

**Critical Outcome Technologies Inc.**  
(a development stage company)

**Interim Financial Statements**  
(Unaudited)

**Second Quarter - Six months ended October 31, 2006**

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# **Critical Outcome Technologies Inc**

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(a development stage company)

## **Notice of No Auditor Review of Interim Financial Statements**

**Second Quarter - Six months ended October 31, 2006**

The accompanying unaudited balance sheets of Critical Outcome Technologies Inc (COTI) as at October 31, 2006 and April 30, 2006 and the statements of operations and deficit, and cash flows for the six month periods ending October 31, 2006 and 2005 have been prepared by, and are the responsibility of the Company's management and have been reviewed and approved by the Board of Directors.

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

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

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	October 31, 2006	April 30, 2006
<b>Assets</b>		
Current assets:		
Cash	\$ 2,237,599	\$ 170,464
Other receivables	99,491	8,842
Prepaid expenses and deposits	8,722	5,241
	2,345,812	184,547
Equipment (note 4)	19,432	33,766
Patents (note 5)	87,687	68,727
Trademark (note 6)	1,305	1,740
Investment in 6441513 Canada Inc (note 7)	1	1
	\$ 2,454,237	\$ 288,781
<b>Liabilities and Shareholders' Deficiency</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 441,673	\$ 171,266
Due to shareholders (note 8)	153,853	127,194
Notes payable and other advances (note 9)	20,000	45,000
Current portion of capital lease obligation (note 10)	8,173	16,128
	623,699	359,588
Capital lease obligation (note 10)	33,525	33,525
Shareholders' equity		
Share capital and warrants (note 11)	2,754,676	576,292
Contributed surplus (note 12)	251,046	251,000
Deficit	1,208,709	931,624
	1,797,013	(104,332)
Commitments (note 16)		
Subsequent events (note 18)		
	\$ 2,454,237	\$ 288,781

See accompanying notes to unaudited interim financial statements

**Critical Outcome Technologies Inc.**  
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**Interim Statements of Operation and Deficit**  
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	Three Months Ended		Six Months Ended	
	October 31,		October 31,	
	2006	2005	2006	2005
<b>Revenues:</b>				
Contract services	\$ -	\$ 30,000	\$ -	\$ 30,000
Screening services	-	-	2,500	-
	-	30,000	2,500	30,000
<b>Expenses:</b>				
Salaries and benefits	92,578	46,072	172,323	61,561
Professional fees	15,700	13,978	52,656	26,144
Marketing	30,321	1,659	51,056	2,360
Research and product development	6,072	9,000	15,072	9,000
Amortization of furniture & equipment	6,021	3,669	14,333	4,715
Office and general	6,119	2,021	10,752	2,548
Interest and bank charges	2,882	1,040	7,470	1,890
Rent	4,673	4,503	9,255	8,800
Computer expense	3,272	4,127	5,091	6,068
Amortization of trademark	217	217	435	435
Reorganization costs	11,040	-	6,040	-
	178,895	86,286	344,483	123,521
<b>Loss before other income (expense)</b>	178,895	56,286	341,983	93,521
<b>Other income (expense)</b>				
Investment tax credit refund	75,050	-	75,050	-
Interest income	2,212	220	2,212	-
	77,262	220	77,262	-
<b>Loss</b>	101,633	56,066	264,721	93,521
Deficit, beginning of the period	1,094,712	378,150	931,624	340,695
Net book value of Aviator Petroleum Corp on amalgamation	(12,364)	-	(12,364)	-
<b>Deficit, end of the period</b>	\$ 1,208,709	\$ 434,216	\$ 1,208,709	\$ 434,216
Basic and diluted loss per common share	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.01
Weighted average number of common shares outstanding	24,970,560	9,280,000	23,671,946	8,508,261

