

**WELICHEM BIOTECH INC.**  
**(A development stage enterprise)**

**FINANCIAL STATEMENTS**  
**(Unaudited – Prepared by Management)**

**November 30, 2006**

**NOTE: These financial statements have not been reviewed or audited by the Company's auditor.**

**WELICHEM BIOTECH INC.**  
**BALANCE SHEETS**  
(Unaudited – Prepared by Management)

	November 30, 2006	May 31, 2006
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents <i>[Note 4 (a)]</i>	\$ 1,556,740	\$ 265,593
Accounts receivable	95,833	42,111
Refundable tax credit	0	97,778
Prepaid expense	<u>19,381</u>	<u>27,134</u>
	1,671,954	432,616
<b>Patent rights and applications</b> <i>[Note 6]</i>	277,389	279,539
<b>Property and equipment</b> <i>[Note 5]</i>	34,277	32,804
<b>Deposit</b> <i>[Note 7]</i>	<u>14,615</u>	<u>14,615</u>
Total Assets	<u>\$ 1,998,235</u>	<u>\$ 759,574</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>		
Accounts payable and accrued liabilities	<u>\$ 470,946</u>	<u>\$ 289,920</u>
<b>Shareholders' equity</b>		
Share Capital <i>[Note 8]</i>	7,085,736	5,238,644
Contributed surplus <i>[Note 9 and 11]</i>	1,188,210	279,088
Deficit	<u>(6,746,657)</u>	<u>(5,048,078)</u>
	<u>1,527,289</u>	<u>469,654</u>
Total Liabilities and Shareholder's Equity	<u>\$ 1,998,235</u>	<u>\$ 759,574</u>

**Nature of operations** *[Note 2]*  
**Commitments** *[Note 16]*  
**Subsequent events** *[Note 19]*

**On behalf of the Board:**

\_\_\_\_\_  
"John Dustan" Director      \_\_\_\_\_ "Hugh Wynne-Edwards" Director

The accompanying notes are an integral part of these financial statements.

**WELICHEM BIOTECH INC.**  
**STATEMENTS OF OPERATIONS AND DEFICIT**  
(Unaudited – Prepared by Management)

	Three Month Period Ended November 30, 2006	Three Month Period Ended November 30, 2005	Six Month Period Ended November 30, 2006	Six Month Period Ended November 30, 2005
<b>RESEARCH AND DEVELOPMENT EXPENSES</b> <i>[Note 10, 12, 13 and 17]</i>	\$ 664,059	\$ 467,894	\$ 1,279,181	\$ 1,037,453
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>				
Amortization – Property and equipment	2,872	3,167	6,107	6,394
Amortization – Patent rights and applications	9,144	3,745	18,089	7,400
Consulting	8,150	0	20,150	0
Director’s Fees	8,150	4,500	10,250	8,500
Insurance	21,878	15,000	21,878	15,000
Investor Relations	1,400	15,108	1,400	27,264
Legal and accounting fees	20,122	14,234	26,834	35,173
Office and miscellaneous	15,993	6,660	21,275	15,453
Regulatory expenses	2,833	2,564	21,892	13,251
Rent	24,692	22,837	49,378	44,119
Telecommunications	1,855	1,285	4,076	2,108
Travel and related costs	17,061	8,312	25,515	14,623
Wages and benefits	46,499	80,328	227,722	108,960
	<u>180,649</u>	<u>177,740</u>	<u>454,566</u>	<u>298,245</u>
<b>Loss before other items</b>	<u>(844,708)</u>	<u>(645,634)</u>	<u>(1,733,747)</u>	<u>(1,335,698)</u>
<b>OTHER ITEMS</b>				
Foreign exchange gain	(1,658)	(324)	4,465	(161)
Other income	(2,565)	13,000	(2,565)	13,000
Interest income	17,053	2,805	33,268	5,153
	<u>12,830</u>	<u>15,481</u>	<u>35,168</u>	<u>17,992</u>
<b>Loss for the period</b>	(831,878)	(630,153)	(1,698,579)	(1,317,706)
<b>Prior period adjustments</b>	0	0	0	(6,532)
<b>Deficit, beginning of period</b>	<u>(5,914,779)</u>	<u>(3,356,764)</u>	<u>(5,048,078)</u>	<u>(2,662,679)</u>
<b>Deficit, end of period</b>	\$ (6,746,657)	\$ (3,986,917)	(6,746,657)	(3,986,917)
<b>Basic loss per common share</b>	\$ (0.02)	\$ (0.03)	\$ (0.03)	\$ (0.05)
<b>Diluted loss per common share</b>	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.03)
<b>Weighted average number of common shares outstanding</b>	57,748,325	24,505,361	57,748,325	24,505,361

The accompanying notes are an integral part of these financial statements.

