

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

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

**AUGUST 31, 2008**

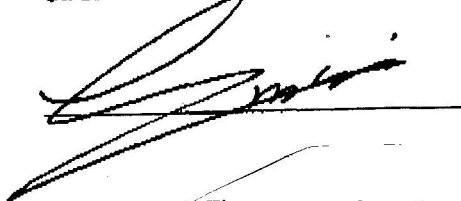
**NOTE: These financial statements have not been reviewed or audited by the Company's auditor.**

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

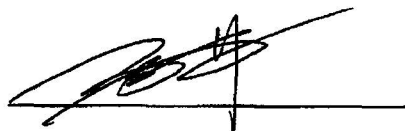
	August 31, 2008	May 31, 2008
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents [Note 5 (a)]	\$ 2,657,113	\$ 4,984,241
Goods and services tax receivable	13,614	70,346
Prepaid expense	<u>41,750</u>	<u>20,694</u>
	2,712,477	5,075,281
<b>Property and equipment [Note 6]</b>	23,851	25,894
<b>Patent rights and applications [Note 7]</b>	263,535	273,708
<b>Deposit [Note 8]</b>	<u>14,615</u>	<u>14,615</u>
<b>Total Assets</b>	<b>\$ 3,014,478</b>	<b>\$ 5,389,498</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 190,014	\$ 628,499
Shareholder loan [Note 9]	<u>0</u>	<u>998,000</u>
	190,014	1,626,499
<b>Shareholders' equity</b>		
Share capital [Note 10]	11,209,286	8,066,286
Share subscriptions received in advance [Note 19]	0	5,000,000
Contributed surplus [Note 11]	2,825,930	1,465,930
Deficit	<u>(11,210,752)</u>	<u>(10,769,217)</u>
	2,824,464	3,762,999
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 3,014,478</b>	<b>\$ 5,389,498</b>

Nature of operations [Note 2]  
 Commitments [Note 18]  
 Subsequent events [Note 19]

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 COMPREHENSIVE LOSS AND DEFICIT**  
(Expressed in Canadian Dollar)  
(Unaudited – Prepared by Management)  
**THREE-MONTH PERIOD ENDED AUGUST 31**

	2008	2007
<b>RESEARCH AND DEVELOPMENT EXPENSES</b> [Notes 12, 14 & 15]	\$ 295,449	\$ 418,287
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Amortization – Property and equipment	2,044	2,643
Amortization – Patent rights and applications	10,483	10,165
Consulting	2,710	12,157
Director’s fees [Note 20]	3,650	0
Insurance	10,552	20,753
Investor relations	1,036	1,558
Legal and accounting fees	25,091	3,710
Loan interest	4,233	0
Office and miscellaneous	7,427	8,460
Regulatory expenses	28,268	6,823
Rent	28,827	25,882
Telecommunications	1,814	4,179
Travel and related costs	8,253	7,268
Wages and benefits [Notes 11 and 20]	37,472	78,699
	<u>171,860</u>	<u>182,297</u>
<b>Loss before other items</b>	<u>(467,309)</u>	<u>(600,584)</u>
<b>OTHER ITEMS</b>		
Foreign exchange gain (loss)	(813)	(173)
Interest income	26,587	7,653
	<u>25,774</u>	<u>7,480</u>
<b>Loss and comprehensive loss for the period</b>	(441,535)	(593,104)
<b>Deficit, beginning of period</b>	<u>(10,769,217)</u>	<u>(8,249,229)</u>
<b>Deficit, end of period</b>	<u>(11,210,752)</u>	<u>\$ (8,842,333)</u>
<b>Basic and diluted loss per common share</b>	\$ (0.01)	\$ (0.01)
<b>Weighted average number of common shares outstanding</b>	93,362,992	67,961,567

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

**WELICHEM BIOTECH INC.**  
**(a development stage company)**  
**STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian Dollar)  
(Unaudited – Prepared by Management)  
**THREE-MONTH PERIOD ENDED AUGUST 31**

