

Critical Outcome Technologies Inc.
(a development stage company)

Fiscal 2008 Interim Consolidated Financial Statements
(Unaudited)

Third Quarter ended January 31, 2008

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(a development stage company)

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Page 2

Index

	Page
Notice of No Auditor Review of Interim Consolidated Financial Statements	3
Interim Consolidated Balance Sheets	4
Interim Consolidated Statements of Operation and Deficit	5
Interim Consolidated Statements of Cash Flows	6
Notes to the Interim Consolidated Financial Statements	7 - 21

Critical Outcome Technologies Inc.

Page 3

(a development stage company)

Notice of No Auditor Review of Fiscal 2008 Interim Consolidated Financial Statements

Third Quarter ended January 31, 2008

The accompanying unaudited consolidated balance sheet of Critical Outcome Technologies Inc. (COTI) as at January 31, 2008, the audited balance sheet as at April 30, 2007 and the unaudited consolidated statements of operations and cash flows for the three and nine month periods ending January 31, 2008 and 2007 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 consolidated interim financial reporting 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 consolidated financial statements.

Critical Outcome Technologies Inc.
(a development stage company)
Interim Consolidated Balance Sheets

Page 4

	Unaudited January 31, 2008	Audited April 30, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,061,088	\$ 2,417,801
Short term investments (note 3)	999,202	-
Accounts receivable	30,114	-
Other receivables	130,641	76,655
Prepaid expenses and deposits	38,068	28,095
	6,259,113	2,522,551
Equipment (note 4)	141,128	52,560
Patents (note 5)	194,038	134,298
Trademark (note 6)	218	870
Molecules (note 2)	3,149,433	-
Future income tax assets (note 2)	913,335	1
	\$ 10,657,265	\$ 2,710,280
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 186,264	\$ 179,091
Other payables	96,025	-
Due to shareholders (note 7)	482,123	118,631
Notes payable (note 8)	20,000	20,000
Current portion of capital lease obligations (note 9)	5,180	20,244
	789,592	337,966
Capital lease obligations (note 9)	21,287	21,287
Future income tax liabilities (note 2)	913,336	-
Shareholders' equity		
Share capital and warrants (note 10)	11,540,721	4,037,165
Contributed surplus (note 11)	1,043,766	675,469
Deficit	(3,651,437)	(2,361,607)
	8,933,050	2,351,027
Commitments (note 15)		
Subsequent events (note 18)		
	\$ 10,657,265	\$ 2,710,280

See accompanying notes to unaudited interim consolidated financial statements

Interim Consolidated Statements of Operation and Deficit
(Unaudited)

	Three Months Ended		Nine Months Ended		Cumulative
	January 31,		January 31,		period April 30,
	2008	2007	2008	2007	1999 (inception)
	to Jan 31, 2008				
Revenues:					
Contract services	\$ 30,822	\$ -	\$ 30,822	\$ -	\$ 63,322
Screening services	-	-	-	2,500	2,500
	30,822	-	30,822	2,500	65,822
Expenses:					
Stock-based compensation (note 11)	(14,687)	213,705	368,297	213,705	1,043,766
Salaries and benefits	210,190	103,174	536,074	275,497	1,133,006
Professional fees	70,707	40,237	248,239	99,433	581,596
Marketing	33,549	29,399	104,212	80,455	261,070
Amortization of furniture and equipment	13,892	7,339	62,195	21,672	118,059
Synthesis costs	314	97,940	19,203	97,940	401,763
Office and general	3,951	3,670	27,125	14,422	75,156
Insurance	9,943	2,888	30,212	2,888	42,904
Rent	9,346	3,206	23,198	12,461	76,266
Corporate governance	6,388	5,867	46,307	5,867	61,056
Interest and bank charges	5,283	834	9,430	8,304	34,795
Computer expense	598	6,941	3,256	12,032	59,427
Amortization of trademark	218	218	653	653	4,133
Research and product development	12,399	278	12,399	15,350	67,027
Reorganization costs	-	692	-	12,556	106,544
	362,091	516,388	1,490,800	873,235	4,066,568
Loss before other income	(331,269)	(516,388)	(1,459,978)	(870,735)	(4,000,746)
Other income					
Investment tax credit refund	-	-	53,077	75,050	190,692
Interest income	61,865	14,391	117,071	16,603	158,617
	61,865	14,391	170,148	91,653	349,309
Loss	(269,404)	(501,997)	(1,289,830)	(779,082)	(3,651,437)
Deficit, beginning of the period	(3,382,033)	(1,208,709)	(2,361,607)	(931,624)	-
Deficit, end of the period	\$ (3,651,437)	\$ (1,710,706)	\$ (3,651,437)	\$ (1,710,706)	\$ (3,651,437)
Basic and diluted loss per common share	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.03)	
Weighted average number of common shares outstanding	43,266,102	35,088,419	40,103,368	27,477,437	

