

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

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

**February 29, 2008**

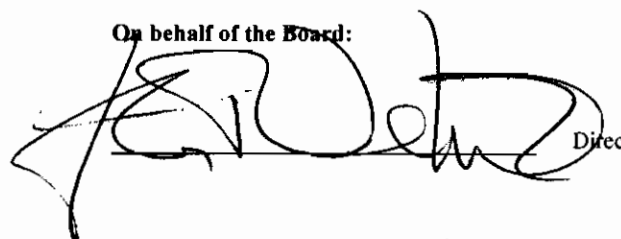
**NOTE: These financial statements have not been reviewed or audited by the Company's auditor.**

**WELICHEM BIOTECH INC.**  
**(a development stage company)**  
**BALANCE SHEETS (See Note 1 – BASIS OF PRESENTATION)**  
 (Expressed in Canadian Dollar)  
 (Unaudited – Prepared by Management)

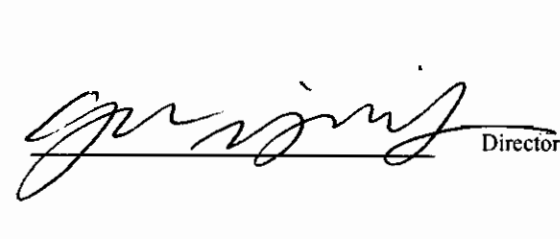
	February 29, 2008	May 31, 2007
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents [Note 4 (a)]	\$ 0	\$ 1,081,378
Short-term investments [Note 4(b)]	103,429	133,077
Subscription receivable	0	25,000
Goods and services tax receivable	39,298	159,396
Prepaid expense	<u>30,574</u>	<u>30,574</u>
	173,301	1,429,425
<b>Property and equipment</b> [Note 5]	28,189	29,615
<b>Patent rights and applications</b> [Note 6]	280,355	289,940
<b>Deposit</b> [Note 7]	<u>14,615</u>	<u>14,615</u>
<b>Total Assets</b>	<b>\$ 496,460</b>	<b>\$ 1,763,595</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 255,204	\$ 463,591
Bank overdraft	51,910	0
Short-term loan [Note 8]	<u>608,653</u>	<u>0</u>
	<u>915,767</u>	<u>463,591</u>
<b>Shareholders' equity</b>		
Share capital [Note 9]	8,070,286	7,061,128
Share subscriptions received in advance [Note 18]	0	998,125
Contributed surplus [Note 10]	1,461,930	1,489,980
Deficit	<u>(9,951,523)</u>	<u>(8,249,229)</u>
	<u>(419,307)</u>	<u>1,300,004</u>
<b>Total Liabilities and Shareholder's Equity</b>	<b>\$ 496,460</b>	<b>\$ 1,763,595</b>

**Nature of operations** [Note 2]  
**Commitments** [Note 17]  
**Subsequent events** [Note 18]

On behalf of the Board:



Director



Director

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

**WELICHEM BIOTECH INC.**  
**(a development stage company)**  
**STATEMENTS OF OPERATIONS AND DEFICIT**  
(Expressed in Canadian Dollar)  
(Unaudited – Prepared by Management)

