

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

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

**AUGUST 31, 2010 and 2009**


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

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

	August 31, 2010	May 31, 2010
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ (64,198)	\$ 79,499
Short-term investments	-	524,068
Goods and services tax receivable	23,009	41,709
Prepaid expense	<u>31,860</u>	<u>42,350</u>
	(9,329)	687,626
<b>Property and equipment [Note 8]</b>	13,670	14,749
<b>Deposit [Note 9]</b>	<u>25,819</u>	<u>15,819</u>
<b>Total Assets</b>	<b>\$ 30,161</b>	<b>\$ 718,194</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 183,343	\$ 268,622
<b>Shareholders' equity</b>		
Share capital [Note 10]	13,110,100	13,110,100
Contributed surplus [Note 11]	4,410,516	4,410,516
Deficit	<u>(17,673,798)</u>	<u>(17,071,044)</u>
	(153,182)	449,572
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 30,161</b>	<b>\$ 718,194</b>

Nature of operations [Note 2]  
 Commitments [Note 16]

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)****INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS AND DEFICIT**

(Expressed in Canadian Dollar)

(Unaudited – Prepared by Management)

THREE-MONTH PERIOD ENDED AUGUST 31

	2010	2009
<b>RESEARCH AND DEVELOPMENT EXPENSES</b> [Notes 14 & 15]	\$ 474,560	\$ 362,980
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Amortization – Property and equipment	1,079	1,462
Consulting	7,351	-
Director’s fees	-	-
Insurance	15,878	9,900
Investor relations	-	259
Legal and accounting fees	21,528	16,073
Loan interest	-	-
Office and miscellaneous	2,701	1,962
Public Relations Expenses	(4,659)	-
Regulatory expenses	19,122	24,719
Rent	21,997	21,216
Telecommunications	2,211	2,084
Travel and related costs	745	15,343
Wages and benefits	39,982	43,343
	<u>127,935</u>	<u>136,361</u>
<b>Loss before other items</b>	<u>(602,495)</u>	<u>(499,341)</u>
<b>OTHER ITEMS</b>		
Foreign exchange loss	(258)	(8,317)
Interest income (expenses)	-	(6,364)
	<u>(258)</u>	<u>(14,681)</u>
<b>Loss and comprehensive loss for the year</b>	<u>(602,753)</u>	<u>(514,022)</u>
Deficit, beginning of year	<u>(17,071,044)</u>	<u>(13,744,879)</u>
Deficit, end of year	<u>(17,673,798)</u>	<u>(14,258,901)</u>
<b>Basic and diluted loss per common share</b>	\$ (0.01)	\$ (0.03)
Weighted average number of common shares outstanding	42,336,299	16,815,751

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

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

	2010	2009
<b>CASH FROM (USED IN) OPERATING ACTIVITIES</b>		
Loss for the year	\$ (602,753)	\$ (514,022)
Add back:		
Government Grants	-	(50,066)
Amortization of property and equipment	1,079	1,462
Stock-based compensation [Note 12(b)]	-	13,388
Changes in non-cash working capital items:		
(Increase) Decrease in goods and services tax receivable	18,700	(2,531)
(Increase) Decrease in government grants receivable	-	46,434
(Increase) Decrease in prepaid expenses and deposit	490	20,985
Increase (Decrease) in accounts payable and accrued liabilities	<u>(85,280)</u>	<u>(361,455)</u>
Cash used in operating activities	<u>(667,765)</u>	<u>(845,805)</u>
<b>CASH FROM (USED IN) INVESTING ACTIVITIES</b>		
Purchase of property and equipment	-	-
(Increase) Decrease in deposits	-	-
(Increase) Decrease in short-term investments	<u>524,068</u>	<u>619,353</u>
Cash provided by (used in) investing activities	<u>524,068</u>	<u>619,353</u>
<b>CASH FROM (USED IN) FINANCING ACTIVITIES</b>		
Proceeds (Repayment) from (to) shareholder loan	-	-
Increase(Decrease) in capital, net of issuance costs	-	-
Share subscriptions received in advance (net of issuance costs)	-	-
Government assistance received	<u>-</u>	<u>50,066</u>
Cash provided by (used in) financing activities	<u>-</u>	<u>50,066</u>
Net increase (decrease) in cash during the year	(143,697)	(176,386)
Cash, beginning of year	<u>79,499</u>	<u>141,599</u>
Cash, end of year	<u>(\$64,198)</u>	<u>(\$34,827)</u>
Supplemental disclosure of cash flow information:		
<b>Cash paid during the year for interest</b>	\$ -	\$ -
<b>Cash paid during the year for income taxes</b>	-	-