See accompanying notes to unaudited interim financial statements

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

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	Three Months Ended October 31,		Six Months Ended October 31,	
	2006	2005	2006	2005
<b>Cash provided by (used in):</b>				
<b>Operating activities:</b>				
Loss	\$ 101,633	\$ 56,066	\$ 264,721	\$ 93,521
Amortization of trademark	217	218	435	435
Amortization of equipment	6,021	3,669	14,333	4,715
Net cash acquired on amalgamation with Aviator Petroleum	(12,364)	-	(12,364)	-
Cash acquired on amalgamation with 133564 Ontario Inc	-	-	46	-
Change in non-cash operating working capital	(54,707)	(223)	176,276	(5,509)
	(162,466)	(52,402)	(85,995)	(93,880)
<b>Investing activities:</b>				
Additions to patents	(10,010)	(3,347)	(18,960)	(16,950)
	(10,010)	(3,347)	(18,960)	(16,950)
<b>Financing activities:</b>				
Issue of common shares & warrants (net)	2,400,886	-	2,178,386	99,999
Issue of preference shares	-	-	-	1
Note payable and other advances	(25,000)	-	(25,000)	-
Repayment of obligation under capital lease	(4,012)	(1,540)	(7,955)	(1,540)
Due to shareholders	14,777	30,383	26,659	10,779
	2,386,651	28,843	2,172,090	109,239
<b>Increase (decrease) in cash</b>	2,214,175	(26,906)	2,067,135	(1,591)
Cash, beginning of the period	23,424	27,135	170,464	1,820
<b>Cash, end of the period</b>	\$ 2,237,599	\$ 229	\$ 2,237,599	\$ 229
<b>Supplemental cash flow information:</b>				
Interest expense paid	\$ 2,044	\$ -	\$ 2,343	\$ -

See accompanying notes to unaudited interim financial statements

**Critical Outcome Technologies Inc.**  
**(a development stage company)**  
**Notes to the Financial Statements**  
**(Unaudited)**

**1 Incorporation and amalgamation**

On October 13, 2006 Critical Outcome Technologies Inc. (Old COTI) amalgamated with Aviator Petroleum Corporation (Aviator), a public company listed on the TSX Venture Exchange (the Exchange), to form a new company with the name Critical Outcome Technologies Inc. (COTI) under the provisions of the Business Corporations Act (Ontario).

The amalgamation between Aviator and Old COTI was an arm's length transaction requiring shareholder approval and a majority of the minority approval pursuant to applicable corporate laws. The amalgamation constituted the qualifying transaction of Aviator pursuant to the policies of the Exchange and is the means by which Old COTI has become a public issuer.

Under the amalgamation agreement the Aviator common shares were exchanged for 5,635,000 common shares of COTI. In addition, the Aviator Agent's Options outstanding were exchanged for Agent's Options of COTI with the same terms entitling holders to acquire up to 275,000 COTI common shares. The Old COTI common shares were exchanged for 28,967,332 COTI common shares with a deemed value of \$0.34521 per share. In addition, each outstanding \$0.40 warrant, \$0.70 warrant, \$0.30 agent's warrant and \$0.40 agent's warrant was exchanged on a one for one basis for replacement securities of COTI with the same terms. The transaction resulted in the shareholders of Old COTI retaining an 83.7% interest in the amalgamated company, with the shareholders of Aviator retaining a 16.3% interest. The COTI common shares commenced trading on October 30, 2006 with 34,602,332 shares issued and outstanding (see note 12).

Since the qualifying transaction and amalgamation resulted in Old COTI shareholders acquiring control of the amalgamated company, Old COTI is deemed to be the acquirer. For financial reporting purposes, the share exchange is therefore considered to be a reverse takeover. As Aviator was deemed a non-operating public enterprise the transaction has been accounted for as a capital transaction wherein the net monetary assets of Aviator are recorded at their fair market values. The net monetary assets of Aviator upon amalgamation were as follows:

Monetary assets	269,780
Monetary liabilities	<u>90,089</u>
Net monetary assets	<u><u>179,691</u></u>

The Company has not yet finalized the allocation of the costs associated with the amalgamation. The preliminary allocation of the amalgamation costs is based upon management's best estimate and information available at the time of preparing these interim financial statements and any changes are not expected to be material.

**2. Description of the business**

COTI is a biopharmaceutical company focused on applying its proprietary computer technology, CHEMSAS®, to identify, profile and optimize commercially viable drug candidates at the earliest stage of pre-clinical drug development and thereby dramatically reduce the time line and cost of getting new drug therapies to market.

The Company has been in the development stage, with a significant emphasis on the development of the predictive capabilities of the technology. Since inception, business activities have centered on developing CHEMSAS® which is based upon a hybrid of artificial intelligence technologies and proprietary algorithms that allow accurate prediction of specific biological activities from the molecular structure. These predictions include efficacy, acute toxicity, and the ADME properties; absorption, distribution, metabolism (e.g. cytochrome P450 interactions) and excretion. Substantially all of the Company's research and development expenditures, capital expenditures, including costs incurred to secure patents have been related to developing and proving this core technology.