	Three Month Period Ended February 29, 2008	Three Month Period Ended February 28, 2007	Nine Month Period Ended February 29, 2008	Nine Month Period Ended February 28, 2007
<b>RESEARCH AND DEVELOPMENT EXPENSES</b> <i>[Note 11, 13, and 14]</i>	\$ 441,943	\$ 579,288	\$ 1,184,664	\$ 1,858,469
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>				
Amortization – Property and equipment	2,475	2,785	7,780	8,892
Amortization – Patent rights and applications	10,313	10,007	30,716	28,096
Consulting	15,000	10,481	42,157	30,631
Director’s fees	4,250	4,253	12,750	14,503
Insurance	4,309	2,970	35,415	24,848
Interest expense	8,653	0	8,653	0
Investor relations	1,139	1,336	4,158	2,736
Legal and accounting fees	31,413	19,599	64,330	46,433
Office and miscellaneous	19,079	8,100	42,128	29,375
Regulatory expenses	6,511	6,308	17,089	28,200
Rent	32,361	31,159	80,963	80,537
Telecommunications	1,729	2,091	7,949	6,167
Travel and related costs	2,773	24,347	21,551	49,862
Wages and benefits	40,409	120,055	159,618	347,777
	<u>180,414</u>	<u>243,491</u>	<u>535,257</u>	<u>698,057</u>
<b>Loss before other items</b>	<u>(622,357)</u>	<u>(822,779)</u>	<u>(1,719,921)</u>	<u>(2,556,526)</u>
<b>OTHER ITEMS</b>				
Foreign exchange gain (loss)	(544)	2,121	(5,751)	6,586
Other income	0	0	0	(2,565)
Interest income	4,614	7,877	23,378	41,145
	<u>4,070</u>	<u>9,998</u>	<u>17,627</u>	<u>45,166</u>
<b>Loss for the period</b>	<u>(618,287)</u>	<u>(812,781)</u>	<u>(1,702,294)</u>	<u>(2,511,360)</u>
<b>Deficit, beginning of period</b>	<u>(9,333,236)</u>	<u>(6,746,657)</u>	<u>(8,249,229)</u>	<u>(5,048,078)</u>
<b>Deficit, end of period</b>	<u>\$ (9,951,523)</u>	<u>\$ (7,559,438)</u>	<u>(9,951,523)</u>	<u>(7,559,438)</u>
<b>Basic loss per common share</b>	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.05)
<b>Diluted loss per common share</b>	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.05)
<b>Weighted average number of common shares outstanding</b>	71,451,972	52,647,810	71,451,972	52,647,810

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

**WELICHEM BIOTECH INC.**  
**(a development stage company)**  
**STATEMENTS OF OPERATIONS AND DEFICIT**  
(Expressed in Canadian Dollar)  
(Unaudited – Prepared by Management)

	Three Month Period Ended February 29, 2008	Three Month Period Ended February 28, 2007	Nine Month Period Ended February 29, 2008	Nine Month Period Ended February 28, 2007
<b>CASH FROM (USED IN) OPERATING ACTIVITIES</b>				
Loss for the period	\$ (618,287)	\$ (812,781)	\$ (1,702,294)	\$ (2,511,360)
Items not involving cash:				
Amortization of property and equipment	2,475	2,785	7,780	8,892
Amortization of patent rights and applications	10,313	10,007	30,716	28,096
Stock-based compensation	0	132,297	12,950	329,181
Changes in non-cash working capital items:				
Decrease (Increase) in goods and services tax receivables	(16,750)	(27,442)	120,098	(81,164)
Decrease in research and development tax credit receivable	0	0	0	97,778
Decrease (Increase) in prepaid expenses	0	0	0	7,753
Increase (Decrease) in accounts payable and accrued liabilities	<u>(35,238)</u>	<u>(259,072)</u>	<u>(208,387)</u>	<u>(78,046)</u>
Net cash used in operating activities	<u>(657,487)</u>	<u>(954,206)</u>	<u>(1,739,137)</u>	<u>(2,198,870)</u>
<b>CASH FROM (USED IN) INVESTING ACTIVITIES</b>				
Patent rights and applications	(2,676)	(25,666)	(21,133)	(41,605)
Purchase of property and equipment	0	(845)	(6,354)	(8,425)
(Increase) Decrease in short term investments	<u>36,873</u>	<u>0</u>	<u>29,648</u>	<u>0</u>
Net cash provided by (used in) investing activities	<u>34,197</u>	<u>(26,511)</u>	<u>2,161</u>	<u>(50,030)</u>
<b>CASH FROM (USED IN) FINANCING ACTIVITIES</b>				
Increase in short-term loan	308,653	0	608,653	0
Increase in share capital, net of issuance costs	0	8,000	993,159	2,567,330
Share subscriptions received in advance (net of issuance cost of \$1,875)	<u>0</u>	<u>0</u>	<u>(998,125)</u>	<u>0</u>
Net cash provided by financing activities	<u>308,653</u>	<u>8,000</u>	<u>603,687</u>	<u>2,567,330</u>
<b>Change in cash during the period</b>	<b>(314,638)</b>	<b>(972,717)</b>	<b>(1,133,288)</b>	<b>318,430</b>
<b>Cash, beginning of period</b>	<b><u>262,728</u></b>	<b><u>1,556,740</u></b>	<b><u>1,081,378</u></b>	<b><u>265,593</u></b>
<b>Cash, end of period</b>	<b>\$ (51,910)</b>	<b>\$ 584,023</b>	<b>\$ (51,910)</b>	<b>\$ 584,023</b>
<b>Supplemental disclosure of cash flow information:</b>				
<b>Cash paid during the period for interest</b>	<b>\$ 8,653</b>	<b>\$ -</b>	<b>\$ 8,653</b>	<b>\$ -</b>
<b>Cash paid during the period 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.**  
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NOTES TO THE FINANCIAL STATEMENTS  
(Expressed in Canadian Dollar)  
(Unaudited – Prepared by Management)  
NINE-MONTH PERIOD ENDED FEBRUARY 29, 2008

