

Critical Outcome Technologies Inc.
(a development stage company)

Fiscal 2008 Interim Financial Statements
(Unaudited)

Second Quarter ended October 31, 2007

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Critical Outcome Technologies Inc.

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(a development stage company)

Notice of No Auditor Review of Fiscal 2008 Interim Financial Statements

Second Quarter ended October 31, 2007

The accompanying unaudited balance sheet of Critical Outcome Technologies Inc. (COTI) as at October 31, 2007 and audited balance sheet as at April 30, 2007 and the unaudited statements of operations and deficit, and cash flows for the three and six month periods ending October 31, 2007 and 2006 have been prepared by, and are the responsibility of the Company's management and have been reviewed and approved by the Audit Committee as authorized by the Board of Directors.

Neither an audit nor review of the interim financial reporting statements is required by the Company's independent auditor under regulatory reporting requirements, however, under National Instrument 51-102 para. 4.3(3)a the Company must advise whether a review has occurred or not. Accordingly, management advises that the Company's independent auditor, KPMG LLP, was not engaged to perform a review of these interim financial statements.

Critical Outcome Technologies Inc.
(a development stage company)
Interim Balance Sheets

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	Unaudited October 31, 2007	Audited April 30, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,936,448	\$ 2,417,801
Other receivables	64,969	76,655
Deferred financing charges	40,514	-
Prepaid expenses and deposits	14,445	28,095
	3,056,376	2,522,551
Equipment (note 2)	129,951	52,560
Patents (note 3)	151,605	134,298
Trademark (note 4)	435	870
Investment in DDP Therapeutics (note 5)	117,307	1
	\$ 3,455,674	\$ 2,710,280
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 218,713	\$ 179,091
Due to shareholders (note 6)	110,781	118,631
Notes payable (note 7)	20,000	20,000
Current portion of capital lease obligations (note 8)	10,278	20,244
	359,772	337,966
Capital lease obligations (note 8)	21,287	21,287
Shareholders' equity		
Share capital and warrants (note 9)	5,398,196	4,037,165
Contributed surplus (note 10)	1,058,452	675,469
Deficit	(3,382,033)	(2,361,607)
	3,074,615	2,351,027
Commitments (note 14)		
Subsequent events (note 17)		
	\$ 3,455,674	\$ 2,710,280

See accompanying notes to unaudited interim financial statements

Critical Outcome Technologies Inc.
(a development stage company)
Interim Statements of Operation and Deficit
(Unaudited)

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	Three Months Ended		Six Months Ended		Cumulative
	October 31,		October 31,		period April 30,
	2007	2006	2007	2006	1999 (inception) to Oct 31, 2007
Revenues:					
Contract services	\$ -	\$ -	\$ -	\$ -	\$ 32,500
Screening services	-	-	-	2,500	2,500
	-	-	-	2,500	35,000
Expenses:					
Stock option compensation	223,075	-	382,984	-	1,058,453
Salaries and benefits	166,761	92,578	325,884	172,323	922,816
Professional fees	84,955	15,700	177,532	52,656	510,889
Marketing	31,814	30,321	70,663	51,056	227,521
Amortization of furniture and equipment	26,863	6,021	48,303	14,333	104,167
Synthesis costs	-	-	18,889	-	401,449
Office and general	12,073	6,119	23,174	10,752	71,205
Insurance	10,135	-	20,269	-	32,961
Rent	9,346	4,673	13,852	9,255	66,920
Corporate governance	35,825	-	39,919	-	54,668
Interest and bank charges	2,108	2,882	4,147	7,470	29,512
Computer expense	863	3,272	2,658	5,091	58,829
Amortization of trademark	217	217	435	435	3,915
Research and product development	-	6,072	-	15,072	54,628
Reorganization costs	-	23,404	-	18,404	106,544
	604,035	191,259	1,128,709	356,847	3,704,477
Loss before other income	(604,035)	(191,259)	(1,128,709)	(354,347)	(3,669,477)
Other income					
Investment tax credit refund	53,077	75,050	53,077	75,050	190,692
Interest income	30,990	2,212	55,206	2,212	96,752
	84,067	77,262	108,283	77,262	287,444
Loss	(519,968)	(113,997)	(1,020,426)	(277,085)	(3,382,033)
Deficit, beginning of the period	(2,862,065)	(1,094,712)	(2,361,607)	(931,624)	-
Deficit, end of the period	\$ (3,382,033)	\$ (1,208,709)	\$ (3,382,033)	\$ (1,208,709)	\$ (3,382,033)
Basic and diluted loss per common share	\$ (0.01)	\$ -	\$ (0.03)	\$ (0.01)	
Weighted average number of common shares outstanding	39,287,366	24,970,560	38,522,001	23,671,946	

