U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the year ended December 31, 2006

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 000-51080

CHEMOKINE THERAPEUTICS CORP.

(Name of small business issuer in its charter)

Delaware	**33-0921251**
(State or other jurisdiction of incorporation of organization)	(I.R.S. Employer Identification No.)
6190 Agronomy Road, Suite 405 University of British Columbia Vancouver, British Columbia	**V6T 1Z3**
(Address of principal executive offices	(Zip Code)

(604) 822-0301

(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: Common Stock, $0.001 Par Value per Share

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.[X]

State issuer's revenues for its most recent fiscal year. $NIL

As of March 6, 2007, the approximate aggregate market value of voting and non-voting stock held by non-affiliates of the issuer was $26,952,485. Shares of common stock held by each officer, director, and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 6, 2007, there were 42,183,748 shares of the issuer's common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this report is incorporated by reference from the issuer's definitive proxy statement, relating to the Annual Meeting of Stockholders scheduled to be held in May 2007, which definitive proxy statement will be filed not later than 120 days after the end of the fiscal year to which this report relates.

Transitional Small Business Disclosure Format (check one): Yes [ ] No [X]

CHEMOKINE THERAPEUTICS CORP.
2006 ANNUAL REPORT ON FORM 10-KSB

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-KSB includes forward-looking statements. All statements other than statements of historical facts contained in this Annual Report, including statements of our expectations regarding research and development, revenues, selling, general and administrative expenses, profitability, financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect" and similar expressions, as they relate to us, are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions described in "Risk Factors" and elsewhere in this Annual Report, including, among other things: our anticipated business strategies; our anticipated clinical trials; our intention to introduce new product candidates; our relationships with third parties, including manufacturers, clinical research organizations, collaborative partners, marketing and distribution partners, contract sales organizations and suppliers; anticipated trends in our business; sufficiency of resources to fund operating and capital requirements; operating cash burn rates; future capital expenditures; our ability to conduct clinical trials and obtain and maintain regulatory approval in the U.S. and in other major markets; reimbursements by third party and government payors; and our abilitu to protect our intellectual property and conduct our business without infringing patents of others.

New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. You are urged to consider these factors carefully in evaluating the forward-looking statements herein and are cautioned not to place undue reliance on such forward-looking statements, which are qualified in their entirety by this cautionary statement. We assume no obligation to update any forward-looking statements after the date of this prospectus as a result of new information, future events or developments, except as required by federal securities laws.

All references to "$" or "dollars" in this Form 10-KSB are to U.S. dollars unless otherwise noted.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Overview

We are a development stage biotechnology company with a focus on the discovery and development of peptide based drugs for human diseases. In particular, we focus on the area of chemokines, small proteins that regulate a large number of physiological functions. We are at various stages in research and development of five drug candidates. Two of our drug candidates are in human clinical trials. Our two lead drug candidates are CTCE-9908 and CTCE-0214, indicated for the prevention of metastasis of cancer and for hematological support, respectively. Our other three drug candidates are in preclinical development in the areas of neovascularization (CTCE-0324), wound healing (CTCE-0422), and stroke (CTCE-0501). In addition, we maintain drug discovery programs to identify potential new drug candidates.

Our objective is to discover drug candidates that target chemokine receptors and develop them through Phase II clinical trials. Provided that we reach this stage with individual drug candidates, we intend to enter into agreements with larger biotechnology and pharmaceutical companies to license or co-develop our drug candidates through Phase III and Phase IV of clinical trials. In some circumstances, when appropriate, we may license a product to a partner at an earlier stage. We intend to license the marketing of our product candidates to companies with existing infrastructure for the marketing of pharmaceutical drugs.

Chemokine Therapeutics Corp. was founded on July 15, 1998. We are incorporated under the laws of the State of Delaware. We have a wholly owned subsidiary in British Columbia, Chemokine Therapeutics (B.C.) Corp., or CTBCC, a company incorporated under the laws of the Province of British Columbia, which employs our executive management and our research personnel.

Drug Discovery Capabilities

We have a team of chemists and biologists that has developed an approach to discover chemokine based drug candidates. Even though they occur naturally in the body, the majority of chemokines in their natural state are not suitable for use as therapeutic drugs due to their instability and potential side effects such as allergic reactions, fever and bone pain. We have developed techniques to generate small versions or analogs of natural chemokines that copy (or mimic) the function of chemokines known as agonists or inhibit their function known as antagonists. While these analogs function similarly to natural chemokines, we believe these analogs overcome the limitations of natural chemokines and do not possess their side effect profiles. Therefore we believe that these analogs could potentially be used as therapeutic drugs. We have designed several hundred of these analogs and have tested them in our laboratories. We have selected five of these compounds as drug candidates. We consider two of these compounds, CTCE-9908 and CTCE-0214, lead product candidates, each of which have been successfully tested in Phase I clinical trials. We are testing CTCE-9908 for the prevention of the metastasis of cancer and we are testing CTCE-0214 for hematological support. We have completed preliminary testing of a CTCE-0324 candidate and will continue to test it in animal models emulating peripheral arterial disease. We continue efforts to complete lead optimization of CTCE-0422 for wound healing and CTCE-0501 for stroke.

The scope of our drug development activities includes:

- Investigation of natural chemokines;
- Characterization of binding sites for chemokines;
- Design of new analogs, based on the structure of chemokines, that mimic or counteract the biological activities of their natural counterparts;
- Synthesis of the designed compounds;
- Screening and identification of drug potential;
- Proof of efficacy and pre-clinical development;
- Phase I and Phase II clinical trials; and
- Partnership with other established pharmaceutical companies with marketing infrastructure and expertise to further develop and commercialise our product candidates.

Clinical Trials

A clinical trial is a type of research study that tests an investigational new drug or method to evaluate its safety and efficacy in humans. Clinical trials in the United States are overseen by the Food and Drug Administration, or FDA, and may be carried out in a clinic, hospital or other medical facility. In Canada, clinical trials are overseen by the Therapeutics Products Directorate. In both countries there are usually four phases of clinical trials, I through IV.

An investigational new drug application, or IND, is a request for authorization from the FDA to administer an investigational drug or biological product into humans. Such authorization must be secured prior to commencement of Phase I clinical trials.

Phase I clinical trials are typically the first study of a drug in humans. These studies typically evaluate safety and pharmacokinetics, the metabolism of the drug, in a small group of usually fewer than 50 healthy subjects. Phase I clinical trials can also allow researchers to evaluate dose levels as well as route of administration. Phase II clinical trials are designed to measure efficacy, short-term tolerability and further information related to the optimum dose in specific patient groups for specific diseases. These trials are usually conducted with patients who are suffering from the disease. The Phase II clinical trials involve a greater number of subjects than Phase I clinical trials.

Phase III clinical trials compare the results of people taking a new treatment with results of people taking standard treatment, for example, which group has better survival rates or fewer side effects. In most cases, studies move into Phase III clinical trials only after a treatment has shown an acceptable safety profile and preliminary efficacy results in Phases I and II. Phase III trials may include hundreds of people.

Phase IV clinical trials are conducted once a drug has been approved and is being marketed. The drug is studied in a Phase IV clinical trial to evaluate side effects of the new treatment that were not apparent in the Phase III trial. Phase IV clinical trials involve testing in large groups of people, sometimes in the thousands.

Phase I, Phase II, Phase III and Phase IV generally have the same meaning in the U.S., Canada and Europe. The clinical results from one jurisdiction can be used in an application in another jurisdiction to avoid duplicating clinical trials; however, generally, each of the U.S., Canada and Europe will require at least a Phase III study to be completed in their jurisdiction prior to granting new drug approval.

We intend to seek regulatory approval for marketing of a new drug in both North America and in Europe if and when our drug candidates are successful in completing Phase III clinical trials. We cannot give you assurance that any of our drug candidates will demonstrate safety and efficacy during the conduct of clinical trials or that any of our drug candidates will ever gain regulatory approval.