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**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.

The Company has incurred significant losses to date, and as at February 29, 2008, the Company has an accumulated deficit of \$9,951,523 resulting from losses in the current and prior years. 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 on its ability to obtain sufficient financing and complete development and commercialization of its products and generate profit in the future. Management is planning to raise additional funds to finance expected growth. The outcome of these matters cannot be predicted at this time.

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

**2. NATURE OF OPERATIONS**

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’s audited financial statements and unaudited interim financial statements are prepared in accordance with Canadian GAAP”) and the reporting currency is the Canadian dollar. These accounting principles require the Company to make certain estimates and assumptions. Management believes that the estimates and assumptions upon which it relies are reasonable based on information available at the time that these estimates and assumptions are made. Actual results could differ from these estimates. Areas of significant estimates include: amortization of intangible assets, assessment of the carrying value of intangible assets, and stock-based compensation. The significant accounting policies that the Company believes are the most critical in fully understanding and evaluating the reported financial results include the following:

**Changes in Significant Accounting Policies**

Effective June 1, 2007, we adopted the new recommendations of the CICA Handbook Section 1530, “*Comprehensive Income*”, Section 3251, “*Equity*”, Section 3855, “*Financial Instruments – Recognition and Measurement*”, and Section 3861, “*Financial Instruments – Disclosure and Presentation*”. These new accounting standards, which apply to fiscal years beginning on or after October 31, 2006, provide comprehensive requirements for the recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and, therefore, the comparative figures have not been restated. The adoption of these Handbook Sections had no impact on opening deficit.

- Section 1530 provides standards for reporting and display of comprehensive income, which is the change in equity, from transactions and other events and circumstances from non-owner sources. Other comprehensive

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

income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian GAAP.

- Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in Section 3251 are in addition to Section 1530.
- Section 3855 requires financial instruments be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income. Transaction costs are included in the initial carrying amount of financial instruments except for held-for-trading items in which case they are expensed as incurred. Section 3855 also requires that the embedded derivatives be identified and separated from the related host contract and be measured at fair value. Subsequent changes in fair value of embedded derivatives are recognized in the consolidated statement of operations in the period the change occurs.
- Section 3861 establishes the requirements for presentation and disclosure of financial instruments and non-financial derivatives.

The adoption of these new Handbook sections had no impact on the financial statements for the period ended February 29, 2008.

**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 the maximum period of ten years from the time of acquisition.

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

**Property and equipment**

Property and equipment are recorded at cost less accumulated amortization and are amortized over their expected useful lives 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 the estimated undiscounted future projected cash flows expected to result from the use of the asset and its eventual disposition is less than the carrying amount. The amount of the impairment loss to be recorded is calculated by the excess of the carrying value over its fair value, with fair value being determined using a discounted cashflow analysis.

