

CONJUCHEM®

Q3 2009

LETTER TO SHAREHOLDERS

During our fiscal third quarter, we had the opportunity to showcase the results from our Phase II program for PC-DAC™:Exendin-4 at the American Diabetes Association's 69th Annual Scientific Sessions. Our two recently completed Phase II trials demonstrated that our long-lasting GLP-1 agonist could achieve statistically significant reductions in HbA1c and weight and with these strong results, the conference was the ideal venue to drive recognition for our product. We also continue to progress our partnering discussions for the PC-DAC™:Exendin-4 program, focusing on our product's potential best-in-class features such as its excellent tolerability profile and its administration using a small volume, highly soluble liquid formulation, which should allow potential partners to explore unique dosing regimens in its further clinical development.

Our second poster presented at the conference, entitled *PC-Insulin, a New Basal Insulin with Longer Duration of Activity*, outlines the possibility of a more peakless, longer-lasting basal insulin product. The data we presented at the conference support our belief that PC-Insulin also has the potential to become a best-in-class candidate within the next generation of long-lasting basal insulins. Moreover, the creation of a second product based on our platform highlights the overall value of our proprietary approach to extending the therapeutic window of short-lived therapeutic peptides.

Despite challenging economic conditions that are particularly pronounced in our sector, subsequent to the end of the quarter we successfully completed a transaction that provided us with approximately \$5 million in non-dilutive capital. These additional resources provide us with greater flexibility to execute our business plan and drive partnering discussions.

Our primary focus remains to license our lead diabetes drug, PC-DAC™:Exendin-4 and our preclinical compound, PC-Insulin to a partner or partners who will support our efforts towards commercialization of these products. Unfortunately, it is not possible for us to provide any insight on the progress of our discussions with potential partners; however I can assure you we are deeply committed to achieving success on this front. On behalf of the Board of Directors and the employees, I would like to thank you for your continued support and we look forward to updating you on our developments over the coming months.

Sincerely,

A handwritten signature in dark ink, appearing to read "Mark D. Perrin". The signature is fluid and cursive, with the first name "Mark" and last name "Perrin" clearly legible.

Mark D. Perrin,
President and 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 interim financial statements as at July 31, 2009, the audited financial statements for the year ended October 31, 2008 and the related notes, which are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This discussion and analysis compares financial performance for the three- and nine-month period ended July 31, 2009, as compared to the three- and nine-month period ended July 31, 2008 and discusses issues and risks that may impact future operations. This review was performed by management with information available as at September 9, 2009. 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 attract distributors and collaborators with acceptable development, regulatory and commercialization expertise and the benefits to be derived from such collaborative efforts;
- 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;
- 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.

See "Risk Factors" below.

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.

OVERVIEW

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 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 currently 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.

We have incurred operating losses since our inception due principally to expenditures related to our research and development activities. As at July 31, 2009, we had an accumulated deficit of \$345.7 million and, as of this date, the deficiency in assets amounts to \$12 million. 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.

Our ability to continue as a going concern is dependent upon our ability to obtain additional financing. We are currently seeking additional capital to finance our operations. Management is considering all financing alternatives, including corporate collaboration and licensing arrangements, equity financing, debt arrangement and non-dilutive financing. There can be no assurance that such financing will materialize on a timely basis or be obtained on favourable terms. If the Company is unable to obtain additional financing, management may be required to curtail the Company’s operations. Please refer to Note 1 – Description of Business and Going Concern Uncertainty - to the unaudited interim financial statements of the Company as of July 31, 2009 and the section “Risk Factors” below 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.

Consolidation of operations

During the nine-month period ended July 31, 2009, we completed a consolidation of our operations, focusing our resources on securing a partner for PC-DACTM:Exendin-4 and the development of PC-Insulin, a long-acting basal insulin in preclinical testing. We are also exploring partnerships for the PC-Insulin program. The restructuring included a workforce reduction of approximately 50% of our personnel. During the three-month period ended April 30, 2009, 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. No additional expense in connection with the consolidation of operations occurred in the quarter ended July 31, 2009. As at July 31, 2009, a liability of \$34,497 remains.

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 shareholders 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. Our goal is to enter broader collaboration agreements which generally include up-front fees 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 qualify for Quebec refundable tax credits at a rate of 37.5% for the first \$2 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. However, only 50% of payments made to arm’s length sub-contractors are eligible for the Quebec tax credit.

Research and Development

Our research and development expenses consist 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 nine-month periods ended July 31, 2009 and 2008 are related to the development of PC-DACTM:Exendin-4. We intend to partner PC-DACTM: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.

