Critical Outcome Technologies Inc.

Condensed Interim Financial Statements
Fiscal 2013 – Second Quarter
(Unaudited)

For the three and six months ended October 31, 2012 and 2011

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Notice of No Audit or Review of Condensed Interim Financial Statements

The accompanying interim statements of financial position as at October 31, 2012, and April 30, 2012, of Critical Outcome Technologies Inc., and the interim statements of changes in equity, and interim statements of cash flows for the six month periods ended October 31, 2012 and 2011, and interim statements of comprehensive loss for the three and six month periods ended October 31, 2012 and 2011 have been prepared by, and are the responsibility of the Company's management and have been reviewed and approved by the Audit Committee as authorized by the Board of Directors.

Neither an audit nor review of the interim financial statements is required by the Company's independent auditor under regulatory reporting requirements, however, under National Instrument 51-102 paragraph 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.

Interim Statements of Financial Position

(Unaudited)

As at		October 31, 2012		April 30, 2012
Assets				
Current assets:				
Cash and cash equivalents	$	354,144	$	901,130
Short-term investment		221,386		817,541
Miscellaneous receivables		138,329		151,505
Prepaid expenses and deposits		36,213		59,583
		750,072		1,929,759
Non-currents assets:				
Equipment		54,195		55,899
Intangible assets (note 5)		1,965,576		2,163,318
	$	2,769,843	$	4,148,976
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	302,986	$	341,505
Unearned revenue		10,577		-
		313,563		341,505
Shareholders' equity		2,456,280		3,807,471
	$	2,769,843	$	4,148,976

Going concern (note 2)

Joint arrangements (note 10)

Events after the reporting period date (note 12)

See accompanying notes to financial statements

CRITICAL OUTCOME TECHNOLOGIES INC.

Interim Statements of Comprehensive Loss

(Unaudited)

	Three months ended		Six months ended	
	October 31, 2012	**October 31, 2011**	**October 31, 2012**	**October 31, 2011**
Income:	$ 11,019	$ -	$ 14,423	$ -
Expenses (income):				
Research and product development	239,587	126,134	506,582	332,075
Sales and marketing	72,186	69,173	132,880	126,891
General and administration	496,219	482,353	936,948	897,678
Investment tax credits	(32,920)	(19,887)	(68,653)	(49,776)
	775,072	657,773	1,507,756	1,306,868
Loss before finance income	(764,053)	(657,773)	(1,493,333)	(1,306,868)
Finance income:				
Interest income, net	1,939	1,700	5,897	6,204
Foreign exchange gain (loss)	(555)	7,543	1,998	9,878
	1,384	9,243	7,895	16,082
Loss and comprehensive loss	$ (762,669)	$ (648,530)	$ (1,485,439)	$ (1,290,786)
Loss per share:				
Basic and diluted loss per common share	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.02)

See accompanying notes to financial statements

CRITICAL OUTCOME TECHNOLOGIES INC.

Interim Statements of Changes in Shareholders' Equity

(Unaudited)

For the six months ended October 31, 2012	Common Shares	Warrants	Total Share Capital	Contributed Surplus	Deficit	Total Equity
Balance, April 30, 2012	$ 16,121,987	$ 1,517,525	$ 17,639,512	$ 2,496,121	$ (16,328,162)	$ 3,807,471
Share-based compensation expense (note 7)	-	-	-	140,558	-	140,558
Share issuance costs	(965)	-	(965)		-	(965)
Warrant amendments	-	653,400	653,400	(658,745)	-	(5,345)
Warrant expiries	-	(26,831)	(26,831)	26,831	-	-
Loss and comprehensive loss	-	-	-	-	(1,485,439)	(1,485,439)
Balance, October 31, 2012	$ 16,121,022	$ 2,144,094	$ 18,265,116	$ 2,004,765	$ (17,813,601)	$ 2,456,280

