Critical Outcome Technologies Inc.

(a development stage company)

Fiscal 2009 Financial Statements

(Unaudited)

First Quarter ended July 31, 2008

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Critical Outcome Technologies Inc.

(a development stage company)

Notice of No Auditor Review of Fiscal 2009 Interim Financial Statements

First Quarter ended July 31, 2008

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

Balance Sheets

	Unaudited July 31, 2008	Audited April 30, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 1,816,883	$ 3,113,220
Short term investments (note 4)	4,136,832	3,100,489
Miscellaneous receivables	131,789	135,357
Prepaid expenses and deposits	25,415	31,462
	6,110,919	6,380,528
Equipment (note 5)	115,841	131,151
Molecules (note 6)	2,851,905	2,949,129
Patents (note 7)	301,228	253,310
Trademark (note 8)	609	-
	$ 9,380,502	$ 9,714,118
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 342,672	$ 317,022
Due to shareholders (note 9)	78,540	432,340
Notes payable (note 10)	20,000	20,000
Current portion of capital lease obligations (note 11)	14,760	20,024
	455,972	789,386
Capital lease obligations (note 11)	1,263	1,263
Shareholders' equity:		
Share capital and warrants (note 12)	12,805,136	12,179,189
Contributed surplus (note 13)	1,240,881	1,008,259
Deficit	(5,122,750)	(4,263,979)
	8,923,267	8,923,469
Commitments (note 17)		
Subsequent events (note 20)		
	$ 9,380,502	$ 9,714,118

See accompanying notes to financial statements

Critical Outcome Technologies Inc.
(a development stage company)

Statements of Operation and Deficit
(Unaudited)

	Three Months Ended July 31, 2008	Three Months Ended July 31, 2007	Cumulative period April 30, 1999 (inception) to July 31, 2008
Revenues:			
Contract services	$ -	$ -	$ 63,322
Screening services	-	-	2,500
	-	-	65,822
Expenses:			
Salaries and benefits	150,380	159,123	1,409,982
Stock-based compensation (note 13)	232,621	159,909	1,270,853
Research and product development	133,214	18,889	719,383
Professional fees	113,303	92,577	798,495
Amortization of molecules	97,224	-	259,264
Marketing	48,569	38,849	337,060
Corporate governance	56,148	4,094	165,337
General and administration	38,444	27,536	318,807
Amortization of equipment	20,206	21,440	167,786
Interest and bank charges	6,087	2,039	64,277
Amortization of patents	1,435	-	5,705
Loss on asset disposals	-	-	1,977
Amortization of trademark	132	218	4,482
Reorganization costs	541	-	111,136
	898,304	524,674	5,634,544
Loss before other income	(898,304)	(524,674)	(5,568,722)
Other income:			
Investment tax credit refund	-	-	187,727
Interest income	39,533	24,216	258,245
	39,533	24,216	445,972
Loss	(858,771)	(500,458)	(5,122,750)
Deficit accumulated during development stage, beginning of the period	(4,263,979)	(2,361,607)	-
Deficit accumulated during development stage, end of the period	$ (5,122,750)	$ (2,862,065)	$ (5,122,750)
Basic and diluted loss per common share	$ (0.02)	$ (0.01)	
Weighted average number of common shares outstanding	45,855,637	37,756,637	

