

Financial Statements

Welichem Biotech Inc.
(a development stage enterprise)
May 31, 2006 and 2005

AUDITORS' REPORT

To the Shareholders of
Welichem Biotech Inc.

We have audited the balance sheets of **Welichem Biotech Inc.** as at May 31, 2006 and 2005 and the statements of operation and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at May 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada,
August 11, 2006
except for Note 20[c] which
is as of August 31, 2006.

Ernst & Young LLP

Chartered Accountants

Welichem Biotech Inc.
(a development stage enterprise)
Incorporated under the Laws of British Columbia

BALANCE SHEET
[See Note 1 - Basis of Presentation]

As at May 31

	2006 \$	2005 \$
ASSETS		
Current		
Cash and cash equivalents <i>[note 4[a]]</i>	265,593	1,384,640
Short-term investments <i>[note 4[b]]</i>	—	875,141
Goods and Services Tax receivable	42,111	16,586
Research and development tax credits	97,778	97,778
Prepaid expenses	27,134	12,715
	432,616	2,386,860
Equipment <i>[note 5]</i>	32,804	50,524
Patent rights and applications <i>[note 6]</i>	279,539	291,111
Deposits <i>[note 7]</i>	14,615	13,879
	759,574	2,742,374
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	289,920	161,698
Commitments <i>[note 17]</i>		
Shareholders' equity		
Share capital <i>[note 8]</i>	5,238,644	5,238,644
Contributed surplus <i>[note 9]</i>	279,088	11,243
Deficit	(5,048,078)	(2,669,211)
	469,654	2,580,676
	759,574	2,742,374

See accompanying notes

On behalf of the Board:



Director



Director



Welichem Biotech Inc.
(a development stage enterprise)

STATEMENT OF OPERATIONS AND DEFICIT

Year ended May 31

	2006 \$	2005 \$
Research and development expenses [notes 10, 12 and 13]	1,719,533	721,131
General and administrative expenses		
Amortization - equipment	30,736	14,773
Amortization - patent rights and applications	29,482	12,666
Consulting [note 18]	3,750	47,551
Director's fees [note 18]	17,490	—
Insurance	10,825	21,650
Investor relations	34,288	17,000
Professional fees	90,950	135,324
Office and miscellaneous	32,462	36,674
Regulatory expense	23,201	9,500
Rent	93,610	67,235
Telecommunications	6,200	6,499
Travel and related costs	30,730	24,901
Wages and benefits [notes 10 and 18]	229,823	60,200
	633,547	453,973
Loss before other items	(2,353,080)	(1,175,104)
Other items		
Write-down of patent rights and applications [note 6]	(29,800)	—
Foreign exchange loss	(11,744)	(37,322)
Interest income	15,757	13,495
	(25,787)	(23,827)
Loss for the year	(2,378,867)	(1,198,931)
Deficit, beginning of year	(2,669,211)	(1,470,280)
Deficit, end of year	(5,048,078)	(2,669,211)
Basic and diluted loss per common share	(0.08)	(0.06)
Weighted average number of common shares outstanding	28,780,325	18,431,083

See accompanying notes

Welichem Biotech Inc.
(a development stage enterprise)

