Critical Outcome Technologies Inc.

Fiscal 2010 Second Quarter Financial Statements

(Unaudited)

For the three and six month periods ended October 31, 2009 and 2008

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CRITICAL OUTCOME TECHNOLOGIES INC.

Notice of No Auditor Review of Interim Financial Statements

For the three and six month periods ended October 31, 2009 and 2008

The accompanying unaudited balance sheet of Critical Outcome Technologies Inc. (COTI) as at October 31, 2009, the audited balance sheet as at April 30, 2009 and the unaudited statements of comprehensive loss and deficit and cash flows for the three and six month periods ending October 31, 2009 and 2008 have been prepared by, and are the responsibility of the Company's management and have been reviewed and approved by the Audit Committee as authorized by the Board of Directors.

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

CRITICAL OUTCOME TECHNOLOGIES INC.

Balance Sheets

As at	October 31, 2009	April 30, 2009
	(Unaudited)	(Audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 1,120,082	$ 602,613
Short-term investments (note 2)	1,099,999	3,049,846
Miscellaneous receivables	28,959	87,990
Prepaid expenses and deposits	33,043	63,830
	2,282,083	3,804,279
Long-term deposit	-	3,356
Equipment (note 3)	98,705	116,099
Intangible assets (note 4)	2,857,351	2,993,391
	$ 5,238,139	$ 6,917,125
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 287,881	$ 333,025
Due to shareholders	81,843	82,249
Notes payable	-	20,000
Capital lease obligation	-	1,263
	369,724	436,537
Shareholders' equity:		
Share capital and warrants	12,813,125	12,813,125
Contributed surplus (note 5)	2,194,055	1,850,461
Deficit	(10,138,765)	(8,182,998)
	4,868,415	6,480,588
	$ 5,238,139	$ 6,917,125
Commitment (note 10)		

See accompanying notes to financial statements

CRITICAL OUTCOME TECHNOLOGIES INC.

Statements of Comprehensive Loss and Deficit

(All amounts unaudited)

	Three Months Ended October 31, 2009	Three Months Ended October 31, 2008	Six Months Ended October 31, 2009	Six Months Ended October 31, 2008
Revenues:				
Contract services	$ -	$ 5,982	$ -	$ 5,982
Expenses:				
Research and product development	292,037	348,786	717,897	550,681
General and administration	317,811	194,314	647,427	453,128
Stock-based compensation (note 5)	309,992	24,056	343,594	256,677
Amortization (notes 3 & 4)	135,946	133,139	268,814	252,136
Sales and marketing	61,561	58,031	122,693	137,690
Foreign exchange loss	914	5,951	3,320	6,182
Interest and bank charges	1,130	1,613	2,546	7,700
	1,119,391	765,890	2,106,291	1,664,194
Loss before other income	(1,119,391)	(759,908)	(2,106,291)	(1,658,212)
Other income:				
Investment tax credit refunds	137,301	-	136,786	-
Interest income	5,412	34,906	13,738	74,439
	142,713	34,906	150,524	74,439
Loss and comprehensive loss	(976,678)	(725,002)	(1,955,767)	(1,583,773)
Accumulated deficit, beginning of the period	(9,162,087)	(5,122,750)	(8,182,998)	(4,263,979)
Accumulated deficit, end of the period	$ (10,138,765)	$ (5,847,752)	$ (10,138,765)	$ (5,847,752)
Basic and diluted loss per common share	$ (0.02)	$ (0.02)	$ (0.04)	$ (0.03)
Weighted average number of common shares outstanding	46,720,214	46,702,944	46,720,214	46,279,291

See accompanying notes to financial statements

CRITICAL OUTCOME TECHNOLOGIES INC.

Statements of Cash Flows

(All amounts unaudited)

