



**Unaudited Condensed Interim Financial Statements  
Fiscal 2014 – First Quarter**

**For the three months ended July 31, 2013 and 2012**

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**Notice of No Audit or Review of Condensed Interim Financial Statements**

The accompanying interim statements of financial position as at July 31, 2013, and April 30, 2013, of Critical Outcome Technologies Inc., and the interim statements of changes in equity, interim statements of comprehensive loss and interim statements of cash flows for the three month periods ended July 31, 2013 and 2012, 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.

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**Interim Statements of Financial Position****(All amounts in Canadian dollars)****(Unaudited)**

<b>As at</b>	<b>July 31, 2013</b>	<b>April 30, 2013</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 301,933	\$ 169,347
Investment tax credits and other receivables	147,221	175,936
Prepaid expenses and deposits	51,438	86,486
	<u>500,592</u>	<u>431,769</u>
Non-currents assets:		
Equipment	44,212	47,442
Intangible assets (note 5)	1,720,586	1,777,443
	<u>1,764,798</u>	<u>1,824,885</u>
	<u>\$ 2,265,390</u>	<u>\$ 2,256,654</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 372,316	\$ 378,514
Shareholders' equity	1,893,074	1,878,140
	<u>\$ 2,265,390</u>	<u>\$ 2,256,654</u>
Going concern (note 2)		
Commitments (note 10)		
Subsequent events (note 12)		

*See accompanying notes to interim financial statements*

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**Interim Statements of Comprehensive Loss****(All amounts in Canadian dollars)****(Unaudited)**

	Three months ended	
	July 31, 2013	July 31, 2012
<b>Collaboration and research service revenue:</b>	\$ -	\$ 3,404
<b>Expenses (income):</b>		
Research and product development	133,144	266,995
Sales and marketing	2,111	60,693
General and administration	371,317	440,729
Investment tax credits	(7,094)	(35,733)
	499,478	732,684
<b>Loss before finance income (expense)</b>	<b>(499,478)</b>	<b>(729,280)</b>
<b>Finance income (expense):</b>		
Interest income (expense)	(123)	3,959
Foreign exchange gain (loss)	(451)	2,552
	(574)	6,511
<b>Loss and comprehensive loss</b>	<b>\$ (500,052)</b>	<b>\$ (722,769)</b>
<b>Loss per share:</b>		
Basic and diluted loss per common share	\$ (0.01)	\$ (0.01)

*See accompanying notes to interim financial statements*

**CRITICAL OUTCOME TECHNOLOGIES INC.**  
**Interim Statements of Changes in Shareholders' Equity**  
 (All amounts in Canadian dollars)  
 (Unaudited)

**For the three months ended July 31, 2013**

	<b>Common Shares</b>	<b>Warrants</b>	<b>Total Capital</b>	<b>Contributed Surplus</b>	<b>Deficit</b>	<b>Total Shareholders' Equity</b>
Balance, April 30, 2013	\$ 16,416,798	\$ 2,493,115	\$ 18,909,913	\$ 1,922,193	\$ (18,953,966)	\$ 1,878,140
Issuance of shares and warrants (note 6)	325,696	169,350	495,046	-	-	495,046
Share-based compensation (note 7)	-	-	-	19,940	-	19,940
Loss and comprehensive loss	-	-	-	-	(500,052)	(500,052)
<b>Balance, July 31, 2013</b>	<b>\$ 16,742,494</b>	<b>\$ 2,662,465</b>	<b>\$ 19,404,959</b>	<b>\$ 1,942,133</b>	<b>\$ (19,454,018)</b>	<b>\$ 1,893,074</b>

**For the three months ended July 31, 2012**

	<b>Common Shares</b>	<b>Warrants</b>	<b>Total Capital</b>	<b>Contributed Surplus</b>	<b>Deficit</b>	<b>Total Shareholders' Equity</b>
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	-	-	-	42,385	-	42,385
Loss and comprehensive loss	-	-	-	-	(722,769)	(722,769)
<b>Balance, July 31, 2012</b>	<b>\$ 16,121,987</b>	<b>\$ 1,517,525</b>	<b>\$ 17,639,512</b>	<b>\$ 2,538,506</b>	<b>\$ (17,050,931)</b>	<b>\$ 3,127,087</b>

See accompanying notes to interim financial statements

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## Interim Statements of Cash Flows

(All amounts in Canadian dollars)

(Unaudited)

