ALDA Pharmaceuticals Corp.
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CONSOLIDATED FINANCIAL STATEMENTS

For the years ended
June 30, 2008 and 2007

HLB Cinnamon Jang Willoughby & Company

Chartered Accountants

A Partnership of Incorporated Professionals

AUDITORS' REPORT

To the Shareholders of **Alda Pharmaceuticals Corp:**

We have audited the consolidated balance sheets of Alda Pharmaceuticals Corp. as at June 30, 2008 and 2007 and the consolidated statements of loss and deficit, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at June 30, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. Accounting principles generally accepted in Canada differ in certain significant respects from accounting principles generally accepted in the United States of America are discussed in Note 16 to these financial statements.

"Cinnamon Jang Willoughby & Company"

Chartered Accountants

Burnaby, BC, Canada
October 21, 2008

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ALDA PHARMACEUTICALS CORP.

CONSOLIDATED BALANCE SHEETS

AS AT JUNE 30

EXPRESSED IN CANADIAN DOLLARS	2008	2007
ASSETS		
Current Assets		
Cash and Equivalents	**$ 2,446,368**	$ 356,127
Accounts Receivable	**43,166**	24,897
Subscriptions Receivable (Note 12(c))	**-**	293,600
Inventory	**10,443**	19,916
Prepaid Expenses and Others	**28,191**	7,458
	2,528,168	701,998
Furniture and Equipment (Note 4)	**5,807**	1,482
Patent Application and Development Costs (Note 5)	**-**	40,486
Intangible Assets (Note 6)	**-**	110,200
	$ 2,533,975	$ 854,166
LIABILITIES		
Current Liabilities		
Accounts Payable and Accrued Liabilities	**$ 57,921**	$ 74,268
SHAREHOLDERS' DEFICIT		
Share Capital (Note 7(a))	**5,524,289**	2,658,868
Contributed Surplus – Warrants (Note 7(d))	**447,532**	553,627
Contributed Surplus – Options (Note 7(e))	**1,045,759**	171,194
Deficit	**(4,541,526)**	(2,603,791)
	2,476,054	779,898
	$ 2,533,975	$ 854,166

Commitments (Note 10)
Subsequent events (Note 15)

*See accompanying notes to the consolidated financial statements

On Behalf of the Board of Directors

"Terrance Owen" Director   *"Peter Chen"* Director

ALDA PHARMACEUTICALS CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

FOR THE YEARS ENDED JUNE 30

EXPRESSED IN CANADIAN DOLLARS	**2008**	2007
Sales (Note 9)	**$ 249,042**	$ 256,243
Cost of Sales	**(157,234)**	(165,920)
Gross Profit	**91,808**	90,323
Interest Income	**38,740**	-
General & Administration Expenses		
Advertising and Promotion	**21,603**	12,766
Amortization – Furniture and Equipment	**2,095**	8,350
– Patent Application and Development Costs	**4,791**	2,131
– Intangible Assets	**5,800**	5,800
Conference	**1,891**	20
Consulting and Management Fees (Note 7(b) for stock-based compensation)	**1,004,660**	308,600
Due Diligence	**10,000**	-
Dues and Filing Fees	**44,626**	24,570
Interest and Bank Charges	**2,344**	2,714
Investor Relations	**124,065**	65,039
Legal and Accounting	**89,723**	53,697
Office and Miscellaneous	**35,797**	24,008
Product Registration & Development (Notes 5 and 6)	**375,807**	-
Rent	**24,737**	28,371
Travel	**17,905**	10,259
Wages and Benefits	**302,439**	116,633
Total General & Administration Expenses	**2,068,283**	662,958
Loss Before Other Items	**(1,937,735)**	(572,635)
Net Gain on Legal Settlement (Note 8)	**-**	10,545
Loss For The Year	**(1,937,735)**	(562,090)
Deficit, Beginning of Year	**(2,603,791)**	(2,041,701)
Deficit, End of Year	**$ (4,541,526)**	$ (2,603,791)
Basic Loss Per Share	**0.05**	0.02
Diluted Loss Per Share	**0.05**	0.02
Weighted Average of Shares Outstanding	**42,605,353**	22,582,026

