

Critical Outcome Technologies Inc.

Fiscal 2009 Third Quarter Financial Statements
(Unaudited)

For the three and nine month periods ended January 31, 2009

Index

	Page
Notice of No Auditor Review of Interim Financial Statements	3
Balance Sheets	4
Statements of Operation and Deficit	5
Statements of Cash Flows	6
Notes to the Financial Statements	7 - 20

Critical Outcome Technologies Inc.

Notice of No Auditor Review of Fiscal 2009 Interim Financial Statements

For the three and nine month periods ended January 31, 2009

The accompanying unaudited balance sheet of Critical Outcome Technologies Inc. (COTI) as at January 31, 2009, the audited balance sheet as at April 30, 2008 and the unaudited statements of operations and cash flows for the three and nine month periods ending January 31, 2009 and 2008 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 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.
Balance Sheets

Page 4

	Unaudited January 31, 2009	Audited April 30, 2008 (note 14)
Assets		
Current assets:		
Cash and cash equivalents	\$ 366,810	\$ 3,113,220
Short term investments (note 3)	4,082,820	3,100,489
Miscellaneous receivables	140,876	118,000
Prepaid expenses and deposits	53,174	31,462
	4,643,680	6,363,171
Equipment	172,261	131,151
Molecules (note 4)	2,657,457	2,949,129
Patents (note 5)	373,903	253,310
Trademark	543	-
	\$ 7,847,844	\$ 9,696,761
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 424,575	\$ 299,665
Due to shareholders (note 6)	79,096	432,340
Notes payable	20,000	20,000
Current portion of capital lease obligations	3,980	20,024
	527,651	772,029
Capital lease obligations	1,263	1,263
Shareholders' equity:		
Share capital and warrants (note 7)	12,813,126	12,179,189
Contributed surplus (note 8)	1,351,857	1,008,259
Deficit	(6,846,053)	(4,263,979)
	7,318,930	8,923,469
	\$ 7,847,844	\$ 9,696,761

See accompanying notes to financial statements

Critical Outcome Technologies Inc.
Statements of Operation and Deficit
(Unaudited)

Page 5

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2009	2008	2009	2008
Revenues:				
Contract services	\$ 13,204	\$ 30,822	\$ 19,187	\$ 30,822
Expenses:				
Research and development	380,790	12,713	781,286	31,602
Salaries and benefits	216,767	210,190	567,468	536,074
Stock-based compensation (note 8)	86,922	(14,687)	343,598	368,297
Amortization of molecules	97,224	-	291,672	-
Professional fees	110,475	70,707	278,821	248,239
Corporate governance	68,251	6,388	150,543	46,307
Marketing	48,042	33,549	127,485	104,212
General and administration	19,870	23,838	86,274	83,791
Amortization of equipment	18,598	13,892	73,112	62,195
Interest and bank charges	1,379	5,283	9,079	9,430
Amortization of patents	1,689	-	4,696	-
Amortization of trademark	28	218	198	653
	1,050,035	362,091	2,714,232	1,490,800
Loss before other income	(1,036,831)	(331,269)	(2,695,045)	(1,459,978)
Other income:				
Investment tax credit refunds	10,620	-	10,620	53,077
Interest income	27,910	61,865	102,351	117,071
	38,530	61,865	112,971	170,148
Loss	(998,301)	(269,404)	(2,582,074)	(1,289,830)
Accumulated deficit, beginning of the period	(5,847,752)	(3,382,033)	(4,263,979)	(2,361,607)
Accumulated deficit, end of the period	\$ (6,846,053)	\$ (3,651,437)	\$ (6,846,053)	\$ (3,651,437)
Basic and diluted loss per common share	\$ (0.02)	\$ (0.01)	\$ (0.06)	\$ (0.03)
Weighted average number of common shares outstanding	46,720,214	43,266,102	46,426,265	40,103,368

See accompanying notes to financial statements

Critical Outcome Technologies Inc.
Statements of Cash Flows
(Unaudited)