	Three Months Ended October 31, 2009	Three Months Ended October 31, 2008	Six Months Ended October 31, 2009	Six Months Ended October 31, 2008
Cash provided by (used in):				
Operating activities:				
Loss	$ (976,678)	$ (725,002)	$ (1,955,767)	$ (1,583,773)
Items not involving cash:				
Stock-based compensation	309,992	24,056	343,594	256,677
Amortization	135,946	133,139	268,814	252,136
Loss on disposal of equipment	-	-	40	-
Loss on disposal of patents	11,931	-	11,931	-
Unrealized foreign exchange (gain) loss	(1,024)	2,444	1,621	2,438
Change in non-cash operating working capital (note 8)	(27,993)	(121,461)	47,683	(86,195)
	(547,826)	(686,824)	(1,282,084)	(1,158,717)
Investing activities:				
Redemption of short-term investments (net of purchases)	1,016,881	493,225	1,949,847	(543,118)
Purchase of equipment	(2,095)	-	(7,132)	(4,895)
Proceeds on disposal of equipment	-	-	792	-
Expenditures on intangible assets	(72,090)	(36,669)	(121,011)	(86,764)
	942,696	456,556	1,822,496	(634,777)
Financing activities:				
Issuance of share capital and warrants (net of issuance costs)	-	8,358	-	634,305
Decrease in capital lease obligations	-	(5,349)	(1,263)	(10,613)
Repayments of amounts due to shareholders and notes payable	(20,000)	(3)	(20,406)	(353,803)
	(20,000)	3,006	(21,669)	269,889
Increase (decrease) in cash and cash equivalents	374,870	(227,262)	518,743	(1,523,605)
Unrealized foreign exchange (gain) loss on cash and cash equivalents	1,375	2,545	(1,274)	2,551
Cash and cash equivalents, beginning of the period	743,837	1,816,883	602,613	3,113,220
Cash and cash equivalents, end of the period	$ 1,120,082	$ 1,592,166	$ 1,120,082	$ 1,592,166
Represented by:				
Cash	$ 180,664	$ 134,431	$ 180,664	$ 134,431
Cash equivalents	939,418	1,457,735	939,418	1,457,735
	$ 1,120,082	$ 1,592,166	$ 1,120,082	$ 1,592,166
Supplemental cash flow information:				
Interest paid	$ 1,166	$ 1,247	$ 2,169	$ 6,970

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 optimize commercially viable drug candidates at the earliest stage of preclinical drug development and thereby dramatically reduce the timeline and cost of getting new drug therapies to market.

Using CHEMSAS®, the Company has created a pipeline of optimized, novel, proprietary, small molecules for specific therapy targets with high morbidity and mortality, which currently have either poor or no effective therapies. The Company is developing these 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 integrase inhibitors, 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 targets of interest.

1. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for the preparation of interim financial statements. This results in certain information and disclosures normally included in the notes to the annual audited financial statements being condensed or not presented in these financial statements. These interim financial statements should be read in conjunction with the Company's most recent audited annual financial statements of April 30, 2009 and related notes.

(a) Basis of presentation:

The accompanying interim financial statements have been prepared on a going concern basis that contemplates the realization of assets and discharge of liabilities in the normal course of operations. There are material uncertainties related to certain conditions and events that raise significant doubts about the validity of this assumption. For example, the Company has not yet established commercial operating revenues and operational cash flows continue to be negative. Financing for Company operations continues through cash and short-term investments from prior equity raises.

Key financial results for the six months ended October 31, 2009 and 2008 that are indicative of possible concern include: the Company had a loss of $1,955,767 (October 31, 2008 - $1,583,773) and negative cash flow from operations of $1,282,084 (October 31, 2008 – $1,158,717). As at October 31, 2009, the Company had an accumulated deficit of $10,138,765 (April 30, 2009 - $8,182,998), which results in a shareholders' equity of $4,868,415 (April 30, 2009 - $6,480,588). As at October 31, 2009, the Company had working capital of $1,912,359 (April 30, 2009 - $3,367,742).

Management is taking steps to address the going concern risks by: actively seeking out potential customers, partners and collaborators as a means of furthering molecule development and generating future revenue streams; pursuing alternative sources of financing, including but not limited to, raising capital in the public market; actively managing liquidity though the reduction or delay of discretionary and other expenditures that are not immediate in nature; and focusing research and development activities on advancing its lead compound, COTI-2, that is in the later stages of preclinical development.

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

(b) Changes in accounting policies:

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

(i) 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 upon 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.

(ii) Goodwill and intangible assets:

In February 2008, the Accounting Standards Board ("AcSB") issued Section 3064, "Goodwill and Intangible Assets", which replaced Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". For the Company, this Section became effective for interim and annual financial statement reporting beginning on May 1, 2009. This Section establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets. The adoption of this standard has resulted in the reclassification of computer software as an intangible asset, but has had no effect on the recognition and measurement of the Company's other intangible assets (molecules, patents and trademark) nor has it had any effect on the reported net loss and deficit.

