Critical Outcome Technologies Inc.
(a development stage company)

Fiscal 2008 Interim Financial Statements
(Unaudited)

First Quarter ended July 31, 2007

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Critical Outcome Technologies Inc

(a development stage company)

Notice of No Auditor Review of Fiscal 2008 Interim Financial Statements

First Quarter ended July 31, 2007

The accompanying unaudited balance sheet of Critical Outcome Technologies Inc. (COTI) as at July 31, 2007 and audited balance sheet as at April 30, 2007 and the unaudited statements of operations and deficit, and cash flows for the three month periods ending July 31, 2007 and 2006 have been prepared by, and are the responsibility of the Company's management and have been reviewed and approved by the Board of Directors.

Neither an audit nor review of the 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 financial statements.

Critical Outcome Technologies Inc.

(a development stage company)

Interim Balance Sheets

	Unaudited July 31, 2007	Audited April 30, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 2,925,545	$ 2,417,801
Other receivables	89,260	76,655
Prepaid expenses and deposits	17,745	28,095
	3,032,550	2,522,551
Equipment (note 2)	91,065	52,560
Patents (note 3)	139,356	134,298
Trademark (note 4)	653	870
Investment in DDP Therapeutics (note 5)	5,107	1
	$ 3,268,731	$ 2,710,280
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 151,322	$ 179,091
Due to shareholders (note 6)	110,781	118,631
Notes payable (note 7)	20,000	20,000
Current portion of capital lease obligations (note 8)	15,304	20,244
	297,407	337,966
Capital lease obligations (note 8)	21,287	21,287
Shareholders' equity		
Share capital and warrants (note 9)	4,976,724	4,037,165
Contributed surplus (note 10)	835,378	675,469
Deficit	2,862,065	2,361,607
	2,950,037	2,351,027
Commitments (note 14)		
Subsequent events (note 17)		
	$ 3,268,731	$ 2,710,280

See accompanying notes to unaudited interim financial statements

Critical Outcome Technologies Inc.

(a development stage company)

Interim Statements of Operation and Deficit

(Unaudited)

	Three Months Ended July 31, 2007	Three Months Ended July 31, 2006	Fiscal 2008 YTD Three Months Ended July 31, 2007	Fiscal 2008 YTD Three Months Ended July 31, 2006	Cumulative period April 30, 1999 (inception) to July 31, 2007
Revenues:					
Contract services	$ -	$ 2,500	$ -	$ 2,500	$ 32,500
Screening services	-	-	-	-	2,500
	-	2,500	-	2,500	35,000
Expenses:					
Stock option compensation	159,909	-	159,909	-	835,378
Salaries and benefits	159,123	79,745	159,123	79,745	756,055
Professional fees	92,577	36,956	92,577	36,956	425,934
Marketing	38,849	20,735	38,849	20,735	195,707
Amortization of furniture and equipment	21,440	8,312	21,440	8,312	77,304
Synthesis costs	18,889	-	18,889	-	401,449
Office and general	11,101	4,633	11,101	4,633	59,132
Insurance	10,134	-	10,134	-	22,826
Rent	4,506	4,582	4,506	4,582	57,574
Corporate governance	4,094	-	4,094	-	18,843
Interest and bank charges	2,039	4,588	2,039	4,588	27,404
Computer expense	1,795	1,819	1,795	1,819	57,966
Amortization of trademark	218	218	218	218	3,698
Research and product development	-	9,000	-	9,000	54,628
Reorganization costs	-	(5,000)	-	(5,000)	106,544
	524,674	165,588	524,674	165,588	3,100,442
Loss before other income	524,674	163,088	524,674	163,088	3,065,442
Other income					
Investment tax credit refund	-	-	-	-	137,615
Interest income	24,216	-	24,216	-	65,762
	24,216	-	24,216	-	203,377
Loss	500,458	163,088	500,458	163,088	2,862,065
Deficit, beginning of the period	2,361,607	931,624	2,361,607	931,624	-
Deficit, end of the period	$ 2,862,065	$ 1,094,712	$ 2,862,065	$ 1,094,712	$ 2,862,065
Basic and diluted loss per common share	$ 0.01	$ 0.01	$ 0.01	$ 0.01	
Weighted average number of common shares outstanding	37,756,637	22,373,332	37,756,637	22,373,332	

See accompanying notes to unaudited interim financial statements

Critical Outcome Technologies Inc.
(a development stage company)
Interim Statements of Cash Flows
(Unaudited)