**WELICHEM BIOTECH INC.**  
**STATEMENTS OF CASH FLOWS**  
(Unaudited – Prepared by Management)

	Three Month Period Ended November 30, 2006	Three Month Period Ended November 30, 2005	Six Month Period Ended November 30, 2006	Six Month Period Ended November 30, 2005
<b>CASH FROM (USED IN) OPERATING ACTIVITIES</b>				
Loss for the period	\$ (831,878)	\$ (630,153)	\$ (1,698,579)	\$ (1,317,706)
Items not involving cash:				
Amortization of property and equipment	2,872	3,167	6,107	6,394
Amortization of patent rights and applications	9,144	3,745	18,089	7,400
Stock-based compensation	2,932	52,550	196,884	68,800
Changes in non-cash working capital items:				
Decrease (Increase) in receivables	(39,510)	(5,192)	(53,722)	(12,902)
Decrease in research and development tax credit receivable	97,778	0	97,778	0
Decrease (Increase) in prepaid expenses	0	0	7,753	0
Increase (Decrease) in accounts payable and accrued liabilities	<u>238,945</u>	<u>(29,736)</u>	<u>181,026</u>	<u>(125,872)</u>
Net cash used in operating activities	<u>(519,717)</u>	<u>(605,619)</u>	<u>(1,244,664)</u>	<u>(1,373,886)</u>
<b>CASH FROM (USED IN) INVESTING ACTIVITIES</b>				
Patent rights and applications	(7,955)	(19,172)	(15,939)	(23,508)
Purchase of property and equipment	0	(2,126)	(7,580)	(2,982)
Short term investments	<u>0</u>	<u>697,305</u>	<u>0</u>	<u>141,555</u>
Net cash provided by (used in) investing activities	<u>(7,955)</u>	<u>676,007</u>	<u>(23,519)</u>	<u>115,065</u>
<b>CASH FROM (USED IN) FINANCING ACTIVITIES</b>				
Net proceeds from issuance of shares and warrants	<u>0</u>	<u>0</u>	<u>2,559,330</u>	<u>0</u>
Net cash provided by financing activities	<u>0</u>	<u>0</u>	<u>2,559,330</u>	<u>0</u>
<b>Change in cash during the period</b>	<b>(527,672)</b>	<b>70,388</b>	<b>1,291,147</b>	<b>(1,258,821)</b>
<b>Cash, beginning of period</b>	<b><u>2,084,412</u></b>	<b><u>55,431</u></b>	<b><u>265,593</u></b>	<b><u>1,384,640</u></b>
<b>Cash, end of period</b>	<b>\$ 1,556,740</b>	<b>\$ 125,819</b>	<b>\$ 1,556,740</b>	<b>\$ 125,819</b>
<b>Supplemental disclosure of cash flow information:</b>				
<b>Cash paid during the year for interest</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Cash paid during the year for income taxes</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

The accompanying notes are an integral part of these financial statements.

**WELICHEM BIOTECH INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Unaudited – Prepared by Management)  
SIX MONTH PERIOD ENDED NOVEMBER 30, 2006

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**1. BASIS OF PRESENTATION**

These interim 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. The operations of the Company have been funded primarily by the issuance of share capital. Continued operations of the Company are dependent on the Company’s ability to complete financing or generate profitable operations in the future

As at November 30, 2006, the Company had working capital of \$1,201,008 and an accumulated deficit of \$6,746,657 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.

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual financial statements. These interim financial statements should be read together with the audited financial statements and the accompanying notes included in the Company’s latest annual report for the year ended May 31, 2006. In the opinion of the Company, its unaudited financial statements contain all the adjustments necessary in order to present a fair statement of the results of the interim periods presented.

**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.

**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.

**3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Short-term investments**

The Company considers all highly liquid financial instruments (e.g. guaranteed investment certificates, etc.) 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.

**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.

**Warrants**

The Company also uses the fair value method for warrants issued to investors in the closing of private placement, in accordance with the CICA Handbook Section 3870 "*Stock-Based Compensation and Other Stock-Based Payments*". The fair value of warrants is to be 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 warrants. The fair value of warrants will be determined by the quoted market price of the Company's stock.

The net proceeds of the private placement are to be allocated between the common shares and the warrants. The allocation is calculated by valuing the common shares and the warrants separately and adjusting the resulting amounts on a pro-rata basis so that the sum of the components is equal to the amount of cash received.

