Critical Outcome
Technologies Inc.

Financial Statements

For the years ended April 30, 2011 and 2010

CRITICAL OUTCOME TECHNOLOGIES INC.
Financial Statements
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Critical Outcome Technologies Inc.

Management's Responsibility for Financial Reporting

July 12, 2011

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

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

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

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

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

The external auditors, KPMG LLP, were engaged to conduct an independent audit of the financial statements in accordance with Canadian generally accepted auditing standards and express their opinion thereon. Those standards require that the audit is planned and performed to obtain reasonable assurance in expressing their opinion about whether the financial statements are free of material misstatement. The external auditors have unlimited access to the Committee and meet with the Committee at least two times during the year, with or without the presence of management, in order to discuss their audit and other findings.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders

We have audited the accompanying financial statements of Critical Outcome Technologies Inc., which comprise the balance sheets as at April 30, 2011 and 2010, the statements of comprehensive loss and deficit, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinions.

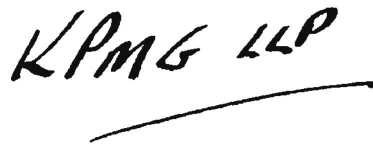
Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Critical Outcome Technologies Inc., as at April 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1(a) to the consolidated financial statements which describes that for the year ended April 30, 2011 the Company incurred a loss of $2,054,926, had negative cash flow from operations of $1,598,224 and as at April 30, 2011 has an accumulated deficit of $13,798,234. These conditions, along with other matters described in Note 1(a), indicate the existence of a material uncertainty which may cast significant doubt on the Entity's ability to continue as a going concern.



Chartered Accountants, Licensed Public Accountants

July 12, 2011

London, Canada

CRITICAL OUTCOME TECHNOLOGIES INC.

Balance Sheets

As at April 30,	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	$ 1,794,621	$ 1,945,376
Short-term investment (note 2)	300,000	-
Miscellaneous receivables	132,036	29,756
Prepaid expenses and deposits	64,730	74,955
	2,291,387	2,050,087
Equipment (note 3)	65,735	84,820
Intangible assets (note 4)	2,343,697	2,700,187
	$ 4,700,819	$ 4,835,094
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 342,574	$ 343,940
Due to shareholder	1,069	1,069
	343,643	345,009
Shareholders' equity:		
Share capital and warrants (note 5)	15,712,104	13,812,200
Contributed surplus (note 6)	2,443,306	2,421,193
Deficit	(13,798,234)	(11,743,308)
	4,357,176	4,490,085
	$ 4,700,819	$ 4,835,094

Commitments (note 11)
Contingency (note 12)
Subsequent events (note 17)

See accompanying notes to financial statements

On behalf of the Board:

Dr. Wayne Danter, President, CEO and Director

Murray Wallace, Director

CRITICAL OUTCOME TECHNOLOGIES INC.

Statements of Comprehensive Loss and Deficit

For the years ended April 30,	**2011**	**2010**
Expenses:		
General and administration	$ 897,642	$ 1,246,482
Research and product development	593,013	1,117,010
Amortization	488,094	515,250
Sales and marketing	251,208	246,070
Stock-based compensation (note 6)	22,113	570,732
Foreign exchange loss	5,699	14,949
Interest and bank charges	1,660	4,797
	2,259,429	3,715,290
Loss before other income	(2,259,429)	(3,715,290)
Other income:		
Investment tax credit refunds	194,429	136,786
Interest	10,074	18,194
	204,503	154,980
Loss and comprehensive loss	(2,054,926)	(3,560,310)
Accumulated deficit, beginning of the year	(11,743,308)	(8,182,998)
Accumulated deficit, end of the year	$ (13,798,234)	$ (11,743,308)
Basic and diluted loss per common share	$ (0.04)	$ (0.08)
Weighted average number of common shares outstanding	50,892,298	46,745,185

See accompanying notes to financial statements

CRITICAL OUTCOME TECHNOLOGIES INC.

Statements of Cash Flows

For the years ended April 30,	2011	2010
Cash provided by (used in):		
Operating activities:		
Loss	$ (2,054,926)	$ (3,560,310)
Items not involving cash:		
Amortization	488,094	515,250
Loss on abandonment of patents	37,423	41,991
Stock-based compensation	22,113	570,732
Loss on disposal of equipment	-	634
Unrealized foreign exchange loss	2,401	4,187
Change in non-cash operating working capital (note 9)	(93,329)	61,711
	(1,598,224)	(2,365,805)
Investing activities:		
Net short-term investment (purchases) redemptions	(300,000)	3,049,846
Equipment purchases	-	(7,020)
Proceeds on disposal of equipment	-	793
Expenditures on intangible assets	(149,942)	(227,165)
	(449,942)	2,816,454
Financing activities:		
Issuance of share capital and warrants (net of issuance costs)	1,899,904	999,075
Decrease in capital lease obligations	-	(1,263)
Payment of notes payable	-	(20,000)
Payments to shareholders	-	(81,180)
	1,899,904	896,632
Increase (decrease) in cash and cash equivalents	(148,262)	1,347,281
Unrealized foreign exchange loss on cash and cash equivalents	(2,493)	(4,518)
Cash and cash equivalents, beginning of the year	1,945,376	602,613
Cash and cash equivalents, end of the year	$ 1,794,621	$ 1,945,376
Represented by:		
Cash	$ 200,283	$ 337,666
Cash equivalents	1,594,338	1,607,710
	$ 1,794,621	$ 1,945,376
Supplemental cash flow information:		
Interest paid	$ -	$ 4,014

See accompanying notes to financial statements

Description of business:

Critical Outcome Technologies Inc. ("COTI" or the "Company") is a biotechnology company focused on applying its proprietary computer-based technology, CHEMSAS®, to identify, profile and 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 their therapeutic interest.

1. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Significant accounting policies adopted by the Company are as follows:

(a) Basis of presentation:

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 financial statements have been prepared on a going concern basis. 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 operational cash flows continue to be negative. Key financial results for the years ended April 30, 2011 and 2010 are indicative of possible concern. These results include: a loss of $2,054,926 (April 30, 2010 - $3,560,310), negative cash flow from operations of $1,598,224 (April 30, 2010 - $2,365,805), and an accumulated deficit of $13,798,234 (April 30, 2010 - $11,743,308). As at April 30, 2011, the Company had working capital of $1,947,744 (April 30, 2010 - $1,705,078) and shareholders' equity of $4,357,176 (April 30, 2010 - $4,490,085).

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 years.

These 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 financial statements could be material.

(b) 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. The Company places its cash and cash equivalents with institutions and in investments having high credit ratings.

(c) Short-term investments:

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

(d) Foreign currency translation:

Foreign currency transactions and balances are translated into the Canadian dollar reporting currency using the temporal method. The Company's foreign currency monetary items include cash, short-term investments, miscellaneous receivables and accounts payable which are translated at the rate prevailing at the balance sheet date. Non-monetary items denominated in foreign currencies are translated at the rate prevailing on the transaction date. Revenues and expenses are translated at the rates in effect during the applicable accounting periods.

(e) Equipment:

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

Asset	Rate
Furniture and fixtures	5 - 10 years
Computer hardware	2 - 3 years
Leasehold improvements	Remaining term of lease

(f) Intangible assets:

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

Intangible asset	Rate
Molecules	8 years
Patents	Remaining life of patent
Computer software	Term of license
Trademark	5 years

Patents pending are not amortized and are tested for impairment annually or more frequently if events and changes in circumstances indicate that they might be impaired.

(i) Molecules:

The costs of acquiring the library of 10 small cell lung cancer molecules from DDP Therapeutics (DDP) are being amortized over eight years, in accordance with the timeline for the achievement of milestones as prescribed by the DDP purchase agreement (note 12).

(ii) Patents:

The Company is pursuing or has been granted composition of matter 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 over the life of the patent, beginning in the month subsequent to the month the patent is granted, on a straight-line basis over the remaining life of the patent or its useful life if shorter. 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 not subsequently patented 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. Computer software is recorded at cost and is amortized over the term of the software license.

(iv) Trademark:

Trademark registration is obtained for exclusive use of certain names such as, CHEMSAS®, which describes the Company's proprietary molecular profiling technology, where the Company believes intellectual property value can be achieved through such protection.

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

(g) Impairment of long-lived assets:

Long-lived assets, including equipment and finite life intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Recoverability is assessed based on the carrying amount of the long-lived asset and its net recoverable value, which is generally determined based on undiscounted cash flows expected to result from the use and eventual disposal of the long-lived asset. If the carrying value of the long-lived asset is not recoverable, an impairment loss is recognized to write down the long-lived asset to its fair value.

(h) Research and product development:

Research expenditures are expensed as incurred. Development expenditures are capitalized when they meet the criteria for capitalization in accordance with Canadian GAAP, and the future benefits could be regarded as being reasonably certain. At April 30, 2011 and April 30, 2010, no development costs were capitalized.

(i) Financial instruments:

Financial instruments are recognized when the Company becomes a party to the contractual provisions of a financial instrument. The Company's financial instruments (financial assets and liabilities) consist of cash and cash equivalents, short-term investments, miscellaneous receivables, accounts payable and accrued liabilities, and due to shareholder. 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
Cash and cash equivalents	Held for trading	Fair value
Short-term investments	Held to maturity	Amortized cost
Miscellaneous receivables	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Due to shareholder	Other financial liabilities	Amortized cost

The Company does not have any financial instruments classified as “available for sale”, nor does it have any derivative financial instruments.

The Company discloses fair value measurements using a fair value hierarchy which is based on the source of data used to determine the fair value of financial instruments, as outlined below:

- Level 1: Fair value measurements are based on quoted prices in active markets
- Level 2: Fair value measurements are based on inputs other than quoted market prices which are either directly or indirectly observable by the Company
- Level 3: Fair value measurements are based on inputs that are not based on observable market data

(j) Revenue recognition:

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

(k) Investment tax credits:

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

(l) 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 will remain in compliance with the conditions underlying the agreement under 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.