For the six months ended October 31, 2011	Common Shares	Warrants	Total Share Capital	Contributed Surplus	Deficit	Total Equity
Balance, April 30, 2011	$ 14,779,915	$ 932,189	$ 15,712,104	$ 2,384,761	$ (13,737,011)	$ 4,359,854
Issuance of shares on patent grant	164,550	-	164,550	-	-	164,550
Exercise of options	33,974	-	33,974	(15,000)	-	18,974
Share-based compensation expense	-	-	-	107,901	-	107,901
Loss and comprehensive loss	-	-	-	-	(1,290,786)	(1,290,786)
Warrant expiries	-	(16,449)	(16,449)	16,449	-	-
Warrant amendments	-	105,042	105,042	(112,189)	-	(7,147)
Balance, October 31, 2011	$ 14,978,439	$ 1,020,782	$ 15,999,221	$ 2,381,922	$ (15,027,797)	$ 3,353,346

CRITICAL OUTCOME TECHNOLOGIES INC.

Interim Statements of Cash Flows

(Unaudited)

For the six months ended		October 31, 2012		October 31, 2011
Cash provided by (used in):				
Operating activities:				
Loss	$	(1,485,439)	$	(1,290,786)
Items not involving cash:				
Amortization - equipment		38,424		37,479
Amortization - intangibles		222,519		200,644
Share-based compensation		140,558		107,899
Investment tax credits		(68,653)		(49,776)
Interest income, net		(5,532)		(6,204)
Foreign exchange (gain) loss		(1,998)		(9,878)
		(1,160,121)		(1,010,622)
Change in non-cash operating working capital (note 8)		(12,148)		27,522
Foreign exchange gain		325		5,867
Interest received		5,897		7,797
Net cash used in operating activities		(1,166,047)		(969,436)
Investing activities:				
Purchase of equipment		(5,112)		(1,793)
(Purchases) redemptions of short-term investments , net		596,155		-
Expenditures on intangible assets		(56,379)		(22,153)
Net cash used in investing activities		534,664		(23,946)
Financing activities:				
Investment tax credit recoveries		89,401		(23,459)
Proceeds on issuance of common shares (net of issuance costs)		(966)		11,762
Issuance costs of amended warrants		(5,345)		-
Interest paid		(365)		(1,593)
Net cash provided by financing activites		82,724		(13,290)
Decrease in cash and cash equivalents		(548,659)		(1,006,672)
Unrealized foreign exchange gain (loss) on cash and cash equivalents		1,673		4,011
Cash and cash equivalents, beginning of the period		901,130		1,794,621
Cash and cash equivalents, end of the period	$	354,144	$	791,960
Represented by:				
Cash	$	172,997	$	114,218
Cash equivalents		181,147		677,742
	$	354,144	$	791,960

See accompanying notes to financial statements

1. Corporate information:

Critical Outcome Technologies Inc. (COTI) is a public corporation trading in Canada on the TSX Venture Exchange (TSXV) under the trading symbol "COT" and incorporated under the laws of the Province of Ontario, Canada with its registered office located at Suite 213, 700 Collip Circle, London, Ontario, Canada, N6G 4X8.

2. Going concern:

Financial statements are required to be prepared on a going concern basis unless management either intends to liquidate the Company or ceases trading or has no realistic alternative but to do so within the foreseeable future. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. The accompanying interim financial statements have been prepared assuming that the Company will continue as a going concern. There are material uncertainties related to certain conditions and events that raise significant doubts about the validity of this assumption. In particular, the Company has not yet established commercial operating revenues and operating cash flows continue to be negative. Key financial results for the six months ended October 31, 2012 and 2011 are indicative of possible concern. These results include: a loss of $762,669 (October 31, 2011 - $648,530) and negative cash flow from operations of $1,094,216 (October 31, 2011 - $969,436). As at October 31, 2012, the Company had an accumulated deficit of $17,813,601 (April 30, 2012 - $16,328,162), which results in shareholders' equity of $2,456,280 (April 30, 2012 - $3,807,471). As at October 31, 2012, the Company had working capital of $436,509 (April 30, 2012 - $1,588,254).