(iii) General standards for financial statement presentation:

In January 2008, Section 1400, "General Standards of Financial Statement Presentation" was amended to require disclosure of material uncertainties that cast significant doubt as to an entity's ability to continue as a going concern. For the Company, this Section is effective for interim and annual financial statements beginning on May 1, 2009. This new standard has resulted in the Company increasing its disclosure related to material uncertainties that cast doubt as to an entity's ability to continue as a going concern.

2. Short-term investments:

The Company invests cash not needed for immediate working capital purposes in short-term securities having maturities greater than three months but less than a year, and rated "A high" or greater by Standard and Poor's and the Dominion Bond Rating Service. At October 31, 2009, maturities ranged from November 19, 2009 to March 16, 2010. The cost of these investments at October 31, 2009 was $1,099,999 (market $1,105,410) and at April 30, 2009 $3,049,846 (market $3,067,761).

3. Equipment:

	October 31, 2009			April 30, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	$ 122,384	$ 40,163	$ 82,221	$ 122,384	$ 27,938	$ 94,446
Computer hardware	79,764	65,840	13,924	84,623	70,651	13,972
Leasehold improvements	24,517	21,957	2,560	24,517	16,836	7,681
	$ 226,665	$ 127,960	$ 98,705	$ 231,524	$ 115,425	$ 116,099

Amortization related to equipment included in amortization expense for the six months ended October 31, 2009 is $23,694 (October 31, 2008 – $20,215).

There are no costs for assets under capital lease included in equipment at October 31, 2009 (April 30, 2009 – $11,081) and no accumulated amortization (April 30, 2009 – $10,773).

4. Intangible assets:

	October 31, 2009			April 30, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Molecules	$ 3,111,169	$ 745,384	$ 2,365,785	$ 3,111,169	$ 550,936	$ 2,560,233
Patents	479,039	17,780	461,259	374,450	10,589	363,861
Computer software	93,939	64,064	29,875	93,581	24,790	68,791
Trademark - CHEMSAS®	5,091	4,659	432	5,091	4,585	506
	$ 3,689,238	$ 831,887	$ 2,857,351	$ 3,584,291	$ 590,900	$ 2,993,391

Amortization expense includes the following amounts related to intangible assets:

	Three Months Ended October 31, 2009	Three Months Ended October 31, 2008	Six Months Ended October 31, 2009	Six Months Ended October 31, 2008
Molecules	$ 97,224	$ 97,224	$ 194,448	$ 194,448
Patents	5,707	1,572	7,330	3,007
Computer software	21,468	23,983	43,268	34,297
Trademark - CHEMSAS®	37	37	74	169
	$ 124,436	$ 122,816	$ 245,120	$ 231,921

During the period, the Company recorded a loss on disposal of patent costs of $11,931 related to a set of compounds that management determined would not be continued in development. The loss on disposal was recorded in general and administration expense.

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

	October 31, 2009			April 30, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Patents pending	$ 280,070	$ -	$ 280,070	$ 188,735	$ -	$ 188,735
Patents granted	198,969	17,780	181,189	185,715	10,589	175,126
	$ 479,039	$ 17,780	$ 461,259	$ 374,450	$ 10,589	$ 363,861

Patents granted have unamortized lives of 155 to 180 months.

Amortization of a compound patent granted in September 2009 from the United States Patent Office commenced during the quarter.

5. Stock-based compensation:

The Company maintains a stock option plan for directors, officers, employees and consultants who contribute to the long-term goals of the Company. Under the Plan, the maximum number of shares available 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.

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 the grant.

The total stock option compensation relating to the grant recorded during the period ended October 31, 2009 and the assumption estimates are as follows:

Risk free interest rate	2.75%
Expected dividend yield	-
Expected share volatility	110%
Expected average option life in years	5.0
Estimated total stock option compensation	$ 276,390

For the period ended October 31, 2009, the Company incurred total stock-based compensation expense of $343,594 (October 31, 2008 - $ 256,677).

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

	October 31, 2009		April 30, 2009	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Opening balance	2,796,467	$ 0.79	1,465,000	$ 0.84
Granted	694,447	0.50	1,358,067	0.74
Cancelled or expired	-	-	(26,600)	0.75
Ending balance	3,490,914	$ 0.73	2,796,467	$ 0.79

