WELICHEM BIOTECH INC.
(a development stage enterprise)

FINANCIAL STATEMENTS

MAY 31, 2009 and 2008

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AUDITORS' REPORT

To the Shareholders of
Welichem Biotech Inc.

We have audited the balance sheets of **Welichem Biotech Inc.** (the "Company") as at May 31, 2009 and 2008 and the statements of operations and comprehensive loss and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Vancouver, Canada,
July 30, 2009
except for Note 23, which is as of September 15, 2009

Chartered Accountants

WELICHEM BIOTECH INC.
(a development stage company)
BALANCE SHEETS (See Note 1 – BASIS OF PRESENTATION AND GOING CONCERN)
(Expressed in Canadian Dollar)
AS OF MAY 31

		2009		2008 [Restated - see Note 4]
ASSETS				
Current				
Cash and cash equivalents	$	141,559	$	4,984,241
Short-term investments		619,335		-
Government grant receivables		46,434		-
Goods and services tax receivable		5,078		70,346
Prepaid expense		33,499		20,694
		845,905		5,075,281
Property and equipment [Note 9]		19,985		25,894
Deposit [Note 10]		15,819		14,615
Total Assets	$	881,709	$	5,115,790
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	$	512,697	$	628,499
Shareholder loan [Note 11]		-		998,000
		512,697		1,626,499
Shareholders' equity				
Share capital [Note 12]		11,209,286		8,066,286
Share subscriptions received in advance		-		5,000,000
Contributed surplus [Note 13]		2,904,605		1,465,930
Deficit		(13,744,879)		(11,042,925)
		369,012		3,489,291
Total Liabilities and Shareholders' Equity	$	881,709	$	5,115,790

Nature of operations [Note 2]
Commitments **[**Note 20]

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)
YEARS ENDED MAY 31

	2009	2008 [Restated - see Note 4]
RESEARCH AND DEVELOPMENT EXPENSES [Notes 4,14, 16 & 17]	$ 2,068,700	$ 1,749,594
GENERAL AND ADMINISTRATIVE EXPENSES		
Amortization – Property and equipment	7,188	10,076
Consulting	2,710	45,157
Director's fees	16,650	18,750
Insurance	40,030	53,361
Investor relations	3,168	4,997
Legal and accounting fees	85,730	156,424
Loan interest	4,233	23,288
Office and miscellaneous	26,205	48,576
Public Relations Expenses	37,905	-
Regulatory expenses	50,687	18,284
Rent	106,815	123,941
Telecommunications	7,554	9,521
Travel and related costs	78,068	33,278
Wages and benefits [Notes 14]	245,291	225,650
	712,234	771,303
Loss before other items	(2,780,934)	(2,520,897)
OTHER ITEMS		
Foreign exchange loss	(7,515)	(7,145)
Interest income	86,495	24,286
	78,980	17,141
Loss and comprehensive loss for the year	(2,701,954)	(2,503,756)
Deficit, beginning of year, as previously presented	-	(8,249,229)
Cumulative impact of accounting change relating to patent costs [Note 4]	-	(289,940)
Deficit, beginning of year, as restated	(11,042,925)	(8.539,169)
Deficit, end of year	(13,744,879)	(11,042,925)
Basic and diluted loss per common share [Note 23]	$ (0.16)	$ (0.34)
Weighted average number of common shares outstanding [Note 23]	16,815,751	7,319,728

