Critical Outcome Technologies Inc.

Condensed Interim Financial Statements
Fiscal 2013 – First Quarter
(Unaudited)

For the three months ended July 31, 2012 and 2011

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Notice of No Audit or Review of Condensed Interim Financial Statements

The accompanying interim statements of financial position as at July 31, 2012, and April 30, 2012, of Critical Outcome Technologies Inc., and the interim statements of changes in equity, interim statements of comprehensive loss and interim statements of cash flows for the three month periods ended July 31, 2012 and 2011, 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 paragraph 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

(Unaudited)

As at	July 31, 2012	April 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 508,404	$ 901,130
Short-term investment	520,225	817,541
Miscellaneous receivables	196,781	151,505
Prepaid expenses and deposits	42,289	59,583
	1,267,699	1,929,759
Non-currents assets:		
Equipment	56,394	55,899
Intangible assets (note 5)	2,067,916	2,163,318
	$ 3,392,009	$ 4,148,976
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 246,202	$ 341,505
Unearned revenue	18,720	-
	264,922	341,505
Shareholders' equity	3,127,087	3,807,471
	$ 3,392,009	$ 4,148,976
Commitments (note 10)		

See accompanying notes to financial statements

CRITICAL OUTCOME TECHNOLOGIES INC.

Interim Statements of Comprehensive Loss

(Unaudited)

For the three months ended	July 31, 2012	July 31, 2011
Revenue:	$ 3,404	$ -
Expenses (income):		
Research and product development	266,995	205,941
Sales and marketing	60,693	57,718
General and administration	440,729	415,325
Investment tax credits	(35,733)	(29,890)
	732,684	649,094
Loss before finance income	(729,280)	(649,094)
Finance income:		
Interest income, net	3,959	4,503
Foreign exchange gain	2,552	2,336
	6,511	6,839
Loss and comprehensive loss	$ (722,769)	$ (642,255)
Loss per share:		
Basic and diluted loss per common share	$ (0.01)	$ (0.01)

See accompanying notes to financial statements

CRITICAL OUTCOME TECHNOLOGIES INC.

Interim Statements of Changes in Shareholders' Equity

(Unaudited)

For the three months ended July 31, 2012	Common Shares	Warrants	Total Share Capital	Contributed Surplus	Deficit	Total Equity
Balance, April 30, 2012	$ 16,121,987	$ 1,517,525	$ 17,639,512	$ 2,496,121	$ (16,328,162)	$ 3,807,471
Share-based compensation expense (note 7)	-	-	-	42,385	-	42,385
Loss and comprehensive loss	-	-	-	-	(722,769)	(722,769)
Balance, July 31, 2012	$ 16,121,987	$ 1,517,525	$ 17,639,512	$ 2,538,506	$ (17,050,931)	$ 3,127,087

For the three months ended July 31, 2011	Common Shares	Warrants	Total Share Capital	Contributed Surplus	Deficit	Total Equity
Balance, April 30, 2011	$ 14,779,916	$ 932,188	$ 15,712,104	$ 2,384,761	$ (13,737,011)	$ 4,359,854
Exercise of options	33,974	-	33,974	(15,000)	-	18,974
Share-based compensation expense	-	-	-	41,182	-	41,182
Loss and comprehensive loss	-	-	-	-	(642,255)	(642,255)
Balance, July 31, 2011	$ 14,813,890	$ 932,188	$ 15,746,078	$ 2,410,943	$ (14,379,266)	$ 3,777,755

See accompanying notes to financial statements

CRITICAL OUTCOME TECHNOLOGIES INC.

Interim Statements of Cash Flows

(Unaudited)

For the three months ended	July 31, 2012	July 31, 2011
Cash provided by (used in):		
Operating activities:		
Loss	$ (722,769)	$ (642,255)
Items not involving cash:		
Amortization - equipment	18,987	18,939
Amortization - intangibles	111,202	100,335
Share-based compensation	42,385	41,182
Investment tax credits	(35,733)	(29,890)
Interest income, net	(3,772)	(4,503)
Foreign exchange (gain) loss	(2,552)	(2,336)
	(592,252)	(518,528)
Change in non-cash operating working capital (note 8)	(86,402)	(31,551)
Foreign exchange gain	627	187
Interest received	3,959	4,654
Net cash used in operating activities	(674,068)	(545,238)
Investing activities:		
Purchase of equipment	(3,929)	(1,233)
(Purchases) redemptions of short-term investments, net	297,316	(940)
Expenditures on intangible assets	(31,353)	(11,221)
Net cash used in investing activities	262,034	(13,394)
Financing activities:		
Investment tax credit recoveries	17,570	-
Proceeds on exercise of share options (net of issuance costs)	-	18,974
Interest paid	(187)	(151)
Net cash provided by financing activites	17,383	18,823
Decrease in cash and cash equivalents	(394,651)	(539,809)
Unrealized foreign exchange gain (loss) on cash and cash equivalents	1,925	2,149
Cash and cash equivalents, beginning of the period	901,130	1,794,621
Cash and cash equivalents, end of the period	$ 508,404	$ 1,256,961
Represented by:		
Cash	$ 127,521	$ 152,808
Cash equivalents	380,883	1,104,153
	$ 508,404	$ 1,256,961