The Chemokine System and Our Proprietary Drug Discovery Approach

Chemokines are a recently discovered family of small, soluble proteins, structurally-related to cytokines. They assume a range of important functions in the human body, mainly in relation to the immune system. Among other functions, chemokines are responsible for blood cell formation through stem cell growth and differentiation. In addition, chemokines participate in white blood cell mobilization and in the initiation of immune responses. They are produced and released by a wide variety of cell types.

In addition to their designated natural functions, chemokines have been found to play an important role in the physiological processes of a variety of prominent and critical diseases. There is a growing focus in the scientific community on chemokine involvement in cancer, both at the level of blood vessel generation and metastasis, in viral infections such as HIV and in autoimmune diseases, as evidenced by studies in an increasing number of research publications and articles. The mechanism of chemokine action always involves initial binding to specific receptors on target cells, such as white blood cells. Over fifty different human chemokines and seventeen human cell receptors have so far been identified and described. We utilize peptide technologies known as solid phase synthesis to design proteins and peptide drugs that target chemokines. However, the same technology is applicable to cytokines, hormones and growth factors.

As several chemokines normally interact with a specific receptor and certain chemokines can interact with several receptors, the apparent complexity and redundancy in the human system makes the identification of effective drug candidates difficult. The principal challenge is to identify which chemokines and receptors should be targeted to produce the desired effects.

We have developed our own approach to address this challenge, consisting of a combination of the following elements:

- *Identification and characterization of chemokine functions* - A great deal of information is known about chemokines including their roles, linear amino acid sequence, 3-dimensional structure, genetic code sequence, molecular weight and binding sites. We leverage this information to identify the binding sites on chemokines which bind to receptors on the surface of various cells in the body.

  We select chemokines and those important binding sites for further study then explore the potential of manufacturing them by synthetic means. These synthetic peptides are called analogs. We produce analogs that have the potential to replace the natural chemokines that cannot be used for therapy due to their instability in the body. We synthetically produce chemokines that we believe have important therapeutic properties and potentially represent large markets.

- *Computational design of new chemokine-based drug candidates* - Our understanding of the 3-dimensional structure and binding of a chemokine with its receptor is essential for the design of a smaller chemokine analog of its natural counterpart.

- *Structural redesign for enhancement/improvement of critical activities and properties* - Redesign of the original drug candidate is required as part of the rational peptide design process. The changing of one linkage or an amino acid can cause the drug candidate to better mimic or counteract the biological activities of their natural counterparts, or improve the pharmacokinetics. We continually redesign in an effort to obtain more desirable peptides.

- *Synthesis of new analogs using solid phase technology* - We use solid phase peptide synthesis to generate several amino acid peptides of relatively short length, typically 5 to 15 amino acids, or large sequence peptides, typically 15 - 70 amino acids in length. The technology allows the cost effective production of peptides with yield levels that are greater than observed with recombinant protein production. This is achieved synthetically through organic chemistry. This process also allows for the introduction of non-natural amino acids and other chemical groups into peptides, allowing for rational design of a drug candidate.

- *Systematic screening of promising chemokine agonists and antagonists using receptor binding studies* - Systematic screening of promising chemokines is performed through receptor binding studies. Analogs bearing the desired biological and chemical properties of a desired therapeutic are candidates for animal model evaluation.

- *Evaluation of the novel drug candidates in animal models of the disease for proof of efficacy* - Novel drug candidates are evaluated in animal models of the disease to assess safety and efficacy. The first animal models are typically mice or rats. These studies are categorized as preclinical studies.

Our Pharmaceutical Drug Candidates

CTCE-9908 (Anti-Metastasis)

When a cancer spreads from its original primary tumor site to another area of the body, it is referred to as metastatic cancer. This process involves the complex interaction of many factors, including the type of cancer, the degree of maturity of the tumor cells, the location and how long the cancer has been present, as well as other factors not completely understood. To date most therapeutic approaches focus on techniques that affect the primary tumor. Surgery, chemotherapy, and radiation are the common techniques used to treat the primary tumor with limited success on the spread or metastatic process. It is the metastatic process associated with cancer that accounts for more than 90% of the deaths. There are no drugs approved that target the metastatic process as of yet.

Based on our laboratory studies in animal models, we believe CTCE-9908 has the potential to reduce or delay the metastatic process. In several animal models we have demonstrated that CTCE-9908 can block the steps involved in the metastatic cascade. We are developing CTCE-9908 to target specific types of cancer that we determine to best respond to this form of therapy. We intend to initially test CTCE-9908 in cancers with high metastatic potential such as ovarian cancer, prostate cancer, and breast cancer.

CXCR4 receptors have been shown to be expressed on the cell surface of over 30 types of cancers. As these cancer cells detach from the primary tumor and circulate throughout the body, they stop in the blood vessels of organs that produce high levels of the chemokine SDF-1 which binds to CXCR4 receptors. This binding induces the migration of cancer cells into normal tissue and induces blood vessel generation leading to the growth of new sites of cancer referred to as metastasis.CTCE-9908 is an antagonist (blocks binding) of the CXCR4 receptor. Blocking of the CXCR4 receptor reduces the migration and infiltration of the cancer cells to other normal tissues, with the potential to reduce the spread of cancer throughout the body.

We believe that CTCE-9908 has the potential to become part of a new generation of drugs that acts to inhibit the metastasis of cancer cells from the primary tumor by preventing the infiltration of cancer cells to other tissues in the body. In our animal trials, we found a reduction of 50% to 70% of the metastasis to the lungs as compared with untreated animals, and a reduction of detectable metastasis to other organs and tissues.

We have discovered in our animal models that CTCE-9908:

- *reduces Non Small Cell Lung Cancer metastasis to the lungs by approximately 68%;*
- *reduces bone cancer metastasis to the lungs by approximately 67%;*
- *reduces skin cancer metastasis to the lungs by approximately 55%;*
- *reduces prostate cancer metastasis by approximately 61%;and*
- *reduces fibrosarcoma metastasis to tissues outside the lungs by more than 90%.*

Preclinical studies have demonstrated that CTCE-9908 is safe and well tolerated when administered as a single or intravenous administration in two species of animals. CTCE-9908 has been administered in animals by two routes of administration using a wide range of dose levels for up to a thirty day period.

Development of CTCE-9908

We have completed a Phase I clinical trial in the United Kingdom on our drug candidate CTCE-9908. The trial used single-dose escalation to assess safety in healthy subjects. The trial indicated that the test subjects tolerated CTCE-9908 with no serious or drug related adverse events. A total of 24 healthy subjects, of which 18 were male and 6 were female, were divided into four groups of 6 subjects. The study consisted of three dose levels with four subjects receiving CTCE-9908 and two receiving a placebo. The first group of subjects received placebo or CTCE-9908 at a dose of 0.5 mg/kg body weight with the subsequent groups receiving placebo or 2 and 5 mg/kg body weight respectively. The fourth group consisted of healthy women of non-child bearing potential who were administered a dose of 5 mg/kg or placebo, in the same manner as the first three groups. There were no serious adverse events or drug related adverse events recorded in any test subject during the trial. Overall, we found that the product was non-toxic and well tolerated.

We initiated a Phase I/II clinical trial of CTCE-9908 in May 2006. This is a dose escalation trial in cancer patients assessing safety and preliminary efficacy at various dose levels. CTCE-9908 is being administered to late stage cancer patients over a period of one month with the potential to continue therapy if the patient is deriving a benefit by predetermined objective criteria.

During the dose-escalation portion of the Phase Ib/II trial, a total of ten patients were treated with CTCE-9908 with doses ranging from 0.25 to 5 mg/kg/day. Six of the patients received the expected 20 dose course of treatment. Eight of the ten patients received doses within the expected therapeutic range of 1 to 5 mg/kg/day. Among these patients, there were three with late stage ovarian cancer. Two of the three ovarian cancer patients demonstrated stable disease when comparing the size of target tumors at baseline before treatment with CTCE-9908 to the assessment performed at completion of therapy. One of these patients defined as stable disease had an overall decrease tumor mass with an associated decrease of greater than 50% in CA-125 after 9 doses of CTCE-9908 while receiving no other therapy. CA-125 is an ovarian cancer biomarker that is used to monitor disease status and response to treatment. The daily infusions at all dose levels were generally well tolerated with one subject at the 5 mg/kg dose level experiencing moderate localized phlebitis that was attributed to the study drug. No serious adverse events were recorded that were attributed to the use of CTCE-9908 after 20 or more doses.

