



Critical Outcome
Technologies Inc.

Condensed Interim Financial Statements
Fiscal 2012 – Second Quarter
(Unaudited)

For the three and six month periods ended October 31, 2011 and 2010

Table of Contents

	Page
Notice of No Audit or Review of Condensed Interim Financial Statements	3
Statements of Financial Position:	
October 31, 2011	4
April 30, 2011	4
Statements of Comprehensive Loss	
for the three and six month periods ending:	
October 31, 2011	5
October 31, 2010	5
Statements of Changes in Equity	
for the six months ended:	
October 31, 2011	6
October 31, 2010	6
Statements of Cash Flows	
for the six months ended:	
October 31, 2011	7
October 31, 2010	7
Notes to the Financial Statements	8-22

Notice of No Audit or Review of Condensed Interim Financial Statements

The accompanying interim statements of financial position and interim statement of changes in equity of Critical Outcome Technologies Inc. (COTI) as at October 31, 2011 and April 30, 2011, and the interim statements of comprehensive loss for the three and six month periods ended October 31, 2011 and 2010, and the interim statements of cash flows for the six months ended October 31, 2011 and 2010 have been prepared by, and are the responsibility of the Company's management and have been reviewed and approved by the Audit Committee as authorized by the Board of Directors.

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

CRITICAL OUTCOME TECHNOLOGIES INC.

Page 4

Interim Statements of Financial Position

(All amounts unaudited and expressed in Canadian Dollars)

As at	October 31, 2011	April 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 791,960	\$ 1,794,621
Short-term investment	302,183	300,296
Miscellaneous receivables	218,084	131,740
Prepaid expenses and deposits	39,215	70,475
	1,351,442	2,297,132
Equipment	60,750	65,735
Intangible assets (note 4)	2,296,054	2,340,630
	\$ 3,708,246	\$ 4,703,497
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 354,900	\$ 343,643
Shareholders' equity	3,353,346	4,359,854
	\$ 3,708,246	\$ 4,703,497
Commitments (note 9)		
Contingency (note 10)		

See accompanying notes to financial statements

CRITICAL OUTCOME TECHNOLOGIES INC.

Page 5

Interim Statements of Comprehensive Loss

(All amounts unaudited and expressed in Canadian Dollars)

	Three months ended		Six months ended	
	October 31, 2011	October 31, 2010	October 31, 2011	October 31, 2010
Expenses (income):				
Research and product development	\$ 126,134	\$ 137,220	\$ 332,075	\$ 333,594
Sales and marketing	69,173	60,471	126,891	122,998
General and administration	482,353	260,311	897,678	563,862
Investment tax credits	(19,887)	(122,244)	(49,776)	(122,244)
	657,773	335,758	1,306,868	898,210
Loss before other income (expense)	(657,773)	(335,758)	(1,306,868)	(898,210)
Finance income:				
Interest income, net	1,700	1,851	6,204	4,544
Foreign exchange gain (loss)	7,543	(591)	9,878	218
	9,243	1,260	16,082	4,762
Loss and comprehensive loss	\$ (648,530)	\$ (334,498)	\$ (1,290,786)	\$ (893,448)
Loss per share:				
Basic and diluted loss per common share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.02)

See accompanying notes to financial statements

CRITICAL OUTCOME TECHNOLOGIES INC.**Interim Statements of Changes in Shareholders' Equity**

(All amounts unaudited and expressed in Canadian Dollars)