Page 6

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2009	2008	2009	2008
Cash provided by (used in):				
Operating activities:				
Loss	\$ (998,301)	\$ (269,404)	\$ (2,582,074)	\$ (1,289,830)
Items not involving cash:				
Stock-based compensation	86,922	(14,687)	343,598	368,297
Amortization	117,539	14,110	369,678	62,848
Change in non-cash operating working capital (note 11)	161,528	536	80,322	24,979
	(632,312)	(269,445)	(1,788,476)	(833,706)
Investing activities:				
Increase in short term investments	(439,213)	(999,202)	(982,331)	(999,202)
Purchase of equipment	(103,200)	(25,069)	(114,222)	(150,762)
Investment in DDP Therapeutics	-	(673,964)	-	(791,270)
Additions to patents and trademark	(45,390)	(42,433)	(126,030)	(59,740)
	(587,803)	(1,740,668)	(1,222,583)	(2,000,974)
Financing activities:				
Issuance of share capital and warrants (net of issuance costs)	(369)	4,138,508	633,937	5,499,539
Decrease in capital lease obligations	(5,431)	(5,098)	(16,044)	(15,064)
Advances from (payments to) shareholders	559	1,342	(353,244)	(6,508)
	(5,241)	4,134,752	264,649	5,477,967
Increase (decrease) in cash and cash equivalents	(1,225,356)	2,124,639	(2,746,410)	2,643,287
Cash and cash equivalents, beginning of period	1,592,166	2,936,449	3,113,220	2,417,801
Cash and cash equivalents, end of period	\$ 366,810	\$ 5,061,088	\$ 366,810	\$ 5,061,088
Represented by:				
Cash	\$ 205,583	\$ 305,161	\$ 205,583	\$ 305,161
Cash equivalents	161,227	4,755,927	161,227	4,755,927
	\$ 366,810	\$ 5,061,088	\$ 366,810	\$ 5,061,088
Supplemental cash flow information:				
Interest paid	\$ 1,219	\$ 5,178	\$ 8,192	\$ 27,952

See accompanying notes to financial statements

Notes to the Financial Statements

Fiscal 2009 unaudited third quarter - for the three and nine month periods ended January 31, 2009

Description of business:

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

Using CHEMSAS®, the Company has created a pipeline of highly optimized libraries of six to ten, 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 libraries in the preclinical testing stage while it seeks to sell or license these molecules to interested pharmaceutical partners for human trials and further drug development. The libraries in various stages of development in the pipeline 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 a library of 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 for the preparation of interim financial statements. This results in certain information and disclosures normally included in the notes to the annual audited financial statements being condensed or not presented in these financial statements. These interim financial statements should be read in conjunction with the Company's most recent audited annual financial statements of April 30, 2008 and related notes.

(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 are not realized and the liabilities settled in the normal course of operations.

The Company has determined it is 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 no longer disclosed in the Statements of Operation and Deficit and Cash Flows.

Notes to the Financial Statements

Fiscal 2009 unaudited third quarter - for the three and nine month periods ended January 31, 2009

(b) Changes in accounting policies

The interim financial statements follow the same accounting policies and methods of application as the most recent annual financial statements, with the exception of the changes described below:

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 for the three and nine month periods ending January 31, 2009, however, it does result in expanded note disclosure - see note 13.

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 for the three and nine month periods ending January 31, 2009, however, it does result in expanded note disclosure – see note 10.

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 nor does it affect prior financial statement presentation.

2. Amalgamation of DDP Therapeutics:

On May 1, 2008, the Company amalgamated with its wholly owned subsidiary 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

Notes to the Financial Statements

Fiscal 2009 unaudited third quarter - for the three and nine month periods ended January 31, 2009

CICA Handbook. Total consideration, as determined by the issuance of common shares at the same share price of \$1.40 paid on the private placement plus cash 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 acquisition as set out below:

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

In accounting for the acquisition, a net future tax liability of \$655,234 arose 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 9) 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.

3. Short-term investments:

The Company has excess cash invested 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 January 31, 2009, maturities ranged from February 6, 2009 to September 1, 2009. The cost of these investments at January 31, 2009 was \$4,082,820 (market \$4,112,341) and at April 30, 2008 \$3,100,489 (market \$3,124,849).

4. Molecules:

Under the terms of the purchase agreement for DDP, there were two milestones related to the small cell lung cancer library (Molecules) acquired, which could result in additional consideration being paid up to the eighth anniversary of the agreement. Should the milestones not be achieved, the Company must either abandon its efforts to develop and commercialize the Molecules or it must issue payment of common shares or a cash payment as determined under the purchase agreement on the eighth anniversary. The Company has determined it is not possible to establish the likelihood of these

Notes to the Financial Statements

Fiscal 2009 unaudited third quarter - for the three and nine month periods ended January 31, 2009

milestones being achieved and accordingly, is amortizing the molecule costs over the 8 years to the anniversary date on November 27, 2015.

