Critical Outcome Technologies Inc.

Fiscal 2010 Third Quarter Financial Statements

(Unaudited)

For the three and nine month periods ended January 31, 2010 and 2009

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CRITICAL OUTCOME TECHNOLOGIES INC.

Notice of No Auditor Review of Interim Financial Statements

For the three and nine month periods ended January 31, 2010 and 2009

The accompanying unaudited balance sheet of Critical Outcome Technologies Inc. (COTI) as at January 31, 2010, 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 nine month periods ending January 31, 2010 and 2009 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	January 31, 2010	April 30, 2009
	(Unaudited)	(Audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 1,276,160	$ 602,613
Short-term investment (note 2)	300,000	3,049,846
Miscellaneous receivables	14,777	87,990
Prepaid expenses and deposits	82,128	63,830
	1,673,065	3,804,279
Long-term deposit	-	3,356
Equipment (note 3)	90,108	116,099
Intangible assets (note 4)	2,773,010	2,993,391
	$ 4,536,183	$ 6,917,125
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 306,247	$ 333,025
Due to shareholders	81,843	82,249
Notes payable	-	20,000
Capital lease obligation	-	1,263
	388,090	436,537
Shareholders' equity:		
Share capital and warrants	12,813,125	12,813,125
Contributed surplus (note 5)	2,246,950	1,850,461
Deficit	(10,911,982)	(8,182,998)
	4,148,093	6,480,588
	$ 4,536,183	$ 6,917,125

Commitments (note 10)
Subsequent event (note 13)

See accompanying notes to financial statements

CRITICAL OUTCOME TECHNOLOGIES INC.

Statements of Comprehensive Loss and Deficit

(All amounts unaudited)

	Three Months Ended January 31, 2010	Three Months Ended January 31, 2009	Nine Months Ended January 31, 2010	Nine Months Ended January 31, 2009
Revenues:				
Contract services	$ -	$ 13,204	$ -	$ 19,187
Expenses:				
Research and product development	233,476	485,113	951,372	1,035,794
General and administration	286,793	283,366	934,219	736,495
Stock-based compensation (note 5)	52,895	86,922	396,489	343,598
Amortization (notes 3 & 4)	127,604	117,539	396,418	369,678
Sales and marketing	69,380	77,872	192,073	215,562
Foreign exchange (gain) loss	4,693	(2,156)	8,013	4,026
Interest and bank charges	1,122	1,379	3,670	9,079
	775,963	1,050,035	2,882,254	2,714,232
Loss before other income	(775,963)	(1,036,831)	(2,882,254)	(2,695,045)
Other income:				
Investment tax credit refunds	-	10,620	136,786	10,620
Interest income	2,746	27,910	16,484	102,351
	2,746	38,530	153,270	112,971
Loss and comprehensive loss	(773,217)	(998,301)	(2,728,984)	(2,582,074)
Accumulated deficit, beginning of the period	(10,138,765)	(5,847,752)	(8,182,998)	(4,263,979)
Accumulated deficit, end of the period	$ (10,911,982)	$ (6,846,053)	$ (10,911,982)	$ (6,846,053)
Basic and diluted loss per common share	$ (0.02)	$ (0.02)	$ (0.06)	$ (0.06)
Weighted average number of common shares outstanding	46,720,214	46,720,214	46,720,214	46,426,265

See accompanying notes to financial statements

CRITICAL OUTCOME TECHNOLOGIES INC.