**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.

At the transaction date, transactions completed in foreign currencies are translated into Canadian dollars by the use of the exchange rate in effect at that date. Revenues and expenses are translated at the average exchange rate for the year. At the year end, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rates. Non-monetary assets and liabilities are translated using historical exchange rates. Exchange gains and losses on translation are included in operations.

**Research and development expenses**

Research costs are expensed as incurred. 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 February 29, 2008 and February 28, 2007, the Company had not deferred any development costs.

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

**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 when there is reasonable assurance that the Company has complied with all conditions necessary to receive the grants and collectibility is reasonably assured.

**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 in the periods ended February 29, 2008 and February 28, 2007.

**Income taxes**

Future income taxes are recorded using the liability method. 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 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 \$1,656 (US\$1,658) [2007 - \$7,260 (US\$6,202)] that are denominated in US dollars.

**[b] Short-term investments**

Short-term investments comprises \$103,429 [2007 - \$540,403] of investment grade commercial paper with a weighted average interest rate of 4.592%. At February 29, 2008, the fair value of the investments approximated the carrying value.

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NINE-MONTH PERIOD ENDED FEBRUARY 29, 2008

**5. PROPERTY AND EQUIPMENT**

	February 29, 2008			May 31, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Lab equipment	\$ 67,948	\$ 59,963	\$ 7,985	\$ 67,413	\$ 57,887	\$ 9,526
Office equipment	58,285	38,081	20,204	52,465	32,376	20,089
Leasehold improvements	44,891	44,891	0	44,891	44,891	0
	\$ 171,124	\$ 142,935	\$ 28,189	\$ 164,769	\$ 135,154	\$ 29,615

**6. PATENT RIGHTS AND APPLICATIONS**

	February 29, 2008	May 31, 2007
Patent rights and applications	\$ 423,096	\$ 401,964
Less: accumulated amortization	(142,741)	(112,024)
	\$ 280,355	\$ 289,940

It is the Company's policy that it performs reviews of the carrying value of its patent rights and applications on an annual basis. During the year ended May 31, 2007, the Company performed reviews of the carrying value of its patent rights and applications and, as a result, the Company has not written off any book value of the patent rights and applications for the year ended May 31, 2007.

**7. DEPOSIT**

Deposit consists of a term deposit of \$14,615 (2006 - \$14,615) held as collateral for the Company's credit card.

**8. SHORT-TERM LOAN**

On November 30, 2007, the Company established a loan facility with Canadian Maple Leaf Investment Ltd. (CMLI), a major shareholder of the Company, that commits to provide funding up to \$1,000,000 to the Company within a six-month period on "as and required" basis. The Company will pay CMLI interest at a rate of Canadian prime rate plus 2% per annum, calculated daily based on the daily closing balance and to be paid at maturity. The loan facility can be extended to longer term at mutual agreement. As at February 29, 2008, the Company has borrowed a total of \$600,000 from the lender and accrued interest of \$8,653 that will be repaid with the principal amounts by May 31, 2008.

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**9. SHARE CAPITAL**

	Number of Shares	Amount
<b>Authorized</b>		
Unlimited number of common shares without par value		
<b>Common shares issued and outstanding:</b>		
Balance as at May 31, 2006 and 2005	28,780,325	\$ 5,238,644
Common shares issued in the private placement closed in July 2006, net of share issuance costs and fair value of detached warrants (a)	37,536,000	1,806,586
Common Share issued in the exercise of options (b)	<u>105,000</u>	<u>15,898</u>
Balance as at May 31, 2007	66,421,325	\$ 7,061,128
Common shares issued in the private placement closed in June 2007, net of share issuance costs (c)	6,666,667	933,158
Common Share issued in the exercise of options (d)	<u>275,000</u>	<u>76,000</u>
<b>Balance as at February 29, 2008</b>	<b>73,362,992</b>	<b>\$ 8,070,286</b>