In developing its technology, COTI has focused on proprietary small molecules used to treat cancer and HIV. This focus has been on cancers with high morbidity and mortality such as acute leukemia in adults, hormone resistant breast cancer, hormone resistant prostate cancer, small cell lung cancer and melanoma, which currently have either poor or no effective therapies.

Using CHEMSAS® the company is developing a pipeline of small highly optimized libraries of 6-10 molecules for specific therapy targets and plans to sell/licence these libraries to interested pharmaceutical partners for human trials

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and further drug development. Currently, the libraries in the pipeline in various stages of development are targeted at small cell lung cancer, colorectal cancer, HIV integrase inhibitors, chronic and acute leukemia and multiple sclerosis.

In addition to its targeted library pipeline, the Company may also take particularly promising individual molecules forward for development outside of the library development approach. These molecules would follow the same development process and approach as the library molecules through to the end of *in vitro* and *in vivo* testing. These compounds will then be available for sale, licensing or co-development with a pharmaceutical partner.

**3. Significant accounting policies**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the exception of income taxes and investment tax credits (see note 3(i) and (k) and note 14) which have not been adjusted to reflect the losses sustained in operations and the investment tax credits received or receivable since the April 30, 2006 year end. Significant accounting policies adopted by the Company are as follows:

a) Basis of presentation

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

The Company has incurred a loss of \$264,721 (2005 - \$93,521) and negative cash flow from operations of \$61,281 (2005 - \$93,880) for the six months ended October 31, 2006. As of October 31, 2006, the Company has an accumulated deficit of \$ 1,183,950 (2005 - \$434,216) which results in shareholders' equity of \$ 1,797,013. As of October 31, 2006 the company has working capital of \$1,722,113. This working capital is adequate to fund the company's existing corporate, administrative and operational functions for the next year.

b) Equipment

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

Asset	Useful Life
Furniture and fixtures	5 years
Computer hardware	2 years
Computer software	Term of licence

c) Patents

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

d) Trademarks

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



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e) Impairment of long-lived assets

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

f) Portfolio investments

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

(g) Research and development

Research expenditures are expensed as incurred. Development expenditures are deferred when they meet the criteria for capitalization in accordance with Canadian GAAP, and the future benefits could be regarded as being reasonably certain. At October 31, 2006 and April 30, 2006 no development costs were deferred.

h) Revenue recognition

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

i) Investment tax credits

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

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

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

k) Income taxes

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

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

l) Use of estimates

The preparation of these financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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m) 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.

**4. Equipment**

	October 31, 2006			April 30, 2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 43,626	\$ 26,754	\$ 16,872	\$ 43,626	\$ 17,552	\$ 26,074
Furniture and fixtures	5,494	2,934	2,560	5,494	2,384	3,110
Computer software	12,762	12,762	0	12,762	8,180	4,582
	\$ 61,882	\$ 42,450	\$ 19,432	\$ 61,882	\$ 28,116	\$ 33,766

**5. Patents**

The Company has obtained a patent on certain molecules and their manufacturing process with accumulated costs at October 31, 2006 and April 30, 2006 of \$87,687 and \$68,727 respectively.

**6. Trademark**

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

	October 31, 2006			April 30, 2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
CHEMSAS® - molecular screening technology	\$ 4,350	\$ 3,045	\$ 1,305	\$ 4,350	\$ 2,610	\$ 1,740

**7. Investment in 6441513 Canada Inc**

On August 31, 2005, COTI signed a Memorandum of Understanding (MOU) to form a company to develop and commercialize a molecule library of 10 small cell lung cancer (SCLC) drug candidates. COTI has a 10% ownership interest and certain COTI shareholders have a 50% ownership interest in the company, 6441513 Canada Inc (6441513), formed to develop the SCLC library.

Under an agreement created April 7, 2006 pursuant to the MOU, COTI transferred the library of small cell lung cancer molecules to 6441513 for \$1. Under the agreement COTI is entitled to receive a payment in the amount of 10% of the aggregate net proceeds raised by 6441513 in connection with a financing to support (a) the validation of the transferred molecules for purposes of an investigational new drug filing and (b) entering into a strategic agreement with a pharmaceutical company. Net proceeds is defined as the gross amount realized from the financing less the direct costs incurred by 6441513 in completing the financing.

