank charges	Nature of expense 6 month YTD
Research and product development	$ 400,496	$ -	$ -	$ -	$ -	$ -	$ -	$ 400,496
Salaries and benefits	145,278	138,533	-	-	66,889	-	-	350,700
Stock-based compensation	-	-	256,677	-	-	-	-	256,677
Amortization of molecules	-	-	-	194,448	-	-	-	194,448
Professional fees	-	165,991	-	-	2,355	-	-	168,346
Marketing	2,092	11,804	-	-	65,547	-	-	79,443
Corporate Governance	-	82,292	-	-	-	-	-	82,292
General and administration	2,815	60,149	-	-	2,899	-	-	65,863
Amortization of equipment	-	-	-	54,512	-	-	-	54,512
Interest and bank charges	-	-	-	-	-	-	7,700	7,700
Amortization of patents	-	-	-	3,007	-	-	-	3,007
Amortization of trademark	-	-	-	169	-	-	-	169
Reorganization costs	-	541	-	-	-	-	-	541
Foreign exchange loss	-	(6,182)	-	-	-	6,182	-	-
Functional reporting totals	$ 550,681	$ 453,128	$ 256,677	$ 252,136	$ 137,690	$ 6,182	$ 7,700	$1,664,194

Operating expenses increased from $765,890 for Q2-F'09 to $1,119,391 for Q2-F'10, an increase of $353,501. Three expense categories as set out in Table 3 accounted for the majority of this change.

Table 3: Major Expense Items

Expense	Q2-F'10	Q2-F'09	Change	Change as % of Total
Stock-based compensation	$ 309,992	$ 24,056	$ 285,936	80.9%
General and administration	317,811	194,314	123,497	34.9%
Research and product development	292,037	348,786	(56,749)	-16.1%
	919,840	567,156	352,684	99.8%
Other expenses	199,551	198,734	817	0.2%
Total	$ 1,119,391	$ 765,890	$ 353,501	100.0%

The stock-based compensation increase of $285,936 in Q2-F'10 reflects a stock option grant for Board compensation in September 2009 of $276,390 plus the compensation cost of options vesting in the quarter from prior period option grants.

The general and administration expense increase of $123,497 was primarily due to an increase of $77,753 in salary costs for additional staffing since Q2-F'09. Other expenses of significance in the quarter included a patent impairment charge of $11,931 for patents that management determined would not continue in development, and $20,420 in costs related to a proposed private placement withdrawn in August 2009.

Table 4 summarizes the third party R&D costs for Q2-F'10 and Q2-F'09. Overall R&D decreased by $56,749 in Q2-F'10 compared to Q2-F'09. Contract R&D testing and materials decreased $85,278 because of a discretionary management cutback on the extent of R&D projects while the Company seeks additional financing. Contract synthesis costs decreased $4,791, with the majority of costs expensed on collaboration projects in Q2-F'10. Internal R&D labour costs increased $30,960 reflecting the addition of staff in this area since Q2-F'09.

Table 4: R&D Costs

	Q2-F'10	Q2-F'09	Change
R&D testing, consulting and materials	$ 78,740	$ 164,018	$ (85,278)
Synthesis	98,473	103,264	(4,791)
	177,213	267,282	(90,069)
Labour	109,141	78,181	30,960
Other	5,683	3,323	2,360
Total	$ 292,037	$ 348,786	$ (56,749)

Two Year Operational Results Summary by Quarter

Table 5 below summarizes the operating results by quarter for the past two fiscal years.

Table 5: Two Year Summary of Quarterly Results

FYE 2010	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	6 Mths YTD
Revenue	$ -				$ -
Loss before other income	(986,900)	(1,119,391)			(2,106,291)
Other income	7,811	142,713			150,524
Loss	(979,089)	(976,678)			(1,955,767)
Loss per common share	$ (0.02)	$ (0.02)			$ (0.04)

FYE 2009	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
Revenue	$ -	$ 5,982	$ 13,204	$ 29,972	$ 49,158
Loss before other income	(898,304)	(759,908)	(1,036,831)	(1,400,319)	(4,095,362)
Other income	39,533	34,906	38,530	63,374	176,343
Loss	(858,771)	(725,002)	(998,301)	(1,336,945)	(3,919,019)
Loss per common share	$ (0.02)	$ (0.01)	$ (0.02)	$ (0.03)	$ (0.08)

FYE 2008	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
Revenue	$ -	$ -	$ 30,822	$ -	$ 30,822
Loss before other income	(524,674)	(604,035)	(331,269)	(669,672)	(2,129,650)
Other income	24,216	84,067	61,865	57,130	227,278
Loss	(500,458)	(519,968)	(269,404)	(612,542)	(1,902,372)
Loss per common share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.05)