See accompanying notes to unaudited interim consolidated financial statements

Interim Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended January 31,		Nine Months Ended January 31,		Cumulative period April 30, 1999 (inception)
	2008	2007	2008	2007	to Jan 31, 2008
Cash provided by (used in):					
Operations:					
Loss	\$ (269,404)	\$ (501,997)	\$ (1,289,830)	\$ (779,082)	\$ (3,651,437)
Items not involving cash:					
Stock option compensation	(14,687)	213,705	368,297	213,705	1,043,766
Amortization of trademark	218	218	653	653	4,133
Amortization of furniture and equipment	13,892	7,339	62,195	21,672	118,059
Change in non-cash operating working capital (note 14)	(998,666)	(380,605)	(974,223)	(204,283)	(928,200)
	(1,268,647)	(661,340)	(1,832,908)	(747,335)	(3,413,679)
Investing activities:					
Additions to office furniture, equipment and leaseholds	(25,069)	(11,080)	(150,762)	(11,080)	(179,674)
Purchase of DDP Therapeutics	(673,964)		(791,270)		(791,271)
Additions to patents and trademark	(42,433)	(8,295)	(59,740)	(27,255)	(198,388)
	(741,466)	(19,375)	(1,001,772)	(38,335)	(1,169,333)
Financing activities:					
Issuance of common shares and warrants	4,138,508	1,016,917	5,499,539	3,195,303	9,266,959
Research advances	-	-	-	-	269,745
Notes payable and other advances	-	-	-	(25,000)	20,000
Repayment of obligation under capital lease	(5,098)	4,683	(15,064)	(3,272)	(24,727)
Due to shareholders	1,342	(44,476)	(6,508)	(17,817)	112,123
	4,134,752	977,124	5,477,967	3,149,214	9,644,100
Increase in cash	2,124,639	296,409	2,643,287	2,363,544	5,061,088
Cash and cash equivalents, beginning of period	2,936,449	2,237,599	2,417,801	170,464	-
Cash and cash equivalents, end of period	\$ 5,061,088	\$ 2,534,008	\$ 5,061,088	\$ 2,534,008	\$ 5,061,088
Represented by:					
Cash	\$ -	\$ 305,161	\$ 334,008	\$ 334,008	305,161
Cash equivalents	4,755,927	2,200,000	4,755,927	2,200,000	4,755,927
	\$ 5,061,088	\$ 2,534,008	\$ 5,061,088	\$ 2,534,008	\$ 5,061,088
Supplemental cash flow information:					
Interest paid	\$ 5,178	\$ 8	\$ 27,952	\$ 2,351	\$ 30,878
Non-cash transactions:					
Acquisition of equipment under capital leases	\$ -	\$ -	\$ -	\$ -	\$ 62,274

See accompanying notes to unaudited interim consolidated financial statements

Description of business:

COTI 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.

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 highly optimized libraries of 6-10 small 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 except the process would involve some preclinical and clinical *in vitro* and *in vivo* testing. These compounds will then be available for sale, licensing or co- development with a pharmaceutical partner.