Ovarian and Prostate Cancer as a Target

CTCE-9908 targeting metastasis represents a novel therapeutic approach without predecessors and any established clinical development model. The standard paradigm of using primary tumor response as an early sign of efficacy is not applicable in this targeted biological approach as CTCE-9908's primary mechanism of action is focused on the metastatic pathway.

Based on the evidence collected in pre-clinical animal models and a single normal volunteer study, a number of potential solid tumors are possible for continued clinical development. The literature suggests that there are over thirty types of solid tumor types that express CXCR4 and would represent appropriate targets for the inhibition of metastasis. With evidence that CXCR4 is involved in three functional aspects of cancer cells including cell division, migration to distant sites, and in setting up metastatic sites and thus the spread of cancer a number of tumors could be considered for development.

We intend to initially target tumors such as prostate, ovarian, and breast where the evidence is clear for the expression of CXCR4 and there is an unmet need for new therapies. In addition, prostate cancer and ovarian cancer have well established tumor markers (PSA and CA-125 respectively) that can serve as early indicators of disease response to therapy. Elevated levels of prostate specific antigen, or PSA, is believed to indicate the presence of prostate cancer. The FDA has approved the PSA test for screening of prostate cancer in men. Pharmaceutical companies developing drugs for prostate cancers often monitor the level of PSA in patients to track disease progression during clinical trials. We also believe that PSA could be a useful marker for us to monitor our clinical trials of CTCT-9908 in prostate cancer patients. The availability of CA-125 tumor marker, which is clinically approved for following the response to treatment and predicting prognosis after treatment, can allow us to monitor the effectiveness of CTCE-9908. CA-125 is especially useful for detecting the recurrence of ovarian cancer. We expect to use in our clinical trials tumor markers as surrogate markers of efficacy in addition to delay in the time to disease progression.

The continued development of CTCE-9908 in a specific indication such as ovarian, prostate or breast cancer will be guided by a number of key factors with the overall objective of developing a comprehensive package of data that would attract a licensing opportunity with a large pharmaceutical company.

We are planning to continue further clinical trial development of CTCE-9908. The table below provides a summary of our current CTCE-9908 clinical development plans.

Clinical Development Plan for CTCE-9908

Description	Clinical Phase	No. of Subjects	Duration	Location(s)
Single-Dose Safety Study in Healthy Volunteers	I (Completed)	24	6 months	United Kingdom
Safety and Preliminary Efficacy Study	I/II (commenced 2006)	Up to 30	1 Year	Hamilton, Ontario and Montreal, Quebec
Prostate Cancer in Patients with a Rising PSA	II (open labeled)	~50	1-3 Year	Canada / USA
Ovarian Cancer Patients with a Rising CA-125	II (open labeled)	~100	1-3 Year	Canada / USA

Market Need for CTCE-9908

As a potential anti-metastasis cancer therapy, we believe that CTCE-9908 is unique and has the potential to address a significant unmet medical need and a large, growing cancer market. Cancer is a major health care problem as approximately 23% of all deaths in the U.S. in 2001 were caused by cancer according to the National Cancer Institute. The National Cancer Institute estimates that there will be 1,444,920 new cases of cancer in 2007 in the U.S., including 218,890 prostate cancers; 213,380 lung cancers; 178,480 female breast cancers; 153,760 cancers of the colon/rectum; and 22,430 ovarian cancers. In addition, the risk of being diagnosed over one's lifetime with cancer is approximately 46% of U.S. males and 38% of U.S. females according to the National Cancer Institute.

Prostate cancer is the most prevalent cancer in men in the United States, where it is responsible for more male deaths than any other cancer, except lung cancer. Prostate cancer is also one of the cancer types where the CXCR4 receptor is over-expressed. Prostate cancer typically occurs in older men, and is usually treated by surgery, radiation therapy, high intensity focused ultrasound, chemotherapy, cryosurgery, hormonal therapy or some combination of the foregoing. According to *Cancer Management, Seventh Edition* there is no universally agreed upon strategic plan for its diagnosis and management. Prostate cancers most commonly spread locally to regional lymph nodes and to the axial skeleton but many bones, including the skull and ribs may become involved. Rare sites of metastasis spread include the liver and lungs.

Ovarian cancer is one of the major cancer types where CXCR4 receptor is over-expressed. According to the National Cancer Institute, ovarian cancer accounts for 4% of all cancers in women and is the fourth leading cause of cancer related death among women in the United States. Ovarian cancer has the highest mortality of all cancers of the female reproductive system. Unfortunately, despite the substantial investment in drug development by the pharmaceutical industry, ovarian cancer mortality has not improved over the past 25 years.

Competition for CTCE-9908

The market for cancer treatments is large and therefore it will continue to attract a significant number of competitors. However, we are not aware of any commercial companies specifically developing agents that target the metastasis pathway. Some of the targeted cancer therapies have been approved for the treatment of metastatic cancers. For example:

- ***Avastin®,*** a monoclonal antibody that targets the angiogenesis pathway, has been approved for use in combination with intravenous 5-Fluorouracil-based chemotherapy as a treatment for patients with first-line — or previously untreated — metastatic cancer of the colon or rectum. The drug is marketed in the U.S. by Genentech and elsewhere by Roche. Genentech is pursuing a late-stage clinical development program with Avastin evaluating its potential use in metastatic colorectal, renal cell (kidney), breast and non-small cell lung cancers.
- ***Tarceva®,*** a small molecule that targets the epidermal growth factor receptor tyrosine kinase, has been approved for metastatic non-small cell lung cancer, and, in combination with gemcitabine chemotherapy, for the treatment of locally advanced, inoperable or metastatic pancreatic cancer in patients who have not received previous chemotherapy and pancreatic cancer. This drug was developed by OSI Pharmaceuticals Inc. and is currently marketed by Genentech.
- ***Herceptin®,*** a monoclonal antibody that acts on the erbB2 receptor, has been approved for the treatment of HER2 positive metastatic breast cancer. This drug is also marketed by Genentech.

Sales of Selected Therapeutics with anti-metastatic effects **(1)**

Target	Drug	Company	2005 sales ($ millions)	2006 sales ($ millions)
VEGF receptor	Avastin®	Genentech	1,183	1,853
Erb-B2 receptor	Herceptin®	Genentech	764	1,330
EGF receptor	Erbitux®	BMS	413	652
	Tarceva®	Genentech	275	402
	Iressa®	AstraZeneca	273	237

(1) Source: Company reports.

While these new, targeted cancer therapeutics have been very successful and have shown effect on metastasis, we believe that CTCE-9908 will have its distinctive utility because of its unique target, the CXCR4 receptor. Additionally, to our knowledge, CTCE-9908 is the only compound in clinical trials with dual anti-angiogenesis and anti-metastasis activities. It has the potential to be used alone, or in combination with common chemotherapies or the new, targeted cancer therapies.

CTCE-0214 (Hematological Support)

The natural chemokine SDF-1 is known to play a role in blood cell formation in the body known as the hematopoietic process. Currently, natural SDF-1 is not suitable for drug development due to its fast breakdown in circulation, the potential for allergic reactions due to production of antibodies and other complications. We have designed and produced an analog of SDF-1 that possesses superior stability and potentially overcomes these issues.

CTCE-0214, based on our research in animal models, increases the level of circulating stem cells, white blood cells or neutrophils and platelets. Blood is made up of a number of different types of cells involved in many different physiological functions, from infection fighting to blood clotting. These cells have a limited life span; neutrophils live a few hours and erythrocytes or red blood cells survive for a few weeks. Therefore the body needs to continually produce up to 10^{11} cells per day to maintain a normal balance (Source: Hematopoietic Lineages in Health and Disease). The blood cell production process largely occurs in the bone marrow from hematopoietic stem cells that form progenitor cells, which proliferate and differentiate into mature blood cells.