The increasing quarterly loss trend year over year reflects the Company's acceleration of research and product development as well as the administrative costs associated with the higher level of activity. The majority of the variation by quarter across the years, and year over year, is explained by a few expenditure categories: R&D, salaries and benefits and stock-based compensation. The rate of research and product development spending will decrease in the second half of FYE 2010 as the Company curtails R&D spending to conserve its cash while seeking additional financing to continue development of COTI-2 and its other drug candidates. Salary levels have not increased during fiscal 2010 and no new hires are anticipated during the remainder of FYE 2010 pending financing or a licensing deal.

Liquidity and Capital Resources

At Q2-F'10, the Company had cash, cash equivalents and short-term investments of $2,220,081 compared to $2,860,717 at Q1-F'10 for a decrease of $640,636 in Q2-F'10. This represents monthly cash use of $213,545 during the quarter.

The only investing activity of significance during the quarter was $72,090 on the Company's patents, of which $56,208 was incurred in filing patents for COTI-2.

The sole financing activity in Q2-F'10 related to the $20,000 repayment of outstanding demand notes payable for which demand for payment was received from the estate of the note holder during the quarter.

There were no warrant or stock option exercises during Q2-F'10.

The Company announced in June 2009 that it was undertaking a non-brokered private placement of common share units with accredited investors to raise up to $5.5m.; however, management decided to withdraw this offering on August 24, 2009. The offering received strong interest from investors but market conditions and investor circumstances prevented a conclusion that met the needs of the Company.

The Company's working capital at Q2-F'10 was $1,912,359 compared to $3,367,742 at FYE 2009. Current assets decreased to $2,282,083 at Q2-F'10 from $3,804,279 at FYE 2009 for a decrease of $1,522,196, primarily due to a decrease in cash, cash equivalents and short-term investments. Current liabilities decreased $66,813 to $369,724 at Q2-F'10 from $436,537 at FYE 2009. This decrease relates primarily to reduced R&D spending.

The Company's long-term contractual obligations at October 31, 2009 related to the remainder of fiscal 2010 and to fiscal 2011 are summarized in Table 6.

Table 6: Contractual Obligations
for the quarter ended October 31, 2009

Obligation	Total	2010	2011
Premises rent [(1)]	$ 9,345	$ 9,345	$ -
Research and development contracts	90,805	80,805	10,000
Total contractual obligations	$ 100,150	$ 90,150	$ 10,000

[(1)] During fiscal 2009 the Company was assessed additional property taxes of $6,400, which the Company is contesting. The premises lease agreement expired on May 31, 2009 and has been extended on a month to month basis with a 90 day notice period.

Based upon the balance of cash, cash equivalents and short-term investments at the quarter-end, and given the Company's current monthly burn rate it has sufficient cash resources to carry out its operations for the balance of the fiscal year ending April 30, 2010 and through to December 2010 of fiscal 2011 at current budgeted operating levels. The Company is focusing its operations on very specific revenue initiatives to generate cash and on reducing discretionary spending and operating costs to conserve cash during the next few months. The Company is continuing to look at different sources of

financing to extend and expand its operations in the coming months to ensure the success of the Company.

Off Balance Sheet Arrangements

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

Related Party Transactions

No related party transactions of a material amount occurred during Q2-F'10.

Outstanding Share Data

Outstanding share information as at the close of business on December 9, 2009 is set out in Table 7.

Table 7: Outstanding Share Data

	Outstanding	Expiry Date
Common shares		
Authorized - unlimited		
Issued	46,720,214	
Fully diluted [(1)]	50,226,030	
Weighted average outstanding [(2)]	46,720,214	
Common share warrants		
$0.70 warrants	14,902	Dec 31/09 to Apr 10/10
Common share stock options		
$0.50	694,447	Sept 9/14
$0.50	500,000	Oct 30/13
$0.64	1,035,000	Jan 11/12
$0.70	50,000	Jan 14/12
$0.75	309,078	June 9/13
$0.90	422,389	Feb 16/14
$1.00	130,000	April 30/12
$1.20	100,000	Jul 15/13
$1.35	150,000	Mar 25/12
$2.00	100,000	Oct 8/12
	3,490,914	