	Three Months Ended July 31, 2007	Three Months Ended July 31, 2006	Fiscal 2008 YTD Three Months Ended July 31, 2007	Fiscal 2008 YTD Three Months Ended July 31, 2006	Cumulative period April 30, 1999 (inception) to July 31, 2007
Cash provided by (used in):					
Operations:					
Loss	$ 500,458	$ 163,088	$ 500,458	$ 163,088	$ 2,862,065
Items not involving cash:					
Stock option compensation	159,909	-	159,909	-	835,378
Amortization of trademark	218	218	218	218	3,698
Amortization of furniture and equipment	21,440	8,312	21,440	8,312	77,304
Change in non-cash operating working capital (note 13)	(30,025)	230,983	(30,025)	230,983	15,998
	(348,916)	76,425	(348,916)	76,425	(1,929,687)
Investing activities:					
Additions to furniture and equipment	(59,945)	-	(59,945)	-	(88,857)
Investment in DDP Therapeutics	(5,106)	-	(5,106)	-	(5,107)
Additions to patents and trademark	(5,058)	(8,950)	(5,058)	(8,950)	(143,706)
	(70,109)	(8,950)	(70,109)	(8,950)	(237,670)
Financing activities:					
Issuance of common shares and warrants	939,559	45	939,559	45	4,706,979
Research advances	-	-	-	-	269,745
Deferred financing costs on private placement	-	(222,500)	-	(222,500)	-
Notes payable and other advances	-	-	-	-	20,000
Repayment of obligation under capital lease	(4,940)	(3,943)	(4,940)	(3,943)	(14,603)
Due to shareholders	(7,850)	11,882	(7,850)	11,882	110,781
	926,769	(214,516)	926,769	(214,516)	5,092,902
Increase in cash	507,744	(147,041)	507,744	(147,041)	2,925,545
Cash and cash equivalents, beginning of period	2,417,801	170,464	2,417,801	170,464	-
Cash and cash equivalents, end of period	$ 2,925,545	$ 23,423	$ 2,925,545	$ 23,423	$ 2,925,545
Represented by:					
Cash	$ 425,545	$ 23,423	$ 425,545	$ 23,423	425,545
Cash equivalent	2,500,000	-	2,500,000	-	2,500,000
	$ 2,925,545	$ 23,423	$ 2,925,545	$ 23,423	$ 2,925,545
Supplemental cash flow information:					
Interest paid	$ 20,988	$ 299	$ 20,988	$ 299	$ 23,642
Non-cash transactions:					
Acquisition of equipment under capital lease	$ -	$ -	$ -	$ -	$ 62,274

See accompanying notes to unaudited interim financial statements

Description of business:

COTI is a biotechnology company focused on applying its proprietary computer 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 $500,458 (2006 - $163,088) and negative cash flow from operations of $(348,916) (2006 - $76,425) for the quarters ended July 31, 2007 and 2006. As at July 31, 2007, the Company has an accumulated deficit of $2,862,065 (2006 - $1,094,712) which results in a shareholders' equity of $2,950,037. As of July 31, 2007 the Company has working capital of $2,735,143.

(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

(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 July 31, 2007 and 2006 no development costs were deferred.

(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 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 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.

(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. Equipment:

	July 31, 2007			April 30, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer hardware	$ 64,710	$ 46,070	$ 18,640	$ 61,487	$ 39,612	$ 21,875
Furniture and fixtures	42,580	3,782	38,798	5,856	3,489	2,367
Computer software	75,453	48,284	27,169	61,913	33,595	28,318
Leasehold improvements	6,458	-	6,458	-	-	-
	$ 189,201	$ 98,136	$ 91,065	$ 129,256	$ 76,696	$ 52,560

Included in equipment are assets under capital lease with a cost of $62,274 and accumulated amortization of $51,409 (April 30, 2007 – $45,803).

3. Patents:

The Company is pursuing patents on certain molecules and their manufacturing process with accumulated costs at July 31 and April 30, 2007 of $139,356 and $134,298 respectively.

4. 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:

	July 31, 2007			April 30, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
CHEMSAS® - molecular profiling technology	$ 4,350	$ 3,697	$ 653	$ 4,350	$ 3,480	$ 870

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.

During the quarter the Company incurred legal costs of $5,106 in evaluating a proposal received from certain shareholders of DDP, as described in note 17(b), to acquire all the common shares of DDP not already owned by COTI.

The Company earned contract services revenue from DDP during the year ended April 30, 2007 of $2,500.

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 this date are supported by promissory notes bearing interest at 7%.