STATEMENT OF CASH FLOWS

Year ended May 31

	2006 \$	2005 \$
OPERATING ACTIVITIES		
Loss for the year	(2,378,867)	(1,198,931)
Items not involving cash		
Amortization of equipment	30,376	14,773
Amortization of patent rights and applications	29,482	12,666
Stock-based compensation	267,845	8,293
Write-down of patent rights and applications	29,800	—
Changes in non-cash working capital items		
(Increase) decrease in goods and services tax recoverable	(25,525)	32,603
Decrease in research and development tax credits	—	21,950
Increase in prepaid expenses	(14,419)	—
Increase in accounts payable and accrued liabilities	128,222	120,153
Cash used in operating activities	(1,932,726)	(988,493)
INVESTING ACTIVITIES		
Patent rights applications	(47,710)	(101,344)
Purchase of equipment	(13,016)	(17,100)
Decrease (increase) in short-term investments	875,141	(418,476)
Cash provided by (used in) investing activities	814,415	(536,920)
FINANCING ACTIVITIES		
Increase in deposits	(736)	—
Increase in capital, net of issuance costs	—	2,693,888
Cash provided by (used in) financing activities	(736)	2,693,888
Net increase (decrease) in cash during the year	(1,119,047)	1,168,475
Cash, beginning of year	1,384,640	216,165
Cash, end of year	265,593	1,384,640
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	—	—
Cash paid during the year for income taxes	—	—

See accompanying notes

Welichem Biotech Inc.
(a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

1. BASIS OF PRESENTATION

These financial statements of Welichem Biotech Inc. (the “Company” or “Welichem”) have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

As at May 31, 2006, the Company had working capital of \$142,696 and an accumulated deficit of \$5,048,078 resulting from losses in the current and prior periods. As the Company is in the early stages of the research and development of its products, the Company’s ability to continue operations is uncertain and is dependent upon its ability to obtain sufficient financing and improve operating results. The outcome of these matters cannot be predicted at this time.

These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue operations in the normal course of business.

2. NATURE OF OPERATIONS

The Company was initially incorporated on May 26, 1995 pursuant to the Company Act of British Columbia under the name “Welichem Technology Corporation”. On July 26, 2000, Welichem changed its name to “Welichem Biotech Inc.” On November 1, 2004, Welichem amalgamated with Belltech Ventures Ltd. (“Belltech”), a Capital Pool Company under the policies of the TSX Venture Exchange (“TSXV”). The amalgamated company (“Amalco”) continued under the name Welichem Biotech Inc. and is a reporting company under the laws of the Provinces of British Columbia and Alberta. The former shareholders of Welichem, having received approximately 88% of the shares of the Amalco, have control, and therefore this amalgamation was accounted for as an acquisition of Belltech’s net assets by Welichem.

The Company is a biopharmaceutical company focused on the research and development and commercialization of new therapeutics for autoimmune / inflammatory diseases and cancer.



NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

3. SIGNIFICANT ACCOUNTING POLICIES

The Company prepares its financial statement in accordance with Canadian generally accepted accounting principles which are presented in Canadian dollars. A summary of the significant accounting policies is as follows:

Use of estimates

The preparation of financial statements in accordance 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash equivalents

The Company considers all highly liquid financial instruments with an original maturity of 90 days or less to be cash equivalents. Cash equivalents are recorded at the lower of cost plus accrued interest and market value.

Short-term investments

The Company considers all highly liquid financial instruments with an original maturity greater than 90 days to be short-term investments. Short-term investments are recorded at the lower of amortized cost or market value.

Intangible assets

Intangible assets consist of patent rights and applications costs incurred for the filing of patents. Patent rights and applications are amortized on a straight-line basis over ten years from the time of acquisition.

NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Equipment

Equipment is recorded at cost less accumulated amortization and is amortized over its expected useful life on the following basis:

Lab equipment	30% declining balance
Office equipment	30% declining balance
Leasehold improvements	Term of the lease

The Company uses the half year rule in the year of acquisition.

Impairment of long-lived assets

The Company reviews the carrying value of its intangible assets with a finite life and equipment for existence of facts or changes in circumstances that might indicate a condition of impairment. An impairment loss would be recognized when estimates of undiscounted future cash flows expected to result from the use of an asset and its eventual disposition are less than the carrying amount.

Stock-based compensation

The Company uses the fair value method for stock-based compensation granted to employees and non-employees of the Company and all direct awards of stock, in accordance with the CICA Handbook Section 3870 "*Stock-Based Compensation and Other Stock-Based Payments*". The fair value of stock options is determined by the *Black-Scholes Option Pricing Model* with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares and an expected life of the options. The fair value of direct awards of stocks is determined by the quoted market price of the Company's stock.

