

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 audited financial statements for the year ended October 31, 2009 included herewith which are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for financial statements and the related notes which are filed on SEDAR (www.sedar.com) or appearing elsewhere in our Annual Report. This discussion and analysis compares financial performance for fiscal 2009 with fiscal 2008 and discusses issues and risks that may impact future operations. This review was performed by management with information available as at January 22, 2010. Additional information related to the Company, including its Annual Information Form, can be found on SEDAR on 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. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "plan", "foresee", "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Actual results, levels of activity, performance, or achievements could differ materially from those projected herein and depend on a number of factors.

Factors that could cause actual results to differ materially include but are not limited to:

- our need for additional financing and our estimates regarding our capital requirements and future revenues and profitability;
- our ability to retain and hire qualified employees;
- our plans to develop and commercialize product candidates and the timing of these development programs;
- whether we will receive, and the timing and costs of obtaining, regulatory approvals;
- clinical development of our product candidates, including the results of current and future clinical trials;
- the benefits of our drug delivery technologies and product candidates as compared to others;
- our ability to maintain and establish intellectual property rights in our drug delivery technologies and product candidates;
- our estimates of the size of the potential markets for our product candidates;
- our selection and licensing of product candidates;
- our ability to attract distributors and collaborators with acceptable development, regulatory and commercialization expertise and the benefits to be derived from such collaborative efforts;
- sources of revenues and anticipated revenues, including contributions from distributors and collaborators, product sales, license agreements and other collaborative efforts for the development and commercialization of product candidates;
- the rate and degree of market acceptance of our products;
- the timing and amount of reimbursement for our products;
- the success and pricing of other competing therapies that may become available;
- the manufacturing capacity of third-party manufacturers for our product candidates; and
- other risk factors discussed herein and listed from time to time in our reports, public disclosure documents and other filings with the securities commissions in Canada.

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 4503996 Canada Inc. on July 8, 2009 and subsequently changed its name to ConjuChem Biotechnologies Inc. on August 24, 2009, following the reorganization below.

On August 25, 2009, following receipt of all required approvals, New ConjuChem and the predecessor company of ConjuChem Biotechnologies Inc. (“Old ConjuChem”) was reorganized under a Plan of Arrangement (the “Plan”) pursuant to the CBCA. The Plan was approved by the shareholders of the predecessor company of ConjuChem Biotechnologies Inc. on August 19, 2009, by the Québec Superior Court on August 24, 2009 and the reorganization was implemented in August 2009.

Under the Plan, Old ConjuChem transferred all of its business assets, liabilities and operations to New ConjuChem, except for its tax attributes and a \$5 million loan from Colabor Group Inc. (“Colabor”). 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 which the assets transferred and liabilities assumed have been recorded at their carrying values as reported by in Old ConjuChem immediately prior to the reorganization transaction. Accordingly, for the year ended October 31, 2009, the financial statements combined the financial results for the business carried on by Old ConjuChem from November 1, 2008 to August 24, 2009 with those of New ConjuChem from August 25, 2009 to October 31, 2009.

In connection with the corporate reorganization, under which New ConjuChem benefited of the cash proceeds of the \$5 million loan, 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 August 24, 2009 are not available to the Company. Total costs incurred by New ConjuChem in connection with the Plan amounted to \$855,690 and were recorded as a reduction of the contributed surplus.

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

References herein to the Company’s business and operations that pre-date the August 25, 2009 corporate reorganization refer to the business and operations of Old ConjuChem, but are included on the basis that such historical business and operations have been continued by New ConjuChem as ConjuChem Biotechnologies Inc.

All of Old ConjuChem’s issued and outstanding common shares, warrants, options and convertible debentures on August 25, 2009 were exchanged for replacement common shares, warrants, options and convertible debentures of New ConjuChem.

OVERVIEW

We are a publicly-traded Canadian biotechnology company dedicated to the discovery of novel therapeutics with an initial focus on diabetes. We are managing multiple research programs in-house and have one product in development. ConjuChem is focused on discovering and developing new drugs based on our novel technology platforms called Drug Affinity Complex (“DACTM”) and Pre-formed Drug Affinity Complex (“PC-DACTM”). When applied to a compound, DACTM and PC-DACTM can create new drugs with similar therapeutic activity to the original compound but with a significantly longer duration of activity in the body. One of the greatest opportunities for ConjuChem’s DACTM and PC-DACTM 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 limit their commercialization 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 pursuing the development of PC-DACTM:Exendin-4, a GLP-1 homolog combined with our PC-DACTM technology. Phase II multiple-dose clinical trials began in February 2008. Positive preliminary results from three-month multiple dose trials were announced December 3, 2008, final results were released in February 2009 and two posters were presented in June 2009 at the American Diabetes Association's 69th Annual Scientific Sessions.