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

**WELICHEM BIOTECH INC.**  
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**1. BASIS OF PRESENTATION AND GOING CONCERN**

These unaudited interim financial statements of Welichem Biotech Inc. (the “Company” or “Welichem”) have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) for interim financial statements 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 interim financial statements and related notes do not include all the information required for annual financial statements, and should be read in conjunction with the Company’s audited financial statements for the year ended May 31, 2010. The results of operations and comprehensive loss for the interim periods reported are not necessarily indicative of results for the full year.

The Company has incurred significant losses to date, and as at August 31, 2010, the Company has accumulated a deficit of \$17,673,798 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. The Company raised capital by issuing a rights offering to its current shareholders to finance expected operations in the immediate future. There can be no assurance that the Company will be able to obtain sufficient financing to meet future operational needs 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 OPERATIONS**

The Company is a drug discovery and early stage drug development company focusing on new therapeutics for autoimmune / inflammatory diseases and cancers. All the Company’s drug candidates are derived from the metabolites of bacterial symbionts of soil living nematodes. Currently, the Company is conducting phase II clinical studies on its lead drug candidate, WBI-1001, as a topical treatment for two inflammatory skin disorders: psoriasis and eczema.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared by the Company in Canadian dollars and in accordance with Canadian GAAP, applied on a consistent basis. The significant accounting policies that the Company believes are the most critical in fully understanding and evaluating the reported financial results include the following:

**Use of estimates**

The preparation of these consolidated financial statements, in conformity with Canadian GAAP, requires 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. Areas of significant estimates include: amortization of equipment and stock-based compensation. Actual results could differ from these estimates.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**Cash**

Cash consists of unrestricted cash on hand and held in bank accounts.

**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. Short-term investments are classified as held-for-trading and are recorded at fair value using quoted market prices at the balance sheet date. Gains or losses on held-for-trading investments are recognized in earnings. Investment transactions are recognized on the trade date with transaction costs included in earnings.

**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 cost.

**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.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**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 stock options granted to employees and directors is recognized as compensation expense and charged to general and administrative expenses and research and development expenses on a straight line basis over the vesting period with a corresponding credit to contributed surplus. The fair value of stock-based awards to non-employee consultants is measured at the earliest of the performance commitment date, the service delivery date, or the grant date if they are fully vested and non-forfeitable. The fair value of direct awards of stocks is determined by the quoted market price of the Company’s stock.

**Foreign currency transaction**

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 August 31, 2010 and 2009, 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 collectability is reasonably assured.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**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 is anti-dilutive in the three-month quarter ended August 31, 2010 and 2009.

**Financial instruments**

Section 3855 establishes standards for recognizing financial assets, financial liabilities and non-financial derivatives. It requires the financial assets, financial liabilities, including derivatives, to be recognized on the balance sheet when the Company becomes a party to the contractual provisions of financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Cash and short-term investments are classified as held-for-trading. Government grant receivables and goods and services receivables are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other financial liabilities. Financial assets and financial liabilities held for trading are measured at fair value with changes in fair value recognized in other income. Loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method. Transaction costs are expensed as incurred.

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**4. ADOPTED NEW ACCOUNTING POLICIES**

The Company adopted the CICA issued sections, effective June 1 2009 as follows:

*Section 3862, Financial Instruments – Disclosure*

In June 2009, the CICA amended Section 3862 which places heightened importance on disclosures, and enables financial statement users to assess the nature and extent of the risks associated with the financial instruments to which the Company is exposed and the manner in which it manages these risks. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of the three hierarchy levels as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2 – Inputs, other than quoted prices in active market, that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The amendment is effective for annual financial statements relating to fiscal years ending after September 30, 2009. The amendments are effective for the Company's annual financial statements for the year ending May 31, 2010 and its adoption did not have an impact on the financial position, cash flow or results of operations of the Company. The required disclosures are provided in note 7.