Foreign currency translation

The Company maintains its accounting records in Canadian dollars.

Monetary assets and liabilities are translated into Canadian dollars at the year-end exchange rates. Non-monetary assets and liabilities are translated using historical rates of exchange. Revenues and expenses are translated at average rates for the year and exchange gains and losses on translation are included in operations.

NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Research and development expenses

Research and development costs are expensed as incurred unless such development costs meet the criteria under Canadian generally accepted accounting principles for deferral and amortization. Development costs which meet generally accepted criteria for deferral are capitalized and amortized against earnings over the estimated period of benefit. As at May 31, 2006 and 2005, the Company had not deferred any development costs.

Government assistance and other subsidies

Government assistance and other subsidies are recorded as either a reduction of the cost of the applicable assets or credited in the statement of operations as determined by the terms and conditions of the agreement under which the assistance is provided to the Company.

Research and development tax credits

Research and development tax credits are recorded as either a reduction of the cost of applicable assets or credited in the statement of operations depending on the nature of the expenditures which gave rise to the credits. Claims for tax credits are accrued upon the Company attaining reasonable assurance of collection from the Canada Revenue Agency.

Investment tax credits are accrued on qualifying expenditures when there is reasonable assurance that the credits will be recovered. Research and development tax credits were only available to the Company up to October 31, 2004, prior to amalgamation and becoming a publicly listed entity.

Earnings (loss) per share

Basic earnings (loss) per share are computed using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury method. The treasury method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate. Diluted loss per share is equal to the basic loss per share as inclusion of common share equivalents securities are anti-dilutives as at May 31, 2006 and 2005.



NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Income taxes

Future income taxes are recorded using the liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

4. CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

[a] Cash equivalents

Cash equivalents includes \$274,931 [2005 - \$nil] of investment grade commercial paper with a weighted average interest rate of 4.02%. Of the total amount of cash and cash equivalents, \$171,373 (US\$154,386) [2005 - \$727,438 (US\$578,020)] are denominated in US dollars.

[b] Short-term investments

As at May 31, 2005, short-term investments included guaranteed investment certificates, with a weighted average interest rate of 2.1% and maturity dates to July 28, 2005. At May 31, 2005, the fair value of the short-term investments approximated their carrying value based on quoted market prices.

As at May 31, 2006, the Company held no short-term investments.



NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

5. EQUIPMENT

	Cost \$	Accumulated Amortization \$	Net Book Value \$
2006			
Lab equipment	65,608	54,191	11,417
Office equipment	45,846	25,186	20,660
Leasehold improvements	44,891	44,164	727
	156,345	123,541	32,804
2005			
Computer equipment	65,608	47,658	17,950
Furniture and fixtures	32,830	19,121	13,709
Leasehold improvements	44,891	26,026	18,865
	143,329	92,805	50,524

Effective March 1, 2006, the Company changed its estimate of the remaining useful life of the leasehold improvements from 5 years to one year. The impact of this change in estimate was to increase amortization by approximately \$10,308 for the year ended May 31, 2006.

6. PATENT RIGHTS AND APPLICATIONS

	2006 \$	2005 \$
Patent rights and applications	353,811	335,901
Less: accumulated amortization	(74,272)	(44,790)
	279,539	291,111

During the year ended May 31, 2006, the Company performed reviews of the carrying value of its patent rights and applications and as a result \$29,800 [2005 - \$nil] of net book value was written off with respect to technology not related to the Company's current focus.

Effective March 1, 2006, the Company changed its estimate of the remaining useful life of the patent rights and applications from 20 years to 10 years. The impact of this change in estimate was to increase amortization by approximately \$16,007 for the year ended May 31, 2006.

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NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

7. DEPOSIT

Deposit consists of a term deposit of \$14,615 [2005 - \$13,879] held as collateral for the Company's credit card.