In the setting of cancer, chemotherapeutic drugs are administered in patients to interrupt cell division in tumors that typically have a high rate of proliferation. However, many of the currently available drugs are non-specific and target healthy cells that are replenishing themselves rapidly. These cells include the lining of the gut, the mouth, and blood cells, including neutrophils, which are cells that provide the first-line of defense against bacterial infection. A weakened barrier in the gut and mouth caused by chemotherapy allows for easy passage of invading bacteria with fewer neutrophils available to protect these sites of entry.

In preclinical animal tests, CTCE-0214 mobilized cells that express the SDF-1 receptor, CXCR4, including neutrophils, platelets and hematopoietic progenitor cells, raising the animal's level of cells in the blood. We have shown in the laboratory that CTCE-0214 is an agonist of SDF-1 by its competition against SDF-1 in binding to cells bearing CXCR4. Upon binding, CTCE-0214 induces a host of cellular activation responses, leading to the mobilization of the cell. In preclinical animal models, CTCE-0214 significantly raised the level of neutrophil, platelet and hematopoietic progenitor cells in the blood. The lack of adverse effect towards blood cell and bone marrow cells demonstrates its low toxicity and good tolerability. In addition, our animal model results have shown that our drug candidate may increase the benefits of Neupogen®, the main drug currently in use for immune system recovery.

Background on CTCE-0214

We are targeting CTCE-0214 for development in cancer patients undergoing myelosuppressive chemotherapy. CTCE-0214 has the potential to restore infection-fighting neutrophils and platelets to prevent bleeding. In this clinical scenario, patients might be able to receive a more aggressive chemotherapy regiment by minimizing delays caused by infection, low white blood cell counts and/or low platelet counts.

Although the most advanced application for CTCE-0214 is for the mobilization of neutrophils, and platelets, it has also provided early evidence in stem cell mobilization, regenerative medicine, wound healing and acute infections (septicemia). CTCE-0214 may offer the potential of improving the currently available therapies for these disorders. The results of our animal model hematological studies show that CTCE-0214 has a rapid mode of action, enabling the required increase of the stem cells, white blood cells and platelets within few hours. Currently available treatments require more time, typically a few days to a week.

We have discovered in our research that CTCE-0214 injected intravenously:

- increased the number of neutrophils 3 to 8 fold (300 to 800%) in the blood of test mice when compared to the number of neutrophils in the blood stream of the control mice;
- increased the number of neutrophils approximately 3 fold (300%) in the blood of normal human volunteers when compared to the number of neutrophils in the blood before treatment;
- increased the number of platelets in the blood stream of thrombocytopenic animals by approximately four fold over the number of platelets in the blood stream of the control mice;
- increased the number of stem cells in the blood stream by 2 to 4 fold over the number of stem cells in the blood stream of the control group of mice,
- Increases cord blood stem cells expansion by 2 to 3 fold and,
- Decreases the time for wound healing by about 25%

We have completed the necessary pre-clinical work on CTCE-0214's efficacy and toxicology studies in support of initiation of a single dose Phase I study. These studies included pivotal toxicology and safety studies in two animal species.

Clinical Trials using CTCE-0214

We initiated a Phase I clinical trial under a U.S. IND in Tacoma, Washington in the fourth quarter of 2004, seeking to determine the early safety and preliminary effects of CTCE-0214 on the mobilization of stem cells and neutrophils. In June 2005, we announced preliminary results of this trial. The trial demonstrated that CTCE-0214 is associated with significant increases in total white blood cell and neutrophil counts in healthy volunteers treated at the highest dose. In the highest dose cohort, investigators observed up to a 300% increase in neutrophils compared to a placebo when measured from baseline within 6 hours of dosing ($p<0.05$) as well as a dose-dependent increase in neutrophil counts from baseline at 6, 12 and 24 hours after injection. The primary objective of this Phase Ia study was to evaluate the safety of CTCE-0214, how it works in the body, as well as how it is metabolized following a single subcutaneous injection. The randomized, double-blind, placebo-controlled dose-escalation trial enrolled 24 subjects in six dose-escalation groups. These tests indicated that no serious adverse events occurred in any of the dose levels studied. Common effects included injection site pain and erythema (injection site redness) which were transient and resolved without intervention.

The table below provides a summary of our CTCE-0214clinical trial plans.

Description	Clinical Phase	No. of Subjects	Duration	Location(s)
Single-Dose Safety Study in Healthy Volunteers to Assess Safety and Preliminary Efficacy	I (Completed)	24	6 months	Tacoma, Washington
Three Stage Single and Multi-Dose Study in Healthy Volunteers to Assess Safety and Preliminary Efficacy	I	approx. 50	On-Going	Tacoma, Washington

We have recently completed and announced the results of the first two stages of the three-stage Phase I clinical trials for CTCE-0214. In this study a total of 57 normal healthy volunteers were evaluated using various doses and comparing intravenous versus subcutaneous routes of administration. The study demonstrated CTCE-0214 to be safe and well tolerated when administered intravenously as a single or after multiple doses were administered on a daily basis for five consecutive days. There were no serious adverse events reported. Subjects receiving subcutaneous administrations of CTCE-0214 did however experience transient injection site reactions and local pain after single and repeated administration of the drug. This study as in a previous trial demonstrated that administration of CTCE-0214 subcutaneously resulted in a 300% increase in neutrophil counts that peaked at approximately 12 hours and were sustained above the baseline value for approximately 48 hours after each administration. Administration using the intravenous route demonstrated a modest pharmacological neutrophil response to each dose administered after each consecutive day of administration with a noticeable increase in stem cell numbers at 3 days using the colony forming assay techniques.

Continued Clinical Development Plans for CTCE-0214

Chemokine Therapeutics intends to continue the development of CTCE-0214 for neutropenia and stem cell mobilization, optimizing the dose, route, and schedule of administration as well as the potential additive effects when given in combination with Neupogen®. Specifically, we will continue a clinical program in healthy volunteers seeking to determine the optimal dose of CTCE-0214 necessary to have a clinically meaningful effect on neutrophils as well as stem cells. Once this optimal dose, route of administration, and schedule are determined, the additive or synergistic effects on neutrophils and stem cells will be initiated. Continuation of the program into a patient specific setting would be contingent on demonstrating clinically meaningful responses in a health volunteer setting.

In addition to the ongoing neutrophil and stem cell clinical trial program, we intend to accelerate the pre-clinical research efforts towards expanding the indications for CTCE-0214. Our pre-clinical data has shown that CTCE-0214 has the potential to be used in a variety of different applications that include:

- As a therapy for thrombocytopenia,
- As a cord blood stem cells engrafting and expanding agent,
- As a treatment of systemic infections,
- As a cancer vaccine booster, and
- As an agent to improve wound healing.

The Company may look into licensing or co-developing some or all of these programs with potential partners.

Competition for CTCE-0214

CTCE-0214 is a potential therapy for patients with chemotherapy induced neutropenia and thrombocytopenia. In addition, we will target other diseases or disorders that cause neutropenia or thrombocytopenia. World-wide sales of neutropenia treatments in 2003 were approximately $3 billion and are projected to increase to over $4.5 billion by 2008 according to Business Communications Company, Inc. Another potential application of CTCE-0214 is for enhancing stem cell mobilization from the bone marrow to the blood prior to blood transplantation. In 2002, there were approximately 45,000 blood and marrow transplants world-wide, according to the International Bone Marrow Transplant Registry.

The market for immune system recovery and stem cell mobilization is currently served by only a few products. There is a strong need for products that have the potential to enhance the performance of the growth factors currently in use or provide additional resources in maintaining proper physiological responses in the body.

Although the FDA has approved a range of cytokine based drugs for stimulating blood cell recovery, we are not aware that the FDA has approved any chemokine based drug to date for hematological support.

Stem Cells

Ex vivo. Currently there are a number of cytokines, such as Neupogen® manufactured by Amgen, Inc., and stem cell factors and thrombopoietin that are used for *ex vivo* or out-of-the body stem cell expansion. Since the *ex vivo* drug is not introduced into the body directly, the regulatory approval process follows that of a new device application rather than the more burdensome process required for a drug compound to be used in the body.

