

Financial Statements of

**CRITICAL OUTCOME
TECHNOLOGIES INC.**
(a development stage company)

Years ended April 30, 2007 and 2006 and cumulative period
from April 30, 1999 (inception) to April 30, 2007



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AUDITORS' REPORT

To the Shareholders of Critical Outcome Technologies Inc.

We have audited the balance sheets of Critical Outcome Technologies Inc. (a development stage company) as at April 30, 2007 and 2006 and the statements of operations and deficit, and cash flows for each of the years then ended and the cumulative period from April 30, 1999 (inception) to April 30, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2007 and 2006 and the results of its operations and its cash flows for the years then ended and for the period from April 30, 1999 (inception) to April 30, 2007, in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

London, Canada

July 12, 2007

CRITICAL OUTCOME TECHNOLOGIES INC.

(a development stage company)

Balance Sheets

April 30, 2007 and 2006


	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,417,801	\$ 170,464
Other receivables	76,655	8,842
Prepaid expenses and deposits	56,413	5,241
	<u>2,550,869</u>	<u>184,547</u>
Equipment (note 2)	24,242	33,766
Patents (note 3)	134,298	68,727
Trademark (note 4)	870	1,740
Investment in DDP Therapeutics (note 5)	1	1
	<u>\$ 2,710,280</u>	<u>\$ 288,781</u>


Liabilities and Shareholders' Equity (Deficiency)

Current liabilities:		
Accounts payable and accrued liabilities	\$ 179,091	\$ 171,266
Due to shareholders (note 6)	118,631	127,194
Notes payable and other advances (note 7)	20,000	45,000
Current portion of obligation under capital lease (note 8)	20,244	16,128
	<u>337,966</u>	<u>359,588</u>
Obligation under capital leases (note 8)	21,287	33,525
Shareholders' equity (deficiency):		
Share capital and warrants (note 9)	4,037,165	576,292
Contributed surplus (note 10)	675,469	251,000
Deficit	<u>(2,361,607)</u>	<u>(931,624)</u>
	2,351,027	(104,332)
Commitments (note 14)		
Subsequent events (note 17)		
	<u>\$ 2,710,280</u>	<u>\$ 288,781</u>

See accompanying notes to financial statements.

On behalf of the Board:


Mr. John Drake
Chairman & Chief Executive Officer


Dr. Wayne Danter
President and Chief Scientific Officer

CRITICAL OUTCOME TECHNOLOGIES INC.

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Statements of Operations and Deficit

	Years ended April 30,		Cumulative period
	2007	2006	April 30, 1999 (inception) to April 30, 2007
Revenue:			
Contract services	\$ 2,500	\$ 30,000	\$ 32,500
Screening services	-	2,500	2,500
	2,500	32,500	35,000
Expenses:			
Stock-based compensation	424,469	251,000	675,469
Salaries and benefits	423,014	149,465	596,932
Synthesis costs	247,560	-	382,560
Professional fees	168,038	48,335	333,357
Marketing	108,199	13,637	156,858
Amortization of equipment	27,747	22,542	55,864
Office and general	27,184	6,430	48,031
Computer expense	26,447	8,180	56,171
Reorganization costs	23,964	82,580	106,544
Rent	17,134	14,667	53,068
Research and product development	15,840	27,000	54,628
Corporate governance	14,749	-	14,749
Insurance	12,692	-	12,692
Interest and bank charges	10,106	5,152	25,365
Amortization of trademarks	870	870	3,480
	1,548,013	629,858	2,575,768
Loss before other income (expense)	(1,545,513)	(597,358)	(2,540,768)
Other income (expense):			
Investment tax credit refund	75,050	6,540	137,615
Interest	40,480	(111)	41,546
	115,530	6,429	179,161
Loss	(1,429,983)	(590,929)	(2,361,607)
Deficit accumulated during development stage, beginning of year	(931,624)	(340,695)	-
Deficit accumulated during development stage, end of year	\$ (2,361,607)	\$ (931,624)	\$ (2,361,607)
Basic and diluted loss per common share	\$ (0.05)	\$ (0.06)	
Weighted average number of common shares outstanding	29,866,634	9,611,243	

See accompanying notes to financial statements.