COTI earned contract services revenue from 6441513 during the six months ended October 31, 2006 of \$2,500.

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**8. Due to shareholders**

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

	October 31, 2006	April 30, 2006
Non-interest bearing advances	\$ 72,153	\$ 45,494
Interest bearing notes	81,700	81,700
	\$ 153,853	\$ 127,194

Interest expense on the interest bearing notes at October 31, 2006 and April 30, 2006 was \$2,883 and \$2,592 respectively.

**9. Notes payable and other advances**

	October 31, 2006	April 30, 2006
Unsecured notes payable bearing interest at bank prime plus 3%, due on demand with 30 days notice	\$ 20,000	\$ 20,000
Advance from Aviator Petroleum Corporation		25,000
	\$ 20,000	\$ 45,000

Upon amalgamation an advance made by Aviator as a non-refundable, unsecured advance pursuant to a signed letter of intent dated February 7, 2006 was applied to the proceeds of the purchase.

**10. Capital lease obligation**

	October 31, 2006	April 30, 2006
2007	\$ 9,240	\$ 18,480
2008	18,480	18,480
2009	16,942	16,942
Total minimum lease payments	44,662	53,902
Less amount representing interest 5.56%	2,964	4,249
	41,698	49,653
Current portion of capital lease obligation	8,173	16,128
	\$ 33,525	\$ 33,525

The Company entered into a capital lease with a shareholder effective October 1, 2005 for certain computer hardware, software and related support equipment.

**11. Share capital and warrants**

	October 31, 2006	April 30, 2006
Share Capital:		
Authorized:		
Unlimited number of common shares		
Unlimited number of preference shares		
Issued:		
34,602,322 (April 2006 - 22,373,332) common shares	\$ 2,618,676	\$ 551,792
Share purchase warrants:		
733,332 common share \$0.40 warrants - expiry April 19/08	22,000	22,000
40,000 common share \$0.30 warrants - expiry April 19/08	2,500	2,500
3,297,000 common share \$0.70 warrants - expiry April 13/08	56,000	
659,400 common share \$0.40 warrants - expiry Oct 13/08	55,500	
	\$ 2,754,676	\$ 576,292

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- a) On October 11, 2006 the Company closed a private placement pursuant to an Amended Confidential Offering Memorandum (the "Offering") dated September 13, 2006. The Company issued private placement units (the "Units") consisting of one common share and one-half a common share purchase warrant. Each whole common share purchase warrant (the "\$0.70 Warrant") is exercisable into one additional common share at a price of \$0.70 for a period of eighteen months. The issue price of the Units was \$0.40. The Company issued 6,594,000 Units for gross proceeds of \$2,637,600. Whole \$0.70 warrants arising from this offering totaled 3,297,000.

The agent for the Offering was Northern Securities Inc. (Northern). Costs paid to Northern consisted of cash commission, agent's work fee, agent's legal fees and agents expenses in printing and distributing the offering including applicable GST and totaled \$298,688. Net proceeds paid by Northern to the Company were \$2,338,912. In addition, Northern and its syndicate brokers were issued 659,400 warrants (Agent's Warrants) which equaled 10% of the number of Units sold. Each Agent's Warrant has the right to purchase one Unit at \$0.40 at anytime prior to the date that is 24 months from the closing date of the Offering.

The \$0.70 Warrants were valued at \$0.017 per warrant using a Black-Scholes option pricing model assuming a risk free interest rate of 5.5%, an expected dividend yield of nil, an expected volatility of 45% and an expected of 18 months. Each Agent's Warrant issued was valued at \$0.084 using the Black Scholes option pricing model and the same assumptions note previously except an expected period of 24 months.

- b) On October 13, 2006 Critical Outcome Technologies Inc. (Old COTI) amalgamated with Aviator Petroleum Corporation (Aviator), a public company listed on the TSX Venture Exchange (the Exchange), to form a new company with the name Critical Outcome Technologies Inc. (COTI) under the provisions of the Business Corporations Act (Ontario).

Under the amalgamation agreement the Aviator common shares were exchanged for 5,635,000 common shares of COTI. In addition, the Aviator Agent's Options outstanding were exchanged for Agent's Options of COTI with the same terms entitling holders to acquire up to 275,000 COTI common shares. The Old COTI common shares were exchanged for 28,967,332 COTI common shares. Each outstanding \$0.40 warrant, \$0.70 warrant, \$0.30 agent's warrant and \$0.40 agent's warrant was exchanged on a one for one basis for replacement securities of COTI with the same terms.