We intend to fund the advancement of further drug candidates into preclinical and clinical development.

Significant Projects

Our lead product candidate, PC-DACTM:Exendin-4, is currently in Phase II 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, subject to entering into licensing arrangements, the costs associated with this process may increase our research and development expenses over the next few years.

During 2008 we advanced PC-Insulin into preclinical 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-DACTM 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.

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 reviewed for impairment 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 nine-month period.

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. 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.

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 stock-based compensation.

CHANGES IN ACCOUNTING POLICIES

Effective November 1, 2008, the Company adopted the following Handbook Sections recently introduced by the Canadian Institute of Chartered Accountants ["CICA"]:

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 did not have any impact on the Company's unaudited interim 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 adoption of this section did not have any impact on the Company's unaudited interim financial statements.

Recent 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 that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. The Company does not anticipate the adoption of the above standard will have a significant impact on the Company's financial statements.

In March 2009, the Accounting Standards Board announced that it would improve the information to disclose on financial instruments. Section 3862 of the CICA Handbook, "Financial Instruments - Disclosures" has been amended to clarify the requirements in respect of maturities of financial liabilities and the disclosures about how an entity manages liquidity risk. The Company is presently evaluating the impact on its financial statements.

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 development programs, our research efforts and potential changes in facilities and/or 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.

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, 2009	April 30, 2009	Jan. 31, 2009	Oct. 31, 2008	July 31, 2008	April 30, 2008	Jan. 31, 2008	Oct. 31, 2007
	(in thousands of dollars, except for earnings per share)							
Revenues								
Contract revenue	14	15	—	—	9	25	27	45
Interest income	16	32	106	195	306	376	573	876
Net loss	(1,413)	(6,079)	(5,828)	(10,915)	(8,737)	(7,925)	(11,841)	(6,490)
Basic loss per share	(0.01)	(0.02)	(0.02)	(0.04)	(0.04)	(0.03)	(0.05)	(0.03)

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 and expenditures related to manufacturing. 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.

NINE MONTHS ENDED JULY 31, 2009 COMPARED TO THE NINE MONTHS ENDED JULY 31, 2008

Net loss for the nine-month period ended July 31, 2009 amounted to \$13.3 million compared to \$28.5 million for the nine-month period ended July 31, 2008. The decrease in the net loss is mainly attributable to 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 nine-month period of the 2008 fiscal year, a decrease in R&D expenses of \$6.6 million, the reversal of tax-related reserves following the results of tax audits and by the reversal of a tax withholding contingency in the nine-month period ended July 31, 2009.

Revenues

For the nine-month period ended July 31, 2009, revenues were derived principally from interest income on investments. We recognized income from a research collaboration and generated \$60,731 of revenues in the nine-month period ended July 31, 2008, compared to \$29,032 of research collaboration revenues earned for the nine-month period ended July 31, 2009. The Company recorded interest income on cash and investments that amounted to \$154,289 for the nine-month period ended July 31, 2009, compared to \$1,254,657 for the nine-month period ended July 31, 2008. The decrease in interest income was a result of a reduced investment portfolio base combined with a general decrease in market rates.

Research and Development

Gross research and development expenses amounted to \$8.6 million for the nine-month period ended July 31, 2009, compared to \$15.2 million for the nine-month period ended July 31, 2008. The decrease is due to the completion of our phase II clinical trials in November 2008 for PC-DACTM:Exendin-4.

Investment tax credits were estimated at \$2.8 million for the nine-month period ended July 31, 2009, compared to \$300,000 in investment tax credits for the nine-month period ended July 31, 2008. The increase in 2009 is attributable to the fact that the Company has reversed tax reserves for SR&ED tax credits following the results of tax audits during the nine-month period ended July 31, 2009. These investment tax credits are subject to audit by the taxation authorities. The amounts recognized in 2009 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 2009, to license our lead diabetes compound, PC-DACTM:Exendin-4. We also intend to advance one or more additional compounds during 2009. These research and development initiatives will have a direct effect on our R&D expenditures which are expected to decline in comparison to the 2008 fiscal year in which we conducted multiple Phase II trials for which we announced final results in February 2009.

General and Administrative

General and administrative costs amounted to \$2.1 million for the nine-month period ended July 31, 2009, compared to \$4.0 million for the nine-month period ended July 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 nine-month period ended July 31, 2008 and by the reversal of a tax withholding contingency in the nine-month period ended July 31, 2009.

We reiterate our commitment to maintain the highest standards of corporate governance and continue to allocate resources in this area as we strongly believe that this is mandatory for maintaining shareholders' confidence.