	July 31, 2007	April 30, 2007
Non-interest bearing advances	$ 30,248	$ 38,098
Interest bearing notes	80,533	80,533
	$ 110,781	$ 118,631

Interest expense on the interest bearing notes for the quarter ended July 31, 2007 was $1,421 (April 30, 2007 - $5,572).

7. Notes payable:

	July 31, 2007	April 30, 2007
Unsecured notes payable bearing interest at bank prime plus 3%, due on demand with 30 days notice	$ 20,000	$ 20,000
	$ 20,000	$ 20,000

Interest expense for the quarter ended July 31, 2007 was $457 (April 30, 2007 - $1,796).

8. Capital lease obligations:

	July 31, 2007	April 30, 2007
2008	16,764	22,352
2009	20,813	20,813
2010	1,290	1,290
Total minimum lease payments	38,867	44,455
Less amount representing interest	2,276	2,924
	36,591	41,531
Current portion of capital lease obligation	15,304	20,244
	$ 21,287	$ 21,287

The Company has entered into various capital leases which expire prior to September 2009 for certain computer equipment. The interest rate implicit in the leases range from 5.56% to 10.37%.

9. Share capital and warrants:

		July 31, 2007		April 30, 2007	
	Expiry	Issued	Amount	Issued	Amount
Share Capital:					
Authorized:					
Unlimited common shares					
Unlimited preference shares					
Issued:					
Common shares		39,078,717	$ 4,642,001	37,507,052	$ 3,598,977
Share purchase warrants:					
$0.40 warrants	April 18/08	266,666	6,897	533,332	13,830
$0.40 agent warrants	Oct 12/08	127,790	17,761	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 Jan 17/09	2,492,091	158,075	3,545,950	219,447
		3,886,547	334,723	5,458,212	438,188
			$ 4,976,724		$ 4,037,165

	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 $0.40 warrants	266,666	112,706
Shares issued on $0.70 warrants	1,053,859	795,544
Shares issued on $0.40 agent warrants	251,140	134,775
Balance July 31, 2007	39,078,717	$ 4,642,001

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	(266,666)	(6,933)	0.40	106,666
Exercised	(1,053,859)	(61,372)	0.70	737,702
Exercised	(251,140)	(35,160)	0.40	100,456
Balance, July 31, 2007	3,886,547	$ 334,723	$ 0.64	$ 1,221,537

(a) During the quarter ended July 31, 2007, 1,571,665 warrants were exercised and common shares issued for gross proceeds of $944,824 as set out in the tables 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 $5,265.

10. 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.

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. 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. The stock option 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 stock option compensation	$ 111,500	$ 97,400

Details of the outstanding stock options are summarized below:

Weighted Average Exercise Price	Options granted and outstanding at July 31/07	Vested	Unvested	Weighted average remaining contractual life in years	Total stock based compensation value	Weighted average option value
$0.64	1,185,000	844,996	340,004	4.5	$ 350,260	$ 0.296
$0.70	50,000	16,666	33,334	4.5	15,908	0.318
$1.00	130,000	130,000	-	4.7	111,540	0.858
$1.34	100,000	-	100,000	4.8	97,400	0.974
$1.35	150,000	150,000	-	4.7	176,400	1.176
$0.78	1,615,000	1,141,662	473,338	4.5	$ 751,508	$ 0.466
Total expensed to July 31, 2007					$ 584,378	
Available for grant at July 31, 2007			2,355,802			
Stock-based compensation expected to vest in future periods is summarized below:						
2008					$ 108,103	
2009					56,225	
2010					2,802	
					$ 167,130	

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:

	July 31, 2007	April 30, 2007
Loss before income taxes	$ (500,458)	$(1,430,000)
Statutory rate	36.12%	36.12%
Expected income tax recovery	(181,000)	(517,000)
Amounts not deductible for tax	59,000	150,000
Share issuance costs deductible for tax	(16,000)	(254,000)
Tax impact of amalgamation	-	(41,000)
Expiration of non capital losses	5,000	18,000
Change in future income tax rates	11,000	55,000
Change in valuation allowance	101,000	626,000
Other	21,000	(37,000)
Income tax expense	$ -	$ -

The tax effect of temporary differences that give rise to significant portions of the future tax assets and liabilities at July 31, 2007 are presented below:

	July 31, 2007	April 30, 2007
Losses carried forward	$ 514,000	$ 423,000
Research expenditures deferred for tax purposes	198,000	173,000
Capital assets	6,000	3,000
Intangible assets	32,000	34,000
Financing expenses	213,000	229,000
Future tax assets	963,000	862,000
Less future tax liabilities relating to:		
Other	-	-
Net future tax assets	963,000	862,000
Less valuation allowance	(963,000)	(862,000)
	$ -	$ -