	January 31, 2009			April 30, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Molecules	\$ 3,111,169	\$ 453,712	\$ 2,657,457	\$ 3,111,169	\$ 162,040	\$ 2,949,129

5. Patents:

The Company is pursuing or has been granted composition of matter patents on certain molecules for therapeutic indication and manufacturing process as set out below:

	January 31, 2009			April 30, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Patents pending	\$ 205,155	\$ -	\$ 205,155	\$ 119,084	\$ -	\$ 119,084
Patents granted	177,714	8,966	168,748	138,496	4,270	134,226
	\$ 382,869	\$ 8,966	\$ 373,903	\$ 257,580	\$ 4,270	\$ 253,310

6. Due to shareholders:

The amounts advanced by shareholders are unsecured. 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%. Under the terms of the acquisition of DDP on November 27, 2007, 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.

	January 31, 2009	April 30, 2008
Non-interest bearing advances due on demand	\$ 30,063	\$ 30,060
5% interest bearing note due July 31, 2008	-	353,247
7% interest bearing notes due on demand	49,033	49,033
	\$ 79,096	\$ 432,340

Interest expense on the interest bearing notes for the nine months ended January 31, 2009 was \$7,058, (April 30, 2008 - \$13,175).

Notes to the Financial Statements

Fiscal 2009 unaudited third quarter - for the three and nine month periods ended January 31, 2009

7. Share capital and warrants:

	Expiry date	January 31, 2009		April 30, 2008	
		Issued	Amount	Issued	Amount
Share Capital:					
Authorized:					
Unlimited common shares					
Unlimited preference shares					
Issued:					
Common shares		46,720,214	\$12,810,220	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	Feb 14/09 to April 10/10	18,904	2,906	98,224	14,724
		18,904	2,906	1,172,029	176,917
			\$12,813,126		\$ 12,179,189
<hr/>					
				Shares	Amount
Balance April 30, 2008				45,655,409	\$ 12,002,272
Shares issued on \$0.70 warrants				35,000	36,237
Shares issued on \$0.60 warrants				1,000,000	749,656
Shares issued on \$0.40 agent warrants				29,805	22,055
Balance January 31, 2009				46,720,214	\$ 12,810,220

During the three months ended January 31, 2009, there were no warrants exercised or shares issued compared to 1,064,805 warrants exercised and common shares issued for the nine months ended January 31, 2009 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 \$174,012 attributed to the exercised and 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.

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

Notes to the Financial Statements

Fiscal 2009 unaudited third quarter - for the three and nine month periods ended January 31, 2009

	January 31, 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	935,678	0.66	330,000	1.41
Exercised	-		(110,000)	0.64
Cancelled or expired	(26,600)	0.75	(140,000)	1.14
Ending balance	2,374,078	\$ 0.78	1,465,000	\$ 0.84

- a) 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 the grant and vested immediately upon the grant.
- b) 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.
- c) 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.
- d) On December 17, 2008, 26,600 vested stock options held by a former director of the Company expired.

The total stock option compensation value related to grants during the nine months ended January 31, 2009 and the assumption estimates are as follows:

Risk free interest rate range	2.7 - 4.0 %
Expected dividend yield	-
Expected share volatility	115%
Expected average option life in years	5.0
Estimated total stock option compensation	\$ 604,271

For the three months ended January 31, 2009 the Company recorded total stock-based compensation expense of \$86,922 (January 31, 2008 - (\$14,687)) and \$343,598 for the nine months ended January 31, 2009 (January 31, 2008 - \$368,297) related to the vested stock options granted year to date as well as a prorata share on a straight line basis of unvested stock options granted in the current and prior fiscal years.

Notes to the Financial Statements

Fiscal 2009 unaudited third quarter - for the three and nine month periods ended January 31, 2009

Details of the outstanding stock options at January 31, 2009 are summarized below:

Weighted Average Exercise Price	Options granted and outstanding at Jan 31/09	Vested	Unvested	Weighted average remaining contractual life in years	Total stock based compensation value	Weighted average option value
\$0.50	500,000	-	500,000	4.75	\$ 295,500	\$ 0.591
\$0.64	1,035,000	959,998	75,002	2.95	306,211	0.296
\$0.70	50,000	41,666	8,334	2.95	15,908	0.318
\$0.75	309,078	309,078	-	4.33	205,771	0.613
\$1.00	130,000	130,000	-	3.24	111,540	0.858
\$1.20	100,000	33,332	66,668	4.45	103,000	1.030
\$1.35	150,000	150,000	-	3.15	176,400	1.176
\$2.00	100,000	100,000	-	3.68	176,700	1.767
\$0.77	2,374,078	1,724,074	650,004	3.63	\$ 1,391,030	\$ 0.579
Total expensed to January 31, 2009					\$ 1,130,830	
Available for grant at January 31, 2009					2,297,943	