*See accompanying notes to the consolidated financial statements

ALDA PHARMACEUTICALS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30

EXPRESSED IN CANADIAN DOLLARS	**2008**	2007
Operating Activities:		
Loss for the Year	**$ (1,937,735)**	$ (562,090)
Items Not Involving Cash		
Amortization – Furniture and Equipment	**2,095**	8,350
– Patent Application and Development Costs	**4,791**	2,131
– Intangible Assets	**5,800**	5,800
Stock-Based Compensation	**903,565**	148,100
Impairment Loss – Patent Application and Development Costs	**86,238**	
– Intangible Assets	**104,400**	
	(830,846)	(397,709)
Changes in Non-Cash Working Capital Items		
Decrease/ (Increase) in Accounts Receivable	**(18,269)**	4,159
Decrease/ (Increase) in Inventory	**9,473**	11,364
Decrease/ (Increase) in Prepaid Expenses and Others	**(20,733)**	(3,601)
(Decrease)/ Increase in Accounts Payable and Accrued Liabilities	**(16,347)**	14,764
	(876,722)	(371,023)
Investing Activities:		
Patent Application and Development Costs	**(50,543)**	(42,617)
Purchase of Furniture and Equipment	**(6,419)**	(1,633)
Repayment of Note Receivable	**-**	-
	(56,962)	(44,250)
Financing Activities:		
Net Proceeds on Issuance of Shares	**1,038,725**	546,720
Net Proceeds on Exercise of Warrants and Options	**1,985,200**	196,200
	3,023,925	742,920
Increase/ (Decrease) in Cash and Equivalents	**2,090,241**	327,647
Cash and Equivalents, Beginning of Year	**356,127**	28,480
Cash and Equivalents, End of Year	**$ 2,446,368**	$ 356,127

*See accompanying notes to the consolidated financial statements

Supplementary cash flow information (Note 13)

1. NATURE OF OPERATIONS

ALDA Pharmaceuticals Corp. (the "Company") was incorporated under the Company Act of British Columbia on May 30, 2000 and was classified as a Capital Pool Company as defined by the policies of the TSX Venture Exchange (the "Exchange"). The Company completed its required Qualifying Transaction on November 13, 2003, at which point it ceased to be a Capital Pool Company, and its shares resumed trading on the Exchange effective November 19, 2003.

The Company's main business activity is the development, production and marketing of infection control agent products, principally a product marketed as $T^36^®$ Disinfectant. Effective November 26, 2003, the name of the Company was changed from Duft Biotech Capital Ltd. to ALDA Pharmaceuticals Corp.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles. These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Sirona Therapeutics Corp. ("Sirona"). The name of the subsidiary was changed on January 10, 2006 from ALDA Institute For Preventative Health Care Inc. Sirona is an inactive company, the shares of which were acquired pursuant to an asset purchase agreement. All significant inter-company balances and transactions have been eliminated on consolidation.

b) Cash and equivalents

Cash and equivalents include cash and highly liquid market instruments with original terms to maturity of less than ninety days at the time of acquisition.

c) Accounts receivable

Accounts receivable is presented net of allowance for doubtful accounts. The allowance for doubtful accounts reflects estimates of probable losses in accounts receivable. The allowance is determined based on balances outstanding for over 90 days from the invoice date, historical experience and other current information. The Company extends credit to customers and distributors; credit checks are required for all new distributors.

d) Inventory

Inventory is comprised of finished goods and related raw materials. Finished goods are reported at the lesser of cost and estimated net realizable value. Raw materials are reported at the lesser of cost and replacement cost. Inventory is determined using the first in, first out cost flow assumption.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Furniture and equipment

Furniture and equipment is recorded at cost and is amortized using the following annual rates:

Furniture and fixtures	20% Straight line
Computer equipment	30% Straight line
Computer software	30% Straight line

For the year of acquisition, the rate is one-half of the above.

f) Impairment of long-lived assets

The Company reviews for impairment of long-lived assets, including patent application and development costs, intangible assets, and furniture and equipment, on an annual basis or whenever circumstances indicate that the carrying amount of an asset may not be recoverable from expected future cash flows. The assessment of recoverability is made based on projected undiscounted future net cash flows that are directly associated with the asset's use and eventual disposition. The amount of the impairment loss, if any, is measured as the amount by which the carrying amount of the asset exceeds its fair value, which is measured by discounted cash flows when quoted market prices are not available.

g) Patent application and development costs

Patent application and development costs include expenditures attributable to efforts by the Company to research and develop and bring to commercial production a new product, as well as to acquire legal protections for its proprietary products, such as trademarks and patents. Research costs are expensed in the period in which they are incurred. Development costs are charged as an expense in the period incurred except in circumstances where the market and technical feasibility of the product have been established, recovery of these costs can reasonably be regarded as assured, and future values can be realized, in which case such costs are capitalized. In the latter case, patent application and development costs are amortized on a systematic basis over the patent life of 20 years.

h) Intangible assets

The carrying values of intangible assets which are determined to have a finite useful life are amortized on a systematic basis over the useful life of 20 years. Intangible assets are subject to an impairment test on an annual basis, based on a comparison of the fair value of the intangible asset to its carrying value. The carrying value is adjusted for impairment as necessary and any excess of the carrying amount over the fair value of the intangible asset is charged to earnings in the period occurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Revenue recognition