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, product development failure, the need to raise capital for successful development, marketing and operations and 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 \$(1,289,830) (2007 - \$(779,082)) and negative cash flow from operations of \$(1,848,762) (2007 - \$(747,335)) for the nine months ended January 31, 2008 and 2007. As at January 31, 2008, the Company has an accumulated deficit of \$(3,651,437) (2007 - \$(1,710,706))

which results in a shareholders' equity of \$8,933,050. As of January 31, 2008 the Company has working capital of \$5,469,521.

(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
Leasehold improvements	Remaining term of lease

(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 January 31, 2008 and 2007 no development costs were deferred.

(h) Revenue recognition:

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

(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 stock options and other stock-based payments 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 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.

(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 losses 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.

(n) Comparative amounts:

Certain comparative prior period account balances have been regrouped to agree with the basis of presentation adopted in the current period financial statements.

2. Acquisition of DDP Therapeutics

On November 27, 2007 the Company completed the acquisition from Whippoorwill Holdings Limited, 2080084 Ontario Inc. and Dr. Wayne Danter (Sellers) of all the outstanding common shares in the capital of 6441513 Canada Inc. operating as DDP Therapeutics (DDP) (Share Purchase) not already owned by the Company and the purchase of two 5% promissory notes owing by DDP to two of the Sellers on the terms announced by the Company on September 17, 2007. Ownership of DDP prior to completion of the Share Purchase consisted of; COTI 10%, Dr. Wayne Danter, President of COTI, 10%, Whippoorwill Holdings Limited, a wholly owned company of Mr. John Drake, the CEO of COTI 40% and 2080084 Ontario Inc., an unrelated party, 40%.

The purchase price under the Share Purchase was determined to be \$4,270,894 based on 90% of the net book value of DDP using an agreed value for the 10 small cell lung cancer (SCLC) molecules (Molecules) owned by DDP of \$5,500,000. Proceeds from a private placement (see note 9(d)) in the amount of \$630,000 were used to acquire the promissory note of 2080084 Ontario Inc., pay the accrued interest on the promissory notes and make partial cash payment for the common shares of DDP in the amount of \$187,858. The Company also issued a promissory note in the amount of \$370,000 payable to Whippoorwill Holdings Limited in exchange for the assignment of the promissory note held by Whippoorwill Holdings Limited from DDP. This promissory note matures for payment on July 31, 2008 and bears interest at the rate of 5% per annum (see note 6).

One-half of the balance of the purchase price for the DDP common shares was satisfied by the issuance of 1,431,441 common shares of COTI to the Sellers at the same issue price per share paid on the private placement (\$1.40) and 1,431,441 common shares of COTI, representing the other one-half of the balance of the purchase price, have been conditionally allotted and reserved for issuance to the Sellers upon the Molecules achieving certain development milestones. One-half of the remaining Share Consideration will be issued on the first to occur of: the issuance by the Food and Drug Administration of

the United States (FDA) of notification of acceptance of an investigational new drug (IND) filing in respect of any of the Molecules and receipt of the IND acceptance # document in respect of the Molecule; or the issuance of a final patent in respect of any of the Molecules by European or US patent authorities. The final of the remaining one-half Share Consideration will be issued to the Sellers on the first to occur of: the issuance by the FDA of notification of acceptance of an IND filing for any Molecule in respect of which a final patent has been issued in the US or Europe; or the issuance of a final patent in the US or Europe for any Molecule in respect of which the FDA has given notice of acceptance of an IND filing and has issued the IND acceptance number document.

Should the milestones not be reached by the eighth anniversary of the Closing, the Company has the option to either (i) issue the remaining Share Consideration to the Sellers or (ii) pay the Sellers the amount, if any, by which the fair value of the Molecules exceeds the amount invested in the Molecules by COTI, including the amount of the investment of Share Consideration issued to the Sellers up to that point. The determination of the fair value of the Molecules shall be made by agreement between the Company and the Sellers or, failing such agreement, shall be determined by arbitration on a basis as described in the Purchase and Sale Agreement. The amount of the investment by the Company in the Molecules shall be verified by the Company's auditors if requested by the Sellers. If the fair value of the Molecules at that time is less than the amount invested in the Molecules by the Company, no amount shall be payable to the Sellers.