Amortization and Debt Service

Amortization expense decreased to \$128,734 for the nine-month period ended July 31, 2009, compared to \$172,897 for the nine-month period ended July 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 nine-month period ended July 31, 2009, compared to \$5.5 million for the nine-month period ended July 31, 2008. The decrease arises due to the early redemption of the convertible senior unsecured notes during the nine-month period 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 \$3.4 million for the nine-month period ended July 31, 2009, compared to \$2.7 million for the nine-month period ended July 31, 2008. The debentures were issued in December 2007.

Stock-based Compensation

Stock-based compensation amounted to \$2.1 million for the nine-month periods ended July 31, 2009 compared to \$2.0 million for the nine-month period ended July 31, 2008. The increase in the nine-month period ended July 31, 2009 is attributable to the accelerated vesting of certain options offset by the forfeiture of options for terminated employees.

Foreign Exchange Loss

Foreign exchange conversion resulted in a loss of \$55,167 for the nine-month period ended July 31, 2009, compared to a loss of \$251,818 for the nine-month period ended July 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 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.

THREE MONTHS ENDED JULY 31, 2009 COMPARED TO THE THREE MONTHS ENDED JULY 31, 2008

Net loss for the quarter ended July 31, 2009 amounted to \$1.4 million compared to \$8.7 million for the quarter ended July 31, 2008. The decrease in the net loss is mainly attributable to a decrease in R&D expenses of \$4.6 million, a decrease of \$1.7 million in G&A, the reversal of tax-related reserves following the results of tax audits and by the reversal of a tax withholding contingency in the three-month period ended July 31, 2009.

Revenues

We recognized income from a research collaboration and generated \$8,827 of revenues in the quarter ended July 31, 2008, compared to \$13,589 of research collaboration revenues earned for the quarter ended July 31, 2009. The Company recorded interest income on cash and investments that amounted to \$15,772 for the quarter ended July 31, 2009, compared to \$306,076 for the quarter ended July 31, 2008. The decrease in interest income was a result of a reduced investment portfolio base combined with a general decrease in market rates.

Research and Development

Gross research and development expenses amounted to \$1.5 million for the quarter ended July 31, 2009, compared to \$6.2 million for the quarter ended July 31, 2008. The decrease is due to the completion of our Phase II clinical trials in November 2008 for PC-DACTM:Exendin-4.

Investment tax credits were estimated at \$1,467,174 for the quarter ended July 31, 2009, compared to \$100,000 in investment tax credits for the quarter ended July 31, 2008. The increase in investment tax credits is attributable to the fact that the Company has reversed tax reserves for SR&ED tax credits following the results of tax audits. The amounts recognized in 2009 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 2009, to license our lead diabetes compound, PC-DACTM:Exendin-4. We also intend to advance one or more additional compounds during 2009. These research and development initiatives will have a direct effect on our R&D expenditures which are expected to decline in comparison to the 2008 fiscal year in which we conducted multiple Phase II trials for which we announced final results in February 2009.

General and Administrative

General and administrative reflects a recovery amount of \$452,509 for the quarter ended July 31, 2009, compared to an expense of \$1.2 million for the quarter ended July 31, 2008. The decrease in general and administrative expenses in the quarter ended July 31, 2009 is largely attributable to the reversal of a tax withholding contingency and to a decrease in headcount compensation and related benefits in the nine-month period ended July 31, 2009.

We reiterate our commitment to maintain the highest standards of corporate governance and continue to allocate resources in this area as we strongly believe that this is mandatory for maintaining shareholders' confidence.

Amortization and Debt Service

Amortization expense decreased to \$41,271 for the quarter ended July 31, 2009, compared to \$57,873 for the quarter ended July 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 unsecured subordinated debentures and interest amount to \$1.2 million for the quarter ended July 31, 2009 compared to \$1.0 million for the quarter ended July 31, 2008. The debentures were issued in December 2007. 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.

Stock-based Compensation

Stock-based compensation for the quarter ended July 31, 2009 amounted to \$681,835 compared to \$643,099 for the quarter ended July 31, 2008. The increase in the quarter ended July 31, 2009 is attributable to the accelerated vesting of certain options offset by the forfeiture of options for terminated employees.

Foreign Exchange Gain/Loss

Foreign exchange conversion resulted in a gain of \$62,125 for the quarter ended July 31, 2009, compared to a loss of \$60,543 for the quarter ended July 31, 2008. The majority of our clinical trial expenses are incurred in U.S. dollars and the gain in this current period is attributable to the favorable impact on our expenditures resulting from the need to convert Canadian dollars into foreign currencies at various times during the year.