The revenue of the Company is primarily derived from the sale of the Company's $T^3 6^®$ product. Revenue is recognized at the time of shipment, at which point risks and rewards over ownership and title of transfer have passed to the customer. At the point of sale, the Company assesses whether collection of the amount billed to the customer is reasonably assured. If collection of the amount is not reasonably assured, the Company defers recognizing revenue until such point as collection is reasonably assured, usually upon receipt of payment. If the customer is not known to the Company, payment in advance is required and the revenue is recognized when the products are shipped. Revenue is recognized net of any expected sales return. Under the Company's current policy, return of products is not allowed unless inspection of a sample of the damaged products is required by the Company or the wrong products have been shipped by the Company.

j) Income taxes

Income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset or portion thereof will be recovered, a valuation allowance is recorded.

k) Stock-based compensation

The Company applies the fair value method of accounting for stock options. Under this method, fair value of options granted is determined using the Black-Scholes option pricing model and is recorded as stock-based compensation expense over the award's vesting period, with an offsetting amount recorded to contributed surplus. The amount is transferred from contributed surplus to share capital upon exercise of the option.

l) Share purchase warrants

The Company applies the fair value method of accounting for share purchase warrants. Under this method, proceeds received on issuance of units consisting of shares and warrants are allocated between contributed surplus and share capital based on their relative fair values, whereby the fair value of warrants is determined using the Black-Scholes option pricing model. The value of the warrants is transferred from contributed surplus to share capital upon exercise of the warrant.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Basis and diluted loss per share

Loss per share is calculated based on the weighted average number of common shares outstanding during the reported period. Basic loss per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding in the year.

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year.

n) Measurement uncertainty

The preparation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the reported amount of revenues and expenses during the period. Areas requiring significant management estimates include valuation of intangible assets, estimated useful life of intangible assets, estimate useful life of patent application and development costs, stock based compensation expense, and valuation of share purchase warrants. Actual results could differ from these estimates.

o) Foreign Exchange

Assets and liabilities in U.S. dollars have been converted into Canadian dollars using the rate of exchange prevailing at June 30, 2008. Revenue and expenses were translated at the rate of exchange prevailing when the transactions were settled.

3. ADOPTION OF NEW ACCOUNTING PRINCIPLES

The Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") relating to comprehensive income, recognition, measurement, disclosure and presentation of financial instruments and hedges. These new accounting standards are applied prospectively beginning July 1, 2007. Adoption of these standards had no impact on the consolidated financial statements for the year ended June 30, 2008.

Section 1530 – Comprehensive Income – This section established standards for reporting and presentation of a statement of comprehensive income. Comprehensive income includes net earnings and other comprehensive income. Other comprehensive income is defined as the change in equity from transactions and other events from non owner sources. Other comprehensive income includes holding gains and losses on certain derivative instruments that are classified as available-for-sale, and gains or losses due to the change in foreign currency relating to self-sustaining foreign operations, all of which are not recognized in net earnings until realized.

3. ADOPTION OF NEW ACCOUNTING PRINCIPLES (CONTINUED)

Section 3251 – Equity – In addition to Section 1530 (Comprehensive Income), this section establishes standards for the presentation of equity and changes in equity during the reporting period.

Section 3855 – Financial Instruments – Recognition and Measurement – This section established standards for recognizing and measuring financial instruments in the balance sheets and specifying how unrealized or realized gains and losses are to be presented during the reporting period. In accordance with the new accounting standard, all financial assets and financial liabilities are measured at fair value on initial recognition except for certain related party transaction.

Financial instruments have been classified as held-to-maturity, available-for-sale, held for trading, loans and receivables, or other financial liabilities. Financial assets that are held to maturity, other than those held for trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income until realized, at which time realized gains and losses will be recognized in net income. Held for trading instruments are measured at fair value with unrealized gains and losses recognized in the results of operations in the period in which they arise. Loans and receivables are measured at amortized cost using the effective interest method. Any gains or losses on the realization of loans and receivables are included in earnings. Financial liabilities that are not classified as held to maturity are classified as other financial liabilities, and are carried at amortized costs using the effective interest method. Any gains and losses on realization of other financial liabilities are included in earnings. Any transaction costs incurred to acquire financial instruments will be included in earnings.

