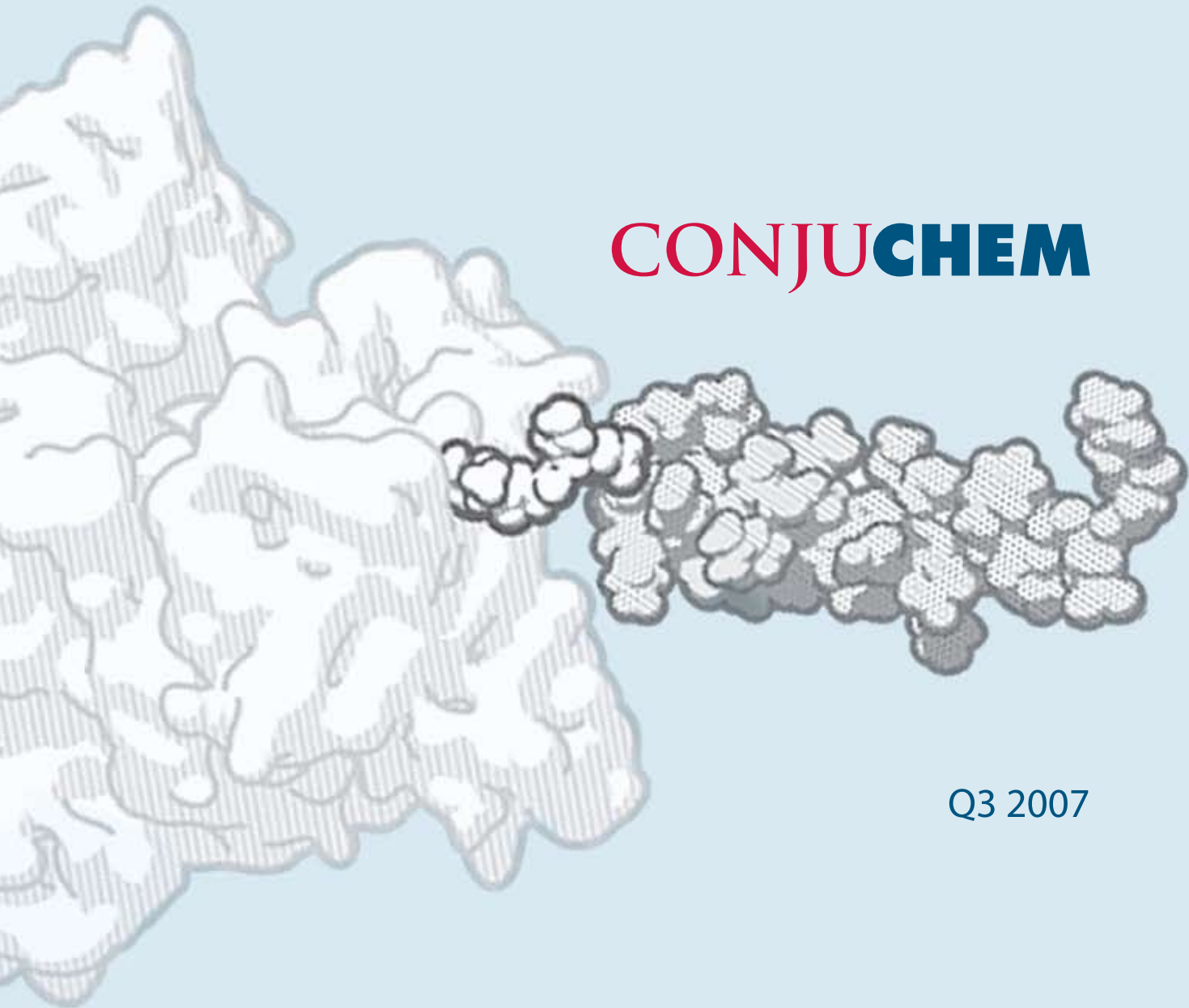


# CONJUCHEM



Q3 2007

## LETTER TO SHAREHOLDERS

The third quarter of 2007 was one in which we continued to make strides toward the planned commencement of our Phase II trial for PC-DAC™:Exendin-4. We anticipate that results from this trial, critical in the ongoing development of this once-weekly treatment for Type 2 diabetes, will reinforce our confidence in both the safety and efficacy of our compound.

In order to maximize this trial's potential, we initiated ongoing product development programs including manufacturing process improvements and formulation changes which have now been completed. As a result, our PC-DAC™:Exendin-4 compound has been further purified and optimized for our Phase II clinical trial. As well, we were able to improve the compound's stability at room temperature. Testing to date has demonstrated that PC-DAC™:Exendin-4 is stable at room temperature for a minimum of one month.

These changes not only heighten the probability of a successful Phase II trial, they also improve the practical application of this drug in a real life setting, providing PC-DAC™:Exendin-4 users with an increased freedom of usability.

As such, we are on track to start our planned randomized, placebo-controlled Phase II trial later this year, with dosing expected to begin in early 2008. This trial will be greater in scope than our last, enrolling patients in the United States, Canada and Europe. While pharmacokinetic and pharmacodynamic profiles will continue to be evaluated, determining the compound's efficacy in reducing glucose levels is the trial's primary endpoint.

Results from our earlier Phase I/II multiple-dose clinical study, announced earlier this year, demonstrated our drug's efficacy in reducing blood glucose when administered once weekly and give us confidence that results from this newest trial will also underpin our belief in this compound's true long-term potential. We look forward to updating shareholders further as this trial gets underway and results become available.

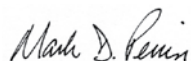
During the quarter we also announced the filing of a patent reexamination request in the U.S. Patent & Trademark Office for Patent No. 6,924,264, entitled "Modified Exendins and Exendin Agonists". Reexamination of this patent, issued in August 2005 to Amylin Pharmaceuticals, does not include any of ConjuChem's patents. We anticipate this process will remove any ambiguity with regard to ConjuChem's intellectual property.

Discussions with potential partners regarding the outlicensing of the PC-DAC™: Exendin-4 program are progressing. We will continue to evaluate the timing and value of such a partnership such that shareholder value is maximized on this key asset.

Now, with the financial resources in place to address the maturity of our convertible debt at the end of 2008, we are positioned to move forward on the development of PC-DAC™: Exendin-4. While we continue to focus the majority of resources on this lead program, we do recognize the need to continually develop our pipeline of opportunities. As such, we are evaluating certain candidates to determine the next entrant into clinical development.

In closing, I would like to thank all of our stakeholders for their continued support. We, at ConjuChem, truly believe in the potential of our lead compound to combat Type 2 diabetes and your continued support on this ongoing journey is invaluable to us. We look forward to updating you on our progress.

Sincerely,



Mark D. Perrin  
President & CEO

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Management's discussion and analysis provides a review of the performance of our Company and should be read in conjunction with the unaudited financial statements as at July 31, 2007 and the audited financial statements for the year ended October 31, 2006, and the related notes, which are prepared in accordance with Canadian generally accepted accounting principles. This discussion and analysis compares financial performance for the quarter ended July 31, 2007, as compared to the quarter ended July 31, 2006 and for the nine-month periods then ended and discusses issues and risks that may impact future operations. This review was performed by management with information available as at September 6, 2007. Additional information related to the Company, including its Annual Information Form, can be found at SEDAR on [www.sedar.com](http://www.sedar.com).