(m) Share capital:

(i) Non-monetary consideration:

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

(ii) Stock-based compensation:

The Company measures the cost of stock options granted to employees and directors based on an estimate of the fair value as at the date of the grant. The Company uses a Black-Scholes option-pricing model to calculate this fair value estimate. The value of stock options that vest immediately are recorded as stock-based compensation at the date of the grant. Stock options that vest over time are recorded over the vesting period using the straight-line method.

Stock options granted to consultants are measured based on an estimate of the fair value as at the date of the grant and then remeasured at each reporting period until the date when the services underlying the consulting contract are complete. The Company uses a Black-Scholes option-pricing model to estimate the fair value or uses the value of the service provided, if determinable.

The effect of a change in the estimated number of options expected to vest is a change in an estimate and the cumulative effect of the change on current and prior periods is recognized in the period of the change reflecting the overstatement of prior period compensation.

On exercise of a stock option, the consideration received and the estimated fair value previously recorded in contributed surplus are recorded as share capital.

(iii) Share issuance costs:

Costs directly identifiable with the raising of share capital financing are charged against share capital. Share issuance costs incurred in advance of issuing share capital are charged against share capital as incurred.

(iv) 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.

(n) Income taxes:

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

(o) Use of estimates:

The preparation of these financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying value of equipment, patents and molecules, valuation of future income taxes and accounting for share capital, warrants and options. Actual results could differ from those estimates.

(p) Basic and diluted loss per share:

Basic loss per share is determined using the weighted average number of common shares outstanding during the period. Diluted loss per share is computed in a manner consistent with basic earnings per share, except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of options and warrants, if dilutive. The number of additional shares is calculated by assuming that the outstanding stock options and warrants are exercised and the proceeds from such exercises were used to acquire shares of common stock at the average market price during the year.

2. 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. The short-term investment is scheduled to mature in April 2012. The cost of this investment at April 30, 2011 was $300,000 (market $300,296). There were no short-term investments at April 30, 2010.

3. Equipment:

	April 30, 2011			April 30, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	$ 122,384	$ 57,450	$ 64,934	$ 122,384	$ 45,928	$ 76,456
Computer hardware	74,893	74,092	801	75,012	66,648	8,364
Leasehold improvements	24,517	24,517	-	24,517	24,517	-
	$ 221,794	$ 156,059	$ 65,735	$ 221,913	$ 137,093	$ 84,820

Amortization of equipment included in amortization expense for the year ended April 30, 2011 was $19,085 (April 30, 2010 – $36,872).

4. Intangible assets:

	April 30, 2011			April 30, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Molecules	$ 3,111,169	$ 1,328,728	$ 1,782,441	$ 3,111,169	$ 939,832	$ 2,171,337
Patents	535,250	35,517	499,733	484,896	23,438	461,458
Computer software	75,971	17,515	58,456	85,198	20,689	64,509
Trademark	7,948	4,881	3,067	7,616	4,733	2,883
	$ 3,730,338	$ 1,386,641	$ 2,343,697	$ 3,688,879	$ 988,692	$ 2,700,187

Amortization expense includes the following amounts related to intangible assets:

	April 30, 2011	April 30, 2010
Molecules	$ 388,896	$ 388,896
Patents	12,079	12,989
Computer software	67,887	76,346
Trademark	147	147
	$ 469,009	$ 478,378

During the year, the Company recorded patent cost write-offs of $37,423 (April 30, 2010 - $41,991) related to compounds that management determined would not be continued in development. These write-offs were recorded in general and administration expense.

The Company generally enters into one year software license agreements. During the year, the Company wrote-off fully amortized computer software of $71,060 (April 30, 2010 - $80,447).

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

	April 30, 2011			April 30, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Patents pending	$ 328,258	$ -	$ 328,258	$ 279,907	$ -	$ 279,907
Patents granted	206,992	35,517	171,475	204,989	23,438	181,551
	$ 535,250	$ 35,517	$ 499,733	$ 484,896	$ 23,438	$ 461,458

Patents granted have unamortized lives of 137 to 167 months.

5. Share capital and warrants:

		April 30, 2011		April 30, 2010	
	Expiry date	Issued	Amount	Issued	Amount
Share Capital:					
Authorized:					
Unlimited common shares					
Unlimited preference shares					
Issued:					
Common shares		62,371,215	$ 14,779,916	49,758,355	$13,587,267
Share purchase warrants:					
$0.55 warrants	October 27/11	1,519,070	208,471	1,519,070	208,471
$0.40 compensation warrants	October 27/11	105,607	16,462	105,607	16,462
$0.55 warrants	November 27/11	56,430	6,339	-	-
$0.40 compensation warrants	November 27/11	643	87	-	-
$0.30 warrants	September 24/12	8,152,500	411,678	-	-
$0.30 compensation warrants	September 24/12	385,500	19,467	-	-
$0.30 warrants	October 6/12	2,187,500	132,145	-	-
$0.30 compensation warrants	October 6/12	82,000	4,954	-	-
$0.30 warrants	October 20/12	2,160,000	130,175	-	-
$0.30 compensation warrants	October 20/12	40,000	2,410	-	-
		14,689,250	932,188	1,624,677	224,933
			$ 15,712,104		$ 13,812,200

