



Critical Outcome
Technologies Inc.

Financial Statements

Years ended April 30, 2009 and 2008

CRITICAL OUTCOME TECHNOLOGIES INC.
Financial Statements
Years ended April 30, 2009 and 2008

Page 2

Index

	Page
Other Financial Information	
Management's Responsibility for Financial Reporting	3
Financial Statements	
Auditors' Report	4
Balance Sheets	5
Statements of Comprehensive Loss and Deficit	6
Statements of Cash Flows	7
Notes to the Financial Statements	8 - 30

Management's Responsibility for Financial Reporting

June 12, 2009

The financial statements have been prepared by management. Management is responsible for the fair presentation of the financial statements in conformity with generally accepted accounting principles. This responsibility involves choosing accounting principles and methods that are appropriate to the Corporation's circumstances. The selection of these accounting policies requires making significant accounting estimates and judgments that affect the measurement of transactions in determining the amounts to report.

Management is also responsible for all other financial information included in its financial reporting documents such as Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is responsible for establishing and maintaining adequate internal control over financial reporting processes that includes those policies and procedures that provide reasonable assurance over the safeguarding of assets and over the completeness, fairness and accuracy of the financial statements and other financial information.

The Board of Directors (Board) is responsible for reviewing and approving the Corporation's financial statements, MD&A and financial reporting disclosures prior to their release. An Audit Committee (Committee), consisting of independent members of the Board, assists the Board in fulfilling its oversight responsibilities for the accounting and financial reporting processes used by management.

The Committee reviews the quality and integrity of the Corporation's financial reporting; recommends approval to the Board of the annual financial reports; approves the quarterly public financial disclosures on behalf of the Board; oversees management's responsibilities as to the adequacy of the supporting systems of internal controls; provides oversight of the independence, qualifications and appointment of the external auditor; and, pre-approves audit and audit-related fees and expenses. The Committee meets with management at least four times each year to review and discuss financial reporting issues and disclosures, auditing and other matters.

The external auditors, KPMG LLP, conduct an independent audit of the financial statements in accordance with Canadian generally accepted auditing standards and express their opinion thereon. Those standards require that the audit is planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement. The external auditors have unlimited access to the Committee and meet with the Committee at least two times during the year.



Mr. Michael Cloutier
Chief Executive Officer



Mr. Gene Kelly
Chief Financial Officer



KPMG LLP
Chartered Accountants
140 Fullarton Street Suite 1400
PO Box 2305
London ON N6A 5P2
Canada

Telephone (519) 672-4880
Fax (519) 672-5684
Internet www.kpmg.ca

AUDITORS' REPORT

To the Shareholders of Critical Outcome Technologies Inc.

We have audited the balance sheets of Critical Outcome Technologies Inc. as at April 30, 2009 and 2008 and the statements of comprehensive loss and deficit, and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

London, Canada

June 12, 2009

CRITICAL OUTCOME TECHNOLOGIES INC.

Page 5

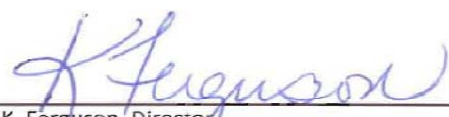
Balance Sheets

As at April 30	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 602,613	\$ 3,113,220
Short-term investments (note 4)	3,049,846	3,100,489
Miscellaneous receivables	87,990	118,000
Prepaid expenses and deposits	63,830	31,462
	3,804,279	6,363,171
Long-term deposit	3,356	-
Equipment (note 5)	184,890	131,151
Intangible assets (note 6)	2,924,600	3,202,439
	\$ 6,917,125	\$ 9,696,761
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 333,025	\$ 299,665
Due to shareholders (note 7)	82,249	432,340
Notes payable (note 8)	20,000	20,000
Current portion of capital lease obligations (note 9)	1,263	20,024
	436,537	772,029
Capital lease obligations (note 9)	-	1,263
Shareholders' equity:		
Share capital and warrants (note 10)	12,813,125	12,179,189
Contributed surplus (note 11)	1,850,461	1,008,259
Deficit	(8,182,998)	(4,263,979)
	6,480,588	8,923,469
	\$ 6,917,125	\$ 9,696,761
Commitments (note 15)		
Contingency (note 16)		
Subsequent event (note 23)		

See accompanying notes to financial statements

On behalf of the Board:


W. Danter, President and Director


K. Ferguson, Director

CRITICAL OUTCOME TECHNOLOGIES INC.
Statements of Comprehensive Loss and Deficit

Page 6

For the years ended April 30	2009	2008
Revenues:		
Contract services	\$ 49,158	\$ 30,822
Expenses:		
Research and product development	1,093,796	148,981
Stock-based compensation (note 11)	842,202	362,763
Salaries and benefits	835,453	662,670
Amortization (notes 5 & 6)	490,292	238,063
Professional fees	347,917	351,835
Marketing	191,415	131,633
Corporate governance	178,969	94,440
General and administration	128,855	135,285
Loss on disposal of patents (note 6)	24,735	-
Interest and bank charges	10,807	32,825
Loss on disposal of equipment	79	1,977
	4,144,520	2,160,472
Loss before other income	(4,095,362)	(2,129,650)
Other income:		
Investment tax credit refunds	52,055	50,112
Interest income	124,288	177,166
	176,343	227,278
Loss and comprehensive loss	(3,919,019)	(1,902,372)
Accumulated deficit, beginning of the year	(4,263,979)	(2,361,607)
Accumulated deficit, end of the year	\$ (8,182,998)	\$ (4,263,979)
Basic and diluted loss per common share	\$ (0.08)	\$ (0.05)
Weighted average number of common shares outstanding	46,497,940	41,321,501

See accompanying notes to financial statements

CRITICAL OUTCOME TECHNOLOGIES INC.