The Company is taking steps to address the going concern risk by seeking potential customers, partners and collaborators as a means of furthering molecule development and generating revenue streams and is pursuing additional financing to sustain operations and execute on its business plan with a planned closing in the first quarter of calendar 2013. The Company is also closely monitoring its discretionary spending including its research and development expenditures to maximize its operational runway on a go forward basis until additional cash resources are obtained. While the Company has a track record of obtaining financing, there is no certainty that this will occur and that any of the aforementioned strategies will enable the Company to alleviate the going concern risk for the balance of fiscal 2013 and for future periods.

These interim financial statements do not include any adjustments to the amounts and classifications of assets and liabilities, or the reported revenues and expenses that might be necessary should the Company be unable to continue as a going concern. Any adjustments to the interim financial statements could be material.

3. Basis of preparation:

(a) Compliance with accounting standards:

These condensed unaudited interim financial statements (interim financial statements) have been prepared in accordance with International Financial Reporting Standards (IFRS) and specifically International Accounting Standard (IAS) *34 – Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB).

The accounting policies in the fiscal 2013 interim financial statements are consistent with the policies the Company adopted in its annual financial statements as at and for the year ending April 30, 2012, the Company's first annual IFRS reporting date. These accounting policies were disclosed in detail in note 5 of the Company's April 30, 2012 annual audited financial statements. COTI has also prepared these interim financial statements on an individual entity basis, as it has no subsidiaries. Management has determined that the Company operates in one reportable segment based on the business activities reflected in its revenues and expenses since inception.

In preparing these interim financial statements, certain information and disclosures normally included in the notes to the annual audited financial statements are condensed or not presented. These interim financial statements should be read in conjunction with the Company's most recent annual audited financial statements as of April 30, 2012, and related notes prepared in accordance with IFRS.

These interim financial statements were approved for issuance by the Audit Committee on December 12, 2012.

(b) Basis of measurement:

The financial statements have been prepared mainly on a historical cost basis unless otherwise noted and described in the applicable notes herein.

(c) Functional and presentation currency:

These interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgments:

The preparation of these financial statements in conformity with IFRS 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. There is a high degree of measurement uncertainty inherent in management's estimates and assumptions and accordingly, changes in these estimates and assumptions could result in material adjustments to the carrying amounts of assets and liabilities in future periods. There has been no material change in the significant estimates and assumptions as described in note 4(d) of the annual audited financial statements for the year ended April 30, 2012.

4. Significant accounting policies:

The accounting policies set out in detail in note 5 of the annual financial statements for the year ended April 30, 2012 have been applied consistently to all periods presented in these interim financial statements.

(a) Adoption of new accounting pronouncements:

During the quarter, the Company entered into two agreements for the discovery of drug compounds with other entities. Consequently, the Company has elected to early adopt IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IFRS 10 Consolidated Financial Statements, IAS 27 (2011) Separate Financial Statements and IAS 28 (2011) Investments in Associates and Joint Ventures in these interim financial statements.

These standards are required to be applied for annual periods beginning on January 1, 2013; however, early adoption is permitted.

(i) IFRS 11 Joint Arrangements:

IFRS 11 replaces the guidance in IAS 31 Interests in Joint Ventures. IFRS 11 focuses on the rights and obligations of an arrangement, rather than its legal form and establishes accounting principles in classifying interests in joint arrangements as either joint ventures or joint operations. The standard requires interests in jointly controlled entities to be accounted for under the equity method.

A joint arrangement not structured through a separate vehicle is considered a joint operation. Under the standard, the two agreements entered into by the Company during the quarter have each been determined to be a joint operation. In a joint operation the contractual arrangement establishes the parties' rights to the assets, and obligations for the liabilities, relating to the arrangement, and the parties' rights to the corresponding revenues and obligations for the corresponding expenses. Accordingly, each joint operator recognizes in its financial statements the assets and liabilities used for the specific task, and recognizes its share of the revenues and expenses in accordance with the contractual arrangement.