	Shares	Amount
Balance April 30, 2009	46,720,214	$ 12,810,518
Expiry of $0.70 warrants	-	2,607
Shares issued on private placement, net of issuance costs	3,038,141	774,142
	3,038,141	776,749
Balance April 30, 2010	49,758,355	13,587,267
Shares issued on private placements, net of issuance costs	12,612,860	1,192,649
Balance April 30, 2011	62,371,215	$ 14,779,916

Details concerning the private placement transactions are summarized below:

a) During the year ended April 30, 2010, no warrants were exercised however, 16,902 warrants expired resulting in a value of $2,607 being transferred to share capital.

b) On April 28, 2010, the Company completed the first tranche of a private placement and issued 3,038,141 units consisting of one common share and a one-half common share purchase warrant at $0.35 per unit for gross proceeds of $1,063,349. Each common share purchase warrant is exercisable into one common share at a price of $0.55 for 18 months following the closing date of each tranche, being October 27, 2011. Costs of the private placement included $27,312 in professional fees, $36,962 in cash commissions to agents and 105,607 compensation warrants exercisable into one additional common share at a price of $0.40 until October 27, 2011.

c) On May 28, 2010, the Company completed the second tranche of a private placement initiated in fiscal 2010 and issued 112,860 units consisting of one common share and a one-half common share purchase warrant at $0.35 per unit for gross proceeds of $39,501. Each common share purchase warrant is exercisable into one common share at a price of $0.55 for 18 months following the closing date of each tranche, being November 27, 2011. Costs of the private placement included $6,428 in professional fees, $225 in cash commissions to agents and 643 compensation warrants exercisable into one additional common share at a price of $0.40 until November 27, 2011.

d) The Company completed a private placement in three tranches, closing on March 25, April 7, and April 21, 2011 respectively. Under the private placement, the Company issued 12,500,000 units consisting of one common share and one common share purchase warrant at $0.16 per unit for gross proceeds of $2,000,000. Each common share purchase warrant is exercisable into one common share at a price of $0.30 for 18 months following the closing date of each tranche, being September 24, October 6, and October 20, 2012 respectively. Costs of the private placement included $51,744 in professional fees, $81,200 in cash commissions to agents and 507,500 compensation warrants exercisable into one additional common share at a price of $0.30 for 18 months following the closing date of each tranche, being September 24, October 6, and October 20, 2012 respectively.

	April 30, 2011					April 30, 2010
Closing date	May 28, 2010	March 25, 2011	April 7, 2011	April 21, 2011	Total	April 28, 2010
Proceeds summary:						
Gross cash proceeds on issuance	$ 39,501	$ 1,304,400	$ 350,000	$ 345,600	$ 2,039,501	$ 1,063,349
Share issuance cash costs	6,653	95,429	22,142	15,373	139,597	64,274
Net cash proceeds on issuance	$ 32,848	$ 1,208,971	$ 327,858	$ 330,227	$ 1,899,904	$ 999,075
Fair value allocations:						
Common shares issued	112,860	8,152,500	2,187,500	2,160,000	12,612,860	3,038,141
Fair value of common shares issued	$ 33,162	$ 892,722	$ 217,855	$ 215,425	$ 1,359,164	$ 854,878
Share issuance costs	6,740	114,896	27,096	17,783	166,515	80,736
Increase in fair value of share capital	$ 26,422	$ 777,826	$ 190,759	$ 197,642	$ 1,192,649	$ 774,142
Warrants issued	56,430	8,152,500	2,187,500	2,160,000	12,556,430	1,519,070
Fair value of warrants	$ 6,339	$ 411,678	$ 132,145	$ 130,175	$ 680,337	$ 208,471
Compensation warrants issued	643	385,500	82,000	40,000	508,143	105,607
Fair value of compensation warrants	$ 87	$ 19,467	$ 4,954	$ 2,410	$ 26,918	$ 16,462
Increase in fair value of warrants	$ 6,426	$ 431,145	$ 137,099	$ 132,585	$ 707,255	$ 224,933
Black-Scholes assumptions for warrant valuation:						
Market price	$ 0.30	$ 0.14	$ 0.29	$ 0.27		$ 0.37
Risk free rate	1.48%	1.56%	1.55%	1.55%		1.52%
Dividend yield	-	-	-	-		-
Volatility	116%	143%	144%	145%		131%
Expected life in years	1.50	1.50	1.50	1.50		1.50

6. Stock-based compensation:

The Company maintains a stock option plan (SOP) for directors, officers, employees and consultants who contribute to the long-term goals of the Company. Under the SOP, the maximum number of shares available as purchase options granted shall not exceed 10% of the outstanding issued shares. The awarding of options, their exercise price and vesting period is determined by the Compensation Committee of the Board.