The valuation allowance for future tax assets as at July 31, 2007 is $963,000 (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 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 $1,578,000, and provincial non-capital losses of approximately $1,619,000, and $514,000 of federal research and development expenditures and $576,000 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
2028	315,000	315,000
Research and development expenditures, no expiry	$ 514,000	$ 576,000

Certain expenses incurred by the Company during the quarter ending July 31, 2007 may qualify as research and development as described by provisions in the Canadian Income Tax Act. For the quarter ended July 31, 2007, the Company has filed for $53,000 of refundable Ontario tax credits related to its April 30, 2007 year end which have not been recorded as reasonable assurance regarding their collectability has not been received.

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:

	July 31, 2007	July 31, 2006
Other receivables	$ (12,605)	$ (10,387)
Investment tax credit receivable	-	-
Prepaid expenses and deposits	10,350	153
Accounts payable and accrued liabilities	(27,770)	241,217
	$ (30,025)	$ 230,983

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 quarter, 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:

	July 31, 2007	July 31, 2006
Professional fees	$ 10,650	$ 15,000

Other related party transactions are disclosed in notes 5, 6, 7 and 17.

17. Subsequent events:

(a) Since July 31, 2007, the Company has realized gross proceeds of $166,113 from the exercise of various common share warrants. On the exercise of $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	$ -	-	
$0.40 agent warrants	19,994	49,985	
$0.70 warrants	146,119	208,742	49,985
	$ 166,113	258,727	49,985

(b) On September 17, 2007 the Company announced the signing of a non-binding letter of intent based upon a proposal (Proposed Transaction) received from shareholders (Sellers), of 6441513 Canada Inc. operating as DDP Therapeutics (DDP), representing all the outstanding common shares not already owned by Critical Outcome Technologies Inc. (COTI), to acquire all of these outstanding shares (Shares) and certain 5% promissory notes (Notes) owing by DDP to two of the Sellers.

Ownership of DDP upon formation and at present consists of: COTI 10%, Dr. Wayne Danter, President of COTI, 10%, Whippoorwill Holdings, a wholly owned company of Mr. John Drake the CEO of COTI, 40%, and 40% by 2080084 Ontario Inc., an unrelated third party.

The purchase price for the Shares will be calculated immediately prior to closing based on 90% of the net book value of DDP and using an agreed value for the Molecules of $5,500,000 in the calculation. The estimated share purchase price is $4,270,000. The purchase price for the Notes will be equal to the face value of the Notes in the amount of $740,000 plus accrued interest estimated to be $80,200 to the date of settlement for a total Note purchase price of $820,200.

The consideration is payable $1,000,000 in cash (Cash Consideration) and the balance of the purchase price by the issuance of common shares of COTI (Share Consideration) issued at the same issue price per share as is payable by the purchasers of a private placement (Private Placement) conditional to closing the Proposed Transaction. One-half of the Share Consideration will be issued on closing of the Proposed Transaction (Closing) and the remainder of the Share Consideration will be conditionally allotted and reserved for issuance to the Sellers upon the Molecules achieving the following development milestones (Milestones). One-half of the remaining Share Consideration will be issued on the first to occur of: the issuance by the Federal 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 remaining one-half of the remaining 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, COTI 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 COTI and the Sellers or, failing such agreement, shall be determined by arbitration with the assistance of an appraiser or valuator on a basis to be described in the definitive documents for the Proposed Transaction. The amount of the investment by COTI in the Molecules shall be verified by COTI'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 COTI, no amount shall be payable to the Sellers.

As at September 27, 2007 COTI has 39,337,444 shares outstanding and the issuance of all Share Consideration on the Proposed Transaction including those shares issuable upon completion of milestones is estimated to be in the range of 5-6 % of the current shares outstanding and of that, 55.6% is attributable to the related parties referred to above.

The Proposed Transaction is conditional upon, among other things, the completion of a Private Placement financing to raise no less than $5,000,000, the net proceeds of which will be used, first, to the extent of $1,000,000 to fund payment of the Cash Consideration; second, to fund the continued development of the Molecules and any excess to be added to the working capital of COTI and used for its general corporate purposes.

Closing of the Proposed Transaction is targeted for October 31, 2007 subject to approval by COTI's Board of Directors upon completion of the Private Placement and Proposed Transaction as previously described and final acceptance by the TSX Venture Exchange, and any other applicable required approvals.