For the three months ended	July 31, 2013	July 31, 2012
<b>Cash provided by (used in):</b>		
<b>Operating activities:</b>		
Loss	\$ (500,052)	\$ (722,769)
Items not involving cash:		
Amortization - equipment	3,230	18,987
Amortization - intangible assets	127,881	111,202
Share-based compensation	19,940	42,385
Investment tax credits	(7,094)	(35,733)
Interest (income) expense	123	(3,772)
Foreign exchange (gain) loss	451	(2,552)
	(355,521)	(592,252)
Change in non-cash operating working capital (note 8)	64,904	(86,402)
Foreign exchange loss	1,777	627
Interest received	292	3,959
Net cash (used in) operating activities	(288,548)	(674,068)
<b>Investing activities:</b>		
Purchase of equipment	-	(3,929)
Redemption of short-term investments	-	297,316
Expenditures on intangible assets	(71,024)	(31,353)
Net cash (used in) provided by investing activities	(71,024)	262,034
<b>Financing activities:</b>		
Proceeds from issuance of common shares and warrants (net of issuance costs)	495,046	-
Investment tax credit recoveries	-	17,570
Interest paid	(660)	(187)
Net cash provided by financing activities	494,386	17,383
Increase (decrease) in cash and cash equivalents	134,814	(394,651)
Effect of exchange rate fluctuations on cash and cash equivalents	(2,228)	1,925
Cash and cash equivalents, beginning of the period	169,347	901,130
Cash and cash equivalents, end of the period	\$ 301,933	\$ 508,404
<b>Represented by:</b>		
Cash	\$ 88,722	\$ 127,521
Cash equivalents	213,211	380,883
	\$ 301,933	\$ 508,404

*See accompanying notes to interim financial statements*

**1. Corporate information:**

Critical Outcome Technologies Inc. (COTI) is a biotechnology company focused on applying its proprietary computer-based technology, CHEMSAS®, to identify, profile, optimize and select 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. As a platform technology, CHEMSAS® is currently focused on small molecules, and as a drug candidate discovery engine can be applied to any disease target with a modest amount of information for the target of interest.

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:**

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. For COTI, there are material uncertainties related to certain financial 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 quarters ended July 31, 2013 and 2012 are indicative of possible concern. These results include: a loss of \$500,052 (July 31, 2012 - \$722,769) and negative cash flow from operations of \$288,548 (July 31, 2012 - \$674,068). As at July 31, 2013, the Company had an accumulated deficit of \$19,454,018 (April 30, 2013 - \$18,953,966), which results in shareholders' equity of \$1,893,074 (April 30, 2013 - \$1,878,140). As at July 31, 2013, the Company had working capital of \$128,276 (April 30, 2013 - \$53,255).

The Company is dependent upon key personnel and the need to raise additional funds to support the Company's development and continued operations, and to meet liabilities and commitments as they become due while executing its business plan. The Company is taking steps to address the going concern risk by actively seeking potential customers, partners and collaborators as a means of furthering molecule development and generating revenue streams, and pursuing alternative sources of financing, including but not limited to, raising capital in the public market and securing government grants. Subsequent to the quarter-end, the Company closed a private placement that raised gross proceeds of approximately \$1,225,000 (note 12 (a)). Furthermore, the Company has discretion with many of its expenditure activities and plans to manage these activities in 2014 within the limits of available cash resources. While the Company has a history of obtaining financing, there is no certainty that any of the aforementioned strategies will enable the Company to alleviate the going concern risk in future periods. These interim financial statements have been prepared assuming that the Company will continue as a going concern. Accordingly, these interim financial statements do not include any



adjustments to the carrying values and classifications of assets and liabilities, or the reported expenses that would be necessary if the going concern assumption was not appropriate. 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), IAS 34 Interim Financial Reporting, as issued by the International Accounting Standards Board (IASB).

The accounting policies in the fiscal 2014 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, 2013. These accounting policies were disclosed in detail in note 5 of the Company's April 30, 2013 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, 2013, and related notes.

These interim financial statements were approved for issuance by the Audit Committee on September 26, 2013.

(b) Basis of measurement:

The interim financial statements have been prepared on a historical cost basis. The Statements of Comprehensive Loss are presented using the functional classification for expenses.

(c) Functional and presentation currency:

These interim financial statements are presented in Canadian dollars, which is the functional currency of the economic environment in which the Company operates.

(d) Use of estimates and judgments:

The preparation of these interim 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 interim 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, 2013.

**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, 2013 have been applied consistently to all periods presented in these interim financial statements.

(a) New accounting pronouncements

The Company adopted certain accounting pronouncements during the quarter, details of which were described in the Company's April 30, 2013 annual financial statements. These standards did not have a significant impact on the Company's interim financial statements and included the following:

- i. IFRS 13 – Fair Value Measurement
- ii. Amendments to IAS 1 – Presentation of Financial Statements
- iii. Amendments to IAS 19 – Employee Benefits
- iv. Annual improvements to IFRS 2009-2011

**5. Intangible assets:**

Summary details of the Company's intangible assets at July 31, 2013, appear in the following table.

