Management Discussion and Analysis of Financial Condition and Results of Operations

Fiscal 2011 – First Quarter
for the three months ended July 31, 2010

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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 July 31, 2010, and has been prepared with all information available up to and including September 8, 2010. 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, 2010. The financial information contained herein has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") unless specifically identified otherwise; however, the information as presented herein represents unaudited disclosure. All dollar amounts are expressed in Canadian dollars. 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 that 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 company listed on the TSX Venture Exchange (TSXV), and Critical Outcome Technologies Inc., a private company under the provisions of the *Business Corporations Act* (Ontario). The amalgamation constituted the qualifying transaction for Aviator pursuant to the policies of the TSXV. The amalgamated company adopted the name Critical Outcome Technologies Inc. and its common shares were listed and posted for trading on the TSXV under the symbol COT on October 30, 2006.

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

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

Our Business

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

Using CHEMSAS®, the Company is developing focused portfolios of novel, proprietary and optimized small molecules as potential drug candidates for specific therapeutic targets in diseases that have high morbidity and mortality rates and currently have either poor or no effective therapies. Following synthesis and completion of confirmatory in vitro and in vivo preclinical tests, the Company plans to license or co-develop these molecules with interested biotech or pharmaceutical partners for further drug development and human trials. COTI has concentrated on developing drug candidates for the treatment of various cancers, human immunodeficiency virus (HIV), multiple sclerosis and Alzheimer's disease. Cancer types specifically targeted include small cell lung, adult myelogenous leukemia, ovarian, endometrial, pancreatic, brain, breast and colon.

Although the Company intends to license its targeted portfolios at this stage, the Company may also choose to take particularly promising individual molecules forward through various preclinical tests to Phase 1 clinical trials. This activity involves additional preclinical testing and the costs associated with making an investigational new drug (IND) application 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 partner as Phase 1 ready compounds. 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, against a number of cancer indications. Testing initiatives and planning for this event currently target an IND filing in calendar 2011.

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

Results of Operations Review

Revenues

No operating revenues were recognized in the first quarter of fiscal 2011 (Q1-F'11) or the first quarter of fiscal 2010 (Q1-F'10). The Company continued to pursue a licensing agreement for its lead preclinical oncology compound, COTI-2, during the quarter with several interested parties.

No investment tax credit (ITC) income was generated in Q1-F'11, compared to $515 in ITC expense in Q1-F'10. Under the Company's accounting policy, it only records ITC revenue when there is reasonable assurance that the ITCs will be realized. The Company filed its fiscal 2010 tax return in July 2010 and the estimated cash refund that was not recognized by the Company in its annual financial statements in accordance with its accounting policy was $122,244.

The Company earned $2,932 in interest income on its cash and cash equivalents in Q1-F'11 compared to $8,325 earned on cash, cash equivalents and short-term investments in Q1-F'10. This decrease of $5,393 reflects the impact of lower interest rates available in the market on short-term high quality investments during Q1-F'11 compared to Q1-F'10 and the lower average balances (Q1-F'11 - $1,673,323; Q1-F'10 - $3,256,588) held by the Company.

Operating Expenses

Operating expenses decreased from $986,899 for Q1-F'10 to $552,204 for Q1-F'11, a decrease of $434,695. Three major expense items, as set out in Table 1, accounted for $422,679 of this change or 97.2% of the total decrease.

Table 1: Major Expense Items

Expense	Q1-F'11	Q1-F'10	Change	Change as % of Total
Research and product development	$ 196,312	$ 425,860	$ (229,548)	52.8%
Stock-based compensation (recovery) expense	(69,318)	33,602	(102,920)	23.7%
General and administration	239,404	329,615	(90,211)	20.7%
	366,398	789,077	(422,679)	97.2%
Other expenses	185,806	197,822	(12,016)	2.8%
Total	$ 552,204	$ 986,899	$ (434,695)	100.0%

The most significant decline in quarterly expenses is due to decreases in research and product development (R&D) expenditures. R&D activity was scaled down in Q1-F'11 as a strategic decision to reduce the Company's cash usage and thereby lengthen the Company's timeline for operating while seeking additional financing. Table 2 provides a breakdown of R&D costs for Q1-F'11 and Q1-F'10 by major R&D expense type.