See accompanying notes to financial statements

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

	Three Months Ended July 31, 2008	Three Months Ended July 31, 2007	Cumulative period April 30, 1999 (inception) to July 31, 2008
Cash provided by (used in):			
Operating activities:			
Loss	$ (858,771)	$ (500,458)	$ (5,122,750)
Items not involving cash:			
Stock-based compensation	232,621	159,909	1,270,853
Amortization	118,997	21,658	437,237
Loss on disposal of equipment	-	-	1,977
Change in non-cash operating working capital (note 16)	35,266	(30,025)	136,318
	(471,887)	(348,916)	(3,276,365)
Investing activities:			
Increase in short-term investments	(1,036,343)	-	(4,136,832)
Purchase of equipment	(4,895)	(59,945)	(185,257)
Purchase of molecules	-	-	(737,153)
Investment in DDP Therapeutics	-	(5,106)	-
Additions to patents and trademark	(50,095)	(5,058)	(312,026)
	(1,091,333)	(70,109)	(5,371,268)
Financing activities:			
Issuance of common shares and warrants	625,947	939,559	10,501,402
Research advances	-	-	269,745
Notes payable and other advances	-	-	20,000
Decrease in obligations under capital lease	(5,264)	(4,940)	(35,171)
Due to shareholders	(353,800)	(7,850)	(291,460)
	266,883	926,769	10,464,516
Increase in cash	(1,296,337)	507,744	1,816,883
Cash and cash equivalents, beginning of period	3,113,220	2,417,801	-
Cash and cash equivalents, end of period	$ 1,816,883	$ 2,925,545	$ 1,816,883
Represented by:			
Cash	$ 253,171	$ 425,545	$ 253,171
Cash equivalents	1,563,712	2,500,000	1,563,712
	$ 1,816,883	$ 2,925,545	$ 1,816,883
Supplemental cash flow information:			
Interest paid	$ 5,723	$ 20,988	$ 40,658
Non-cash transactions:			
Acquisition of equipment under capital leases	$ -	$ -	$ 62,274

See accompanying notes to financial statements

Description of business:

Critical Outcome Technologies Inc. ("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, HIV and multiple sclerosis. The focus for cancers is on those with high morbidity and mortality, 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/license 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 and other cancers, HIV integrase inhibitors, acute adult leukemias, multiple sclerosis and colorectal cancer. The Company may take particularly promising individual molecules from its libraries forward for development in the pre-clinical phase of drug development. These compounds would then be available for sale, licensing or co-development with a pharmaceutical partner.

The Company is also following a collaboration strategy to use its technology for pharmaceutical partners who have their own therapy targets, which can benefit from the Company's drug discovery technology.

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, potential product development failure, the need to raise capital for successful development, marketing and operations in meeting 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.

For the three months ended July 31, 2008 and 2007, the Company had a loss of $(858,771) (2007 - $(500,458)) and negative cash flow from operations of $(471,887) (2007 - $(348,916)). As at July 31, 2008, the Company had an accumulated deficit of $(5,122,750) (2007 - $(2,862,065)), which results in a shareholders' equity of $8,923,267. As at July 31, 2008, the Company had working capital of $5,654,947.

(b) Consolidated balance sheet:

The comparative audited balance sheet amounts for the year ended April 30, 2008 reflect the consolidated accounts of the Company and its wholly owned subsidiary, 6441513 Canada Inc o/a DDP Therapeutics (2008 – 100% ownership) prior to amalgamation on May 1, 2008. Results of operations of the subsidiary were included from the date of acquisition (see note 3). All significant Inter-company balances and transactions were eliminated upon consolidation.

(c) Cash and cash equivalents:

Cash and short-term investments, for purposes of reporting cash flows, include amounts held in banks and highly liquid investments with maturities at point of purchase of three months or less. The Company places its cash and cash investments with institutions and investments having high credit ratings as published by Standard and Poors and the Dominion Bond Rating Service.

(d) Foreign currency translation:

Currency transactions and balances are translated into the Canadian dollar reporting currency using the temporal method. The Company's foreign currency monetary items include cash, accounts receivable and accounts payable which are translated at the rate prevailing at the balance sheet date. Revenues and expenses are translated at the average rates in effect during the applicable accounting periods. Gains and losses on foreign currency translation are reflected in the consolidated statements of comprehensive loss and deficit.

(e) 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	Rate
Furniture and fixtures	5 years
Computer hardware	2 - 3 years
Computer software	Term of license
Leasehold improvements	Remaining term of lease

(f) Intangible assets:

Intangible assets acquired individually, or as part of a group of assets, are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination, is allocated to the individual assets based on their relative fair value. Intangible assets with finite lives, including molecules, patents, and trademarks are amortized on a straight-line basis over their estimated useful lives as follows:

Intangible asset	Useful Life
Molecules	8 years
Patents	Remaining life of patent
Trademarks	5 years

Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually or more frequently if events and changes in circumstances indicate that an asset might be impaired.