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

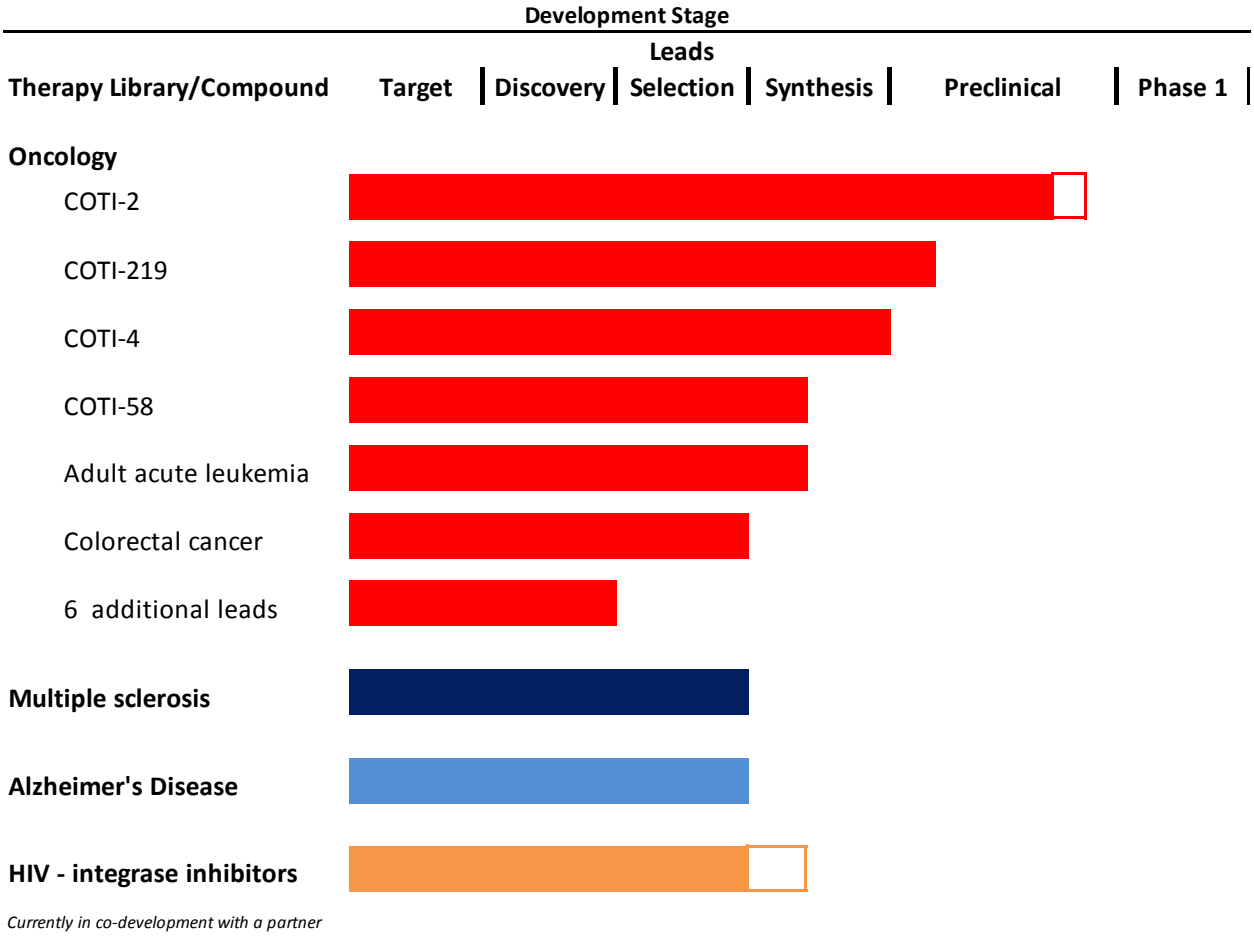
[(2)] Weighted average shares outstanding calculated from May 1, 2009 to December 9, 2009.

Operational Progress and Outlook – Q2-F'10

Product Development

The Company continued to make progress in developing its drug candidate pipeline during Q2-F'10. Figure 1 highlights the development status of specific compounds and libraries with the outlined area shown for COTI-2 and for HIV – Integrase Inhibitors indicating progress made during the quarter ending October 31, 2009.

Figure 1: COTI Product Development Pipeline at October 31, 2009



COTI-2

During Q2-F'10, Company representatives continued to foster discussions with pharmaceutical organizations regarding a prospective licensing agreement for COTI-2. In addition to previously identified targets of mid to large scale pharmaceutical companies, management has broadened its marketing efforts to include companies specializing in early stage drug development for both co-development and licensing partnerships and the marketing efforts have been well received to date. To

bolster and intensify licensing efforts, the Company announced subsequent to the quarter end on November 12, 2009 that Dr. Linda Pullan of Pullan Consulting had been engaged to assist in obtaining a licensing deal for its lead oncology compound COTI-2. Dr. Pullan has more than 20 years of experience in the pharmaceutical and biotechnology industry and has worked with over 50 biotech and pharmaceutical companies in an advisory capacity related to drug development, valuation analysis and negotiation for strategic alliances and licensing deals. The Company also strengthened its licensing efforts by carrying out additional animal experiments and laboratory work to determine an optimal formulation for PK-Tox animal testing. Test results for COTI-2 were highlighted in a number of press releases during the quarter as set out in Table 8 below.