The Company's financial instruments consist of cash and equivalents, accounts receivable, prepaid expenses and others, subscriptions receivable, and accounts payable and accrued liabilities. The fair value of these instruments approximates the carrying amounts due to the immediate or short-term maturity of these financial instruments. The Company has made the following classifications:

Cash and equivalents	Held for trading
Accounts receivable	Loans and receivable
Prepaids expenses and others	Loans and receivable
Subscriptions receivable	Loans and receivable
Accounts payable and accrued liabilities	Other financial liabilities

Section 3861 – Financial Instruments – Disclosure and Presentation – This section establishes standards for presentation of financial instruments and non-financial derivates and identifies the information that should be disclosed about them. This section establishes standards for presentation of financial instruments and identifies the information which should be disclosed about them. Under the new standards, policies followed for years prior to the effective date are generally not reversed, and therefore the comparative figures have not been restated.

Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation - These sections revised and enhance the disclosure requirements while carrying forward its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks associated with both recognized and unrecognized financial instruments, how the entity manages the risks, and the exposure to liquidity, currency and other price risks.

3. ADOPTION OF NEW ACCOUNTING PRINCIPLES (CONTINUED)

It is management's opinion that the Company is not exposed to significant interest, currency, credit, and liquidity risk arising from these financial instruments. The Company has transactions dominated in US dollars but exposure to currency risk is immaterial. The Company mitigates its exposure to credit risk by maintaining its primary operating accounts with chartered bank in Canada and constantly monitoring credit standing of counterparties. The Company manages its liquidity risk through the management of its capital as described in note 14. The Company does not use financial derivatives.

Section 3865 – Hedges – This section establishes standards for the Company that chooses to designate qualifying transactions as hedges for accounting purposes. This section builds on Accounting Guideline AcG-13, "Hedging Relationships," and Section 1650, "Foreign Currency Translation". The Company does not use hedge accounting and has no hedging relationships.

Section 1535, "Capital Disclosures" – This section establishes standards for disclosing information about an entity's capital and how it is managed. It requires the disclosure of the entity's objectives, policies and processes for managing capital as well as summary quantitative data on the elements included in the management of capital.

Section 3031 – "Inventories" – This section establishes standards for measuring the inventories. The new standards require that the inventories shall be measured at the lower of cost and the net realizable value. This section provides guidelines on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value and reversal of a previous write-down when the value of inventories is evidently increased due to the change in economic circumstances. The use of last-in, first-out method (LIFO) in measuring inventories is not recommended. This section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. The Company is evaluating the effect of adopting this new standard.

Section 3064 – "Goodwill and Intangible Assets" – The replacement of Section 3062 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company is evaluating the impact of this new standard.

As announced by the Canadian Accounting Standards Board ("AcSB"), the financial reporting requirements for Canadian companies will be changed to the use of International Financial Reporting Standards ("IFRS"), replacing Canada's own GAAP. The changeover date for publicly-listed companies is 2011. The Company has begun reviewing its plan for adopting IFRS for 2011. At this time, the Company has not yet determined the financial reporting impact due to the change of new reporting standards.

4. FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following:

	Cost	Accumulated Amortization	2008 Net	2007 Net
Furniture and Fixtures	$ 7,683	$ 7,683	$ -	$ 1,133
Computer Equipment	30,535	24,728	5,807	349
	$ 38,218	$ 32,411	$ 5,807	$ 1,482

5. PATENT APPLICATION AND DEVELOPMENT COSTS

	Cost	Accumulated Amortization	2008 Net	2007 Net
Patents Application and Development Costs	$ 93,160	$ 6,922	$ 86,238	$ 40,486
Impairment Loss			(86,238)	-
Balance	$ 93,160	$ 6,922	$ -	$ 40,486

During the year ended June 30, 2008, the carrying value of the patent application and development costs was written down to nil, and an impairment loss of $86,238 (2007 - $nil) was charged against earnings and included with product registration and development costs.

6. INTANGIBLE ASSETS

Effective July 1, 2006, the Company changed its estimate of the useful life of the intangible assets from an infinite life to a finite life of 20 years. The impact of this change in estimate was to increase amortization by $5,800 annually subject to annual test on impairment. At June 30, 2008, the carrying value of the intangible assets was written down to nil, and an impairment loss of $104,400 (2007 - $nil) was charged against earnings and included with product registration and development costs.

Intangible assets consist of the following:

	Cost	Accumulated Amortization	2008 Net	2007 Net
Intangible Assets	$ 116,000	$ 11,600	$ 104,400	$ 110,200
Impairment Loss			(104,400)	-
Balance	$ 116,000	$ 11,600	$ -	$ 110,200

7. SHAREHOLDERS' EQUITY

a) Share Capital

Authorized:
Unlimited common shares without par value

Effective August 19, 2005, the authorized share capital of the Company was increased to an unlimited number of common shares without par value.