Stock-based compensation transactions during the years ended April 30, 2011 and 2010 were as follows:

a) On September 10, 2009, the Company granted 694,447 stock options to the members of the Board of Directors with an exercise price of $0.50. The options have a five-year maturity from the date of the grant and vested immediately upon grant.

b) On January 18, 2010, the Company granted 200,000 stock options to a consultant with an exercise price of $0.50 on the first 50,000 options and $0.65 on the remaining 150,000 options. The options have a five-year maturity from the date of the grant, with 50,000 vesting on each of March 31, 2010, June 30, 2010, September 30, 2010 and December 31, 2010.

c) On February 12, 2010, the Company granted 246,808 stock options to eight employees with an exercise price of $0.47. The options have a five-year maturity from the date of the grant and vested immediately upon grant.

d) On March 15, 2010, the Company granted 200,000 stock options to a consultant with an exercise price of $0.50 on the first 50,000 options and $0.65 on the remaining 150,000 options. The options have a five-year maturity from the date of the grant, with 50,000 vesting on each of June 15, 2010, September 15, 2010, December 15, 2010 and March 15, 2011.

e) On April 21, 2010, 654,358 vested stock options held by two former directors of the Company expired.

f) On June 16, 2010, the Company announced the resignation of its Chief Executive Officer (CEO) effective the close of business on June 30, 2010. Upon his appointment in October 2008, the CEO was issued 500,000 stock options which vested over a period of time ending in October 2011. Under the terms of the SOP, 300,000 of these options would not vest as a result of the resignation and consequently stock-based compensation expense of $110,509 previously recorded for these options was recovered against stock-based compensation incurred in fiscal 2011. On September 28, 2010, the remaining 200,000 vested options expired.

g) On October 28, 2010, the Company granted 1,182,171 stock options to the members of the Board of Directors with an exercise price of $0.165. The options have a five-year maturity from the date of the grant, with 295,538 vesting on January 28, 2011, 295,543 vesting on April 28, 2011, 295,545 vesting on July 28, 2011 and 295,545 vesting on October 28, 2011.

h) On March 31, 2011, the Company granted 56,818 stock options with an exercise price of $0.15 to a new director appointed to the Board on that day. The options have a five-year maturity from the date of grant, with 7,540 vesting on April 28, 2011, 24,504 vesting on July 28, 2011 and 24,774 vesting on October 28, 2011.

i) On March 31, 2011, the Company announced the resignation of one of its directors. The director held 58,140 unvested stock options. Under GAAP, stock option compensation previously recorded related to unvested options is recorded as a recovery of stock based compensation. No recovery was recorded as the vesting term was amended subsequent to the year end (note 17(b)(i)).

The total stock option compensation calculated for the options granted during the year ended April 30, 2011 and the assumptions used in the option pricing model are as follows:

Risk free interest rate	2.11% - 2.57%
Expected dividend yield	-
Expected share volatility	144%
Expected average option life	5 years
Estimated total stock option compensation	$ 161,250

Options issued to two consultants in fiscal 2010 were re-measured during the year to coincide with the completion of services for which the options were granted. The change in measurement date resulted in a change in the valuation of the options, and accordingly, a recovery of previously recorded stock-based compensation expense was recognized. The effect on the total stock option compensation calculation and the assumptions used in the option pricing model as a result of the re-measurement are as follows:

	Original	Revised
Trading price on measurement date	$ 0.46	$ 0.26
Risk free interest rate	1.53%	1.74%
Expected dividend yield	-	-
Expected share volatility	149%	150%
Expected average option life	2 years	2 years
Estimated total stock option compensation	$ 123,800	$ 59,500

For the year ended April 30, 2011, the Company recorded stock-based compensation expense of $22,113 (April 30, 2010 - $570,732) related to grants in the current and prior year, on the cancellation of unvested options, and on the re-measurement of existing consultant options. At April 30, 2011, the total stock-based compensation expense recorded since inception was $2,222,279 (April 30, 2010 - $2,200,166).

At April 30, 2011, 2,014,769 options (April 30, 2010 – 1,492,472) are available for grant under the stock option plan.

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

	April 30, 2011			April 30, 2010		
	Number of Options		Weighted average exercise price	Number of Options		Weighted average exercise price
Opening balance	3,483,364	$	0.71	2,796,467	$	0.79
Granted	1,238,989		0.16	1,341,255		0.53
Expired	(500,000)		0.50	(654,358)		0.66
Ending balance	4,222,353	$	0.58	3,483,364	$	0.71

Details of the outstanding stock options at April 30, 2011 are summarized below:

Range of Exercise Prices		Weighted average exercise price of outstanding options		Weighted average exercise price of vested options	Options granted and outstanding at Apr 30/11	Vested	Unvested	Weighted average remaining contractual life in years		Total stock based compensation value		Weighted average option value
\$0.01 - \$0.50	$	0.30	$	0.36	2,122,836	1,482,468	640,368	4.11	$	494,351	$	0.233
\$0.51 - \$1.00		0.73		0.73	1,749,517	1,749,517	-	1.83		852,293		0.487
\$1.01 - \$1.50		1.29		1.29	250,000	250,000	-	1.43		279,400		1.118
\$1.51 - \$2.00		2.00		2.00	100,000	100,000	-	1.44		176,700		1.767
	$	0.58	$	0.65	4,222,353	3,581,985	640,368	2.94	$	1,802,744	$	0.427