*Section 3855, Financial Instruments – Recognition and Measurement*

In 2009, the CICA made several amendments and clarifications to Section 3855 to converge with international standards for impairment of debt instruments by changing the categories into which debt instruments are required or permitted to be classified. The adoption of these amendments did not have a material impact on the Company's financial statements.

*Section EIC 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*

In January 2009, the Emerging Issues Committee ("EIC") of the CICA issued EIC 173, which details guidance on the implications of credit risk in determine fair value of an entity's financial assets and financial liabilities. The guidance clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determine the fair value of financial assets and financial liabilities, including derivative instruments, for presentation and disclosure purpose. EIC 173 was effective from the date of issuance and did not have a significant impact on the Company's financial statements.

## **5. NEW ACCOUNTING PRONOUNCEMENTS**

### *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 on or after April 1, 2011, but may adopt the standard sooner. The Company will assess the impact of adopting this standard on its financial statements.

### *Section 1601, Consolidated Financial Statements*

This Section establishes the standards for preparing consolidated financial statements and is effective for the Company on April 1, 2011. The Company will assess the impact of adopting this standard on its financial statements.

### *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 will assess the impact of adopting this standard on its financial statements.

### *International Financial Reporting Standards*

In March 2009, the Canadian Accounting Standards Board (the “AcSB”) reconfirmed that Canadian public companies must change over to International Financial Reporting Standards (“IFRS”) for accounting periods commencing on or after January 1, 2011. Accordingly, the Company’s first quarter under IFRS will be the three-month period ending August 31, 2011. The Company has completed the diagnostic phase which involved a high-level review of the differences between current Canadian GAAP and IFRS. Although the transition to IFRS will generate more disclosures, the Company believes that the information technology and internal control over financial reporting will not require significant changes based on its current research and development activities and the nature of the assets and liabilities of the Company. The Company is continuously assessing the implication of the transition and/or disclosure requirements

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**6. CAPITAL DISCLOSURES**

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's current capital resources are not sufficient for its research and development plans and operations. The Company raised \$754,169 by issuing a rights offering to its current shareholders on September 1, 2010. The Company is not subject to any externally imposed capital requirements and the overall strategy with respect to capital management remains unchanged from the prior year.

**7. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANEGEMENT**

**[a] Financial instruments**

The Company has classified its financial instruments as following:

Financial Instrument	Classification	Subsequent Measurement	August 31, 2010	May 31, 2010
Cash	Held-for-trading	Fair value	\$ (64,198)	\$ 79,499
Short-term investments	Held-for-trading	Fair value	-	524,068
Government grant, prepaid expenses and goods and service tax receivables	Loans and receivables	Amortized cost using the effective interest method	54,869	41,709
Accounts payables and accrued liabilities	Other financial liabilities	Amortized cost using the effective interest method	\$ 183,343	\$ 268,622

Cash and short-term investments are carried at fair value (Level 1 financial assets). The carrying amount of goods and services tax receivables, government grant receivables, prepaid expenses, deposit, accounts payables and accrued liabilities is a reasonable approximation of their fair values due to the short term nature of these instruments. As of August 31, 2010 and 2009, the Company did not have Level 2 and Level 3 financial assets and financial liabilities.

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 years ending August 31, 2010 and 2009.

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**7. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONT'D)**

**[b] Financial risk management**

*Credit Risk*

Credit risk is the risk of an unexpected loss if a counter party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and short-term investments. The maximum exposure to credit risk is equal to the carrying value of the financial assets. 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 or to fund the programs and commitments that the Company has planned. The Company controls its liquidity risk through the management of its capital structure, cash flow and the availability and sourcing of financing. The Company continuously monitors and reviews both actual and forecasted cash flows, and also matches the maturity profile of its financial assets and liabilities. The Board of Directors reviews and approves any material transactions of the Company. Contractual obligations as of August 31, 2010 are as follows:

	Within 1 Year	Less than 3 Years	Less than 5 Years	Total
Accounts payable and accrued liabilities	\$183,343	\$ -	\$ -	\$183,343

*Foreign Currency Risk*

Foreign currency risk is the risk that the fair value of future cash flow of a financial instrument will change because of fluctuation of foreign exchange rates.

