Critical Outcome
Technologies Inc.

Condensed Interim Financial Statements
Fiscal 2012 - First Quarter
(Unaudited)

For the three month periods ended July 31, 2011 and 2010

Table of Contents

CRITICAL OUTCOME TECHNOLOGIES INC.

Notice of No Auditor Review of Condensed Interim Financial Statements

For the three month periods ended July 31, 2011 and 2010

The accompanying unaudited interim statements of financial position of Critical Outcome Technologies Inc. (COTI) as at July 31, 2011, April 30, 2011 and May 1, 2010 and the unaudited interim statements of changes in equity as at July 31, 2011, April 30, 2011 and May 1, 2010, interim comprehensive loss and cash flows for the three month periods ended July 31, 2011 and 2010 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.

Interim Statements of Financial Position

(All amounts unaudited and expressed in Canadian Dollars)

As at	July 31, 2011	April 30, 2011	May 1, 2010
Assets			
Current assets:			
Cash and cash equivalents	$ 1,256,961	$ 1,794,621	$ 1,945,376
Short-term investments (note 5)	301,236	300,296	-
Miscellaneous receivables	156,837	131,740	29,756
Prepaid expenses and deposits	59,970	70,475	80,760
	1,775,004	2,297,132	2,055,892
Equipment	63,489	65,735	84,820
Intangible assets	2,236,057	2,340,630	2,697,304
	$ 4,074,550	$ 4,703,497	$ 4,838,016
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	$ 295,725	$ 342,574	$ 343,940
Due to shareholder	1,069	1,069	1,069
	296,794	343,643	345,009
Shareholders' equity:			
Share capital and warrants (note 6)	15,746,078	15,712,104	13,812,200
Contributed surplus	2,410,944	2,384,761	2,416,440
Deficit	(14,379,266)	(13,737,011)	(11,735,633)
	3,777,756	4,359,854	4,493,007
	$ 4,074,550	$ 4,703,497	$ 4,838,016

Going concern (note 3 (c))
Commitments (note 12)
Contingency (note 13)
Events after reporting period date (note 15)

See accompanying notes to interim financial statements

CRITICAL OUTCOME TECHNOLOGIES INC.

Interim Statements of Comprehensive Loss

(All amounts unaudited and expressed in Canadian Dollars)

For the three months ended		July 31, 2011		July 31, 2010
Expenses (income):				
Research and product development	$	205,941	$	196,374
Sales and marketing		57,718		62,527
General and administration		415,325		303,551
Investment tax credit		(29,890)		-
		649,094		562,452
Loss from operations before the undernoted		(649,094)		(562,452)
Finance income:				
Interest income, net		4,503		2,693
Foreign exchange gain		2,336		809
		6,839		3,502
Loss and comprehensive loss	$	(642,255)	$	(558,950)
Loss per share:				
Basic and diluted loss per common share	$	(0.01)	$	(0.01)

See accompanying notes to interim financial statements

CRITICAL OUTCOME TECHNOLOGIES INC.

Interim Statements of Changes in Equity

(All amounts unaudited and expressed in Canadian Dollars)

For the three months ended July 31, 2010	Common Shares	Warrants	Total Share Capital	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, May 1, 2010	$ 13,587,267	$ 224,933	$ 13,812,200	$ 2,416,440	$ (11,735,633)	$ 4,493,007
Fair value of proceeds on private placement	29,018	6,426	35,444	-	-	35,444
Stock-based compensation expense	-	-	-	(69,318)	-	(69,318)
Loss and comprehensive loss	-	-	-	-	(558,950)	(558,950)
Transitional adjustments per IFRS	-	-	-	12,161	-	12,161
Balance, July 31, 2010	$ 13,616,285	$ 231,359	$ 13,847,644	$ 2,359,283	$ (12,294,583)	$ 3,912,344

For the three months ended July 31, 2011	Common Shares	Warrants	Total Share Capital	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, April 30, 2011	$ 14,779,915	$ 932,189	$ 15,712,104	$ 2,384,761	$ (13,737,011)	$ 4,359,854
Exercise of options	33,974	-	33,974	(14,999)	-	18,975
Stock-based compensation expense	-	-	-	41,182	-	41,182
Loss and comprehensive loss	-	-	-	-	(642,255)	(642,255)
Balance, July 31, 2011	$ 14,813,889	$ 932,189	$ 15,746,078	$ 2,410,944	$ (14,379,266)	$ 3,777,756

See accompanying notes to interim financial statements

CRITICAL OUTCOME TECHNOLOGIES INC.

Interim Statements of Cash Flows

(All amounts unaudited and expressed in Canadian Dollars)

For the three months ended	**July 31, 2011**	**July 31, 2010**
Cash provided by (used in):		
Operating activities:		
Loss	$ (642,255)	$ (558,950)
Items not involving cash:		
Stock-based compensation (note 7)	41,182	(57,157)
Amortization	119,274	123,481
Investment tax credit	29,890	-
Interest Income, net	4,503	2,693
Unrealized foreign exchange gain	-	278
Change in non-cash operating working capital (note 10)	(94,083)	(82,092)
	(541,489)	(571,747)
Interest received	(1,542)	(1,826)
Net cash used in operating activities	(543,031)	(573,573)
Investing activities:		
Purchase of equipment	(1,234)	-
Expenditures on intangible assets	(11,221)	(8,232)
Net cash used in investing activities	(12,455)	(8,232)
Financing activities:		
Issuance of share capital and warrants (net of issuance costs) (note 6)	18,974	35,444
Interest paid	(151)	(239)
Net cash provided by financing activities	18,823	35,205
Increase (decrease) in cash and cash equivalents	(536,663)	(546,600)
Unrealized foreign exchange gain (loss) on cash and cash equivalents	(997)	2,493
Cash and cash equivalents, beginning of the period	1,794,621	1,945,376
Cash and cash equivalents, end of the period	$ 1,256,961	$ 1,401,269
Represented by:		
Cash	$ 152,808	$ 106,190
Cash equivalents	1,104,153	1,295,079
	$ 1,256,961	$ 1,401,269

See accompanying notes to interim financial statements

1. Corporate information:

Critical Outcome Technologies Inc. (COTI) is a public corporation trading in Canada on the TSX Venture Exchange (TSXV) under the trading symbol “COT” and incorporated under the laws of the Province of Ontario, Canada with its registered office located at Suite 213, 700 Collip Circle, London, Ontario, Canada, N6G 4X8.