In vivo. The commonly used drug to elevate the number of stem cells in the blood *in vivo* or in-vitro in the-body is Neupogen®. In a study conducted between 2000 and 2003, the drug was effective for 77% of patients, but in 23% of patients, it failed to mobilize sufficient stem cells after chemotherapy and Neupogen® treatment according to Transfusion, May 2004. There is a strong need for more efficacious products in this market. There are some new drugs under development for this market. The most notable is AMD3100™ (Mozobil®) being developed by Genzyme Inc (Genzyme purchased the product through the acquisition of AnorMED Inc for $600 million). . AMD3100™ has been shown to work in synergy with Neupogen® and increase the total number of transplantable stem cells. AMD3100™ is currently in clinical trials and we do not know when or if it might be approved.

From the data available, Mozobil® showed to have effect of two third of patient who did not respond to Neupogen®. There is still one third which are not mobilized well and require new kind of drug. We believe CTCE-0214 will have effect against all the patients whom do not respond to Neupogen® or Mozobil®. CTCE-0214 has a different mode of action to Mozobil®. While both products site of action is the chemokine receptor CXCR4, Mozobil®is an antagonist to the receptor, while CTCE-0214 is an agonist. CTCE-0214 further does not work on the same target as Neupogen®, but focuses on a different part of the cell. We hope to show that our drug will be more effective than currently available drugs through CTCE-0214's potentially new mode of action.

Neutrophils

Neupogen®, approved in 1991, is approved for use in preventing infection in cancer patients undergoing chemotherapy treatment, in bone marrow transplant recovery, for use in severe chronic neutropenia (a rare white blood cell disorder) and for mobilization of peripheral blood progenitor cells for transplantation. The limitations of Neupogen® include lack of rapid action and a relatively high failure rate due to lack of response of the drug in approximately one quarter of people. The effect of the drug on the recovery of neutrophils is slow. Usually the drug requires few days to a week to show some results.Leukine®, manufactured by Berlex, Inc., is another product from the same class of cytokines as Neupogen®, and is used to stimulate neutrophil and monocyte progenitors, usually together with Neupogen®. Leukine® typically requires a few days to a week for mobilization. It has certain side effects and therefore is not used commonly. As with Neupogen®, some portion of patients are non-responsive or become refractory.

Platelets

Platelets are small cellular fragments found in the blood that play a vital role in preventing bleeding. A low number of platelets, which is referred to as thrombocytopenia, leads to anemia, general fatigue and an inability to stop bleeding. Patients suffering from cancer and AIDS as well as those undergoing chemotherapy typically suffer from this condition. Patients with thrombocytopenia often receive platelet transfusions, in which healthy donor platelets are collected and transfused into the patient. However, multiple platelet transfusions are costly and associated with immune reactions. Patients can develop antibodies, making further transfusion of random donor platelets ineffective and requiring single donor platelets from compatible individuals. The transfused platelets are also sometimes underperforming platelets with a shortened life-span in circulation and unable to clot properly.

We are aware of only one approved drug for increasing the number of platelets in the blood. Interleukin-11 (IL-11) is a thrombopoietic growth factor that is currently used in the application for increasing platelet production. The compound is marketed by Wyeth under the name Neumega®. We are investigating whether our compound CTCE-0214 will increase the level of circulating platelets more rapidly and with greater efficacy than Neumega®, and potentially be a more effective treatment for thrombocytopenia.

Cord Blood Stem Cells

It is believe the future of stem cells transplant will be the use of cord blood stem cells, rather than patients own stem cells. Patients own stem cells transplant as currently practiced carries a considerable risk. If the patient has leukemia, or lymphoma, it is very likely the stem cells collected from blood for the purpose of transplant might contain some cancerous cells and subsequently will be re-injected into the patients. Therefore, this practice would be counter productive for patients well being and survival. Thus the future of transplant will be better served if cord blood stem cells is used instead of autologous blood stem cells. To date the major obstacle to the use of cord blood stem cells has been due to two factors; a) lack of sufficient stem cells for transplant, and b) lack of transplanted cells homing into bone marrow. Based on our previous observations in animal studies, we believe, CTCE-0214 can ; a) increases (expand) the number of stem cells and further can help to home these cells more efficiently in the bone marrow.

Wound Healing

One of the most important factors in wound healing is the presence and trafficking of progenitor cells for the purpose of maturation and differentiation into fibroblast, epithelial cells, smooth muscle cells for the purpose of making new epiderms and dermis. In patients suffering from long last wound healing, such as patients with burn or diabetics, the trafficking of progenitor cells to the site of wound can be dramatically reduced due to the lack of blood flow and balance in growth factors. As we have seen, CTCE-0214 to be a mobilizer of progenitor cells animal studies were carried out with wounds. We observed in preliminary studies, that use of CTCE-0214 topically, help to heal the wound and reduced the size of wound by approximately 60%. We therefore believe our drug, CTCE-0214 might be useful for wound healing and warranted further animal and human studies.

Other Drug Candidates

CTCE-0324

We believe, based on our research in animal models, CTCE-0324 increases the formation of new blood vessels. Formation of the new blood vessels, known as angiogenesis or neovascularization, is a critical process in increasing blood supply to the areas of the body where vessels are narrowed or have become blocked. Approximately 10 million Americans suffer from a condition referred to as peripheral arterial disease, or PAD, according to Medical Update - "Shaping the Future of Medicine". This problem occurs most often in diabetics as well as elderly patients. The incidence of this disease increases with age. In western countries, approximately 5% of men aged 55-64 years and 3% of all women will have symptomatic PAD of the lower limbs. Out of this population, 30% have pain at rest with 5% to 10% requiring amputation in spite of treatment with medication, surgical bypass and angioplasty, according to The Practitioner, "Western Countries: Lower Limb Occlusive Disease".

We are currently in the research and preclinical testing phase with CTCE-0324. We intend to carry out further animal testing of the compound to determine the potential of this agent for peripheral arterial disease.

Other Peptide Based Compounds

We are working with additional novel peptides evaluating the potential application for wound healing. These types of peptides would function by recruiting infection fighting cells to the site of tissue injury thereby reducing the possibility of wound infection and decreasing the time for healing. In addition we are developing a drug candidate with the potential to prevent stokes. CTCE-0501 may have application in inhibiting platelet formation thereby preventing clots which can cause stroke.

Various Products Stage of Development

The chart below sets out our drug candidates and their respective stages of development:

	Product	Indication	Research/ Preclinical	Phase I	Phase II	Phase III	Market
1.	**CTCE-9908**	Oncology- anti-metastasis					
2.	**CTCE-0214**	Hematological support; neutrophil and platelet regeneration and stem cell mobilization					
3.	**CTCE-0324**	Peripheral Arterial Disease					
4.	**CTCE-0422**	Wound Healing					
5.	**CTCE-0501**	Stroke					

Our Offices and Research Facilities

Our headquarters are located in Vancouver, British Columbia, on the campus of the University of British Columbia. Until January 1, 2007, our research activities were centralized in Vancouver, British Columbia through Globe Laboratories Inc., or Globe Laboratories, in an incubator facility on the campus of the University of British Columbia. Globe Laboratories is a corporation beneficially owned by Dr. Hassan Salari, our President and Chief Scientific Officer, and his family. We engaged Globe Laboratories to carry out chemokine research for us on a contracted operating cost basis plus a 2% margin.

Effective January 1, 2007, we acquired certain assets of Globe Laboratories, consisting mainly of laboratory equipment and leasehold improvements, through our wholly-owned subsidiary Chemokine Therapeutics (B.C.) Corp., or CTBCC, for consideration of CDN$375,935 reflecting the fair market value of these assets as determined by an independent appraisal. We no longer use Globe Laboratories for research and development services. We did not incur any early termination obligations by terminating our agreement with Globe Laboratories. CTBCC and Globe Laboratories also entered into a definitive agreement which provided for the assignment to CTBCC of a partial sublease by Globe Laboratories in respect of approximately 5,400 square feet of laboratory space located at the University of British Columbia. In accordance with the terms of the agreement, the majority of the former employees of Globe Laboratories were hired by CTBCC. The purchase of the assets of Globe Laboratories and the acquisition of their key staff will allow us to have direct control and management of our research and development activities.