	2008	2007
<b>CASH FROM (USED IN) OPERATING ACTIVITIES</b>		
Loss for the period	\$ (441,535)	\$ (593,104)
Items not involving cash:		
Amortization of property and equipment	2,044	2,643
Amortization of patent rights and applications	10,483	10,165
Stock-based compensation	0	12,950
Changes in non-cash working capital items:		
(Increase) Decrease in goods and services tax receivable	56,732	144,053
(Increase) Decrease in prepaid expenses	(21,056)	0
Increase (Decrease) in accounts payable and accrued liabilities	<u>(438,486)</u>	<u>(58,735)</u>
Cash used in operating activities	<u>(831,818)</u>	<u>(482,028)</u>
<b>CASH FROM (USED IN) INVESTING ACTIVITIES</b>		
Patent rights and applications	(310)	(11,826)
Purchase of property and equipment	0	(6,034)
(Increase) Decrease in short-term investments	0	(282)
Repayment of shareholder's loan	<u>(998,000)</u>	<u>0</u>
Cash provided by (used in) investing activities	<u>(998,310)</u>	<u>(18,142)</u>
<b>CASH FROM (USED IN) FINANCING ACTIVITIES</b>		
Increase in capital, net of issuance costs	(497,000)	993,159
Share subscriptions received in advance (net of issuance costs)	<u>0</u>	<u>(998,125)</u>
Cash provided by (used in) financing activities	<u>(497,000)</u>	<u>(4,966)</u>
<b>Net increase (decrease) in cash during the period</b>	<b>(2,327,128)</b>	<b>(505,136)</b>
<b>Cash, beginning of period</b>	<b><u>4,984,241</u></b>	<b><u>1,081,378</u></b>
<b>Cash, end of period</b>	<b>\$ 2,657,113</b>	<b>\$ 576,242</b>
<b>Supplemental disclosure of cash flow information:</b>		
<b>Cash paid during the period for interest [Note 9 &amp; 20]</b>	<b>\$ 27,521</b>	<b>\$ -</b>
<b>Cash paid during the period for income taxes</b>	<b>-</b>	<b>-</b>

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

**WELICHEM BIOTECH INC.**  
**(a development stage company)**  
NOTES TO THE FINANCIAL STATEMENTS  
(Expressed in Canadian Dollar)  
(Unaudited – Prepared by Management)  
3-MONTH PERIOD ENDED AUGUST 31, 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 August 31, 2008, the Company has an accumulated deficit of \$11,210,752 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 prepared its financial statements in accordance with Canadian generally accepted accounting principles (“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 patent rights and applications, assessment of the impairment of patent rights and applications, 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:

**Cash and 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 carried at cost, which approximate their market values.

**Patent rights and applications**

Patent rights and applications costs include the acquisition costs and 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.

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3-MONTH PERIOD ENDED AUGUST 31, 2008

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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 long-lived assets 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 August 31, 2008 and 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 August 31, 2008 and 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. CHANGES IN ACCOUNTING POLICIES**

**Comprehensive income and equity**

Effective June 1, 2007, the Company adopted the new recommendations of the CICA Handbook Section 1530, "*Comprehensive Income*" and Section 3251, "*Equity*". The adoption of these Handbook Sections had no significant 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 income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian GAAP.

**4. CHANGES IN ACCOUNTING POLICIES (CONT'D)**

**Comprehensive income and equity (cont'd)**

- 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.

The adoption of these new Handbook sections had no impact on the financial statements for the period ended August 31, 2008.

**Financial instruments**

Effective June 1, 2007, the Company also adopted the new recommendations of the CICA Handbook 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 significant impact on opening deficit.

- 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 initially 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 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.

Upon adoption of these new standards, the Company has classified cash and cash equivalents as held-for-trading, amounts receivable as loans and receivables, and all financial liabilities as other financial liabilities. The adoption of these new Handbook sections had no impact on the Company’s financial statements for the period ended August 31, 2008.

**4. CHANGES IN ACCOUNTING POLICIES (CONT'D)**

**Accounting changes**

In July 2006, the CICA revised Section 1506, “*Accounting Changes*”, which now requires that: (i) a voluntary change in accounting principles can be made if, and only if, it is required by primary source of Canadian GAAP or the changes result in more reliable and relevant information, (ii) changes in accounting policies are accompanied with disclosures of prior period amounts and justification for the change, and (iii) for changes in estimates, the nature and amount of the change should be disclosed. The revised section is effective for the Company’s financial year beginning June 1, 2007 for fiscal year 2008. The adoption of this section does not have an impact on the Company’s financial statements for the period ended August 31, 2008.

**New accounting pronouncements**

The Canadian Accounting Standards Board (AcSB) issued two new Sections in relation to financial instruments: Section 3862, “*Financial Instruments – Disclosure*”, and Section 3863, “*Financial Instruments – Presentation*”. Both sections will become effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company has adopted these standards commencing June 1, 2008. The adoption of these new standards has no material impact on the Company’s financial statements.

The AcSB issued Section 1535, “*Capital Disclosures*”. This standard requires disclosure regarding what the Company defines as capital and its objectives, policy and processes for managing capital. This standard will be effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company has adopted these standards commencing June 1, 2008. The adoption of these new standards has no material impact on the Company’s financial statements.

In January 2006, CICA Accounting Standards Board (“AcSB”) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards (“IFRS”) for accounting periods commencing on or after January 1, 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

In February 2008, the CICA issued Section 3064, “*Goodwill and Intangible Assets*”, which replaces Section 3062, “*Goodwill and Other Intangible Assets*” and Section 3450, “*Research and Development Costs*”. Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. The new Section will be applicable to the Company’s financial statements for its fiscal year beginning June 1, 2009. The Company is currently evaluating the impact of the adoption of this new Section on its financial statements.