(i) Patents:

The direct costs of evaluating and investigating patents are accumulated by specific molecule or group of molecules and these capitalized costs are amortized over the life of the patent beginning in the month subsequent to the month the patent is granted on a straight-line basis over the remaining life of the patent. Additional patent costs incurred to validate the patent in specific jurisdictions after patent grant are capitalized and amortized over the remaining patent life as incurred.

Annual patent maintenance costs are expensed as incurred.

The accumulated cost of a product investigated for patenting which is not subsequently patented is expensed in the month when the decision is made not to pursue the patent.

(ii) Trademark:

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.

(g) Impairment of long lived assets:

Long-lived assets, including equipment and intangible assets are reviewed for impairment whenever 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.

(h) Short-term investments:

Short-term investments are recorded at cost. Gains and losses on disposal of investments are recognized when realized.

(i) 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, 2008 and April 30, 2008, no development costs were deferred.

(j) 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.

(k) 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.

(l) Share capital:

(i) Non-monetary consideration:

Shares issued as purchase consideration in non-monetary transactions are recorded at fair value determined by management based upon the fair value of the shares as disclosed by the trading price of those shares on the TSX Venture Exchange or on the date of an agreement to issue shares as determined by the Board of Directors.

(ii) Stock-based compensation:

The Company measures the cost for stock options granted to consultants, employees and directors based on an estimate of the fair value as at the date of the grant. The Company uses a Black-Scholes option-pricing model to estimate the fair value. The value of stock options that vest immediately are recorded as stock-based compensation at the date of the grant. Stock options that vest over time are recorded over the vesting period using the straight-line method. 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 recognized in the period of the change reflecting the overstatement of prior period compensation recorded. On exercise of a stock option, the consideration received and the estimated fair value previously recorded in contributed surplus is recorded as share capital.

(iii) Share issuance costs:

Costs directly identifiable with the raising of share capital financing are charged against share capital. Share issuance costs incurred in advance of share subscriptions are recorded as non-current deferred assets.

(m) 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.

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

(o) 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. The number of additional shares is calculated by assuming that the outstanding stock options and warrants are

exercised and the proceeds from such exercises were used to acquire shares of common stock at the average market price during the year.

2. Changes in accounting policies:

Effective May 1, 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements:

i) Section 1530, "Comprehensive Income":

This accounting standard specifies how comprehensive income is to be reported and presented. Comprehensive income is the change in the Company's shareholder equity that results from transactions and other events from other than the Company's shareholders and includes items that would not normally be included in net earnings, such as unrealized gains or losses on available-for-sale investments. This standard requires certain gains and losses that would otherwise be recorded as part of net earnings be presented in other comprehensive income until such items are realized.

This standard also requires the presentation of comprehensive income, and its components in a separate financial statement that is displayed with the same prominence as the other financial statements. Accumulated other comprehensive income is presented as a new category in shareholders' equity.

The Company does not have any available-for-sale investments, derivative instruments or self-sustaining foreign operations and accordingly, the Company has no comprehensive income or loss to report.

ii) Section 3251, "Equity":

Section 3251 establishes standards for the presentation of equity and changes in equity, including changes arising from those items recorded in comprehensive income. Were the Company to have had any comprehensive income or loss it would have added a consolidated statement of comprehensive income or loss to these financial statements and made the corresponding changes to shareholders' equity.

iii) Section 3855, "Financial Instruments – Recognition and Measurement":

This standard sets out criteria for the recognition and measurement of financial instruments. The standard requires all financial instruments within its scope, including derivatives, be included on a Company's balance sheet and measured either at fair value or, in certain circumstances, when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are to be recognized in the statements of comprehensive income and deficit or accumulated other comprehensive income, depending on the classification of the related instruments. All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the asset or

liability. As such, any of the Company's outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if the requirements had always been in effect. Changes to the fair value of assets and liabilities prior to adoption are recognized by adjusting opening deficit or opening "other accumulated comprehensive income".

All financial instruments are classified into one of the following five categories: held-for-trading, held-to -maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification as follows: (1) held-for-trading financial instruments are measured at fair value and changes in fair value are recognized in net earnings in the period in which they arise; (2) held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost, and amortization of premiums or discounts and losses due to impairment are included in current period net earnings; (3) available-for-sale financial assets are measured at fair value and changes in fair value are included in "other comprehensive income" until the gain or loss is recognized in income; (4) all derivative financial instruments are measured at fair value, even when they are part of a hedging relationship and changes in fair value are included in net earnings in the period in which they arise, except for hedge transactions which qualify for hedge accounting treatment, in which case, gains and losses are recognized as other comprehensive income.