See accompanying notes to unaudited interim financial statements

Critical Outcome Technologies Inc.
(a development stage company)
Interim Statements of Cash Flows
(Unaudited)

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	Three Months Ended October 31,		Six Months Ended October 31,		Cumulative period April 30, 1999 (inception)
	2007	2006	2007	2006	to Oct 31, 2007
Cash provided by (used in):					
Operations:					
Loss	\$ (519,968)	\$ (113,997)	\$ (1,020,426)	\$ (277,085)	\$ (3,382,033)
Items not involving cash:					
Stock option compensation	223,075	-	382,984	-	1,058,453
Amortization of trademark	217	217	435	435	3,915
Amortization of furniture and equipment	26,863	6,021	48,303	14,333	104,167
Change in non-cash operating working capital (note 13)	54,467	(54,707)	24,442	176,276	70,469
	(215,346)	(162,466)	(564,262)	(86,041)	(2,145,029)
Investing activities:					
Additions to office furniture, equipment and leaseholds	(65,748)	-	(125,693)	-	(154,605)
Investment in DDP Therapeutics	(112,200)	-	(117,306)	-	(117,307)
Additions to patents and trademark	(12,249)	(10,010)	(17,307)	(18,960)	(155,955)
	(190,197)	(10,010)	(260,306)	(18,960)	(427,867)
Financing activities:					
Issuance of common shares and warrants	421,472	2,400,886	1,361,031	2,166,068	5,128,451
Research advances	-	-	-	-	269,745
Notes payable and other advances	-	(25,000)	-	(25,000)	20,000
Repayment of obligation under capital lease	(5,026)	(4,012)	(9,966)	(7,955)	(19,629)
Due to shareholders	-	14,777	(7,850)	26,659	110,781
	416,446	2,386,651	1,343,215	2,159,772	5,509,348
Increase in cash	10,903	2,214,175	518,647	2,067,135	2,936,452
Cash and cash equivalents, beginning of period	2,925,545	23,424	2,417,801	170,464	-
Cash and cash equivalents, end of period	\$ 2,936,448	\$ 2,237,599	\$ 2,936,448	\$ 2,237,599	\$ 2,936,452
Represented by:					
Cash	\$ 419,994	\$ 2,237,599	\$ 419,994	\$ 2,237,599	419,994
Cash equivalent	2,516,454	-	2,516,454	-	2,516,454
	\$ 2,936,448	\$ 2,237,599	\$ 2,936,448	\$ 2,237,599	\$ 2,936,448
Supplemental cash flow information:					
Interest paid	\$ 1,786	\$ 2,044	\$ 22,774	\$ 2,343	\$ 25,700
Non-cash transactions:					
Acquisition of equipment under capital lease	\$ -	\$ -	\$ -	\$ -	\$ 62,274

See accompanying notes to unaudited interim financial statements

Description of business:

COTI is a biotechnology company focused on applying its proprietary computer 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 melanoma, 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 sell/licence 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 outside of the library development approach. These molecules would follow the same development process and approach as the library molecules except the process would involve some preclinical and clinical *in vitro* and *in vivo* testing. These compounds will then be available for sale, licensing or co- development with a pharmaceutical partner.

1. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies adopted by the Company are as follows:

(a) Basis of presentation:

The financial statements have been prepared assuming that the Company will continue as a going concern. The Company is a development stage company and is subject to risks common to rapidly growing technology based companies, including a limited operating history, dependence on key personnel, product development failure, the need to raise capital for successful development, marketing and operations and financing to meet the Company's liabilities and commitments as they become due. The financial statements do not include adjustments that would be required if the going concern assumption was not appropriate and consequently that the assets are not realized and the liabilities settled in the normal course of operations.