Table 2: R&D Costs

	Q1-F'11	Q1-F'10	Change
R&D testing, consulting and materials	$ 30,553	$ 156,760	$ (126,207)
Synthesis	57,880	159,546	(101,666)
	88,433	316,306	(227,873)
Labour including benefits	104,053	106,495	(2,442)
Other	3,826	3,059	767
Total	$ 196,312	$ 425,860	$ (229,548)

Contract testing, consulting and materials decreased $126,207 due to reductions in R&D activities. Consistent with Q1-F'10, the majority of this cost focused on COTI-2 with spending on COTI-2 of $29,145 or 95.39% in Q1-F'11 and $126,858 or 80.92% in Q1-F'10.

Synthesis costs decreased $101,666 in Q1-F'11 compared to Q1-F'10. In Q1-F'10, $47,315 or 29.66% of synthesis expenditures were for COTI-2, compared to $57,880 or 100% in Q1-F'11. The majority of synthesis cost expenditures in Q1-F'10 focused on the Company's HIV collaboration arrangement, whereas Q1-F'11 expenditures were focused solely on COTI-2.

R&D labour costs were stable in Q1-F'11 compared to Q1-F'10. Work continued on several projects using the CHEMSAS® technology in addition to project management time on COTI-2 as R&D staffing in both quarters was the same.

The recovery of prior stock-based compensation expense reflected in Table 1 is the result of the recovery of $110,509 in previously recognized stock-based compensation expense on 300,000 unvested options that were cancelled upon the resignation of the Chief Executive Officer (CEO) on June 30, 2010. Stock-based compensation expense in Q1-F'11 excluding the recovery was $41,191. There were no stock option issuances in the quarter.

The decrease in general and administration expense (G&A) of $90,211 at Q1-F'11 compared to Q1-F'10 relates primarily to decreased salaries and benefits, director compensation, travel expenses and professional fees.

The Q1-F'10 salaries and benefit figure includes wages paid to the CEO for the full quarter, whereas only two months of wages were incurred in Q1-F'11 as a result of his June 30, 2010 resignation. Director compensation decreased in Q1-F'11 related to fewer committee meetings held and a decrease in the compensation rates for director meeting remuneration, which took effect at the beginning of Q1-F'11. Together these two areas represented $53,382 of the decrease in G&A.

The Company incurred substantial travel costs and professional fees in its efforts to facilitate a non-brokered private placement in Q1-F'10. A decision was made to withdraw the placement in August 2010 due to unfavorable market conditions and consequently $11,530 in professional fees was expensed. No such similar activity occurred in Q1-F'11 resulting in lower travel costs and professional fees.

Two Year Operational Results Summary by Quarter

Table 3 summarizes the operating results by quarter for the past two fiscal years.

Table 3: Two-Year Summary of Quarterly Results

FYE 2011	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	3 Mths YTD
Revenue	$ -	$ -	$ -	$ -	$ -
Loss before other income	(552,204)	-	-	-	(552,204)
Other income	2,932	-	-	-	2,932
Loss	(549,272)	-	-	-	(549,272)
Loss per common share	$ (0.01)	$ -	$ -	$ -	$ (0.01)

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

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)

The decreasing quarterly loss trend that occurred in the last two quarters of FYE 2010 and in Q1-F'11 reflects the Company's decision to reduce R&D and discretionary spending in moderating the Company's use of cash. The majority of the variation by quarter across the years, and year over year, is explained by three expense categories as set out in Table 4.

Table 4: Select Quarterly Expense Categories

FYE 2011	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	3 Mths YTD
General and administration	$ 239,404	$ -	$ -	$ -	$ 239,404
Research and product development	196,312	-	-	-	196,312
Stock-based compensation	(69,318)	-	-	-	(69,318)
Total of expense categories	$ 366,398	$ -	$ -	$ -	$ 366,398
Total expense for the quarter	$ 552,204	$ -	$ -	$ -	$ 552,204
Expense categories as a % of total expense	66.4%	0.0%	0.0%	0.0%	66.4%

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

FYE 2009	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
General and administration	$ 258,814	$ 194,314	$ 283,366	$ 296,097	$ 1,032,591
Research and product development	201,895	348,786	485,113	422,758	1,458,552
Stock-based compensation	232,621	24,056	86,922	498,603	842,202
Total of expense categories	$ 693,330	$ 567,156	$ 855,401	$ 1,217,458	$ 3,333,345
Total expense for the quarter	$ 898,304	$ 765,890	$ 1,050,035	$ 1,430,291	$ 4,144,520
Expense categories as a % of total expense	77.2%	74.1%	81.5%	85.1%	80.4%

The variability in Q1-F'11 is largely due to the impact of the recovery of $110,509 in previously recognized stock-based compensation costs. If this impact were removed, the "Expense categories as a % of total expense" figure would be 72.0%, a value that is more consistent with FYE 2010 and FYE 2009.