Statements of Cash Flows

Page 7

For the years ended April 30	2009	2008
Cash provided by (used in):		
Operating activities:		
Loss	\$ (3,919,019)	\$ (1,902,372)
Items not involving cash:		
Stock-based compensation	842,202	362,763
Amortization	490,292	238,063
Loss on disposal of patents	24,735	-
Loss on disposal of equipment	79	1,977
Change in non-cash operating working capital (note 14)	27,646	75,862
	(2,534,065)	(1,223,707)
Investing activities:		
Redemption of short-term investments (net of purchases)	50,643	(3,100,489)
Purchase of equipment	(154,859)	(151,450)
Proceeds on disposal of equipment	6,199	-
Expenditures on intangible assets	(142,346)	(860,435)
	(240,363)	(4,112,374)
Financing activities:		
Issuance of share capital and warrants (net of issuance costs)	633,936	6,108,035
Decrease in capital lease obligations	(20,024)	(20,244)
Payments of shareholders' notes (net of advances)	(350,091)	(56,291)
	263,821	6,031,500
Increase (decrease) in cash and cash equivalents	(2,510,607)	695,419
Cash and cash equivalents, beginning of the year	3,113,220	2,417,801
Cash and cash equivalents, end of the year	\$ 602,613	\$ 3,113,220
Represented by:		
Cash	\$ 278,511	\$ 544,095
Cash equivalents	324,102	2,569,125
	\$ 602,613	\$ 3,113,220
Supplemental cash flow information:		
Interest paid	\$ 10,678	\$ 32,009

See accompanying notes to financial statements

Description of business:

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

Using CHEMSAS®, the Company has created a pipeline of highly optimized, novel, proprietary, small molecules for specific therapy targets with high morbidity and mortality, which currently have either poor or no effective therapies. The Company is developing these molecules in the preclinical testing stage while it seeks to sell or license them to interested pharmaceutical partners for human trials and further drug development. The molecules in various stages of development are targeted at small cell lung cancer and other cancers, HIV integrase inhibitors, acute adult leukemias, multiple sclerosis and colorectal cancer. The Company has also initiated a collaboration strategy to use its technology for pharmaceutical partners who have their own therapy targets, which can benefit from the Company's drug discovery technology in creating lead compounds for their targets of interest.

1. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). 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 subject to risks common to rapidly growing technology based companies, including dependence on key personnel, potential product development failure, and the need to raise capital for successful development, marketing and operations in meeting 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 were not realized and the liabilities settled in the normal course of operations.

For the years ended April 30, 2009 and 2008, the Company had a loss of \$3,919,019 (2008 - \$1,902,372) and negative cash flow from operations of \$2,534,065 (2008 - \$1,223,707). As at April 30, 2009, the Company had an accumulated deficit of \$8,182,998 (2008 - \$4,263,979), which results in a shareholders' equity of \$6,480,588 (2008 - \$8,923,469). As at April 30, 2009, the Company had working capital of \$3,367,742 (2008 - \$5,591,142).

During the year, the Company determined it was no longer a development stage company as defined by AcG-11 of the Canadian Institute of Chartered Accountants ("CICA") Handbook. Accordingly, cumulative from inception figures are not disclosed in the statements of comprehensive loss and deficit and cash flows.

(b) Consolidated prior year financial statements:

The comparative audited financial statement amounts for the year ended April 30, 2008 reflect the consolidated accounts of the Company and its wholly owned subsidiary, 3015402 Ontario Inc. (formerly 6441513 Canada Inc.) operating as DDP Therapeutics (2008 – 100% ownership) prior to amalgamation on May 1, 2008. Results of operations of the subsidiary were included from the date of acquisition (see note 3). All significant inter-company balances and transactions were eliminated upon consolidation.

(c) Cash and cash equivalents:

Cash and short-term investments, for purposes of reporting cash flows, include amounts held in banks and highly liquid investments with maturities at point of purchase of three months or less. The Company places its cash and cash equivalents with institutions and in investments having high credit ratings.

(d) Foreign currency translation:

Currency transactions and balances are translated into the Canadian dollar reporting currency using the temporal method. The Company's foreign currency monetary items include cash, accounts receivable and accounts payable which are translated at the rate prevailing at the balance sheet date. Revenues and expenses are translated at the average rates in effect during the applicable accounting periods. Gains and losses on foreign currency translation are reflected in the statements of operation and deficit as general and administration expenses.

(e) Equipment:

Equipment is recorded at 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	Rate
Furniture and fixtures	5 years
Computer software	Term of licence
Computer hardware	2 - 3 years
Leasehold improvements	Remaining term of lease

(f) Intangible assets:

Intangible assets acquired individually, or as part of a group of assets, are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction is allocated to the individual assets based on their relative fair value. Intangible assets with finite lives, including molecules, patents granted, and trademarks are amortized on a straight-line basis over their estimated useful lives as follows:

Intangible asset	Useful Life
Molecules	8 years
Patents	Remaining life of patent
Trademark	5 years

Intangible assets with indefinite useful lives and patents pending are not amortized and are tested for impairment annually or more frequently if events and changes in circumstances indicate that they might be impaired.

(i) Molecules:

The costs of acquiring the library of 10 small cell lung cancer molecules from DDP Therapeutics (DDP) are being amortized over eight years, in accordance with the timeline for the achievement of milestones as prescribed by the DDP purchase agreement (note 16).

(ii) Patents:

The Company is pursuing or has been granted composition of matter patents on certain molecules for therapeutic indication and manufacturing processes.