To the extent any statements made in this document contain information that is not historical, these statements are essentially forward-looking and are subject to risks and uncertainties as described in the "Risk factors" section of the Annual Information Form. Actual results, levels of activity, performance, or achievements could differ materially from those projected herein and depend on a number of factors, including the successful and timely completion of research and clinical trials, the uncertainties related to the regulatory process, and the commercialization of our drug candidates thereafter.

All amounts are presented in Canadian dollars, unless otherwise indicated. Where we say "we", "us", "our" or the "Company" we mean ConjuChem Biotechnologies Inc., unless otherwise indicated.

### **CORPORATE REORGANIZATION**

ConjuChem Biotechnologies Inc. ("ConjuChem", "New ConjuChem" or the "Company") was incorporated under the Canada Business Corporation Act ("CBCA") as 6513590 Canada Inc. on February 1, 2006 and changed its name to ConjuChem Biotechnologies Inc. on April 10, 2006.

On May 23, 2006, following receipt of all required approvals, New ConjuChem was reorganized under a Plan of Arrangement (the "Plan") pursuant to the CBCA. The Plan was approved by the shareholders of ConjuChem Inc. ("Old ConjuChem") on May 12, 2006, by the Quebec Superior Court on May 15, 2006 and the reorganization was implemented in May 2006.

Under the Plan, Old ConjuChem transferred all of its business assets, liabilities and operations to New ConjuChem. As the transfer of the business assets, liabilities and operations to New ConjuChem represented a transaction with no substantive change in shareholder ownership, the transaction was accounted for using continuity of interest accounting. Pursuant to continuity of interest accounting, the assets transferred and liabilities assumed have been recorded at their carrying values as reported by Old ConjuChem immediately prior to the reorganization transaction. Accordingly, for the year ended October 31, 2006, the financial statements combine the financial results for the business carried on in Old ConjuChem from November 1, 2005 to May 22, 2006 with those of New ConjuChem from May 23, 2006 to October 31, 2006.

In connection with the corporate reorganization, the tax benefits of Old ConjuChem's non-capital losses and scientific research and experimental development pool of undeducted expenditures as well as the federal non-refundable investment tax credits generated from the business through May 22, 2006 are not available to New ConjuChem.

After completion of the corporate reorganization, Old ConjuChem, was renamed 9169-8316 Quebec Inc. New ConjuChem continues to carry on the business of a biotechnology company and its primary business purpose is the development of its novel bioconjugation technologies platform to develop improved therapeutic drugs.

References herein to the Company's business and operations that predate the May 23, 2006 corporate reorganization are references to the business and operations of ConjuChem Inc. but are included on the basis that such historical business and operations have been continued by the Company in ConjuChem Biotechnologies Inc.

All issued and outstanding common shares, warrants, options and convertible debentures on May 23, 2006 of Old ConjuChem were exchanged for replacement common shares, warrants, options and convertible debentures of New ConjuChem.

## OVERVIEW AND GOALS

We are a publicly-traded Canadian biotechnology company dedicated to the discovery of novel therapeutics with an initial focus on diabetes. We are currently managing multiple research programs in-house and have one product in clinical development. ConjuChem is focused on discovering and developing new drugs based on our novel technology platforms called Drug Affinity Complex (“DAC™”) and Pre-formed Drug Affinity Complex (“PC-DAC™”). When applied to a compound, DAC™ and PC-DAC™ can create new drugs with similar therapeutic activity but a significantly longer duration of activity in the body. One of the greatest opportunities for ConjuChem’s DAC™ and PC-DAC™ technologies is their ability to harness the therapeutic potential of peptides, which are hindered by a variety of limitations. In particular, peptides have short durations of *in vivo* activity which not only decreases their efficacy, but can also hold back their commercial potential.

Our diabetes program has focused on the GLP-1 class of peptides for the treatment of Type 2 diabetes. These compounds help lower glucose through multiple mechanisms of actions in the body. We are currently pursuing the development of PC-DAC™:Exendin-4, a GLP-1 homolog combined with our new PC-DAC™ technology. Phase I/II clinical trials began in March 2006 and positive preliminary results from a one-month multiple dose trial were announced March 27, 2007.

### *Liquidity*

As at July 31, 2007, working capital amounted to \$23.2 million. Cash flows applied to operating activities in the nine-month period ended July 31, 2007 amounted to \$35.4 million compared to \$18.7 million for the nine-month period ended July 31, 2006. Cash flows were used primarily to advance the clinical development of PC-DAC™:Exendin-4 and for the purchase of drug substance for upcoming clinical trials.

We have incurred operating losses since our inception due principally to expenditures related to our research and development activities. As at July 31, 2007, we had an accumulated deficit of \$286.5 million. We expect to continue to incur operating losses in the next several fiscal years as we pursue the further clinical development of PC-DAC™:Exendin-4 compound and advance other product candidates from our research pipeline into clinical development. To date, ConjuChem has financed its operations, technology acquisitions and capital expenditures primarily through public equity offerings of common shares, private placements of common shares, issuance of convertible notes, the receipt of investment tax credits earned on eligible expenditures, interest income, and the proceeds from research collaboration agreements.

On May 18, 2006, the Company closed a private placement of common shares on a bought deal basis for 7,500,000 shares at a price of \$2.10 per Common Share, resulting in net proceeds of \$14,726,361.

On May 23, 2006, ConjuChem Inc. completed the corporate reorganization involving, among others, ConjuChem Biotechnologies Inc. and ConjuChem Inc. As a result of this corporate reorganization, each common share of ConjuChem Inc. has been exchanged for one common share of ConjuChem Biotechnologies Inc. and one common share of 6550568 Canada Inc. ConjuChem Biotechnologies Inc. will continue the business previously carried on by ConjuChem Inc. as of that date. Effective May 23, 2006, the common shares of ConjuChem Biotechnologies Inc. (TSX:CJB) began trading on the Toronto Stock Exchange and the common shares of ConjuChem Inc. (TSX:CJC) ceased to trade.

In April 2006, the Company had also arranged a bridge loan for \$6.4 million with Baker Bros. Advisors, LLC of which \$2,000,000 was drawn and was reimbursed during the third quarter of 2006 from the proceeds of the above reorganization.

On November 28, 2006, we closed a public offering of units at a price of \$0.65 per unit. Each unit consists of one common share of ConjuChem and one half of a common share purchase warrant. Each whole warrant will entitle its holder to purchase one common share for a period of three years from the closing of the offering at a purchase price of \$1.00 per share. The maximum offering was completed resulting in the issuance of a total of 185,000,000 units for gross proceeds of \$120,250,000 and net proceeds of \$113,591,650. The fair value of each common share issued was determined to be \$0.60, based on the weighted-average closing price of the Company’s common shares for the three days following November 8, 2006, the date on which the proposed public offering was announced. We have, therefore, allocated \$0.60 of the issue price of each unit to each common share issued and the remaining \$0.05 of the issue price as consideration for each half of a common share purchase warrant. The financing costs have been treated as a reduction of share capital and warrants on that same basis.