Liquidity and Capital Resources

As at July 31, 2009, working capital amounted to \$2.5 million. Funds applied to operating activities in the nine-month period of 2009 amounted to \$16.3 million compared to \$18.5 million in the nine-month period of 2008. Funds were used primarily to complete the Phase II trials for PC-DACTM:Exendin-4.

Cash flows generated from investing activities for the nine-month period ended July 31, 2009 amounted to \$15.4 million compared to \$69.0 million used for in the nine-month period ended July 31, 2008, primarily as a result of funds applied to operating activities and in Q1 of 2008, for the repayment of the convertible senior unsecured notes. The net proceeds of cash from acquisitions, disposals and maturities of investments for the nine-month period ended July 31, 2009 was \$15.3 million compared to \$69.0 million of proceeds for the comparative period.

Net proceeds from sales of plant, property and equipment for the nine-month period ended July 31, 2009 were \$49,317 compared to capital expenditures of \$12,269 for the nine-month period ended July 31, 2008. We do not anticipate making any significant capital acquisitions in fiscal 2009.

Cash flows used from financing activities amounted to \$653,325 for the nine-month period ended July 31, 2009 compared to \$37.8 million generated for the nine-month period ended July 31, 2008. In November 2008, we redeemed 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.

Our receivables totaled \$1,013,069 as at July 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 \$3.8 million as at July 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 July 31, 2009 consist of trade accounts payables, accrued liabilities and various tax provisions.

As at July 31, 2009, we had cash and cash equivalents and investments totaling \$4.3 million and an additional \$1.7 million in accounts receivables and investment tax credits receivable. Subsequent to the end of the quarter, we also added a gross \$5.0 million of new non-dilutive capital. As at October 31, 2008, cash, cash-equivalents and short-term investments totaled \$21.1 million. ConjuChem's Investment Policy regulates its investment activities relating to cash resources and such Policy is monitored by the Board of Directors. 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, 2009, ConjuChem had invested in four major Canadian companies, all chartered banks, in amounts ranging from approximately \$100,000 to \$2.0 million. As at September 9, 2009, we do not have any investments in non-bank sponsored asset-backed commercial paper (ABCP). We believe that our current cash and cash equivalents, marketable securities and interest income will be sufficient to carry out our current research and development plans and operations into the second fiscal quarter of 2010. Please refer to Note 1 – Description of Business and Going Concern Uncertainty - to the unaudited interim financial statements of the Company as of July 31, 2009 and the section "Risk Factors" below for more details.

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 notes, 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 as of July 31, 2009.

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	284	20	2	306
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 July 31, 2009.

Outstanding Share Data

The number of common shares outstanding as of July 31, 2009 and September 9, 2009 is 250,651,168. The number of stock options outstanding as of July 31, 2009 and September 9, 2009 is 23,158,680.

Furthermore, as at July 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

Risk Factors

The results of operations, business prospects and financial condition of the Company are subject to a number of risks and uncertainties, and are affected by a number of factors outside the control of the Company's management. Details are provided in the "Risk Factors" section of the Company's Annual Information Form dated January 29, 2009 (which can be found at www.sedar.com). As at July 31, 2009, we had cash and cash equivalents and investments totaling \$4.3 million. We believe that our current cash and cash equivalents, marketable securities and interest income will be sufficient to carry out our current research and development plans and operations into the fourth quarter of 2009. The Company cannot assure that additional financing will materialize on a timely basis or be obtained on favourable terms, if at all. In particular, given our need to secure further financing in the near future and challenges relating to obtaining financing in the current market conditions, our ability to continue operations as a going concern could be compromised or we could be required to curtail our operations. Please refer to Note 1 – Description of Business and Going Concern Uncertainty - to the unaudited interim financial statements of the Company as of July 31, 2009.

Disclosure Controls and Procedures

In accordance with the Canadian Securities Administrators Multilateral Instrument 52-109, the Company has filed certificates signed by the President and Chief Executive Officer and the Vice-President, Finance, that among other things, report on the design and effectiveness of disclosure controls and procedures and the design of internal control over financial reporting.

Also at July 31, 2009, an evaluation of the design and effectiveness of disclosure controls and procedures, and the design of internal controls over financial reporting, as defined in the Canadian Securities Administrators Multilateral Instrument 52-109, was carried out to provide reasonable assurance regarding the reliability of financial reporting and financial statement compliance with GAAP. Based on that evaluation, the President and Chief Executive Officer and the Vice-President, Finance will certify that the design of internal controls over financial reporting was effective.