The Company has incurred a loss of \$(1,020,426) (2006 - \$(277,085)) and negative cash flow from operations of \$(564,262) (2006 - \$(86,041)) for the six months ended October 31, 2007 and 2006. As at October 31, 2007, the Company has an accumulated deficit of \$(3,382,033) (2006 - \$(1,208,709)) which results in a shareholders' equity of \$3,074,615. As of October 31, 2007 the Company has working capital of \$2,696,604.

(b) Equipment:

Equipment is recorded at amortized cost. Amortization is recorded on a straight line basis over the estimated useful lives of the assets whether purchased directly by the Company or acquired under a capital lease as follows:

Asset	Useful life
Furniture and fixtures	5 years
Computer hardware	2 - 3 years
Computer software	Term of license
Leasehold improvements	Remaining term of lease

(c) Patents:

Capitalized amounts for patents relate to the direct costs incurred in connection with securing patents. The cost of evaluating and investigating patents are accumulated by specific product or molecule and the capitalized costs are amortized over the life of the patent beginning in the year the patent is received. The accumulated cost of a product investigated for patenting which is not subsequently patented is expensed in the year when the decision is made to not pursue the patent.

(d) Trademarks:

The costs of evaluating and investigating trademark registration are accumulated by specific process and where trademark registration is obtained such costs are capitalized and amortized over the lesser of the marketing life of the process or five years beginning in the year after the trademark is received. Where trademark registration is not ultimately obtained accumulated costs are expensed.

(e) Impairment of long lived assets:

The Company tests long lived assets or asset groups for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. Recoverability is assessed based on the carrying amount of the long lived asset and its net recoverable value, which is generally determined based on undiscounted cash flows expected to result from the use and eventual disposal of the long lived asset. If the carrying value of the long lived asset is not recoverable, an impairment loss is recognized to write down the long lived asset to its fair value.

(f) Portfolio investments:

Portfolio investments are recorded at cost. Gains and losses on disposal of investments are recognized when realized.

(g) Research and product development:

Research expenditures are expensed as incurred. Development expenditures are deferred when they meet the criteria for capitalization in accordance with Canadian GAAP, and the future benefits could be regarded as being reasonably certain. At October 31, 2007 and 2006 no development costs were deferred.

(h) Revenue recognition:

The Company recognizes technical consulting and molecule screening service revenue upon completion of the contracted service.

(i) Investment tax credits:

Investment tax credits ("ITCs") are accrued when qualifying expenditures are made and there is reasonable assurance that the credits will be realized. ITCs relating to research and development expenses are recorded as other income and those relating to capital expenditures are recorded as a reduction of the cost of the asset acquired.

(j) Stock-based compensation and other stock-based payments:

The Company accounts for stock options and other stock-based payments using the fair value based method, whereby compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period.

(k) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and the respective tax bases of assets and liabilities, measured using substantively enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates are recognized as income or loss in the year that the income tax rate change occurs.

The Company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

(l) Use of estimates:

The preparation of these financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying value of

equipment and intangibles, valuation of future income taxes and accounting for share capital, warrants and options. Actual results could differ from those estimates.

(m) Basic and diluted loss per share:

Basic and diluted losses per share are determined using the weighted average number of common shares outstanding during the period. Diluted loss per share is computed in a manner consistent with basic earnings per share, except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of options and warrants, if dilutive.

(n) Comparative amounts:

Certain comparative prior period account balances have been regrouped to agree with the basis of presentation adopted in the current period financial statements.

2. Equipment:

	October 31, 2007			April 30, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 69,207	\$ 51,562	\$ 17,645	\$ 61,487	\$ 39,612	\$ 21,875
Furniture and fixtures	84,447	6,641	77,806	5,856	3,489	2,367
Computer software	80,211	64,100	16,111	61,913	33,595	28,318
Leasehold improvements	21,084	2,695	18,389	-	-	-
	\$ 254,949	\$ 124,998	\$ 129,951	\$ 129,256	\$ 76,696	\$ 52,560

Included in equipment are assets under capital lease with a cost of \$62,274 and accumulated amortization of \$55,480 (April 30, 2007 – \$45,803).

3. Patents:

The Company is pursuing patents on certain molecules and their manufacturing process with accumulated costs at October 31 and April 30, 2007 of \$151,605 and \$134,298 respectively.