- a) The Company issued 37,536,000 units comprising common shares at a price of \$0.075 per share and 18,768,000 warrants exercisable at \$0.20 up to July 12, 2008 in gross proceeds of \$2,815,200 less issuing costs of \$255,870 in a private placement in July 2006. [Note 11]
- b) 80,000 stock options were exercised at \$0.10 on January 18, 2007, and 25,000 stock options were exercised at \$0.10 on March 1, 2007.
- c) The Company issued 6,666,667 common shares at a price of \$0.15 per share in gross proceeds of \$1,000,000 less issuing costs of \$66,842 in a private placement in June 2007.
- d) 75,000 stock options were exercised at \$0.20 on August 2, 2007, and 200,000 stock options were exercised at \$0.10 on August 20, 2007.
- e) According to the escrow agreements signed in May 2005, a total of 11,045,102 shares were to be released over a 3-year period. As at February 29, 2008, a total of 1,656,769 shares are still in escrow.

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**10. CONTRIBUTED SURPLUS**

	Amount
Balance, May 31, 2005	\$ 11,243
Stock-based compensation expense [Note 11]	<u>267,845</u>
Balance, May 31, 2006	\$ 279,088
Stock-based compensation expense [Note 11]	463,546
Warrants issued in private placement in July 2006 [Note 12]	752,744
Exercise of options	<u>(5,398)</u>
Balance, May 31, 2007	\$1,489,980
Stock-based compensation expense [Note 11]	12,950
Exercise of options	<u>(41,000)</u>
Balance, February 29, 2008	<u>\$1,461,930</u>

**11. STOCK OPTIONS**

In the 3-month period ended February 29, 2008, the Company did not grant any stock option to its officers, directors, and employees.

As at February 29, 2008, stock options were outstanding enabling the holders to acquire the following number of common shares:

Number of Shares	Exercise Price	Expiry Date
200,000	\$ 0.10	January 31, 2011
1,695,000	0.10	May 7, 2011
1,890,000	0.10	August 31, 2011
1,055,000	0.135	January 31, 2012
150,000	0.15	July 30, 2011
100,000	0.175	July 23, 2012
165,000	0.20	July 31, 2008
150,000	0.20	January 30, 2012
188,100	0.22	December 31, 2009
300,000	0.22	March 15, 2010
241,500	0.22	May 25, 2010
50,000	0.23	May 25, 2010
<u>50,000</u>	0.23	June 1, 2010
<u>6,234,600</u>		

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**11. STOCK OPTIONS (cont'd)**

As at February 29, 2008, the weighted average remaining contractual life of the outstanding stock options is 3.0 years, and all the options are currently exercisable at an average price of \$0.13.

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

	Number of Options	Weighted Average Exercise Price
Balance, May 31, 2005	1,906,080	0.22
Options granted	2,850,000	0.12
Options cancelled	<u>(1,236,480)</u>	0.22
Balance, May 31, 2006	3,519,600	0.14
Options granted	3,165,000	0.11
Options cancelled	<u>(170,000)</u>	0.11
Options exercised	<u>(105,000)</u>	0.10
Balance, May 31, 2007	6,409,600	0.13
Options granted	100,000	0.175
Options exercised	<u>(275,000)</u>	0.13
Options outstanding and exercisable on February 29, 2008	6,234,600	\$ 0.13

**Stock-based compensation**

The Company recorded stock-based compensation costs of \$nil (2007 – \$132,297). The offsetting amount was recorded as contributed surplus on the balance sheet. [Note 10] This expense has been allocated to wages and benefits \$nil (2007 - \$132,297) 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 weighted average assumptions:

	<u>2007</u>	<u>2006</u>
Risk-free interest rate	4.2%	4.5%
Expected life of options	5 years	5 years
Annualized volatility	107%	200%
Dividend rate	Nil	Nil
Fair value per share	\$0.13	\$0.09

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.

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**12. WARRANTS**

As at February 29, 2008, 18,768,000 warrants are outstanding. Each warrant entitles the holder to buy one common share at \$0.20 until July 11, 2008.