CRITICAL OUTCOME TECHNOLOGIES INC.

(a development stage company)

Statements of Cash Flows

	Years ended April 30,		Cumulative period
	2007	2006	April 30, 1999 (inception) to April 30, 2007
Cash provided by (used in):			
Operations:			
Loss	\$ (1,429,983)	\$ (590,929)	\$(2,361,607)
Items not involving cash:			
Stock-based compensation	424,469	251,000	675,469
Amortization of equipment	27,747	22,542	55,864
Amortization of trademark	870	870	3,480
Change in non-cash operating working capital (note 13)	(111,160)	97,523	46,023
	(1,088,057)	(218,994)	(1,580,771)
Financing activities:			
Research advances	-	-	269,745
Due to shareholders	(8,563)	80,444	118,631
Notes payable and other advances	(25,000)	25,000	20,000
Repayment of obligation under capital lease	(8,122)	(1,541)	(9,663)
Issuance of common shares and warrants	3,460,873	306,545	3,767,420
	3,419,188	410,448	4,166,133
Investing activities:			
Investment in DDP Therapeutics	-	(1)	(1)
Purchase of equipment	(18,223)	-	(28,912)
Additions to patents and trademark	(65,571)	(22,809)	(138,648)
	(83,794)	(22,810)	(167,561)
Increase in cash	2,247,337	168,644	2,417,801
Cash and cash equivalents, beginning of year	170,464	1,820	-
Cash and cash equivalents, end of year	\$ 2,417,801	\$ 170,464	\$ 2,417,801
Represented by:			
Cash	\$ 317,801	\$ 170,464	\$ 317,801
Cash equivalent	2,100,000	-	2,100,000
	\$ 2,417,801	\$ 170,464	2,417,801
Supplemental cash flow information:			
Interest paid	\$ 2,351	\$ 288	\$ 2,654
Non-cash transactions:			
Acquisition of equipment under capital lease	11,081	51,193	62,274

See accompanying notes to financial statements.

CRITICAL OUTCOME TECHNOLOGIES INC.

(a development stage company)

Notes to Financial Statements

Years ended April 30, 2007 and 2006

Description of business:

COTI is a biopharmaceutical company focused on applying its proprietary computer technology, CHEMSAS[®], to identify, profile and optimize commercially viable drug candidates at the earliest stage of pre-clinical drug development and thereby dramatically reduce the timeline and cost of getting new drug therapies to market.

In developing its technology, COTI has focused on novel, proprietary, small molecules used to treat cancer and HIV. This focus has been on cancers with high morbidity and mortality such as acute leukemia in adults, hormone resistant breast cancer, hormone resistant prostate cancer, small cell lung cancer and melanoma which currently have either poor or no effective therapies.

Using CHEMSAS[®] the Company is developing a pipeline of small highly optimized libraries of 6-10 molecules for specific therapy targets and plans to sell/licence these libraries to interested pharmaceutical partners for human trials and further drug development. Currently, the libraries in various stages of development in the pipeline are targeted at small cell lung cancer, colorectal cancer, HIV integrase inhibitors, chronic and acute leukemia and multiple sclerosis.

In addition to its targeted library pipeline, the Company may also take particularly promising individual molecules forward for development outside of the library development approach. These molecules would follow the same development process and approach as the library molecules through to the end of in vitro and in vivo testing. These compounds will then be available for sale, licensing or co-development with a pharmaceutical partner.

Amalgamation:

On October 13, 2006, Critical Outcome Technologies Inc. (Private COTI) amalgamated with Aviator Petroleum Corporation (Aviator), a public company listed on the TSX Venture Exchange (the TSXV) to form a new company with the name Critical Outcome Technologies Inc. (Public COTI) under the provisions of the Business Corporations Act (Ontario).

The amalgamation between Aviator and Private COTI was an arm's length transaction requiring shareholder approval and a majority of minority shareholder approval pursuant to applicable corporate laws. The amalgamation constituted the qualifying transaction of Aviator pursuant to the policies of the TSXV and is the means by which Private COTI has become a public issuer.

CRITICAL OUTCOME TECHNOLOGIES INC.