Table 8: Quarterly Press Releases on COTI-2 Test Results

	Dissemination Date	Announcement
1	Aug 6/09	COTI-2 demonstrates low in vitro toxicity in normal human white blood cells compared with multiple human cancer cell lines.
2	Aug 18/09	Oral COTI-2 plus Doxil® is superior to doxil alone in an animal model of human ovarian cancer.
3	Oct 15/09	COTI-2 is an effective single agent with low toxicity in multiple xenograft models of human cancers: metastatic model for small cell lung and solid tumor models for non-small cell lung, colon, brain, leukemia and ovarian cancers.
4	Oct 28/09	Update on COTI-2's novel mechanism of action as an inhibitor of AKT2 and to a lesser extent AKT1 but not AKT3 and the importance for cancer treatment. First, the abnormal expression or activation of AKT/AKT2 is commonly found in a range of 20%-100% of tumors depending upon the type of human cancer (including, NSCLC and SCLC, colorectal, ovarian, endometrial, brain, leukemia, pancreatic and breast cancers). Second, 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, therefore, COTI-2 may be a valuable addition in a combination therapy with many standard agents.

These are important results adding to the impressive data set of COTI-2 showing efficacy against multiple cancers and low toxicity. These results are also significant related to the merit of combination treatment in oncology, as many leading oncology experts believe that it is unrealistic for a single agent to be dramatically active in a broad population of cancer patients.

COTI-219

No new experiments were conducted during Q2-F'10 as experiments designed to determine the mechanism of action of COTI-219 were put on hold pending available financing.

COTI-4 (and analogs)

No new experiments were conducted during Q2-F'10 pending available financing.

Adult Acute Leukemia (AAL)

The AAL project is based upon patents received by COTI in Europe for three tyrosine kinase inhibitor scaffolds. Tyrosine kinase mutations have been identified as common factors in many cancers and may specifically promote uncontrolled white blood cell proliferation common in leukemia. In September 2009, the Company received United States patent approval for one of the three compounds and continued to actively seeking a licensing or co-development partner for these compounds. During Q2-F'10, the Company also completed an initial proposal for financing support to develop these compounds with the National Research Council's Industrial Research Assistance Program. The amount and availability of funding will not be known until March 2010.

Colorectal Cancer

There was no further development of this library during Q2-F'10 as resources, both time and money, were focused on other initiatives.

Multiple Sclerosis

Management continues to delay its decision regarding the further advancement of this program until a patent review opinion from the US Patent and Trademark Office (USPTO) related to a potentially competing patent claim is rendered. Multiple Sclerosis continues to be an important project for the Company and the program is likely to proceed when the intellectual property approach is clearly defined in relation to this potentially competing claim and the Company has the necessary financing to proceed.

Alzheimer's Disease

This library consists of six dual secretase inhibitors on three different scaffolds that are ready for synthesis and preclinical evaluation. There was no further development of this library during Q2-F'10 as resources, both time and money, were focused on other initiatives.

Collaborations and Co-Development Projects

(i) Oncology Pilot Project

On August 17, 2009, the Company announced that it had received notification from Merck KGaA of Darmstadt, Germany that it decided to discontinue the pursuit of compounds under the pilot project announced on October 17, 2007. The project called for COTI to identify drug discovery candidates for a specific oncology cellular target of importance to Merck KGaA.

(ii) HIV Integrase Co-development

Work on synthesizing six HIV-1 integrase inhibitor compounds under a co-development agreement with a major pharmaceutical company continued during Q2-F'10. Upon completion of synthesis, the major pharmaceutical company will manage, conduct and fund agreed upon preliminary preclinical experiments as part of its evaluation of these compounds. Once the final experiments have been completed and the results have been received by COTI, the major pharmaceutical company will have an exclusive period to negotiate a licensing agreement with COTI for the select compounds. If an

agreement is not reached within this period, COTI will be able to engage other potential partners for its HIV-1 integrase inhibitor program.

Future Collaboration Projects

Building on the lead discovery collaboration strategy implemented to date in pilot project agreements, the Company continues to carry out a targeted business development campaign to global pharmaceutical and biotechnology organizations in order to market the benefits of working with COTI on lead discovery collaborations. Discussions with multiple prospective customers are on-going.