Six months ended	Common Shares	Warrants	Total Share Capital	Contributed Surplus	Deficit	Total Equity
Balance, April 30, 2011	\$ 14,779,915	\$ 932,189	\$ 15,712,104	\$ 2,384,761	\$ (13,737,011)	\$ 4,359,854
Issuance of shares on patent grant (note 5 and 10)	164,550	-	164,550	-	-	164,550
Exercise of options (note 5)	33,974	-	33,974	(15,000)	-	18,974
Stock-based compensation expense (note 6)	-	-	-	107,901	-	107,901
Loss and comprehensive loss	-	-	-	-	(1,290,786)	(1,290,786)
Warrant expiries (note 5)	-	(16,449)	(16,449)	16,449	-	-
Warrant amendments (note 5)	-	105,042	105,042	(112,189)	-	(7,147)
Balance, October 31, 2011	\$ 14,978,439	\$ 1,020,782	\$ 15,999,221	\$ 2,381,922	\$ (15,027,797)	\$ 3,353,346
Balance, May 1, 2010	\$ 13,587,267	\$ 224,933	\$ 13,812,200	\$ 2,416,440	\$ (11,735,633)	\$ 4,493,007
Fair value of proceeds on private placement	26,422	6,426	32,848	-	-	32,848
Stock-based compensation expense	-	-	-	(148,034)	-	(148,034)
Loss and comprehensive loss	-	-	-	-	(893,448)	(893,448)
Balance, October 31, 2010	\$ 13,613,689	\$ 231,359	\$ 13,845,048	\$ 2,268,406	\$ (12,629,081)	\$ 3,484,373

CRITICAL OUTCOME TECHNOLOGIES INC.

Page 7

Interim Statements of Cash Flows

(All amounts unaudited and expressed in Canadian Dollars)

For the six months ended	October 31, 2011	October 31, 2010
Cash provided by (used in):		
Operating activities:		
Loss	\$ (1,290,786)	\$ (893,448)
Items not involving cash:		
Amortization	238,123	246,598
Loss on disposal of patents	-	3,017
Stock-based compensation	107,899	(148,035)
Investment tax credit recoveries	49,776	122,244
Interest income, net	6,204	4,544
Unrealized foreign exchange	-	16
Change in non-cash operating working capital (note 7)	(93,144)	(249,140)
Interest received	(6,902)	(4,769)
Net cash used in operating activities	(988,829)	(918,973)
Investing activities:		
Purchase of equipment	(1,793)	-
Expenditures on intangible assets	(22,153)	(28,804)
Net cash used in investing activities	(23,946)	(28,804)
Financing activities:		
Issuance of share capital and warrants (net of issuance costs)	11,762	32,848
Interest paid	(1,593)	(1,096)
Net cash provided by financing activities	10,169	31,752
Increase (decrease) in cash and cash equivalents	(1,002,606)	(916,025)
Unrealized foreign exchange gain (loss) on cash and cash equivalents	(55)	370
Cash and cash equivalents, beginning of the period	1,794,621	1,945,376
Cash and cash equivalents, end of the period	\$ 791,960	\$ 1,029,721
Represented by:		
Cash	\$ 114,218	\$ 132,740
Cash equivalents	677,742	896,981
	\$ 791,960	\$ 1,029,721

1. Corporate information:

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

2. Basis of preparation:

(a) Statement of compliance:

These condensed unaudited interim financial statements (interim financial statements) have been prepared in accordance with International Financial Reporting Standards (IFRS) and specifically International Accounting Standard (IAS) 34 – *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB).

(b) Basis of presentation:

These are the Company's second interim financial statements prepared in accordance with IFRS and accordingly IFRS 1 - *First-Time Adoption of International Financial Reporting Standards* has been applied as applicable. The Company's financial statements in prior fiscal years were prepared in accordance with Canadian Generally Accepted Accounting Principles (CGAAP). The accounting policies in the fiscal 2012 interim financial statements have been selected to be consistent with the policies the Company expects to adopt in its annual financial statements as at and for the year ending April 30, 2012, the Company's first annual IFRS reporting date. These accounting policies were disclosed in detail in note 4 of the Company's July 31, 2011 first quarter interim condensed unaudited financial statements. The adoption of IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under CGAAP. The accounting policies were applied to all periods presented unless otherwise noted. They were also applied in the preparation of the opening IFRS statement of financial position as at May 1, 2010, as required by IFRS 1 and presented in the July 31, 2012 first quarter interim financial statements. Reconciliations and descriptions on the transition from CGAAP to IFRS and the impact on these interim unaudited statements of financial position, equity, comprehensive loss and cash flow are provided in note 12.