To pursue our clinical development programs on PC-DAC™:Exendin-4 as well as advancing other product candidates into clinical trials, we must obtain additional financing through equity or debt issues or receive significant cash flows from partnering activity. Our success is dependent on obtaining the necessary regulatory approvals, generating revenue from licensing or sale of therapeutic drugs and achieving future profitable operations.

#### *Investment Tax Credits (“ITCs”)*

As we are a public company, the federal ITCs for qualified Scientific Research and Experimental Development (“SR&ED”) expenditures are not refundable and are calculated at a rate of 20%. These ITCs can be applied to reduce future income taxes payable with a 20-year carry-forward period. Eligible SR&ED expenditures incurred in Quebec qualify for Quebec refundable tax credits at a rate of 17.5% and are earned on payments made in Quebec for SR&ED labour, SR&ED contracts and to prescribed research centres, after deducting governmental and non-governmental assistance related to SR&ED. However, only 50% of payments made to arm’s length sub-contractors are eligible for the Quebec tax credit.

In connection with the corporate reorganization, the Company’s scientific research and experimental development expenditures (SR&ED), which have not been deducted for federal and provincial income tax purposes from the operation of the business through May 23, 2006 will no longer be available to the Company. As a result, the future tax assets related to net operating losses carried forward and research and development expenditures have been reduced to nil, with a corresponding reduction of the related valuation allowance.

#### *Revenues*

To date, we have not generated revenues from product sales. Revenue to date has been generated from interest income on cash reserves and research collaboration agreements. To date, we have entered into a number of research collaboration agreements covering a variety of products. These agreements generally include up-front fees upon initiation of the research and milestone payments upon the attainment of specific objectives.

#### *Research and Development*

Our research and development expenses consist primarily of fees paid to external service providers, laboratory supplies and costs for facilities and equipment and related personnel expenses. The majority of our research and development costs incurred in the 2007 fiscal year are related to the clinical development for PC-DAC™:Exendin-4.

We expect to continue to allocate the majority of our resources to research and development as PC-DAC™:Exendin-4 progresses through clinical development. As well, we intend to fund the advancement of additional drug candidates into preclinical development.

#### *Significant Projects*

Our lead product candidate, PC-DAC™:Exendin-4, is currently in clinical trials. This product candidate will have to complete various phases of clinical trials and obtain regulatory approval before significant ongoing revenue streams can be generated. The costs to complete these clinical trials and to attain regulatory approval are significant and, subject to entering into licensing arrangements, the costs associated with this process may increase our research and development expenses over the next few years.

We also have a number of other discovery programs and preclinical development programs to identify and develop other therapeutic products. The discovery and development of these products is part of our normal ongoing research and development activities and until product candidates are identified, significant clinical expenditures on these projects are not anticipated in the next year.

#### *Segment Information*

We operate in a single business segment focused on the discovery and development of novel therapeutics. In addition, we earn interest revenue from our investment of cash resources. We operate out of a single facility in Canada and all our assets are located in Canada.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing our financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. We have identified the following accounting policies that we believe require application of management's subjective judgments, often requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Our actual results could differ from these estimates and such differences could be material.

### *Revenue Recognition*

We recognize revenues from various research agreements as the contracted services are performed or when milestones are achieved, in accordance with the terms of the specific agreements. Upfront payments for the use of technology where further services are to be provided or fees received on the signing of research agreements are recognized over the period of performance of the related activities. The period of performance is based on our expected performance and requires us to make a number of estimates about future events. These estimates could significantly differ from our actual results and require us to change the recognition period. Amounts received in advance of recognition of revenue are included in deferred revenue. Milestone payments are recognized as they are earned.

### *Impairment of Long-Lived Assets*

Property, plant and equipment and other long-lived assets are regularly reviewed for impairment as well as whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with its expected future net undiscounted cash flows from use together with its residual value (net recoverable value). If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. Any impairment results in a write-down of the asset and a charge to income. The determination of expected future cash flows and fair values require estimates which are subject to change. No adjustments to asset values have been required in this fiscal quarter.

### *Refundable Investment Tax Credits*

We incur research and development expenditures, which are eligible for refundable ITCs. The ITCs recorded are based on our estimates of amounts expected to be recovered and are subject to audit and reassessment by the taxation authorities and, accordingly, these amounts may vary materially.

### *Valuation Allowance for Future Tax Assets*

We have not recorded a benefit related to future tax assets related to operating losses and research and development expenses incurred since our corporate reorganization on May 23, 2006. We have assumed that the related tax benefits are not likely to be realized based on our historical results and estimated future taxable income. The implementation of tax planning strategies or the generation of future taxable income could result in the recognition of some portion or all of these benefits, which could result in a material improvement in our results of operations through the recovery of future income taxes.

### *Non-Cash Stock-Based Compensation*

Assumptions that affect our estimate of the fair value of stock options include the calculation of volatility factors and the life of the options issued, both of which require us to make assumptions about future events and have a direct impact on the determination of non-cash stock-based compensation.

## ACCOUNTING POLICIES AND DISCLOSURE CHANGES

### *Comprehensive Income and Equity*

In January 2005, the Canadian Institute of Chartered Accountants [“CICA”] released new Handbook Section 1530, Comprehensive Income and Section 3251, Equity, effective for annual and interim periods beginning on or after October 1, 2006. Section 1530 establishes standards for reporting comprehensive income. The section does not address issues of recognition or measurement for comprehensive income and its components. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in this section are in addition to Section 1530. The impact of the adoption of this standard has been to incorporate other comprehensive income disclosures within the financial statements.

### *Financial Instruments Recognition and Measurement*

In January 2005, the CICA released new Handbook Section 3855, “Financial Instruments – Recognition and Measurement”, effective for annual and interim periods beginning on or after October 1, 2006. This new section prescribes when a financial instrument is to be recognized on the balance sheet and at what amount, sometimes using fair value and other times using cost-based measures. It also specifies how financial instrument gains and losses are to be presented and defines financial instruments to include accounts receivable and payable, loans, investments in debt and equity securities, and derivative contracts. The impact of the adoption of this standard on the results of operations has been immaterial.

### *Hedges*

In April 2005, the CICA issued Section 3865 of the CICA Handbook entitled “Hedges” effective for years beginning on or after October 1, 2006. This section established standards for when and how hedge accounting may be applied. Hedging is an activity designed to modify an entity’s exposure to one or more risks. Hedge accounting modifies the normal basis for recognizing the gains, losses, revenues and expenses associated with a hedged item or a hedging item in an entity’s income statements. It ensures that counterbalancing gains, losses, revenues and expenses are recognized in the same period. The Corporation does not enter any hedging transactions at this time and, therefore, the impact of the adoption of this standard on the results of operations has been insignificant.

### *Recent accounting pronouncements*

The Canadian Institute of Chartered Accountants [“CICA”] has issued the following new Handbook Sections which are effective for interim periods beginning on or after October 1, 2007: Section 3862, “Financial Instruments – Disclosures”, describes the required disclosure for the assessment of the significance of financial instruments for an entity’s financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

Section 3863, “Financial Instruments – Presentation”, establishes standards for presentation of the financial instruments and non-financial derivatives. It carries forward the presentation related requirements of Section 3861, “Financial Instruments – Disclosure and Presentation”. The Company does not expect that the adoption of this new section will have a significant effect on its unaudited interim financial statements.