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

2012	$	34,348

Details of the outstanding stock options at April 30, 2010 are summarized below:

Range of Exercise Prices		Weighted average exercise price of outstanding options		Weighted average exercise price of vested options	Options granted and outstanding at Apr 30/10	Vested	Unvested	Weighted average remaining contractual life in years		Total stock based compensation value		Weighted average option value
\$0.01 - \$0.50	$	0.49	$	0.49	1,383,847	1,033,847	350,000	4.16	$	645,201	$	0.466
\$0.51 - \$1.00		0.73		0.75	1,749,517	1,449,517	300,000	2.83		899,993		0.514
\$1.01 - \$1.50		1.29		1.30	250,000	216,664	33,336	2.43		279,400		1.118
\$1.51 - \$2.00		2.00		2.00	100,000	100,000	-	2.44		176,700		1.767
	$	0.71	$	0.74	3,483,364	2,800,028	683,336	3.32	$	2,001,294	$	0.575

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

2011	$	124,996
2012		14,897
	$	139,893

The following table summarizes the change in contributed surplus:

		April 30, 2011		April 30, 2010
Opening balance	$	2,421,193	$	1,850,461
Stock-based compensation expense		22,113		570,732
Ending balance	$	2,443,306	$	2,421,193

7. Income taxes and investment tax credits:

The following table reconciles income taxes, calculated at combined Canadian federal and provincial tax rates, with the income tax expense in the financial statements:

	April 30, 2011	April 30, 2010
Loss before income taxes	$ (2,054,926)	$ (3,560,310)
Statutory rate	30.08%	32.33%
Expected income tax recovery	(618,000)	(1,151,000)
Amounts not deductible for tax	19,000	198,000
Share issuance costs deductible for tax	(79,000)	(82,000)
Change in future income tax rates	118,000	413,000
Change in valuation allowance	626,000	523,000
Tax credits realized	4,000	80,000
Other	(70,000)	19,000
Income tax expense	$ -	$ -

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

	April 30, 2011	April 30, 2010
Losses carried forward	$ 2,090,000	$ 1,712,000
Total research expenditures deferred for tax purposes	768,000	592,000
Financing expenses	66,000	107,000
Equipment	2,000	3,000
Other	59,000	74,000
Future tax assets	2,985,000	2,488,000
Less future tax liabilities related to:		
Intangible assets	(424,000)	(553,000)
Net future tax assets	2,561,000	1,935,000
Less valuation allowance	(2,561,000)	(1,935,000)
	$ -	$ -

The valuation allowance for future tax assets at April 30, 2011 is $2,561,000 (April 30, 2010 - $1,935,000). In assessing the value of the future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon future taxable income. Management considers the likelihood of future profitability, the character of the tax assets and any applicable tax planning strategies to make this assessment. To the extent that management believes that the realization of future tax assets do not meet the more likely than not criterion, a valuation allowance is provided against the future tax assets. Management currently believes that the Company does not meet the more likely than not criterion and, therefore, future tax assets have not been recognized in the financial statements.

The Company has non-capital losses of approximately $8,357,000 and research and development expenditures of $3,097,000, which may be applied to reduce taxable income of future years expiring as follows:

2013	$	36,000
2014		186,000
2025		178,000
2026		463,000
2027		580,000
2028		1,297,000
2029		2,037,000
2030		2,075,000
2031		1,505,000
Total non-capital losses	$	8,357,000
Total research and development expenditures, no expiry	$	3,097,000

Effective for taxation years ending after December 31, 2008, the federal and Ontario tax administration is harmonized. Under the harmonized tax system, Ontario income tax is calculated on taxable income as defined for federal purposes. Accordingly, differences between federal and Ontario tax balances in the Company have resulted in a transitional tax credit of $72,000. This credit is comprised of differences between federal and Ontario non-capital losses and research and development expenditures. This credit can only be applied against Ontario income tax, is non-refundable and expires at the end of fiscal 2013.

In September 2010 the Company received $122,244 of refundable Ontario tax credits related to its fiscal year ended April 30, 2010, which were not previously recorded in accordance with the Company's accounting policy regarding reasonable assurance of collectability.

Commencing with the year ended April 30, 2011, the Company has recognized current year tax credits in the year earned because collectability is now considered to be reasonably certain given the Company's history of filings and collections.