2. Description of business:

COTI operates as a biotechnology company focused on applying its proprietary computer-based technology, CHEMSAS®, to identify, profile, optimize and select 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 optimized, novel, proprietary, small molecules for specific therapy targets with high morbidity and mortality rates, 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 various cancers, HIV, multiple sclerosis and Alzheimer’s disease. The Company has also initiated a collaboration strategy to use its technology with pharmaceutical partners who have their own therapy targets, which can benefit from the Company’s drug discovery technology in creating lead compounds for the collaborator’s therapeutic interests.

3. Basis of preparation:

(a) Statement of compliance:

These interim financial statements for the three months ended July 31, 2011 have been prepared in accordance with International Financial Reporting Standards (IFRS) and specifically International Accounting Standard (IAS) *34 – Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB).

(b) Basis of presentation:

These are the Company’s first interim financial statements prepared in accordance with IFRS and accordingly IFRS 1 - *First-Time Adoption of International Financial Reporting Standards* has been applied. The Company's financial statements were previously prepared in accordance with Canadian Generally Accepted Accounting Principles (CGAAP). The accounting policies have been selected to be consistent with the policies the Company expects to adopt in its annual financial statements as at and for the year ending April 30, 2012, the Company’s first annual IFRS reporting date. The adoption of IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under CGAAP. The accounting policies below were applied to all periods presented unless otherwise noted. They have also been applied in the preparation of the opening IFRS statement of financial position as at May 1, 2010, as required by IFRS 1. Reconciliations and descriptions on the transition from CGAAP to IFRS and the impact on the interim statements of financial position, equity, comprehensive loss and cash flow are provided in note 16.

COTI has also prepared these interim financial statements on an individual entity basis as it has no subsidiaries. Management has determined that the Company operates in one reportable segment based on the business activities reflected in its revenues and expenses to date.

In preparing the interim financial statements, certain information and disclosures normally included in the notes to the annual audited financial statements are condensed or not presented. These interim financial statements should be read in conjunction with the Company's most recent audited annual financial statements as of April 30, 2011 and related notes prepared using CGAAP.

(c) Going concern:

Financial statements are required to be prepared on a going concern basis unless management either intends to liquidate the Company or cease trading or has no realistic alternative but to do so within the foreseeable future. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. The accompanying interim financial statements have been prepared assuming that the Company will continue as a going concern. There are material uncertainties related to certain conditions and events that raise significant doubts about the validity of this assumption. In particular, the Company has not yet established commercial operating revenues and operating cash flows continue to be negative. Key financial results for the quarters ended July 31, 2011 and 2010 are indicative of possible concern. These results include: a loss of $642,255 (July 31, 2010 - $558,950) and negative cash flow from operations of $543,031 (July 31, 2010 - $571,816). As at July 31, 2011, the Company had an accumulated deficit of $14,379,266 (April 30, 2011 - $13,737,011, which results in a shareholders' equity of $3,777,756 (April 30, 2011 - $4,359,854). As at July 31, 2011, the Company had working capital of $1,478,210 (April 30, 2011 - $1,953,489).

Financing for the Company's operations based upon budgeted plans for the balance of fiscal 2012 is available from existing cash balances. The Company is taking steps to address the going concern risk by: actively seeking potential customers, partners and collaborators as a means of furthering molecule development and generating revenue streams; pursuing alternative sources of financing, including but not limited to, raising capital in the public market and securing government grants. The Company has discretion in many of its budgeted activities and plans to manage these activities in fiscal 2012 within the limits of available cash resources. While the Company has a track record of fiscal responsibility and obtaining financing, there is no certainty that any of the aforementioned strategies will enable the Company to alleviate the going concern risk in future periods.

These interim financial statements do not include any adjustments to the amounts and classifications of assets and liabilities, or the reported revenues and expense that might be necessary should the Company be unable to continue as a going concern. Any adjustments to the interim financial statements could be material.

(d) Statement of approval

These interim financial statements were approved for issuance by the Audit Committee on October 25, 2011.

4. Significant accounting policies:

As a result of the change in accounting framework from CGAAP to IFRS, the accounting policies of the Company have changed, however, many of the IFRS accounting policies and methods of application are the same as those used in the most recent annual financial statements. These interim financial statements have been prepared mainly on a historical cost basis, unless otherwise noted and described in the applicable notes herein. The significant accounting policies adopted by the Company under IFRS are set out below and have been consistently applied to all periods presented in these condensed interim financial statements.

(a) Cash and cash equivalents:

Cash and cash equivalents 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. Cash and cash equivalents do not include any balances which are restricted in use by the Company.

(b) Foreign currency translation:

The financial statements are presented in Canadian dollars, which is the functional currency of the predominant economic environment in which the Company operates.

Foreign currency transactions are translated into the functional currency using a rate that approximates the closing exchange rate in effect when the transaction is recognized. At each reporting period, the Company's foreign currency monetary items are re-measured using the closing exchange rate in effect at the balance sheet date. Non-monetary items are not subsequently re-measured for changes in exchange rates occurring between the date of recognition and the reporting period end date.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the re-measurement of monetary items at period-end exchange rates are recognized in Finance income (expense) in the Interim Statements of Comprehensive Loss.

(c) Use of estimates:

The preparation of these interim financial statements in conformity with IFRS 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. There is a high degree of measurement uncertainty inherent in management's estimates and assumptions and accordingly, changes in these estimates and assumptions could result in material adjustments to the carrying amounts of assets and liabilities in future periods.