Section 1535, “Capital Disclosures”, establishes standards for disclosing information about an entity’s capital and how it is managed. It describes the disclosure of the entity’s objectives, policies and processes for managing capital, the quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements, and, if it has not complied, the consequences of such non-compliance. The Company is currently evaluating the impact of the adoption of this new section on its unaudited interim financial statements.

## RESULTS OF OPERATIONS

### *Fluctuations in Operating Results*

Our results of operations have fluctuated significantly from period to period in the past and are likely to do so in the future.

We anticipate that our quarterly and annual results of operations will be impacted for the foreseeable future by several factors, including the progress and timing of expenditures related to our clinical development program, our research efforts and the further expansion of facilities and headcount. Due to these fluctuations, we believe that the period-to-period comparisons of our operation results are not a good indication of our future performance.

### *Quarterly Financial Information (unaudited)*

The selected financial information provided below is derived from the Company's unaudited quarterly financial statements for each of the last eight quarters, all of which cover periods of three months.

	July 31, 2007	April 30, 2007	Jan. 31, 2007	Oct. 31, 2006	July 31, 2006	April 30, 2006	Jan. 31, 2006	Oct. 31, 2005
	(in thousands of dollars, except for earnings per share)							
Revenues								
Contract revenue	24	—	—	—	—	—	239	2
Interest income	950	1,005	862	137	203	56	81	139
Net loss	(8,562)	(12,209)	(18,630)	(15,930)	(10,321)	(9,964)	(9,951)	(11,190)
Basic loss per share	(0.04)	(0.05)	(0.10)	(0.29)	(0.19)	(0.21)	(0.21)	(0.23)

Our interest revenue fluctuates from quarter to quarter based on the timing of our financing initiatives while our net loss has increased due to clinical trial initiatives.

### **NINE MONTHS ENDED JULY 31, 2007 COMPARED TO THE NINE MONTHS ENDED JULY 31, 2006**

Net loss for the nine-month period ended July 31, 2007 amounted to \$39.4 million compared to \$30.2 million for the nine-month period ended July 31, 2006. The increase in the net loss is mainly attributable to an increase in net research and development expenses of \$11.0 million largely related to the purchase of drug substance for the upcoming clinical trials for PC-DAC™:Exendin-4 and related toxicity and carcinogenicity studies.

#### *Revenues*

For the nine-month period ended July 31, 2007, revenues were derived from interest income on short and long-term investments. We undertook one new research collaboration agreement and revenues of \$24,366 were earned in the nine-month period ended July 31, 2007 compared to \$239,123 of research collaboration revenues earned for the nine-month period ended July 31, 2006. The Company recorded interest income on cash, short and long-term investments that amounted to \$2.8 million for the nine-month period ended July 31, 2007, compared to \$339,825 for the nine-month period ended July 31, 2006. The increase in interest revenue was a result of the magnitude of the investment portfolio available resulting from the closing of our November 28, 2006 financing initiative.

#### *Research and Development*

Gross research and development expenses amounted to \$30.9 million for the nine-month period ended July 31, 2007, compared to \$18.7 million for the nine-month period ended July 31, 2006. The increase is largely attributable to the purchase of drug substance for the upcoming clinical trials for PC-DAC™:Exendin-4.

Investment tax credits were estimated at \$533,940 for the nine-month period ended July 31, 2007, compared to a \$582,752 expense relating to investment tax credits for the nine-month period ended July 31, 2006. The increase in 2007 is attributable to the fact that, in 2006, the Company provided an allowance for investment tax credits related to 2005 research and development expenses. These investment tax credits are subject to audit by the taxation authorities. The amounts recognized in 2007 have been recorded as a reduction of research and development expenditures.

Research and development expenditures represent the overwhelming majority of ConjuChem's corporate spending. Through a focused effort to validate our technology, we are targeting, in 2007, to commence a Phase II multi-dose clinical trial on our lead diabetes compound, PC-DAC™:Exendin-4. We also intend to advance one or more compounds into pre-clinical testing during 2008. These research and development initiatives will have a direct effect on our R&D expenditures.

#### *General and Administrative*

General and administrative costs for the nine-month period ended July 31, 2007 amounted to \$3.3 million, compared to \$3.2 million for the nine-month period ended July 31, 2006. The increase in general and administrative expenses is attributable to an increase in costs related to consultants, salaries and recruiting. As always, we reiterate our commitment to maintain the highest standards of corporate governance and continue to allocate resources in this area. We strongly believe that this is mandatory for maintaining shareholders' confidence.

#### *Amortization and Debt Service*

Amortization of long-lived assets decreased to \$207,279 for the nine-month period ended July 31, 2007, compared to \$244,105 for the nine-month period ended July 31, 2006. The decrease is a function of the decreasing capital base upon which amortization is calculated.

Accretion in the carrying value of the convertible senior unsecured notes amounts to \$5.3 million for the nine-month period ended July 31, 2007, compared to \$4.5 million for the nine-month period ended July 31, 2006. The increase results from the accretion and interest related to our convertible senior unsecured notes. This non-cash item is a function of the notional allocation of the convertible senior unsecured note between debt and equity components and represents the accretion in the carrying value of the debt component to its maturity value and will continue to increase from month to month until maturity or conversion occurs.

#### *Non-Cash Stock-Based Compensation*

Non-cash stock-based compensation for the nine-month period ended July 31, 2007 amounted to \$3.2 million compared to \$3.5 million for the nine-month period ended July 31, 2006. This non-cash expense relates to the amortization of amounts calculated under the fair value method of accounting for stock options and uses the Black-Scholes option pricing model to determine the fair market value of stock option grants.

#### *Foreign Exchange Gain or Loss*

Foreign exchange conversion resulted in a gain of \$56,410 for the nine-month period ended July 31, 2007, compared to a gain of \$70,467 for the nine-month period ended July 31, 2006. The majority of our clinical trial expenses are incurred in U.S. dollars and British pounds and the gain in this period is attributable to the impact on our expenditures resulting from the need to convert Canadian dollars into foreign currencies at various times during the period.

## THREE MONTHS ENDED JULY 31, 2007 COMPARED TO THE THREE MONTHS ENDED JULY 31, 2006

Net loss for the quarter ended July 31, 2007 amounted to \$8.6 million compared to \$10.3 million for the quarter ended July 31, 2006. The decrease in the net loss is mainly attributable to a decrease in net research and development expenses of \$1.6 million largely related to completion of the Phase I/II clinical trials for PC-DAC™:Exendin-4, in March 2007.

### *Revenues*

For the quarter ended July 31, 2007, revenues were derived from a research collaboration and interest income on short and long-term investments. We undertook a research collaboration agreement and \$24,366 of revenues were earned in the quarter ended July 31, 2007 compared to nil for the quarter ended July 31, 2006. The Company recorded interest income on cash, short and long-term investments that amounted to \$949,773 for the quarter ended July 31, 2007, compared to \$203,187 for the quarter ended July 31, 2006. The increase in interest income was a result of the investment portfolio available resulting from the closing of our November 28, 2006 financing initiative.