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)
YEARS ENDED MAY 31

	2009	2008 [Restated - see Note 4]
CASH FROM (USED IN) OPERATING ACTIVITIES		
Loss for the year	$ (2,701,954)	$ (2,503,756)
Add back:		
Government Grants	(118,400)	(23,500)
Amortization of property and equipment	7,188	10,076
Stock-based compensation [Note 14(b)]	78,675	12,950
Changes in non-cash working capital items:		
(Increase) Decrease in goods and services tax receivable	65,268	89,050
(Increase) Decrease in government grants receivable	(46,434)	-
(Increase) Decrease in prepaid expenses	(12,805)	9,880
Increase (Decrease) in accounts payable and accrued liabilities	(115,802)	164,908
Cash used in operating activities	(2,844,264)	(2,240,392)
CASH FROM (USED IN) INVESTING ACTIVITIES		
Purchase of property and equipment	(1,279)	(6,355)
(Increase) Decrease in deposits	(1,204)	-
(Increase) Decrease in short-term investments	(619,335)	133,077
Cash provided by (used in) investing activities	(621,818)	126,722
CASH FROM (USED IN) FINANCING ACTIVITIES		
Proceeds (Repayment) from (to) shareholder loan	(998,000)	998,000
Increase(Decrease) in capital, net of issuance costs	(497,000)	60,000
Share subscriptions received in advance (net of issuance costs)	-	4,935,034
Government assistance received	118,400	23,500
Cash provided by (used in) financing activities	(1,376,600)	6,016,534
Net increase (decrease) in cash during the year	(4,842,682)	3,902,863
Cash, beginning of year	4,984,241	1,081,378
Cash, end of year	$141,559	$ 4,984,241
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest [Note 11]	$ 27,521	$ -
Cash paid during the year for income taxes	-	-

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

1. BASIS OF PRESENTATION AND GOING CONCERN

These financial statements of Welichem Biotech Inc. (the “Company” or “Welichem”) have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) on a going concern basis, which presumes that the company will be able to 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 May 31, 2009, the Company has accumulated a deficit of $13,744,879 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 as a going concern 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. Subsequent to year end, the Company raised $3.75 million dollars in a private placement to finance expected operation in next twelve months. There can be no assurance that the Company will be able to obtain sufficient financing to meet future operational need after twelve months. As a result, there is a significant doubt as to whether the Company will be able to continue as a going concern and realize its assets and pay its liabilities as they fall due.

These financial statements do not include any adjustments to the amounts and classifications of assets and liabilities which 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 OPERATION

The Company is a biopharmaceutical company that focuses on the research and development and commercialization of new therapeutics for autoimmune / inflammatory diseases and cancer. The new therapeutics, derived from the metabolites of bacterial symbionts of soil living nematodes, target skin disorders such as psoriasis, eczema, cancers and chemotherapy induced neutropenia.

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 property and equipment, 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 unrestricted cash on hand and in banks, term deposits and guaranteed financial instruments with maturities from the date of purchase of 90 days or less as cash and cash equivalents. Cash equivalents are classified as held-for-trading investments and measured at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Short-term investments

The Company considers fixed income investments, marketable securities and other highly liquid financial instruments purchased with a maturity greater than 90 days but less than one year at the date of purchase as short term investments and it is classified as held-for-trading.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are typically short-term in nature and classified as other financial liabilities. These liabilities are carried at amortized costs.

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 cash flow 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 GAAP 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 of May 31, 2009 and 2008, the Company has 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 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-dilutive in the years ended May 31, 2009 and 2008.

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

Early adoption of an accounting standard – Goodwill and Intangible Assets:

During the year, the Company chose to adopt early the CICA issued Section 3064, *Goodwill and Intangible Assets*, which replace Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. The standard provides guidance on the recognition of intangible assets in accordance with the definition of an intangible asset and the criteria for asset recognition as well as classifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. The change as result of early adoption of accounting standard in respect of patent costs has been applied retroactively. The impact of adopting this standard had been to increase the opening deficit and to reduce patent rights and applications at the beginning of 2008 by $289,940 which is the net book value of patent costs related to periods prior to the date. Furthermore, following the adoption of this standard, additions to patents and trademarks in the amount of $24,826 previously added to patent rights and applications in 2008 were expensed and amortization of patent rights and applications were reduced by $41,058 for the year ended May 31, 2008. In addition, the net book value of the patent rights and applications as at May 31, 2008 was reduced by $273,708.

5. ADOPTION OF NEW ACCOUNTING POLICIES AND PRONOUCEMENTS

[a] Capital Disclosure

Effective June 1, 2008, the Company adopted the new recommendations of the CICA Handbook Section 1535, "*Capital Disclosure*". This new accounting standard establishes the requirement for disclosing information about an entity's capital and how it is managed. Section 1535 requires the disclosure of (i) an entity's objectives, policies, and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirement; and if it has not complied, the consequences of such non-compliance. The disclosure required by the standard is provided in the Note 7 of the financial statements.