The direct costs of evaluating and investigating patents are accumulated by specific molecule or group of molecules and these capitalized costs are amortized over the life of the patent, beginning in the month subsequent to the month the patent is granted, on a straight-line basis over the remaining life of the patent. Patent costs incurred to validate the patent in specific countries following grant of patent for a broader jurisdiction such as Europe are capitalized and amortized over the remaining patent life as incurred.

Annual patent maintenance costs are expensed as incurred.

The accumulated cost of a product investigated for patenting which is not subsequently patented is expensed in the month when the decision is made not to pursue the patent.

(iii) Trademark:

Trademark registration was obtained for exclusive use of the name, CHEMSAS®, which describes the Company's proprietary molecular profiling technology.

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 in the month when notification of decline is received or when the decision is made not to pursue the trademark.

(g) Impairment of long-lived assets:

Long-lived assets, including equipment and finite life intangible assets are reviewed for impairment whenever 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.

(h) Short-term investments:

Short-term investments are recorded at amortized cost. Gains and losses on disposal of investments are recognized when realized.

(i) 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 April 30, 2009 and April 30, 2008, no development costs were deferred.

(j) Revenue recognition:

The Company recognizes technical consulting and molecule profiling service revenue upon completion of the contracted service or in accordance with completed milestones as earned under contract.

(k) 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.

(l) Share capital:

(i) Non-monetary consideration:

Shares issued as purchase consideration in non-monetary transactions are recorded at fair value determined by management based upon the fair value of the shares as disclosed by the trading price of those shares on the TSX Venture Exchange or on the date of an agreement to issue shares as determined by the Board of Directors.

(ii) Stock-based compensation:

The Company measures the cost for stock options granted to consultants, employees and directors based on an estimate of the fair value as at the date of the grant. The Company uses a Black-Scholes option-pricing model to estimate the fair value. The value of stock options that vest immediately are recorded as stock-based compensation at the date of the grant. Stock options that vest over time are recorded over the vesting period using the straight-line method. The effect of a change in the estimated number of options expected to vest is a change in an estimate and the cumulative effect of the change on current and prior periods is recognized in the period of the change reflecting the overstatement of prior period compensation recorded. On exercise of a stock option, the consideration received and the estimated fair value previously recorded in contributed surplus is recorded as share capital.

(iii) Share issuance costs:

Costs directly identifiable with the raising of share capital financing are charged against share capital. Share issuance costs incurred in advance of share subscriptions are recorded as non-current deferred assets.

(m) 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.

(n) 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, patents and molecules, valuation of future income taxes and accounting for share capital, warrants and options. Actual results could differ from those estimates.

(o) Basic and diluted loss per share:

Basic and diluted loss 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. The number of additional shares is calculated by assuming that the outstanding stock options and warrants are exercised and the proceeds from such exercises were used to acquire shares of common stock at the average market price during the year.

2. Changes in accounting policies:

Effective May 1, 2008, the Company adopted the new accounting standards issued by the CICA described below. These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements.

i) Section 1535, "Capital Disclosures":

This section establishes the standards for disclosing information about the Company's objectives, policies and processes for managing capital, as well as its compliance with any externally imposed capital requirements, should they exist. The adoption of this accounting standard does not impact the amounts reported in the Company's financial statements, however, it does result in expanded note disclosure - see note 19.

ii) Section 3862, "Financial Instruments - Disclosures":

This section replaces the disclosure requirements of Section 3861 "Financial Instruments – Disclosure and Presentation" and establishes standards for the disclosure of financial instruments. It requires that disclosures presented in the financial statements provide information that enables the reader to evaluate the significance of financial instruments to the Company's financial position and performance. Furthermore, it requires disclosures that assist the reader in understanding the nature and extent of risks resulting from the financial instruments that it carries and how these risks are managed. The adoption of this accounting standard does not affect the amounts reported in the Company's financial statements, however, it does result in expanded note disclosure – see note 13.

iii) Section 3863, "Financial Instruments – Presentation":

The purpose of this Section is to enhance financial statement readers' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section replaces the presentation requirements of the predecessor Section 3861 "Financial Instruments – Disclosure and Presentation" and carries the prior requirements forward substantially unchanged. The adoption of this accounting standard does not affect the amounts reported in the Company's financial statements.

3. Amalgamation of DDP Therapeutics:

On May 1, 2008, the Company amalgamated with its wholly owned subsidiary 3015402 Ontario Inc. (formerly 6441513 Canada Inc.) operating as DDP Therapeutics (DDP). The acquisition of DDP on November 27, 2007, and the subsequent amalgamation, has been accounted for as a purchase of assets because DDP did not meet the definition of a business under EIC-124 of the CICA Handbook. Total consideration paid and the assumption of certain liabilities and payment of transaction costs was allocated to the assets acquired and liabilities assumed based on the estimated fair values on the date of the acquisition as set out below:

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

In accounting for the acquisition, a net future tax liability of \$655,234 arises relating to the temporary differences associated with non-capital tax loss carry forward balances and scientific research and expenditure development pools of DDP as well as the valuation of the purchased molecules. This future tax liability has not been recorded, as the Company cannot determine whether it will generate future taxable income (note 12) and accordingly, the valuation allowance, which reduces COTI's recognition of its future tax assets, precludes the recognition of these future tax liabilities in the financial statements.

Notes to the Financial Statements
Years ended April 30, 2009 and 2008

4. Short-term investments:

The Company invests cash not needed for immediate working capital purposes in short-term securities having maturities greater than three months but less than a year, and rated "A high" or greater by Standard and Poor's and the Dominion Bond Rating Service. At April 30, 2009, maturities ranged from May 11, 2009 to March 16, 2010. The cost of these investments at April 30, 2009 was \$3,049,846 (market \$3,067,761) and at April 30, 2008 \$3,100,489 (market \$3,124,849).