The financial statements have been prepared in accordance with GAAP on a going concern basis, which assumes that we will continue our operations for the foreseeable future and be able to realize our assets and discharge of our liabilities in the normal course of business. The use of the going concern basis may not be appropriate because, as at October 31, 2009, there is substantial doubt that we will be able to continue as a going concern without securing additional financial resources. We are currently seeking additional capital to finance our operations and to repay our convertible unsecured subordinated debentures of \$20.3 million in December 2010. We are considering all financing alternatives, corporate collaboration and licensing arrangements. We have established a special committee of independent board members to explore and evaluate all strategic alternatives including, but not limited to, a sale of the Company or the sale of all or a substantial part of its assets. The outcome of many of these matters is outside of our control and cannot be predicted at this time. If we are unable to obtain additional financing, management may be required to curtail the Company's operations. Please refer to Note 1 – Corporate Reorganization, Description of Business and Going Concern Uncertainty - to the audited financial statements of the Company as of October 31, 2009 and the section "Risk Factors" above for more details. Our success is also dependent on obtaining the necessary regulatory approvals, generating revenue from licensing or sale of therapeutic drugs and achieving future profitable operations.

We have incurred operating losses since our inception due principally to expenditures related to our research and development activities. As at October 31, 2009, we had an accumulated deficit of \$348.2 million and, as of this date, the deficiency in assets amounts to \$9.8 million. Our anticipated level of annual expenditures exceeds our cash, cash equivalent and short-term investments on hand on October 31, 2009. We expect to continue to incur operating losses in the next few fiscal years as we advance other product candidates from our research pipeline into clinical development. To date, we have financed our operations, technology acquisitions and capital expenditures primarily through public equity offerings of common shares, private placements of common shares, issuance of convertible notes and debentures, the receipt of investment tax credits earned on eligible expenditures, interest income, and the proceeds from research collaboration agreements.

We improved our liquidity on August 25, 2009 with a corporate reorganization resulting in net proceeds of approximately \$4.1 million. As a result of budgetary constraints and the implementation of the streamlined business plan, we limited our spending in research and development and focused our efforts in a finding partner for the continued development of PC-DACTM:Exendin-4. Accordingly, in March 2009, a reduction of approximately 50% of our workforce took place and we recorded charges for termination costs of \$582,465, \$296,245 was included in research and development expenses and \$286,220 was included in general and administration expenses.

On November 30, 2007, the Company repaid its convertible senior unsecured notes with a face value of \$45,000,000 plus accrued interest of \$13,006,914 for a total amount of \$58,006,914 by redeeming an equivalent amount of held-to-maturity long-term investments. Since the Company redeemed the held-to-maturity long-term investments prior to their maturity, the Company incurred a loss of \$267,439 on redemption. In addition, as the carrying value of the convertible senior unsecured notes was accreted to its maturity value over its life through charges to income and the convertible senior unsecured notes were redeemed prior to maturity, an accelerated accretion of \$5,161,984, for a total accretion of \$5,504,427, was charged to income in the three-month period ended January 31, 2008. Upon repayment, the equity portion of convertible senior unsecured notes amounting to \$14,996,780 was transferred to contributed surplus.