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Notes to Financial Statements (continued)

Years ended April 30, 2007 and 2006

Amalgamation (continued):

Under the amalgamation agreement, the Aviator common shares were exchanged for 5,635,000 common shares of Public COTI. In addition, the Aviator agent's options outstanding were exchanged for agent's options of Public COTI with the same terms entitling the holder to acquire up to 275,000 Public COTI common shares. The Private COTI common shares were exchanged for 28,967,332 Public COTI common shares with a deemed value of \$0.34521 per share. In addition, each outstanding \$0.40 warrant, \$0.70 warrant, \$0.30 agent's warrant and \$0.40 agent's warrant was exchanged on a one for one basis for replacement securities of Public COTI with the same terms. The transaction resulted in the shareholders of Private COTI retaining an 83.7% interest in the amalgamated company, with shareholders of Aviator retaining a 16.3% interest. The COTI common shares commenced trading on October 30, 2006 with 34,602,332 shares issued and outstanding on that date (see note 9).

Since the qualifying transaction and amalgamation resulted in Private COTI shareholders acquiring control of the amalgamated company, Private COTI is deemed to be the acquirer for financial reporting purposes. The share exchange is therefore considered to be a reverse takeover. As Aviator was deemed a non-operating public enterprise the transaction has been accounted for as a capital transaction wherein the net monetary assets of Aviator are recorded at their fair market values, net of transaction costs to the extent of cash on hand in Aviator.

The net monetary assets of Aviator upon amalgamation were as follows:

Monetary assets	\$	353,249
Less monetary liabilities		18,706
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Net monetary assets		334,543
Less transactions costs		328,298
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Amount allocated to share capital (note 9)	\$	6,245

CRITICAL OUTCOME TECHNOLOGIES INC.

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Notes to Financial Statements (continued)

Years ended April 30, 2007 and 2006

1. Significant accounting policies:

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

(a) Basis of presentation:

The financial statements have been prepared assuming that the Company will continue as a going concern. The Company is a development stage company and is subject to risks common to rapidly growing technology based companies, including a limited operating history, dependence on key personnel, the need to raise capital for successful development, marketing and operations and/or additional financing to meet the Company's liabilities and commitments as they become due. The financial statements do not include adjustments that would be required if the going concern assumption was not appropriate and consequently that the assets are not realized and the liabilities settled in the normal course of operations.

The Company has incurred a loss of \$1,429,983 (2006 - \$590,929) and negative cash flow from operations of \$1,088,057 (2006 - \$218,994) for the year ended April 30, 2007. As at April 30, 2007, the Company has an accumulated deficit of \$2,361,607 (2006 - \$931,624) which results in a shareholders' equity of \$2,351,027. As of April 30, 2007 the Company has working capital of \$2,212,903.

(b) Equipment:

Equipment is recorded at amortized 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	Useful life
Furniture and fixtures	5 years
Computer hardware	2 - 3 years
Computer software	Term of license

CRITICAL OUTCOME TECHNOLOGIES INC.

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Notes to Financial Statements (continued)

Years ended April 30, 2007 and 2006

1. Significant accounting policies (continued):

(c) Patents:

Capitalized amounts for patents relate to the direct costs incurred in connection with securing patents. The cost of evaluating and investigating patents are accumulated by specific product or molecule and the capitalized costs are amortized over the life of the patent beginning in the year the patent is received. The accumulated cost of a product investigated for patenting which is not subsequently patented is expensed in the year when the decision is made to not pursue the patent.

(d) Trademarks:

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.

(e) Impairment of long-lived assets:

The Company tests long-lived assets or asset groups for recoverability when 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.

(f) Portfolio investments:

Portfolio investments are recorded at cost. Gains and losses on disposal of investments are recognized when realized.

(g) Research and product development:

Research expenditures are expensed as incurred. Development expenditures are deferred 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, 2007 and 2006 no development costs were deferred.

CRITICAL OUTCOME TECHNOLOGIES INC.

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Notes to Financial Statements (continued)

Years ended April 30, 2007 and 2006

1. Significant accounting policies (continued):

(h) Revenue recognition:

The Company recognizes technical consulting and molecule screening service revenue upon completion of the contracted service.

(i) 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.