Significant estimates and assumptions which are subject to management judgment are set out below.

(i) Impairment of intangible assets and equipment:

To assess an impairment in carrying value of an individual asset or cash generating unit, the Company must develop estimates of the recoverable amount through expected future cash flows to be derived from the asset, incorporating expectations about possible variations in the amount and timing of those cash flows. Management must also develop an estimate of an appropriate discount rate to apply to those future cash flows. Given that management's estimates are based on future events and circumstances, actual results may vary and could result in a significant reduction to the carrying value of the underlying assets if the recoverable amount decreases substantially.

(ii) Carrying value of intangible assets and equipment:

The Company must estimate the useful lives and residual values of depreciable assets in developing estimates of depreciation. The Company must also choose an accounting policy which best reflects the consumption of the assets over their useful lives. These estimates and assumptions are reviewed regularly and could result in adjustment to the amount of depreciation recorded on a prospective basis if information obtained in the future justifies a change.

(iii) Stock-based compensation:

Calculations of stock-based compensation are prepared based on expected forfeiture rates using the Black-Scholes option-pricing model, which incorporates estimates of risk free interest rates, future dividends, future volatility and expected option life. These estimates are based on existing information and historical experience, which may not be indicative of results that occur in the future.

(iv) Accrued liabilities:

The Company has ongoing research and development projects, the duration of which can span several months. In order to accurately reflect the cost of such activities on a period by period basis, management must make estimates as to the timing of project completion and costs incurred. Accrued project costs included in accounts payable and accrued liabilities at the quarter end totaled $70,774. The future balance of accrued liabilities could vary significantly if projects are completed at a lower or higher cost than anticipated or if there are changes in the estimates of project duration.

(v) Deferred taxes:

The calculations of deferred taxes are based on estimates of future tax rates announced by federal and provincial governments, expected reversals of temporary differences over time and the Company's assessment of whether or not deferred tax assets are recoverable. Currently the Company does not recognize any deferred taxes due to uncertainties surrounding recoverability (notes 4(j) and 8). A change in this assessment of uncertainty and in other estimates could be significant from year to year and could result in the recognition of deferred taxes in the future.

(d) Equipment:

Details as to the Company's policies for equipment are as follows:

Asset	Measurement Basis	Amortization Method	Amortization Rate	Remaining Amortization Period
Computer hardware	Cost	Straight-line	24 - 36 months	3 - 21 months
Furniture and fixtures	Cost	Straight-line	60 - 120 months	8 - 94 months
Leasehold improvements	Cost	Straight-line	Term of lease	Fully amortized

The Company's equipment is not pledged as security for any liabilities, nor is there any title restrictions attached to the equipment.

Amortization of equipment is included in amortization expense. Any losses incurred from the impairment in value of equipment are included in impairment expense.

(e) Intangible assets:

The Company has no internally generated intangible assets nor does it have any indefinite life intangible assets. None of the Company's intangible assets are pledged as security for liabilities, nor are there any title restrictions attached to them.

Amortization of intangible assets is included in amortization expense in General and administration as recognized in the Interim Statements of Comprehensive Loss.

Intangible assets are subject to impairment review at each balance sheet date. All intangible assets are tested for impairment when there are indications that the carrying value may not be recoverable. Any impairment losses are recognized immediately as impairment expense in General and Administration in the Interim Statements of Comprehensive Loss.

Details as to the Company's intangible assets are as follows:

(i) Molecules:

On November 27, 2007, the Company acquired a library of ten molecules targeted for the treatment of small cell lung cancer. The molecules are being amortized in accordance with the timeline for the achievement of milestones as prescribed by the purchase agreement.

(ii) Patents:

The Company is pursuing or has been granted patents on certain molecules for claims such as therapeutic indication and manufacturing process.

The direct costs of evaluating and investigating patents are accumulated by specific molecule or group of molecules and these capitalized costs are amortized beginning in the month subsequent to the month the patent is granted. Patent costs incurred to validate the patent in specific countries following grant of patent in 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 abandoned prior to patent grant is expensed in the month when the decision is made not to pursue the patent.

(iii) Computer software:

Acquired computer software that is not integral to the operation of equipment is classified as an intangible asset.

The accounting policies for the Company's intangibles are summarized as follows:

Asset	Measurement Basis	Amortization Method	Amortization Rate	Remaining Amortization Period
Computer software	Cost	Straight-line	Term of license	1 - 12 months
Molecules	Cost	Straight-line	96 months	52 months
Patents	Cost	Straight-line	Life of patent	132 - 177 months

(f) Research and product development:

Research and product development expenditures are recognized as an expense in the Interim Statement of Comprehensive Loss in the period incurred. Internal development expenditures are capitalized in the Interim Statement of Financial Position when they meet the recognition criteria of IAS 38 "Intangible Assets" and the future benefits can be regarded as being reasonably certain. At July 31, 2011 and April 30, 2011, development costs directly related to patents were capitalized. Costs associated with the actual development of compounds were not capitalized due to the high level of risk up to the time that compounds are marketed as drugs, resulting in the requirements of IAS 38 not being satisfied.

In addition to its own research and product development, COTI also partners in collaborations with third parties aimed at developing marketable products. These collaborations typically involve the third party making payments to COTI for the achievement of certain milestones as set out under contract. With respect to these collaborations, an assessment is required as to whether the payments represent compensation for services performed (ongoing research and product development expense) or whether the payments represent the acquisition of a right. The Compensation received in collaborations has historically been assessed as being reimbursement for research and development expenditures, which is offset against the related research and development costs. Compensation assessed as the acquisition of a right will be capitalized as an intangible asset and amortized over the period of the expected future cash flows to be derived from the right.