7. SHAREHOLDERS' EQUITY (CONTINUED)

	Number of Shares		Share Capital		Contributed Surplus Warrants		Contributed Surplus Options
Issued:							
Balance, June 30, 2006	20,800,404	$	1,969,562	$	163,413	$	41,094
Issued during the year:							
For cash							
Private placements (i)/(ii)	9,430,000		467,480		404,020		
Exercise of warrants (iii)	1,062,000		120,006		(13,806)		
Exercise of options (iii)	900,000		108,000				(18,000)
Share issuance costs			(6,180)				
Stock-based compensation							148,100
Balance, June 30, 2007	32,192,404	$	2,658,868	$	553,627	$	171,194
Issued during the year:							
For cash							
Private placements (iv)/(v)	5,500,000		485,945		279,052		
Exercise of warrants (vi)	11,086,500		2,303,349		(385,147)		
Exercise of options (vi)	650,000		96,000				(29,000)
Share issuance costs (iv)/(v)			(13,573)				
Finder's fees (iv)	82,895		(6,300)				
Stock-based compensation							903,565
Balance, June 30, 2008	49,511,799	$	5,524,289	$	447,532	$	1,045,759

a) Share Capital (continued)

i) On September 13, 2006, the Company completed a private placement of 1,430,000 units of the Company at a price of $0.05 per unit for gross proceeds of $71,500. Each unit consists of one common share of the Company and one share purchase warrant, each warrant entitling the holder to purchase one common share at a price of $0.10 per share for a period of 12 months following the closing date. Warrants were valued at $20,020.

ii) On June 7, 2007, the Company completed a private placement of 8,000,000 units of the Company at a price of $0.10 per unit for gross proceeds of $800,000. Each unit consists of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share at a price of $0.20 per share until June 7, 2008 and, thereafter at a price of $0.30 per share until June 7, 2009. Finders' fees in the amount of $6,180 were charged against the share capital in connection with the private placement. Warrants were valued at $384,000.

iii) During the 2007 year, 900,000 options and 1,062,000 warrants were exercised by the holders at a price of $0.10 per unit for gross proceeds of $196,200. Option values of $18,000 previously recorded in contributed surplus for options were credited to share capital.

7. SHAREHOLDERS' EQUITY (CONTINUED)

a) Share Capital (continued)

iv) On August 14, 2007, the Company completed a private placement of 2,000,000 units of the Company at a price of $0.12 per unit for gross proceeds of $240,000. Each unit consists of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share at a price of $0.24 per share until August 13, 2008 and, thereafter at a price of $0.36 per share until August 13, 2009. Finders' fees and legal fees in the amount of $13,920 were charged against shares capital in connection with the private placement. Warrants were valued at 90,108.

v) On November 22, 2007, the Company completed a private placement of 3,500,000 units of the Company at a price of $0.15 per unit for gross proceeds of $525,000. Each unit consists of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share at a price of $0.30 per share until November 22, 2008 and, thereafter at a price of $0.45 per share until November 22, 2009. 5% finder's fee in the amount of $15,750 was to satisfied by the delivery of 82,895 common shares of the Company at a deemed price per share of $0.19. Legal fees in the amount of $5,953 were charged against shares capital in connection with the private placement. Warrants were valued at $188,943.

vi) During the year ended June 30, 2008, 650,000 options and 11,086,500 warrants were exercised by the holders at an exercise price range of $0.10 to $0.11 per option for total gross proceeds of $67,000 and at an exercise price range of $0.10 to $0.30 per warrant for total gross proceeds of 1,918,200. Options value of $29,000 and warrants value of $385,147 previously recorded in contributed surplus for options and warrants were credited to share capital, respectively.

b) Stock options

A summary of the Company's stock options and changes during each year is presented below:

	Year Ended June 30, 2008		Year Ended June 30, 2007	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of the year	**2,480,000**	**$ 0.11**	537,647	$ 0.19
Granted during year				
-consulting/officers (i)/(ii)//(v) to (vii)	**1,870,000**	**0.62**	2,130,000	0.10
-directors (ii)/ (iv) to (vii)	**500,000**	**0.62**	1,050,000	0.11
-employees (ii)/(iv)/(vi) to (vii)	**200,000**	**0.65**	350,000	0.10
-investor relations (vi)/(vii)	**400,000**	**0.58**		
Expired/exercised/cancelled during year	**(650,000)**	**0.10**	(1,587,647)	0.13
Outstanding, end of year	**4,800,000**	**$ 0.42**	2,480,000	$ 0.11

7. SHAREHOLDERS' EQUITY (CONTINUED)

b) Stock options (Continued)

The following table summarizes information about stock options outstanding at June 30, 2008:

Number of Shares	Exercise Price	Expiry Date	Number Exercisable
380,000	$ 0.10	August 2, 2008	380,000
300,000	$ 0.11	August 12, 2009	300,000
1,150,000	$ 0.12	May 3, 2009	1,150,000
1,820,000	$ 0.50	December 7, 2010	1,482,500
1,150,000	$ 0.80	May 2, 2011	1,050,000
4,800,000			4,362,500