Liquidity and Capital Resources

At Q1-F'11, the Company had cash and cash equivalents of $1,401,269 compared to $1,945,376 of cash and cash equivalents at FYE 2010 reflecting a decrease of $544,107. The average monthly cash usage rate was $181,369 during Q1-F'11, compared to $263,914 during Q1-F'10. The decreased cash position at Q1-F'11 from the April 30, 2010 year end was due primarily to cash utilized to fund operations in the quarter as operating activities used $572,248. The drop in average monthly cash usage reflects management's cash conservation efforts in lengthening the operational runway while management pursues additional funding from a license agreement, new financing or both.

The investing activities in Q1-F'11 relate solely to expenditures on intangible assets, primarily on patents for $8,134. Patent costs represent an investment in intellectual property protection for the Company's molecules and an important element in creating value for each compound being developed by the Company.

The financing activities reflect the issuance of share capital upon the closing of the final tranche of a non-brokered private placement with accredited investors previously announced on April 29, 2010. The gross proceeds of the entire financing were $1,102,850 with the final tranche amounting to $39,501. Share issuance costs of the final tranche amounted to $4,057 for net proceeds of $35,444. The net proceeds, in conjunction with proceeds raised in the closing of the first tranche in late April 2010, are being used to fund internal R&D activities and general working capital requirements.

No warrants or options were exercised in Q1-F'11 or Q1-F'10. On the closing of the second tranche of the non-brokered private placement, 56,430 common share purchase warrants were issued with an exercise price of $0.55 as well as 643 agent warrants with an exercise price of $0.40. These warrants may contribute to future funding if the Company's trading price on the TSXV exceeds the exercise price of the warrants within 18 months of the date of closing, which would be November 27, 2011.

On June 16, 2010, the Company received notice of a non-repayable financial contribution of up to $300,000 for the development of its acute myelogenous leukemia (AML) program under the National Research Council of Canada Industrial Research Assistance Program (IRAP). This funding represents 31.5% of the total estimated project cost of $955,470 and is effective for a 16-month period commencing July 1, 2010. The funding has been apportioned over the term of the project with maximum grants of $168,750 in the government's March 31, 2011 fiscal year and $131,250 in fiscal 2012. In Q1-F'11, the Company recognized $5,132 of this funding based upon the allocation of available internal resources to the project. Development will continue slowly during the next quarter and accelerate once sufficient funding is obtained for the required third party contract testing.

The Company's working capital at Q1-F'11 was $1,237,181 compared to $1,705,078 at FYE 2010. Current assets decreased to $1,484,915 at Q1-F'11 from $2,050,087 at FYE 2010 for a decrease of $565,172, primarily due to the decrease in cash and cash equivalents. Current liabilities decreased $97,275 to $247,734 at Q1-F'11 from $345,009 at FYE 2010 because of reduced salary and professional fee accruals.

The Company's long-term contractual obligations are summarized in Table 5. The Company believes it has sufficient working capital to meet its contractual obligations for fiscal 2011.

Table 5: Contractual Obligations
For the years ended April 30

Obligation	Total	2011	2012
Premises rent [(1)]	$ 9,345	$ 9,345	$ -
Research and development contracts	749,318	242,681	506,637
Consulting services	67,750	67,750	-
Total contractual obligations	$ 826,413	$ 319,776	$ 506,637

[(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.

The substantial increase in research and development contract obligations in Q1-F'11 related to the receipt of the IRAP grant. In order to receive the $300,000 in government assistance, the Company must incur certain expenditures, currently estimated at $955,470, to develop the AML program. The Company is actively pursuing sources of financing so that it will have sufficient funds to finance the AML project to completion.

Based upon the balance of cash and cash equivalents at the quarter-end, the Company believes it has sufficient cash resources to carry out its operations for the remainder of FYE 2011 at planned operating levels. This belief reflects a continued decline in contract R&D, control over discretionary spending and the expected receipt of refundable ITC of approximately $122,244.