There is no material impact on the Company's interim financial statements as a result of this adoption. The nature of the Company's joint operations is more fully described in note 10.

(ii) IFRS 12 Disclosure of Interests in Other Entities:

IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (joint operations or joint ventures), associates and unconsolidated structured entities. The disclosure requirements widely define interests as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows. Disclosures required by this standard are included in note 10.

(iii) IFRS 10 Consolidated Financial Statements:

IFRS 10 replaces the guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IAS 27 (amended 2011) survives as Separate Financial Statements, to only carry forward the existing accounting requirements for separate financial statements. IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are Special Purpose Entities in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (amended 2008). The Company assessed the impact of this amended standard and has determined there to be no impact on its financial statements.

(iv) IAS 27 (amended 2011) Separate Financial Statements:

This amended pronouncement removes the requirements for consolidated statements from IAS 27 and moves it over to IFRS 10 Consolidated Financial Statements. The amendment mandates that when a company prepares separate financial statements, investment in subsidiaries, associates, and jointly controlled entities are accounted for using the cost method or in accordance with IFRS 9 Financial Instruments. The Company assessed the impact of this amended standard and has determined there to be no impact on its financial statements.

(v) IAS 28 (amended 2011) Investments in Associates and Joint Ventures:

This amended pronouncement requires any retained portion of an investment in an associate or joint venture that has not been classified as held for sale to be measured using the equity method until disposal. After disposal, if the retained interest continues to be an associate or joint venture, the amendment requires this retained interest to continue to be accounted for under the equity method. The amendment also disallows the remeasurement of any retained interest in an investment upon the cessation of significant influence or joint control. The Company has assessed the impact of this amended standard and has determined there to be no impact on its financial statements.

(vi) IFRS 7 - Financial Instruments: Disclosures:

In October 2010, the IASB amended IFRS 7 - Financial Instruments: Disclosures. This amendment enhances disclosure requirements to aid financial statement users in evaluating the nature of, and risks associated with, an entity's continuing involvement in derecognized financial assets. The amendment is effective for the Company's interim and annual financial statements commencing May 1, 2012. The Company assessed the impact of this amended standard and has determined there to be no impact on its financial statements.

5. Intangibles:

Summary details of the Company's intangible assets appear in the following table.

	Molecules	Granted Patents	Pending Patents	Computer Software	Total
Gross carrying amount, April 30, 2012	$ 3,275,785	$ 269,972	$ 345,753	$ 123,638	$ 4,015,148
Purchases	-	2,037	50,120	4,223	56,380
Removal of fully depreciated assets	-	-	-	(61,833)	(61,833)
Gross carrying amount, October 31, 2012	3,275,785	272,009	395,873	66,028	4,009,695
Accumulated amortization, April 30, 2012	(1,737,782)	(49,007)	-	(65,041)	(1,851,830)
Amortization	(214,605)	(7,908)	-	(31,609)	(254,122)
Removal of fully depreciated assets	-	-	-	61,833	61,833
Accumulated amortization, October 31, 2012	(1,952,387)	(56,915)	-	(34,817)	(2,044,119)
Net carrying value, October 31, 2012	$ 1,323,398	$ 215,094	$ 395,873	$ 31,211	$ 1,965,576

6. Share capital and warrants:

		October 31, 2012		April 30, 2012	
	Expiry Date Ranges	Issued	Amount	Issued	Amount
Share capital:					
Authorized:					
Unlimited common shares					
Unlimited preference shares					
Issued:					
Common shares, without par value		74,453,214	$ 16,121,021	74,453,214	$ 16,121,987
Share purchase warrants:					
$0.30 compensation warrants	Sep 24 - Oct 21/12	-	-	507,500	26,831
$0.30 warrants	Oct 31/13	12,500,000	1,327,400	12,500,000	673,998
$0.37 warrants	Jan 31/13	1,446,481	297,834	1,446,481	297,834
$0.55 warrants	Jan 31/13	129,019	24,290	129,019	24,290
$0.30 warrants	Sep 23 - Oct 27/13	11,250,000	464,734	11,250,000	464,734
$0.30 compensation warrants	Sep 23 - Oct 27/13	726,686	29,838	726,686	29,838
		26,052,186	2,144,096	26,559,686	1,517,525
			$ 18,265,117		$ 17,639,512