[b] Financial instruments

Effective June 1, 2008, the Company also adopted the new recommendations of the CICA Handbook Section 3862, "*Financial Instruments – Disclosure*", and Section 3863, "*Financial Instruments – Presentation*". Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuers, between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset. The Company has included disclosures recommended by these new Handbook sections in Note 8 to the financial statements.

Section 3862 and Section 3863 relate to disclosure and presentation only and have no significant impact on our financial results for the year ended May 31, 2009.

5. ADOPTION OF NEW ACCOUNTING POLICIES AND PRONOUCEMENTS (CONT'D)

[c] General Standards of Financial Statement Presentation

Effective June 1, 2008, the Company adopted the new recommendation of the CICA Handbook Section 1400, "General Standards of Financial Statement Presentation". The new accounting standard provides guidance related to management's responsibility to assess and disclose the ability of an entity to continue as a going concern.

The disclosure required by this standard is provided in the Note 1 of the financial statements.

6. NEW ACCOUNTING PRONOUCEMENTS

Section 1582, Business Combinations

This Section establishes the standards for the accounting of business combinations, and stated that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at acquisition date fair value. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This standard is equivalent to the International Financial Reporting Standard on business combinations. The Company will be required to adopt this standard prospectively for business combinations with acquisition dates no later than April 1, 2011. The Company is currently assessing the impact of adopting this standard on financial statements.

Section 1601, Consolidated Financial Statements

In January 2009, CICA issued Handbook Section 1601, "*Consolidated Financial Statements*" which replaced the existing standard. This Section establishes the standards for preparing consolidated financial statements and its effective for the Company on April 1, 2011. The Company is assessing the impact of adopting this standard on financial statements.

Section 1602, Non-Controlling Interests

In January 2009, CICA issued Handbook Section 1602, "*Non-Controlling Interests*". This Section establishes the standards for accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination, and effective for the Company on April 1, 2011. The Company is assessing the impact of adopting this standard on financial statements.

International Financial Reporting Standards

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.

(Expressed in Canadian Dollar)

7. CAPITAL DISCLOSURE

The Company manages its capital with the purpose of safeguarding its accumulated capital in order to maintain its ability to continue as a going concern and to advance its research, development and commercialization activities. The capital structure of the Company consists of shareholder's equity.

The Company manages its capital structure and makes adjustments to it based on economic conditions and the risk characteristics of the underlying assets. The Company, upon approval from its board of directors, will balance its overall capital structure through new shares or debt issuances or by undertaking other activities as deemed appropriate under specific circumstances.

The Company expects that its current capital resources will support its research and development plans and operations into the beginning of fiscal year 2010. The Company's overall strategy with respect to capital management remains unchanged from the prior year ended May 31, 2008.

8. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANEGEMENT

[a] Financial instruments

The Company has classified its financial instruments as following:

Financial Instrument	Classification	Measurement	May 31, 2009	May 31, 2008
Cash and cash equivalents	Held-for-trading	Fair value	$ 141,559	$ 4,984,241
Short-term investments	Held-for-trading	Fair value	619,335	-
Government grant and goods and service tax receivables	Loans and receivables	Amortized cost using the effective interest method	51,512	70,346
Accounts payables, accrued liabilities and shareholder loan	Other financial liabilities	Amortized cost using the effective interest method	512,697	1,626,499

8. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANEGEMENT (CONT'D)

[a] Financial instruments (cont'd)

Section 3855 requires that the carrying values of Goods & Services tax receivable, government grant receivables, accounts payable and accrued liabilities, and shareholder loan be measured at the amortized costs using the effective interest method ("EIM"). The carrying amount of GST receivables, government grant receivables, accounts payables and accrued liabilities is a reasonable approximation of their fair value due to the short term nature of these instruments.

The Company did not have any held-to-maturity or available-for-sale financial instruments, nor did it acquire or hold any financial derivatives during the year ended May 31, 2009.