### *Research and Development*

Gross research and development expenses amounted to \$5.7 million for the quarter ended July 31, 2007, compared to \$7.5 million for the quarter ended July 31, 2006. The decrease is largely attributable to the completion of the Phase I/II clinical trials for PC-DAC™:Exendin-4, in March 2007.

Investment tax credits were estimated at \$233,940 for the quarter ended July 31, 2007, compared to \$399,248, for the quarter ended July 31, 2006. The decrease in investment tax credits is a result of a lower level of research and development spending in Quebec, which is subject to refundable SR&ED tax credits.

Research and development expenditures represent the overwhelming majority of ConjuChem's corporate spending. Through a focused effort to validate our technology, we are targeting, in 2007, to commence a Phase II multi-dose clinical program with our lead diabetes compound, PC-DAC™:Exendin-4. We also intend to advance one or more compounds into pre-clinical testing during 2008. These research and development initiatives will have a direct effect on our R&D expenditures.

### *General and Administrative*

General and administrative costs amounted to \$1.3 million for the quarter ended July 31, 2007 compared to \$908,535 for the quarter ended July 31, 2006. The increase in general and administrative expenses is attributable to an increase in costs related to consultants, salaries and recruiting. As always, we reiterate our commitment to maintain the highest standards of corporate governance and continue to allocate resources in this area. We strongly believe that this is mandatory for maintaining shareholders' confidence.

### *Amortization and Debt Service*

Amortization of long-lived assets decreased to \$69,522 for the quarter ended July 31, 2007, compared to \$81,813 for the quarter ended July 31, 2006. The decrease is a function of the decreasing capital base upon which amortization is calculated.

Accretion in the carrying value of the convertible senior unsecured notes amounts to \$1.9 million for the quarter ended July 31, 2007, compared to \$1.6 million for the quarter ended July 31, 2006. The increase results from the accretion and interest related to our convertible senior unsecured notes. This non-cash item is a function of the notional allocation of the convertible senior unsecured note between debt and equity components and represents the accretion in the carrying value of the debt component to its maturity value and will continue to increase from month to month until maturity or conversion occurs.

### *Non-Cash Stock-Based Compensation*

Non-cash stock-based compensation for the quarter ended July 31, 2007 amounted to \$875,620 compared to \$814,843 for July 31, 2006. This non-cash expense relates to the amortization of amounts calculated under the fair value method of accounting for stock options and uses the Black-Scholes option pricing model to determine the fair market value of stock option grants.

### *Foreign Exchange Gain or Loss*

Foreign exchange conversion resulted in a gain of \$109,808 for the quarter ended July 31, 2007, compared to a loss of \$10,818 for the quarter ended July 31, 2006. The majority of our clinical trial expenses are incurred in U.S. dollars and British pounds and the gain in this period is attributable to the impact on our expenditures resulting from the need to convert Canadian dollars into foreign currencies at various times during the period.

### **LIQUIDITY AND CAPITAL RESOURCES**

As at July 31, 2007, working capital amounted to \$23.2 million. On November 28, 2006, we closed a public offering of units at a price of \$0.65 per unit. Each unit consists of one common share of ConjuChem and one half of a common share purchase warrant. Each whole warrant will entitle its holder to purchase one common share for a period of three years from the closing of the offering at a purchase price of \$1.00 per share. The maximum offering was completed resulting in the issuance of a total of 185,000,000 units for gross proceeds of \$120,250,000 and net proceeds of \$113,591,650.

Cash flows applied to operating activities in the nine-month period ended July 31, 2007 amounted to \$35.4 million compared to \$18.7 million for the comparative period, and used primarily for the Phase I/II trial of PC-DAC™:Exendin-4 and the purchase of related drug substance.

Cash flows used in investing activities for the nine-month period ended July 31, 2007 amounted to \$78.3 million compared to \$13.1 million generated for the nine-month period ended July 31, 2006. The net use of cash from acquisitions, disposals and maturities of investments in the nine-month period ended July 31, 2007 was \$78.2 million for the nine-month period ended July 31, 2007 compared to \$13.2 million proceeds for the comparative period.

Capital expenditures for the nine-month period ended July 31, 2007 were \$147,474 compared to \$121,071 for the nine-month period ended July 31, 2006. We do not anticipate making any significant capital acquisitions in fiscal 2007.

Cash flows provided from financing activities amounted to \$113.6 million for the nine-month period ended July 31, 2007 compared to \$20.2 million for the nine-month period ended July 31, 2006. We significantly improved our liquidity on November 28, 2006, when the Company closed a public offering of units resulting in gross proceeds of \$120,250,000 and net proceeds of \$113,591,650. During the nine-month period ended July 31, 2007, 6,333 options were exercised in exchange for common shares; total cash consideration amounted to \$3,483.

Accounts receivable totalled \$296,671 as at July 31, 2007 and included interest receivable on short-term investments, as well as commodity tax refunds. Accounts payable and accrued liabilities decreased from \$12.9 million as at October 31, 2006 to \$8.0 million as at July 31, 2007, due to the timing of disbursements and the decreased costs relating to clinical development activities.

As at July 31, 2007, we had cash and cash equivalents and short-term investments totaling \$30.2 million. As at October 31, 2006, cash and cash equivalents, short-term investments totalled \$11.3 million. ConjuChem's Investment Policy regulates its investment activities relating to cash resources. An Investment Committee composed of representatives from management and the Board of Directors monitors compliance with said policy. The Company invests strictly in liquid, high-grade investment securities with varying terms to maturity, selected with regard to the expected timing of expenditures for continuing operations and prevailing interest rates. As of July 31, 2007, ConjuChem had invested in eight major Canadian companies, including three chartered banks, in amounts ranging from approximately \$100,000 to \$57.2 million.

### *Off-Balance Sheet Arrangements*

Our off-balance sheet arrangements are described below under "Contractual Obligations" and consist of operating leases. Other than these commitments, which are considered to be in the ordinary course of business, we do not have any other off-balance sheet arrangements and do not expect to enter into any other such arrangements outside of the ordinary course of our business in the near future.

### *Transactions with Related Parties*

A director of the Company is also a director of the holder of our convertible senior unsecured notes.

### *Proposed Transactions*

As discussed elsewhere in this document, we expect to strengthen our financial position through various financing initiatives and potential licensing agreements.

### *Financial Instruments*

The Company does not use currency hedging instruments.

### *Contractual Obligations*

<b>Payments due by period (\$'000's)</b>				
	<b>Less than 12 months</b>	<b>12 to 36 months</b>	<b>36 to 60 months</b>	<b>Total</b>
<b>Operating leases</b>	<b>589</b>	<b>—</b>	<b>—</b>	<b>589</b>
<b>Convertible senior unsecured note Series 1 (Note 1)</b>	<b>—</b>	<b>42,214</b>	<b>—</b>	<b>42,214</b>
<b>Convertible senior unsecured note Series 2 (Note 2)</b>	<b>—</b>	<b>20,178</b>	<b>—</b>	<b>20,178</b>

1. On December 28, 2001, the Company issued a \$30 million convertible senior unsecured note, maturing in December 2008. The note will bear no interest for the first two years and 7.07% compounded annually thereafter and payable only on maturity. The note can be converted at any time, at the option of the holder, into common stock of the Company at \$5.31 per common share or at the Company's option under certain conditions. Upon conversion of the note, all accrued and unpaid interest would be waived.
2. On August 20, 2004, the Company issued a \$15 million convertible senior unsecured note, maturing in December 2008. The note will bear interest of 7.07% compounded annually and payable only at maturity. The note can be converted at any time, at the option of the holder, into common stock of the Company at a price per share of \$5.00 or at the Company's option under certain conditions. Upon conversion of the note, all accrued and unpaid interest would be waived.