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

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

CRITICAL OUTCOME TECHNOLOGIES INC
Notes to the Condensed Interim Financial Statements
For the three and six month periods ended October 31, 2011 and 2010

condensed interim financial statements for the three month period ended July 31, 2011 prepared in accordance with IFRS, and in consideration of the IFRS transition disclosures included in note 12 to these interim financial statements.

(c) Going concern:

Financial statements are required to be prepared on a going concern basis unless management either intends to liquidate the Company or ceases trading or has no realistic alternative but to do so within the foreseeable future. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. The accompanying interim financial statements have been prepared assuming that the Company will continue as a going concern. There are material uncertainties related to certain conditions and events that raise significant doubts about the validity of this assumption. In particular, the Company has not yet established commercial operating revenues and operating cash flows continue to be negative. Key financial results for the quarters ended October 31, 2011 and 2010 are indicative of possible concern. These results include: a loss of \$1,290,786 (October 31, 2010 - \$893,448) and negative cash flow from operations of \$988,829 (October 31, 2010 - \$918,973). As at October 31, 2011, the Company had an accumulated deficit of \$15,027,797 (April 30, 2011 - \$13,737,011), which results in shareholders' equity of \$3,353,346 (April 30, 2011 - \$4,359,854). As at October 31, 2011, the Company had working capital of \$996,542 (April 30, 2011 - \$1,953,489).

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

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

(d) Statement of approval:

These interim financial statements were approved for issuance by the Audit Committee on December 14, 2011.

3. Significant accounting policies:

The accounting policies set out in detail in note 4 of the first quarter unaudited condensed interim financial statements for the three months ended July 31, 2011 have been applied consistently to all periods presented in these interim financial statements. Those policies of specific relevance in the quarter ended October 31, 2012 are highlighted below.

(a) Use of estimates:

The preparation of these interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. There is a high degree of measurement uncertainty inherent in management's estimates and assumptions and accordingly, changes in these estimates and assumptions could result in material adjustments to the carrying amounts of assets and liabilities in future periods. During the quarter, estimates were required in valuing: the shares issued as contingent consideration upon grant of a patent for COTI-2, the Company's lead compound, and the molecules for which the contingent consideration was issued (notes 4, 5 and 10), the amended warrants as a result of modifications to their terms (note 5), and the stock options granted to the directors and employees (note 6).

(b) Intangible assets:

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

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

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

In October 2011, the Company was granted a patent related to molecules acquired in 2007 and for which further purchase consideration was due upon the molecules achieving certain milestones (note 10). A payment for molecules was recognized in October 2011 with the issuance of further common share purchase consideration (note 4 and 5). Amortization of the patent and additional molecule cost will commence in November 2011 in accordance with the Company's amortization policy.

(c) Share capital and warrants:

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

During the quarter, the Company issued common shares in settlement of purchase consideration upon achievement of a contingent milestone (note 5 and 10). This consideration was measured at the fair market value of the Company's common shares at the closing price on the TSXV on the day the milestone was achieved.

4. Intangibles:

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

	October 31, 2011	April 30, 2011
Patents	\$ 514,192	\$ 499,733
Computer software	29,253	58,456
Molecules	1,752,609	1,782,441
Total intangibles	\$2,296,054	\$ 2,340,630

On October 11, 2011 the United States Patent Office issued US Patent No. 8,034,815 titled "Compounds and Method for Treatment of Cancer" related to certain COTI molecules. The molecules covered by this composition of matter patent include the Company's lead oncology compound, COTI-2. The receipt of the patent grant met one of the development milestones underlying the contingent share consideration forming part of the purchase consideration on the acquisition of DDP Therapeutics (note 10). Accordingly, on October 12, 2011, the Company issued 715,720 common shares in the Company as payment for one-half of the contingent consideration (note 5). The Company recognized an increase in the cost of its molecules as part of their purchase cost upon the issuance of these shares. The details of the molecules appear below.