(i) During the year ended June 30, 2007, the Company granted options to acquire 730,000 common shares of the Company to certain consultants and scientific advisors for their services provided to the Company. These options have an exercise price of $0.10 per share. 430,000 of these options have an exercisable period of two years from the date of grant; the remaining 300,000 options have an exercisable period of five years from the date of grant. 530,000 options vested immediately. The remaining options are subject to other performance criteria. The options to acquire 430,000 common shares of the Company have an estimated fair value of $0.02 per share ($8,600) and the options to acquire 300,000 common shares of the Company have an estimated fair value of $0.04 per share ($12,000). $12,600 was recognized.

(ii) During the year ended June 30, 2007, the Company granted options to acquire 1,150,000 common shares of the Company to employees, directors and senior officers. The options have an exercise price of $0.10 with an exercisable term of two years from the date of the grant. All options vested immediately with an estimated fair value of $0.02 per share resulting in $23,000 in stock based compensation expense being recognized.

(iii) During the year ended June 30, 2007, options granted to an employee to acquire 150,000 common shares of the Company were cancelled due to the employee's departure. The related expense of $3,000 ($0.02 per share), previously booked in wages and benefits in the Statement of Operations, was reversed and charged against the contributed surplus.

(iv) During the year ended June 30, 2007, the Company granted options to acquire 500,000 common shares of the Company to employees and directors. The options have an exercise price of $0.11 with an exercisable term of two years from the date of the grant. All options vested immediately with an estimated fair value of $0.07 per share resulting in $35,000 in stock based compensation expense being recognized.

(v) During the year ended June 30, 2007, the Company granted options to acquire 1,150,000 common shares of the Company to directors, consultants and officers. The options have an exercise price of $0.12 with and exercisable term of two years from the date of grant. All options vested immediately with an estimated fair value of $0.07 per share resulting in $80,500 in stock based compensation expense being recognized.

7. SHAREHOLDERS' EQUITY (CONTINUED)

b) Stock options (Continued)

On December 12, 2007, the Company granted options to acquire 1,820,000 common shares of the Company to directors, consultants, officers, employees and investor relations. The options have an exercise price of $0.50 with an exercisable term of three years expiring December 7, 2010.

(vi) 1,270,000 options vested immediately with an estimated fair value of $0.26 per share resulting $333,404 in stock based compensation expense being recognized. 550,000 options shall be vested in equal quarterly installment over a period of 12 to 24 months from the date of grant.

(vii) On May 2, 2008, the Company granted options to acquire 1,150,000 common shares of the Company to directors, consultants, officers, employees and investor relations. The options have an exercise price of $0.80 with an exercisable term of three years expiring May 2, 2011. 1,050,000 options vested immediately with an estimated fair value of $0.47 per share resulting $489,234 in stock based compensation expense being recognized. 100,000 options shall be vested in equally quarterly installment over a period of 12 months from the date of grant.

Stock-based compensation expense is presented in the Statement of Operations and Deficit as follows:

	2008	2007
Consulting/Officers	**$ 605,068**	$ 83,600
Investor Relations	**53,707**	2,000
Wages and Benefits	**244,790**	62,500
Total Stock-Based Compensation	**$ 903,565**	$ 148,100

The fair value of each option was estimated as at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2008	2007
Dividend yield	**0%**	0%
Expected volatility	**112.3 - 116.83%**	128.90%
Risk free interest rate	**2.78 - 3.70%**	4.19%
Expected average option term	**2 years**	2.25 years

7. SHAREHOLDERS' EQUITY (CONTINUED)

c) Warrants

The Company has issued warrants entitling the holders to acquire common shares of the Company. A summary of changes in unexercised warrants is presented below:

	Warrants @ $0.10 (1)	Warrants @ $0.10 (2)	Warrants @ $0.20 (3)	Warrants @ $0.24 (4)	Warrants @ $0.30 (5)	Total
Outstanding, June 30, 2007	1,430,000	2,934,000	8,000,000	-	-	12,364,000
Granted during period	-	-	-	2,000,000	3,500,000	5,500,000
Warrant exercised	(1,330,000)	(2,934,000)	(4,795,000)	(1,257,500)	(770,000)	(11,086,000)
Expired during period	(100,000)	-	-	-	-	(100,000)
Outstanding, June 30, 2008	-	-	3,205,000	742,500	2,730,000	6,677,500

(1) Exercisable until September 12, 2007, granted pursuant to private placement.
(2) Terms of the warrants were amended to extend the exercisable period of the warrants to December 22, 2007 at the exercise price of $0.10 per share.
(3) Exercisable at a price of $0.20 per share until June 7, 2008 and, thereafter at a price of $0.30 per share until June 7, 2009, granted pursuant to private placement.
(4) Exercisable at a price of $0.24 per share until August 13, 2008 and, thereafter at a price of $0.36 per share until August 13, 2009, granted pursuant to private placement.
(5) Exercisable at a price of $0.30 per share until November 22, 2008 and, thereafter at a price of $0.45 per share until November 22, 2009, granted pursuant to private placement.