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 nine-month period ended July 31, 2009, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Subsequent event

On July 8, 2009, the original ConjuChem Biotechnologies Inc. entity entered into an agreement with Colabor Income Fund, a Québec-based income trust, to reorganize the Company and add significant additional liquidity in the form of \$5,000,000 in new, non-dilutive capital. Total transaction costs are estimated to be approximately \$700,000 of which \$650,000 have been incurred as of July 31, 2009 and recorded as prepaid expenses on the Company's balance sheet. These costs will be allocated against the \$5,000,000 on cash proceeds at closing. The transaction involved a corporate reorganization that was completed on August 25, 2009 under a court supervised Plan of Arrangement. The original ConjuChem Biotechnologies Inc. entity transferred its assets and liabilities, including the proceeds from this transaction, to a newly incorporated subsidiary company, 4523482 Canada Inc. ("4523482"). On completion of the transaction, the shareholders of the original ConjuChem Biotechnologies Inc. exchanged their shares on a one-for-one basis for shares of a newly incorporated parent company of 4523482, 4503996 Canada Inc. ("4503996") which subsequently amalgamated with 4523482 to become the Company. The newly amalgamated Company carries on the business operations as a public entity and retains all rights to related intellectual property as before the transaction. As part of the Plan of Arrangement, Colabor Income Fund unitholders, on completion of the transaction, now own 100% of the shares of the original ConjuChem Biotechnologies Inc. entity, including all remaining losses for income tax purposes.

ConjuChem Biotechnologies Inc.

UNAUDITED INTERIM BALANCE SHEETS

[See Description of Business and Going Concern Uncertainty - *note 1*]

As at

	July 31, 2009	October 31, 2008
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	600,239	2,187,423
Investments	3,704,941	18,934,737
Accounts receivable <i>[note 4]</i>	1,013,069	160,644
Investment tax credits receivable	680,000	542,000
Prepaid expenses	278,195	229,006
Total current assets	6,276,444	22,053,810
Property, plant and equipment	677,072	841,685
Intangible assets	6,942	11,108
Other assets <i>[note 8]</i>	653,325	—
	7,613,783	22,906,603
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities		
Accounts payable and accrued liabilities <i>[note 4 and 7]</i>	3,803,428	10,080,463
Total current liabilities	3,803,428	10,080,463
Convertible unsecured subordinated debentures <i>[note 5]</i>	15,767,248	13,634,906
	19,570,676	23,715,369
Shareholders' deficiency		
Capital stock <i>[note 6]</i>	266,858,635	266,823,735
Warrants <i>[note 6]</i>	10,817,394	10,817,394
Equity portion of convertible unsecured subordinated debentures	5,184,867	5,193,793
Contributed surplus <i>[note 6]</i>	50,893,422	48,818,826
Deficit	(345,711,211)	(332,390,857)
Accumulated other comprehensive loss	—	(71,657)
Total shareholders' deficiency	(11,956,893)	(808,766)
	7,613,783	22,906,603

See accompanying notes

On behalf of the Board:



Director



Director

ConjuChem Biotechnologies Inc.

UNAUDITED INTERIM STATEMENTS OF DEFICIT

[See Description of Business and Going Concern Uncertainty - *note 1*]

	Three-months ended		Nine-months ended	
	July 31,	July 31,	July 31,	July 31,
	2009	2008	2009	2008
	\$	\$	\$	\$
Deficit, beginning of period	(344,298,290)	(312,739,566)	(332,390,857)	(292,973,699)
Net loss for the period	(1,412,921)	(8,736,726)	(13,320,354)	(28,502,593)
Deficit, end of period	(345,711,211)	(321,476,292)	(345,711,211)	(321,476,292)

See accompanying notes

ConjuChem Biotechnologies Inc.

**UNAUDITED INTERIM STATEMENTS OF
OPERATIONS AND COMPREHENSIVE LOSS**

[See Description of Business and Going Concern Uncertainty - *note 1*]