Through our location on the campus of University of British Columbia and our affiliation with University of British Columbia, we have access to a wide range of equipment and scientific facilities, such as University of British Columbia's animal facility. This allows us to minimize costs while maintaining quality. We lease 3,600 square feet of office space as well as 5,400 square feet of laboratory space at the University of British Columbia. We have established a network of research collaborations with the following universities or organizations:

- Memorial Sloan Kettering Cancer Center, New York
- M. D. Anderson Cancer Center, Houston, Texas
- Dana-Farber Cancer Institute, Boston, Massachusetts
- Chinese University of Hong Kong
- The Lady Davis Institute for Medical Research, Montreal, Quebec
- Singapore General Hospital, Singapore
- Weill Medical College of Cornell University, The New York Presbyterian Hospital, New York, NY
- Wayne State University School of Medicine, Detroit, Michigan
- Fred Hutchinson Cancer Research Center, Seattle, WA
- Queen Mary's School of Medicine and Dentistry, London, England
- University of California, Riverside, California

Although these are beneficial research collaborations, we are not dependent on any of such collaborations. These institutions have agreements in place to use our products for specific research, but they do not otherwise gain any right to our technology. These collaborations allow researchers at these institutions to pursue their own research interests with our products. We may benefit from papers they publish and other results of their research. Many medical schools and cancer institutes conduct research on cancer-related topics and we believe we could establish collaborations with other institutions if it were beneficial to us.

Clinical Advisory Board

We maintain a close collaboration with the translational research scientists and doctors that form our Clinical Advisory Board. Formal Clinical Advisory Board members agreements exist with these key thought leaders which provides for their review, insight and guidance on our clinical development plans as well as specific clinical protocols. The Clinical Advisory Board members are convened quarterly or as deemed necessary either in person or by teleconference to provide their guidance on the progress and development of key clinical and research related issues. Members are provided with an honorarium for the meetings they attend. Members of our Clinical Advisory Board include:

Shahin Rafii, M.D., Ph.D.

Dr. Rafii is the Arthur B. Belfer Professor of Genetic Medicine at Weill-Cornell Medical College. Dr. Rafii, who is a board certified Hematologist-Oncologist, is engaged in patient care, and basic and translational research. He has expertise in basic tumor biology as well as vascular and stem cell biology. He was recently appointed to spearhead the Ansary Stem Cell Center for Regenerative Medicine at Weill-Cornell. Dr. Rafii graduated from Cornell University in 1982, with a degree of Cum Laude in Chemistry and was awarded Phi Beta Kappa. He received his MD degree from Albert Einstein College of Medicine with Honors and in 1989 completed his internship and residency in Internal Medicine followed by a fellowship in Hematology-Oncology at Weill-Cornell in 1992. He became a full professor in Genetic Medicine in 2002, at which time he was appointed to be the co-director of the Ansary Stem Cell Center. Dr. Rafii is an active charter member of the Tumor Microenvironment Study Section at the National Cancer Institute. He is an elected member of the American Society of Clinical Investigation (Young Turks), an American Cancer Society Scholar, and a Translational Researcher of the Leukemia and Lymphoma Society. Dr. Rafii is principal inventor in several patents on therapeutic use of vascular stem cells for organ regeneration. Many of his basic science findings have endured the scrutiny of scientific enquiry and have been translated into the clinical arena.

Daniel Douglas Von Hoff, M.D., F.A.C.P

Dr. Von Hoff has served as our medical advisor since May 2003. Dr. Von Hoff is currently Professor of Medicine, Pathology, Molecular and Cellular Biology, Director of the Arizona Health Sciences Center's Cancer Therapeutics Program, and Head of the Translational Genomics Research Institute's Translational Drug Development Division. Dr. Von Hoff's major interest is in the development of new anticancer agents, both in the clinic and in the laboratory. In the area of clinical drug development, Dr. Von Hoff and his colleagues were involved in the early development of many of the agents now use routinely, including: Mitoxantrone, Findarabine, Paclitaxel, Docetaxel, Gemcitabine, CPT-11, Iressa, Tarceva and others. He is an internationally recognized expert in the field of oncology, providing guidance to industry and academic institutions. He is American Board-certified in Internal Medicine, Medical Oncology, as well as being certified more recently for Basic Life Support. He served on the Board of Directors for the Association of American Cancer Institutes, and the Baylor Research Institute. Dr. Von Hoff has served in the past as the President of the American Association for Cancer Research from 1999 to 2000, a Fellow of the American College of Physicians, and a member and past board member of the American Society of Clinical Oncology. He is a founder and board member of ILEX Oncology, Inc. (ILXO, NASDAQ). During his career he has published over 503 papers, as well as 844 abstracts. In addition he has also contributed to 126 book chapters. Dr. Von Hoff is also the holder of three patents.

Michael George Boag Smylie, M.D., F.R.C.P.C.

Dr. Smylie has served as our medical advisor since March 2005. Dr. Smylie is a Medical Oncologist at the Cross Cancer Clinic in Edmonton, Alberta. He graduated from the University of Leicester in the United Kingdom in 1987. He did his Internal Medicine training at the University of Saskatchewan with specialty training in Medical Oncology at the University of Ottawa. He has been at the Cross Cancer Institute in Edmonton, Alberta since 1994. He is currently chair of the Cross Cancer Institute Clinical Trials Committee, and a member of the Provincial Research Advisory Committee. He is also the Site Leader for the NCIC Melanoma Group, and represented the NCIC at the State of the Science Meeting in Melanoma in Bethesda, Maryland. He is also the Site Co-coordinator for NCIC at the Cross Cancer Institute. He is very active in clinical trail research. He has been a principal investigator of multiple studies in metastatic melanoma, breast cancer, and lung cancer. He is currently chairing a phase II study of an investigational taxane in lung cancer for the NCJ Canada. He is the Tumor Group Leader for the Alberta Cutaneous Provincial Group. He is a member of the Anti-Tumor Immuno-Gene Therapy Committee at the University of Alberta.

Robert Carl Nevin Murray, M.D., F.R.C.P.C.

Dr. Murray has served as our medical advisor since May 2003. He is a Medical Oncologist at the BC Cancer Agency in Vancouver, Canada and serves as a clinical professor at University of British Columbia. He received his medical degree from the University of Saskatchewan in 1973, and his fellowship in Oncology from the Manitoba Cancer Treatment and Research Foundation in 1978. He is American Board certified in Medical Oncology since 1979. Dr. Murray is a member of the Royal College of Physicians and Surgeons, Canadian Oncology Society, American Society of Clinical Oncology, as well as the International Association for the Study of Lung Cancer. In addition to the numerous lectures Dr. Murray has delivered internationally on lung cancer, he has also published in excess of 75 peer reviewed manuscripts, and abstracts in scientific and medical journals as well as contributing to eleven book chapters. In August, 2003, Dr. Murray was chairman of the X World Conference of Lung Cancer held in Vancouver, British Columbia.

Gerald Batist, M.D.

Dr. Gerald Batist is Chairman of the Department of Oncology, McGill University. He is also Director of the McGill Centre for Translational Research in Cancer, based at the Jewish General Hospital which was established to stimulate rapid translation of new discoveries in the research laboratory into clinical benefits for patients, with a major emphasis on breast cancer. Dr. Gerald Batist is a Professor in the McGill University Departments of Medicine and Oncology and the McGill Cancer Centre as well as an Associate Member of the Division of Experimental Medicine the Department of Pharmacology & Therapeutics and the McGill Nutrition and Food Sciences Centre. He is an associate member of the Department of Pharmacology at the Université de Montréal. In his capacity as Chairman of Oncology he has nurtured to development of a number of multidisciplinary programs that have been highly innovative and amongst the first of their kind in Canada. Dr. Batist is a member of scholarly associations, serves on editorial boards and on advisory committees. He has a highly successful laboratory and clinical research program, with over 145 scientific publications and a number of book chapters relating to his research interests. He has trained a large number of scientists and clinical oncologists, and also practices medical oncology.