4. Trademark:

Trademark registration has been obtained for exclusive use of the name, CHEMSAS®, which describes the Company's proprietary molecular profiling technology. Costs incurred are being amortized over five years as management has determined that the trademark does not have an indefinite life. The accumulated costs are as follows:

	October 31, 2007			April 30, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
CHEMSAS® - molecular profiling technology	\$ 4,350	\$ 3,915	\$ 435	\$ 4,350	\$ 3,480	\$ 870

5. Investment in DDP Therapeutics:

The Company has a 10% ownership interest and certain officer shareholders of COTI have a 50% ownership interest in a company, 6441513 Canada Inc, operating as DDP Therapeutics (DDP), formed in early 2006 to develop a library of small cell lung cancer molecules discovered by the Company using CHEMSAS®.

Under an agreement created April 7, 2006, the Company transferred the library of small cell lung cancer molecules to DDP for \$1. COTI is entitled, under the agreement, to receive a payment in the amount of 10% of the aggregate net proceeds raised by DDP in connection with a financing to support (a) the validation of the transferred molecules for purposes of an investigational new drug filing and (b) entering into a strategic agreement with a pharmaceutical company. Net proceeds is defined as the gross amount realized from the financing less the direct costs incurred by DDP in completing the financing.

During the quarter the Company incurred total costs of \$117,306 consisting of legal costs of \$33,381, due diligence costs of \$82,925 and regulatory fees of \$1,000 in evaluating a proposal received from certain shareholders of DDP to acquire all the common shares of DDP not already owned by COTI which acquisition was completed on November 29, 2007 – see note 17(c).

The Company earned contract services revenue from DDP during the year ended April 30, 2007 of \$2,500.

6. Due to shareholders:

The amounts advanced by shareholders are unsecured and due on demand. Advances made to the Company prior to March 1, 2005 are non-interest bearing. Those advances made subsequent to this date are supported by promissory notes bearing interest at 7%.

	October 31, 2007	April 30, 2007
Non-interest bearing advances	\$ 30,248	\$ 38,098
Interest bearing notes	80,533	80,533
	<u>\$ 110,781</u>	<u>\$ 118,631</u>

Interest expense on the interest bearing notes for the six months ended October 31, 2007 was \$2,842 (April 30, 2007 - \$5,572).

7. Notes payable:

	October 31, 2007	April 30, 2007
Unsecured notes payable bearing interest at bank prime plus 3%, due on demand with 30 days notice	\$ 20,000	\$ 20,000
	<u>\$ 20,000</u>	<u>\$ 20,000</u>

Interest expense for the six months ended October 31, 2007 was \$924 (April 30, 2007 - \$1,796).

8. Capital lease obligations:

	October 31, 2007	April 30, 2007
2008	11,176	22,352
2009	20,813	20,813
2010	1,290	1,290
Total minimum lease payments	33,279	44,455
Less amount representing interest	1,714	2,924
	31,565	41,531
Current portion of capital lease obligation	10,278	20,244
	\$ 21,287	\$ 21,287

The Company has entered into various capital leases which expire prior to September 2009 for certain computer equipment. The interest rates implicit in the leases range from 5.56% to 10.37%.

9. Share capital and warrants:

	October 31, 2007		April 30, 2007		
	Expiry	Issued	Amount	Issued	Amount
Share Capital:					
Authorized:					
Unlimited common shares					
Unlimited preference shares					
Issued:					
Common shares		39,699,194	\$ 5,104,848	37,507,052	\$ 3,598,977
Share purchase warrants:					
\$0.40 warrants	April 18/08	266,666	6,897	533,332	13,830
\$0.40 agent warrants	Oct 12/08	77,805	10,763	378,930	52,921
\$0.60 warrants	July 15/08	1,000,000	151,990	1,000,000	151,990
\$0.70 warrants	April 12/08 to Feb 14/09	2,011,599	123,698	3,545,950	219,447
		3,356,070	293,348	5,458,212	438,188
			\$ 5,398,196		\$ 4,037,165

CRITICAL OUTCOME TECHNOLOGIES INC.
(a development stage company)
Notes to Financial Statements
Six months ended October 31, 2007 and 2006