(g) Financial instruments:

(i) Initial recognition and measurement

Financial instruments are recognized when the Company becomes a party to the contractual provisions of the financial instrument. The Company's financial instruments consist of cash and cash equivalents, short-term investments, miscellaneous receivables, and accounts payable and accrued liabilities. When initially recognized, financial instruments are measured at their fair value. Subsequent to initial recognition, financial instruments are measured based on their assignment into one of the following classification categories:

Financial Instrument	Classification	Measurement Basis After Initial Recognition	Gains (Losses) After Initial Recognition
Cash and cash equivalents	Fair value through profit or loss	Fair value	Profit (loss)
Short-term investments	Loans and receivables	Amortized cost	Profit (loss)
Miscellaneous receivables	Loans and receivables	Amortized cost	Profit (loss)
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	Amortized cost	Profit (loss)

The Company does not have any financial instruments classified as "available for sale" or "held to maturity." The Company has no derivative financial instruments.

The criteria used by the Company to classify its financial instruments are as follows:

1) Fair value through profit or loss (FVTPL):

Financial assets and liabilities are classified as FVTPL if management intends to hold these instruments for active trading in the near term.

2) Loans and receivables (L&R):

Financial assets are classified as L&R if they have fixed or determinable payments and are not quoted in an active market.

3) Financial liabilities at amortized cost:

This category captures any financial liabilities not classified as FVTPL.

(ii) Offsetting policy

Financial assets and liabilities are offset and the net amount presented in the Interim Statement of Financial Position when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the assets and settle the liability simultaneously.

(iii) Derecognition policy

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

(iv) Impairment

Any financial assets, which are not classified as FVTPL are subject to regular impairment review. L&R instruments are subject to a varying degree of impairment risk due to the credit worthiness of the Company's counterparties, however, the overall risk of impairment for L&R is considered to be relatively low. Impairment losses are calculated by deducting discounted expected future cash flows to be received from the carrying value of the financial asset. Estimated impairment losses due to declining credit worthiness or due to a breach of contract are recognized by way of an allowance account to reduce the carrying amount of L&R instruments recognized. Once the impairment is known with certainty, the financial asset carrying value is reduced directly and the allowance account is relieved of the impairment amount.

Purchases and sales of financial assets are recognized on their settlement date.

(h) Revenue recognition:

Revenue earned in the provision of services is recognized when the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the Company; the costs incurred or to be incurred can be measured reliably; and when the criteria for each of the Company's different activities under contract has been met.

Revenue from the sale of assets and the provision of services is measured by reference to the fair value of consideration received or receivable for the service provided.

Interest income and expenses are reported on an accrual basis using the effective interest method.

(i) Share capital and warrants:

1) Non-monetary consideration:

The value of common shares issued as consideration in non-monetary transactions is measured at fair value based upon the closing trading price of the Company's common shares on a single trading day or a range of trading days on the TSXV. Measurement occurs as of the date of an agreement to issue shares, an applicable transaction date as set out in an agreement, such as the achievement of a milestone, or at a date as determined by the Board of Directors where there is no specific date identified.

2) 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 issuing share capital are charged against share capital as incurred.

3) Warrants:

Warrants issued in combination with common shares as part of a private placement unit offering are allocated a share of the gross proceeds based on their pro-rata share of the calculated fair value of the total unit fair value issued, using a Black-Scholes pricing model.

(j) Income taxes:

Current taxes are calculated on taxable profit at the reporting period end. Taxable profit differs from accounting profit due to differences in the inclusion and deductibility of certain components of profit which are mandated by Canadian tax legislation. Current tax assets and liabilities are measured at the amount expected to be recovered or paid to the Canadian taxation authorities using the enacted tax rates at the reporting period end.

The Company follows the balance sheet liability method of accounting for deferred income taxes. Under this method, deferred income tax assets and liabilities are determined based on the temporary differences arising 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 effects of a change in income tax rates on deferred income tax assets and liabilities are recognized as income or loss in the year that the income tax rate change occurs.

Deferred tax assets are recognized to the extent that management believes it is probable that sufficient taxable profit will be available to realize the tax benefits. The Company establishes a valuation allowance against deferred tax assets if, based on available information, it is not probable that some or all of the related tax benefit will be realized.

Recognized deferred tax assets and liabilities are classified as non-current items in the balance sheet.

(k) Stock-based compensation:

The Company measures the cost for stock options (Options) granted based on an estimate of the fair value of the Options as at the date of the grant. The Company uses a Black-Scholes option-pricing model, that incorporates the value of the current share price, the exercise price, the expected volatility, the option life, any expected dividends and the risk free rate to estimate the fair value. The expected volatility is determined on a weighted average basis by reference to the most recent historic period of the Company's trading history and the trading history of comparable peer entities in situations where expected option life exceeds the available trading history of the Company.

The fair value of compensation issued to directors, officers, employees and consultants for services received is determined indirectly by reference to the fair value of the equity instruments granted in situations where the value of services received is not reliably or objectively measureable. Consultants engaged to date are deemed to provide services similar to those which could be provided by employees.

Stock-based compensation transactions are recorded in Contributed Surplus when they occur. The value of Options that vest immediately are recorded as stock-based compensation at the date of the grant. Options that vest over time are recorded over the vesting period using the graded method, which incorporates management's estimates of the Options which are not expected to vest. 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 is recognized in the current period. On exercise of an Option, the consideration received and the estimated fair value previously recorded in Contributed Surplus is recorded as Share Capital.

(l) Employee benefits:

The Company offers short-term benefits to its employees, the cost of which is recognized as employee services are rendered. Any unpaid benefit remittances to the service providers of these benefits are included in “accounts payable and accrued liabilities” on an undiscounted basis and represent what the Company expects to pay for these future benefit entitlements.

The Company does not provide any post-employment benefit plans such as defined benefit or defined contribution pension plans, long-term employee benefits, severance or termination benefits to its employees.