[b] Financial risk management

The Company is exposed to certain financial risks, including credit risk, liquidity risk and market risk.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents and other receivables. The Company invests its excess cash principally in highly rated Canadian government bonds and money market fund units to limit the credit risk.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company's current capital resources will support its research and development plans and operations into the end of fiscal year 2009. With the approval of the board of directors, the Company is seeking additional funds through equity, debt or partnering transactions to lower the liquidity risk of the Company's financial instruments. The Company's annual operating and capital budgets as well as any material transactions outside the ordinary course of business are subject to the approval of the board of directors.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or valuation of its financial instruments.

The Company does laboratory tests with several U.S. based entities and payments to such suppliers in US dollars. As a result, the Company is subject to fluctuation in exchange rates which can give rise to foreign currency exposure, either favorable or unfavorable. The Company does not engage in any foreign currency hedging activities.

The Company is subject to interest rate risk on its cash and cash equivalents and believes that the results of operations, financial position and cash flows would not be significantly affected by a sudden change in market interest rates relative to the investment interest rates due to the short term nature of the investments.

8. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANEGEMENT (CONT'D)

[b] Financial risk management (cont'd)

The Company invested its excess cash in highly liquid government bonds and exposed to the risk of bond price changes. The Company does not invest in equity instruments of other corporations. However, changes in the Company's equity price could impact its ability to raise additional capital.

As of May 31, 2009, the Company has financial instruments denominated in U.S. dollars and is exposed to market risk as following:

US Dollar	May 31, 2009	May 31, 2008
Cash	$ 58,233	$ 2,656
Accounts payable and accrued liabilities	(390,166)	(89,482)
	$ (331,933)	$ (86,826)

The Company has completed a sensitivity analysis to estimate the impact on net income for the period which a change in foreign exchange rate during the year ended May 31, 2009 would have had. The result of the sensitivity analysis shows that assuming all other variables remain constant, a 10% weakening or strengthening of the Canadian dollar against the US dollar would result in a decrease/increase of $36,181in the Company's deficit.

9. PROPERTY AND EQUIPMENT

	May 31, 2009			May 31, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Lab equipment	$ 67,948	$ 62,542	$ 5,406	$ 67,948	$ 60,568	$ 7,380
Office equipment	59,563	44,984	14,579	58,285	39,771	18,514
	$ 127,511	$ 107,526	$ 19,985	$ 126,233	$ 100,339	$ 25,894

(Expressed in Canadian Dollar)

10. DEPOSIT

Deposit consists of a term deposit of $15,819 (2008 - $14,615) held as collateral for the Company's credit card.

11. SHAREHOLDER 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 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 fully repaid the lender the principal plus interests. Interest expense incurred in fiscal year of 2009 is $4,233 (2008 - $23,288).

12. SHARE CAPITAL

	Pre-consolidation Number of Shares	Post-consolidation Number of Shares	Amount
Balance as at May 31, 2007	66,421,325	6,642,133	$ 7,061,128
Common shares issued in the private placement closed in June 2007, net of share issuance costs (a)	6,666,667	666,667	933,158
Common Share issued in the exercise of options (b)	275,000	27,500	72,000
Balance as at May 31, 2008	73,362,992	7,336,299	$ 8,066,286
Common shares issued in the private placement closed in June 2008, net of share issuance costs (c)	100,000,000	10,000,000	3,143,000
Balance as at May 31, 2009	173,362,992	17,336,299	$ 11,209,286

a) The Company issued 6,666,667 common shares (pre-consolidation) 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.

b) 75,000 stock options (pre-consolidation) were exercised at $0.20 on August 2, 2007, and 200,000 stock options (pre-consolidation) were exercised at $0.10 on August 20, 2007.

c) The Company commenced a private placement in 2008 to issue 100,000,000 units comprising common shares (pre-consolidation) at a price of $0.05 per share and 50,000,000 warrants (pre-consolidation) exercisable at $0.10 up to June 20, 2010 in gross proceeds of $5,000,000 less issuing costs of $497,000. The gross proceed was received in 2008 and the private placement was completed and shares and warrants were issued in 2009. [Note 13]

(Expressed in Canadian Dollar)

13. CONTRIBUTED SURPLUS

	Amount
Balance, May 31, 2007	$1,489,980
Stock-based compensation expense [Note 14(b)]	12,950
Exercise of options	(37,000)
Balance , May 31, 2008	$1,465,930
Warrants issued in private placement in June 2008 [Note 15]	1,360,000
Stock-based compensation expense [Note 14(b)]	78,675
Balance, May 31, 2009	$2,904,605

14. STOCK OPTIONS

[a] Stock options

On September 25, 2008, the Company granted 4,700,000 stock options (pre-consolidation) at an exercise price of $0.10 for a period of 5 years expiring on September 24, 2013 with graded vesting schedule of 25% on the grant date and 25% in every 6 month after to its officers, directors, employees, and consultants.