Details concerning the share capital transactions occurring in the quarter are summarized below:

(a) On September 20, 2012, 12,500,000 warrants exercisable at $0.30 and due to expire September 24, October 6 and 20, 2012 were amended. The amendment was for the expiry date only and the new expiry date is October 31, 2013. All other provisions of the warrants remained the same. The fair market value of the warrants upon amendment was recognized using the Black-Scholes option pricing model in the amount of $653,400. The direct costs associated with effecting the amendment were $5,345 and were recorded as Contributed Surplus.

(b) On September 24, 2012, 385,500 warrants exercisable at a price of $0.30 expired. On October 6, 2012, a further 82,000 warrants exercisable at a price of $0.30 expired and on October 20, 2012, a further 40,000 warrants exercisable at a price of $0.30 expired. As a result, the net fair market value allocated to these warrants of $26,831 was transferred to Contributed Surplus.

(c) On October 5, 2012, additional legal fees related to the private placement completed in April 2012 in the amount of $965 were recognized in share issuance costs.

7. Share-based compensation:

Share-based compensation transactions occurring in the quarter ended October 31, 2012 were as follows:

(a) On September 10, 2012, 400,000 share options were granted to a consultant and an officer of the Company with an exercise price of $0.14, a five-year life and immediate vesting. The share options were allocated 200,000 to each party

(b) On September 25, 2012, 1,592,507 share options were granted to the directors with an exercise price of $0.16. The options have a five-year life and vest on an equal basis at the end of each quarter during the first year.

(c) On September 25, 2012, 250,000 share options were granted to an officer of the Company with an exercise price of $0.16, a five-year life and immediate vesting.

(d) On October 8, 2012, 100,000 vested share options granted to consultants expired.

The assumptions used in the Black-Scholes pricing model in the first six months of 2013 were as follows:

	Consultants	Directors	Officers
Risk free interest rate	1.04 - 1.43%	1.04 - 1.33%	1.04%
Expected dividend yield	-	-	-
Expected average share volatility	113.4 - 114.2%	113.1 - 114.1%	114.2 - 114.8%
Expected average option life in years	2.5 - 2.8	2.6 - 2.8	2.5
Estimated total stock option compensation	$ 59,650	$ 173,211	$ 33,236

There were no options exercised in the quarter.

For the three months ended October 31, 2012, the Company recorded share-based compensation expense of $140,558 (October 31, 2011 - $107,899) related to share option grants to employees, officers, directors and consultants in the current and prior year. These amounts are included in general and administration expense.

At October 31, 2012, there were 5,886,292 unexercised options with 4,143,785 of these vested and exercisable at exercise prices ranging from $0.14 to $0.90 per share.

8. Change in non-cash operating working capital:

	October 31, 2012	October 31, 2011
Miscellaneous receivables	$ (7,577)	$ (14,995)
Prepaid expenses and deposits	23,370	31,260
Accounts payable and accrued liabilities	(27,941)	11,257
	$ (12,148)	$ 27,522

9. Government assistance:

In the current year, the Company has recognized $2,677 (October 31, 2011 - $23,705) of government assistance under an Industrial Research Assistance Program grant with the National Research Council of Canada. Under the agreement, the Company is eligible for reimbursement of up to $210,958 for salaries and contractors' costs with no liability for repayment. The total amount recognized under the grant since its inception in July 2010 is $113,635. Government assistance accrued has been credited against the underlying research and development expense accounts related to salaries and contractors' services.