Industry and Economic Factors Affecting Performance

The biotechnology industry is generally regarded as high risk given the uncertain nature of developing drug candidates. COTI operates in the discovery stage of the drug development cycle, which is the initial preclinical segment of the cycle. On the other hand, success in this area can be highly rewarding. The realization of COTI's long-term potential is dependent upon the successful development and commercialization of molecule profiling services and drug candidates. The major industry and economic risk factors affecting realization of this potential are highlighted in the annual MD&A and remain substantially unchanged from this analysis during Q2-F'10.

Changes in Accounting Policies including Initial Adoption

(i) Adopted in 2010

The Canadian Institute of Chartered Accountants issued three new accounting standards that apply to the Company for its fiscal 2010 financial reporting and these were adopted in Q1-F'10. The impact of these accounting policies on the Company's current business was not material. These policies are described below.

(a) Goodwill and intangible assets:

Section 3064, "Goodwill and Intangible Assets", replaced Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". This Section establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets. The Company does not have goodwill recorded on its books and there was no impact to the recognition, measurement and disclosure standards for intangible assets for the Company except that computer software not integral to the operating system of the Company's computers was reclassified on the balance sheet from equipment to intangible assets.

(b) International financial reporting standards (IFRS):

Based upon the decision of the Accounting Standards Board that Canadian generally accepted accounting principles for publicly accountable enterprises would converge with IFRS effective in calendar year 2011, the Company has commenced the process to transition from Canadian GAAP to IFRS. The transition process plan includes 3 phases. The first phase, the diagnostic phase, was completed in FYE 2009. During this phase, the Company prepared high-level diagnostic analyses of key financial statement components expected to be impacted upon transition to IFRS. As part of this

process, the Company identified key data requirements and process modifications that would be required before transition could occur.

During Q1-F'10, the Company entered the development phase that involves more detailed analyses of the impact of IFRS on key financial statement components and focuses on implementation differences and issue resolution. During this stage of the transition process, management will finalize financial statement component evaluations (CEs) and make decisions on accounting policy options. The development phase will conclude with the preparation of a proforma set of financial statements prepared in accordance with IFRS. Accounting policies compliant with IFRS will also be approved and entrenched in the financial reporting system. The Company estimates that at October 31, 2009 it has completed draft component evaluations for 90% of the accounting standards applicable to the Company. The Company anticipates completing the CEs early in the fourth quarter of fiscal 2010.

During the fourth quarter of fiscal 2010, the Company expects to complete model financial statement disclosures that will identify the type of information and the level of detail the Company will disclose under IFRS, develop processes to derive the 2011 opening balance sheet under IFRS and build any processes necessary to create 2011 IFRS compliant financial information for comparative purposes.

The Audit Committee of the Board provides governance oversight and receives regular progress reports on the advancement of the conversion to IFRS. In addition, the Company has engaged a public accounting firm to assist with project management and to provide technical accounting advice on the interpretation and application of IFRS.

The Company is also actively monitoring the activities of the AcSB and the International Accounting Standards Board (IASB) for any new accounting standards they might issue leading up to the conversion. The Company will modify its project plan to incorporate new accounting requirements as they are issued.

The detailed project plan and the expected timing of key activities identified above may change prior to the IFRS conversion date due to the issuance of new accounting standards or amendments to existing accounting standards, changes in regulation or economic conditions or other factors.

(c) General standards of financial statement presentation:

Section 1400, "General Standards of Financial Statement Presentation" was amended to require disclosure of material uncertainties that cast significant doubt as to an entity's ability to continue as a going concern. It requires that financial statements be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. While management is aware that additional current financing is necessary to continue development of its compounds it believes the going concern assumption remains applicable based upon a number of considerations including:

- management's plans to obtain additional financing;
- a history of being successful in obtaining financing when needed;

- the continued promising scientific development of its compounds with primary emphasis on COTI-2 and a concerted effort to obtain a licencing agreement including the engagement of a third party consultant to bolster the licensing efforts; and,
- the ability to extend the Company's operating life beyond the next 12 months through the management of discretionary and operational spending.

(ii) To be adopted in 2011

In June 2009, Section 3862, "Financial Instruments - Disclosures" was amended to include additional disclosure requirements about fair value measurements and to enhance liquidity risk disclosure requirements. For the Company, this Section is effective for annual financial statements ending after September 30, 2009 so for the Company's fiscal year ending April 30, 2010. This new standard is expected to have minimal impact on the financial statements.