Statements of Cash Flows

(All amounts unaudited)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2010	2009	2010	2009
Cash provided by (used in):				
Operating activities:				
Loss	$ (773,217)	$ (998,301)	$ (2,728,984)	$ (2,582,074)
Items not involving cash:				
Stock-based compensation	52,895	86,922	396,489	343,598
Amortization	127,604	117,539	396,418	369,678
Loss on disposal of equipment	595	-	634	-
Loss on disposal of patents	-	-	11,931	-
Unrealized foreign exchange loss	738	4,764	1,946	2,213
Change in non-cash operating working capital (note 8)	(16,794)	160,762	31,303	79,556
	(608,179)	(628,314)	(1,890,263)	(1,787,029)
Investing activities:				
Net short-term investment redemptions (purchases)	799,999	(439,213)	2,749,846	(982,331)
Equipment recoveries (purchases)	113	(56,909)	(7,020)	(61,493)
Proceeds on disposal of equipment	1	-	793	-
Expenditures on intangible assets	(35,373)	(91,681)	(156,384)	(178,759)
	764,740	(587,803)	2,587,235	(1,222,583)
Financing activities:				
Issuance of share capital and warrants (net of issuance costs)	-	(369)	-	633,937
Decrease in capital lease obligations	-	(5,431)	(1,263)	(16,044)
Payments to shareholders	-	559	(20,406)	(353,244)
	-	(5,241)	(21,669)	264,649
Increase (decrease) in cash and cash equivalents	156,561	(1,221,358)	675,303	(2,744,963)
Unrealized foreign exchange loss on cash and cash equivalents	483	3,998	1,756	1,447
Cash and cash equivalents, beginning of the period	1,120,082	1,592,166	602,613	3,113,220
Cash and cash equivalents, end of the period	$ 1,276,160	$ 366,810	$ 1,276,160	$ 366,810
Represented by:				
Cash	$ 161,901	$ 205,583	$ 161,901	$ 205,583
Cash equivalents	1,114,259	161,227	1,114,259	161,227
	$ 1,276,160	$ 366,810	$ 1,276,160	$ 366,810
Supplemental cash flow information:				
Interest paid	$ 865	$ 1,219	$ 3,034	$ 8,192

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 nine months ended January 31, 2010 and 2009 that are indicative of possible concern include: the Company had a loss of $2,728,984 (January 31, 2009 - $2,582,074) and negative cash flow from operations of $1,890,263 (January 31, 2009 – $1,787,029). As at January 31, 2010, the Company had an accumulated deficit of $10,911,982 (April 30, 2009 - $8,182,998), which results in a shareholders' equity of $4,148,093 (April 30, 2009 - $6,480,588). As at January 31, 2010, the Company had working capital of $1,284,975 (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 under which the government assistance was granted.

In situations where government assistance is to be applied to expenditures in a subsequent accounting period, the assistance is deferred and amortized to income as the related expenses are incurred.

(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 of 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 investment:

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. The Company has one short-term investment that is set to mature on March 16, 2010. The cost of the investment at January 31, 2010 was $300,000 (market $302,110) and at April 30, 2009 $3,049,846 (market $3,067,761).

3. Equipment:

	January 31, 2010			April 30, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	$ 122,384	$ 43,045	$ 79,339	$ 122,384	$ 27,938	$ 94,446
Computer hardware	75,012	64,243	10,769	84,623	70,651	13,972
Leasehold improvements	24,517	24,517	-	24,517	16,836	7,681
	$ 221,913	$ 131,805	$ 90,108	$ 231,524	$ 115,425	$ 116,099

Amortization related to equipment included in amortization expense for the nine months ended January 31, 2010 is $31,584 (January 31, 2009 – $31,528).

4. Intangible assets:

	January 31, 2010			April 30, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Molecules	$ 3,111,169	$ 842,608	$ 2,268,561	$ 3,111,169	$ 550,936	$ 2,560,233
Patents	496,576	20,330	476,246	374,450	10,589	363,861
Computer software	64,000	38,717	25,283	93,581	24,790	68,791
Trademark	7,616	4,696	2,920	5,091	4,585	506
	$ 3,679,361	$ 906,351	$ 2,773,010	$ 3,584,291	$ 590,900	$ 2,993,391

Amortization expense includes the following amounts related to intangible assets:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2010	2009	2010	2009
Molecules	$ 97,224	$ 97,224	$ 291,672	$ 291,672
Patents	2,550	1,689	9,881	4,696
Computer software	19,903	7,286	63,171	41,584
Trademark	37	28	110	198
	$ 119,714	$ 106,227	$ 364,834	$ 338,150

In October 2009, 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 is recorded as general and administration expense.