**3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**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.

**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 November 30, 2006, 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.

**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.

**WELICHEM BIOTECH INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Unaudited – Prepared by Management)  
SIX MONTH PERIOD ENDED NOVEMBER 30, 2006

**4. CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS**

**[a] Cash equivalents**

Cash equivalent includes \$1,556,740 of investment grade commercial paper with a weighted average interest rate of 4.25%. Of the total amount of cash and cash equivalents, \$51,694 (US\$45,497) is denominated in US dollars.

**[b] Short-term investments**

As at November 30, 2006, the Company held no short-term investments.

**5. EQUIPMENT**

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
	\$	\$	\$
<b>November 30, 2006</b>			
Lab equipment	67,413	56,039	11,374
Office equipment	51,621	28,718	22,903
Leasehold improvements	44,891	44,891	0
	163,925	129,648	34,277
<b>May 31, 2006</b>			
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

**6. PATENT RIGHTS AND APPLICATIONS**

	<b>November 30, 2006</b>	<b>May 31, 2006</b>
	\$	\$
Patent rights and applications	369,750	353,811
Less: accumulated amortization	(92,361)	(74,272)
	277,389	279,539

**7. DEPOSIT**

Deposit consists of a term deposit of \$14,615 held as collateral for the Company's credit card.

**WELICHEM BIOTECH INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Unaudited – Prepared by Management)  
SIX MONTH PERIOD ENDED NOVEMBER 30, 2006

**8. SHARE CAPITAL**

	Number of Shares	\$
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 <i>[note 8a]</i>	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 <i>[note 8b]</i>	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 <i>[note 8c]</i>	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 <i>[note 8d]</i>	8,499,926	1,943,483
Share issuance costs for private placement	—	(64,866)
	28,780,325	5,238,644
Balance as at May 31, 2005 and 2006		
Welichem common shares issued in the private placement closed in July 2006	37,536,000	2,031,753
Share issuance costs for private placement <i>[note 8g]</i>	—	(184,661)
	66,316,325	7,085,736

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

**WELICHEM BIOTECH INC.**  
NOTES TO THE FINANCIAL STATEMENTS  
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SIX MONTH PERIOD ENDED NOVEMBER 30, 2006

**8. SHARE CAPITAL (cont'd.)**

- [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 quarter ended November 30, 2006, a total of 1,656,761 common shares were released from escrow, leaving the balance of common shares in escrow at 4,970,302 as at August 31, 2006. The release of the balance of these shares is staged over a period of three years ending on May 20, 2008.
- [g] The Company issued 37,536,000 common shares at a price of \$0.075 per share and 18,768,000 warrants exercisable at 20 cents up to July 11, 2008 to raised gross proceeds of \$2,815,200 in a private placement in July 2006. The share issuance cost shown in this schedule is the pro-rata value assigned to the common shares issued in this private placement.
- [h] The Company granted 20,000 stock options during the 3-month period between September 1, 2006 and November 30, 2006, resulting in compensation costs, under the Black-Scholes option pricing model, of \$2,932 which was recorded as stock-based compensation expense [note 10].

**9. CONTRIBUTED SURPLUS**

	<b>Amount</b>
	\$
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
Stock-based compensation, June to August 2006 [note 10]	193,952
Contributed surplus related to warrants, June to August 2006 [note 11]	712,238
Stock-based compensation, September to November 2006 [note 10]	2,932
Balance, November 30, 2006	1,188,210

**10. STOCK OPTIONS**

The Company has a 2006 Amended Stock Option Plan whereby the Company can grant stock options to directors, officers, employees and consultants to acquire up to 6,631,633 common shares of the Company.

In the period ended November 30, 2006, the Company granted 20,000 stock options to officers, directors, and employees. The options are exercisable at a price of \$0.15 per share for a period of five years from date of grant.

**WELICHEM BIOTECH INC.**  
NOTES TO THE FINANCIAL STATEMENTS  
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SIX MONTH PERIOD ENDED NOVEMBER 30, 2006

**10. STOCK OPTIONS (Cont'd)**

As at November 30, 2006, stock options were outstanding enabling the holders to acquire the following number of common shares:

<b>Number of Shares</b>	<b>Number of Options Exercisable</b>	<b>Exercise Price \$</b>	<b>Expiry Date</b>
200,000	200,000	0.10	January 31, 2011
1,950,000	1,950,000	0.10	May 7, 2011
2,090,000	2,090,000	0.10	August 31, 2011
150,000	150,000	0.15	July 30, 2011
20,000	20,000	0.15	October 17, 2011
240,000	240,000	0.20	July 31, 2008
150,000	0	0.20	January 30, 2012
188,100	188,100	0.22	December 31, 2009
300,000	300,000	0.22	March 15, 2010
241,500	241,500	0.22	May 25, 2010
50,000	50,000	0.23	May 25, 2010
50,000	50,000	0.23	June 1, 2010
<b>5,629,600</b>	<b>5,479,600</b>		

As at November 30, 2006, the weighted average remaining contractual life of the outstanding stock options is 4.6 years.