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(Expressed in Canadian Dollar)  
(Unaudited – Prepared by Management)  
3-MONTH PERIOD ENDED AUGUST 31, 2008

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

**[a] Cash and cash equivalents**

Cash and cash equivalents includes \$29,769 (US\$28,233) [2007 - \$14,309 (US\$12,190)] that are denominated in US dollars.

**[b] Short-term investments**

Short-term investments comprises \$nil [2007 - \$133,359] of investment grade provincial bonds with a weighted average interest rate of \$nil [2007 - 4.829%].

**6. PROPERTY AND EQUIPMENT**

	August 31, 2008			May 31, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Lab equipment	\$ 67,948	\$ 61,158	\$ 6,790	\$ 67,948	\$ 60,568	\$ 7,380
Office equipment	58,285	41,224	17,061	58,285	39,771	18,514
	\$ 126,233	\$ 102,382	\$ 23,851	\$ 126,233	\$ 100,339	\$ 25,894

**7. PATENT RIGHTS AND APPLICATIONS**

	August 31, 2008	May 31, 2008
Patent rights and applications	\$ 427,100	\$ 426,790
Less: accumulated amortization	(163,565)	(153,082)
	\$ 263,535	\$ 273,708

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, 2008, 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, 2008.

**8. DEPOSIT**

Deposit consists of a term deposit of \$14,615 (2007 - \$14,615) held as collateral for the Company's credit card.

**WELICHEM BIOTECH INC.**  
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NOTES TO THE FINANCIAL STATEMENTS  
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3-MONTH PERIOD ENDED AUGUST 31, 2008

**9. SHAREHOLDER LOAN**

On November 30, 2007, the Company established a loan facility with Canadian Maple Leaf Investment Ltd. (CMLI), a former major shareholder of the Company, that committed to provide funding up to \$1,000,000 to the Company within a six-month period on “as and required” basis. The Company would 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. On June 23, 2008, the Company repaid the lender the principal amount of \$998,000 and interest of \$27,521 accrued during the loan period.

**10. 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	<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 (b)	6,666,667	933,158
Common Share issued in the exercise of options (c)	<u>275,000</u>	<u>72,000</u>
Balance as at May 31, 2008	73,362,992	\$ 8,066,286
Common shares issued in the private placement closed in June 2008, net of share issuance costs (d)	<u>100,000,000</u>	<u>3,143,000</u>
Balance as at August 31, 2008	<u>173,362,992</u>	<u>\$ 11,209,286</u>

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. All the warrants issued in this private placement were expired on July 12, 2008. [Note 13]

b) 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.

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NOTES TO THE FINANCIAL STATEMENTS  
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3-MONTH PERIOD ENDED AUGUST 31, 2008

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

- c) 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.
- d) The Company issued 100,000,000 units comprising common shares at a price of \$0.05 per share and 50,000,000 warrants exercisable at \$0.10 up to June 20, 2010 in gross proceeds of \$5,000,000 less issuing costs of \$497,000 in a private placement in June 2008. [Note 13]
- 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 August 31, 2008, no shares are subject to escrow.

**11. CONTRIBUTED SURPLUS**

	Amount
Balance, May 31, 2006	\$ 279,088
Stock-based compensation expense [Note 12]	463,546
Warrants issued in private placement in July 2006 [Note 13]	752,744
Exercise of options	<u>(5,398)</u>
Balance, May 31, 2007	\$1,489,980
Stock-based compensation expense [Note 12]	12,950
Exercise of options	<u>(37,000)</u>
Balance, May 31, 2008	\$1,465,930
Warrants issued in private placement in June 2008 [Note 13]	<u>1,360,000</u>
Balance, August 31, 2008	<u>\$2,825,930</u>

**12. STOCK OPTIONS**

In the period ended August 31, 2008, the Company did not grant any stock option (2007 – 100,000 exercisable anytime at \$0.175 per share for a period of five years from date of grant) to its officers, directors, employees, and consultants.

As at August 31, 2008, stock options were outstanding enabling the holders to acquire the following number of common shares:

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NOTES TO THE FINANCIAL STATEMENTS  
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3-MONTH PERIOD ENDED AUGUST 31, 2008

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

Number of Shares	Exercise Price	Expiry Date
200,000	\$ 0.10	January 31, 2011
1,365,000	0.10	May 7, 2011
1,610,000	0.10	August 31, 2011
895,000	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
113,100	0.22	December 31, 2009
150,000	0.22	March 15, 2010
166,500	0.22	May 25, 2010
50,000	0.23	May 25, 2010
<u>50,000</u>	0.23	June 1, 2010
5,164,600		