8. SHARE CAPITAL

	2006 \$	2005 \$
Authorized:		
Unlimited number of common shares without par value		
Issued and outstanding:		
Welichem common shares issued and outstanding at May 31, 2004 as adjusted for the share exchange ratio of 1.5 common shares of the Company for each common share of Welichem	10,123,126	1,767,389
Welichem preferred shares issued and outstanding at November 1, 2004, as converted into common shares of the Company [note 8a]	909,090	200,000
	11,032,216	1,967,389
Share capital of Belltech at November 1, 2004 as for the share exchange ratio of 1 common share of the Company for each common share Belltech [note 8b]	2,430,000	238,643
Contributed surplus of Belltech at November 1, 2004	—	150,000
Deficit of Belltech at November 1, 2004	—	(388,367)
Welichem common share issued pursuant to a private placement of units as adjusted for the share exchange ratio of 1.5 common shares of the Company for one common share of Welichem [note 8c]	6,818,183	1,500,000
Share issuance costs for private placement	—	(107,638)
Welichem common shares issued in the private placement closed in May 2005 [note 8d]	8,499,926	1,943,483
Share issuance costs for private placement	—	(64,866)
Balance as at May 31, 2005 and 2006	28,780,325	5,238,644

[a] The Company issued 909,090 common shares through conversion of \$200,000 preferred shares on November 1, 2004.



NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

8. SHARE CAPITAL (cont'd.)

- [b] The Company issued 2,430,000 common shares to exchange for Belltech Ventures Ltd.'s net assets on November 2004 [note 2].
- [c] The company issued 6,818,183 units (adjusted for the amalgamation) at a price of \$0.22 per unit to raise gross proceeds of \$1,500,000 in a private placement on September 8, 2004. Each unit consisted of one common share and one warrant to purchase one common share at \$0.23 per share until August 31, 2006.
- [d] The Company issued 8,499,926 common shares at a price of \$0.23 per share to raised gross proceeds of \$1,954,983 in a private placement in May 2005.
- [e] The Company granted 2,850,000 stock options during the 12-month period between June 2005 and May 2006, resulting in compensation costs, under the Black-Scholes option pricing model, of \$267,845 which was recorded as stock-based compensation expense [note 10].
- [f] During the year ended May 31, 2006, a total of 3,313,528 common shares were released from escrow, leaving the balance of common shares in escrow at 6,627,066 as at May 31, 2006. The release of the balance of these shares is staged over a period of three years ending on May 20, 2008.

9. CONTRIBUTED SURPLUS

	Amount \$
Balance, May 31, 2004	2,950
Stock-based compensation [note 10]	8,293
Balance, May 31, 2005	11,243
Stock-based compensation [note 10]	267,845
Balance, May 31, 2006	279,088

NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

10. STOCK OPTIONS

The Company has a 2004 Amended Stock Option Plan whereby the Company can grant stock options to directors, officers, employees and consultants to acquire up to 5,756,065 common shares of the Company.

In the year ended May 31, 2006, the Company granted 2,850,000 stock options to officers, directors, and employees. The options, being vested over an 18-month period, are exercisable at a price of \$0.10 to \$0.34 per share for a period of five years from date of grant.

At May 31, 2006, stock options were outstanding enabling the holders to acquire the following number of common shares:

Number of Shares	Number of Options Exercisable	Exercise Price \$	Expiry Date
200,000	50,000	0.10	January 31, 2011
1,950,000	487,500	0.10	May 7, 2011
150,000	37,500	0.15	July 30, 2011
240,000	180,000	0.20	July 31, 2008
150,000	37,500	0.20	January 30, 2012
188,100	141,075	0.22	December 31, 2009
300,000	225,000	0.22	March 15, 2010
241,500	181,125	0.22	May 25, 2010
50,000	37,500	0.23	May 25, 2010
50,000	25,000	0.23	June 1, 2010
3,519,600	1,402,200		

As at May 31, 2006, the weighted average remaining contractual life of the outstanding stock options is 4.9 years.