The common shares issued under the Share Purchase are subject to a four month hold from the date of closing the Share Purchase until the close of business on March 29, 2008.

As part of the acquisition of DDP the Company negotiated an amendment to an existing bonus agreement between DDP and Dr. Wayne Danter, the President of the Company, as a consultant to DDP. Under the bonus agreement, upon the Company or DDP obtaining a Phase Three Financing, Dr. Danter is entitled to a bonus payment based upon the net proceeds of the financing and provided certain milestones are met at the time the Company or DDP obtains the financing on any of the ten SCLC Molecules. It was agreed that the financing completed by the Company to acquire the shares of DDP and fund the development of the Molecules, net of the cash used to acquire the promissory notes, constituted a Phase Three financing. This triggered a milestone payment in the amount of \$ 30,359.

The Business Conduct Review Committee of the Board of COTI, composed entirely of independent Directors of the Board, recommended completion of the Share Purchase to the Board and the Board unanimously approved completion of the Share Purchase.

The acquisition of DDP has been accounted for as a purchase of assets because DDP does not meet the definition of a business under EIC 124 of the CICA Handbook. Total consideration, as determined by the issuance of common shares at the same share price of \$1.40 paid on the private placement (discussed below) plus cash paid, plus the assumption of certain liabilities and payment of transaction costs, was

CRITICAL OUTCOME TECHNOLOGIES INC.
(a development stage company)
Notes to Interim Consolidated Financial Statements
Nine months ended January 31, 2008 and 2007

\$3,165,287. The consideration was allocated to the assets acquired and liabilities assumed based on the estimated fair values on the date of acquisition as follows:

Assets acquired:	
Cash	\$ 15,178
Other receivables	82,673
Intangible assets - molecules	3,149,432
Future tax assets	246,220
Reversal of existing valuation allowance of DDP	667,116
	<u>4,160,619</u>
Less liabilities assumed:	
Accounts payable and accrued liabilities	81,996
Future tax liability	913,336
	<u>995,332</u>
Net assets acquired	<u>\$ 3,165,287</u>
Consideration given:	
Cash paid	\$ 187,858
Common shares issued	2,004,017
Debt assumed	812,142
Acquisitions costs paid	161,270
	<u>\$ 3,165,287</u>

As part of the accounting for the acquisition, the Company reversed existing valuation allowances on its books as of the date of the acquisition to the extent of the value of net taxable temporary differences assumed on the purchase.

As an asset purchase transaction the contingent consideration will be accounted for at the time that the contingent consideration is settled. The amount of consideration given up at the time the additional consideration is paid would be added to the molecules (intangible asset) with an increase in share capital, if share consideration, or a reduction in cash, if a cash payment.

The molecules acquired represent intangible assets and accordingly must be amortized over their useful lives to the Company. In addition, the Company must also assess as part of its accounting practices whether there has been any impairment of these long lived assets. Amortization of the intangibles will commence in the fourth quarter which is the first full quarter following the acquisition of the molecules in accordance with the Company's detailed review and development plan for the molecules. Based upon the development activities during the two months since acquisition to the end of third quarter on January 31, 2008, the Company has determined there has been no impairment in the value of the molecules during the intervening period.

3. Short term investments:

The Company's excess cash balances invested for a period of greater than three months and less than a year are as follows:

Issuer	Security	Cost	Maturity	Maturity Value
Ontario Hydro	Strip coupon residual	\$ 500,000	June 2, 2008	\$ 506,017
Government of Canada	Treasury bill	499,202	Jan 22, 2009	515,000
		\$ 999,202		\$ 1,021,017

4. Equipment:

	January 31, 2008			April 30, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 69,564	\$ 54,298	\$ 15,266	\$ 61,487	\$ 39,612	\$ 21,875
Furniture and fixtures	84,537	10,863	73,674	5,856	3,489	2,367
Computer software	104,834	67,998	36,836	61,913	33,595	28,318
Leasehold improvements	21,084	5,732	15,352	-	-	-
	\$ 280,019	\$ 138,891	\$ 141,128	\$ 129,256	\$ 76,696	\$ 52,560

Included in equipment are assets under capital lease with a cost of \$62,274 and accumulated amortization of \$56,485 (April 30, 2007 – \$45,803).