(m) Investment tax credits:

Investment tax credits (ITCs) are recognized when qualifying expenditures are made and there is reasonable assurance that the credits will be realized based upon the Company’s history of filing and collections. ITCs relating to research and development expenses are recorded as a reduction of expenses in the Interim Statement of Comprehensive Loss and those relating to capital expenditures are recorded as a reduction of the cost of the asset acquired.

(n) Government assistance:

Government assistance earned in connection with research and development and marketing activities is recorded against the related expenditures when incurred. Government assistance designated as expense reimbursement is recorded against those expenses when recognized, whereas assistance designated as capital expenditure reimbursement is recorded as a reduction in the cost of the asset acquired with amortization calculated on the net amount. Recognition of government assistance only occurs if there is reasonable assurance that the Company is in compliance with the conditions underlying the agreement for which the government assistance was granted.

In situations where government assistance is to be applied to expenditures in a subsequent accounting period, the assistance is deferred and amortized to income as the related expenses are incurred.

(o) Basic and diluted loss per share:

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. Diluted loss per share is computed in a manner consistent with basic loss per share, except that the weighted average number of shares outstanding is increased to include additional shares from the assumed exercise of options, warrants, and convertible instruments, if dilutive. These additional shares are deemed to be converted at the later of the beginning of the period or the date of the issue of the shares.

Contingently issuable shares which require performance conditions to be met are only included in the calculation of basic loss per share from the date when all of the necessary conditions for their issuance are satisfied. The inclusion of contingently issuable shares in diluted loss per share calculations is dependent upon management's assessment of the likelihood of achievement of performance conditions at the reporting period end.

5. Short-term investment:

The Company invests cash not needed for immediate working capital purposes in short-term securities having maturities greater than three months and rated "A high" or greater by Standard and Poor's and the Dominion Bond Rating Service. At July 31, 2011 the investment at market was $301,236 (cost $300,000) and at April 30, 2011 was $300,296 (cost $300,000). The short-term investment is scheduled to mature in April 2012.

6. Share capital and warrants:

		July 31, 2011		April 30, 2011	
	Expiry Date Ranges	Issued	Amount	Issued	Amount
Share capital:					
Authorized:					
Unlimited common shares					
Unlimited preference shares					
Issued:					
Common shares, without par value		62,487,494	$ 14,813,890	62,371,215	$ 14,779,916
Share purchase warrants:					
$0.40 compensation warrants	Oct 27 - Nov 27/11	106,250	16,549	106,250	16,549
$0.55 warrants	Oct 27 - Nov 27/11	1,575,500	214,810	1,575,500	214,810
$0.30 compensation warrants	Sep 24 - Oct 20/12	507,500	26,831	507,500	26,831
$0.30 warrants	Sep 24 - Oct 20/12	12,500,000	673,998	12,500,000	673,998
		14,689,250	932,188	14,689,250	932,188
			$ 15,746,078		$ 15,712,104

The rights, privileges and restrictions of the common shares are as follows:

(i) to vote at all meetings of the shareholders of the Corporation, except meetings at which only holders of a specified class of shares are entitled to vote; and,

(ii) subject to the rights, privileges, restrictions and conditions attaching to any other class or series of shares of the Corporation to receive any dividend declared by the Corporation on the common shares and to receive the remaining property of the Corporation upon dissolution.

A summary of the share capital transactions is as follows:

	Shares	Amount
Balance May 1, 2010	49,758,355	$ 13,587,267
Shares issued on private placement, net of issuance costs	12,612,860	1,192,649
	12,612,860	1,192,649
Balance April 30, 2011	62,371,215	14,779,916
Shares issued - option exercise	116,279	33,974
	116,279	33,974
Balance July 31, 2011	62,487,494	$ 14,813,890

On May 5, 2011, 58,139 stock options issued under the Company's stock option plan were exercised for gross proceeds of $9,593. On June 22, 2011, a further 58,140 stock options were exercised for gross proceeds of $9,593. Share capital was increased and contributed surplus was reduced by $14,999 for these options related to previously recognized stock-based compensation expense. Issuance costs of $211 were incurred.

7. Stock-based compensation:

Stock-based compensation transactions during the quarter ended July 31, 2011 were as follows:

a. On May 5, 2011, 58,139 stock options were exercised for gross proceeds of $9,593 (note 6).

b. On May 19, 2011, the Board amended the vesting term of 58,140 stock options with an exercise price of $0.165 granted to a former director which would have expired unvested on June 29, 2011. Vesting was effective that day.

c. On June 13, 2011, 200,000 vested stock options granted to a consultant, under a consultancy agreement that was not renewed at the end of its term on March 15, 2011, expired.

d. On June 21, 2011, the Company granted 200,000 stock options with an exercise price of $0.35 to a director who will be providing executive management consulting services to the Company. The options have a five-year maturity from the date of grant, with 50,000 vesting on each of September 1 and December 1, 2011 and March 1 and June 1, 2012.

e. On June 22, 2011, 58,140 stock options were exercised for gross proceeds of $9,593 (note 6 and 7(b)).

f. On June 29, 2011, 88,889 vested stock options granted to a director who resigned on March 31, 2011, expired unexercised.

The total stock option compensation calculated for the options granted during the quarter ended July 31, 2011 and the assumptions used in the option pricing model are as follows:

Risk free interest rate	1.5%
Expected dividend yield	-
Expected average share volatility	139.4%
Expected average option life	2.79 years
Estimated total stock option compensation	$ 48,650

For the quarter ended July 31, 2011, the Company recorded stock-based compensation expense of $41,182 (July 31, 2010 - $(57,157)) related to grants in the current and prior year.

8. Income taxes:

Consistent with the most recent year-end, the Company has not recognized the possible impacts of income taxes in the Interim Statements of Comprehensive Loss in the quarter. Management currently believes that the Company does not meet the probability criterion regarding the future likelihood that future taxable profits will be available against which its accumulated tax losses can be utilized to permit the recognition of deferred tax assets in the Interim Statements of Financial Position.