Molecules	October 31, 2011	April 30, 2011
Cost - beginning of period	\$ 3,111,169	\$ 3,111,169
Issuance of contingent purchase price consideration	164,616	-
Cost - end of period	3,275,785	3,111,169
Accumulated amortization	1,523,176	1,328,728
Net book value	\$ 1,752,609	\$ 1,782,441
Annual amortization	\$ 429,210	\$ 388,896

5. Share capital and warrants:

	Expiry Date Ranges	October 31, 2011		April 30, 2011	
		Issued	Amount	Issued	Amount
Share capital:					
Authorized:					
Unlimited common shares					
Unlimited preference shares					
Issued:					
Common shares, without par value		63,203,214	\$ 14,978,439	62,371,215	\$ 14,779,916
Share purchase warrants:					
\$0.40 compensation warrants	Nov 27/11	643	100	106,250	16,549
\$0.55 warrants	Jan 31/13	129,020	23,706	1,575,500	214,810
\$0.37 compensation warrants	Jan 31/13	1,446,480	296,148		
\$0.30 compensation warrants	24 - Oct 20/12	507,500	26,830	507,500	26,831
\$0.30 warrants	24 - Oct 20/12	12,500,000	673,998	12,500,000	673,998
		14,583,643	1,020,782	14,689,250	932,188
			\$ 15,999,221		\$ 15,712,104

A summary of the changes in share capital year to date appears below.

	Shares	Amount
Balance May 1, 2010	49,758,355	\$ 13,587,267
Shares issued on private placement, net of issuance costs	12,612,860	1,192,649
	12,612,860	1,192,649
Balance April 30, 2011	62,371,215	14,779,916
Shares issued - option exercise	116,279	33,974
Shares issued - contingent purchase price consideration	715,720	164,549
	831,999	198,523
Balance October 31, 2011	63,203,214	\$ 14,978,439

A summary of the changes in warrant capital year to date appears below.

	Warrants	Amount
Balance May 1, 2010	1,624,677	\$ 224,933
Warrants issued on private placement, net of issuance costs	13,064,573	707,255
	13,064,573	707,255
Balance April 30, 2011	14,689,250	932,188
Expiry of warrants	(105,607)	(16,449)
Amendments of existing warrants	-	105,043
	(105,607)	88,594
Balance October 31, 2011	14,583,643	\$ 1,020,782

The summary details of capital transactions occurring during the quarter are as follows:

- (a) The issuance of a patent on October 11, 2011 (note 4) met one of the development milestones underlying the contingent share consideration related to the acquisition of DDP Therapeutics (note 10). Accordingly, on October 12, 2011, the Company issued 715,720 common shares as payment for one-half of the contingent consideration. The common shares had a market value of \$164,616 based upon the closing market price of the Company's shares on October 11, 2011. Costs of \$67 were incurred to date in issuing these common shares.
- (b) On October 20, 2011, 1,575,500 warrants exercisable at \$0.55 and due to expire on October 27, 2011 and November 27, 2011 were amended. The amendments were as follows:
 - i) the exercise price was reduced to \$0.37 per share from \$0.55 per share for all warrants except 129,020 warrants held by insiders (Insider Warrants) of the Company, which were not eligible for price amendment. The exercise price of these Insider Warrants remained at \$0.55; and,
 - ii) the expiry date was extended to January 31, 2013 (the "New Expiry Date"), provided that the New Expiry Date of the warrants will be reduced to a period of 14 days if, for any ten consecutive trading days during the unexpired term of the warrant (the "Premium Trading Days"), the closing price of the common shares on the TSX equals or exceeds \$0.55. The reduced exercise period of 14 days will begin seven calendar days after the tenth Premium Trading Day.

All other provisions of the warrants remained unchanged. The cost associated with effecting the amendments was \$ 7,358.

- (c) On October 27, 2011, 105,607 warrants exercisable at a price of \$0.40 expired. As a result, the fair market allocated to these warrants of \$16,449 was transferred to Contributed Surplus.