In accordance with this new standard, the Company has classified its cash and cash equivalents as held-for-trading and short-term investments as held to maturity. Miscellaneous receivables are classified as loans and receivables. Accounts payable and accrued liabilities, due to shareholders and notes payable were classified as other financial liabilities. The Company currently does not have embedded derivatives or hedge transactions.

iv) Section 3861, "Financial Instruments - Disclosure and Presentation":

Establishes standards for recognizing and measuring financial instruments, namely financial assets, financial liabilities and derivatives, including disclosures of associated risks relating to financial instruments.

The adoption of these standards had no significant impact on the consolidated financial statements for the quarter ended July 31, 2008 or the year ended April 30, 2008.

3. Acquisition and amalgamation of DDP Therapeutics

At the year ended April 30, 2007, the Company had a 10% 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®. The balance of ownership in DDP consisted of; 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%. Under an agreement created April 7, 2006, the Company transferred the library of small cell lung cancer molecules to DDP for $1. COTI was entitled, under the agreement, to receive a payment for 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.

On November 27, 2007 the Company completed an acquisition from Whippoorwill Holdings Limited, 2080084 Ontario Inc. and Dr. Wayne Danter (Sellers) of all the outstanding common shares in the capital of 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.

The purchase cost recorded by COTI was $3,172,967 and was allocated to 90% of the fair value of the assets and liabilities of DDP using an agreed value for the 10 small cell lung cancer molecules (Molecules) owned by DDP of $5,500,000. An amount of $637,105, being a portion of the proceeds from a private placement (see note 12(d)) was used to acquire the promissory note of 2080084 Ontario Inc., pay the accrued interest on the promissory notes and make a partial cash payment for the common shares of DDP of $194,963. The Company also issued a promissory note for $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 matured and was paid on July 31, 2008 and carried interest at the rate of 5% per annum (see note 9).

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 $1.40, the same issue price per share paid on the private placement, 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 related to investigational new drug (IND) filings in the United States and/or the issuance of patents in Europe or the United States.

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. 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.

On May 1, 2008, the Company amalgamated with DDP Therapeutics.

The acquisition of DDP, and subsequent amalgamation, have 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 (note 12(d)) plus cash paid, and the assumption of certain liabilities and payment of transaction costs, was $3,172,967. The consideration paid was allocated to the assets acquired and liabilities assumed based on the estimated fair values on the date of acquisition as set out below:

Assets acquired:		
Cash	$	15,178
Other receivables		93,516
Intangible assets - molecules		3,111,169
		3,219,863
Less liabilities assumed:		
Accounts payable and accrued liabilities		46,896
Net assets acquired	$	3,172,967
Consideration paid:		
Cash	$	637,105
Common shares issued		2,004,017
Debt assumed		370,000
Acquisition costs		161,845
	$	3,172,967

In accounting for the acquisition, a net future tax liability of $655,234 arises relating to the temporary differences associated with non-capital tax loss carry forward balances and scientific research and expenditure development pools of DDP as well as the valuation of the purchased molecules. This future tax liability has not been recorded, as the Company cannot determine whether it will generate future taxable income (note 14) and accordingly, the valuation allowance, which reduces COTI's recognition of its future tax assets, precludes the recognition of these future tax liabilities in the financial statements.

In an asset purchase transaction, the future milestone events represent contingent transactions which consideration, if any, will be accounted for at the time that the contingent event occurs and is settled. The amount of consideration given up at the time such transaction occurs would be added to the molecules up to their fair market value with a corresponding increase in share capital, if share consideration, or a reduction in cash if a cash payment.

4. Short-term investments:

The Company has excess cash invested 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. At July 31, 2008, maturities ranged from August 8, 2008 to March 19, 2009. The cost of these investments at July 31, 2008 was $4,136,832 (market $4,163,578) and at April 30, 2008 $3,100,489 (market $3,124,849).