	Molecules	Granted Patents	Pending Patents	Computer Software	Total
Cost, April 30, 2013	\$ 3,275,785	\$ 273,652	\$ 443,504	\$ 81,455	\$ 4,074,396
Purchases	-	4,939	19,420	46,665	71,024
Transfer of patent grant	-	54,504	(54,504)	-	-
Expired software licenses	-	-	-	(61,805)	(61,805)
Cost, July 31, 2013	3,275,785	333,095	408,420	66,315	4,083,615
Accumulated amortization, April 30, 2013	(2,166,992)	(64,968)	-	(64,993)	(2,296,953)
Amortization	(107,303)	(4,827)	-	(15,751)	(127,881)
Expired software licenses	-	-	-	61,805	61,805
Accumulated amortization, July 31, 2013	(2,274,295)	(69,795)	-	(18,939)	(2,363,029)
Net carrying value, July 31, 2013	\$ 1,001,490	\$ 263,300	\$ 408,420	\$ 47,376	\$ 1,720,586

**CRITICAL OUTCOME TECHNOLOGIES INC**  
**Notes to the Condensed Interim Financial Statements**  
**For the three months ended July 31, 2013 and 2012**  
**(All amounts in Canadian dollars)**

**6. Share capital:**

Summary details of the Company's share capital at July 31, 2013 with comparable amounts for April 30, 2013, appear in the following table.

Expiry Date Ranges	July 31, 2013		April 30, 2013		
	Issued	Amount	Issued	Amount	
Share capital:					
Authorized:					
Unlimited common shares					
Unlimited preference shares					
Issued and fully paid:					
Common shares, without par value	82,474,367	\$ 16,742,494	78,058,472	\$ 16,416,798	
Common share purchase warrants:					
\$0.30 warrants	Sep 23 - Oct 26/13	11,250,000	464,734	11,250,000	464,734
\$0.30 compensation warrants	Sep 23 - Oct 26/13	726,686	29,838	726,686	29,838
\$0.30 warrants	Oct 31/13	12,500,000	1,439,333	12,500,000	1,439,333
\$0.37 warrants	Mar 14/14	1,446,481	383,195	1,446,481	383,195
\$0.55 warrants	Mar 14/14	129,019	29,711	129,019	29,711
\$0.20 compensation warrants	Jul 29 - Dec 20/14	320,865	26,276	232,652	19,543
\$0.26 warrants	Jul 29 - Dec 20/14	8,021,153	289,378	3,605,258	126,761
		34,394,204	2,662,465	29,890,096	2,493,115
		\$ 19,404,959		\$ 18,909,913	

A summary of the changes in common share capital is set out below.

	Shares	Amount
Balance April 30, 2013	78,058,472	\$ 16,416,798
Shares issued - private placement (note 6 (a))	4,415,895	326,093
Shares issued - private placement (note 6 (b))	-	(397)
	4,415,895	325,696
Balance July 31, 2013	82,474,367	\$ 16,742,494

A summary of the changes in warrant capital is set out below.

	Warrants	Amount
Balance April 30, 2013	29,890,096	\$ 2,493,115
Warrants issued - private placement (note 6 (a))	4,415,895	162,339
Warrants issued - private placement compensation (note 6 (a))	88,213	7,011
	4,504,108	169,350
Balance July 31, 2013	34,394,204	\$ 2,662,465

Details concerning the share capital transactions are summarized below.

- (a) The Company completed a private placement in two tranches, closing on May 31 and June 21, 2013, respectively. Under the private placement, the Company issued 4,415,895 units consisting of one common share and one common share purchase warrant (Unit) at \$0.12 per Unit for gross proceeds of approximately \$529,907. Each common share purchase warrant is exercisable into one common share at a price of \$0.26 for 18 months following the closing date of each tranche. Cash costs of the private placement were \$34,464 consisting of \$23,778 in professional and regulatory fees, and \$10,686 in finders' fees. The Company also issued 88,213 compensation warrants valued at \$7,011 using a Black-Scholes option pricing model. The compensation warrants are exercisable into one common share at a price of \$0.20 for 18 months following the closing date of each tranche. Expiry dates for the common share purchase warrants and compensation warrants from each tranche are November 30 and December 20, 2014, respectively.