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

2009	\$ 83,396
2010	133,312
2011	58,565
2012	14,896
	\$ 290,169

9. 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:

	January 31, 2009	April 30, 2008
Loss before income taxes	\$ (2,582,000)	\$ (1,902,000)
Statutory rate	33.00%	35.25%
Expected income tax recovery	(852,000)	(670,000)
Amounts not deductible for tax	118,000	131,000
Share issuance costs deductible for tax	(57,000)	(71,000)
Expiration of non-capital losses	37,000	5,000
Change in future income tax rates	91,000	91,000
Change in valuation allowance	509,000	(224,000)
Tax impact of acquisition	-	656,000
Other	154,000	82,000
Income tax expense	\$ -	\$ -

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at January 31, 2009 are presented below:

Notes to the Financial Statements

Fiscal 2009 unaudited third quarter - for the three and nine month periods ended January 31, 2009

	January 31, 2009	April 30, 2008
Losses carried forward	\$ 1,198,000	\$ 847,000
Research expenditures deferred for tax purposes	471,000	400,000
Equipment	-	4,000
Financing expenses	192,000	225,000
Other	49,000	-
Future tax assets	1,910,000	1,476,000
Less future tax liabilities related to intangible assets	(763,000)	(838,000)
Net future tax assets	1,147,000	638,000
Less valuation allowance	(1,147,000)	(638,000)
	\$ -	\$ -

The valuation allowance for future tax assets as at January 31, 2009 is \$1,147,000 (April 30, 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 \$4,131,000, and research and development expenditures of \$1,847,000, 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	1,391,000
Total non-capital losses	\$ 4,131,000
Total research and development expenditures, no expiry	\$ 1,847,000

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 attributes in the Company have resulted in a transitional tax credit of \$46,000. This credit is comprised

Notes to the Financial Statements

Fiscal 2009 unaudited third quarter - for the three and nine month periods ended January 31, 2009

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.

Certain expenses incurred by the Company during the nine months January 31, 2009 may qualify as research and development as described by provisions in the Canadian Income Tax Act. At January 31, 2009, the Company had not received \$16,502 of refundable Ontario tax credits owing to its former subsidiary DDP. The Company has also filed for approximately \$42,000 of refundable Ontario tax credits, which were not recorded, as the Company does not have reasonable assurance regarding collectability.

10. 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.

	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	\$ 366,810	\$ -	\$ -	\$ -	\$ 366,810	\$ -	\$ 366,810
Short term investments	-	4,082,820	-	-	4,082,820	-	4,082,820
Miscellaneous receivables	-	-	106,946	-	106,946	33,930	140,876
Accounts payable and accrued liabilities	-	-	-	(407,959)	(407,959)	(16,616)	(424,575)
Due to shareholders	-	-	-	(79,096)	(79,096)	-	(79,096)
Notes payable	-	-	-	(20,000)	(20,000)	-	(20,000)
	\$ 366,810	\$ 4,082,820	\$ 106,946	\$ (507,055)	\$ 4,049,521	\$ 17,314	\$ 4,066,835

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, their capacity for prompt liquidation and the ready availability of market values.

(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 changes to the Company's credit risk exposure or processes related to this risk during the quarter.

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:

Notes to the Financial Statements

Fiscal 2009 unaudited third quarter - for the three and nine month periods ended January 31, 2009

	Total	Current	31 - 60 days	61 - 90 days	Over 90 days
Trade receivables	\$ 67,056	\$ 49,993	\$ 17,063	\$ -	\$ -
Miscellaneous receivables	39,890	21,111	12,309	-	6,470
	\$106,946	\$ 71,104	\$ 29,372	\$ -	\$ 6,470

The Company's receivables are deemed to be of high credit quality and consequently, it does not require collateral to secure its receivables. The Company has never recognized an impairment of its receivables in the past and does not expect to in the future. There is concentration of credit risk in regards to the trade receivables, as the aggregated balance is comprised of two customers. The credit profile of both customers is high, therefore exposure to credit risk is determined to be minimal.