5. Equipment:

	July 31, 2008			April 30, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer hardware	$ 74,589	$ 59,860	$ 14,729	$ 69,694	$ 56,955	$ 12,739
Computer software	101,973	75,226	26,747	101,973	64,912	37,061
Furniture and fixtures	79,051	13,966	65,085	79,051	10,016	69,035
Leasehold improvements	21,084	11,804	9,280	21,084	8,768	12,316
	$ 276,697	$ 160,856	$ 115,841	$ 271,802	$ 140,651	$ 131,151

Included in equipment are assets under capital lease with a cost of $57,601 (April 30, 2008 – 57,601) and accumulated amortization of $54,500 (April 30, 2008 – $53,574).

6. Molecules

When the Company acquired DDP Therapeutics on November 27, 2007 (note 3), it acquired a small cell lung cancer library. Under the terms of the purchase agreement, there are two milestones, which could result in additional consideration being paid for these Molecules up to the eighth anniversary of the agreement. Should these milestones not be achieved, the Company must either abandon its efforts to develop and commercialize the Molecules or it must issue payment of common shares or a cash payment as determined under the purchase agreement on the eighth anniversary. The Company has determined it is not possible to establish the likelihood of these milestones being achieved and accordingly, is amortizing the molecule costs over the 8 years to the anniversary date on November 27, 2015.

	July 31, 2008			April 30, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Molecules	$ 3,111,169	$ 259,264	$ 2,851,905	$ 3,111,169	$ 162,040	$ 2,949,129

7. Patents:

The Company is pursuing or has been granted composition of matter patents on certain molecules for therapeutic indication and manufacturing process as set out below. Patents granted have unamortized lives of 170 to 179 months.

	July 31, 2008			April 30, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Patents pending	$ 157,892	$ -	$ 157,892	$ 119,084	$ -	$ 119,084
Patents granted	149,041	5,705	143,336	138,496	4,270	134,226
	$ 306,933	$ 5,705	$ 301,228	$ 257,580	$ 4,270	$ 253,310

8. Trademark:

Trademark registration was obtained for exclusive use of the name, CHEMSAS®, which describes the Company's proprietary molecular profiling technology. Costs incurred are amortized over five years. The accumulated costs are as follows:

	July 31, 2008			April 30, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
CHEMSAS® - molecular profiling technology	$ 5,091	$ 4,482	$ 609	$ 4,350	$ 4,350	$ -

9. 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 7%. Under the terms of the acquisition of DDP on November 27, 2007 (note 3), the Company acquired a promissory note of $370,000 owing to one of the Sellers of DDP who is a shareholder, director and officer of the Company. A portion of this note was paid by the Company on payment of closing legal costs of the Seller with the balance paid on maturity during the current quarter.

	July 31, 2008	April 30, 2008
Non-interest bearing advances due on demand	$ 29,507	$ 30,060
5% interest bearing note due July 31, 2008	-	353,247
7% interest bearing notes due on demand	49,033	49,033
	$ 78,540	$ 432,340

Interest expense on the interest bearing notes for the quarter ended July 31, 2008 was $6,686, (April 30, 2008 - $13,175).

10. Notes payable:

	July 31, 2008	April 30, 2008
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, 2008 was $392 (April 30, 2008 - $1,794).

11. Capital lease obligations:

	July 31, 2008	April 30, 2008
2009	$ 15,225	$ 20,813
2010	1,290	1,290
Total minimum lease payments	16,515	22,103
Less amount representing interest	492	816
	16,023	21,287
Current portion of capital lease obligation	14,760	20,024
	$ 1,263	$ 1,263

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

12. Share capital and warrants:

		July 31, 2008		April 30, 2008	
	Expiry date	Issued	Amount	Issued	Amount
Share Capital:					
Authorized:					
Unlimited common shares					
Unlimited preference shares					
Issued:					
Common shares		46,696,534	$ 12,786,281	45,655,409	$12,002,272
Share purchase warrants:					
$0.40 agent warrants	Oct 12/08	67,680	9,346	73,805	10,203
$0.60 warrants	July 15/08	-	-	1,000,000	151,990
$0.70 warrants	Dec 13/08 to Dec 31/09	63,224	9,509	98,224	14,724
		130,904	18,855	1,172,029	176,917
			$ 12,805,136		$12,179,189