	Three-months ended		Nine-months ended	
	July 31, 2009	July 31, 2008	July 31, 2009	July 31, 2008
	\$	\$	\$	\$
REVENUES				
Contract revenues	13,589	8,827	29,032	60,731
Interest income	15,772	306,076	154,289	1,254,657
	29,361	314,903	183,321	1,315,388
EXPENSES				
Research and development <i>[note 1]</i>	1,532,858	6,153,681	8,597,138	15,233,963
Investment tax credits <i>[note 7]</i>	(1,467,174)	(100,000)	(2,797,174)	(300,000)
Net research and development expenses	65,684	6,053,681	5,799,964	14,933,963
General and administrative expenses <i>[note 1 and 4]</i>	(452,509)	1,198,403	2,058,651	3,996,354
Amortization of property, plant and equipment	39,882	55,411	124,568	165,511
Amortization of intangible assets	1,389	2,462	4,166	7,386
Stock-based compensation	681,835	643,099	2,074,596	2,015,937
Financial charges	2,434	2,987	11,331	13,294
Foreign exchange loss (gain)	(62,125)	60,543	55,167	251,818
Accretion in carrying value of convertible senior unsecured notes and interest	—	—	—	5,504,427
Accretion in carrying value of convertible unsecured subordinated debentures and interest	1,165,692	1,035,043	3,375,232	2,661,852
Loss on redemption of long-term investments	—	—	—	267,439
	1,442,282	9,051,629	13,503,675	29,817,981
Net loss for the period	(1,412,921)	(8,736,726)	(13,320,354)	(28,502,593)
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized gain/(loss) on investments	(528)	(17,631)	71,657	(14,899)
Comprehensive loss for the period	(1,413,449)	(8,754,357)	(13,248,697)	(28,517,492)
Basic and diluted loss per share	(0.01)	(0.04)	(0.05)	(0.12)
Weighted average number of common shares outstanding during the period	250,432,418	246,094,442	250,514,149	242,188,235

See accompanying notes

ConjuChem Biotechnologies Inc.

UNAUDITED INTERIM STATEMENTS OF CASH FLOWS

[See Description of Business and Going Concern Uncertainty - *note 1*]

	Three-months ended		Nine-months ended	
	July 31, 2009	July 31, 2008	July 31, 2009	July 31, 2008
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss	(1,412,921)	(8,736,726)	(13,320,354)	(28,502,593)
Items not affecting cash:				
Amortization of property, plant and equipment	39,882	55,411	124,568	165,511
Amortization of intangible assets	1,389	2,462	4,166	7,386
Amortization of premium on long-term investments	—	—	—	(8,436)
Stock-based compensation	681,835	643,099	2,074,596	2,015,937
Accretion in carrying value of convertible senior unsecured notes and interest	—	—	—	5,504,427
Accretion in carrying value of convertible unsecured subordinated debentures	749,064	672,613	2,158,316	1,630,769
Gain on proceeds from sales of property, plant and equipment	(4,019)	—	(9,272)	—
Loss on redemption of long-term investments	—	—	—	267,439
	55,230	(7,363,141)	(8,967,980)	(18,919,560)
Net changes in non-cash working capital balances relating to operations	(3,777,978)	(63,878)	(7,316,649)	462,379
Cash flows relating to operating activities	(3,722,748)	(7,427,019)	(16,284,629)	(18,457,181)
INVESTING ACTIVITIES				
Acquisition of investments	(1,221,596)	(6,137,130)	(10,264,700)	(27,832,011)
Proceeds on maturities of investments	3,488,708	15,823,221	25,566,153	37,338,629
Acquisition long-term investments	—	—	—	(167,037)
Proceeds on redemption of long-term investments	—	—	—	59,644,132
Acquisition of property, plant and equipment	(1,486)	(1,318)	(13,138)	(11,090)
Proceeds from sales of property, plant and equipment	21,065	—	62,455	—
Acquisition of intangible assets	—	—	—	(1,179)
Cash flows relating to investing activities	2,286,691	9,684,773	15,350,770	68,971,444
FINANCING ACTIVITIES				
Repayment of convertible senior unsecured notes	—	—	—	(58,006,914)
Issuance of convertible unsecured subordinated debentures	—	—	—	22,000,000
Issuance costs paid in cash	—	—	—	(1,764,414)
Increase in other assets	(653,325)	—	(653,325)	—
Cash flows relating to financing activities	(653,325)	—	(653,325)	(37,771,328)
Net change in cash and cash equivalents during the period	(2,089,382)	2,257,754	(1,587,184)	12,742,935
Cash and cash equivalents, beginning of period	2,689,621	11,720,885	2,187,423	1,235,704
Cash and cash equivalents, end of period	600,239	13,978,639	600,239	13,978,639
Supplemental cash flow information:				
Interest paid	912,568	892,926	1,727,229	13,899,840

See accompanying notes

ConjuChem Biotechnologies Inc.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

July 31, 2009

1. DESCRIPTION OF BUSINESS AND GOING CONCERN UNCERTAINTY

Description of business

ConjuChem Biotechnologies Inc. ["ConjuChem" or 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 develop specific drugs. All of the Company's contract revenues were derived from clients in the United States in 2008 and 2009. The Company's assets are all located in Canada.