(j) Stock-based compensation and other stock based payments:

The Company accounts for employee stock options using the fair value based method, whereby compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period.

(k) 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 the 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 are 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.

CRITICAL OUTCOME TECHNOLOGIES INC.

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Notes to Financial Statements (continued)

Years ended April 30, 2007 and 2006

1. Significant accounting policies (continued):

(l) 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 and intangibles, valuation of future income taxes and accounting for share capital, warrants and options. Actual results could differ from those estimates.

(m) Basic and diluted loss per share:

Basic and diluted loss per share are 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.

CRITICAL OUTCOME TECHNOLOGIES INC.

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Notes to Financial Statements (continued)

Years ended April 30, 2007 and 2006

2. Equipment:

2007

	Cost	Accumulated amortization	Net book value
Computer hardware	\$ 61,487	\$ 39,612	\$ 21,875
Furniture and fixtures	5,856	3,489	2,367
Computer software	12,762	12,762	-
	\$ 80,105	\$ 55,863	\$ 24,242

2006

	Cost	Accumulated amortization	Net book value
Computer hardware	\$ 43,628	\$ 17,553	\$ 26,075
Furniture and fixtures	5,494	2,384	3,110
Computer software	12,761	8,180	4,581
	\$ 61,883	\$ 28,117	\$ 33,766

Included in equipment are assets under capital lease with a cost of \$62,274 (2006 - \$51,193) and accumulated amortization of \$45,803 (2006 - \$19,106).

3. Patents:

The Company is pursuing patents on certain molecules and their manufacturing process with accumulated costs at April 30, 2007 and 2006 of \$134,298 and \$68,727 respectively.

CRITICAL OUTCOME TECHNOLOGIES INC.

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Notes to Financial Statements (continued)

Years ended April 30, 2007 and 2006

4. Trademark:

Trademark registration has been obtained for the exclusive use of the name, CHEMSAS[®], which describes the Company's proprietary molecular screening technology. Costs incurred are being amortized over five years as management has determined that the trademark does not have an indefinite life. The accumulated costs are as follows:

2007

	Cost	Accumulated amortization	Net book value
CHEMSAS [®] - molecular profiling technology	\$ 4,350	\$ 3,480	\$ 870

2006

	Cost	Accumulated amortization	Net book value
CHEMSAS [®] - molecular profiling technology	\$ 4,350	\$ 2,610	\$ 1,740

5. Investment in DDP Therapeutics:

The Company has a 10% ownership interest and certain officer shareholders of COTI have a 50% ownership interest in a company, 6441513 Canada Inc, operating as DDP Therapeutics (DDP), formed in early 2006 to develop a library of small cell lung cancer molecules discovered by the Company using CHEMSAS[®].

Under an agreement created April 7, 2006, the Company transferred the library of small cell lung cancer molecules to DDP for \$1. COTI is entitled, under the agreement, to receive a payment in the amount of 10% of the aggregate net proceeds raised by DDP in connection with a financing to support (a) the validation of the transferred molecules for purposes of an investigational new drug filing and (b) entering into a strategic agreement with a pharmaceutical company. Net proceeds is defined as the gross amount realized from the financing less the direct costs incurred by DDP in completing the financing.

The Company earned contract services revenue from DDP during the years ended April 30, 2007 and 2006 of \$2,500 and \$30,000 respectively.

CRITICAL OUTCOME TECHNOLOGIES INC.

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Notes to Financial Statements (continued)

Years ended April 30, 2007 and 2006

6. Due to shareholders:

The amounts advanced by shareholders are unsecured and due on demand. Advances made to the Company prior to March 1, 2005 are non-interest bearing. Those advances made subsequent to that date are supported by promissory notes bearing interest at 7%.

	2007		2006	
Non-interest bearing advances	\$	38,098	\$	45,494
Interest bearing notes		80,533		81,700
	\$	118,631	\$	127,194

Interest expense on the interest bearing notes for the year ended April 30, 2007 was \$5,572 (2006 - \$2,592).