The Company has also issued 1,050,000 common share purchase warrants with an exercise price of \$6.25 expiring on August 20, 2008.

There were no commitments for capital expenditures as at July 31, 2007.

### *Outstanding Share Data*

The number of common shares outstanding as of July 31, 2007 and September 6, 2007 is 240,213,668. The number of options outstanding is 14,434,676 as of July 31, 2007 and September 6, 2007.

Furthermore, as at July 31, 2007 and September 6, 2007, 97,876,750 warrants were outstanding with prices and expiration dates as follows:

<b># of warrants</b>	<b>Price</b>	<b>Expiration Date</b>
1,050,000	\$6.25	08/20/2008
96,826,750	\$1.00	11/28/2009

## **Disclosure Controls and Procedures**

Our President and Chief Executive Officer and our Vice-President, Finance and Chief Financial Officer are responsible for establishing and maintaining our disclosure controls and procedures. They are required to be fully apprised of any material information affecting the Company so that they may evaluate and discuss this information and determine the appropriateness and timing of public releases.

Our President and Chief Executive Officer and our Vice-President, Finance and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures as at July 31, 2007, have concluded that the Company's disclosure controls and procedures are adequate and effective to ensure that material information relating to the Company would have been known to them.

## **Internal Controls Over Financial Reporting**

Internal controls over financial reporting ("ICFRs") are designed to provide reasonable assurance regarding the reliability of our financial reporting and our compliance with GAAP in our financial statements. Our President and Chief Executive Officer and our Vice-President, Finance and Chief Financial Officer, together with other members of management, have designed ICFRs, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. Management assessed the design of such controls as of July 31, 2007 and have concluded that our disclosure controls and procedures provide reasonable assurance that material information would be made known to them during the period in which this report was being prepared.

We plan to continue to review and make the necessary changes to the design of our control environment, including additional analysis and other post-closing procedures, implementing policies and procedures to improve the overall ICFRs.

**ConjuChem Biotechnologies Inc.**

**BALANCE SHEETS**

[unaudited]

[note 1]

As at	July 31, 2007	October 31, 2006
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	3,896,969	4,034,937
Available-for-sale short-term investments	26,293,060	7,244,401
Accounts receivable and other assets	296,671	394,758
Investment tax credits receivable	450,000	550,000
Prepaid expenses	299,904	288,746
<b>Total current assets</b>	<b>31,236,604</b>	<b>12,512,842</b>
Deferred financing fees [note 3]	—	74,675
Property, plant and equipment	1,111,531	1,161,886
Intangible assets	23,618	33,068
Held-to-maturity long-term investments	59,166,308	—
	<b>91,538,061</b>	<b>13,782,471</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	7,981,809	12,862,582
Unearned revenue	31,782	—
<b>Total current liabilities</b>	<b>8,013,591</b>	<b>12,862,582</b>
Convertible senior unsecured notes	50,553,365	45,276,400
	<b>58,566,956</b>	<b>58,138,982</b>
<b>Shareholders' equity (deficiency)</b>		
Capital stock [note 4]	265,332,302	162,017,141
Warrants [note 4]	11,885,875	3,276,000
Equity portion of convertible senior unsecured notes	14,966,780	14,966,780
Contributed surplus [note 4]	27,288,463	22,466,527
Deficit	(286,484,073)	(247,082,959)
Accumulated other comprehensive loss	(18,242)	—
<b>Total shareholders' equity (deficiency)</b>	<b>32,971,105</b>	<b>(44,356,511)</b>
	<b>91,538,061</b>	<b>13,782,471</b>

See accompanying notes

On behalf of the Board:



Director



Director

**ConjuChem Biotechnologies Inc.**

**STATEMENTS OF DEFICIT**

[unaudited]

[note 1]

	<b>Three-month periods ended July 31,</b>		<b>Nine-month periods ended July 31,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Deficit, beginning of period</b>	<b>(277,921,960)</b>	<b>(220,832,992)</b>	<b>(247,082,959)</b>	<b>(200,918,066)</b>
Net loss for the period	<b>(8,562,113)</b>	<b>(10,321,041)</b>	<b>(39,401,114)</b>	<b>(30,235,967)</b>
<b>Deficit, end of period</b>	<b>(286,484,073)</b>	<b>(231,154,033)</b>	<b>(286,484,073)</b>	<b>(231,154,033)</b>

*See accompanying notes*

**ConjuChem Biotechnologies Inc.**

**STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

[unaudited]

[note 1]

	Three-month periods ended July 31,		Nine-month periods ended July 31,	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>REVENUES</b>				
Contract revenues	24,366	—	24,366	239,123
Interest income	949,773	203,187	2,816,994	339,825
	<b>974,139</b>	<b>203,187</b>	<b>2,841,360</b>	<b>578,948</b>
<b>EXPENSES</b>				
Research and development	5,721,984	7,509,867	30,855,519	18,735,329
Investment tax credits	(233,940)	(399,248)	(533,940)	582,752
Net research and development expenses	5,488,044	7,110,619	30,321,579	19,318,081
General and administrative expenses	1,346,308	908,535	3,253,409	3,244,991
Amortization of property, plant and equipment	65,052	73,546	194,198	219,304
Amortization of intangible assets	4,470	8,267	13,081	24,801
Amortization of deferred financing fees	8,722	8,722	26,166	26,166
Non-cash stock-based compensation	875,620	814,843	3,151,839	3,540,347
Financial charges	2,948	34,544	13,138	43,134
Foreign exchange (gain) loss	(109,808)	10,818	(56,410)	(70,467)
Accretion in carrying value of convertible senior unsecured notes	1,854,896	1,554,334	5,325,474	4,468,558
	<b>9,536,252</b>	<b>10,524,228</b>	<b>42,242,474</b>	<b>30,814,915</b>
<b>Net loss for the period</b>	<b>(8,562,113)</b>	<b>(10,321,041)</b>	<b>(39,401,114)</b>	<b>(30,235,967)</b>
<b>Other comprehensive income</b>				
Unrealized (loss) gain on available-for-sale short-term investments	(15,133)	—	(18,242)	—
<b>Comprehensive loss for the period</b>	<b>(8,577,246)</b>	<b>(10,321,041)</b>	<b>(39,419,356)</b>	<b>(30,235,967)</b>
Basic and diluted loss per share	<b>(0.04)</b>	<b>(0.19)</b>	<b>(0.18)</b>	<b>(0.61)</b>
Weighted average number of common shares	<b>240,213,668</b>	<b>53,705,574</b>	<b>221,235,875</b>	<b>49,631,801</b>

See accompanying notes

**ConjuChem Biotechnologies Inc.**

**STATEMENTS OF CASH FLOWS**

[unaudited]

[note 1]