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

Weighted Average Exercise Price	Options granted and outstanding at October 31/09	Vested	Unvested	Weighted average remaining contractual life in years	Total stock based compensation value	Weighted average option value
$0.50	694,447	694,447	-	4.86	$ 276,390	$ 0.398
$0.50	500,000	200,000	300,000	4.00	295,500	0.591
$0.64	1,035,000	1,035,000	-	2.20	306,207	0.296
$0.70	50,000	50,000	-	2.21	15,908	0.318
$0.75	309,078	309,078	-	3.61	189,465	0.613
$0.90	422,389	422,389	-	4.30	415,208	0.983
$1.00	130,000	130,000	-	2.50	111,540	0.858
$1.20	100,000	49,998	50,002	3.71	103,000	1.030
$1.35	150,000	150,000	-	2.40	176,400	1.176
$2.00	100,000	100,000	-	2.94	176,700	1.767
$0.73	3,490,914	3,140,912	350,002	3.45	$ 2,066,318	$ 0.592
Total expensed to October 31, 2009					$ 1,973,028	
Available for grant at October 31, 2009	1,181,107					

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

2010	$ 66,109
2011	58,566
2012	14,897
	$ 139,572

The following table summarizes the change in contributed surplus for the period ended October 31, 2009 and the year ended April 30, 2009:

	October 31, 2009	April 30, 2009
Opening balance	$ 1,850,461	$ 1,008,259
Stock-based compensation	343,594	842,202
Ending balance	$ 2,194,055	$ 1,850,461

6. 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:

	October 31, 2009	April 30, 2009
Loss before income taxes	$ (1,955,767)	$ (3,919,019)
Statutory rate	32.67%	33.00%
Expected income tax recovery	(639,000)	(1,293,000)
Amounts not deductible for tax	115,000	285,000
Share issuance costs deductible for tax	(40,000)	(81,000)
Expiration of non-capital losses	-	37,000
Change in future income tax rates	53,000	110,000
Change in valuation allowance	462,000	774,000
Tax credits realized	47,000	88,000
Other	2,000	80,000
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:

	October 31, 2009	April 30, 2009
Losses carried forward	$ 1,695,000	$ 1,382,000
Total research expenditures deferred for tax purposes	634,000	519,000
Financing expenses	138,000	173,000
Equipment	5,000	-
Other	74,000	74,000
Future tax assets	2,546,000	2,148,000
Less future tax liabilities related to:		
Equipment	-	(5,000)
Intangible assets	(672,000)	(731,000)
Net future tax assets	1,874,000	1,412,000
Less valuation allowance	(1,874,000)	(1,412,000)
	$ -	$ -

The valuation allowance for future tax assets as at October 31, 2009 is $1,874,000 (April 30, 2009 - $1,412,000). 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 $5,843,000 and research and development expenditures of $2,434,000, 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
2010		1,066,000
Total non-capital losses	$	5,843,000
Total research and development expenditures, no expiry	$	2,434,000

In September 2009 the Company received $137,301 of refundable Ontario tax credits related to its fiscal year ended April 30, 2009, which were not previously recorded in accordance with the Company's accounting policy regarding reasonable assurance of collectability.

7. Financial instruments:

The Company's financial instruments (financial assets and liabilities) consist of cash and cash equivalents, short-term investments, miscellaneous receivables, accounts payable and accrued liabilities and due to shareholders.

Financial instruments designated as held for trading are recorded at fair market value. Financial instruments designated as held to maturity, loans and receivables and other financial liabilities are recorded at amortized cost.

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

	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	$1,120,082	$ -	$ -	$ -	$ 1,120,082	$ -	$1,120,082
Short-term investments	-	1,099,999	-	-	1,099,999	-	1,099,999
Miscellaneous receivables	-	-	24,478	-	24,478	4,481	28,959
Accounts payable and accrued liabilities	-	-	-	(273,748)	(273,748)	(14,133)	(287,881)
Due to shareholders	-	-	-	(81,843)	(81,843)	-	(81,843)
	$1,120,082	$1,099,999	$ 24,478	$ (355,591)	$ 1,888,968	$ (9,652)	$1,879,316

Fair value estimates are made as of a specific point in time, using available information about the financial instrument. The Company has determined that the carrying value of its financial assets and liabilities approximates their fair value because of the relatively short periods to maturity of these instruments and their capacity for prompt liquidation.

(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 period.

The Company's maximum exposure to credit risk is quantified by the carrying value of the following financial assets, and the aging thereon is detailed below:

	Total	Current	31 - 60 days	61 - 90 days	Over 90 days
Trade receivables	$ -	$ -	$ -	$ -	$ -
Miscellaneous receivables	24,478	21,717	1,256	-	1,505
	$ 24,478	$ 21,717	$ 1,256	$ -	$ 1,505

The Company's miscellaneous receivables are deemed to be of high credit quality and consequently, it does not require collateral to secure these 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 has determined that it will have sufficient cash available to meet its financial obligations during the remainder of the 2010 fiscal year. There have been no changes to the Company's liquidity risk exposure or processes related to this risk during the period.