	Shares	Amount
Balance April 30, 2006	22,373,332	\$ 551,792
Shares issued on private placement	6,594,000	1,858,010
Shares issued on amalgamation	5,635,000	6,245
Shares issued on private placement	2,000,000	832,243
Shares issued on \$0.10 agent stock options	263,500	22,988
Shares issued on \$0.40 warrants	240,000	101,352
Shares issued on \$0.30 warrants	40,000	13,743
Shares issued on \$0.70 warrants	80,750	64,826
Shares issued on \$0.40 agent warrants	280,470	147,778
Balance April 30, 2007	37,507,052	3,598,977
Shares issued on \$0.40 warrants	266,666	112,561
Shares issued on \$0.70 warrants	1,534,351	1,163,824
Shares issued on \$0.40 agent warrants	301,125	161,436
Shares issued on stock option plan exercises	110,000	69,972
Shares cancelled on \$0.10 agent stock options (note 9(c))	(20,000)	(1,922)
Balance October 31, 2007	39,699,194	\$ 5,104,848

The details of warrants issued and exercised are summarized in the following table:

	Warrants	Amount	Weighted average exercise price	Gross proceeds on exercise
Balance, April 30, 2006	773,332	\$ 24,500	\$ 0.39	\$ -
Granted on private placement	3,626,700	228,778	0.70	
Granted to agents on private placement	699,400	94,093	0.40	
Granted on private placement	1,000,000	151,990	0.60	
Exercised	(240,000)	(8,170)	0.40	96,000
Exercised	(40,000)	(2,500)	0.30	12,000
Exercised	(80,750)	(9,331)	0.70	56,525
Exercised	(280,470)	(41,172)	0.40	112,188
Balance, April 30, 2007	5,458,212	438,188	0.63	276,713
Exercised	(266,666)	(6,933)	0.40	106,666
Exercised	(1,534,351)	(95,749)	0.70	1,074,046
Exercised	(301,125)	(42,158)	0.40	120,450
	(2,102,142)	(144,840)		1,301,162
Balance, October 31, 2007	3,356,070	\$ 293,348	\$ 0.64	\$ 1,577,875

- (a) During the six months ended October 31, 2007, 2,102,142 warrants were exercised and common shares issued for gross proceeds of \$1,301,162 as set out in the table above. Proceeds upon warrant exercise were credited to common share capital and the respective warrant account was relieved of the warrant value attributed to the warrant at the date of issuance at the same rate as initially set up. The costs incurred to issue these shares and any associated warrants were \$8,532.

- (b) On October 5, 2007 110,000 stock options issued under the Company's stock option plan were exercised for gross proceeds of \$70,400 - see note 10(d).
- (c) On October 11, 2007 20,000 common shares previously issued under exercise of \$0.10 agent stock options for gross proceeds of \$2,000 were cancelled by the Company.

10. Stock based compensation:

The Company maintains a stock option plan for directors, officers, employees and consultants who contribute to the long term goals of the Company. Under the Plan, the maximum number of shares available for purchase pursuant to options granted shall not exceed 10% of the outstanding issued shares. The awarding of options, their exercise price and vesting period is determined by the compensation committee of the board.

- a) On May 1, 2007 the board of directors approved a grant of 130,000 stock options to a director at an exercise price of \$1.00 which options vested immediately.
- b) On May 11, 2007, 100,000 options were granted to the Chief Operating Officer of the Company pursuant to an employment contract and the board approved plan for employee grants under the stock option plan. The exercise price is \$1.34 per share and vesting occurs over 3.25 years based upon contract milestones with the first 25,000 options vesting on October 1, 2007.
- c) On September 28, 2007 40,000 unvested options expired under the terms of the plan.
- d) On October 5, 2007 110,000 options were exercised at a price of \$0.64 per common share.
- e) On October 9, 2007 the board of directors approved a grant of 25,000 stock options vesting immediately to each of the four non-employee members of the Scientific Advisory Committee (SAC) at an exercise price of \$2.00.