Off-Balance Sheet Arrangements

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

Foreign Exchange Exposure

During Q1-F'11, the Company recorded a foreign exchange gain of $809 compared to a loss of $2,407 in Q1-F'10. The loss recorded in Q1-F'11 reflects $1,208 in unrealized gains resulting from holding foreign currency balances at the quarter end, compared to $1,599 in unrealized losses at Q1-F'10. The foreign currency exposure in Q1-F'11 was immaterial.

Related Party Transactions

There were no related party transactions of a material amount during Q1-F'11. All transactions were incurred and recorded at the exchange amounts agreed by the parties.

Outstanding Share Information

Outstanding share information as at the close of business September 8, 2010 is set out in Table 6.

Table 6: Outstanding Share Information

	Outstanding	Expiry Date
Common shares		
Authorized - unlimited		
Issued	49,871,215	
Fully diluted [1]	54,736,329	
Weighted average outstanding [2]	49,847,954	
Common share warrants		
$0.40 agent warrants	105,607	Oct 27/11
$0.40 agent warrants	643	Nov 27/11
$0.55 warrants	1,519,070	Oct 27/11
$0.55 warrants	56,430	Nov 27/11
	1,681,750	
Common share stock options		
$0.01 - $0.50	1,083,847	Oct 30/13 - Mar 14/15
$0.51 - $1.00	1,749,517	Jan 11/12 - Mar 14/15
$1.01 - $1.50	250,000	Mar 25/12 - Jul 15/13
$1.51 - $2.00	100,000	Oct 8/12
	3,183,364	

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

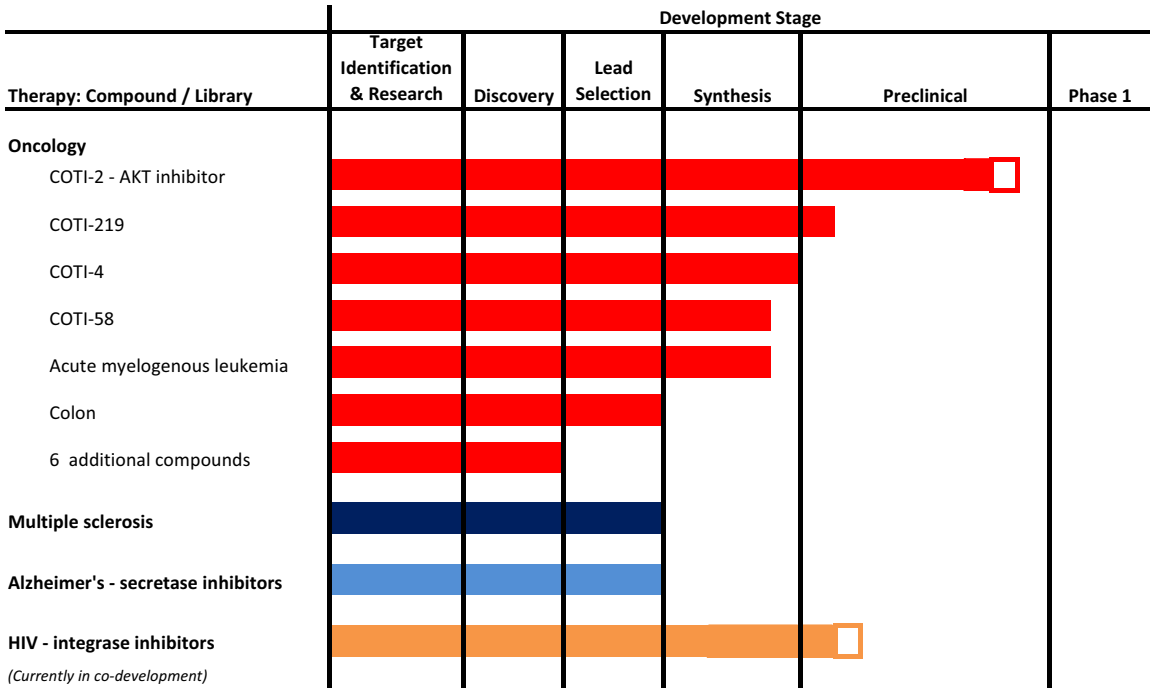
[2] Weighted average shares outstanding calculated from May 1, 2010 to Sept 8, 2010.