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. Going concern:

Financial statements are required to be prepared on a going concern basis unless management either intends to liquidate the Company or ceases 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, 2012 and 2011 are indicative of possible concern. These results include: a loss of $722,769 (July 31, 2011 - $642,255) and negative cash flow from operations of $674,068 (July 31, 2011 - $545,238). As at July 31, 2012, the Company had an accumulated deficit of $17,050,931 (April 30, 2012 - $16,328,162), which results in shareholders' equity of $3,127,087 (April 30, 2012 - $3,807,471). As at July 31, 2012, the Company had working capital of $1,002,777 (April 30, 2012 - $1,588,254).

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; and 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 2013 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.

3. Basis of preparation:

(a) Compliance with accounting standards:

These condensed unaudited interim financial statements (interim financial statements) 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).

The accounting policies in the fiscal 2013 interim financial statements are consistent with the policies the Company adopted in its annual financial statements as at and for the year ending April 30, 2012, the Company's first annual IFRS reporting date. These accounting policies were disclosed in detail in note 5 of the Company's April 30, 2012 annual audited financial statements. 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 since inception.

In preparing these 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 annual audited financial statements as of April 30, 2012, and related notes prepared in accordance with IFRS.

These interim financial statements were approved for issuance by the Audit Committee on September 20, 2012.

(b) Basis of measurement:

The financial statements have been prepared mainly on a historical cost basis unless otherwise noted and described in the applicable notes herein.

(c) Functional and presentation currency:

These interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgments:

The preparation of these 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. There has been no material change in the significant estimates and assumptions as described in note 4(d) of the annual audited financial statements for the year ended April 30, 2012.

4. Significant accounting policies:

The accounting policies set out in detail in note 5 of the annual financial statements for the year ended April 30, 2012 have been applied consistently to all periods presented in these interim financial statements.

New accounting pronouncements

(a) IFRS 7 - Financial Instruments: Disclosures

In October 2010, the IASB amended IFRS 7 - Financial Instruments: Disclosures. This amendment enhances disclosure requirements to aid financial statement users in evaluating the nature of, and risks associated with, an entity's continuing involvement in derecognized financial assets. The amendment is effective for the Company's interim and annual financial statements commencing May 1, 2012. The Company assessed the impact of this amended standard and has determined there to be no impact on its financial statements.

(b) Annual Improvements to IFRSs 2009-2011 Cycle

In May 2012, the IASB published Annual Improvements to IFRSs – 2009-2011 Cycle as part of its annual improvements process to make non-urgent but necessary amendments to IFRS. These amendments are effective for annual periods beginning on or after January 1, 2013, with retrospective application permitted.

The new cycle of improvements contains amendments to the following four standards (excluding IFRS 1) with consequential amendments to other standards and interpretations.

i. IAS 1 Presentation of Financial Statements

- Comparative information beyond minimum requirements
- Presentation of the opening statement of financial position

ii. IAS 16 Property, Plant and Equipment

- Classification of servicing equipment

iii. IAS 32 Financial Instruments: Presentation

- Income tax consequences of distributions

iv. IAS 34 Interim Financial Reporting

- Segment assets and liabilities

The Company intends to adopt the amendments to these standards in its financial statements for the annual period beginning on May 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

5. Intangibles:

Summary details of the Company's intangible assets appear in the following table.