6. Stock-based compensation:

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

- (a) On September 27, 2011, the Company granted 756,098 options with an exercise price of \$0.30 to the members of the Board of Directors. The options have a five-year maturity from the date of grant with 189,027 vesting December 27, 2011, 189,026 vesting March 27, 2012, 189,023 vesting June 27, 2012 and 189,022 vesting September 27, 2012.
- (b) On October 18, 2011, the Company granted 71,449 stock options with an exercise price of \$0.25 to its employees as part of their compensation package. The options have a five-year maturity from the date of grant and vested immediately.

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

Risk free interest rate	1.05-1.50%
Expected dividend yield	-
Expected average share volatility	123.32 -139.50%
Expected average option life	2.81 - 5.00 years
Estimated total stock option compensation	\$ 203,650

For the quarter ended October 31, 2011, the Company recorded stock-based compensation expense of \$66,718 (October 31, 2010 - \$(90,878)) related to grants in the current and prior year.

7. Change in non-cash operating working capital:

	October 31, 2011	October 31, 2010
Miscellaneous receivables	\$ (135,661)	\$ (104,697)
Prepaid expenses and deposits	31,260	11,485
Accounts payable and accrued liabilities	11,257	(155,928)
	\$ (93,144)	\$ (249,140)

8. Government assistance:

In the current year, the Company has recognized \$23,705 (October 31, 2010 - \$4,826) for government assistance under an Industrial Research Assistance Program grant with the National Research Council of Canada. Under the agreement, the Company is eligible for reimbursement of up to \$110,958 for salaries and contractor costs with no liability for repayment. The total amount recognized under the grant since its inception in July 2010 is \$40,073. Government assistance accrued has been credited against salaries and the underlying research and development expense accounts related to contractors' services.

9. Commitments:

Research and development contracts:

The Company is committed to pay \$102,764 during the remainder of fiscal 2012 for the completion of research and development contracts existing at the quarter end.

10. Contingency:

Upon the purchase of DDP Therapeutics on November 27, 2007, 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 (Molecule) acquired in the purchase.

One-half of this contingent share consideration is payable upon the first occasion any Molecule achieves one of the following milestones:

- a) when the Company is given notification of acceptance of an investigational new drug filing (IND) and an IND acceptance number is received; or
- b) when either the United States (US) 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 is 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 Company achieved one of the milestones, the receipt of a US patent for a Molecule, COTI-2, during the quarter (note 4 and 5). The Company has determined that the achievement of the second milestone for COTI-2 does not meet IFRS guidance providing that where the event is "more likely than not" to occur such event should be recognized. Major factors considered in the likelihood determination included: the uncertainty inherent in the remaining testing for COTI-2 prior to filing an IND application; the cost, time and expertise required in the IND application and approval process itself; and the Company's current financial capacity to develop COTI-2 successfully through to achieving this milestone. The inability to meet the more likely than not criteria would apply to any of the other Molecules based upon the significant cost and timeline in advancing them through both milestones.

11. Related party transactions:

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

- (a) participation in the warrant amendments (note 5);
- (b) issuance of common share contingent consideration (note 5);
- (c) a grant of stock options to the directors (note 6).

12. Transition to IFRS:

These interim financial statements and the opening Statement of Financial Position as at May 1, 2010, being the date of transition, have been prepared in accordance with the accounting policies set out in detail in note 4 of the July 31, 2011 unaudited condensed interim financial statements.

(a) Application of IFRS 1:

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

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

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

Stock-based compensation:

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

(b) Application of Other IFRS Standards:

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

(i) Stock-based compensation:

As a result of the Company's IFRS 1 election, a transitional adjustment of \$4,753 was recorded in the opening Statement of Financial Position as at May 1, 2010 to reflect a decrease in the previously recognized stock-based compensation expense for unvested options at the transition date. This adjustment resulted in a decrease in contributed surplus and deficit at May 1, 2010. The related impact on the Statements of Comprehensive Loss for the quarter ended October 31, 2010 is \$(55,405) and year to date is \$(43,244) and is disclosed in the reconciliations below.