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

	January 31, 2010			April 30, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Patents pending	$ 293,507	$ -	$ 293,507	$ 188,735	$ -	$ 188,735
Patents granted	203,069	20,330	182,739	185,715	10,589	175,126
	$ 496,576	$ 20,330	$ 476,246	$ 374,450	$ 10,589	$ 363,861

Patents granted have unamortized lives of 152 to 177 months.

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

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 grant.

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

The total stock option compensation relating to these grants recorded during the period ended January 31, 2010 and the assumption estimates are as follows:

Risk free interest rate	2.75% - 2.95%
Expected dividend yield	-
Expected share volatility	110% - 142%
Expected average option life in years	5.0
Estimated total stock option compensation	$ 284,954

For the period ended January 31, 2010, the Company incurred total stock-based compensation expense of $396,489 (January 31, 2009 - $ 343,598).

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

	January 31, 2010		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	894,447	0.53	1,358,067	0.74
Cancelled or expired	-	-	(26,600)	0.75
Ending balance	3,690,914	$ 0.73	2,796,467	$ 0.79

Details of the outstanding stock options at January 31, 2010 are summarized below:

Range of Exercise Prices	Weighted average exercise price of outstanding options	Weighted average exercise price of vested options	Options granted and outstanding at Jan 31/10	Vested	Unvested	Weighted average remaining contractual life in years	Total stock based compensation value	Weighted average option value
$0.01 - $0.50	$ 0.50	$ 0.50	1,244,447	894,447	350,000	4.28	$ 596,640	$ 0.479
$0.51 - $1.00	0.73	0.74	2,096,467	1,946,467	150,000	2.81	1,111,378	0.530
$1.01 - $1.50	1.29	1.30	250,000	216,664	33,336	2.67	279,400	1.118
$1.51 - $2.00	2.00	2.00	100,000	100,000	-	2.68	176,700	1.767
	$ 0.73	$ 0.75	3,690,914	3,157,578	533,336	3.29	$ 2,164,118	$ 0.586
Total expensed to January 31, 2010							$ 2,025,923	
Available for grant at January 31, 2010			981,107					

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

2010	$ 70,099
2011	99,481
2012	14,897
	$ 184,477

The following table summarizes the change in contributed surplus for the period ended January 31, 2010 and the year ended April 30, 2009:

	January 31, 2010	April 30, 2009
Opening balance	$ 1,850,461	$ 1,008,259
Stock-based compensation	396,489	842,202
Ending balance	$ 2,246,950	$ 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:

	January 31, 2010	April 30, 2009
Loss before income taxes	$ (2,728,984)	$ (3,919,019)
Statutory rate	32.33%	33.00%
Expected income tax recovery	(882,000)	(1,293,000)
Amounts not deductible for tax	134,000	285,000
Share issuance costs deductible for tax	(59,000)	(81,000)
Expiration of non-capital losses	-	37,000
Change in future income tax rates	337,000	110,000
Change in valuation allowance	380,000	774,000
Tax credits realized	65,000	88,000
Other	25,000	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:

	January 31, 2010	April 30, 2009
Losses carried forward	$ 1,602,000	$ 1,382,000
Total research expenditures deferred for tax purposes	580,000	519,000
Financing expenses	112,000	173,000
Equipment	5,000	-
Other	74,000	74,000
Future tax assets	2,373,000	2,148,000
Less future tax liabilities related to:		
Equipment	-	(5,000)
Intangible assets	(581,000)	(731,000)
Net future tax assets	1,792,000	1,412,000
Less valuation allowance	(1,792,000)	(1,412,000)
	$ -	$ -

The Company has non-capital losses of approximately $6,323,000 and research and development expenditures of $2,597,000, which may be applied to reduce taxable income of future years expiring as follows:

2013	$ 36,000
2014	186,000
2025	178,000
2026	463,000
2027	580,000
2028	1,297,000
2029	2,037,000
2030	1,546,000
Total non-capital losses	$ 6,323,000
Total research and development expenditures, no expiry	$ 2,597,000

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	$1,276,160	$ -	$ -	$ -	$ 1,276,160	$ -	$1,276,160
Short-term investments	-	300,000	-	-	300,000	-	300,000
Miscellaneous receivables	-	-	9,826	-	9,826	4,951	14,777
Accounts payable and accrued liabilities	-	-	-	(288,870)	(288,870)	(17,377)	(306,247)
Due to shareholders	-	-	-	(81,843)	(81,843)	-	(81,843)
	$1,276,160	$ 300,000	$ 9,826	$ (370,713)	$ 1,215,273	$ (12,426)	$1,202,847

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	9,826	7,716	2,110	-	-
	$ 9,826	$ 7,716	$ 2,110	$ -	$ -

The Company's receivables are deemed to be of high credit quality and consequently, it does not require collateral to secure its receivables.

(b) Liquidity risk:

Liquidity risk relates to potential difficulty in raising funds to meet commitments associated with financial instruments. Based upon the high credit ratings associated with its financial assets and the Company's spending plans, the Company 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	$1,276,160	$1,276,160	$ -	$ -	$ -
Short term investments	300,000	300,000	-	-	
	$1,576,159	$1,576,159	$ -	$ -	$ -

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	$ 153,124	$ 153,124	$ -	$ -	$ -
Accrued liabilities	135,746	90,746	45,000	-	-
Due to shareholders	81,843	81,843	-	-	-
	$ 370,713	$ 325,713	$ 45,000	$ -	$ -

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 investment is concentrated in an instrument with a high credit rating, 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 which bore interest at a fluctuating rate based on the bank's prime lending rate were repaid in August 2009. 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 January 31, 2010	Three Months Ended January 31, 2009	Nine Months Ended January 31, 2010	Nine Months Ended January 31, 2009
Miscellaneous receivables	$ 14,181	$ (17,740)	$ 73,213	$ (23,137)
Prepaid expenses and deposits	(49,083)	60,476	(14,942)	(21,712)
Accounts payable and accrued liabilities	18,108	118,026	(26,968)	124,405
	$ (16,794)	$ 160,762	$ 31,303	$ 79,556

9. Government assistance:

For the nine month period, the Company has recorded $19,611 (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 the salaries of an intern to a maximum of $30,000 with no liability for repayment. Government assistance accrued has been credited against marketing expense.

10. Commitments:

(a) Research and development contracts:

The Company is committed to pay $268,380 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.

(b) Other commitments:

The Company is committed to pay $23,100 during the remainder of fiscal 2010 for the completion of consulting services.

11. Comparative figures:

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

12. 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 nearing completion. The Company estimates that at January 31, 2010 it has completed draft component evaluations for 95% of the accounting standards applicable to the Company. The Company expects to finalize all of the component evaluations by the end of the fourth quarter of fiscal 2010.

In the third quarter of fiscal 2010, the Company finalized its component evaluation for equipment. The impact of the transition to IFRS is expected to be limited as no accounting policy changes will be required upon transition nor are any transitional adjustments anticipated. The Company has elected to measure its equipment using a cost model rather than using a revaluation model based on fair value. Financial statement disclosure for equipment will increase upon adoption of IFRS, with the most notable impact being detailed reconciliations between opening and closing cost and accumulated amortization. Existing accounting processes are deemed sufficient to capture any additional disclosure information required therefore modifications to existing accounting applications are not necessary.

(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.

13. Subsequent event:

On February 12, 2010, the Board of Directors approved the grant of 246,808 stock options to eight employees. The options vested immediately with an exercise price of $0.47 per share and have a five-year life. The stock-based compensation value of this grant and the assumption estimates are as follows:

Risk free interest rate	2.52%
Expected dividend yield	-
Expected share volatility	142%
Expected average option life in years	5
Estimated total stock-based compensation	$ 103,659