5. Equipment:

	April 30, 2009			April 30, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 122,384	\$ 27,938	\$ 94,446	\$ 79,051	\$ 10,016	\$ 69,035
Computer software	93,581	24,790	68,791	101,973	64,912	37,061
Computer hardware	84,623	70,651	13,972	69,694	56,955	12,739
Leasehold improvements	24,517	16,836	7,681	21,084	8,768	12,316
	\$ 325,105	\$ 140,215	\$ 184,890	\$ 271,802	\$ 140,651	\$ 131,151

Amortization related to equipment included in amortization expense is \$94,842 (April 30, 2008 – \$70,883).

Included in equipment are assets under capital lease with a cost of \$11,081 (April 30, 2008 – \$57,601) and accumulated amortization of \$10,773 (April 30, 2008 – \$53,574).

6. Intangible assets:

	April 30, 2009			April 30, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Molecules	\$ 3,111,169	\$ 550,936	\$ 2,560,233	\$ 3,111,169	\$ 162,040	\$ 2,949,129
Patents	374,450	10,589	363,861	257,580	4,270	253,310
Trademark - CHEMSAS®	5,091	4,585	506	4,350	4,350	-
	\$ 3,490,710	\$ 566,110	\$ 2,924,600	\$ 3,373,099	\$ 170,660	\$ 3,202,439

Amortization expense includes the following amounts related to intangible assets:

	April 30, 2009	April 30, 2008
Molecules	\$ 388,896	\$ 162,040
Patents	6,319	4,270
Trademark - CHEMSAS®	235	870
	\$ 395,450	\$ 167,180

During the year, the Company recorded a loss on disposal of patent costs for \$24,735 related to a set of compounds that management determined would not be continued in development.

Notes to the Financial Statements
Years ended April 30, 2009 and 2008

The Company is pursuing or has been granted composition of matter patents on certain molecules as summarized below.

	April 30, 2009			April 30, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Patents pending	\$ 188,735	\$ -	\$ 188,735	\$ 119,084	\$ -	\$ 119,084
Patents granted	185,715	10,589	175,126	138,496	4,270	134,226
	\$ 374,450	\$ 10,589	\$ 363,861	\$ 257,580	\$ 4,270	\$ 253,310

Patents granted have unamortized lives of 161 to 170 months.

7. Due to shareholders:

Advances made to the Company prior to March 1, 2005 are non-interest bearing and advances made subsequent to this date are supported by promissory notes bearing interest at 7%. The amounts advanced by shareholders are unsecured. Under the terms of the acquisition of DDP on November 27, 2007 (note 3), the Company acquired a promissory note of \$370,000 owing to one of the Sellers of DDP who is a shareholder, director and officer of the Company. A portion of this note was paid by the Company on payment of closing legal costs of the Seller with the balance paid on maturity at July 31, 2008.

	April 30, 2009	April 30, 2008
7% interest bearing notes due on demand	\$ 49,033	\$ 49,033
Non-interest bearing advances due on demand	33,216	30,060
5% interest bearing note due July 31, 2008	-	353,247
	\$ 82,249	\$ 432,340

Interest expense on the interest bearing notes for the year ended April 30, 2009 was \$7,895, (2008 - \$13,175).

8. Notes payable:

	April 30, 2009	April 30, 2008
Unsecured notes payable bearing interest at bank prime plus 3%, due on demand with 30 days notice	\$ 20,000	\$ 20,000

Interest expense for the year ended April 30, 2009 was \$1,383 (2008 - \$1,794).

9. Capital lease obligations:

	April 30, 2009	April 30, 2008
2009	\$ -	\$ 20,813
2010	1,290	1,290
Total minimum lease payments	1,290	22,103
Less amount representing interest	27	816
	1,263	21,287
Current portion of capital lease obligation	1,263	20,024
	\$ -	\$ 1,263

The capital lease remaining at the April 30, 2009 year end was to expire in September 2009. The Company exercised its early purchase option for \$791 and acquired the computer equipment in May 2009. The implicit interest rate of the lease was 10.37%.

10. Share capital and warrants:

	Expiry date	April 30, 2009		April 30, 2008	
		Issued	Amount	Issued	Amount
Share capital:					
Authorized:					
Unlimited common shares					
Unlimited preference shares					
Issued:					
Common shares		46,720,214	\$ 12,810,518	45,655,409	\$ 12,002,272
Share purchase warrants:					
\$0.40 agent warrants	Oct 12/08	-	-	73,805	10,203
\$0.60 warrants	July 15/08	-	-	1,000,000	151,990
\$0.70 warrants	July 17/09 to April 10/10	16,902	2,607	98,224	14,724
		16,902	2,607	1,172,029	176,917
		\$ 12,813,125		\$ 12,179,189	

Notes to the Financial Statements
Years ended April 30, 2009 and 2008

	Shares	Amount
Balance April 30, 2007	37,507,052	\$ 3,598,977
Shares issued on private placement	2,857,143	3,665,882
Shares issued on purchase of DDP Therapeutics (note 3)	1,431,441	2,004,017
Shares issued on \$0.40 warrants	533,332	225,310
Shares issued on \$0.70 warrants	2,931,316	2,246,460
Shares issued on \$0.40 agent warrants	305,125	163,707
Shares issued on stock option plan exercises (note 11(d))	110,000	99,989
Shares cancelled on \$0.10 agent stock options	(20,000)	(2,070)
	8,148,357	8,403,295
Balance April 30, 2008	45,655,409	12,002,272
Shares issued on \$0.70 warrants	35,000	36,535
Shares issued on \$0.60 warrants	1,000,000	749,656
Shares issued on \$0.40 agent warrants	29,805	22,055
	1,064,805	808,246
Balance April 30, 2009	46,720,214	\$ 12,810,518