	Molecules	Granted Patents	Pending Patents	Computer Software	Total
Gross carrying amount, April 30, 2012	$ 3,275,785	$ 269,972	$ 345,753	$ 123,638	$ 4,015,148
Purchases	-	(179)	28,707	2,826	31,354
Removal of fully depreciated assets	-	-	-	(61,833)	(61,833)
Gross carrying amount, July 31, 2012	3,275,785	269,793	374,460	64,631	3,984,669
Accumulated amortization, April 30, 2012	(1,737,782)	(49,007)	-	(65,041)	(1,851,830)
Amortization	(107,302)	(3,903)	-	(15,551)	(126,756)
Removal of fully depreciated assets	-	-	-	61,833	61,833
Accumulated amortization, July 31, 2012	(1,845,084)	(52,910)	-	(18,759)	(1,916,753)
Net carrying value, July 31, 2012	$ 1,430,701	$ 216,883	$ 374,460	$ 45,872	$ 2,067,916

6. Share capital and warrants:

		July 31, 2012		April 30, 2012	
	Expiry Date Ranges	Issued	Amount	Issued	Amount
Share capital:					
Authorized:					
Unlimited common shares					
Unlimited preference shares					
Issued:					
Common shares, without par value		74,453,214	$ 16,121,987	74,453,214	$ 16,121,987
Share purchase warrants:					
$0.30 compensation warrants	Sep 24 - Oct 21/12	507,500	26,831	507,500	26,831
$0.30 warrants	Sep 24 - Oct 21/12	12,500,000	673,998	12,500,000	673,998
$0.37 warrants	Jan 31/13	1,446,480	297,834	1,446,480	297,834
$0.55 warrants	Jan 31/13	129,020	24,290	129,020	24,290
$0.30 warrants	Sep 23 - Oct 27/13	11,250,000	464,734	11,250,000	464,734
$0.30 compensation warrants	Sep 23 - Oct 27/13	726,686	29,838	726,686	29,838
		26,559,686	1,517,525	26,559,686	1,517,525
			$ 17,639,512		$ 17,639,512

7. Share-based compensation:

Share-based compensation transactions during the quarter ended July 31, 2012 were as follows:

(a) On June 20, 2012, 150,381 vested share options granted to a former employee expired.

(b) On May 1, 2012, 300,000 share options were granted to a consultant with an exercise price of $0.21 and a five-year life. One quarter of the options vest at the end of each quarter during the first year.

(c) On July 11, 2012, 17,838 share options were granted to a new director with an exercise price of $0.28. The options have a five-year life and vest on September 27, 2012.

There were no options exercised in the quarter.

For the three months ended July 31, 2012, the Company recorded share-based compensation expense of $42,385 (July 31, 2011 - $41,182) related to share option grants to employees, officers, directors and consultants in the current and prior year. These amounts are included in general and administration expense.

At July 31, 2012, there were 3,743,785 unexercised options with 3,311,925 of these vested and exercisable at exercise prices ranging from $0.165 to $2.00 per share.

8. Change in non-cash operating working capital:

		July 31, 2012		July 31, 2011
Miscellaneous receivables	$	(27,113)	$	4,793
Prepaid expenses and deposits		17,294		10,505
Accounts payable and accrued liabilities		(76,583)		(46,849)
	$	(86,402)	$	(31,551)

9. Government assistance:

In the current year, the Company has recognized $2,155 (July 31, 2011 - $3,693) of 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 $210,958 for salaries and contractors' costs with no liability for repayment. The total amount recognized under the grant since its inception in July 2010 is $113,113. Government assistance accrued has been credited against the underlying research and development expense accounts related to salaries and contractors' services.

10. Commitments:

The Company is committed to pay $277,088 in fiscal 2013 and $3,900 in fiscal 2014 for the completion of research and development contracts existing at the quarter end.

11. Related party transactions:

There were no material transactions with related parties during the quarter that were not in the ordinary course of business. Those incurred were measured at the transaction amount, being the amount of consideration established and agreed to by the related parties and included:

(a) a grant of stock options to a director (note 7);
(b) consulting fees paid under a fee for service contract with a director in the amount of $46,584.

12. Events after the reporting period date:

(a) Grant of share options:

On September 10, 2012, the Company approved the granting of 400,000 share options under the Company's share option plan. These were allocated equally to an employee and a consultant as part of the compensation under their respective employment and consulting agreements. The options have a five-year life and are exercisable at a price of $0.14 per share with vesting occurring immediately. The exercise price represents the closing price of the Company's common shares on Friday, September 7, 2012, the last reported trade on the TSX Venture Exchange prior to the approval date.

(b) Warrant amendment:

On September 10, 2012, the Company received the consent of the TSX Venture Exchange to extend the expiry date of 12,500,000 warrants issued pursuant to a private placement of 12,500,000 common shares with such warrants attached as accepted for filing on April 28, 2011. These warrants were exercisable at $0.30 and due to expire on September 24, October 6, and October 20, 2012. The new expiry date for the warrants will be October 31, 2013, with no other change in the terms of the warrants.