Our Relationship with Pharmaceutical Product Development, Inc.

We established a strategic relationship with Pharmaceutical Product Development, Inc., or PPDI, in 2002 and 2003. PPDI, which is listed on Nasdaq under the symbol "PPDI", acquired 2,000,000 series A preferred shares through an investment of $2,700,000 and we granted to PPDI share purchase warrants entitling PPDI to purchase 500,000 common shares at an exercise price equal to CDN$1.00 per share expiring on December 29, 2007. We granted PPDI an option, exercisable for up to 90 days, to license CTCE-0214 following completion of the Phase I clinical trials. Our agreement with PPDI also provided that we would fund the Phase I clinical studies of CTCE-0214. If we decided to license any other of our compounds to a third party, we had to give notice to PPDI and allow PPDI the first opportunity to negotiate a license with us. If PPDI had no interest in a compound or we were unable to reach an agreement on a license, we could then negotiate and grant licenses to other companies.

We determined that a termination of these agreements would benefit us and on May 25, 2006, we announced the closing of a previously announced transaction with PPDI under which we re-acquired the licensing rights on our compound CTCE-0214. PPDI will retain an interest in the CTCE-0214 program through potential future milestone payments.

In re-acquiring the licensing rights to CTCE-0214, we paid to PPDI $100,000 cash and will potentially pay up to $2.5 million in milestone payments as follows: $250,000 cash upon the dosing of the first subject in a phase III clinical trial of CTCE-0214; $250,000 cash upon filing a New Drug Application, or NDA, with the FDA with respect to CTCE-0214 (or any equivalent filing in any foreign country); $1,000,000 cash upon approval by the FDA (or any equivalent regulatory body in a foreign country) of CTCE-0214 for any therapeutic use; and 50 percent of the first net sales of CTCE-0214 up to $1,000,000.

As part of the transaction, PPDI converted its 2,000,000 convertible preferred shares into 2,000,000 common shares and sold the common shares to third-party investors. In connection with the sale of the common shares, we paid a $237,600 fee to PPDI to facilitate the sale of the common shares. There are currently no preferred shares outstanding.

During 2005, we engaged PPDI as a consultant relating to the development of CTCE-0214, including the design and execution of clinical trials; the evaluation of the results of clinical trials; and the design, execution and evaluation of research and development activities for which we paid PPDI a consulting fee of $150,000.

Our Relationship with the University of British Columbia

On September 22, 1999 we entered into a license agreement with University of British Columbia. The license grants to us exclusive worldwide rights to research develop and commercially exploit certain patented technologies, which remain the property of University of British Columbia. The licensed technology relates to therapeutics involving stromal cell-derived factor 1, or SDF-1 peptide antagonists and agonists which are currently applicable to our drug candidates CTCE-9908 and CTCE-0214, respectively.

Under the agreement we are obligated to achieve various milestones and to make milestone payments and to pay royalties of 2% of any revenues or other consideration derived from the licensed technologies. The remaining milestone payments on one of either CTCE-9908 or CTCE-0214 include the following: (i) CDN$100,000 at the time of completion of Phase II clinical trials; (ii) CDN$250,000 at the time of completion of Phase III clinical trials; and (iii) CDN$500,000 on the filing for new drug approval. We have paid a total of CDN$15,000 to University of British Columbia upon the execution of the agreement in 1999 and CDN$50,000 in 2003 in connection with our filing of an Investigational New Drug application.

The term of the license agreement is the longer of 20 years from the date of the agreement and the expiration of the last patent relating to the licensed technology. The license agreement shall automatically terminate if any proceeding under the Bankruptcy and Insolvency Act of Canada is commenced by or against us. In addition, University of British Columbia may terminate the agreement for various reasons including if we become insolvent, fail to pay monies due under the agreement, breach certain terms of the agreement, or if the licensed technology becomes subject to a lien, charge or encumbrance.

Intellectual Property

The proprietary nature of, and protection for, our products, product candidates, processes and know-how are important to our business. We seek patent protection in the United States and in Europe, Australia, Canada, Japan and Brazil for our product candidates and other technology where available and when appropriate. We cannot be sure that patents will be granted with respect to any of our pending patent applications or with respect to any patent applications filed by us in the future, nor can we be sure that any of our existing patents or any patents that may be granted to us in the future will be commercially useful in protecting our technology.

We have established and continue to build proprietary positions for our pipeline product candidates and technology in the United States and abroad as outlined in the table below.

	Subject	Patents Issued	Patent Applications[3]
1.	Novel chemokine mimetics synthesis and their use	EP 1,276,493: UK 1,276,493 FR 1,276,493 IT 1,276,493 DE 60,106,0028 Expires Apr. 12, 2021	AU 2001252081 AU 2005201244 BR PI 0110049-1 CA 2,405,907 JP 2001574131 US 10/086,177 US 11/393,769

	Subject	Patents Issued	Patent Applications[3]
2	Design of chemokine analogs for treatment of human diseases	US7,091,310 Expires Oct. 28, 2022	AU 2003279715 AU 2006252077 AU 2006252080 BR PI 0314212-4 BR 020060163947 CA 2,498,723 CA 2,564,924 EPC 0377352.0 EPC 06026201.1 JP 2004536241 JP 2006299211 JP 2006 338457 US 11/494,232 US 11/590,210
3	Mimetics of Interleukin-8 and methods of using them in the prevention, treatment, diagnosis, and ameliorization of symptoms of a disease		AU 2005205737 BR PI 0504758-7 CA 2,515,158 CN 200510093834.2 EPC 05018781.4 JP 2005252235 US 10/932,208
4	Cyclic peptides for modulating growth of neo-vessels and their use in therapeutic angiogenesis		PCT US06/44250 US 11/388,542
5	IL-8 receptor ligands-drugs for inflammatory and autoimmune diseases	US 6,515,001	
6	Design of CXC chemokine analogs for the treatment of human disease		PCT US07/00436 US 11/649,928
8	CXCR4 antagonist treatment of hematopoeitic cells[1]	EP 1,286,684 UK 1,286,684 FR 1,286,684 DE 60,103,052 Expiring May 9, 2021	AU 2001258110 CA 2,408,319 EPC 03027506.9 JP 2001-581,849 US 10,945,674
9	Bicyclic aromatic chemokine receptor ligands	US 6,693,134 Expires Nov. 13, 2021	
10	Therapeutics for chemokine mediated diseases	US 6,706,767 B2 Expires Jan. 22, 2021	
11	Tricyclic terpenes of the family of abietic acid as rantes inhibitor	US 6,831,101 Expires Nov. 13, 2021	

	Subject	Patents Issued	Patent Applications[3]
12	Therapeutic chemokine receptor antagonists[2]	US 6,875,738 Expires Aug. 16, 2019 AU 762,472 EP 1,061,944: FR 1,061,944 UK 1,061,944 IT 1,061,944 DE 69,914,463 US 6,946,445 Expires Mar. 12, 2019	CA 2,322,764 JP 2000-536,397 US 11/060,031 US 11/136,097
13	Platelet factor-4 (PF-4) analogs and their use		PCT US06/01848

(1) Jointly owned by us and University of British Columbia, however we have obtained exclusive worldwide rights through a license agreement with University of British Columbia.

(2) Owned by University of British Columbia, however we have obtained exclusive worldwide rights through a license agreement with University of British Columbia.

(3) Patents have a life of 20 years from the filing date.

While we pursue patent protection and enforcement of our product candidates and aspects of our technologies when appropriate, we also rely on trade secrets, know-how and continuing technological advancement to develop and maintain our competitive position. To protect this competitive position, we regularly enter into non-disclosure and confidentiality agreement each of our consultants, employees and specifically with any third party that would have access to our proprietary technology. Furthermore, our know-how that is accessed by third parties through collaborations and research and development contracts and through our relationships with scientific consultants is generally protected through confidentiality agreements with the appropriate parties. We cannot, however, assure you that these protective arrangements will be honored by third parties, including employees, consultants and collaborators, or that these arrangements will effectively protect our rights relating to unpatented proprietary information, trade secrets and know-how. In addition, we cannot assure you that other parties will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our proprietary information and technologies.