The stock option compensation value of these grants and assumption estimates are as follows:

	Director	Officer	SAC
Risk free interest rate	4.54%	4.54%	4.00%
Expected dividend yield	-	-	-
Expected share volatility	145%	145%	120%
Expected average option life in years	2.57	3.25	5
Estimated stock option compensation	\$ 111,540	\$ 97,400	\$176,700

Details of the outstanding stock options are summarized below:

Weighted Average Exercise Price	Options granted and outstanding at Oct 31/07	Vested	Unvested	Weighted average remaining contractual life in years	Total stock based compensation value	Weighted average option value
\$0.64	1,035,000	734,996	300,004	4.20	\$ 350,260	\$ 0.296
\$0.70	50,000	16,666	33,334	4.21	15,908	0.318
\$1.00	130,000	130,000	-	4.50	111,540	0.858
\$1.34	100,000	25,000	75,000	4.52	97,400	0.974
\$1.35	150,000	150,000	-	4.40	176,400	1.176
\$2.00	100,000	100,000	-	4.94	176,700	1.767
\$0.87	1,565,000	1,156,662	408,338	4.31	\$ 928,208	\$ 0.565
Total expensed to October 31, 2007					\$ 807,453	
Available for grant at October 31, 2007			2,404,919			
Stock-based compensation expected to vest in future periods is summarized below:						
2008					\$ 61,728	
2009					56,225	
2010					2,802	
					\$ 120,755	

11. Income taxes and investment tax credits:

The following table reconciles income taxes, calculated at combined Canadian federal and provincial tax rates, with the income tax expense in the financial statements:

	Oct 31, 2007	April 30, 2007
Loss before income taxes	\$ (1,020,000)	\$(1,430,000)
Statutory rate	36.12%	36.12%
Expected income tax recovery	(368,000)	(517,000)
Amounts not deductible for tax	140,000	150,000
Share issuance costs deductible for tax	(32,000)	(254,000)
Tax impact of amalgamation	-	(41,000)
Expiration of non capital losses	5,000	18,000
Change in future income tax rates	13,000	55,000
Change in valuation allowance	229,000	626,000
Other	13,000	(37,000)
Income tax expense	\$ -	\$ -

(a development stage company)

Notes to Financial Statements

Six months ended October 31, 2007 and 2006

The tax effect of temporary differences that give rise to significant portions of the future tax assets and liabilities at Oct 31, 2007 are presented below:

	Oct 31, 2007	April 30, 2007
Losses carried forward	\$ 618,000	\$ 423,000
Research expenditures deferred for tax purposes	205,000	173,000
Capital assets	12,000	3,000
Intangible assets	56,000	34,000
Financing expenses	200,000	229,000
Future tax assets	1,091,000	862,000
Less future tax liabilities relating to:		
Other	-	-
Net future tax assets	1,091,000	862,000
Less valuation allowance	(1,091,000)	(862,000)
	\$ -	\$ -

The valuation allowance for future tax assets as at October 31, 2007 is \$1,091,000 (April 30, 2007 - \$862,000). In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the periods in which those temporary differences become deductible and the scheduled reversal of future tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the future tax assets are deductible, management currently believes it is more likely than not that the Company will not realize the benefits of the deductible difference and therefore these benefits have not been recognized in the financial statements.

The Company has federal non-capital losses of approximately \$1,884,000, and provincial non-capital losses of approximately \$1,925,000, and \$580,000 of federal research and development expenditures and \$642,000 of provincial research and development expenditures, which may be applied to reduce taxable income of future years expiring as follows:

	Federal	Provincial
2009	127,000	127,000
2013	35,000	78,000
2018	186,000	186,000
2025	126,000	126,000
2026	323,000	323,000
2027	452,000	450,000
2028	635,000	635,000
Research and development expenditures, no expiry	\$ 580,000	\$ 576,000

Certain expenses incurred by the Company during the six months ending October 31, 2007 may qualify as research and development as described by provisions in the Canadian Income Tax Act. At October 31, 2007, refundable Ontario tax credits related to its April 30, 2007 fiscal year end have been recorded in revenue as reasonable assurance regarding their collectability was received.

12. Financial instruments:

(a) Fair value disclosure:

Fair value estimates are made as of a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision.

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

(b) Credit risk:

Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. The Company regularly monitors credit risk exposure and takes steps to mitigate the likelihood that these exposures will result in an actual loss. The Company does not have any financial instruments such as asset-backed commercial paper that potentially subject it to significant concentrations of credit risk.