	Three-month periods ended July 31,		Nine-month periods ended July 31,	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
<b>Net loss</b>	<b>(8,562,113)</b>	(10,321,041)	<b>(39,401,114)</b>	(30,235,967)
Items not affecting cash:				
Amortization of property, plant and equipment	65,052	73,546	194,198	219,304
Amortization of intangible assets	4,470	8,267	13,081	24,801
Amortization of deferred financing fees	8,722	8,722	26,166	26,166
Amortization of discount on long-term investments	(25,874)	—	(66,091)	2,658
Non-cash stock-based compensation	875,620	814,843	3,151,839	3,540,347
Accretion in value of convertible senior unsecured notes	1,854,896	1,554,334	5,325,474	4,468,558
	<b>(5,779,227)</b>	(7,861,329)	<b>(30,756,447)</b>	(21,954,133)
Net changes in non-cash working capital balances relating to operations	<b>(3,017,561)</b>	1,934,984	<b>(4,662,062)</b>	3,237,557
<b>Cash flows relating to operating activities</b>	<b>(8,796,788)</b>	(5,926,345)	<b>(35,418,509)</b>	(18,716,576)
<b>INVESTING ACTIVITIES</b>				
Acquisition of short-term investments	(26,211,300)	(4,403,711)	(68,258,235)	(8,992,905)
Proceeds on maturities of short-term investments	29,620,234	—	49,191,336	22,195,268
Acquisition of property, plant and equipment	(5,537)	(6,465)	(143,843)	(121,071)
Acquisition of intangible assets	(880)	—	(3,631)	—
Acquisition of long-term investments	(1,613,518)	—	(59,100,219)	—
<b>Cash flows relating to investing activities</b>	<b>1,788,999</b>	(4,410,176)	<b>(78,314,592)</b>	13,081,292
<b>FINANCING ACTIVITIES</b>				
Proceeds from reorganization	—	6,400,000	—	6,400,000
Costs of reorganization	—	(1,083,809)	—	(1,083,809)
Draw down from bridge loan	—	—	—	2,000,000
Repayment of bridge loan	—	(2,000,000)	—	(2,000,000)
Issuance of units for cash	—	15,793,178	120,253,483	15,806,376
Issuance costs paid in cash	—	(958,145)	(6,658,350)	(958,145)
<b>Cash flows relating to financing activities</b>	<b>—</b>	18,151,224	<b>113,595,133</b>	20,164,422
<b>Net increase (decrease) in cash and cash equivalents during the period</b>	<b>(7,007,789)</b>	7,814,703	<b>(137,968)</b>	14,529,138
Cash and cash equivalents, beginning of period	10,904,758	6,851,653	4,034,937	137,218
Cash and cash equivalents, end of period	<b>3,896,969</b>	14,666,356	<b>3,896,969</b>	14,666,356
<b>Supplemental cash flow information:</b>				
Cash paid during the period for interest:	331	29,365	1,604	29,625

See accompanying notes

## **NOTES TO FINANCIAL STATEMENTS**

July 31, 2007

Information with respect to the October 31, 2006 balance sheet is derived from the Company's audited financial statements.

### **1. DESCRIPTION OF BUSINESS**

ConjuChem Biotechnologies Inc. (the "Company") is a biotechnology company operating in a single business segment out of its Canadian facility and its primary business purpose is the development and use of its bioconjugation technologies to develop therapeutic drugs. The Company enters into contracts with companies for the exclusive right to use certain of its technologies and to jointly develop specific drugs. All of the Company's contract revenues were derived from clients in the United States.

To date, the Company has financed its cash requirements primarily through the issuance of common shares and convertible unsecured note issuances, investment tax credits, interest income and collaborative research contract revenues. The Company has incurred significant operating losses and cash outflows from operations. The future success of the Company is dependent on obtaining the necessary regulatory approvals, generating revenue from licensing or sale of therapeutic drugs and achieving future profitable operations. It may be necessary for the Company to raise additional funds for the continuing development and marketing of its technologies and drugs.

### **2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES**

The unaudited interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles applicable to interim financial statements. Accordingly, they do not include all the information and disclosures required according to Canadian generally accepted accounting principles for annual financial statements and should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended October 31, 2006.

Information with respect to the October 31, 2006 balance sheet is derived from the Company's audited financial statements. The accounting policies underlying these interim financial statements are those set forth in note 2 of the audited financial statements for the year ended October 31, 2006 and those mentioned in note 3 to the interim financial statements.

#### **Recent accounting pronouncements**

The Canadian Institute of Chartered Accountants ["CICA"] has issued the following new Handbook Sections which are effective for interim periods beginning on or after October 1, 2007: Section 3862, "Financial Instruments – Disclosures", describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

Section 3863, "Financial Instruments – Presentation", establishes standards for presentation of the financial instruments and non-financial derivatives. It carries forward the presentation related requirements of Section 3861 "Financial Instruments – Disclosure and Presentation". The Company does not expect that the adoption of this new section will have a significant effect on its unaudited interim financial statements.

Section 1535, "Capital Disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and processes for managing capital, the quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements, and, if it has not complied, the consequences of such non-compliance. The Company is currently evaluating the impact of the adoption of this new section on its unaudited interim financial statements.

### **3. CHANGE IN ACCOUNTING POLICY**

Effective November 1, 2006, the Company adopted the following recently introduced CICA Handbook Sections:

#### **Financial Instruments – Recognition and Measurement**

Section 3855, “Financial Instruments – Recognition and Measurement” provides guidance on the recognition and measurement of financial assets, financial liabilities and derivative financial instruments. This new standard requires that all financial assets and liabilities be accounted for using one of five available accounting models, being: held-to-maturity, available-for-sale, loans and receivables, other financial liabilities or held-for-trading. All financial instruments classified as available-for-sale or held-for-trading, and derivative financial instruments meeting certain recognition criteria, are subsequently measured at fair value. Changes in the fair value of financial instruments designated as held for-trading and recognized derivative financial instruments are charged or credited to net loss for the relevant period, while changes in the fair value of financial instruments designated as available-for-sale are charged or credited to other comprehensive income until the instrument is removed from the balance sheet. All other financial assets and liabilities are accounted for at cost or at amortized cost depending upon the nature of the instrument. Financial assets and liabilities designated as held-to-maturity are initially recognized at their fair values, with any resulting premium or discount from the face value being amortized to income or expense using the effective interest method. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. The standard requires the Company to make certain elections, upon initial adoption of the new rules, regarding the accounting model to be used to account for each financial instrument. This new section also requires that transaction costs incurred in connection with the issuance of financial instruments either be capitalized and presented as a reduction of the carrying value of the related financial instrument or expensed as incurred. If capitalized, transaction costs must be amortized to income using the effective interest method. This section does not permit the restatement of financial statements of prior periods.

Following is a summary of the accounting model the Company has elected to apply to each of its significant categories of financial instruments outstanding as of November 1, 2006:

Short-term investments	available-for-sale
Accounts receivable and other assets <sup>1</sup>	loans and receivables
Long-term investments <sup>2</sup>	held-to-maturity
Accounts payable	other financial liabilities
Convertible senior unsecured notes	other financial liabilities

<sup>1</sup> Excluding commodities taxes receivable, as these amounts are not contractual rights to receive cash

<sup>2</sup> Excluding cash balances of \$1,074,543 as at July 31, 2007

In addition, the Company has elected to account for transaction costs related to the issuance of financial instruments as a reduction of the carrying value of the related financial instruments. The Company does not have any outstanding contracts with embedded derivatives.