The fair value of each warrant was estimated as at the date of grant using the Black-Scholes pricing model with the following weighted-average assumptions:

	2008	2007
Dividend yield	**0%**	0%
Expected volatility	**112.72-129.97%**	128.10%
Risk free interest rate	**3.54-4.41%**	4.20%
Expected average option term	**2 years**	1.85 year

d) Contributed surplus - Warrants:

Contributed surplus attributed to the issuance of warrants at June 30, 2008 and 2007, and activity during the 2008 and 2007 years, are summarized as follows:

7. SHAREHOLDERS' EQUITY (CONTINUED)

d) Contributed surplus - Warrants (Continued)

	2008	2007
Balance, beginning of year	**$ 553,627**	$ 163,413
Private Placement (Note 7 (a))	**279,052**	404,020
Warrant Exercised (Note 7 (a))	**(385,147)**	(13,806)
Balance, end of year	**$ 447,532**	$ 553,627

e) Contributed surplus - Options:

Contributed surplus attributed to the granting of stock options at June 30, 2008 and 2007, and activity during the 2008 and 2007 years, are summarized as follows:

	2008	2007
Balance, beginning of year	**$ 171,194**	$ 41,094
Options issued to employees	**72,846**	12,000
Options issued to directors	**171,944**	53,500
Options issued to consultants	**605,068**	85,600
Options issued to investor relations	**53,707**	-
Options forfeited / cancelled	**-**	(3,000)
Options exercised	**(29,000)**	(18,000)
Balance, end of year	**$ 1,045,759**	$ 171,194

8. GAIN ON LEGAL SETTLEMENT

During the 2005 year, the Company commenced legal action against the competitor with respect to certain alleged defamatory statements made by the competitor. This claim was settled effective July 12, 2006, by an agreement under which the Company is to receive an amount of $15,000 from the competitor. The proceeds of the settlement, net of associated legal costs in the amount of $10,545, have been recognized in the Statement of Operations and Deficit for the period ended June 30, 2007.

9. MAJOR CUSTOMERS

For the year ended June 30, 2008, revenue from three major customers accounted for 55% of total revenues (2007: 66% from four customers). Revenue from these customers totaled $137,954 (2006: $162,837).

10. COMMITMENTS

The Company renewed the lease agreement to lease its office premises with a term of one year. The total minimum lease payment under the agreement totaled $26,320 is payable in the 2009 year.

11. INCOME TAXES

(i) As at June 30, 2008, the Company had approximately $3,153,544 of unutilized non-capital losses for tax purposes, which expire as follows:

	Year
2008	$ 14,051
2009	76,818
2010	60,915
2014	603,255
2015	582,793
2026	463,528
2027	458,538
2028	893,646
Total	3,153,544

The potential future income tax benefit which may arise from claiming these losses has not been reflected in these financial statements, as the Company's ability to realize the benefit is uncertain.

(ii) Following is a reconciliation of the expected income tax benefit from the loss for each year based on applicable statutory income tax rate, to the actual amount:

	2008		2007	
Loss at statutory rate	$ 635,771	32.81%	$ 191,785	34.1%
Effect of reduction in tax rates	(75,960)		-	
Stock based compensation not deductible for tax purposes	(296,460)		(50,532)	
Tax benefit from share issuance costs not recognized	6,520		2,109	
Other non-deductible expenses	(1,105)		(466)	
Increase in allowance for uncertain realization	(268,766)		(142,896)	
Increase in tax asset per financial statements	$ -		$ -	

The income tax effects of losses carried forward and of cumulative temporary differences that give rise to a future tax asset are summarized as follows:

	2008	2007
Tax losses carried forward	$ 993,366	$ 771,077
Temporary differences – intangible assets	65,886	2,707
Temporary differences – property and equipment	8,521	8,515
Temporary differences – financing costs	10,962	27,670
Net tax asset before allowance for uncertain realization	1,078,735	809,969
Allowance for uncertain realization	(1,078,735)	(809,969)
Tax asset per financial statement	$ -	$ -

12. RELATED PARTY TRANSACTIONS

a) During the year ended June 30, 2008, the Company paid consulting fees of $288,813 (2007: $120,000) to companies controlled by directors of the Company.