Operational Progress and Outlook – Q1-F'11

The Company continued to make progress in developing its drug candidate pipeline during Q1-F'11. Figure 1 highlights the development status of specific compounds and libraries to the date of this report. A clear box indicates the progress made in the first quarter for a particular library or compound.

The Company has a number of valuable drug compounds and programs, which because of limited near term financial resources, must be put on hold for further development. These include: oncology compounds COTI-4, COTI-219 and the colorectal cancer portfolio; the multiple sclerosis program and the Alzheimer's disease project. The Company is exploring a variety of ways to realize value on these compounds or further their development through co-development projects.

Figure 1: COTI Product Development Pipeline at September 8, 2010



COTI-2

During the quarter, the Company continued advancing this promising oncology drug candidate towards commercialization.

On May 11, 2010, the Company announced a favourable Pre-Investigational New Drug (pre-IND) gap analysis report on the COTI-2 scientific data package. This thorough analysis of the preclinical data package by an independent team of scientific and regulatory consultants revealed no deficiencies in the COTI-2 program. This represented an important milestone as the Company is now positioned to commence PK-Tox studies as part of the IND submission necessary to proceed to a Phase 1 clinical trial.

The Company also continued to develop COTI-2 by carrying out additional experiments and laboratory work to determine optimal oral and intravenous formulations and validation of the drug detection method in preparation for the IND studies and submission of the Phase 1 clinical trial plan.

Also during Q1-F'11, on June 7, 2010, the Company announced that representatives continued discussions with multiple pharmaceutical organizations regarding a prospective licensing agreement at the American Society for Clinical Oncology annual meeting. The objective of these meetings was to present a detailed scientific update on COTI-2 to key decision makers from several pharmaceutical and biotechnology organizations and to discuss next steps in their licensing assessment.

Acute Myelogenous Leukemia

The Company has patents on three scaffolds for protein tyrosine kinase inhibitors in the treatment of acute myelogenous leukemia. To realize value on these patents, the Company announced on June 29, 2010, the approval by the National Research Council of Canada Industrial Research Assistance Program (IRAP) for up to $300,000 in funding towards the development of these compounds. This project is estimated to take 13-16 months from commencement with a total estimated cost of $955,470. The Company commenced the discovery and optimization stage of the project in July 2010 and recognized $5,132 in government assistance at Q1-F'11.

Collaborations and Co-Development Projects

HIV-1 Integrase Co-development

The Company issued a press release on May 20, 2010, announcing positive test results from preliminary preclinical experiments it executed on the synthesized HIV-1 integrase inhibitor scaffolds, demonstrating good inhibitory activity of HIV-1 integrase in an assay at nano-molar concentrations. The significance of these results is that the majority of currently marketed HIV-1 integrase inhibitors have a very similar way of interacting with and inhibiting the enzyme through a diketo acid type moiety. COTI's compounds interact in a different manner and based on these results, COTI has filed a composition of matter patent on its novel scaffolds and their mechanism of action.

There was no other development of this library during Q1-F'11 as the Company is waiting for its collaboration partner (Partner) to conduct initial preclinical experiments as part of their evaluation of the compounds. The experiments are expected to be completed in the autumn of 2010. Once the final experiments have been completed and the results have been received by COTI, the Partner 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 intends to engage other potential licensing partners for this HIV-1 integrase inhibitor program.

Industry and Economic Factors Affecting Performance

The biotechnology industry is generally regarded as high risk given the uncertain nature of developing drug candidates and limited access to capital, which is particularly true in Canada. On the other hand, success in this industry can be highly rewarding. COTI operates in the discovery and preclinical stage of the drug development cycle. The realization of COTI's long-term potential is dependent upon the successful development and commercialization of molecules discovered using the Company's drug discovery technology either for its own account or in collaboration agreements for others, and in utilizing the technology to provide profiling and screening services on a fee for service basis. The major industry and economic risk factors affecting realization of this potential in Q1-F'11 remain substantially unchanged from the analysis in the annual MD&A of fiscal 2010.

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

1. the lack of product revenues;
2. the ability to negotiate adequate licensing agreements; and,
3. financing requirements.

Lack of Product Revenues

COTI has not recorded any revenues from the sale or license of any drug compounds or compound libraries during its first three full years as a public company or during Q1-F'11. COTI has an accumulated deficit since its inception through to July 31, 2010 of $12,292,580. 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.