- c) On October 13, 2006 the Company established a stock option plan for executives (directors and officers), employees and consultants who contribute toward the long-run goals of the Company. Under the Plan, the maximum number of shares available for purchase pursuant to Options granted shall not exceed ten percent (10%) of the outstanding issued shares. The awarding of options, their exercise price and vesting period is determined by the Compensation Committee. As of October 31, 2006 no options had been granted under the Plan.

**12. Contributed surplus**

	October 31, 2006	April 30, 2006
Stock Option Compensation	\$ 251,000	\$ 251,000
Cash acquired on amalgamation	46	
	\$ 251,046	\$ 251,000

On April 12, 2006 the Company amalgamated with its major shareholder, 1336554 Ontario Inc.(1336554), an investment holding company whose only assets were the common shares of COTI and a small amount of cash. On the amalgamation date, the authorized but unissued shares of both amalgamating corporations were cancelled. All shareholders of the amalgamating corporations exchanged their shares for new shares in the amalgamated company. In addition, the Company acquired a small amount of petty cash from the holding company in the amount of \$46.

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**13. Income taxes and investment tax credits**

The tax effect of temporary differences that give rise to significant portions of the future tax assets and liabilities at April 30, 2006 are presented below. These amounts have not been adjusted to reflect the loss from operations incurred during the six months ended October 31, 2006 and the impact on the future tax assets and liabilities.

	April 30, 2006
Losses carried forward	\$ 225,000
Research expenditures deferred for tax purposes	2,000
Intangible assets	7,000
Financing expenses	2,000
Future tax assets	236,000
Less future tax liabilities relating to:	
Equipment	-
Intangible assets	-
Net future tax assets	236,000
Less valuation allowance	(236,000)
	\$ -

The valuation allowance for future tax assets as at April 30, 2006 is \$236,000. In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the future tax assets are deductible, management currently believes it is more likely than not that the Company will not realize the benefits of the deductible difference.

The Company has non-capital losses of approximately \$620,000 and \$6,800 of research and development expenditures which may be applied to reduce taxable income of future years expiring as follows:

2007	\$ 31,000
2008	22,000
2009	14,000
2010	127,000
2014	59,000
2015	77,000
2016	290,000
Research and development expenditures, no expiry	\$ 6,800

The benefits of these losses and research and development expenditures have not been recognized in the financial statements.

Certain expenses incurred by the Company during the six month period ended October 31, 2006 may qualify as research and development as described by regulations in the Canadian Income Tax Act. Qualified amounts for the taxation year ended April 11, 2006 are eligible for investment tax credits (ITCs) which are refundable to the Company. As a result of the announcement in April 2006 of the Company's agreement to enter into an amalgamation with Aviator the current year and future year ITCs will only be eligible to reduce taxes payable. At October 31, 2006 the Ontario ITC claim for the April 11, 2006 taxation year had been received in the amount of \$14,852 but the Federal ITC for \$46,805 was approved but not yet received.

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**14. Financial instruments**

(a) Fair value disclosure:

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

The Company has determined that the carrying value of its short-term financial assets and liabilities, including cash and cash equivalents, other receivables, accounts payable and accrued liabilities and due to related parties approximates their fair value because of the relatively short periods to maturity of these instruments.

The fair value of the note payable approximates the carrying value because interest is based on market-related variable interest rates.

(b) Credit risk:

Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. The Company regularly monitors the 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 instrument potentially subjecting it to a significant concentration of credit risk.

**15. Change in non-cash operating working capital**

	October 31, 2006	April 30, 2006
Other receivables	\$ (43,845)	\$ (5,296)
Investment tax credit receivable	(46,805)	(13,720)
Prepaid expenses and deposits	(3,481)	(2,817)
Accounts payable and accrued liabilities	270,407	70,074
	<u>\$ 176,276</u>	<u>\$ 48,241</u>

**16. Commitments**

The Company had an operating lease for its office space with a monthly lease rate of \$1,558 which expired on August 31, 2006. It currently is continuing to lease this space on a monthly lease arrangement at the same rate.

**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. Subsequent events**

In December 2006 Northern exercised stock options on 243,500 of its 275,000 \$0.10 Agent Stock Options at the exercise price of \$0.10 for net proceeds to the Company of \$24,350.