- a) During the year ended April 30, 2008, 3,769,773 warrants were exercised and common shares issued as set out in the table above. Gross proceeds of \$2,387,305 upon warrant exercise were credited to common share capital and the respective warrant account was relieved of the warrant value of \$261,271 attributed to the exercised warrants at the date of issuance and transferred to share capital. The costs incurred to issue these shares and any associated warrants were \$13,099. On April 12, 2008, 516,410 \$0.70 warrants expired.
- 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 with costs of \$384 (see note 11(d)). Share capital was increased by the net proceeds of \$70,016 plus \$29,973 from a reduction in contributed surplus relating to previously recognized stock-based compensation expense for these options.
- 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 and costs of \$70 were cancelled by the Company.
- d) On November 29, 2007, the Company completed a brokered private placement of 2,857,143 common shares through its agent, Northern Securities Inc. to accredited investors in Ontario. The issue price was \$1.40 per common share for gross proceeds of \$4,000,000. Total costs of the placement were \$334,118 including the agent's fee of \$280,000. The common shares issued under the offering were subject to a four-month hold from the date of closing the private placement until the close of business on March 29, 2008.

Notes to the Financial Statements
Years ended April 30, 2009 and 2008

- e) During the year ended April 30, 2009, 1,064,805 warrants were exercised and common shares issued as set out in the table above. Gross proceeds of \$636,422 upon warrant exercise were credited to common share capital and the respective warrant account was relieved of the warrant value of \$174,310 attributed to the exercised warrants, and to 90,322 expired warrants, at the date of issuance and transferred to share capital. The costs incurred to issue these shares and any associated warrants were \$2,486.

11. 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 as purchase 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. Changes in the number of options outstanding, with their weighted average exercise prices are summarized below:

	April 30, 2009		April 30, 2008	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Opening balance	1,465,000	\$ 0.84	1,385,000	\$ 0.72
Granted	1,358,067	0.74	330,000	1.41
Exercised	-	-	(110,000)	0.64
Cancelled or expired	(26,600)	0.75	(140,000)	1.14
Ending balance	2,796,467	\$ 0.79	1,465,000	\$ 0.84

- 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 former Chief Operating Officer of the Company pursuant to his employment contract. The exercise price was \$1.34 per share with vesting to occur over 3.25 years based upon contract milestones. The first 25,000 options vested on October 1, 2007. On December 15, 2007, as a result of resignation, 75,000 unvested options expired under the terms of the plan. On March 15, 2008, the 25,000 vested options expired.
- 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 and a five-year maturity.
- f) On June 10, 2008, the Company granted 335,678 stock options to the members of the Board of Directors with an exercise price of \$0.75. The options have a five-year maturity from the date of grant and vested immediately upon the grant.
- g) On July 16, 2008, 100,000 stock options were granted to an employee with an exercise price of \$1.20. The options have a five-year maturity with one-sixth vesting on the date of the grant and the balance one-sixth every six months until fully vested.
- h) On October 31, 2008, 500,000 stock options were granted to the Chief Executive Officer with an exercise price of \$0.50. The options have a five-year maturity with 100,000 options vesting on each of April 30, 2009 and October 31, 2009 and 150,000 options vesting on October 31 in each of 2010 and 2011.
- i) On December 17, 2008, 26,600 vested stock options held by a former director of the Company expired.
- j) On February 17, 2009, the Company granted 422,389 stock options to the members of the Board of Directors with an exercise price of \$0.90. The options have a five-year maturity from the date of the grant and vested immediately upon the grant.

For the year ended April 30, 2009, the Company incurred total stock-based compensation expense of \$842,202 (2008 - \$362,763).

The total stock option compensation relating to the grants recorded during the year ended April 30, 2009 and the assumption estimates are as follows:

Risk free interest rate range	2.2 - 4.0 %
Expected dividend yield	-
Expected share volatility	115% - 210%
Expected average option life in years	5.0
Estimated total stock option compensation	\$ 1,019,479

Notes to the Financial Statements
Years ended April 30, 2009 and 2008

Details of the outstanding stock options at April 30, 2009 are summarized below:

Weighted Average Exercise Price	Options granted and outstanding at Apr 30/09	Vested	Unvested	Weighted average remaining contractual life in years	Total stock based compensation value	Weighted average option value
\$0.50	500,000	100,000	400,000	4.50	\$ 295,500	\$ 0.591
\$0.64	1,035,000	959,998	75,002	2.70	306,207	0.296
\$0.70	50,000	41,666	8,334	2.71	15,908	0.318
\$0.75	309,078	309,078	-	4.11	189,465	0.613
\$0.90	422,389	422,389	-	4.80	415,208	0.983
\$1.00	130,000	130,000	-	3.00	111,540	0.858
\$1.20	100,000	33,332	66,668	4.21	103,000	1.030
\$1.35	150,000	150,000	-	2.90	176,400	1.176
\$2.00	100,000	100,000	-	3.44	176,700	1.767
\$0.79	2,796,467	2,246,463	550,004	3.60	\$ 1,789,928	\$ 0.640
Total expensed to April 30, 2009					\$ 1,629,434	
Available for grant at April 30, 2009		1,875,554				

Stock-based compensation expected to vest in future periods is summarized below:

2010	\$ 133,314
2011	58,566
2012	14,897
	\$ 206,777

Details of the outstanding stock options at April 30, 2008 are summarized below:

Weighted Average Exercise Price	Options granted and outstanding at April 30/08	Vested	Unvested	Weighted average remaining contractual life in years	Total stock based compensation value	Weighted average option value
\$0.64	1,035,000	809,996	225,004	3.70	\$ 306,207	\$ 0.296
\$0.70	50,000	24,999	25,001	3.71	15,908	0.318
\$1.00	130,000	130,000	-	4.00	111,540	0.858
\$1.35	150,000	150,000	-	3.90	176,400	1.176
\$2.00	100,000	100,000	-	4.44	176,700	1.767
\$0.84	1,465,000	1,214,995	250,005	3.80	\$ 786,755	\$ 0.537
Total expensed to April 30, 2008					\$ 787,232	
Available for grant at April 30, 2008		3,100,541				

Stock-based compensation expected to vest in future periods is summarized below:

2009	\$ 26,996
2010	2,500
	\$ 29,496

Notes to the Financial Statements
Years ended April 30, 2009 and 2008

The following table summarizes the change in contributed surplus for the years ended April 30, 2009 and 2008:

	April 30, 2009	April 30, 2008
Balance, beginning of the year	\$ 1,008,259	\$ 675,469
Stock-based compensation	842,202	362,763
Exercise of stock options	-	(29,973)
Balance, end of the year	\$ 1,850,461	\$ 1,008,259

12. 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:

	April 30, 2009	April 30, 2008
Loss before income taxes	\$ (3,919,019)	\$ (1,902,372)
Statutory rate	33.00%	35.25%
Expected income tax recovery	(1,293,000)	(670,000)
Amounts not deductible for tax	285,000	131,000
Share issuance costs deductible for tax	(81,000)	(71,000)
Expiration of non-capital losses	37,000	5,000
Change in future income tax rates	110,000	91,000
Change in valuation allowance	774,000	(224,000)
Tax credits realized	88,000	31,000
Tax impact of acquisition	-	656,000
Other	80,000	51,000
Income tax expense	\$ -	\$ -

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities are presented below:

	April 30, 2009	April 30, 2008
Losses carried forward	\$ 1,382,000	\$ 847,000
Research expenditures deferred for tax purposes	519,000	400,000
Equipment	-	4,000
Financing expenses	173,000	225,000
Other	74,000	-
Future tax assets	2,148,000	1,476,000
Less future tax liabilities related to:		
Equipment	(5,000)	-
Intangible assets	(731,000)	(838,000)
Net future tax assets	1,412,000	638,000
Less valuation allowance	(1,412,000)	(638,000)
	\$ -	\$ -

Notes to the Financial Statements
Years ended April 30, 2009 and 2008

The valuation allowance for future tax assets as at April 30, 2009 is \$1,412,000 (2008 - \$638,000). In assessing the value of the future tax assets, management considers whether it is more likely than not, that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon future taxable income. Management considers the likelihood of future profitability, the character of the tax assets and any applicable tax planning strategies to make this assessment. To the extent that management believes that the realization of future tax assets do not meet the more likely than not criterion, a valuation allowance is provided against the future tax assets. Management currently believes that the Company does not meet the more likely than not criterion and, therefore, future tax assets have not been recognized in the financial statements.

The Company has non-capital losses of approximately \$4,765,000 and research and development expenditures of \$1,979,000, which may be applied to reduce taxable income of future years expiring as follows:

2013	\$ 36,000
2014	186,000
2025	178,000
2026	463,000
2027	580,000
2028	1,297,000
2029	2,025,000
Total non-capital losses	\$ 4,765,000
Total research and development expenditures, no expiry	\$ 1,979,000

Effective for taxation years ending after December 31, 2008, the federal and Ontario tax administration is harmonized. Under the harmonized tax system, Ontario income tax will be calculated on taxable income as defined for federal purposes. Accordingly, differences between federal and Ontario tax balances in the Company have resulted in a transitional tax credit of \$72,000. This credit is comprised of differences between federal and Ontario non-capital losses and research and development expenditures. This credit can only be applied against Ontario income tax, is non-refundable and expires within five years.

The Company has filed for approximately \$136,000 of refundable Ontario tax credits, which were not recorded, as the Company does not have reasonable assurance regarding collectability.

13. Financial instruments:

The Company's financial instruments (financial assets and liabilities) consist of cash and cash equivalents, short-term investments, miscellaneous receivables, accounts payable and accrued liabilities, due to shareholders and notes payable.

Financial instruments designated as held for trading are recorded at fair market value. Financial instruments designated as held to maturity, loans and receivables and other financial liabilities are recorded at amortized cost.

The details of financial instruments and their designation are set out below:

	Held for trading	Held to maturity	Loans and receivables	Other financial liabilities	Total carrying value	Non financial instruments	Balance sheet carrying value
Cash and cash equivalents	\$ 602,613	\$ -	\$ -	\$ -	\$ 602,613	\$ -	\$ 602,613
Short term investments	-	3,049,846	-	-	3,049,846	-	3,049,846
Miscellaneous receivables	-	-	43,517	-	43,517	44,473	87,990
Accounts payable and accrued liabilities	-	-	-	(318,543)	(318,543)	(14,482)	(333,025)
Due to shareholders	-	-	-	(82,249)	(82,249)	-	(82,249)
Notes payable	-	-	-	(20,000)	(20,000)	-	(20,000)
	\$ 602,613	\$ 3,049,846	\$ 43,517	\$ (420,792)	\$ 3,275,184	\$ 29,991	\$ 3,305,175

Fair value estimates are made as of a specific point in time, using available information about the financial instrument. The Company has determined that the carrying value of its financial assets and liabilities approximates their fair value because of the relatively short periods to maturity of these instruments and their capacity for prompt liquidation.