(ii) Trademark:

Under IAS 38, there are certain criteria that need to be met in order for an intangible asset to be capitalized. The Company's trademarks did not meet the criteria and accordingly, this resulted in the Company's trademarks being written off to deficit with an adjustment of \$2,883 as at the transition

date. The related impact on the Statements of Comprehensive Loss for the quarter ended October 31, 2010 is \$92 and year to date is \$92 and is disclosed in the reconciliations below.

(iii) Employee benefits:

Under IAS 19, the expense for benefits is recorded when the employer receives the benefit. This requires the Company to annualize the payroll source deductions paid on behalf of its employees. This resulted in a decrease in previously recorded employee benefits expense on transition of \$5,805, which increased prepaid expenses and deposits and decreased deficit. The related impact on the Statements of Comprehensive Loss for the quarter ended October 31, 2010 is \$4,640 and year to date (YTD) is \$2,157 and is disclosed in the reconciliations below. This adjustment is split between General and administration - \$1,138 (YTD - \$(1,039)), Research and development - \$2,451 (YTD- \$2,513) and Sales and marketing - \$1,051 (YTD - \$683).

(iv) Reconciliation of Statement of Cash Flows:

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

(v) Presentation adjustments:

The Company has chosen to classify its expenses in the Interim Statements of Comprehensive Loss according to their function as set out in the table below.

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

CRITICAL OUTCOME TECHNOLOGIES INC
Notes to the Condensed Interim Financial Statements
For the three and six month periods ended October 31, 2011 and 2010

(vi) Reconciliation of Statements of Financial Position:

Statement of Financial Position - October 31, 2010

(All amounts unaudited and expressed in Canadian Dollars)

	CGAAP	Notes	Transition Adjustments	IFRS
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,029,721		\$ -	\$ 1,029,721
Miscellaneous receivables	13,146		-	13,146
Prepaid expenses and deposits	65,627	(3)	3,648	69,275
	1,108,494		3,648	1,112,142
Equipment	74,692		-	74,692
Intangible assets	2,489,595	(2)	(2,975)	2,486,620
	\$ 3,672,781		\$ 673	\$ 3,673,454
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 188,012		\$ -	\$ 188,012
Due to shareholder	1,069		-	1,069
	189,081		-	189,081
Shareholders' Equity				
Share capital and warrants	13,845,048			13,845,048
Contributed surplus	2,316,403	(1)	(47,997)	2,268,406
Deficit	(12,677,751)	(1),(2),(3)	48,670	(12,629,081)
	3,483,700		673	3,484,373
	\$ 3,672,781		\$ 673	\$ 3,673,454

Notes:

- (1) See Stock-based compensation note b(i) above
- (2) See Trademark note b(ii) above
- (3) See Employee benefits note b(iii) above

CRITICAL OUTCOME TECHNOLOGIES INC
Notes to the Condensed Interim Financial Statements
For the three and six month periods ended October 31, 2011 and 2010

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

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

Notes:

- (1) See Stock-based compensation note b(i) above
- (2) See Trademark note b(ii) above
- (3) See Employee benefits note b(iii) above

CRITICAL OUTCOME TECHNOLOGIES INC
Notes to the Condensed Interim Financial Statements
For the three and six month periods ended October 31, 2011 and 2010

(vii) Reconciliation of Statements of Shareholders' Equity:

<i>As at October 31, 2010</i>	Share Capital and Warrants	Notes	Contributed Surplus	Notes	Deficit	Total
As reported under CGAAP	\$ 13,845,048		\$ 2,316,403		\$ (12,677,751)	\$ 3,483,700
Transitional adjustments increasing (decreasing) the previously reported shareholder's equity:		(1)	(47,997)	(1),(2),(3)	48,670	673
Reported under IFRS	\$ 13,845,048		\$ 2,268,406		\$ (12,629,081)	\$ 3,484,373