9. Financial instruments:

The carrying amounts of cash and cash equivalents, short-term investments, miscellaneous receivables, and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these financial instruments and there have been no material changes to the Company's exposures to credit, liquidity and market risk during the quarter.

10. Change in non-cash operating working capital:

		July 31, 2011		July 31, 2010
Miscellaneous receivables	$	(57,740)	$	15,380
Prepaid expenses and deposits		10,505		(199)
Accounts payable and accrued liabilities		(46,848)		(97,273)
	$	(94,083)	$	(82,092)

11. Government assistance:

In the current year, the Company has recognized $3,693 (July 31, 2010 – $nil) for government assistance under an Industrial Research Assistance Program grant with the National Research Council of Canada.

Under the agreement, the Company is eligible for reimbursement of up to $110,958 for salaries and contractor costs with no liability for repayment. The total amount recognized under the grant since its inception in July 2010 is $20,061. Government assistance accrued has been credited against salaries and the underlying R&D expense accounts related to contractors' services.

12. Commitments:

Research and development contracts:

The Company is committed to pay $30,870 during the remainder of fiscal 2012 for the completion of research and development contracts existing at the quarter end.

13. Contingency:

Upon the November 27, 2007, acquisition of 3015402 Ontario Inc. (formerly 6441513 Canada Inc.) operating as DDP Therapeutics, the Company became contingently liable for the issuance of 1,431,441 common shares as part of the purchase consideration should certain development milestones be subsequently achieved by any molecule from the small cell lung cancer (SCLC) (Molecule) library acquired in the purchase.

One-half of this contingent share consideration is payable upon the first occasion any Molecule achieves one of 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 received; or
b) when either the United States or the European patent authorities issue the Company a final patent.

The second half of this contingent share consideration is payable upon any Molecule achieving both milestones.

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.

Subsequent to the quarter end (note 15), the Company achieved one of the milestones, the receipt of a US patent for a Molecule, COTI-2. The Company has determined that the achievement of the second milestone for COTI-2 does not meet IFRS guidance providing that where the event is "more likely than not" to occur such event should be recognized. Major factors considered in the likelihood determination included; the significant uncertainty inherent in the remaining testing for COTI-2 prior to filing an IND application; the cost, time and expertise required in the IND application and approval process itself; and the Company's current financial capacity to develop COTI-2 successfully through to achieving this milestone. The inability to meet the more likely than not criteria would apply to any of the other Molecules based upon the significant cost and timeline in advancing them through both milestones.

The recognition of the contingent consideration in the Interim Statements of Financial Position will be based on the fair values of the common shares issuable at the reporting date when the more likely than not criteria is met and remeasured at succeeding reporting dates until the date the consideration is paid.

14. Related party transactions:

There were no material transactions with its related parties during the quarter and those incurred were in the normal course of operations and were measured at the transaction amount, being the amount of consideration established and agreed to by the related parties.

15. Events after the reporting period date:

(a) Grants of stock options:

On September 27, 2011, the Company granted 756,098 stock options with an exercise price of $0.30 to the members of the Board of Directors as a retainer for their services in the next year. The options have a five-year maturity from the date of grant, with 189,025 options vesting on each of December 28, 2011 and March 28, 2012 and 189,024 vesting on each of June 28 and September 28, 2012. The fair market value of this stock-based compensation, calculated using the Black Scholes model, was $155,000 with recognition to occur over the vesting periods.

On October 18, 2011, the Company granted 71,449 stock options with an exercise price of $0.25 to its employees as part of their compensation package. The options have a five-year maturity from the date of grant and vested immediately.

(b) Warrant amendments:

On September 30, 2011, the Company received the consent of the TSXV to amend the terms of 1,575,500 warrants issued pursuant to a private placement of 3,151,101 shares approved in May 2010 that were exercisable at $0.55 and due to expire on October 27, 2011 and November 27, 2011 (note 6). The amendments were as follows:

i) the exercise price was reduced to $0.37 per share from $0.55 per share for all warrants except 129,020 warrants held by insiders (Insider Warrants) of the Company which were not eligible for price amendment. The exercise price of these Insider Warrants remained at $0.55; and,

ii) the expiry date was extended to January 31, 2013 (the "New Expiry Date"), provided that the New Expiry Date of the warrants will be reduced to a period of 14 days if, for any ten consecutive trading days during the unexpired term of the warrant (the "Premium Trading Days"), the closing price of the common shares on the TSX equals or exceeds $0.55. The reduced exercise period of 14 days will begin seven calendar days after the tenth Premium Trading Day.

All other provisions of the warrants remained unchanged.

(c) Patent grant:

On October 11, 2011 the United States Patent Office issued U.S. Patent No. 8,034,815 titled "Compounds and Method for Treatment of Cancer" related to certain COTI molecules. The molecules covered by this composition of matter patent include the Company's lead oncology compound, COTI-2 (note 13).

(d) Contingent consideration:

The receipt of the patent grant (note 15 (d)) met one of the development milestones underlying the contingent share consideration forming part of the purchase consideration on the acquisition of DDP (note 13). Accordingly, on October 12, 2011, the Company issued 715,720 common shares in the Company as payment for one-half of the contingent consideration. This consideration had a market value of $164,616 based upon the closing price of the Company's common shares on October 11, 2011.

16. Transition to IFRS:

These interim financial statements and the opening Statement of Financial Position as at May 1, 2010, being the date of transition, have been prepared in accordance with the accounting policies set out in note 4.

(a) Application of IFRS 1:

The adoption of IFRS requires the application of IFRS 1, which provides guidance for the Company's initial adoption of IFRS.

IFRS 1 does not permit changes to estimates that have been made previously. Estimates used in the Company's opening IFRS Statement of Financial Position and other comparative information restated to comply with IFRS are consistent with those made previously under CGAAP.