On December 13, 2007, the Company closed a bought deal financing of 22,000 convertible unsecured subordinated debentures units of the Company (a “Unit”) at a price of \$1,000 per Unit. Each Unit consists of \$1,000 principal amount of convertible unsecured subordinated debentures and 1,562.5 common share purchase warrants. The debentures bear interest at an annual rate of 8.0% payable semi-annually, commencing on June 30, 2008, and mature on December 31, 2010. The debentures may be redeemed on or after December 31, 2009, and prior to the maturity date, at a redemption price equal to \$1,050 per debenture plus accrued and unpaid interest under certain conditions. The debentures can be converted at any time, at the option of the holder, into common stock of the Company at a price of \$0.16 per share. In addition, each full warrant entitles the holder to purchase one common share of the Company at a price of \$0.25 until December 31, 2011. The offering was completed resulting in the issuance of a total of 22,000 units for gross proceeds of \$22,000,000 and net proceeds of \$20,235,586. The fair value of the Company’s obligation to make principal and interest payments was estimated at \$13,500,000 and was recorded as convertible unsecured subordinated debentures. The fair value of the holders’ conversion option and warrants were estimated at \$6,100,000 and \$2,400,000 respectively and were recorded as “equity portion of convertible unsecured subordinated debentures” and “warrants” respectively. The fair value of the holders’ conversion option was determined using a conversion option pricing model while the fair value of the warrants was determined using a Black-Scholes option pricing model. The financing costs totaling \$1,764,414 related to the issuance of these units have been allocated pro-rata to convertible unsecured subordinated debentures of \$1,082,710, equity portion of convertible unsecured subordinated debentures of \$489,223 and warrants of \$192,481. The carrying value of the convertible unsecured subordinated debentures is accreted to its maturity value over its life through charges to income, using a notional interest rate of 27%.

Our Goal

Our goal is to develop next generation medicines from therapeutic peptides based on our proprietary bioconjugation platform technologies. We anticipate applying our systemic PC-DAC Technologies to multiple drug candidates and undertaking the clinical development of said drug candidates until the stage at which we believe we can optimize value for our stakeholders by entering into strategic alliances for the further development and eventual marketing of the subject drug candidates.

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.

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 twenty-year carry-forward period. Eligible SR&ED expenditures incurred in Quebec may qualify for Quebec refundable tax credits at a rate of 37.5% for the first \$3 million of eligible expenditures and 17.5% on the remaining eligible expenses and are earned on payments made in Quebec for SR&ED labour and SR&ED contracts, after deducting governmental and non-governmental assistance related to SR&ED in order that the total assets of all the associated corporations does not exceed the limit for the previous taxation year. However, only 50% of payments made to arm’s length sub-contractors are eligible for the Quebec tax credit.

In connection with a corporate reorganization completed in August 2009, our SR&ED expenditures which have not been deducted for federal and provincial income tax purposes from the operation of the business through August 25, 2009, will no longer be available to us. As a result, the future tax assets related to net operating losses carried forward and research and development expenditures, as of the date of the transaction, have been reduced to nil, with a corresponding reduction of the related valuation allowance. Following this transaction, the Company has accumulated new SR&ED expenditures of approximately \$270,000 for federal tax purposes and \$420,000 for provincial tax purposes.

Research and Development

Our research and development expenses have consisted primarily of fees paid to external service providers, manufacturing costs, laboratory supplies and costs for facilities and equipment and related personnel expenses. The majority of our research and development costs incurred in the 2009 fiscal year are related to the development of PC-DAC™:Exendin-4. We intend to partner PC-DAC™:Exendin-4 with a third party with sufficient expertise and resources to contribute to its continued development and commercialization. Our research and development expenses have fluctuated significantly from period to period in the past and are likely to do so in the future as they are impacted by the progress related to our development efforts.

Significant Projects

Our lead product candidate, PC-DAC™:Exendin-4, is currently in clinical development. This product candidate will have to complete further 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, we intend to find a partner that has the necessary resources to complete development and to commercialize this asset.

During 2008 we advanced PC-Insulin into pre-clinical trials and intend to pursue an IND for this compound. PC-Insulin is a basal insulin with potential use in patients with either Type I or Type II diabetes. PC-Insulin is being developed to have advantages over basal insulin therapies that may show clinically relevant peak-to-trough ratios and may also not always provide adequate insulin coverage for the total 24-hour dosing period. Developed with ConjuChem's proprietary PC-DAC™ technology, PC-Insulin is a longer-acting more peakless recombinant insulin that is covalently bound to recombinant human albumin (**Recombunin®**, provided by Novozymes Biopharma).

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 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.

CHANGE IN ACCOUNTING POLICIES

The Canadian Institute of Chartered Accountants ["CICA"] has issued the following new Handbook sections which are effective for interim and annual periods beginning after November 1, 2008:

Section 1400, "General Standards of Financial Statement Presentation". This section has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The adoption of this section is reflected in note 1 of the Company's audited financial statements.

Section 3064, "Goodwill and Intangible Assets". This section which replaces Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs", establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company has adopted these amendments and the impact of this adoption is not material.