Negotiate Adequate Licensing Agreements

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 media coverage continues to highlight the productivity challenges of pharmaceutical industry R&D spending in generating new compounds (*Wall Street Journal, Aug 4/10, Big Pharma Won't Wait in Rush for Biotech's Drugs*), there is no certainty that licensing deals can be successfully negotiated for COTI's preclinical compounds. COTI' licensing efforts during Q1-F'11 continued to find a strong preference for assets with lower risk profiles (clinical safety and proof of concept in Phase 2). However there has been an increasing interest for earlier stage deals as this flight to safety having been in place throughout 2008-2009 and into 2010 has diminished the best compounds in the mid to late stages of development held by companies looking to do such deals. This is reflected in an increasing number of early stage deals in many therapeutic areas.

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 and 2012. The Company intends to raise these funds through public or private equity offerings, convertible debt, collaborations with other biopharmaceutical companies or from other sources. There can be no assurance additional funding will be available on terms acceptable to COTI. 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 investment industry relationships, collaborative partnering relationships and the general economic conditions and availability of capital in the equity markets for biotechnology

companies. During Q1-F'11, the Company continued to explore financing options following the close on May 28, 2010 of its non-brokered private placement initiative that commenced in April 2010. Subsequent to the July 31, 2010 quarter end, on August 30, 2010, the Company voluntarily filed an Annual Information Form. This filing enables the Company to proceed with a short form prospectus offering at a later date should the Company determine this is the best course of action.

Changes in Accounting Policies including Initial Adoption

(i) Adopted in Q1-F'11

The Company did not adopt any new accounting standards in Q1-F'11 as no new standards were issued by the CICA that required adoption.

(ii) To be Adopted in 2012

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

a) International financial reporting standards (IFRS):

The development phase of the Company's IFRS transition plan as previously reported remains ongoing. In Q1-F'11, the Company finalized two component evaluations (CEs), "Business Combinations" and "Leases". The expected implications of these CEs on transition to IFRS are set out in Table 7.

Table 7: Expected Implications of Component Evaluations

Component evaluation	Accounting policy alternatives and/or changes	IFRS 1 implications	Anticipated impact on the opening balance sheet	Significant disclosure implications	IT and data system implications	Internal control system implications
Leases	None - there were no capital leases outstanding at May 1, 2010.	None anticipated.	No adjustments to the opening balance sheet are anticipated.	None anticipated as there were no capital leases outstanding at May 1, 2010.	None anticipated.	None anticipated.
Business combinations	None - historical accounting treatment of businesss combinations under CGAAP is consistent with that required under IFRS.	None anticipated.	No adjustments to the opening balance sheet are anticipated.	None anticipated as no new business combinations are anticipated within FYE 2011 or FYE 2012.	None anticipated.	None anticipated.

The operational implications of the transition to IFRS are expected to be limited as the Company is not subject to debt covenant restrictions and does not have any externally imposed capital requirements.

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

There have been no changes to the Company's expectations of the CEs that will have the most significant impact on the financial statements upon transition.

The Company estimates that at April 30, 2010 it has completed draft CEs for 96% of the accounting standards applicable to the Company. The Company expects to finalize all of the CEs by the end of Q4-F'11. The process of drafting model financial statements compliant with IFRS has commenced and completion is anticipated to coincide with the finalization of the CEs. The implementation phase of the transition plan is expected to commence late in fiscal 2011, enabling the Company to prepare comparative results once it adopts IFRS in fiscal 2012.

b) Business combinations, consolidated financial statements and non-controlling interests:

In December 2008, the Accounting Standards Board (AcSB) issued Section 1582, "Business Combinations" that replaced Section 1581, "Business Combinations". The AcSB also issued Section 1601, "Consolidated Financial Statements" that replaced Section 1600, "Consolidated Financial Statements", and the AcSB amended Section 1602, "Non-controlling interests". These Sections will become effective for the Company with interim and annual financial statement reporting beginning on January 1, 2011. The standards are to be applied prospectively to future business combinations; however, entities transitioning to IFRS may choose to adopt these Sections early to minimize the effect of transitional differences with IFRS. If an entity chooses to adopt Section 1582 before the required transition date, Sections 1601 and 1602 must be applied at the same time. These standards are expected to have no effect on the Company before transition to IFRS as no future business combinations are being considered at present.