7. Notes payable and other advances:

	2007		2006	
Unsecured notes payable bearing interest at bank prime plus 3%, due on demand with 30 days notice	\$	20,000	\$	20,000
Advance from Aviator Petroleum Corp		-		25,000
	\$	20,000	\$	45,000

Upon amalgamation, the advance made by Aviator as a non-refundable, unsecured advance pursuant to a signed letter of intent dated February 7, 2006 was applied to the proceeds of the purchase.

CRITICAL OUTCOME TECHNOLOGIES INC.

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Notes to Financial Statements (continued)

Years ended April 30, 2007 and 2006

8. Obligation under capital leases:

	2007	2006
2007	\$ -	\$ 18,480
2008	22,352	18,480
2009	20,813	16,942
2010	1,290	-
Total minimum lease payments	44,455	53,902
Less amount representing interest	2,924	4,249
	41,531	49,653
Current portion of obligation under capital leases	20,244	16,128
	\$ 21,287	\$ 33,525

The Company has entered into various capital leases which expire prior to September 2009 for certain computer equipment. The interest rates implicit in the leases range from 5.56% to 10.37%. Included in the obligation under capital leases is \$33,525 (2006 - \$49,653) owing to a shareholder.

CRITICAL OUTCOME TECHNOLOGIES INC.

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Notes to Financial Statements (continued)

Years ended April 30, 2007 and 2006

9. Share capital and warrants:

The following table summarizes the details of share capital transactions for the years ended April 30, 2007 and 2006:

		2007		2006	
	Expiry	Issued	Amount	Issued	Amount
Share capital:					
Authorized:					
Unlimited preference shares					
Unlimited common shares					
Issued:					
	Common shares	37,507,052	\$ 3,598,977	22,373,332	\$ 551,792
Common share purchase warrants:					
\$0.30 agent warrants	April 18/08	-	-	40,000	2,500
\$0.40 warrants	April 18/08	533,332	13,830	733,332	22,000
\$0.40 agent warrants	Oct 12/08	378,930	52,921	-	-
\$0.60 warrants	July 15/08	1,000,000	151,990	-	-
	April 12/08 to				
\$0.70 warrants	Oct 18/08	3,545,950	219,447	-	-
		5,458,212	438,188	773,332	24,500
			\$ 4,037,165		\$ 576,292

CRITICAL OUTCOME TECHNOLOGIES INC.

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Notes to Financial Statements (continued)

Years ended April 30, 2007 and 2006

9. Share capital and warrants (continued):

	Shares	Amount
Shares issued for cash, April 30, 1999 and balance		
April 30, 2005	200	\$ 2
Shares issued for molecular mining technology	110	1
Shares issued to repay research advances	150	269,745
Shares issued for additional financing	56	100,000
Shares issued for stock dividend	8,764	-
Shares issued for exercise of warrants	720	40
Shares issued for exchange on share conversion	(10,000)	-
Shares issued on share conversion	10,000,000	-
Stock options exercised	439,001	4
Shares exchanged on amalgamation	(10,439,001)	-
Shares issued on amalgamation	21,640,000	-
Shares issued on private placement	733,332	182,000
Balance April 30, 2006	22,373,332	551,792
Shares issued on private placement	6,594,000	1,858,010
Shares issued on amalgamation	5,635,000	6,245
Shares issued on private placement	2,000,000	832,243
Shares issued on \$0.10 agent stock options	263,500	22,988
Shares issued on \$0.40 warrants	240,000	101,352
Shares issued on \$0.30 warrants	40,000	13,743
Shares issued on \$0.70 warrants	80,750	64,826
Shares issued on \$0.40 agent warrants	280,470	147,778
Balance April 30, 2007	37,507,052	\$ 3,598,977

CRITICAL OUTCOME TECHNOLOGIES INC.