Effective June 1, 2008, the Company entered into a consulting agreement with the management of the Company.

b) During the year ended June 30, 2008, the Company paid rent of $24,737 (2007: $28,371) to a company controlled by a director of the Company.

c) During the year ended June 30, 2008, the Company collected the Subscription receivable of $293,600, of which $105,000 owing by directors of the Company.

d) During the year ended June 30, 2008, the company recorded stock based compensation expense of $562,427 (2007: $131,500) to directors and companies controlled by a director of the Company.

These transactions were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

13. STATEMENTS OF CASH FLOWS – SUPPLEMENTARY INFORMATION

a) Cash paid in respect to interest and income taxes was as follows:

	2008	2007
Cash paid during the year for interest	$ -	$ 1,324
Cash paid during the year for income taxes	$ -	$ -

b) Significant non-cash transactions occurring during the 2008 year were as follows:

The estimated fair value of the options granted to consultants, officers, directors and employees described in Notes 7 (b), totaling $903,565 was charged to operations for the 2008 year.

In connection with the November 22, 2007 private placement, a 5% finder's fee in the amount of $15,750 was satisfied by the delivery of 82,895 common shares of the Company at a deemed price per share of $0.19.

c) Significant non-cash transactions occurring during the 2007 year were as follows:

A portion of the estimated fair value of the options granted to consultants, officers, directors and employees described in Notes 7 (b), totaling $148,100, was charged to operations for the 2007 year.

14. CAPITAL DISCLOSURES

The Company's objectives when managing capital is to maintain sufficient cash resources to support its research and development activities, pre-clinical trial program, intellectual property protection and expansion on its $T^3 6^®$ technology. The Company includes shareholders' equity and cash and its equivalent in the definition of capital. The Company does not have any debt obligation other than trade accounts payable. The availability of capital is solely through the issuance of the Company's common shares. The Company will not issue additional equity until such time when the fund is needed and the market condition becomes favorable to the Company. There are no assurances that the fund will be made available to the Company when required. The Company makes every effort to safeguard its capital and minimize the dilution to its shareholders.

The Company is not subject to any externally imposed capital requirements.

15. SUBSEQUENT EVENTS

Subsequent to the year ended June 30, 2008, 380,000 options at an exercise price of $0.10 per options were exercised and shares were issued for total gross proceeds of $38,000.

16. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles in Canada ("Canadian GAAP") which are substantially the same as principles applicable in the United States ("US GAAP") and practices prescribed by the United States Securities and Exchange Commission ("SEC"), except for the following:

a) Comprehensive income:

Statement of Financial Accounting Standards No. 130 requires the reporting of Comprehensive Income. Comprehensive income includes net income plus other comprehensive income. Other comprehensive income includes all changes in equity of a company during the period arising from non-owner sources. The Company did not have any other comprehensive income during the years ended June 30, 2008 and 2007.

b) Product development costs:

Under Canadian GAAP, product development costs are charged as an expense in the period incurred except in circumstances where the market and feasibility of the product have been established, and recovery of development costs can reasonably be regarded as assured, in which case such costs are capitalized. US GAAP requires that these expenditures be expense in the year incurred. The Company has not capitalized any product development costs during the years ended June 30, 2008 and 2007.

c) Recent United States Accounting Pronouncements:

Selected recent pronouncements issued by the Financial Accounting Standards Board ("FASB") are summarized below. None of these changes are expected to have a material impact on the financial statements of the Company.

16. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (CONTINUED)

c) Recent United States Accounting Pronouncements

(i) In December of 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004) (Share-Based Payments) ("SFAS 123R"). SFAS 123R is a revision of SFAS 123, and supersedes APB 25. SFAS 123R requires that the fair value of employees awards of share-based payments which are issued, modified, repurchased or cancelled after the implementation date, is to be measured as of the date the award is issued, modified, repurchased or cancelled and the resulting cost recognized in the statement of earnings over the service period. SFAS 123R will be effective for the Company's year ended June 30, 2007.

(ii) The Fair Value Option for Financial Assets and Financial Liabilities – In February 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities" applies to all entities with available-for-sale and trading securities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provision of SFAS No. 157, "Fair Value Measurements".

(iii) Fair Value Measurements – In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements". The objective of SFAS No. 157 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The provisions of SFAS No. 157 are effective for fair value measurements made in fiscal years beginning after November 15, 2007.

(iv) Accounting for Uncertainty in Income taxes – In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109 "Accounting for Income Taxes" ("SFAS 109"). The interpretation prescribes a recognition threshold and measurement attribute to the financial statement recognition and measurement of tax position taken or expected to be taken in a tax return. FIN 48 also provides accounting guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We will adopt the provisions of FIN 48 on July 1, 2007.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.