10. Joint arrangements:

During the quarter, the Company entered into two joint arrangements determined to be joint operations. Individually these joint operations were not considered material to the Company's financial results for the quarter. The detail concerning these joint operations is as follows:

(a) On July 25, 2012, the Company signed a collaborative research agreement (CRA) effective for two years with the University of Western Ontario (Western) located in London, Ontario, Canada, to utilize the Company's proprietary technology CHEMSAS® to discover and optimize novel drug candidates against a specific cellular target of importance to a Western researcher. The researcher and Western will evaluate the identified compounds to test the suitability of the molecules as leads for the cellular target. COTI is solely responsible for its internal costs associated with the performance of its obligations under the CRA. Western is solely responsible for identifying and securing the funding to perform its obligations under the CRA. Western and COTI will jointly own all rights, title and interests in and to Intellectual Property (IP) that is developed by COTI researchers and Western researchers in collaboration. Ownership of the joint IP will be equal unless decided otherwise by the two parties. If any of the candidates meet pre-determined development criteria, COTI and Western will work jointly to move the candidates towards clinical confirmation of activity and a commercial licensing transaction.

Under the CRA, COTI received a payment of $25,000 from Western as a service fee for its screening and validation performance. This payment is being recognized in income over the six month period estimated for COTI to complete its performance under the agreement with approximately one-third of the estimated cost incurred at the quarter end. All costs associated with COTI's performance under the CRA are being expensed at fair market value as incurred in Research and product development in the Statements of Comprehensive Loss.

(b) On August 22, 2012, the Company entered into a research and development collaboration agreement (RDCA) to advance selected small molecules with Delmar Chemicals Inc. (Delmar) of Montreal, Quebec, Canada. The companies will work together to discover, select, screen and synthesize compounds for highly desirable commercial and therapeutic targets that have been identified as being of specific interest to major pharmaceutical companies. The agreement does not have a specific end date and may encompass a number of compound targets over several years; however, the agreement may be terminated subject to sixty days notice by either party. Under the RDCA, COTI will utilize CHEMSAS® to discover and optimize novel drug candidates designed to effectively address a number of opportunities. COTI will also be responsible for filing provisional composition of matter patents on any compounds forwarded to a major pharmaceutical company (Pharma) for their evaluation and managing the relationship with such Pharma. Delmar will provide medicinal chemistry analysis of the chemical structures as well as the synthesis of the most promising candidates. Each party is solely responsible for its internal costs associated with the performance of its obligations under the CRA.

At October 31, 2012, COTI had not incurred significant costs for the project with an estimate that one-quarter of the project salary costs had been incurred. All costs associated with COTI's performance under the RDCA are being expensed at fair market value as incurred in Research and product development in the Statements of Comprehensive Loss.

11. Related party transactions:

There were no material transactions with related parties during the quarter that were not in the ordinary course of business. Those incurred were measured at the transaction amount, being the amount of consideration established and agreed to by the related parties and included:

(a) a grant of share options to directors (note 7(b));
(b) consulting fees paid or accrued and share options granted (note 7(a)) under a fee for service contract with a director in the amount of $51,046 and 200,000 share options respectively; and,
(c) a grant of share options to officers of the Company (note 7 (a) and (c)).

12. Events after the reporting period date:

Joint arrangement:

Subsequent to the reporting date, on December 6, 2012, the Company announced the signing of a drug discovery agreement with a multinational pharmaceutical company whereby COTI will use its proprietary artificial intelligence drug discovery system, CHEMSAS®, to identify and optimize a number of small molecules against a target of commercial interest to the pharmaceutical company.

Under the terms of the agreement, COTI will be responsible for the discovery, profiling and optimization of targeted drug candidates in a two step approach. COTI will identify and deliver an initial set of compounds discovered using CHEMSAS®. The pharmaceutical company will then evaluate these compounds and provide COTI with the results of their analysis. Based upon this feedback, COTI will further optimize the compounds. The pharmaceutical company will test and evaluate the final optimized compounds and during an option period, decide the suitability of the molecules as leads for the proposed cellular target and conclude a license. If a licensing agreement is not reached, COTI will retain all intellectual property rights to the data and compounds and will be able to engage other interested parties for this program.