IFRS 1 generally requires retrospective application of IFRS from the date of transition to IFRS with the exception of certain optional exemptions that can be elected by the Company at transition. The Company has elected to apply the following optional exemption in its preparation of its opening IFRS Interim Statement of Financial Position as at May 1, 2010, the transition date.

Stock-based compensation:

IFRS 1 allows the Company to retain the previous CGAAP accounting treatment for vested stock-based compensation rather than applying the requirements of IFRS 2 retrospectively to all grants. This choice is available for stock-based compensation granted after November 7, 2002, which had vested before the transition date of May 1, 2010. The Company elected to apply this stock-based compensation exemption for its vested grants.

(b) Application of Other IFRS Standards

As a result of changing the basis of preparation of its financial statements from CGAAP to IFRS, the Company had to evaluate if there were any differences in required accounting treatment between the two standards. The notes and tables below summarize the changes that impacted the Company's financial position, performance and cash flows in the respective periods.

(i) Stock-based compensation:

As a result of the Company's IFRS 1 election, a transitional adjustment of $4,753 was recorded in the opening Statement of Financial Position as at May 1, 2010 to reflect a decrease in the previously recognized stock-based compensation expense for unvested options at the transition date. This adjustment resulted in a decrease in contributed surplus and deficit at May 1, 2010. The related impact on the Statements of Comprehensive Loss is disclosed in the reconciliations below.

(ii) Trademark:

Under IAS 38, there are certain criteria that need to be met in order for an intangible asset to be capitalized. The Company's trademarks did not meet the criteria and accordingly, this resulted in the Company's trademarks being written off to deficit with an adjustment of $2,883 as at the transition date. The related impact on the Statements of Comprehensive Loss is disclosed in the reconciliations below.

(iii) Employee benefits:

Under IAS 19, the expense for benefits is recorded when the employer receives the benefit. This requires the Company to annualize the payroll source deductions paid on behalf of its employees. This resulted in a decrease in previously recorded employee benefits expense on transition of $5,805, which increased prepaid expenses and deposits and decreased deficit. The related impact on the Statements of Comprehensive Loss is disclosed in the reconciliations below.

(iv) Reconciliation of Statement of Cash Flows:

There are no material differences in the presentation of the Statements of Cash Flow for the Company whether using CGAAP or IFRS. Interest received has been moved into the body of the Interim Statements of Cashflow as part of operating activites, whereas it was previously disclosed as supplementary information under CGAAP.

(v) Presentation adjustments

The Company has chosen to classify its expenses in the Interim Statements of Comprehensive Loss according to their function. Accordingly, the following classification changes have occurred:

	CGAAP Classification	Nature of Expense	IFRS Classification
1	Amortization	Amortization of equipment and intangibles (molecules, patents and computer software)	General and administration
2	Stock-based compensation	Stock-based compensation to employees, directors and consultants.	Either General and administration, Research and product development or Sales and marketing depending upon the functional area to which the employee, director or consultant is assigned.
3	Interest and bank charges	Interest expense and bank charges	Interest income , net
4	Interest	Interest income	Interest income , net

(vi) Reconciliation of Statements of Financial Position:

Opening Statement of Financial Position - May 1, 2010
(All amounts unaudited and expressed in Canadian Dollars)

	CGAAP	Notes	Transition Adjustments	IFRS
Assets				
Current assets:				
Cash and cash equivalents	$ 1,945,376		$ -	$ 1,945,376
Miscellaneous receivables	29,756		-	29,756
Prepaid expenses and deposits	74,955	(iii)	5,805	80,760
	2,050,087		5,805	2,055,892
Equipment	84,820			84,820
Intangible assets	2,700,187	(ii)	(2,883)	2,697,304
	$ 4,835,094		$ 2,922	$ 4,838,016
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$ 343,940		$ -	$ 343,940
Due to shareholder	1,069		-	1,069
	345,009		-	345,009
Shareholders' equity:				
Share capital and warrants	13,812,200		-	13,812,200
Contributed surplus	2,421,193	(i)	(4,753)	2,416,440
Deficit	(11,743,308)	(i), (ii), (iii)	7,675	(11,735,633)
	4,490,085		2,922	4,493,007
	$ 4,835,094		$ 2,922	$ 4,838,016

Notes:

(i) See Stock-based compensation note (i) above
(ii) See Trademark note (ii) above
(iii) See Employee benefits note (iii) above

Statement of Financial Position - July 31, 2010

(All amounts unaudited and expressed in Canadian Dollars)

	CGAAP	Notes	Transition Adjustments	IFRS
Assets				
Current assets:				
Cash and cash equivalents	$ 1,401,269		$ -	$ 1,401,269
Miscellaneous receivables	10,976		-	10,976
Prepaid expenses and deposits	72,670	(iii)	8,288	80,958
	1,484,915		8,288	1,493,203
Equipment	79,646		-	79,646
Intangible assets	2,590,112	(ii)	(2,883)	2,587,229
	$ 4,154,673		$ 5,405	$ 4,160,078
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$ 246,665		$ -	$ 246,665
Due to shareholder	1,069		$ -	1,069
	247,734		-	247,734
Shareholders' equity:				
Share capital and warrants	13,847,644		-	13,847,644
Contributed surplus	2,351,875	(i)	7,408	2,359,283
Deficit	(12,292,580)	(i), (ii), (iii)	(2,003)	(12,294,583)
	3,906,939		5,405	3,912,344
	$ 4,154,673		$ 5,405	$ 4,160,078

Notes:

(i) See Stock-based compensation note (i) above
(ii) See Trademark note (ii) above
(iii) See Employee benefits note (iii) above

Statement of Financial Position - April 30, 2011
(All amounts unaudited and expressed in Canadian Dollars)