In May 2009, the CICA amended Section 3862, *Financial Instruments – Disclosures*, to improve disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The

amendments to Section 3862 are effective for the Company's interim and annual financial statements beginning on October 1, 2009.

FUTURE ACCOUNTING PRONOUNCEMENTS

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations which replace CICA Handbook Section 1581 "Business Combinations". Section 1582 establishes standards for the accounting for business combinations and is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted.

OUR INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") CONVERSION PLAN

Canada's Accounting Standards Board (AcSB) confirmed, that effective January 1, 2011, International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) will replace current Canadian GAAP for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010. Financial reporting under IFRS differs from Canadian GAAP in a many respects, some of which are significant. IFRS on the date of adoption may differ from current IFRS due to new IFRS standards and pronouncements issued before the changeover date. We plan to prepare our financial statements in accordance with IFRS. Therefore, we will be required to report under IFRS for our 2012 annual financial statements starting January 31, 2012 first quarter interim report for both current and comparative information. We commenced our IFRS conversion project in 2008.

Pursuant to the October 2008 recommendations of the Canadian Performance Reporting Board relating to pre-2011 communications about IFRS conversion and also to comply with Canadian Securities Administrators Staff Notice 52-320, *Disclosure of Expected Changes in Accounting Policies Relating to Changeover to IFRS*, we present the following information regarding our IFRS changeover plan. This information is provided to allow investors and others to obtain a better understanding of our IFRS changeover plan and the resulting possible effects on, for example, our financial statements and operating performance measures. Readers are cautioned, however, that it may not be appropriate to use such information for any other purpose. This information also reflects our most recent assumptions and expectations; circumstances may arise, such as changes in IFRS, regulations or economic conditions, which could change these assumptions or expectations.

Our IFRS conversion plan incorporates six key elements, specifically: i) accounting policies and financial statement preparation, including choices among policies permitted under IFRS, and implementation decisions such as whether certain changes will be applied retrospectively or prospectively; ii) information technology and data systems; iii) internal control over financial reporting; iv) disclosure controls and procedures; v) training requirements and communications, including investor relations and external communications plans, and vi) business activities, such as foreign currency activities, as well as other matters that may be influenced by Canadian GAAP measures. Throughout 2010 and early 2011, we will continue to review remaining standards for their application to our operations, carry out impact assessments and provide targeted training. We will also make accounting policy choices and prepare our accounting systems accordingly, to enable preparation of our opening financial position under IFRS for 2011.

Although our impact assessment activities are underway, continued progress is necessary before we can prudently increase the specificity of the disclosure of the impacts of IFRS.

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 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 intangible assets are regularly reviewed for impairment as well as when 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 year.

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 reorganizations of May 23, 2006 and August 25, 2009. 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 evaluation 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.

RESULTS OF OPERATIONS

Fluctuations in Operating Results

Our results of operations have fluctuated significantly from year to year 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 programs, our research efforts and the further expansion of facilities and headcount. Due to these fluctuations, we believe that the year to year comparisons of our operating results are not a good indication of our future performance.

Selected Annual Information

Income Statement Data

The following selected annual information is derived from our audited financial statements for each of the three most recently completed financial years.

For the years ended October 31 (in thousands of Canadian dollars, except per share amounts)

	2009	2008	2007
Total revenues	205	1,510	3,763
Net research and development expenses	5,710	21,511	33,681
Administrative expenses	2,878	5,965	4,754
Net loss	(15,792)	(39,417)	(45,891)
Loss per share, basic and diluted	(0.06)	(0.16)	(0.20)
Cash dividends paid	—	—	—

Balance Sheet Data

As at October 31 (in thousands of Canadian dollars)

	2009	2008	2007
Cash and cash equivalents and short-term investments	7,461	21,122	26,033
Total assets	9,896	22,907	88,319
Long-term financial liabilities	16,548	13,635	52,502
Shareholders' equity (deficiency)	(9,788)	(809)	27,205

Our revenues fluctuate from year to year as a result of the interest that is generated by our investment portfolio and the episodic nature of our research collaborations.

Net research and development expenses vary from year to year and depend on the progression of our clinical development programs.

The net loss per share has decreased in 2009 due to the completion of our phase II clinical trials in November 2008 for PC-DACTM:Exendin-4.