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

	<b>Number of Options</b>	<b>Weighted Average Exercise Price \$</b>
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 <i>[note 2]</i>	(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
Options granted	2,110,000	0.10
Balance, November 30, 2006	5,629,600	0.13

**WELICHEM BIOTECH INC.**  
NOTES TO THE FINANCIAL STATEMENTS  
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SIX MONTH PERIOD ENDED NOVEMBER 30, 2006

**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 \$2,932 [2005 - \$52,550] during the 3-month period ended November 30, 2006. The offsetting amount was recorded as contributed surplus on the balance sheet [note 9]. This expense has been allocated to wages and benefits \$2,932 [2005 - \$52,550] on the same basis as cash compensation.

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

	<b>2006</b>	<b>2005</b>
	\$	\$
Risk-free interest rate	4.5%	3.4%
Expected life of options	5 years	5 years
Annualized volatility	200%	80%
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 November 30, 2006, 18,768,000 warrants are outstanding. Each warrant entitles the holder to buy one common share at \$0.20 until July 11, 2008.

Warrants issued during fiscal year ended May 31, 2005	6,818,183
Warrants outstanding as at May 31, 2005 and 2006	6,818,183
Warrants issued during period ended August 31, 2006	18,768,000
Warrants expired during period ended August 31, 2006	(6,818,183)
Warrants outstanding as at November 30, 2006	18,768,000

**WELICHEM BIOTECH INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**11. WARRANTS (cont'd)**

The assumptions used in the calculation of the value of the warrants (using the Black-Scholes Option Pricing Model) were:

Risk-free interest rate	4.23%
Expected life of warrants	2 years
Annualized volatility	185%
Market share price on April 24, 2006	12.5 cents
Dividend rate	\$Nil

The net proceeds of the private placement are to be allocated between the common shares and the warrants. The allocation is calculated by valuing the common shares and the warrants separately and adjusting the resulting amounts on a pro-rata basis so that the sum of the components is equal to the amount of cash received.

The net proceeds (\$2,559,330) of the private placement were to be allocated between the common shares (\$1,847,092) and the warrants (\$712,238). The allocation was calculated by valuing the common shares and the warrants separately and adjusting the resulting amounts on a pro-rata basis so that the sum of the components is equal to the amount of cash received. The fair value of the common shares was assumed to be equal to the deemed market share price multiplied by the number of common shares issued (37,536,000) in this private placement. The estimated fair value of warrants at \$712,238 was recorded as contributed surplus on the balance sheet [note 9].

No warrants were issued in this 3-month reporting period ended November 30, 2006.

**12. RESEARCH AND DEVELOPMENT EXPENSES**

	2006	2005
	\$	\$
Subcontractors, supplies and materials [note 10]	605,955	362,432
Wages and benefits [notes 10 and 18]	87,334	105,462
	693,289	467,894
<b>Less:</b>		
Government assistance and other subsidies [note 13]	(29,230)	—
Research and development tax refund	—	—
	(29,230)	—
	664,059	467,894

**13. GOVERNMENT ASSISTANCE AND OTHER SUBSIDIES**

Under an agreement through the Industrial Research Assistance Program ("IRAP"), the National Research Council of Canada ("NRC") agreed to reimburse certain of the Company's allowable direct expenditures on the evaluation of anti-cancer agents on a cost matching basis. During the period, the Company was awarded a financial contribution of up to \$200,000 over a two-year period by NRC – IRAP for research and development of its novel anti-cancer compound, WBI 2100. The Company received a grant totalling \$29,230 [2005 - \$Nil] in this period.

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**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.

**15. SEGMENTED INFORMATION**

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

**16. COMMITMENTS**

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

	\$
2007	50,461
2008	33,641
	<u>84,102</u>

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

**17. RELATED PARTY TRANSACTIONS**

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

During the three-month period ended November 30, 2006, the Company paid \$52,000 [2005 - \$60,354] in wages, and \$8,150 [2005 - \$4,500] in directors' fees to its former and current directors.

**18. COMPARATIVE FIGURES**

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

**19. SUBSEQUENT EVENTS**

There was no subsequent event in this reporting period.