As at August 31, 2008, the weighted average remaining contractual life of the outstanding stock options is 2.7 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 31,2006	3,519,600	0.14
Options granted	3,165,000	0.11
Options cancelled	(170,000)	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 cancelled	(250,000)	0.11
Options exercised	<u>(275,000)</u>	0.13
Balance, May 31, 2008	5,984,600	0.13
Options cancelled	<u>(820,000)</u>	0.15
Options outstanding and exercisable on August 31, 2008	5,164,600	\$ 0.13

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3-MONTH PERIOD ENDED AUGUST 31, 2008

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

**Stock-based compensation**

The Company recorded stock-based compensation costs of \$nil (2007 – \$12,950). The offsetting amount was recorded as contributed surplus on the balance sheet. [Note 11] This expense has been allocated to wages and benefits \$nil (2007 - \$12,950) on the same basis as cash compensation and to research and development expenses \$nil (2007 - \$nil).

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

	<u>2008</u>	<u>2007</u>
Risk-free interest rate	3.524%	4.2%
Expected life of options	5 years	5 years
Annualized volatility	107%	107%
Dividend rate	Nil	Nil
Fair value per share	\$0.06	\$0.13

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.

**13. WARRANTS**

As at August 31, 2008, 50,000,000 warrants are outstanding. Each warrant entitles the holder to buy one common share at \$0.10 up to June 20, 2010. All warrants were expired in the subsequent period.

Warrants outstanding as at May 31, 2008 and 2007	18,768,000
Warrants issued in connection with the private placement in June 2008	50,000,000
Warrants expired	<u>(18,768,000)</u>
Warrants outstanding as at August 31, 2008	<b><u>50,000,000</u></b>

The net proceeds (\$4,503,000) of the private placement were allocated between the common shares (\$3,143,000) and the warrants (\$1,360,000). 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 (100,000,000) in this private placement. The estimated fair value of warrants at \$1,360,000 was recorded as contributed surplus on the balance sheet for the three-month period ended August 31, 2008 [note 11].

**WELICHEM BIOTECH INC.**  
**(a development stage company)**  
NOTES TO THE FINANCIAL STATEMENTS  
(Expressed in Canadian Dollar)  
(Unaudited – Prepared by Management)  
3-MONTH PERIOD ENDED AUGUST 31, 2008

**13. WARRANTS (cont'd)**

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	3.524%
Expected life of warrants	2 years
Annualized volatility	107%
Dividend rate	\$Nil

**14. RESEARCH AND DEVELOPMENT EXPENSES**

	2008	2007
Subcontractors, supplies and materials	\$ 205,359	\$ 331,944
Wages and benefits [Note 12]	<u>121,250</u>	<u>108,556</u>
	<u>\$ 326,609</u>	<u>\$ 440,500</u>
Less:		
Government assistance and other [Note 15]	<u>\$ (31,160)</u>	<u>\$ (22,213)</u>
	<u><b>\$ 295,449</b></u>	<u><b>\$ 418,287</b></u>

**15. 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 \$31,160 [2007 - \$22,213] in this period.

**16. FINANCIAL INSTRUMENTS AND RISK**

The carrying value of cash and cash equivalents, short term investments, Goods & Services tax receivable, accounts payable and accrued liabilities, and shareholder loan 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.

**WELICHEM BIOTECH INC.**  
**(a development stage company)**  
NOTES TO THE FINANCIAL STATEMENTS  
(Expressed in Canadian Dollar)  
(Unaudited – Prepared by Management)  
3-MONTH PERIOD ENDED AUGUST 31, 2008

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**17. SEGMENTED INFORMATION**

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

**18. COMMITMENTS**

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

2008/09	52,852
2009/10	73,848
2010/11	<u>24,616</u>
	<b><u>\$ 151,316</u></b>

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 \$144,373 to the CROs when all the work is completed.

**19. SUBSEQUENT EVENTS**

On September 26, 2008, the Company announced the granting of incentive stock options to its directors, officers, employees, and consultants to acquire up to 4,700,000 common shares at an exercise price of \$0.10 for a period of 5 years expiring on September 25, 2013.

**20. RELATED PARTY TRANSACTIONS**

In addition to related party transactions disclosed elsewhere in the financial statements, the Company had the following related party transactions during the period:

The Company paid \$47,625 (2007 - \$62,190) in wages and \$3,650 (2007 – \$nil) in directors' fees to its former and current officers and directors during the year.

The Company repaid a major shareholder the principal amount of \$998,000 (2007 – \$nil) and interest of \$27,521 (2007 - \$nil) accrued during the loan period.

**21. TECHNOLOGY TRANSFER AGREEMENTS**

In September 2004, the Company entered into a Technology Transfer Agreement (the “Agreement”) with Celestial Pharmaceuticals (Shenzen) 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. In addition, the Company has access to Celestial’s research data on any drug compounds related to the Company’s patents.