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Notes to Financial Statements (continued)

Years ended April 30, 2007 and 2006

9. Share capital and warrants (continued):

	Warrants	Amount	Weighted average exercise price	Gross proceeds on exercise
Balance, April 20, 2005	-	\$ -	\$ -	-
Granted on private placement	733,332	22,000	0.40	-
Granted to agents on private placement	40,000	2,500	0.30	-
Balance, April 30, 2006	773,332	24,500	0.39	-
Granted on private placement	3,626,700	228,778	0.70	-
Granted to agents on private placement	699,400	94,093	0.40	-
Granted on private placement	1,000,000	151,990	0.60	-
Exercised	(240,000)	(8,170)	0.40	96,000
Exercised	(40,000)	(2,500)	0.30	12,000
Exercised	(80,750)	(9,331)	0.70	56,525
Exercised	(280,470)	(41,172)	0.40	112,188
Balance, April 30, 2007	5,458,212	\$ 438,188	\$ 0.63	\$ 276,713

- (a) On October 11, 2006 the Company completed a private placement of 6,594,000 units for gross proceeds of \$2,637,600 and issued 6,594,000 common shares and 3,297,000 \$0.70 warrants. Each unit consisted of one common share and one-half a common share purchase warrant at an issue price of \$0.40. Each whole common share purchase warrant is exercisable into one additional common share at a price of \$0.70 until April 13, 2008. Costs associated with this placement were \$458,723 for net proceeds of \$2,178,877. In addition, agents were issued 659,400 warrants (agent's warrants) equaling 10% of the number of units sold. Each agent's warrant has the right to purchase one unit at \$0.40 until October 13, 2008.

The Company allocated a portion of the gross proceeds to each warrant class based on their pro-rata share of the calculated fair value of the total unit fair value at issuance. An allocation of \$179,547 was made to the \$0.70 warrants using the Black-Scholes option pricing model assuming a risk free interest rate of 4.56%, an expected volatility of 64.1%, an expected life of 18 months and no expected dividends. Agent's warrants were allocated \$141,321 using assumptions of: a weighted average expected life of 30 months, a weighted average volatility of 70.8% and a weighted average risk free interest rate of 4.5%.

CRITICAL OUTCOME TECHNOLOGIES INC.

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Notes to Financial Statements (continued)

Years ended April 30, 2007 and 2006

9. Share capital and warrants (continued):

- (b) On October 13, 2006 Critical Outcome Technologies Inc. (Private COTI) amalgamated with Aviator Petroleum Corp. (Aviator), a public company listed on the TSXV, to form a new company with the name Critical Outcome Technologies Inc. (Public COTI) under the provisions of the Business Corporations Act (Ontario).

Under the amalgamation agreement, Aviator common shares were exchanged for 5,635,000 common shares of Public COTI. In addition, 275,000 Aviator agent's stock options outstanding were exchanged for agent's stock options of Public COTI with the same terms entitling holders to acquire up to 275,000 Public COTI common shares at \$0.10 per share. The Private COTI common shares were exchanged for 28,967,332 Public COTI common shares. Each outstanding \$0.40 warrant, \$0.70 warrant, \$0.30 agent's warrant and \$0.40 agent's warrant of Private COTI was exchanged on a one for one basis for replacement securities of Public COTI with the same terms.

- (c) On January 16, 2007 the Company completed a private placement of 2,000,000 units at an issue price of \$0.50 per unit for gross proceeds of \$1,000,000. Each unit consisted of one common share and one-half a common share purchase warrant with each whole warrant exercisable into one additional common share at a price of \$0.60 per share until July 16, 2008. Costs of the private placement were \$15,767. Pursuant to TSXV regulations, the 2,000,000 shares issued under the Unit offering were subject to a four month hold period ending on May 15, 2007.

The \$0.60 Warrants were allocated \$151,990 of the gross proceeds based on their pro-rata share of the calculated fair value of the total unit fair value at issuance using a Black-Scholes pricing model and assuming; a risk free interest rate of 4.28%, an expected volatility of 64.7%, an expected life of 18 months and no expected dividend yield.

- (d) In December 2006 and January 2007, a total of 263,500 agent's stock options were exercised for 263,500 common shares with gross proceeds to the Company of \$26,350 - see note 9(b) and 17(c).

- (e) The details of warrants issued and exercised are summarized as follows:

During the year, warrants were exercised and common shares issued as set out in the tables above. The fair value of the embedded warrants contained in each agent's warrant were calculated as set out in note 9(a) and (c). The costs incurred to issue these shares and any associated warrants were \$11,544.

CRITICAL OUTCOME TECHNOLOGIES INC.