(a) 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 credit risk. There have been no material changes to the Company's credit risk exposure or processes related to this risk during the year.

The Company's maximum exposure to credit risk is quantified by the carrying value of the following financial assets, and the aging thereon is detailed below:

	Total	Current	31 - 60 days	61 - 90 days	Over 90 days
Trade receivables	\$ 20,828	\$ -	\$ 6,876	\$ 2,888	\$ 11,064
Miscellaneous receivables	22,689	10,218	8,119	498	3,854
	\$ 43,517	\$ 10,218	\$ 14,995	\$ 3,386	\$ 14,918

The Company's receivables are deemed to be of high credit quality and consequently, it does not require collateral to secure its receivables. There is concentration of credit risk regarding the trade receivables, as the aggregate balance relates to one customer.

(b) Liquidity risk:

Liquidity risk relates to potential difficulty in raising funds to meet commitments associated with financial instruments. Based upon the high credit ratings associated with its financial assets and the Company's spending plans, the Company has determined that it will have sufficient cash available to meet its financial obligations during the 2010 fiscal year. There have been no changes to the Company's liquidity risk exposure or processes related to this risk during the year.

The contractual maturities of the Company's financial assets (other than receivables), on an undiscounted cashflow basis, are as follows:

	Days to Maturity				
	Total	0 - 90	91 - 180	181 - 270	Over 270
Cash and cash equivalents	\$ 602,613	\$ 602,613	\$ -	\$ -	\$ -
Short term investments	3,049,846	1,449,847	500,000	799,999	300,000
	\$3,652,459	\$2,052,460	\$ 500,000	\$ 799,999	\$ 300,000

The contractual maturities of the Company's financial liabilities, on an undiscounted cashflow basis, are as follows:

	Days to Maturity				
	Total	0 - 90	91 - 180	181 - 270	Over 270
Trade payables	\$ 151,699	\$ 151,699	\$ -	\$ -	\$ -
Accrued liabilities	166,844	166,844	-	-	-
Due to shareholders	82,249	82,249	-	-	-
Notes payable	20,000	20,000	-	-	-
	\$ 420,792	\$ 420,792	\$ -	\$ -	\$ -

The Company has determined that it has sufficient working capital to manage its maturing financial liabilities as they come due. Included in cash equivalents are instruments which are cashable before the contractual maturity date. The Company's short-term investments are concentrated in instruments with high credit ratings, which minimizes exposure to liquidity risk.

(c) Market risk:

(i) Foreign currency risk:

The Company has contracts denominated in United States dollars (USD) and Euros (EURO) and is exposed to risk with respect to fluctuations in exchange rates between CAD, USD and Euro. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. As a result, variations in foreign exchange rates could cause fluctuations in the Company's operating results

and cash flows. The Company's foreign currency risk exposure increased during the year ended April 30, 2009 as the Company is using more testing contractors who invoice in U.S. dollars and the Canadian dollar declined against the U.S. dollar during the year. The amount of this exposure is not considered material to the financial statements.

A foreign currency loss was recorded for the year ended April 30, 2009 of \$6,674 (2008 - \$496).

(ii) Interest rate risk:

Interest rate risk arises from fluctuations in the interest rates applied to financial assets and liabilities. The financial asset exposure to interest rate risk is concentrated in the cash equivalents and short-term investments as the interest rate obtained upon renewal will fluctuate with market pricing. The Company regularly monitors the rates available as the instruments mature, with the selection of investments restricted to those with high credit ratings, in accordance with the Company's investment policy. The financial liability exposure to interest rate risk is concentrated in the notes payable as interest is levied at a fluctuating rate based on the bank's prime lending rate. There have been no changes to the Company's interest rate risk exposure or processes related to this risk during the year. The amount of this exposure is not considered material to the financial statements.

14. Change in non-cash operating working capital:

	April 30, 2009	April 30, 2008
Miscellaneous receivables	\$ 30,010	\$ (41,345)
Prepaid expenses and deposits	(35,724)	(3,367)
Accounts payable and accrued liabilities	33,360	120,574
	\$ 27,646	\$ 75,862

15. Commitments:

(a) Premises rent:

Effective June 1, 2007, the Company entered into a two-year lease agreement for 1,600 square feet of office space. The monthly lease payment is \$3,115. The remaining minimum fiscal year lease payment was \$3,115 in 2010 as the lease expired on May 31, 2009. Subsequent to year end, the lease agreement has been extended on a month to month basis until May 31, 2010 subject to a 90 day notice period to terminate by either party.

At April 30, 2009, the Company was assessed additional property taxes of approximately \$6,400 for prior years, which are being contested. The future impact of this assessment could be an increase in rent expense for 2010 of approximately \$6,400.

(b) Research and development contracts:

The Company is committed to pay \$169,000 in fiscal 2010 for the completion of research and development activities under contracts existing at the year end.

16. Contingency:

Upon the November 27, 2007, acquisition of 6441513 Canada Inc. operating as DDP Therapeutics, the Company became contingently liable as part of the purchase consideration for the issuance of 1,431,441 common shares should certain development milestones be subsequently achieved.

One half of this contingent share consideration is payable upon the first occasion any molecule from the small cell lung cancer (SCLC) library acquired under the purchase achieves the following milestones:

- a) when the Company is given notification of acceptance of an investigational new drug filing (IND) and an IND acceptance number is obtained;
- b) when either the United States or the European patent authorities issue the Company a final patent.