The Company uses consulting contract research services with several United States based entities, and payments to such suppliers are in United States dollars ("U.S. dollar"). As a result, the Company is subject to fluctuation in the exchange rate which can give rise to foreign currency exposure, either favorable or unfavorable. The Company does not engage in any foreign currency hedging activities. As of August 31, 2010, the Company has financial instruments denominated in U.S. dollars and is exposed to currency risk as following:

US Dollar	August 31, 2010	May 31, 2010
Cash	\$ (13,669)	\$ 21,858
Accounts payable and accrued liabilities	\$ <u>(13,669)</u>	\$ <u>21,858</u>

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 three-month quarter ended August 31, 2010 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 or increase of \$1,454 in the Company's net loss and comprehensive loss for the quarter ended August 31, 2010.

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**7. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANEGEMENT (CONT'D)**

**[b] Financial risk management (cont'd)**

*Interest Rate Risk*

The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the liquidity necessary for daily operations. The Company invested its excess cash in highly liquid government bonds and exposed to the risk of interest rate changes. Given the level of cash held by the Company during the quarter ended August 31, 2010 and 2009, fluctuations in the market interest rates had no significant impact on its interest income.

**8. PROPERTY AND EQUIPMENT**

	August 31, 2010			May 31, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Lab equipment	\$ 67,948	\$ 64,250	\$ 3,698	\$ 67,948	\$ 63,958	\$ 3,990
Office equipment	<u>59,563</u>	<u>49,591</u>	<u>9,972</u>	<u>59,563</u>	<u>48,804</u>	<u>10,759</u>
	\$ 127,511	\$ 113,841	\$ 13,670	\$ 127,511	\$ 112,762	\$ 14,749

**9. DEPOSIT**

Deposit consists of a term deposit of \$25,819 (May 31, 2010 - \$15,819) held as collateral for the Company's credit cards.

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**10. SHARE CAPITAL**

The Company has authorized unlimited number of common shares without par value. Issued and outstanding common shares are as follows:

	Post-consolidation Number of Shares(a)	Amount
Balance as at May 31, 2009	17,336,299	\$ 11,209,286
Common shares issued in the private placement that closed in September 2009, net of share issuance costs (b)	25,000,000	3,375,000
Warrants issued in the private placement (b) [Note 13]	<u>-</u>	<u>(1,474,186)</u>
Balance as at May 31, 2010	42,336,299	\$ 13,110,100
Balance as at August 31, 2010	<u>42,336,299</u>	<u>\$ 13,110,100</u>

- a) On September 3, 2009, the TSX Venture Exchange (the “TSX-V”) 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 shares. Each option, warrant, or other security 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 number of common shares 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 was adjusted to \$0.16 in 2009 after consolidations.
- b) On September 15, 2009, the Company completed a private placement of 25,000,000 units at a price of \$0.15 per unit for gross proceeds of \$3,750,000 less share issuance costs of \$375,000. Each unit is comprised of one post-consolidation common share and one-half of one non-transferable share purchase warrant. Each non-transferable share purchase warrant is exercisable into one post-consolidation common share at a price of \$0.15 for a period of 24 months from the date of issuance of the warrant.

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**11. CONTRIBUTED SURPLUS**

	Amount
Balance, May 31, 2009	\$2,904,605
Warrants issued in private placement closed in September 2009 [Note 13]	1,474,186
Stock-based compensation expense [Note 12(b)]	<u>31,725</u>
Balance, May 31, 2010	\$ 4,410,516
Balance, August 31, 2010	<u>\$ 4,410,516</u>

**12. STOCK OPTIONS**

**[a] Stock options**

The Company has a stock option plan which provides for the granting up to 10% of its outstanding common shares to its officers, directors, employees and consultants. The option generally has a five years term and may be exercised in a graded vesting schedule of 25% on the grant date and 25% in every 6 month thereafter. Vested but unexercised options expire and unvested options are forfeited on the ninetieth day after the date upon which the optionee ceases to be a director, officer, employee or consultant of the Company prior to the expiry date.

On September 25, 2008, the Company granted 470,000 stock options (post-consolidation) at an exercise price of \$1.00 for a period of 5 years expiring on September 24, 2013 with a graded vesting schedule of 25% on the grant date and 25% in every 6 month after to its officers, directors, employees, and consultants.