8. Financial instruments:

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

As at April 30, 2011	Held for trading	Held to maturity	Loans and receivables	Other financial liabilities	Total carrying value	Non financial instruments	Balance sheet carrying value
Cash and cash equivalents	$ 1,794,621	$ -	$ -	$ -	$ 1,794,621	$ -	$1,794,621
Short-term investment	-	300,000	-	-	300,000	-	300,000
Miscellaneous receivables	-	-	11,053	-	11,053	120,983	132,036
Accounts payable and accrued liabilities	-	-	-	(296,436)	(296,436)	(46,138)	(342,574)
Due to shareholders	-	-	-	(1,069)	(1,069)	-	(1,069)
	$ 1,794,621	$ 300,000	$ 11,053	$ (297,505)	$ 1,808,169	$ 74,845	$1,883,014

As at April 30, 2010	Held for trading	Held to maturity	Loans and receivables	Other financial liabilities	Total carrying value	Non financial instruments	Balance sheet carrying value
Cash and cash equivalents	$ 1,945,376	$ -	$ -	$ -	$ 1,945,376	$ -	$1,945,376
Miscellaneous receivables	-	-	27,057	-	27,057	2,699	29,756
Accounts payable and accrued liabilities	-	-	-	(328,910)	(328,910)	(15,030)	(343,940)
Due to shareholders	-	-	-	(1,069)	(1,069)	-	(1,069)
	$ 1,945,376	$ -	$ 27,057	$ (329,979)	$ 1,642,454	$ (12,331)	$1,630,123

Fair value estimates are made at a specific point in time using available information about the financial instrument. The fair value of cash is measured at Level 1 of the fair value hierarchy (note 1(i)) as quoted market prices are readily available while cash equivalents are measured at Level 2 as quoted prices are not readily available on a public market but must be obtained in the secondary market. The Company has determined that the carrying value of its remaining financial assets and liabilities approximates their fair value because of the relatively short periods to maturity of these instruments and their capacity for prompt liquidation.

Income earned and expenses incurred are attributable to the following categories of financial instruments:

For the year ended April 30, 2011	Held for trading	Held to maturity	Other financial liabilities	Non financial instruments	Total
Interest income	$ 9,720	$ 296	$ -	$ 58	$ 10,074
Interest expense	-	-	-	-	-
	$ 9,720	$ 296	$ -	$ 58	$ 10,074

For the year ended April 30, 2010	Held for trading	Held to maturity	Other financial liabilities	Non financial instruments	Total
Interest income	$ 5,604	$ 12,404	$ -	$ 186	$ 18,194
Interest expense	-	-	(3,642)	-	(3,642)
	$ 5,604	$ 12,404	$ (3,642)	$ 186	$ 14,552

(a) Credit risk:

Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. The Company regularly monitors credit risk exposure and takes steps to mitigate the likelihood that these exposures will result in an actual loss. The Company does not have any financial instruments that potentially subject it to significant credit risk. There have been no material changes to the Company's credit risk exposure or processes related to this risk during the year.

The Company's maximum exposure to credit risk is quantified by the carrying value of miscellaneous receivables of $11,053 (April 30, 2010 - $27,057). The Company's receivables are deemed to be of high credit quality and consequently, it does not require collateral to secure its receivables.

(b) Liquidity risk:

Liquidity risk relates to potential difficulty in raising funds to meet commitments associated with financial instruments. Based upon the high credit ratings associated with its financial assets and the Company's spending plans, the Company is of the view that it will have sufficient cash available to meet its financial obligations during fiscal 2012 from its current cash, cash equivalents and short-term investments, and from additional funding for operations being pursued to improve cash flow and maintain liquidity for future periods (note 1(a)). There have been no changes to the Company's processes related to liquidity risk during the year.

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

		Days to Maturity			
As at April 30, 2011	Total	0 - 90	91 - 180	181 - 270	Over 270
Cash and cash equivalents	$ 1,794,621	$ 1,794,621	$ -	$ -	$ -
Short-term investment	300,000	-	-	-	300,000
	$ 2,094,621	$ 1,794,621	$ -	$ -	$ 300,000

		Days to Maturity			
As at April 30, 2010	Total	0 - 90	91 - 180	181 - 270	Over 270
Cash and cash equivalents	$ 1,945,376	$ 1,945,376	$ -	$ -	$ -

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

			Days to Maturity		
As at April 30, 2011	Total	0 - 90	91 - 180	181 - 270	Over 270
Trade payables	$ 123,245	$ 123,245	$ -	$ -	$ -
Accrued liabilities	173,191	173,191	-	-	-
Due to shareholders	1,069	1,069	-	-	-
	$ 297,505	$ 297,505	$ -	$ -	$ -

			Days to Maturity		
As at April 30, 2010	Total	0 - 90	91 - 180	181 - 270	Over 270
Trade payables	$ 68,546	$ 68,546	$ -	$ -	$ -
Accrued liabilities	260,364	260,364	-	-	-
Due to shareholders	1,069	1,069	-	-	-
	$ 329,979	$ 329,979	$ -	$ -	$ -

Given the nature of the Company's financial liabilities, there is limited risk that future settlement amounts will differ from the current carrying values. The Company has determined that it has sufficient working capital to manage its maturing financial liabilities as they come due.

(c) Market risk:

(i) Foreign currency risk:

The Company has contracts and holds cash denominated in United States dollars (USD) and is exposed to risk with respect to fluctuations in exchange rates between Canadian dollars and USD. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. As a result, variations in foreign exchange rates could cause fluctuations in the Company's operating results and cash flows. The Company's foreign currency risk exposure during the year was consistent with the foreign currency risk exposure during the year ended April 30, 2010. The amount of this exposure is not material to the financial statements.