If by November 27, 2015, the eighth anniversary date of the transaction, these milestones are not achieved and the contingent consideration not paid, and if the Company has not abandoned its efforts to develop and commercialize the molecules by this anniversary date, the Company is required to:

- a) issue the contingent consideration of 1,431,441 common shares at fair value, or
- b) pay cash consideration equal to the amount by which the fair value of the molecules purchased in the transaction exceed the amount invested in the molecules by the Company. If the fair value of the molecules purchased in the transaction is less than the amount invested in the molecules by the Company, no consideration is payable.

The achievement of the milestones is not determinable at this time due to the high degree of uncertainty inherent in drug discovery and development in general and by the Company's financial capability to develop and evaluate all ten molecules in the SCLC library. Further, the value of the contingent consideration issuable upon milestone achievement or upon the eighth anniversary date of the transaction is not determinable at this time as it is based on fair values in effect at the time such consideration becomes payable.

17. 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.

18. Related party transactions:

There were no related party balances or transactions in the year ended April 30, 2009 that were not in the ordinary course of business. Other related party transactions are disclosed in notes 3, 7, 9, 11 and 16.

19. Capital management:

The Company's capital is defined as common shares and warrants, contributed surplus, and deficit. The Company's capital management strategy is designed to maintain strong liquidity and to optimize its existing capital structure in order to reduce costs. The capital structure provides the Corporation with the ability to meet its liquidity needs as well as support its long-term strategic development. The Company's objectives when managing capital are:

- (i) To limit dilution of shareholders' investment to the extent necessary to finance operations;
- (ii) To limit the use of debt until such time as cash flows permit the optimization of shareholder returns through prudent debt leverage;
- (iii) To provide the Company's shareholders with an appropriate rate of return on their investment.

The Company has limited debt consisting of notes payable, shareholder promissory notes and capital leases, which total \$103,512 compared to total shareholder's equity of \$6,480,588 for a debt to equity ratio of 1.6%. There is no bank or other debt that subjects the Company to covenants requiring the maintenance of liquidity levels or target ratios. The Company does not currently pay nor contemplate paying dividends.

The Company sets the amount of capital in proportion to its spending plans and consequently its available cash. The Company regularly monitors its cash balances and manages its excess cash in relation to spending requirements under a Cash Investment Policy to optimize returns but maintain a high degree of safety in these investments. The Company monitors its capital structure and seeks to make adjustments based on changes in economic conditions and its funding requirements.

20. Change in estimate:

During 2009, the Company revised its estimate of the useful life of leasehold improvements, extending the period of amortization by eight months to more accurately capture the actual usage of the underlying leasehold assets. Accordingly, current period amortization is \$4,266 lower than it would have been had the estimate not been changed (note 5) and future amortization will increase by \$4,266 as a result of the revision in estimate.

21. Comparative figures:

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted in the current reporting period.

22. Future changes in accounting policies:

(a) Goodwill and intangible assets:

In February 2008, the Accounting Standards Board (“AcSB”) issued Section 3064, “Goodwill and Intangible Assets”, which replaces Section 3062, “Goodwill and Other Intangible Assets” and Section 3450, “Research and Development Costs”. For the Company, this Section is effective for interim and annual financial statements beginning on May 1, 2009. This Section establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets. The Company is currently evaluating the impact of this new standard on its financial statements, notably on the molecules and its granted and in progress patents. The adoption of this standard is not expected to have a significant effect on the amounts reported in the financial statements.

(b) International financial reporting standards (IFRS):

In February 2008, the AcSB confirmed that Canadian GAAP for publicly accountable enterprises would converge with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. For the Company, the change to reporting financial results under IFRS will be required for the interim and annual financial statement reporting periods of its fiscal year ending April 30, 2012. However, in order to provide comparative data for this reporting period the Company will need to capture its financial results under IFRS commencing with reporting for its April 30, 2011 year end.

The Company has commenced the process to transition from Canadian GAAP to IFRS. The transition plan includes the following 3 phases:

- **Diagnostic** – this phase involves the preparation of high level diagnostic analyses of key financial statement items that are expected to be impacted upon transition to IFRS. As part of this process, the Company expects to identify key data requirements and process modifications that will be required before transition occurs.
- **Development** – this phase involves more detailed analyses of the impact of IFRS on key financial statement items and focuses on implementation differences and issue resolution. During this stage of the transition process, management will finalize financial statement component evaluations 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.

- Implementation – this phase involves the execution of changes to financial reporting and business processes that will enable the Company to compile financial statements which are compliant with IFRS. Accounting policies compliant with IFRS will be approved and entrenched in the financial reporting system.

The Company has completed the diagnostic phase of its IFRS transition plan. The development phase is underway and key component evaluations are in the process of being prepared for key items identified in the diagnostic phase.

(c) General standards of financial statement presentation:

In January 2008, 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. For the Company, this Section is effective for interim and annual financial statements beginning on May 1, 2009. This new standard is expected to have minimal impact on the financial statements.

(d) Financial Instruments:

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. This new standard is expected to have minimal impact on the financial statements.

23. Subsequent event:

On June 10, 2009, the Company announced that it was undertaking a non-brokered private placement of common share units with accredited investors to raise up to \$5,500,000. Each unit consists of one common share and one half warrant with an issue price of \$0.85. Each whole common share purchase warrant is exercisable for one common share at a price of \$1.11 for up to thirty-six months following closing. If fully subscribed the Company will issue 6,470,588 common shares and 3,235,294 whole warrants. Costs of the private placement are estimated to be \$390,000 if fully subscribed. Pursuant to TSX Venture Exchange regulations, the common shares issued under the private placement will be subject to a four-month hold from the date of closing.

Closing of the private placement is scheduled on or about July 24, 2009 and is subject to certain conditions, including normal regulatory approvals and final acceptance of the completed private placement by the TSX Venture Exchange.