Fourth Quarter Income Statement Data

unaudited (in thousands of Canadian dollars)	2009	2008
Revenues		
Contract revenue	8	—
Interest income	13	195
	21	195
Net research and development expenses (recovery)	(90)	6,577
Operating expenses	2,582	4,533
Total expenses	2,492	11,110
Net loss for the period	(2,471)	(10,915)

Review of operations

The decrease in interest income in the quarter ended October 31, 2009 as compared to the same period in 2008, was a result of the decreased investment portfolio available.

Net research and development expenses have decreased significantly in the quarter ended October 31, 2009 to a recovery of expenses of \$89,654 as compared to \$6.6 million for the quarter ended October 31, 2008. This decrease is attributable to an important decline of development activities due to the completion of the Phase II clinical trials for PC-DACTM:Exendin-4 in November 2008, a reduction in research activities and to a recovery of the clinical trials costs from a clinical research organization for a PC-DACTM:Exendin-4 study.

Operating expenses amounted to \$2.6 million for the quarter ended October 31, 2009 compared to \$4.5 million for the quarter ended October 31, 2008. This increase, in 2008, was mainly attributable to a provision for income tax matters.

The net loss for the fourth quarter of 2009 was \$2.5 million, down from a net loss of \$10.9 million for the same quarter last year.

TWELVE MONTHS ENDED OCTOBER 31, 2009 COMPARED TO THE TWELVE MONTHS ENDED OCTOBER 31, 2008

Net loss for the year ended October 31, 2009 amounted to \$15.8 million compared to \$39.4 million for the year ended October 31, 2008. The decrease in the net loss is attributable to a decrease in net R&D expenses of \$15.8 million resulting from an important decline of development activities due to the completion of the Phase II clinical trials for PC-DACTM:Exendin-4 in November 2008, a reduction in research activities, the recovery of the clinical trials costs from a clinical research organization for a PC-DACTM:Exendin-4 study, a decrease in the accretion in the carrying value of the convertible senior unsecured notes and interest due to the early redemption of the convertible senior unsecured notes during the year ended October 31, 2008 and the reversal of tax-related reserves following the results of tax audits and by the reversal of a tax withholding contingency in the year ended October 31, 2009.

Revenues

For the year ended October 31, 2009, revenues were derived principally from interest income on short-term investments. We recognized income from a research collaboration and generated \$37,113 of revenues in fiscal 2009, compared to \$60,731 of research collaboration revenues earned for the year ended October 31, 2008. The Company recorded interest income on cash and short-term investments that amounted to \$167,515 for the year ended October 31, 2009, compared to \$1.5 million for the year ended October 31, 2008. The decrease in interest income was a result of a reduced investment portfolio base combined with a marked general decrease in market rates.

Research and Development

Gross research and development expenses amounted to \$8.4 million for the year ended October 31, 2009, compared to \$22.2 million for the year ended October 31, 2008. The decrease is due to an important decline of development activities due to the completion of the Phase II clinical trials for PC-DACTM:Exendin-4 in November 2008, a reduction in research activities and to the recovery of the clinical trials costs from a clinical research organization for a PC-DACTM:Exendin-4 study.

Investment tax credits were estimated at \$2.6 million for the year ended October 31, 2009, compared to \$701,306 in investment tax credits for the year ended October 31, 2008. The increase in 2009 is attributable in majority to the fact that the Company has reversed tax reserves for SR&ED tax credits amounting to \$2.1 million following the results of tax audits during the year ended October 31, 2009. These investment tax credits are subject to audit by the taxation authorities. The amounts recognized in 2009 and 2008 have been recorded as a reduction of research and development expenditures.

Research and development expenditures represent the majority of ConjuChem's corporate spending. Through a focused effort to validate our technology, we are targeting, in 2010, to partner our lead diabetes compound, PC-DACTM:Exendin-4. If successful, we also intend to advance one or more compound into clinical testing during 2010. These research and development initiatives will have a direct effect on our R&D expenditures which are expected to increase modestly in comparison to the 2009 fiscal year.

General and Administrative

General and Administrative costs amounted to \$2.9 million for the year ended October 31, 2009, compared to \$6.0 million for the year ended October 31, 2008. The decrease in general and administrative expenses is largely attributable to fees related to the early redemption of the convertible senior unsecured notes in the year ended October 31, 2008 and by the reversal of a tax withholding contingency amounting to \$1,257,000 in 2009. This provision was previously recorded in the year ended October 31, 2008.