	CGAAP	Notes	Transition Adjustments	Presentation Adjustments	IFRS
Assets					
Current assets:					
Cash and cash equivalents	$ 1,794,621		$ -	$ -	$ 1,794,621
Short-term investments	300,000		-	296	300,296
Miscellaneous receivables	132,036		-	(296)	131,740
Prepaid expenses and deposits	64,730	(iii)	5,745		70,475
	2,291,387		5,745	-	2,297,132
Equipment	65,735		-		65,735
Intangible assets	2,343,697	(ii)	(3,067)		2,340,630
	$ 4,700,819		$ 2,678		$ 4,703,497
Liabilities and Shareholders' Equity					
Current liabilities:					
Accounts payable and accrued liabilities	$ 342,574		$ -		$ 342,574
Due to shareholder	1,069		-		1,069
	343,643		-		343,643
Shareholders' equity:					
Share capital and warrants	15,712,104		-		15,712,104
Contributed surplus	2,443,306	(i)	(58,545)		2,384,761
Deficit	(13,798,234)	(i), (ii), (iii)	61,223		(13,737,011)
	4,357,176		2,678		4,359,854
	$ 4,700,819		$ 2,678		$ 4,703,497

Notes:

(i) See Stock-based compensation note (i) above
(ii) See Trademark note (ii) above
(iii) See Employee benefits note (iii) above

(vii) Reconciliation of Statements of Shareholders' Equity:

As at May 1, 2010	Share Capital and Warrants	Notes	Contributed Surplus	Notes	Deficit	Total
As reported under CGAAP	$ 13,812,200		$ 2,421,193		$ (11,743,308)	$ 4,490,085
Transitional adjustments increasing (decreasing) the previously reported shareholder's equity:		(i)	(4,753)	(i), (ii), (iii)	7,675	2,922
Reported under IFRS	$ 13,812,200		$ 2,416,440		$ (11,735,633)	$ 4,493,007

As at July 31, 2010	Share Capital and Warrants	Notes	Contributed Surplus	Notes	Deficit	Total
As reported under CGAAP	$ 13,847,644		$ 2,351,875		$ (12,292,580)	$ 3,906,939
Transitional adjustments increasing (decreasing) the previously reported shareholder's equity:		(i)	7,408	(i), (ii), (iii)	(2,003)	5,405
Reported under IFRS	$ 13,847,644		$ 2,359,283		$ (12,294,583)	$ 3,912,344

As at April 30, 2011	Share Capital and Warrants	Notes	Contributed Surplus	Notes	Deficit	Total
As reported under CGAAP	$ 15,712,104		$ 2,443,306		$ (13,798,234)	$ 4,357,176
Transitional adjustments increasing (decreasing) the previously reported shareholder's equity:		(i)	(58,545)	(i), (ii), (iii)	61,223	2,678
Reported under IFRS	$ 15,712,104		$ 2,384,761		$ (13,737,011)	$ 4,359,854

Notes:

(i) See Stock-based compensation note (i) above
(ii) See Trademark note (ii) above
(iii) See Employee benefits note (iii) above

(viii) Reconciliation of Statements of Comprehensive Loss:

Statements of Comprehensive Loss - July 31, 2010
(All amounts unaudited and expressed in Canadian Dollars)

For the three months ended	CGAAP	Notes	Transitional Adjustments	Presentation Adjustments	IFRS
Revenues:					
Contract services	$ -		$ -	$ -	$ -
Screening services	-		-	-	-
	-		-	-	-
Expenses:					
General and administration	239,404	(iii)	(2,177)	66,324	303,551
Research and product development	196,312	(iii)	62	-	196,374
Stock-based compensation	(69,318)	(i)	12,161	57,157	-
Amortization	123,481		-	(123,481)	-
Sales and marketing	62,895	(iii)	(368)	-	62,527
Foreign exchange loss	(809)		-	809	-
Interest and bank charges	239		-	(239)	-
	552,204		9,678	570	562,452
Loss from operations before the undernoted	(552,204)		(9,678)	(570)	(562,452)
					-
Finance income (expense)					-
Interest income	2,932		-	(239)	2,693
Foreign exchange gain	-		-	809	809
	2,932		-	570	3,502
Loss and comprehensive loss	$ (549,272)		$ (9,678)	$ -	$ (558,950)
Loss per share:					
Basic and diluted loss per common share	$ 0.01				$ 0.01

Notes:

(i) See Stock-based compensation note (i) above
(ii) See Trademark note (ii) above
(iii) See Employee benefits note (iii) above

Statements of Comprehensive Loss - April 30, 2011
(All amounts unaudited and expressed in Canadian Dollars)

For the year ended	CGAAP	Notes	Transitional Adjustments	Presentation Adjustments	IFRS
Revenues:					
Contract services	$ -		$ -	$ -	$ -
Screening services	-		-	-	-
	-		-	-	-
Expenses:					
General and administration	897,642	(iii)	586	456,415	1,354,643
Research and product development	593,013	(iii)	(271)	-	592,742
Stock-based compensation	22,113	(i)	(53,792)	31,679	-
Amortization	488,094		-	(488,094)	-
Sales and marketing	251,208	(iii)	(255)	-	250,953
Foreign exchange loss	5,699		-	(5,699)	-
Interest and bank charges	1,660		-	(1,660)	-
Investment tax credit refunds	-		-	(194,429)	(194,429)
	2,259,429		(53,732)	(201,788)	2,003,909
Loss from operations before the undernoted	(2,259,429)		53,732	201,788	(2,003,909)
Finance income (expense)					
Investment tax credit refunds	194,429		-	(194,429)	-
Interest income	10,074		-	(1,660)	8,414
Foreign exchange gain	-		-	(5,699)	(5,699)
	204,503		-	(201,788)	2,715
Loss and comprehensive loss	$ (2,054,926)		$ 53,732	$ -	$ (2,001,194)
Loss per share:					
Basic and diluted loss per common share	$ 0.04				$ 0.04

Notes:

(i) See Stock-based compensation note (i) above
(ii) See Trademark note (ii) above
(iii) See Employee benefits note (iii) above