The adoption of this new section did not result in any significant adjustments to the carrying values of the Company’s previously recognized financial assets and liabilities as at October 1, 2006. However, since the Company has elected to capitalize transaction costs, deferred financing fees in the amount of \$48,509 as at July 31, 2007 are now presented as a reduction of convertible senior unsecured notes.

#### **Comprehensive income**

Section 1530, “Comprehensive Income”, along with Section 3251, “Equity” which replaces Section 3250, “Surplus”, require enterprises to present comprehensive income and its components as well as net income in their financial statements. Further, they require enterprises to separately present changes in equity during the period as well as components of equity at the end of the period, including comprehensive income. The adoption of these sections resulted in the recognition of \$18,242 of other comprehensive loss in Company’s financial statements representing the unrealized loss on available-for-sale short-term investments for the nine-month period ended July 31, 2007.

## ConjuChem Biotechnologies Inc.

### 3. CHANGE IN ACCOUNTING POLICY (CONT'D)

#### Hedges

Section 3865, "Hedges", allows optional treatment providing that hedges be designated as either fair value hedges, cash flow hedges or hedges of a self-sustaining foreign operation. Since the Company does not currently have any hedging programs in place, the adoption of this section did not have any impact on the Company's financial statements.

### 4. CAPITAL STOCK

#### Authorized

An unlimited number of common shares.

#### Issued and outstanding

	Number of common shares	Capital stock \$
<b>Opening balance as at October 31, 2006</b>	<b>55,207,335</b>	<b>162,017,141</b>
Transfer from contributed surplus upon exercise of options	—	2,913
Issued upon exercise of options	6,333	3,483
Issued for cash	185,000,000	111,000,000
Issuance costs – cash	—	(6,146,918)
Issuance costs – broker compensation warrants	—	(1,411,186)
Issuance costs – warrants from broker compensation warrants	—	(133,131)
<b>Balance as at July 31, 2007</b>	<b>240,213,668</b>	<b>265,332,302</b>

On November 28, 2006, the Company closed a public offering of units at a price of \$0.65 per unit. Each unit consists of one common share of the Company and one half of a common share purchase warrant. Each whole warrant will entitle its holder to purchase one common share for a period of three years from the closing of the offering at a purchase price of \$1.00 per share. The maximum offering was completed resulting in the issuance of a total of 185,000,000 units for gross proceeds of \$120,250,000 and net proceeds of \$113,591,650. The fair value of each common share issued was determined to be \$0.60, based on the weighted-average closing price of the Company's common shares for the three days following November 8, 2006, the date on which the proposed public offering was announced. The Company has, therefore, allocated \$0.60 of the issue price of each unit to each common share issued and the remaining \$0.05 of the issue price as consideration for each half of a common share purchase warrant. The financing costs amounting to \$6,658,350 were allocated as a reduction of share capital (\$6,146,918) and warrants (\$511,432) on that same basis. Broker compensation warrants were granted to the underwriters to purchase up to 2,884,500 units at \$0.65 per unit with the same conditions as the offering units. The fair value of the broker compensation warrants is estimated at \$1,528,785, determined using the Black-Scholes option pricing model with a volatility of 27%, a risk-free interest rate of 2.98%, a dividend of nil and an expected life of three years, and is allocated as a reduction of share capital (\$1,411,186) and warrants (\$117,599) with a corresponding increase of \$1,528,785 to contributed surplus. The fair value of the warrants from broker compensation warrants is estimated at \$144,225 and is allocated as a reduction of share capital (\$133,131) and warrants (\$11,094) with a corresponding increase of \$144,225 to contributed surplus.

As at September 6, 2007, the Company had 240,213,668 issued and outstanding common shares.

## ConjuChem Biotechnologies Inc.

### 4. CAPITAL STOCK (CONT'D)

#### Warrants

	Number of common shares reserved for issuance	\$
<b>Opening balance as at October 31, 2006</b>	<b>1,108,979</b>	<b>3,276,000</b>
Expired warrants	(58,979)	—
Issued – November 28, 2006 financing	92,500,000	9,250,000
Issuance costs - November 28, 2006 financing	—	(511,432)
Broker compensation warrants - November 28, 2006 financing	2,884,500	(117,599)
Warrants from broker compensation warrants	1,442,250	(11,094)
<b>Balance as at July 31, 2007</b>	<b>97,876,750</b>	<b>11,885,875</b>

#### Contributed surplus

	\$
<b>Balance as at October 31, 2006</b>	<b>22,466,527</b>
Stock-based compensation charge for the period	3,151,839
Broker compensation warrants issued to underwriters	1,673,010
Transferred to share capital upon exercise of options	(2,913)
<b>Balance as at July 31, 2007</b>	<b>27,288,463</b>

#### Stock option plan

The changes to the number of stock options granted by the Company and their weighted-average exercise price, for the nine-month period ended July 31, 2007, are as follows:

	Number	\$
Balance, beginning of period	5,747,776	2.40
Granted	9,495,000	0.70
Exercised	(6,333)	0.55
Forfeited	(801,767)	3.82
Balance, end of period	14,434,676	1.21
Options exercisable (vested), end of period	3,669,049	2.26

During the quarter ended January 31, 2007, the Company granted 8,060,000 options to 45 employees and officers, all of which were in excess of the 7,134,834 options authorized by the shareholders. The options were granted by the Board of Directors subject to the approval of an amendment to the maximum options available under the plan at the Company's annual general meeting of shareholders. During the annual general meeting of shareholders, on March 6, 2007, the shareholders approved such amendment to the stock option plan to provide for a maximum of 26,922,217 options to purchase common shares exercisable at the closing price on the Toronto Stock Exchange per common share on the day preceding their grant. The grant date for measurement purposes of these options is the date the shareholders approved the amendment to the plan on March 6, 2007 and as a result, a stock-based compensation expense was recorded relating to these options in the quarter ended July 31, 2007. 845,000 options were granted during the quarter ended April 30, 2007 and 590,000 options were granted during the quarter ended July 31, 2007.

## ConjuChem Biotechnologies Inc.

### 4. CAPITAL STOCK (CONT'D)

Compensation expense of \$3,151,839 [\$3,540,347 – 2006] has been recorded in the nine-month period ended July 31, 2007 for stock options granted with a corresponding credit to contributed surplus. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	2007	2006
Expected dividend	0.0%	0.0%
Volatility	124.7%	131.0%
Risk-free interest rate	3.0%	3.1%
Expected option life in years	5	5
Weighted-average stock option fair value per option granted	\$0.71	\$1.49
Weighted-average fair value of options on date of grant	\$0.70	\$2.67

### Warrants

Warrants outstanding as at July 31, 2007 are as follows:

Exercise price (\$)	Number outstanding	Weighted average months to expiry
6.25	1,050,000	13
1.00	96,826,750	28
	97,876,750	

# CONJUCHEM

ConjuChem Biotechnologies Inc.  
225, President-Kennedy  
Suite 3950  
Montréal, Quebec  
H2X 3Y8  
Tel: 514-844-5558  
Fax: 514-844-1119