Amortization and Debt Service

Amortization expense decreased to \$171,644 for the year ended October 31, 2009, compared to \$231,040 for the year ended October 31, 2008. 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 and interest amounted to nil for the year ended October 31, 2009, compared to \$5.5 million for the year ended October 31, 2008. The decrease arises due to the early redemption of the convertible senior unsecured notes during the first quarter of the 2008 fiscal year. Accretion, a non-cash item, is a function of the notional allocation of the convertible senior unsecured note between debt and equity components and represents the accelerated accretion in the carrying value of the debt component to its redemption on November 30, 2007.

Accretion in the carrying value of the convertible unsecured subordinated debentures and interest amount to \$4.6 million for the year ended October 31, 2009, compared to 3.7 million for the year ended October 31, 2008. The debentures were issued in December 2007.

Stock-based Compensation

Stock-based compensation amounted to \$2.6 million for the year ended October 31, 2009 and for the year ended October 31, 2008. The expense for the year ended is partly attributable to the accelerated vesting of certain options offset by the forfeiture of options for terminated employees. 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 loss of \$85,711 for the year ended October 31, 2009, compared to a loss of \$937,925 for the year ended October 31, 2008. The majority of our clinical trial expenses are incurred in U.S. dollars and some in British pounds, the decrease in the loss in this current period is attributable to a reduction in our research and development activities and in part to a decrease in the value of U.S. dollars creating a favorable impact on our expenditures resulting from the need to convert Canadian dollars into foreign currencies at various times during the period.

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.

	Oct. 31, 2009	July 31, 2009	April 30, 2009	Jan. 31, 2009	Oct. 31, 2008	July 31, 2008	April 30, 2008	Jan. 31, 2008
	(in thousands of dollars, except for earnings per share)							
Revenues								
Contract revenue	8	14	15	—	—	9	25	27
Interest income	13	16	32	106	195	306	376	573
Net loss	(2,471)	(1,413)	(6,079)	(5,828)	(10,915)	(8,737)	(7,925)	(11,841)
Basic loss per share	(0.01)	(0.01)	(0.02)	(0.02)	(0.04)	(0.04)	(0.03)	(0.05)

Our interest revenue fluctuates from quarter to quarter based on the timing of our financing initiatives while our net loss has fluctuated due to the timing of our clinical trial initiatives. The basic loss per share has decreased from previous periods, due to the completion of our phase II clinical trials in November 2008 for our PC-DACTM:Exendin-4 compound.

Liquidity and Capital Resources

As at October 31, 2009, working capital amounted to \$6.1 million. Funds applied to operating activities in the 2009 fiscal year amounted to \$18.0 million compared to \$26.5 million in fiscal 2008. Funds were used primarily to complete the Phase II trials for PC-DACTM:Exendin-4.

Cash flows generated from investing activities for the year ended October 31, 2009 amounted to \$13.4 million compared to \$65.3 million used for in the year ended October 31, 2008, primarily as a result of funds applied to operating activities.

Net proceeds from sales of plant, property and equipment for the year ended October 31, 2009 were \$84,318 compared to capital expenditures of \$15,429 for the year ended October 31, 2008. We do not anticipate making any significant capital acquisitions in fiscal 2010.

Cash flows generated from financing activities amounted to \$4.1 million for the year ended October 31, 2009 compared to cash flows used from financing activities amounted to \$37.8 million for the year ended October 31, 2008. We improved our liquidity on August 25, 2009 with a corporate reorganization resulting in net proceeds of approximately \$4.1 million. In November 2008, we repaid the convertible senior unsecured notes amounting to \$45,000,000 plus accrued interest of \$13,006,914 for a total amount of \$58,006,914. We improved our liquidity on December 13, 2007, through the closing of a bought deal financing of 22,000 convertible unsecured subordinated debenture units of the Company at a price of \$1,000 per Unit.

Our receivables totaled \$1,087,670 as at October 31, 2009 and included commodity and withholding tax refunds. Accounts payable and accrued liabilities decreased from \$10.1 million as at October 31, 2008 to \$3.2 million as at October 31, 2009 due to the timing of disbursements relating to clinical development activities and the reversal of tax-related reserves. Accounts payable and accrued liabilities as at October 31, 2009 consist of trade accounts payables, accrued liabilities and various tax provisions.