(ii) Interest rate risk:

Interest rate risk arises from fluctuations in the interest rates applied to financial assets and liabilities. The financial asset exposure to interest rate risk is concentrated in cash equivalents and short-term investments as the interest rate obtained upon renewal will fluctuate with market pricing. The Company regularly monitors the rates available as the instruments mature, with the selection of investments restricted to those with high credit ratings, in accordance with the Company's investment policy. There is no financial liability exposure to interest rate risk. The Company's interest rate risk exposure has

remained consistent during the year. The amount of interest rate risk exposure is not material to the financial statements.

9. Change in non-cash operating working capital:

	April 30, 2011	April 30, 2010
Miscellaneous receivables	$ (102,280)	$ 58,579
Prepaid expenses and deposits	10,225	(7,769)
Accounts payable and accrued liabilities	(1,274)	10,901
	$ (93,329)	$ 61,711

10. Government assistance:

For the year ended April 30, 2011, the Company recorded $2,693 for government assistance under the Youth Internship Program with the National Research Council of Canada (April 30, 2010 – $27,307). Under the agreement which expired on May 31, 2010, the Company was eligible for reimbursement of 50% of the salary of a marketing analyst intern to a maximum of $30,000 with no liability for repayment. Government assistance received was credited against sales and marketing expense.

On June 16, 2010, the Company received notice of a non-repayable financial contribution of up to $300,000 for the development of its Acute Myelogenous Leukemia Project (AML) from the National Research Council of Canada Industrial Research Assistance Program (NRC-IRAP) payable over two years. The project had an estimated total cost of $561,662 eligible for funding from NRC-IRAP and was expected to last 16 months from commencement. The start date for the project was July 1, 2010. The Company recognized $16,368 during the year in government assistance under this project, which has been credited against research and product development expense.

On February 17 2011, the AML contribution agreement was mutually amended to reflect a reduction in the financial contribution over the two years to $110,958. The amendment was initiated because of funding constraints within the Company that precluded spending on the project sufficient to recover the NRC-IRAP contribution allocated for fiscal 2011. The Company is eligible to apply for further AML funding once NRC-IRAP is able to accept funding requests for its fiscal 2013 year.

11. Commitments:

(a) Premises rent:

Effective June 1, 2007, the Company entered into a two-year lease agreement for 1,600 square feet of office space. The monthly lease payment is $3,115. The Company has no remaining minimum fiscal year lease payments as the lease expired on May 31, 2009. The lease agreement has been extended on a month to month basis subject to a 90 day notice period to terminate by either party.

(b) Research and development contracts:

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

12. 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) library acquired under 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.

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

13. 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.

14. Related party transactions:

There were no related party balances or transactions in the year ended April 30, 2011 that were not in the ordinary course of business.

The Board of Directors and officers of the Company participated in the amount of $215,600 in the private placement closed on April 28, 2010 (note 5(b)).

The Board of Directors and officers of the Company also participated in the private placement tranches closed on March 25 and April 7, 2011 in the amount of $598,400 (note 5(d)).

Other related party transactions are disclosed in notes 6 and 12. The share purchases were measured at an arm's length exchange amount consistent with all other participants in the private placement.

15. Capital management:

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

(i) To limit dilution of shareholders' investment to the extent necessary to finance operations;
(ii) To provide shareholders with an appropriate rate of return on their investment.

The Company has limited debt consisting of shareholder advances which total $1,069 compared to total shareholder's equity of $4,357,176 for a debt to equity ratio of 0.02%. There is no bank or other debt that subjects the Company to covenants requiring the maintenance of liquidity levels or target ratios. The Company does not currently pay nor contemplate paying dividends.

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

16. Future changes in accounting policies:

(a) International financial reporting standards (IFRS):

In February 2008, the AcSB confirmed that Canadian publicly accountable enterprises would be required to adopt IFRS for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparative financial statements for the prior fiscal year. For the Company, the change to reporting financial results under IFRS will be required for the interim and annual financial statement reporting periods of its fiscal year ending April 30, 2012. However, in order to provide comparative data for this reporting period the Company will need to capture its financial results under IFRS commencing with reporting for its April 30, 2011 year end.

17. Subsequent events

(a) Exercise of stock options

(i) On May 5, 2011, 58,139 stock options issued under the Company's stock option plan (note 6(g)) were exercised for gross proceeds of $9,593. On June 22, 2011, 58,140 stock options issued under the Company's stock option plan (note 6(g) and (i) and note 17(b)(i)) were exercised for gross proceeds of $9,593. Share capital was increased and contributed surplus was reduced by $15,000 relating to previously recognized stock-based compensation expense for these options.

(b) Expiry of stock options

(i) On May 19, 2011, the Board amended, as permitted under the provisions of the Company's SOP, the vesting term of 58,140 stock options with an exercise price of $0.165 granted to a former director who resigned on March 31, 2011 that would have expired unvested on June 29, 2011. Vesting was effective that day.

(ii) 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 (note 6(d)).

(iii) On June 29, 2011, 88,889 vested stock options granted to a director that resigned on March 31, 2011 expired unexercised.

(c) Grant of stock options

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.