13. Change in non-cash operating working capital:

	October 31, 2007	October 31, 2006
Other receivables	\$ 11,685	\$ (90,650)
Deferred financing costs	(40,514)	-
Prepaid expenses and deposits	13,650	(3,481)
Accounts payable and accrued liabilities	39,621	270,407
	\$ 24,442	\$ 176,276

14. Commitments:

Effective June 1, 2007 the Company entered into a two year lease agreement for 1600 square feet consisting of its existing space and an additional 800 square feet of adjoining office space. The monthly lease payment for June and July 2007 under this lease was negotiated at the existing monthly rate of \$1,558. Effective August 1, 2007 the lease rate for the combined space is \$3,115. The remaining minimum fiscal year lease payments are; \$18,690 in 2008, \$37,384 in 2009 and \$3,115 in 2010.

15. Segmented information:

Management has determined that the Company operates in one reportable segment based on the economic characteristics of its research and its services. All of the Company's operations are located in Canada.

16. Related party transactions:

During the six months ended October 31, 2007, the Company entered into transactions with its shareholders and officers under normal terms and conditions. These transactions have been recorded at the exchange amount, being the amounts agreed to by the parties, as follows:

	October 31, 2007	October 31, 2006
Professional fees	\$ 10,975	\$ 30,000

Other related party transactions are disclosed in notes 5, 6, 7, 17(c) and (d).

17. Subsequent events:

(a) Since October 31, 2007, the Company has realized gross proceeds of \$404,350 from the exercise of various common share warrants. Details of the exercises are summarized below.

	Gross proceeds	Shares issued	Warrants issued
\$0.40 warrants	\$ 40,000	100,000	
\$0.40 agent warrants	-	-	
\$0.70 warrants	364,350	520,500	
	\$ 404,350	620,500	-

(b) The Company announced on November 29, 2007 that it completed a brokered private placement of common shares offered to accredited investors in Ontario for gross proceeds of \$4,000,000. The issue price of the common shares was \$1.40 per common share. The Company retained Northern Securities Inc. to act as agent in completion of the private placement. The agent received a cash fee of \$280,000 equal to 7% of the gross proceeds raised. Deferred financing costs of \$40,514 for legal and regulatory expenses were recorded in these statements. The private placement received acceptance from the TSX Venture Exchange (TSXV) on November 29, 2007. The common shares issued under the offering are 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 being paid as the cash component of the total consideration payable by the Company to purchase the shares and promissory notes of DDP Therapeutics described below.

- (c) On November 29, 2007 the Company also announced the completion of the acquisition from Whippoorwill Holdings Limited, 2080084 Ontario Inc. and Dr. Wayne Danter (Sellers) of all the outstanding common shares in the capital of DDP (Share Purchase) not already owned by the Company and the purchase of certain 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 molecules owned by DDP of \$5,500,000. Proceeds from the private placement in the amount of \$630,000 were used to acquire the promissory note of 2080084 Ontario Inc., pay the accrued interest on the promissory notes and make partial cash payment for the common shares of DDP in the amount of \$187,858. 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.

One-half of the balance of the purchase price for the DDP common shares 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 balance 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 Federal Food and Drug Administration of the United States (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 # document 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 remaining one-half 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 on a basis as described in the Purchase and Sale Agreement.. 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 are subject to a four month hold from the date of closing the Share Purchase until the close of business on March 29, 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.

As a wholly owned subsidiary, the operations of DDP will be consolidated with those of the Company in future quarterly and annual financial reporting.

- (d) As part of the acquisition of DDP the Company negotiated an amendment to an existing bonus agreement between DDP and Dr. Wayne Danter, the President of the Company, as a consultant to DDP. Under the bonus 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 molecules comprising the small cell lung cancer molecules (SCLC). 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 <i>in vitro</i> and <i>in vivo</i> 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, the amount of which has not yet been determined pending finalization of the direct costs of the financing.

- (e) The combined long term income tax rate used in the future tax asset calculation was 32.5%, as this was the rate substantively enacted for Canadian GAAP at October 31, 2007. However, as of December 14, 2007 the substantively enacted combined long term tax rate has decreased to 29.0%. The impact to the future tax assets is a decrease of \$115,000 with an offsetting decrease in the valuation allowance for the same amount.