5. Patents:

The Company is pursuing patents on certain molecules and their manufacturing process with accumulated costs at January 31, 2008 and April 30, 2007 of \$194,038 and \$134,298 respectively.

6. Trademark:

Trademark registration has been obtained for exclusive use of the name, CHEMSAS®, which describes the Company's proprietary molecular profiling 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:

	January 31, 2008			April 30, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
CHEMSAS® - molecular profiling technology	\$ 4,350	\$ 4,132	\$ 218	\$ 4,350	\$ 3,480	\$ 870

7. Due to shareholders:

The amounts advanced by shareholders are unsecured. Advances made to the Company prior to March 1, 2005 are non-interest bearing and advances made subsequent to this date are supported by promissory notes bearing interest at 5-7%. Under the terms of the acquisition of DDP on November 27, 2007, the Company acquired a promissory note of \$370,000 owing to one of the former shareholders of DDP who is a shareholder, director and officer of the Company.

	January 31, 2008	April 30, 2007
Non-interest bearing advances due on demand	\$ 31,590	\$ 38,098
5% interest bearing note due July 31, 2008	370,000	-
7% interest bearing notes due on demand	80,533	80,533
	<u>\$ 482,123</u>	<u>\$ 118,631</u>

Interest expense on the interest bearing notes for the nine months ended January 31, 2008 was \$7,568, (April 30, 2007 - \$5,572).

8. Notes payable:

	January 31, 2008	April 30, 2007
Unsecured notes payable bearing interest at bank prime plus 3%, due on demand with 30 days notice	\$ 20,000	\$ 20,000
	<u>\$ 20,000</u>	<u>\$ 20,000</u>

Interest expense for the nine months ended January 31, 2008 was \$1,381 (April 30, 2007 - \$1,796).

9. Capital lease obligations:

	January 31, 2008	April 30, 2007
2008	5,588	22,352
2009	20,813	20,813
2010	1,290	1,290
Total minimum lease payments	27,691	44,455
Less amount representing interest	1,224	2,924
	26,467	41,531
Current portion of capital lease obligation	5,180	20,244
	<u>\$ 21,287</u>	<u>\$ 21,287</u>

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%.

10. Share capital and warrants:

	January 31, 2008			April 30, 2007	
	Expiry	Issued	Amount	Issued	Amount
Share Capital:					
Authorized:					
Unlimited common shares					
Unlimited preference shares					
Issued:					
Common shares		44,712,278	\$ 11,288,197	37,507,052	\$ 3,598,977
Share purchase warrants:					
\$0.40 warrants	April 18/08	166,666	4,297	533,332	13,830
\$0.40 agent warrants	Oct 12/08	73,805	10,202	378,930	52,921
\$0.60 warrants	July 15/08	1,000,000	151,990	1,000,000	151,990
\$0.70 warrants	April 12/08 to July 17/09	1,391,099	86,035	3,545,950	219,447
		2,631,570	252,524	5,458,212	438,188
			\$ 11,540,721		\$ 4,037,165
<hr/>					
				Shares	Amount
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
Shares issued on private placement				2,857,143	3,665,882
Shares issued on purchase of DDP Therapeutics				1,431,441	2,004,017
Shares issued on \$0.40 warrants				366,666	156,314
Shares issued on \$0.70 warrants				2,154,851	1,633,168
Shares issued on \$0.40 agent warrants				305,125	161,960
Shares issued on stock option plan exercises				110,000	69,959
Shares cancelled on \$0.10 agent stock options (note 9(c))				(20,000)	(2,080)
Balance January 31, 2008				44,712,278	\$11,288,197

The details of warrants issued and exercised are summarized in the following table:

	Warrants	Amount	Weighted average exercise price	Gross proceeds on exercise
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
Exercised	(366,666)	(9,534)	0.40	148,266
Exercised	(2,154,851)	(133,412)	0.70	1,508,396
Exercised	(305,125)	(42,718)	0.40	120,450
	(2,826,642)	(185,664)		1,777,112
Balance, January 31, 2008	2,631,570	\$ 252,524	\$ 0.59	\$ 2,053,825

- a) During the nine months ended January 31, 2008, 2,826,642 warrants were exercised and common shares issued for gross proceeds of \$1,777,112 as set out in the table above. Proceeds upon warrant exercise were credited to common share capital and the respective warrant account was relieved of the warrant value attributed to the warrant at the date of issuance at the same rate as initially set up. The costs incurred to issue these shares and any associated warrants were \$11,855.
- b) On October 5, 2007 110,000 stock options issued under the Company's stock option plan were exercised for gross proceeds of \$70,400 - see note 10(d).
- c) On October 11, 2007 20,000 common shares previously issued under exercise of \$0.10 agent stock options for gross proceeds of \$2,000 were cancelled by the Company.
- d) On November 29, 2007 the Company completed a brokered private placement of 2,857,143 common shares offered to accredited investors in Ontario at \$1.40 per common share for gross proceeds of \$4,000,000. The Company retained Northern Securities Inc. to act as agent in completion of the private placement. Total costs of the placement were \$334,118 including the agent's fee of \$280,000. The common shares issued under the offering are subject to a four month hold from the date of closing the private placement until the close of business on March 29, 2008.

11. 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 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.

- a) On May 1, 2007 the Board of Directors approved a grant of 130,000 stock options to a director at an exercise price of \$1.00 which options vested immediately.
- b) On May 11, 2007, 100,000 options were granted to the Chief Operating Officer of the Company pursuant to an employment contract and the board approved plan for employee grants under the stock option plan. The exercise price is \$1.34 per share and vesting occurs over 3.25 years based upon contract milestones with the first 25,000 options vesting on October 1, 2007.
- c) On September 28, 2007 40,000 unvested options expired under the terms of the plan.
- d) On October 5, 2007 110,000 options were exercised at a price of \$0.64 per common share.
- e) On October 9, 2007 the Board of Directors approved a grant of 25,000 stock options vesting immediately to each of the four non-employee members of the Scientific Advisory Committee (SAC) at an exercise price of \$2.00.
- f) On December 15, 2007 75,000 unvested options expired under the terms of the plan.

In accordance with section 3870 of the CICA Handbook the effect of a change in the estimated number of options expected to vest is a change in an estimate and the cumulative effect of the change on current and prior periods is to be recognized in the period of the change reflecting the overstatement of prior period compensation recorded. For the quarter ending January 31, 2008 a net recovery of \$14,687 was recorded.

The stock option compensation value of the grants recorded during the nine months ended January 31, 2008 and the assumption estimates are as follows:

	Director	Officer	SAC
Risk free interest rate	4.54%	4.54%	4.00%
Expected dividend yield	-	-	-
Expected share volatility	145%	145%	120%
Expected average option life in years	2.57	3.25	5
Estimated stock option compensation	\$ 111,540	\$ 97,400	\$176,700

Details of the outstanding stock options are summarized below:

Weighted Average Exercise Price	Options granted and outstanding at Jan 31/08	Vested	Unvested	Weighted average remaining contractual life in years	Total stock based compensation value	Weighted average option value
\$0.64	1,035,000	809,996	225,004	3.95	\$ 343,642	\$ 0.296
\$0.70	50,000	24,999	25,001	3.96	15,908	0.318
\$1.00	130,000	130,000	-	4.24	111,540	0.858
\$1.34	25,000	25,000	-	4.27	24,350	0.974
\$1.35	150,000	150,000	-	4.15	176,400	1.176
\$2.00	100,000	100,000	-	4.69	176,700	1.767
\$0.85	1,490,000	1,239,995	250,005	4.05	\$ 848,540	\$ 0.544
Total expensed to January 31, 2008					\$ 792,766	
Available for grant at January 31, 2008			2,981,228			
Stock-based compensation expected to vest in future periods is summarized below:						
2008					\$ 22,727	
2009					30,244	
2010					2,802	
					\$ 55,773	