	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	533,332	225,310
Shares issued on $0.70 warrants	2,931,316	2,246,460
Shares issued on $0.40 agent warrants	305,125	163,707
Shares issued on stock option plan exercises	110,000	99,989
Shares cancelled on $0.10 agent stock options (note 12(c))	(20,000)	(2,070)
Balance April 30, 2008	45,655,409	12,002,272
Shares issued on $0.70 warrants	35,000	29,681
Shares issued on $0.60 warrants	1,000,000	751,026
Shares issued on $0.40 agent warrants	6,125	3,302
Balance July 31, 2008	46,696,534	$12,786,281

a) During the year ended April 30, 2008, 3,769,773 warrants were exercised and common shares issued as set out in the table above. Gross proceeds of $2,387,305 upon warrant exercise were credited to common share capital and the respective warrant account was relieved of the warrant value of $261,271 attributed to the exercised warrants at the date of issuance and transferred to share capital. The costs incurred to issue these shares and any associated warrants were $13,099. 516,410, $0.70 warrants expired on April 12, 2008.

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 with costs of $382 - see note 13(e). Share capital was increased by the net proceeds of $70,018 plus $29,971 from a reduction in contributed surplus relating to previously recognized stock-based compensation expense for these options.

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, plus costs of $70 were cancelled by the Company.

d) On November 29, 2007, the Company completed a brokered private placement of 2,857,143 common shares through its agent, Northern Securities Inc. to accredited investors in Ontario. The issue price was $1.40 per common share for gross proceeds of $4,000,000. Total costs of the placement were $334,118 including the agent's fee of $280,000. The common shares issued

under the offering were subject to a four month hold from the date of closing the private placement until the close of business on March 29, 2008.

e) During the quarter ended July 31, 2008, 1,041,125 warrants were exercised and common shares issued as set out in the table above. Gross proceeds of $626,950 upon warrant exercise were credited to common share capital and the respective warrant account was relieved of the warrant value of $158,063 attributed to the exercised warrants at the date of issuance and transferred to share capital. The costs incurred to issue these shares and any associated warrants were $1,004.

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

	July 31, 2008		April 30, 2008	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Opening balance	1,465,000	$ 0.84	1,385,000	$ 0.72
Granted	435,678	0.86	330,000	1.41
Exercised	-		(110,000)	0.64
Cancelled or expired	-		(140,000)	1.14
Ending balance	1,900,678	$ 0.84	1,465,000	$ 0.84

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 his employment contract. The exercise price was $1.34 per share with vesting to occur over 3.25 years based upon contract milestones. The first 25,000 options vested on October 1, 2007. On December 15, 2007, the 75,000 unvested options expired under the terms of the plan. On March 15, 2008, the 25,000 vested options expired.

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 June 10, 2008, the Company granted 335,678 stock options to the members of the Board of Directors with an exercise price of $0.75. The options have a five-year maturity from the date of the grant and vested immediately upon the grant.

g) On July 16, 2008, 100,000 stock options were granted to an employee with an exercise price of $1.20. The options have a five-year maturity with one-sixth vesting on the date of the grant and the balance one-sixth every six months until fully vested.

For the quarter ended July 31, 2008 the Company incurred total stock-based compensation of $232,621 (April 30, 2008 $421,247).

The stock option compensation expense relating to the grants recorded during the quarter ended July 31, 2008 and the assumption estimates are as follows:

Risk free interest rate range		3 - 4 %
Expected dividend yield		-
Expected share volatility		115%
Expected average option life in years		5.00
Estimated stock option compensation	$	308,771

Details of the outstanding stock options at July 31, 2008 are summarized below:

Weighted Average Exercise Price	Options granted and outstanding at July 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	884,996	150,004	3.70	$ 336,180	$ 0.296
$0.70	50,000	33,332	16,668	3.71	15,908	0.318
$0.75	335,678	335,678		4.86	205,771	0.613
$1.00	130,000	130,000	-	4.00	111,540	0.858
$1.20	100,000	16,666	83,334	4.96	103,000	1.030
$1.35	150,000	150,000	-	3.90	176,400	1.176
$2.00	100,000	100,000		4.44	176,700	1.767
$0.65	1,900,678	1,650,672	250,006	4.05	$ 1,125,499	$ 0.576
Total expensed to July 31, 2008					$ 1,019,853	
Available for grant at July 31, 2008			2,768,975			