Going concern uncertainty

These financial statements have been prepared by management on a going concern basis, which assumes the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the ordinary course of business. The use of these principles may not be appropriate because as of July 31, 2009, there was substantial doubt that the Company will be able to continue as a going concern without raising additional financial resources.

The Company has incurred significant operating losses since inception, has accumulated a deficit of \$345,711,211 as at July 31, 2009 and, as of this date, the deficiency in assets amounts to \$11,956,893. Also, the Company's anticipated level of expenditures for the next twelve months exceeds the committed sources of funds and the Company's cash, cash equivalents, and investments on hand as of July 31, 2009, although a company reorganization occurring subsequent to the end of the quarter yielding a gross amount of \$5,000,000 in non-dilutive capital substantially improved the Company's cash position. To date the Company has financed its cash requirements primarily through the issuance of common shares, convertible unsecured notes, debenture issuances, and investment tax credits. The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing. The Company is currently seeking additional capital to finance its operations. Management is considering all financing alternatives, including equity financing, debt arrangement, non-dilutive financing, corporate collaboration and licensing arrangements. There can be no assurance that such financing will materialize on a timely basis or be obtained on favourable terms. If the Company is unable to obtain additional financing, management may be required to curtail the Company's operations.

These interim financial statements for the period ended July 31, 2009 do not give effect to any adjustments to the amounts and classification for assets and liabilities that may be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

ConjuChem Biotechnologies Inc.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

July 31, 2009

1. DESCRIPTION OF BUSINESS AND GOING CONCERN UNCERTAINTY [Cont'd]

Consolidation of operations

During the quarter ended April 30, 2009, the Company completed a consolidation of its operations, focusing its resources on securing a partner for PC-DACTM:Exendin-4 and the development of PC-Insulin, a long-acting basal insulin in preclinical testing. The Company is also exploring partnerships for the PC-Insulin program. The restructuring included a workforce reduction of approximately 50% of the Company's personnel. During the three-month period ended April 30, 2009, the Company recorded charges for termination costs of \$582,465, \$296,245 of which was included in research and development expenses and \$286,220 of which was included in general and administration expenses. No additional expense in connection with the consolidation of operations occurred in the quarter ended July 31, 2009. As at July 31, 2009, a liability of \$34,497 remains.

2. BASIS OF PRESENTATION

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 audited 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, 2008.

Information with respect to the October 31, 2008 balance sheet is derived from the Company's audited financial statements. The accounting policies underlying these interim financial statements are those set forth in notes 2 and 3 of the audited financial statements for the year ended October 31, 2008 and those mentioned in note 3 to the interim financial statements.

3. CHANGE IN ACCOUNTING POLICIES

Effective November 1, 2008, the Company adopted the following Handbook Sections recently introduced by the Canadian Institute of Chartered Accountants ["CICA"]:

Section 1400, "General Standards of Financial Statement Presentation". This section has been amended to include requirements for management to assess and disclose an entity's ability to continue as a going concern. The adoption of this section did not have any impact on the Company's unaudited interim financial statements.

ConjuChem Biotechnologies Inc.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

July 31, 2009

3. CHANGE IN ACCOUNTING POLICIES [Cont'd]

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 adoption of this section did not have any impact on the Company's unaudited interim financial statements.

Recent 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 that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. The Company does not anticipate the adoption of the above standard will have a significant impact on the Company's financial statements.

In March 2009, the Accounting Standards Board announced that it would improve the information to disclose on financial instruments. Section 3862 of the CICA Handbook, "Financial Instruments - Disclosures" has been amended to clarify the requirements in respect of maturities of financial liabilities and the disclosures about how an entity manages liquidity risk. These amendments are applicable for the Company's annual financial statements for the year ending October 31, 2009. The Company is presently evaluating the impact on its financial statements.

ConjuChem Biotechnologies Inc.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

July 31, 2009

4. ACCOUNTS RECEIVABLE

	2008	2008
	\$	\$
Research contract accounts receivable	12,930	—
Receivables from employees	19,334	80,569
Commodity taxes receivable	99,913	80,075
Withholding tax receivable	880,892	—
	<u>1,013,069</u>	<u>160,644</u>

As disclosed in the annual financial statements for the year ended October 31, 2008, the Company recorded an expense of \$1,335,200, based on management estimate, related to a withholding tax contingency [including interest and penalty] upon payment of the interest, on November 30, 2007, on the Company's convertible senior unsecured notes. During the three-months ended July 31, 2009, through the Voluntary Disclosure Program, management's estimates have changed, resulting in a reversal of a portion of this expense for \$1,257,000 as part of the general and administrative expenses. The Company has paid an amount of \$995,000 to Canada Revenue Agency during the quarter ended July 31, 2009 which is in excess of management's estimate of the remaining exposure, therefore an amount of \$880,892 has been recorded within accounts receivable.

5. CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES

The carrying value of the convertible unsecured subordinated debentures is detailed as follows as at July 31, 2009:

	\$
Fair value upon issuance	13,500,000
Accumulated accretion expense	3,789,820
Less: Unamortized portion of deferred financing costs	(497,799)
Less: Portion of the carrying value attributable to the 1,670 units converted into common stock	<u>(1,024,773)</u>
Balance as at July 31, 2009	<u>15,767,248</u>

The debentures bear interest at an accrual rate of 8.0% payable semi-annually and mature on December 31, 2010.

ConjuChem Biotechnologies Inc.

**NOTES TO UNAUDITED INTERIM
FINANCIAL STATEMENTS**

July 31, 2009

6. SHAREHOLDERS' DEFICIENCY

Capital Stock

Authorized

An unlimited number of common shares.

Issued and outstanding

	Number of common shares #	Capital Stock \$
Balance as at October 31, 2008	250,432,418	266,823,735
Issued upon conversion of 35 units of convertible unsecured subordinated debentures	218,750	34,900
Balance as at July 31, 2009	250,651,168	266,858,635

Contributed surplus

	\$
Balance as at October 31, 2008	48,818,826
Stock-based compensation charge for the nine-month period	2,074,596
Balance as at July 31, 2009	50,893,422

Warrants

Warrants outstanding as at July 31, 2009 are as follows:

Exercise price (\$)	Number outstanding	Weighted average months to expiry
1.00	96,826,750	4
0.25	34,375,000	29
	131,201,750	

ConjuChem Biotechnologies Inc.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

July 31, 2009

6. SHAREHOLDERS' DEFICIENCY [Cont'd]

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, 2009, are as follows:

	#	\$
Balance as at October 31, 2008	23,848,443	0.69
Granted	200,000	0.11
Forfeited	(889,763)	1.19
Balance as at July 31, 2009	23,158,680	0.67
Options exercisable, end of period	15,173,493	0.81

Compensation expense of \$2,074,596 [2008 – \$2,015,937] has been recorded in the nine-month period ended July 31, 2009 for stock options with a corresponding credit to contributed surplus. The fair value for the options granted was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	2009	2008
	\$	\$
Expected dividend	0.0%	0.0%
Volatility	124.8%	129.4%
Risk-free interest rate	1.8%	3.1%
Expected option life in years	5	5
Weighted-average fair value of options on date of grant	\$0.08	\$0.09

Diluted earnings per share

No options or warrants outstanding at July 31, 2009 and 2008 were included in the calculation of diluted earnings per share, as all such securities would be anti-dilutive.

ConjuChem Biotechnologies Inc.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

July 31, 2009

7. INVESTMENT TAX CREDITS

Following the results of tax audits during the nine-month period ended July 31, 2009, the Company reversed tax reserves for investment tax credits in the amount of \$2,087,000. As a consequence, the accounts payable and accrued liabilities figure decreased by the same amount.

8. SUBSEQUENT EVENTS

On July 8, 2009, the original ConjuChem Biotechnologies Inc. entity entered into an agreement with Colabor Income Fund, a Québec-based income trust, to reorganize the Company and add significant additional liquidity in the form of \$5,000,000 in new, non-dilutive capital. Total transaction costs are estimated to be approximately \$700,000 of which \$650,000 have been incurred as of July 31, 2009 and recorded as other assets on the Company's balance sheet. These costs will be allocated against the \$5,000,000 on cash proceeds at closing. The transaction involved a corporate reorganization that was completed on August 25, 2009 under a court supervised Plan of Arrangement. The original ConjuChem Biotechnologies Inc. entity transferred its assets and liabilities, including the proceeds from this transaction, to a newly incorporated subsidiary company, 4523482 Canada Inc. ("4523482"). On completion of the transaction, the shareholders of the original ConjuChem Biotechnologies Inc. exchanged their shares on a one-for-one basis for shares of a newly incorporated parent company of 4523482, 4503996 Canada Inc. ("4503996") which subsequently amalgamated with 4523482 to become the Company. The newly amalgamated Company carries on the business operations as a public entity and retains all rights to related intellectual property as before the transaction. As part of the Plan of Arrangement, Colabor Income Fund unitholders, on completion of the transaction, now own 100% of the shares of the original ConjuChem Biotechnologies Inc. entity, including all remaining losses for income tax purposes.

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