<i>As at April 30, 2011</i>	Share Capital and Warrants	Notes	Contributed Surplus	Notes	Deficit	Total
As reported under CGAAP	\$ 15,712,104		\$ 2,443,306		\$ (13,798,234)	\$ 4,357,176
Transitional adjustments increasing (decreasing) the previously reported shareholder's equity:		(1)	(58,545)	(1),(2),(3)	61,223	2,678
Reported under IFRS	\$ 15,712,104		\$ 2,384,761		\$ (13,737,011)	\$ 4,359,854

Notes:

- (1) See Stock-based compensation note b(i) above
- (2) See Trademark note b(ii) above
- (3) See Employee benefits note b(iii) above

CRITICAL OUTCOME TECHNOLOGIES INC
Notes to the Condensed Interim Financial Statements
For the three and six month periods ended October 31, 2011 and 2010

(viii) Reconciliation of Statements of Comprehensive Loss:

Statements of Comprehensive Loss - October 31, 2010

(All amounts unaudited and expressed in Canadian Dollars)

For the three months ended	CGAAP	Notes	Transitional Adjustments	Presentation Adjustments	IFRS
Expenses:					
General and administration	\$ 226,842	(3)	\$ 1,138	\$ 32,331	\$ 260,311
Research and product development	134,769	(3)	2,451	-	137,220
Stock-based compensation	(35,473)	(1)	(55,405)	90,878	-
Amortization	123,117	(2)	92	(123,209)	-
Sales and marketing	59,420	(3)	1,051	-	60,471
Investment tax credit	-		-	(122,244)	(122,244)
Foreign exchange loss	591		-	(591)	-
Interest and bank charges	857		-	(857)	-
	510,123		(50,673)	(123,692)	335,758
Loss from operations before the undernoted	(510,123)		50,673	123,692	(335,758)
Finance income (expense)					
Interest income	2,708		-	(857)	1,851
Investment tax credit	122,244		-	(122,244)	-
Foreign exchange gain	-		-	(591)	(591)
	124,952		-	(1,448)	1,260
Loss and comprehensive loss	\$ (385,171)		\$ 50,673	\$ 122,244	\$ (334,498)
Loss per share:					
Basic and diluted loss per common share	\$ 0.01			\$ 0.01	

Notes:

- (1) See Stock-based compensation note b(i) above
- (2) See Trademark note b(ii) above
- (3) See Employee benefits note b(iii) above

CRITICAL OUTCOME TECHNOLOGIES INC
Notes to the Condensed Interim Financial Statements
For the three and six month periods ended October 31, 2011 and 2010

Statements of Comprehensive Loss - October 31, 2010

(All amounts unaudited and expressed in Canadian Dollars)

For the six months ended	CGAAP	Notes	Transitional Adjustments	Presentation Adjustments	IFRS
Expenses:					
General and administration	\$ 466,246	(3)	\$ (1,039)	\$ 98,655	\$ 563,862
Research and product development	331,081	(3)	2,513	-	333,594
Stock-based compensation	(104,791)	(1)	(43,244)	148,035	-
Amortization	246,598	(2)	(92)	(246,506)	-
Sales and marketing	122,315	(3)	683	-	122,998
Investment tax credit	-			(122,244)	(122,244)
Foreign exchange loss	(218)		-	218	-
Interest and bank charges	1,096		-	(1,096)	-
	<u>1,062,327</u>		<u>(41,179)</u>	<u>(122,938)</u>	<u>898,210</u>
Loss from operations before the undernoted	(1,062,327)		41,179	122,938	(898,210)
Finance income (expense)					
Interest income	5,640		-	(1,096)	4,544
Investment tax credit	122,244			(122,244)	-
Foreign exchange gain	-		-	218	218
	<u>127,884</u>		<u>-</u>	<u>(878)</u>	<u>4,762</u>
Loss and comprehensive loss	\$ (934,443)		\$ 41,179	\$ 122,060	\$ (893,448)
Loss per share:					
Basic and diluted loss per common share	\$ 0.02				\$ 0.02

Notes:

- (1) See Stock-based compensation note b(i) above
- (2) See Trademark note b(ii) above
- (3) See Employee benefits note b(iii) above