The common share purchase warrants were valued using a Black-Scholes option pricing model using the following assumptions:

	Tranche 1	Tranche 2
Common share market price	\$ 0.115	\$ 0.150
Risk free interest rate	1.177%	1.177%
Expected dividend yield	-	-
Expected common share price volatility	146.86%	144.99%
Expected warrant life in years	1.5	1.5

The warrants were allocated a portion of the proceeds and private placement costs based upon their relative fair market value at the date of issuance. Accordingly, \$176,227 in gross proceeds and \$13,888 in costs were allocated to the common share warrants.

- (b) The Company incurred \$397 in issuance costs related to a private placement initiated prior to the quarter end that closed in August 2013 (see note 12 (a)).

## **7. Share-based compensation:**

There were no options exercised or granted in the quarter. Share-based compensation transactions during the quarter ended July 31, 2013, were as follows:

- (a) On June 9, 2013, 226,628 vested share options granted to the board of directors on June 10, 2008, expired.
- (b) On June 26, 2013, 16,312 vested share options granted to a former employee expired.

**CRITICAL OUTCOME TECHNOLOGIES INC**  
**Notes to the Condensed Interim Financial Statements**  
**For the three months ended July 31, 2013 and 2012**  
**(All amounts in Canadian dollars)**

For the three months ended July 31, 2013, the Company recognized share-based compensation expense of \$19,940 (July 31, 2012 - \$42,385) related to the vesting of share options granted to directors and consultants in prior periods. These amounts were included in General and administration expense.

At July 31, 2013, there were 5,341,497 unexercised options with 4,943,368 of these vested and exercisable at exercise prices ranging from \$0.14 to \$0.90 per share.

**8. Supplementary cash flow information:**

As at July 31	2013	2012
Change in non-cash working capital:		
Miscellaneous receivables	\$ 36,053	\$ (27,113)
Prepaid expenses and deposits	35,049	17,294
Accounts payable and accrued liabilities	(6,198)	(76,583)
	\$ 64,904	\$ (86,402)

The Company also engaged in a financing transaction that did not involve the use of cash as set out below:

As at July 31	2013	2012
Compensation warrants issued as a cost of private placement (note 6 (a))	\$ 7,011	\$ -

**9. Government assistance:**

The Company recognized \$875 (July 31, 2012 - \$2,155) of government assistance as a reduction in Research and product development expense under an Industrial Research Assistance Program grant with the National Research Council of Canada during the quarter. The grant provides support for the development of the Company's acute myelogenous leukemia program. The total amount recognized under the grant since its inception in July 2010 is \$180,833.

**10. Commitments:**

At the quarter-end, the Company had commitments to pay \$59,254 for the completion of research and development contracts and \$15,269 for an insurance financing contract during the remainder of fiscal 2014.

**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) consulting fees paid or accrued under a fee for service contract with a director in the amount of \$30,417 (July 31, 2012 - \$46,584).

**12. Subsequent events:**

- (a) Private placement:

The Company completed a non-brokered private placement in three tranches, closing on August 16, 28 and 30, 2013, respectively. Under the private placement, the Company issued 10,208,132 units (Units) at a price of \$0.12 per Unit for total gross proceeds of approximately \$1,225,000.

Each Unit consisted of one common share and one warrant of the Corporation. Each warrant is exercisable for one common share of the Corporation at an exercise price of \$0.26 per share for a period of 18 months from the date of issue. The Corporation paid finders' fees to arm's length third parties in the aggregate amount of \$32,056 in cash and issued an aggregate of 267,130 compensation warrants. Each compensation warrant is exercisable into one common share of the Corporation for a period of 18 months from the date of issue at an exercise price of \$0.20 per share.

The common shares and warrants comprising the Units, the compensation warrants, and the common shares issuable upon the exercise of the warrants are subject to restrictions on resale, which expire on December 17, 29, and 31, 2013 in accordance with applicable securities laws and the policies of the TSXV.

- (b) Warrant amendment:

On September 12, 2013, the Company received the consent of the TSXV to extend the expiry date of 11,250,000 common share purchase warrants (Warrants) issued as part of three tranches of a non-brokered private placement on March 23, April 9 and April 26, 2012, respectively. Each Warrant entitled its holder to purchase one common share of the Company at an exercise price of \$0.30 per share for a period of 18 months from the date of issue and accordingly, these were due to expire on September 23, October 9, and October 26, 2013.

The new expiry dates for the Warrants will be April 23, May 9 and May 26, 2015 respectively. The new expiry dates of the Warrants will be reduced to a period of 21 days if, for any ten consecutive trading days during the unexpired term of the Warrant (the Premium Trading Days), the closing price of the common shares on the TSXV equals or exceeds \$0.37. If this occurs, the reduced exercise period of 21 days will begin seven calendar days after the tenth Premium Trading Day.

The remaining terms and conditions of the Warrants remain unchanged.