Welichem Biotech Inc.
(a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

10. STOCK OPTIONS (cont'd.)

The following table summarizes the stock option activity under this Plan:

	Number of Options	Weighted Average Exercise Price \$
Options outstanding and exercisable on May 31, 2004	940,720	0.58
Options granted	330,000	0.33
	1,270,720	0.51
Exchanged on amalgamation [note 2]	(1,270,720)	0.51
Exchanged on amalgamation	1,906,080	0.22
Balance, May 31, 2005	1,906,080	0.22
Options granted	2,850,000	0.12
Options cancelled	(1,236,480)	0.22
Balance, May 31, 2006	3,519,600	0.14

Welichem Biotech Inc.
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NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

10. STOCK OPTIONS (cont'd.)

Stock-based compensation

The estimated fair value of options granted to executive officers, directors, employees and consultants is amortized over the vesting period of the stock options resulting in compensation expense of \$267,845 during the year ended May 31, 2006 [2005 - \$8,293]. The offsetting amount was recorded as contributed surplus on the balance sheet [note 9]. This expense has been allocated to research and development expenses \$145,313 [2005 - \$4,500] and wages and benefits \$122,532 [2005 - \$3,793] on the same basis as cash compensation.

In July 2005, the Company amended the 1,906,080 stock options outstanding by changing the exercise price from a range of \$0.30 - \$1.00 to \$0.20 - \$0.22 and extending the expiry date by up to three years. The impact of the amendment was to increase stock based compensation by \$197,545 for the year.

The fair value of all options granted has been estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	2006	2005
	\$	\$
Risk-free interest rate	3.2% to 4.3%	4%
Expected life of options	3.2 to 6 years	2 years
Annualized volatility	207%	0.1%
Dividend rate	\$nil	\$nil

Option pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, in management's opinion existing models do not necessarily provide reliable measure of the fair value of the Company's stock options.

11. WARRANTS

As at May 31, 2006, 6,818,183 warrants are outstanding. Each warrant entitles the holder to buy one common share at \$0.23 until August 31, 2006.

	\$
Warrants outstanding as at May 31, 2004	—
Warrants issued during fiscal year ended May 31, 2005	6,818,183
Warrants outstanding as at May 31, 2005 and 2006	6,818,183

NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

12. RESEARCH AND DEVELOPMENT EXPENSES

	2006	2005
	\$	\$
Subcontractors, supplies and materials <i>[note 10]</i>	1,304,790	497,518
Wages and benefits <i>[notes 10 and 18]</i>	465,561	337,996
	1,770,351	835,514
Less:		
Government assistance and other subsidies <i>[note 13]</i>	(50,818)	(10,073)
Research and development tax refund	—	(104,310)
	(50,818)	(114,383)
	1,719,533	721,131

13. GOVERNMENT ASSISTANCE AND OTHER SUBSIDIES

During the year, the Company received grants from the Natural Sciences and Engineering Research Council of Canada (“NSERC”) totalling \$50,818 [2005 - \$10,073] calculated at up to \$4,500 per student employed by the Company.

14. FINANCIAL INSTRUMENTS

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of cash and cash equivalents, short term investments, goods and services tax recoverable, research and development tax credits, and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments. The Company is subject to currency risk due to the fluctuation of exchange rates between the Canadian dollar and the foreign currency denominated financial instruments. The Company is not subject to significant interest, or credit risks arising from these financial instruments.