Warrants outstanding as at May 31, 2006 and 2005	6,818,183
Warrants issued in connection with the private placement	18,768,000
Warrants expired	<u>(6,818,183)</u>
Warrants outstanding as at November 30, 2007	<u>18,768,000</u>

The net proceeds (\$2,559,330) of the private placement were allocated between the common shares (\$1,806,586) and the warrants (\$752,744). 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 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 \$752,744 was recorded as contributed surplus on the balance sheet for the three-month period ended August 31, 2006 [note 10].

The assumptions used in the calculation of the fair 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%
Dividend rate	\$Nil

**WELICHEM BIOTECH INC.**  
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**13. RESEARCH AND DEVELOPMENT EXPENSES**

	2008	2007
Subcontractors, supplies and materials	\$ 334,331	\$ 443,469
Wages and benefits [Note 11]	<u>107,612</u>	<u>174,971</u>
	<u>\$ 441,943</u>	<u>\$ 618,440</u>
Less:		
Government assistance and other [Note 14]	\$ 0	\$ (39,152)
	<u>\$ 441,943</u>	<u>\$ 579,288</u>

**14. GOVERNMENT ASSISTANCE**

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. In prior years and this year, the Company was awarded a financial contribution of up to \$460,000 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 \$nil [2007 - \$29,152] in this period.

During the period, the Company also received grants from the Natural Sciences and Engineering Research Council of Canada ("NSERC") totalling \$nil (2007 - \$10,000) for fellowship payments for a post-doctoral researcher and employment of students by the Company.

**15. 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, short term investments, accounts receivable, Goods & Services tax receivable, and accounts payable 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.

**16. SEGMENTED INFORMATION**

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

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**17. COMMITMENTS**

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

2007/08	\$	17,376
2008/09		70,228
2009/10		73,848
2010/11		<u>24,616</u>
	\$	<u>186,068</u>

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

In addition, the Company has signed agreements and contracts with various contract research organizations (CROs) related to its different research and development projects and will be obliged to pay \$347,894 to the CROs when all the work is completed.

**18. SUBSEQUENT EVENTS**

On March 11, 2008, the Company borrowed another \$198,000 from Canadian Maple Leaf Investment Ltd. through the loan facility established on November 30, 2007.

On March 12, 2008, the National Research Council Canada Industrial Research Assistance Program (NRC- IRAP) provided an increase to the Company's original contribution agreement of up to \$118,000. The contribution will assist Welichem with research and development on its unique oncology drug candidate, WBI-2100. This contribution agreement will allow the Company to have up to a total of \$460,000 towards the development of this particular R&D project.

**19. RELATED PARTY TRANSACTIONS**

The Company paid \$36,042 (2007 - \$52,795) in wages and \$4,250 (2007 – \$4,253) in directors' fees to its officers and directors during this period.

**20. TECHNOLOGY TRANSFER AGREEMENTS**

In September 2004, the Company entered into a Technology Transfer Agreement (the "Agreement") with Celestial Pharmaceuticals (Shenzhen) Ltd. ("CPL"), a company located in the People's Republic of China (the "PRC"). Pursuant to the Agreement, the Company transferred and assigned its rights to certain of its proprietary technologies ("Transferred Technologies") to CPL on a royalty-free basis to use, develop, improve and upgrade the Transferred Technologies, and to distribute, market and sell products derived or manufactured from the Transferred Technologies in the PRC, Hong Kong, Macau and Taiwan. CPL also subscribed 4,545,455 common shares of the Company for \$1,500,000.

In December 2005, Welichem licensed and assigned to CPL all its rights to develop, improve, upgrade, manufacture, distribute, and market, in and limited to Australia and Asia, of Welichem proprietary technology known as Novel Macrolide compounds with Antibiotic and Anti-neoplastic properties, in exchange for rights and licence granted to the Company with no additional cost for royalty-free use, development, improvement, upgrading, marketing and distribution worldwide of CPL's proprietary cream formulation known as CPL-1000.