As at October 31, 2009, we had cash and cash equivalents and available-for-sale short-term investments totaling \$7.5 million. As at October 31, 2008, cash and cash-equivalents, short-term investments totaled \$21.1 million. ConjuChem's Investment Policy regulates its investment activities relating to cash resources. 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 October 31, 2009, ConjuChem had invested in seven major Canadian chartered banks, in amounts ranging from approximately \$100,000 to \$2.0 million. As at January 22, 2010, we do not have any investments in non-bank sponsored asset-backed commercial paper (ABCP). We believe that our current cash and cash equivalents, available-for-sale marketable securities and interest income will be sufficient to carry out our current research and development plans and operations into the third quarter of the year ending 2010. We are currently seeking additional capital to finance our operations and to repay our convertible unsecured subordinated debentures of \$20.3 million in December 2010. We are considering all financing alternatives, including corporate collaboration and licensing arrangements. Please refer to Note 1 – Corporate Reorganization, Description

of Business and Going Concern Uncertainty - to the audited financial statements of the Company as of October 31, 2009 and the section "Risk Factors" above for more details. At this date, we have engaged external consultants to help us evaluate strategic alternatives including but not limited to, a sale of the Company or the sale of all or a substantial part of our assets.

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

Subsequent to the issuance of the Series 1 convertible note, the managing partner of the investment fund managing the noteholders became a director of the Company and the investment fund is therefore considered to be a related party. This investment fund manages investment partnerships that hold an aggregate of \$3.5 million of the \$22 million principal amount of convertible unsecured subordinated debentures.

Proposed Transactions

As discussed elsewhere, we expect to strengthen our financial position through various financing initiatives and potential licensing agreements. The Company is not party to any such undertakings at this time.

Financial Instruments

The Company does not use currency hedging instruments.

Contractual Obligations

Payments due by period (\$ '000's)				
	Less than 12 months	12 to 36 months	37 to 60 months	Total
Operating leases	533	229	—	762
Convertible unsecured subordinated debentures	—	20,330	—	20,330
Purchase commitments	609	5,938	2,436	8,983

There were no commitments for capital expenditures as at October 31, 2009.

Outstanding Share Data

During the fiscal year ended October 31, 2009, 35 convertible unsecured subordinated debentures were converted, resulting in the issuance of an additional 218,750 common shares. Subsequent to the end of the year ended October 31, 2009, 60 convertible unsecured subordinated debentures were converted, resulting in the issuance of an additional 375,000 common shares. These transactions had no effect on our liquidity but will reduce the cash payment upon maturity of the debentures by \$95,000. Additionally, subsequent to the end of the year ended October 31, 2009, 1,550,000 options were exercised for a total cash consideration of \$143,250.

The number of common shares outstanding as of October 31, 2009 is 250,651,168 and as of January 22, 2010 is 252,576,168. The number of stock options outstanding as of October 31, 2009 is 23,098,080 and as of January 22, 2010 is 22,738,080.

Furthermore, as at October 31, 2009, we have 131,201,750 warrants outstanding with prices and expiration dates as described in the following table:

# of warrants	Price	Expiration Date
96,826,750	\$1.00	11/28/2009
34,375,000	\$0.25	12/31/2011

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered to senior management, particularly during the period in which the annual filings are being prepared and reported within the time periods specified in securities legislation. Our President and Chief Executive Officer and our Vice President, Finance are responsible for establishing and maintaining disclosure controls and procedures. They are assisted in this responsibility by our disclosure committee. Based on their evaluation of our disclosure controls and procedures, they have concluded that these disclosure controls and procedures were effective as of October 31, 2009.

Internal Control Over Financial Reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of our financial reporting and its compliance with GAAP in our financial statements.

We have evaluated the operating effectiveness of internal controls over financial reporting as at October, 31, 2009. This evaluation was performed according to the control framework criteria of the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) adopted by the Company and in compliance with guidance presented in Canadian Securities Administration’ (“CSA”) National Instrument 52-109.

Based on the results of this evaluation, our President and Chief Executive Officer and our Vice President, Finance have concluded that internal control over financial reporting are efficient and are designed to provide reasonable assurance the financial reporting is reliable and that the financial statements have been prepared in accordance with Canadian GAAP.

Controls systems have limitations, no matter how well designed, including the possibility of human error and the circumvention or overriding of the controls or procedures. As a result, there is no certainty that our disclosure controls and procedures or internal control over financial reporting will prevent all errors or all fraud.

There were no changes in our internal controls over financial reporting during the fiscal year ended October 31, 2009, that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.