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NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

15. INCOME TAXES

The reconciliation of income taxes attributed to operations computed at the statutory rate to income tax expense (recovery) using a 34.25% [2005 - 36%] statutory tax rate at May 31 is as follows:

	2006 \$	2005 \$
Loss before income taxes	(2,378,867)	(1,198,931)
Income taxes (recovery) at statutory rates	(814,762)	(431,615)
Expenses not deductible for tax purposes	91,900	3,617
Non-capital losses for which no benefit has been recognized	292,062	147,712
Other temporary differences for which no benefits have been recognized	430,800	280,286
Income tax expense (recovery)	—	—

The significant components of the Company's future income tax assets as of May 31 are as follows:

	2006 \$	2005 \$
Future tax assets		
Non-capital loss carry forwards	750,000	458,000
Capital loss carry forwards	15,000	13,000
Book amortization in excess of tax capital cost allowance	64,000	33,000
Share issue costs	38,000	53,000
Research and development deductions and credits	1,199,000	607,000
Total future tax assets	2,066,000	1,164,000
Less: valuation allowance	(2,066,000)	(1,164,000)
Net future tax assets	—	—

The potential income tax benefits relating to these future tax assets have not been recognized in these financial statements as there is no assurance that such amount are "more likely than not" to be realized under the liability method of tax accounting. Accordingly, a valuation allowance has been recorded and no future tax assets have been recognized as at May 31, 2006 and 2005.

NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

15. INCOME TAXES (cont'd.)

At May 31, 2006, the Company has accumulated non-capital loss carry forwards of approximately \$2,188,000, federal investment tax credits of approximately \$382,000 and provincial tax credits of approximately \$206,000 available to reduce taxable income and taxes payable for future years. These losses and investment tax credits expire in the following years:

	Provincial tax credits \$	Investment tax credits \$	Non-capital carry forwards \$
2007	—	—	191,000
2008	—	—	199,000
2009	—	—	332,000
2010	—	3,000	—
2011	—	7,000	—
2013	—	—	214,000
2014	—	1,000	132,000
2015	70,000	126,000	267,000
2016	136,000	245,000	853,000
	206,000	382,000	2,188,000

Approximately \$375,000 of the non-capital loss carry forwards above were transferred to the Company on amalgamation with Belltech. Subsection 111(5) of the Income Tax Act restricts the use of these losses to reduce taxable income from a same or similar business. As a result, it is unlikely that the Company will recognize the benefit of these losses.

In addition, the Company has capital loss carry forwards of approximately \$43,000 and unclaimed tax deductions of approximately \$2,193,000 related to scientific research and experimental development expenditures available to carry forward indefinitely to reduce taxable income of future years and other deductible temporary differences of approximately \$297,000.

16. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being the research and development of pharmaceutical products in Canada.

Welichem Biotech Inc.
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NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

17. COMMITMENTS

The Company leases lab and office space and is committed to future minimum lease payments as follows:

	\$
2007	100,335
2008	33,641
	<u>133,976</u>

The Company is also committed to paying its share of operating costs in connection with its lab and office space.

18. RELATED PARTY TRANSACTIONS

All transactions with related parties are recorded at their exchange amounts.

During the year ended May 31, 2006, the Company paid \$269,734 [2005 - \$234,742] in wages, \$3,750 [2005 - \$3,031] for consulting services, and \$17,490 [2005 - \$nil] in directors' fees to its former and current directors.

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.



NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

20. SUBSEQUENT EVENTS

- [a] Subsequent to this reporting period, the Company closed a non-broker private placement of 37,536,000 units at a purchase price of \$0.075 per unit, for a total of up to \$2,815,200. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant is exercisable into one common share at a price of \$0.20 for a period of 24 months from the date of issuance of the share purchase warrant. A finder's fee of \$255,870 was paid in connection with the private placement. As a result of this private placement, Canadian Maple Leaf Investment Co. Ltd. became a controlling shareholder, holding 37.89% of the issued and outstanding shares of the Company, on a fully diluted basis.
- [b] The Company received the approval for a grant of \$200,000 over an 18-month period from the Industrial Research Assistance Program ("IRAP") in July 2006.
- [c] The Company granted options to acquire 2,090,000 common shares at an exercise price of \$0.10 and expiring on August 31, 2011.