As of August 31, 2010, outstanding and vested (exercisable) stock options which enable holders to acquire the following number of common shares:

Number of Outstanding Options (Post-consolidation)	Number of Exercisable Options (Post-consolidation)	Exercise Price	Expiry Date
51,500	51,500	\$1.00	May 7, 2011
31,000	31,000	\$1.00	August 31, 2011
26,000	26,000	\$1.35	January 31, 2012
<u>120,000</u>	<u>120,000</u>	\$1.00	September 24, 2013
228,500	228,500		

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**12. STOCK OPTIONS (CONT'D)**

**[a] Stock options (cont'd)**

As of August 31, 2010, the weighted average remaining contractual life of the outstanding stock options is 2.06 years, and all the options are currently exercisable at an average price of \$1.04 (Post-consolidation).

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

	Post-consolidation Number of Options	Weighted Average Exercise Price
Balance, May 31, 2009	871,460	\$1.09
Options granted	-	-
Options forfeited	(89,500)	\$1.00
Options expired	<u>(553,460)</u>	\$1.15
Options outstanding and exercisable on May 31, 2010	228,500	\$1.04
Options outstanding and exercisable on August 31, 2010	<u>228,500</u>	<u>\$1.04</u>

**[b] Stock-based compensation**

The Company has no stock-based compensation expenses for the first quarter ended August 31 2010 (2009 – \$31,725).

**13. WARRANTS**

Five million (5,000,000) warrants, entitling the holder to purchase one common share at a price of \$1.00 per warrant were expired on June 20, 2010. As of August 31, 2010, 12,500,000 warrants are outstanding which entitle the holder to purchase one common share at a price of \$0.15 per warrant expiring for a period of 24 months from the date of issuance of the warrant.

	Post-consolidation
Warrants issued in connection with the private placement in September 2009	12,500,000
Warrants outstanding as at May 31, 2010	17,500,000
Warrants expired on June 20, 2010	(5,000,000)
Warrants outstanding as at August 31, 2010	<u><b>12,500,000</b></u>

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**13. WARRANTS (CONT'D)**

On September 15, 2009, net proceeds (\$3,375,000) of the private placement were allocated between the common shares (\$1,900,814) and the warrants (\$1,474,186). 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 \$1,474,186 was recorded as contributed surplus on the balance sheet [Note 11].

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

	<b>September , 2009</b>
<b>Risk-free interest rate</b>	<b>1.35%</b>
<b>Expected life of warrants</b>	<b>2 years</b>
<b>Volatility</b>	<b>293%</b>
<b>Dividend yield</b>	<b>\$Nil</b>

**14. RESEARCH AND DEVELOPMENT EXPENSES**

	Three-Month Quarter ended on August 31 2010	Three-Month Quarter ended on August 31 2009
Subcontractors, supplies and materials	\$ 414,394	\$ 246,741
Patent costs	19,310	14,731
Wages and benefits	<u>40,856</u>	<u>105,140</u>
	<u>\$ 474,560</u>	<u>\$ 366,612</u>
Less:		
Government assistance and other subsidies [Note 15]	\$ -	\$ (3,632)
	<u>\$ 474,560</u>	<u>\$ 362,980</u>

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**15. 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 the Company's certain allowable direct expenditures on the evaluation of anti-cancer agents on a cost matching basis. The Company was awarded a total financial contribution of \$554,026 covering the period from 2006 to 2010 by NRC – IRAP for research and development of its novel anti-cancer compound, WBI-2100. The Company has no government grants for this fiscal year starting from June 1, 2010.

**16. COMMITMENTS**

The Company did not have any lease commitment at the end of August 31, 2010.

The Company entered into agreements and contracts with various contract research organizations (the "CROs") related to its different research and development projects and will be obliged to pay a total of \$607,952 to the CROs if all the work is completed.

**17. RELATED PARTY TRANSACTIONS**

All related party transactions are recorded at the exchange amounts established and agreed by the related parties. On November 30, 2007, the Company established a loan of \$1,000,000 with Canadian Maple Leaf Investment Ltd. (CMLI), a major shareholder of the Company at that time with annual interest rate of 2% calculated daily based on the daily closing balance and to be paid at maturity. On June 23, 2008, the Company fully repaid the principal plus interest of \$27,521. There was no related party transaction occurred in the three-month period ended August 31, 2010.

**18. 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 (the "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 of 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 license 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.

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**19. SUBSEQUENT EVENTS**

On September 1, 2010, the Company completed a rights offering (the “Rights Offering”). The Company received gross proceeds of \$754,169 by issuing an aggregate of 10,055,584 Common Shares at \$0.075 per Share.