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Notes to Financial Statements (continued)

Years ended April 30, 2007 and 2006

10. Stock-based compensation:

On October 13, 2006, the Company established 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 for purchase pursuant to 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 January 11, 2007, the Company granted 1,185,000 stock options to certain directors and employees with an exercise price of \$0.64 and on January 12, 2007, issued a further 50,000 stock options with an exercise price of \$0.70. On March 26, 2007, an additional 150,000 options were granted to a new director. The options have a five year maturity from the date of the grant. Certain of these options vested immediately and the balance vest one-fifth or one-sixth every six months from the date of the grant.

Exercise price	Options granted and outstanding at April 30, 2007	Vested	Unvested	Weighted average contractual life in years	Total Stock-based compensation value	Weighted average option value
\$ 0.64	1,185,000	754,998	430,002	4.7	\$ 350,260	0.296
0.70	50,000	8,333	41,667	4.7	15,908	0.318
1.35	150,000	150,000	-	4.9	176,400	1.176
	1,385,000	913,331	471,669	4.4	\$ 542,568	0.392
Expensed at April 30, 2007					\$ 424,469	
Available for grant at April 30, 2007		2,365,705				

CRITICAL OUTCOME TECHNOLOGIES INC.

(a development stage company)

Notes to Financial Statements (continued)

Years ended April 30, 2007 and 2006

10. Stock-based compensation (continued):

The assumptions used in the Black-Scholes model in determining the stock-based compensation are set out below:

	January, 2007	March, 2007
Risk free interest rate	3.98 %	4.54 %
Expected dividend yield	-	-
Expected share volatility	60 %	145 %
Expected option life in years	2.57	5.00

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

2008	\$	85,054
2009		30,244
2010		2,802
	\$	118,100

CRITICAL OUTCOME TECHNOLOGIES INC.

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Notes to Financial Statements (continued)

Years ended April 30, 2007 and 2006

11. 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:

	2007	2006
Loss before income taxes	\$ (1,430,000)	\$ (591,000)
Statutory rate	36.12%	36.12%
Expected income tax recovery	(517,000)	(213,000)
Amounts not deductible for tax	150,000	91,000
Unutilized tax losses	-	96,000
Share issuance costs deductible for tax	(254,000)	-
Tax impact of amalgamation	(41,000)	-
Expiration of non capital losses	18,000	-
Change in future income tax rates	55,000	-
Change in valuation allowance	626,000	-
Other	(37,000)	26,000
Income tax expense	\$ -	\$ -

The tax effect of temporary differences that give rise to significant portions of the future tax assets and liabilities at April 30, are presented below:

	2007	2006
Losses carried forward	\$ 423,000	\$ 191,000
Research expenditures deferred for tax purposes	173,000	40,000
Capital assets	3,000	6,000
Intangible assets	34,000	7,000
Financing expenses	229,000	2,000
Future tax assets	862,000	246,000
Less future tax liabilities relating to:		
Other	-	10,000
Net future tax assets	862,000	236,000
Less valuation allowance	(862,000)	(236,000)
	\$ -	\$ -

CRITICAL OUTCOME TECHNOLOGIES INC.

(a development stage company)

Notes to Financial Statements (continued)

Years ended April 30, 2007 and 2006

11. Income taxes and investment tax credits (continued):

The valuation allowance for future tax assets as at April 30, 2007 is \$862,000 (2006 - \$236,000). In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the periods in which those temporary differences become deductible and also considers the scheduled reversal of future tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the future tax assets are deductible, management currently believes it is more likely than not that the Company will not realize the benefits of the deductible difference and therefore these benefits have not been recognized in the financial statements.

The Company has federal non-capital losses of approximately \$1,263,000, and provincial non-capital losses of approximately \$1,304,000, and \$453,000 of federal research and development expenditures and \$515,000 of provincial research and development expenditures which may be applied to reduce taxable income of future years expiring as follows:

	Federal	Provincial
2008	\$ 14,000	\$ 14,000
2009	127,000	127,000
2013	35,000	78,000
2018	186,000	186,000
2025	126,000	126,000
2026	323,000	323,000
2027	452,000	450,000
Research and development expenditures, no expiry	453,000	515,000

Certain expenses incurred by the Company during the year ended April 30, 2007 may qualify as research and development as described by regulations in the Canadian Income Tax Act. Qualified amounts for the taxation year ended April 11, 2006 were eligible for investment tax credits (ITCs) refundable to the Company. The current year and future year ITCs are only eligible to reduce taxes payable. For the year ended April 30, 2007, the Company has filed for \$53,000 of refundable Ontario tax credits which have not been recorded as reasonable assurance regarding their collectibility has not been received.