In the year ended May 31, 2008, the Company granted a total of 100,000 stock options (pre-consolidation) to its officers, employees, and consultants. The options were exercisable anytime at $0.175 per share for a period of five years from date of grant.

As of May 31, 2009, outstanding and vested (exercisable) stock options which enable holders to acquire the following number of common shares:

Number of Outstanding Options (Pre-consolidation)	Number of Exercisable Options (Pre-consolidation)	Exercise Price	Expiry Date
38,100	38,100	0.22	December 31, 2009
60,000	60,000	0.22	March 15, 2010
166,500	166,500	0.22	May 25, 2010
50,000	50,000	0.23	May 25, 2010
50,000	50,000	0.23	June 1, 2010
200,000	200,000	0.10	January 31, 2011
1,215,000	1,215,000	0.10	May 7, 2011
150,000	150,000	0.15	July 30, 2011
1,420,000	1,420,000	0.10	August 31, 2011
150,000	150,000	0.20	January 30, 2012
715,000	715,000	0.135	January 31, 2012
4,500,000	2,250,000	0.10	September 25, 2013
8,714,600	6,464,600		

(Expressed in Canadian Dollar)

14. STOCK OPTIONS (CONT'D)

[a] Stock options (cont'd)

As of May 31, 2009, the weighted average remaining contractual life of the outstanding stock options is 3.25 years, and all the options are currently exercisable at an average price of $0.12.

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

	Pre-consolidation Number of Options		Weighted Average Exercise Price
Balance, May 31, 2007	6,409,600		0.13
Options granted	100,000		0.175
Options cancelled	(250,000)		0.11
Options exercised	(275,000)		0.13
Balance, May 31, 2008	5,984,600		0.13
Options granted	4,700,000		0.10
Options cancelled	(1,970,000)		0.15
Options outstanding on May 31, 2009	8,714,600	$	0.11
Options exercisable on May 31, 2009	6,464,600	$	0.12

[b] Stock-based compensation

The Company has recorded stock-based compensation costs of $78,675 for 2009 (2008 – $12,950). The offsetting amount is recorded as contributed surplus on the balance sheet [Note 13]. This expense has been allocated to general wages and benefits $47,425 (2008 - $12,950), research and development wage expenses $25,375 (2008 - $nil) and research and development consulting expenses $5,875 (2008 - $nil) on the same base 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:

	Sep 25, 2008	Aug 31, 2007
Risk-free interest rate	3.12%	4.2%
Expected life of options	5 years	5 years
Annualized volatility	150%	107%
Dividend rate	Nil	Nil
Fair value per share	$0.03	$0.165

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.

(Expressed in Canadian Dollar)

15. WARRANTS

As of May 31, 2009, 50,000,000 warrants are outstanding. Each warrant entitles the holder to buy one common share at $0.10 expiring on June 20, 2010.

	Pre-consolidation
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	(18,768,000)
Warrants outstanding as at May 31, 2009	**50,000,000**

On June 20, 2008, 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 estimated fair value of warrants at $1,360,000 was recorded as contributed surplus on the balance sheet [Note 13].

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	208%
Dividend rate	$Nil

(Expressed in Canadian Dollar)

16. RESEARCH AND DEVELOPMENT EXPENSES

	2009	2008	Accumulative since 2005
Subcontractors, supplies and materials	$ 1,647,209	$ 1,552,803	$ 6,860,389
Patent costs	112,217	24,826	441,779
Wages and benefits [Note 14(b)]	474,107	437,759	2,285,962
	$ 2,233,534	$ 2,015,388	$ 9,588,130
Less:			
Government assistance and other subsidies [Note 17]	$ (164,834)	$ (265,793)	$ (649,114)
	$ 2,068,700	$ 1,749,594	$ 8,939,016

17. 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. The Company was awarded a financial contribution of up to $460,693 covering period from year 2006 to year 2009 by NRC – IRAP for research and development of its novel anti-cancer compound, WBI-2100. On April 1, 2009 the Company was granted another $93,333 award for the fiscal year of 2009 to 2010.