12. 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 consolidated financial statements:

	January 31, 2008	April 30, 2007
Loss before income taxes	\$ (1,290,000)	\$ (1,430,000)
Statutory rate	35.83%	36.12%
Expected income tax recovery	(462,000)	(517,000)
Amounts not deductible for tax	135,000	150,000
Share issuance costs deductible for tax	(66,000)	(254,000)
Tax impact of amalgamation	-	(41,000)
Expiration of non capital losses	5,000	18,000
Change in future income tax rates	102,000	55,000
Change in valuation allowance	(339,000)	626,000
Tax impact of acquisition	667,000	
Other	(42,000)	(37,000)
Income tax expense	\$ -	\$ -

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at January 31, 2008 are presented below:

CRITICAL OUTCOME TECHNOLOGIES INC.
(a development stage company)
Notes to Interim Consolidated Financial Statements
Nine months ended January 31, 2008 and 2007

	January 31, 2008	April 30, 2007
Losses carried forward	\$ 746,000	\$ 423,000
Research expenditures deferred for tax purposes	384,000	173,000
Capital assets	9,000	3,000
Intangible assets	74,000	34,000
Financing expenses	242,000	229,000
Future tax assets	1,455,000	862,000
Less future tax liabilities relating to:		
Intangible assets	(932,000)	-
Net future tax assets	523,000	862,000
Less valuation allowance	(523,000)	(862,000)
	\$ -	\$ -

The valuation allowance for future tax assets as at January 31, 2008 is \$523,000 (April 30, 2007 - \$862,000). 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 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 \$2,551,000, provincial non-capital losses of approximately \$2,594,000, federal research and development expenditures of \$1,222,000 and \$1,470,000 of provincial research and development expenditures, which may be applied to reduce taxable income of future years expiring as follows:

	Federal	Provincial
2009	127,000	127,000
2013	35,000	78,000
2018	186,000	186,000
2025	126,000	126,000
2026	376,000	376,000
2027	568,000	568,000
2028	1,133,000	1,133,000
Research and development expenditures, no expiry	\$ 1,222,000	\$ 1,470,000

Certain expenses incurred by the Company during the nine months ending January 31, 2008 may qualify as research and development as described by provisions in the Canadian Income Tax Act. At January 31, 2008, the Company has not received \$21,500 of refundable Ontario tax credits owing.

13. 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 such as asset-backed commercial paper that potentially subject it to significant concentrations of credit risk.

14. Change in non-cash operating working capital:

	January 31, 2008	January 31, 2007
Other receivables	\$ (84,100)	\$ (60,274)
Short term investments	(999,202)	-
Prepaid expenses and deposits	(9,973)	(74,274)
Accounts payable and accrued liabilities	103,198	(69,735)
Change in working capital on purchase of DDP Therapeutics	15,854	
	\$ (974,223)	\$ (204,283)

15. Commitments:

Effective June 1, 2007 the Company entered into a two year lease agreement for 1600 square feet consisting of its existing office 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 of \$1,558. Effective August 1, 2007 the lease rate for the combined space is \$3,115. The remaining minimum fiscal year lease payments are; \$9,345 in 2008, \$37,384 in 2009 and \$3,115 in 2010.

16. 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.

17. Related party transactions:

During the nine months ended January 31, 2008, the Company entered into transactions with its shareholders and officers under normal terms and conditions. These transactions have been recorded at the exchange amount, being the amounts agreed to by the parties, as follows:

	January 31, 2008	January 31, 2007
Professional fees	\$ 11,425	\$ 45,000

Other related party transactions are disclosed in notes 2, 7, 8, 10 and 11.

18. Subsequent events:

Since January 31, 2008, the Company has realized gross proceeds of \$157,763 from the exercise of 225,375 common share warrants at \$0.70 per share.