CRITICAL OUTCOME TECHNOLOGIES INC.

(a development stage company)

Notes to Financial Statements (continued)

Years ended April 30, 2007 and 2006

12. Financial instruments:

(a) Fair value disclosure:

Fair value estimates are made as of a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision.

The Company has determined that the carrying value of its short-term financial assets and liabilities, including cash and cash equivalents, other receivables, accounts payable and accrued liabilities, due to shareholders and other advances, approximates their fair value because of the relatively short periods to maturity of these instruments.

The fair value of the note payable and the obligation under capital lease approximates their carrying value because the interest rate charged approximates current market rates of interest.

(b) 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 concentrations of credit risk.

13. Change in non-cash operating working capital:

	2007	2006
Other receivables	\$ (67,813)	\$ 1,852
Investment tax credit receivable	-	13,720
Prepaid expenses and deposits	(51,172)	(124)
Accounts payable and accrued liabilities	7,825	82,075
	<hr/> \$ (111,160)	<hr/> \$ 97,523

CRITICAL OUTCOME TECHNOLOGIES INC.

(a development stage company)

Notes to Financial Statements (continued)

Years ended April 30, 2007 and 2006

14. Commitments:

The Company had an operating lease for its 800 square foot office space with a monthly lease rate of \$1,558 until May 31, 2007. Effective June 1, 2007, the Company entered into a two year lease agreement for its existing space and an additional 800 square feet of adjoining office space. The monthly lease payment for June and July 2007 under this lease was negotiated at the existing monthly rate. Effective August 1, 2007 the lease rate for the combined space is \$3,115. The minimum fiscal year lease payments are: \$32,709 in 2008, \$37,384 in 2009 and \$3,115 in 2010.

15. 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.

16. Related party transactions:

During the year, the Company entered into transactions with its shareholders and officers under normal terms and conditions. These transactions which have been recorded at the exchange amount, being the amounts agreed to by the parties, are as follows:

	2007	2006
Obligation under capital lease	\$ -	\$ 51,193
Professional fees	63,750	10,000

Other related party transactions are disclosed in notes 5 and 6.

CRITICAL OUTCOME TECHNOLOGIES INC.

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Notes to Financial Statements (continued)

Years ended April 30, 2007 and 2006

17. Subsequent events:

- (a) Subsequent to year end, the Company realized gross proceeds of \$1,014,549 from the exercise of various common share warrants and on the exercise of the \$0.40 agent warrants the Company issued the required \$0.70 warrants. Details of the exercises are summarized below.

	Gross proceeds	Shares issued	Warrants issued
\$0.40 warrants	\$ 106,666	266,666	-
\$0.40 agent warrants	105,256	263,140	-
\$0.70 warrants	802,627	1,146,609	263,140
	\$ 1,014,549	1,676,415	263,140

- (b) On May 1, 2007, the Board of Directors approved a grant of 130,000 stock options to a director, which vested immediately, at an exercise price of \$1.00. On May 11, 2007, 100,000 options were granted to the Chief Operating Officer of the Company pursuant to an employment contract and the approved plan for employee option grants. The exercise price is \$1.34 per share and vesting occurs over 3.25 years based upon contact milestones with the first 25,000 options vesting on October 1, 2007. The stock-based compensation value of these grants and assumption estimates are as follows:

	Director	Officer
Risk free interest rate	4.54 %	4.54 %
Expected dividend yield	-	-
Expected share volatility	145 %	145 %
Expected average option life in years	2.57	3.25
Estimated total stock-based compensation	\$ 111,500	\$ 97,400

- (c) On May 11, 2007 11,500 agent stock options granted with an exercise price of \$0.10 per share expired. There are no remaining outstanding agent stock options - see note 9(b) and (d).