(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 current fiscal year. There have been no changes to the Company's credit risk exposure or processes related to this risk during the quarter.

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

	Total	0 - 90 days	91 - 180 days	181 - 270 days	Over 270 days
Cash and cash equivalents	\$ 366,810	\$ 366,810	\$ -	\$ -	\$ -
Short term investments	4,082,820	2,132,972	1,449,848	500,000	-
	\$4,449,630	\$2,499,782	\$1,449,848	\$ 500,000	\$ -

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

	Total	0 - 90 days	91 - 180 days	181 - 270 days	Over 270 days
Trade payables	\$ 294,590	\$ 294,590	\$ -	\$ -	\$ -
Accrued liabilities	113,369	113,369	-	-	-
Due to shareholders	79,096	79,096	-	-	-
Notes payable	20,000	20,000	-	-	-
	\$ 507,055	\$ 507,055	\$ -	\$ -	\$ -

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

Notes to the Financial Statements

Fiscal 2009 unaudited third quarter - for the three and nine month periods ended January 31, 2009

contractual maturity date. These instruments are used to free up cash on an as needed basis, determined by management. The Company's short term investments are concentrated in instruments with high credit ratings, which minimizes exposure to liquidity risk.

(c) Market risk:

Foreign currency risk:

The Company has contracts denominated in United States (U.S.) and Euro dollars and is exposed to risk with respect to fluctuations in exchange rates between Canadian, U.S. and Euro dollars. 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 quarter ended January 31, 2009 as the Company is using more testing contractors who invoice in U.S. dollars and the Canadian dollar has also declined against the U.S. dollar during the quarter. The amount of this exposure is not considered material to the financial statements.

A foreign currency gain was recorded during the quarter of \$2,156 and a loss for the nine months ended January 31, 2009 of \$4,026.

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, though the selection of investments is 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 quarter. The amount of this exposure is not considered material to the financial statements.

11. Change in non-cash operating working capital:

	Three Months Ended		Nine Months Ended	
	January 31,		January 31,	
	2009	2008	2009	2008
Miscellaneous receivables	\$ (17,479)	\$ (95,786)	\$ (22,876)	\$ (84,100)
Prepaid expenses and deposits	60,476	(23,623)	(21,712)	(9,973)
Deferred financing charges	-	40,515	-	-
Accounts payable and accrued liabilities	118,531	63,576	124,910	103,198
Change in working capital on purchase of DDP Therapeutics	-	15,854	-	15,854
	\$ 161,528	\$ 536	\$ 80,322	\$ 24,979

Notes to the Financial Statements

Fiscal 2009 unaudited third quarter - for the three and nine month periods ended January 31, 2009

12. Related party transactions:

There were no related party balances or transactions in the nine months ended January 31, 2009 not in the ordinary course of business. Other related party transactions are disclosed in notes 6, 8 and 16.

13. Capital management:

The Company's capital is defined as common shares and warrants, contributed surplus, deficit and expected cash flows. 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 longer-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 \$104,339 compared to total shareholder's equity of \$7,318,930 for a debt to equity ratio of 1.4%. There is no bank or other debt, which subjects the Company to covenants requiring the maintenance of liquidity levels or target ratios. The Company does not currently pay, or 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.

14. Comparative figures:

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

15. 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

Notes to the Financial Statements

Fiscal 2009 unaudited third quarter - for the three and nine month periods ended January 31, 2009

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.

(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.

A detailed analysis of the differences between IFRS and the Corporations' accounting policies as well as an assessment of the impact of various alternatives has commenced. Changes in accounting policies are likely, but whether their impact on the financial statements is material has not yet been determined.

(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.

16. Subsequent Event

On February 17, 2009, the Board of Directors approved the grant of 422,389 stock options to the directors. The options vested immediately with an exercise price of \$0.90 per share and have a five-year life. The stock-based compensation value of this grant and the assumption estimates are as follows:

	Directors
Risk free interest rate	2.21%
Expected dividend yield	-
Expected share volatility	210%
Expected average option life in years	5
Estimated total stock-based compensation	\$ 415,208

Notes to the Financial Statements**Fiscal 2009 unaudited third quarter - for the three and nine month periods ended January 31, 2009**

The Company uses its rolling six month historic closing stock prices from the TSX Venture Exchange in determining the volatility assumption for the Black-Scholes option-pricing model utilized in valuing stock grants for the immediately ensuing quarter. This rate as at January 31, 2009 was 210% compared to 115% at the time of the prior option grants set out in note 8.