18. INCOME TAXES

The reconciliation of income taxes attributed to operations computed at the statutory rate to income tax expense (recovery) using a 30.375% (2008 – 33.03%) statutory tax rate at May 31 is as follows:

	2009	2008- restated
Loss before income taxes	$ (2,701,954)	$ (2,503,756)
Income taxes (recovery) at statutory rates	$ (820,719)	$ (826,991)
Expenses not deductible for tax purposes	24,783	5,685
Losses for which no benefit has been recognized	307,982	73,625
Other changes in valuation allowance –SRED & Other	245,816	204,598
Income tax rate changes	85,297	377,044
Rate differential for current year tax benefits	156,841	166,039
Total	$ -	$ -

(Expressed in Canadian Dollar)

18. INCOME TAXES (CONT'D)

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

	2009	2008-Restated
Future income tax assets		
Non-capital loss carry forwards	$ 1,298,000	$ 1,029,000
Capital loss carry forwards	5,000	6,000
Book amortization in excess of tax capital cost allowance	145,000	144,000
Share issue costs	136,000	64,000
Research and development deductions	1,718,000	1,412,000
Investment tax credits	1,403,000	-
Total future tax assets	$ 4,705,000	$ 2,655,000
Less: valuation allowance	(4,705,000)	(2,655,000)
Net future income tax assets	$ -	$ -

The potential income tax benefits relating to these future tax assets have not been recognized in these financial statements as there is no assurance that such amount are more likely than not to be realized under the liability method of tax accounting. Accordingly, a valuation allowance has been recorded and no future tax assets have been recognized as at May 31, 2009 and 2008.

As at May 31, 2009, the Company has non-capital losses of approximately $5,194,000 ($332,000 expiring in 2010, and $4,862,000 expiring between 2014 and 2029), federal investment tax credits of approximately $1,399,000 (expiring from 2021 to 2029) and provincial tax credits of approximately $472,000 (expiring from 2015 to 2019) available to reduce taxable income and taxes payable in future years.

19. SEGMENTED INFORMATION

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

(Expressed in Canadian Dollar)

20. COMMITMENTS

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

2009/10	$ 81,482
2010/11	27,907
	$ 109,389

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 a total of $897,503 ($391,958 was accrued in this year) to the CROs when all the work is completed.

21. RELATED PARTY TRANSACTIONS

All related party transactions are recorded at the exchange amount established and agreed by the related parties. There was no related party transaction occurred in 2009 except the interest paid to Maple Leaf Investment Ltd. (Note 11)

22. 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-1001. In addition, the Company has access to Celestial’s research data on any drug compounds related to the Company’s patents.

23. SUBSEQUENT EVENTS

On September 3, 2009 the TSX Venture Exchange approved the Company to consolidate all of the issued and outstanding common shares on the basis of one post-consolidation common share for every ten pre-consolidation common share. Each option, warrant, or other securities of the Company convertible into pre-consolidation common shares that have not been exercised or cancelled prior to the implementation of the share consolidation are adjusted pursuant to the terms thereof on the basis of one post-consolidation common share for every ten pre-consolidation common shares (i.e. the number of common shares issuable decreases while the exercise price increases). The weighted average numbers of common share outstanding and loss per share are recalculated retroactively for all periods presented to reflect the change. The loss per share before consolidation of $0.02 in 2009 (2008 - $0.03) was adjusted to $0.16 in 2009 (2008 - $0.34) after consolidations.

On July 8, 2009 the Company announced a private placement by issuing 25,000,000 units comprising post-consolidation common shares at a price of $0.15 per share and 12,500,000 post-consolidation warrants exercisable at $0.15 up to July 7th, 2011 for gross proceeds of $3,750,000 less issuing costs of $375,000. The gross subscription money was received by the Company on September 15, 2009.