Details of the outstanding stock options at April 30, 2008 are summarized below:

Weighted Average Exercise Price	Options granted and outstanding at April 30/08	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	3.70	$ 336,180	$ 0.296
$0.70	50,000	24,999	25,001	3.71	15,908	0.318
$1.00	130,000	130,000	-	4.00	111,540	0.858
$1.35	150,000	150,000	-	3.90	176,400	1.176
$2.00	100,000	100,000		4.44	176,700	1.767
$0.84	1,465,000	1,214,995	250,005	3.80	$ 816,728	$ 0.537
Total expensed to April 30, 2008					$ 787,232	
Available for grant at April 30, 2008			3,100,541			

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

2009	$ 69,330
2010	29,645
2011	6,671
	$ 105,646

14. 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:

	July 31, 2008	April 30, 2008
Loss before income taxes	$ (859,000)	$ (1,902,000)
Statutory rate	33.50%	35.25%
Expected income tax recovery	(288,000)	(670,000)
Amounts not deductible for tax	87,000	131,000
Share issuance costs deductible for tax	(18,000)	(71,000)
Expiration of non-capital losses	163,000	5,000
Change in future income tax rates	27,000	91,000
Change in valuation allowance		(224,000)
Tax impact of acquisition		656,000
Other	29,000	82,000
Income tax expense	$ -	$ -

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at April 30, 2008 are presented below:

	July 31, 2008	April 30, 2008
Losses carried forward	$ 935,000	$ 847,000
Research expenditures deferred for tax purposes	425,000	400,000
Equipment	5,000	4,000
Intangible assets	29,000	-
Financing expenses	214,000	225,000
Future tax assets	1,608,000	1,476,000
Less future tax liabilities relating to:		
Intangible assets	(827,000)	(838,000)
Net future tax assets	781,000	638,000
Less valuation allowance	(781,000)	(638,000)
	$ -	$ -

The valuation allowance for future tax assets as at July 31, 2008 is $ 781,000 (April 30, 2008 - $638,000). 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 may 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 $3,203,000, provincial non-capital losses of approximately $3,245,000, federal research and development expenditures of $1,302,000 and $1,590,000 of provincial research and development expenditures, which may be applied to reduce taxable income of future years expiring as follows:

	Federal	Provincial
2013	36,000	78,000
2014	186,000	186,000
2025	178,000	178,000
2026	463,000	463,000
2027	580,000	580,000
2028	1,283,000	1,283,000
2029	477,000	477,000
Research and development expenditures, no expiry	$ 1,302,000	$ 1,590,000

Certain expenses incurred by the Company during the three months ended July 31, 2008 may qualify as research and development as described by provisions in the Canadian Income Tax Act. At July 31, 2008, the Company had not received $70,294 of refundable Ontario tax credits owing to its former subsidiary DDP. The Company has also filed for approximately $45,000 of refundable Ontario tax credits, which were not recorded, as the Company does not have reasonable assurance regarding collectability.

15. Financial instruments:

a) The Company’s financial instruments (financial assets and liabilities) consist of cash and cash equivalents, short term investments, accounts receivable, other receivables, accounts payable and accrued liabilities, due to shareholders and notes payable. Fair value disclosure:

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 or their capacity for prompt liquidation.

(a) Price Risk:

Price risk results from three sources: currency rate changes, fluctuation in market interest rates and changes in market prices for the underlying financial instrument. It is management's opinion that the Company is not exposed to significant price risk arising from its financial instruments.

(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 credit risk.

(c) Liquidity risk:

Liquidity risk, also referred to as funding risk, relates to potential difficulty in raising funds to meet commitments associate 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 is not subject to significant liquidity risk during the current fiscal year.