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

		Days to Maturity			
	Total	0 - 90	91 - 180	181 - 270	Over 270
Cash and cash equivalents	$1,120,082	$1,120,082	$ -	$ -	$ -
Short term investments	1,099,999	799,999	300,000	-	
	$2,220,081	$1,920,081	$ 300,000	$ -	$ -

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

		Days to Maturity			
	Total	0 - 90	91 - 180	181 - 270	Over 270
Trade payables	$ 82,848	$ 82,848	$ -	$ -	$ -
Accrued liabilities	190,900	160,900	-	30,000	-
Due to shareholders	81,843	81,843	-	-	-
	$ 355,591	$ 325,591	$ -	$ 30,000	$ -

The Company has determined that it has sufficient working capital to manage its maturing financial liabilities as they come due. Included in cash equivalents are instruments which are cashable before the contractual maturity date. The Company's short-term investments are concentrated in instruments with high credit ratings, which minimizes exposure to liquidity risk.

(c) Market risk:

(i) Foreign currency risk:

The Company has contracts denominated in United States dollars (USD) and Euros (EURO) and is exposed to risk with respect to fluctuations in exchange rates between CAD, USD and EURO. 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 quarter was consistent with the foreign currency risk exposure during the year ended April 30, 2009. 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 as the notes payable were repaid in the period. The Company's interest rate risk exposure has consequently decreased during the quarter. The amount of interest rate risk exposure is not considered material to the financial statements.

8. Change in non-cash operating working capital:

	Three Months Ended October 31,		Six Months Ended October 31,	
	2009	2008	2009	2008
Miscellaneous receivables	$ 18,650	$ 6,433	$ 59,031	$ 10,001
Prepaid expenses and deposits	49,619	(88,235)	34,143	(82,188)
Accounts payable and accrued liabilities	(96,262)	(39,659)	(45,491)	(14,008)
	$ (27,993)	$ (121,461)	$ 47,683	$ (86,195)

9. Government assistance:

For the six month period, the Company has recorded $12,690 (April 30, 2009 – nil) for government assistance under a youth internship program with the National Research Council of Canada. Under the agreement, the Company is eligible for reimbursement of 50% of an intern's salary to a maximum of $30,000 with no liability for repayment. Government assistance accrued has been credited against sales and marketing expense.

10. Commitment:

The Company is committed to pay $80,805 during the remainder of fiscal 2010 and $10,000 in fiscal 2011 for the completion of research and development contracts existing at the quarter end.

11. 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 maintain strong liquidity and to optimize its existing capital structure in order to reduce costs. The capital structure provides the Corporation with the ability to meet its liquidity needs as well as support its 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 limit the use of debt until such time as cash flows permit the optimization of shareholder returns through prudent debt leverage;

(iii) To provide the Company's shareholders with an appropriate rate of return on their investment.

The Company has limited debt consisting of shareholder promissory notes which total $81,843 compared to total shareholder's equity of $4,868,415 for a debt to equity ratio of 1.7%. 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.

12. Comparative figures:

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

13. 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. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. For the Company, the change to reporting financial results under IFRS will be required for the interim and annual financial statement reporting periods of its fiscal year ending April 30, 2012. However, in order to provide comparative data for this reporting period the Company will need to capture its financial results under IFRS commencing with reporting for its April 30, 2011 year end.

The Company commenced the process to transition from Canadian GAAP to IFRS in fiscal 2009 as part of a multi-year plan. The transition plan included the following three phases: diagnostic, development and implementation. The Company completed the diagnostic phase of its IFRS transition plan in fiscal 2009. The development phase is underway and detailed component evaluations for each accounting standard are in variation stages of preparation. The Company estimates that at October 31, 2009 it has completed draft component evaluations for 90% of the accounting standards applicable to the Company. The Company expects to finalize all of the component evaluations by the early part of the fourth quarter of its 2010 fiscal year.

(b) Financial Instruments:

In June 2009, Section 3862, "Financial Instruments - Disclosures" was amended to include additional disclosure requirements about fair value measurements and to enhance liquidity risk disclosure requirements. For the Company, this Section is effective for annual financial statements ending after September 30, 2009. This new standard is expected to have minimal impact on the financial statements.