16. Change in non-cash operating working capital:

	July 31, 2008	July 31, 2007
Miscellaneous receivables	$ 3,569	$ (12,605)
Prepaid expenses and deposits	6,047	10,350
Accounts payable and accrued liabilities	25,650	(27,770)
	$ 35,266	$ (30,025)

17. Commitments:

Effective June 1, 2007, the Company entered into a two-year lease agreement for 1600 square feet of office space consisting of its existing offices and an additional 800 square feet of adjoining space. The monthly lease payment for June and July 2007 under this lease was negotiated at the prior lease's 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; $37,380 in 2009 and $3,115 in 2010.

At April 30, 2008, the Company was assessed additional property taxes of approximately $20,000 for prior years, which at July 31, 2008 is being contested. The future impact of this assessment could be an increase in rent expense for 2009 and 2010 of approximately $9,000 and $800 respectively.

18. 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.

19. Related party transactions:

During the quarter ended July 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:

	July 31, 2008	April 30, 2008
Directors meeting fees	$ 33,000	$ 35,000
Professional fees	$ -	$ 11,425

Other related party transactions are disclosed in notes 3, 9, 10, 11, 12 and 13.

20. Subsequent events:

On September 24, 2008, the Company announced that it had entered into an agreement with a major pharmaceutical company to advance up to six drug candidates from the Company's HIV-1 integrase inhibitor program, identified using its CHEMSAS® drug discovery process.

Under the agreement, COTI will retain intellectual property ownership of these drug candidates, including any data resulting from preclinical experiments. COTI will manage the synthetic chemistry process associated with the selected drug candidates with a third party contractor. The cost associated with synthesis will be shared between the two parties.

Upon completion of synthesis, the major pharmaceutical company will manage, conduct and fund agreed upon preliminary preclinical experiments as part of its evaluation of these compounds. Once the final experiments have been completed and the results have been received by COTI, the major pharmaceutical company will have an exclusive time to negotiate a licensing agreement with COTI for the select compounds. If an agreement is not reached within this period, COTI will be able to engage other potential partners for its HIV-1 integrase inhibitor program.

21. Capital management:

The Company's capital is defined as common shares and warrants, contributed surplus and deficit. The Company's capital management strategy is designed to maintain strong liquidity and to optimize its existing capital structure in order to reduce costs. The capital structure provides the Corporation with

the ability to meet its liquidity needs as well as support its longer-term strategic development. The Company's objectives when managing capital are:

(i) To limit dilution of shareholders investment to the extent necessary to finance operations;
(ii) To limit the use of debt until such time as cash flows permit the optimization of shareholder returns through prudent debt leverage;
(iii) To provide the Company's shareholders with an appropriate rate of return on their investment.

The Company has limited debt consisting of notes payable, shareholder promissory notes and capital leases (notes 9, 10 and 11), which total $114,473 compared to total shareholder's equity of $8,923,267 for a debt to equity ratio of 1.2%. There is no bank or other debt, which subjects the Company to covenants requiring the maintenance of liquidity levels or target ratios. The Company does not currently pay, or contemplates paying dividends until the Company is revenue and cash flow positive.

The Company sets the amount of capital in proportion to its spending plans and consequently its available cash. The Company regularly monitors its cash balances and manages its excess cash in relation to spending requirements under a Cash Investment Policy to optimize returns but maintain a high degree of safety in these investments. The Company manages the capital structure and makes corresponding adjustments based on changes in economic conditions and its funding requirements.

22. Comparative figures:

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

23. Future changes in accounting policies

(a) Goodwill and intangible assets

In February 2008, the AcSB issued Section 3064, "Goodwill and intangible assets", which replaces Section 3062, "Goodwill and other intangible assets" and Section 3450, "Research and development costs". For the Company, this Section is effective for interim and annual financial statements beginning on May 1, 2009. This Section establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets. The Company is currently evaluating the impact of this new standard on its financial statements, notably on the acquired SCLC molecules and its current granted and in progress patents.

(b) International financial reporting standards (IFRS)

In February 2008, the AcSB confirmed that Canadian GAAP for publicly accountable enterprises would converge with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences

on recognition, measurement and disclosures. For the Company, the changeover to IFRS will be required for interim and annual financial statements beginning on May 1, 2011.

A detailed analysis of the differences between IFRS and the Corporations' accounting policies as well as an assessment of the impact of various alternatives has commenced. Changes in accounting policies are likely, but whether their impact on the financial statements is material has not yet been determined.