Manufacturing, Marketing and Distribution

We do not currently own or operate manufacturing facilities for the production of clinical or commercial quantities of our product candidates. We currently rely on a small number of third-party manufacturers to produce our compounds and expect to continue to do so to meet the preclinical and clinical requirements of our product candidates and for all of our commercial needs. We do not have long-term agreements with any of these third parties.

If any of our product candidates are approved for commercial use, we plan to rely on third-party contract manufacturers to produce sufficient quantities for large-scale commercialization. If we do enter into commercial manufacturing arrangements with third parties, these third-party manufacturers will be subject to extensive governmental regulation. Specifically, regulatory authorities in the markets which we intend to serve will require that drugs be manufactured, packaged and labeled in conformity with current Good Manufacturing Practices regulations or equivalent foreign standards. We intend to engage only those contract manufacturers who have the capability to manufacture drug products in compliance with current Good Manufacturing Practices regulations or equivalent foreign standards and other applicable standards in bulk quantities for commercial use.

The Pharmaceutical Market

The pharmaceutical market in general has grown at rates above GDP growth. According to IMS World Review 2005, audited pharmaceuticals sales grew at 7% in constant dollars to $602 billion in 2005.

Cytokines and cytokine targeted drugs are a class of drugs that are being developed by biotechnology companies. The following table sets forth certain information, including approximate sales, for some well-known cytokines and peptide based drugs. At this time, we know of no chemokine-based drugs on the market.

Cytokine	Primary indication	Drug	*Company*	2005 sales (US$ millions)
EPO	Anemia	Epogen	Amgen	5,728
		Aranesp		
		Eprex	Johnson & Johnson	3,324
		Procrit		
G-CSF	Neutropenia	Neupogen	Amgen	3,500
		Neulasta		
TNF beta 1a	Inflammation	Enbrel	Amgen	2,573
		Rebif	Merck Serono	1,091[(2)]

(1) Source: Company reports.
(2) 2004 sales.

Government Regulations

Regulation by government authorities in the United States and other countries is a significant factor in the research, development, manufacture, and marketing of our products. Each of our product candidates will require regulatory approval before they can be commercialized. In particular, human pharmaceutical products are subject to rigorous preclinical and clinical trials and other pre-market approval requirements by the FDA and other regulatory authorities. It often takes companies many years to satisfy these requirements, depending on the complexity and novelty of the product. The review process is also extensive which may delay the approval process even more. As yet, we have not obtained any approvals to market our product candidates. Further, our business is at risk that the FDA or any other regulatory agency will not grant us approval for any of our product candidates on a timely basis, if at all. Even if regulatory clearances are obtained, a marketed product is subject to continual review, and later discovery of previously unknown problems may result in restrictions on marketing or withdrawal of the product from the market.

Clinical trials are conducted in accordance with certain standards under protocols that detail the objectives of the study, the parameters to be used to monitor safety, and the efficacy criteria to be evaluated. The phases of clinical studies may overlap. The designation of a clinical trial as being of a particular phase is not necessarily indicative that such a trial will be sufficient to satisfy the parameters of a particular phase, and a clinical trial may contain elements of more than one phase notwithstanding the designation of the trial as being of a particular phase. Our business is at risk that the results of preclinical studies or early stage clinical trials will not predict long-term safety or efficacy of our compounds when they are tested or used more broadly in humans. Various federal and state statutes and regulations also govern or influence the research, manufacture, safety, labeling, storage, record keeping, marketing, transport, or other aspects of such products. The lengthy process of seeking these approvals and the compliance with applicable statutes and regulations require the expenditure of substantial resources. Any failure by us or any of our future collaborators or licensees to obtain, or any delay in obtaining, regulatory approvals could adversely affect the marketing of our product candidates and any other products and our ability to receive product or royalty revenue.

Employees

As of December 31, 2006, we had 20 full-time employees (including 13 former employees of Globe Laboratories Inc.). All of our executive management and our research personnel are employed through our wholly-owned subsidiary. We also rely on specific contracted consultants and organizations to provide service in specific areas such as regulatory, clinical affairs, medical consulting, information technology as well as other areas. We also employ consultants, companies, and contingent workers for various projects from time to time. We have entered into employment agreements with certain officers and key employees. No employees are covered by a collective bargaining agreement.

Risk Factors

You should carefully consider the risks described below and elsewhere in this report, which could materially and adversely affect our business, results of operations or financial condition. If any of the following risks actually occurs, the market price of our common stock would likely decline.

We are largely dependent on the success of our two lead product candidates, CTCE-9908 and CTCE-0214, and we cannot be certain that any of our product candidates will receive regulatory approval or be successfully commercialized.

We currently have no drug products for sale and we cannot guarantee that we will ever have marketable drug products. The research, testing, manufacturing, labeling, approval, selling, marketing and distribution of drug products are subject to extensive regulation by the U.S. Food and Drug Administration, or FDA, the Canadian Therapeutic Products Directorate, or TPD, and other regulatory authorities in the United States, Canada and other countries, which regulations differ from country to country. We are not permitted to market our product candidates in the United States until we receive approval of a new drug application, or NDA, from the FDA. We have not submitted an NDA or received marketing approval for any of our product candidates. Obtaining approval of an NDA is a lengthy, expensive and uncertain process. We currently have five product candidates, two of which (CTCE-9908 and CTCE-0214) we consider to be our lead product candidates. Our business success depends on the successful development and commercialization of our lead product candidates and, to a lesser degree, our other product candidates.

We have incurred significant operating losses since inception and anticipate that we will incur continued losses for the foreseeable future.

We have experienced significant operating losses since our inception in 1998. As of December 31, 2006, we had an accumulated deficit of approximately $24.5 million. We have generated no revenues from product sales to date. We have funded our operations to date from the sale of our securities and through research funding pursuant to collaborations with partners. We expect to continue to incur substantial additional operating losses for the next several years as we advance our clinical trials and research and development initiatives. Because of the numerous risks and uncertainties associated with developing and commercializing drug candidates, we are unable to predict the extent of any future losses. However, we anticipate that as we advance our clinical trials and research and development initiatives our losses will accelerate. We may never successfully commercialize our product candidates and thus may never have any significant future revenues or achieve and sustain profitability.

There is no assurance that we will be granted regulatory approval for any of our product candidates.

The clinical trials of our product candidates are, and the manufacturing and marketing of our products will be, subject to extensive and rigorous review and regulation by numerous government authorities in the United States, Canada and in other countries where we intend to test and market our product candidates. Before obtaining regulatory approvals for the commercial sale of any product candidate, we must demonstrate through preclinical testing and clinical trials that the product candidate is safe and effective for use in each target indication. This process can take many years and require the expenditure of substantial resources and may include post-marketing studies and surveillance. To date, we have not successfully completed any Phase II or Phase III clinical trials. We are currently testing CTCE-9908, one of our lead product candidates, in an ongoing Phase I/II clinical trial of CTCE-9908 which commenced in May 2006. We have completed the first two stages of the three-stage Phase I clinical trials for CTCE-0214. All of our other product candidates remain in the discovery and preclinical testing stages. The results from preclinical testing and clinical trials that we have completed may not be predictive of results in future preclinical tests and clinical trials, and there can be no assurance that we will demonstrate sufficient safety and efficacy to obtain the requisite regulatory approvals. A number of companies in the biotechnology and pharmaceutical industries have suffered significant setbacks in advanced clinical trials, even after promising results in earlier trials. There can be no assurance that regulatory approval will be obtained for any of our product candidates. If our product candidates are not shown to be safe and effective in clinical trials, the resulting delays in developing other product candidates and conducting related preclinical testing and clinical trials, as well as the potential need for additional financing, would have a material adverse effect on our business, financial condition and results of operations.

Any failure or delay in commencing or completing clinical trials for product candidates could severely harm our business.

Each of our product candidates must undergo extensive preclinical studies and clinical trials as a condition to regulatory approval. Preclinical studies and clinical trials are expensive and take many years to complete. To date we have not completed Phase II or Phase III clinical trials of any product candidate. The commencement and completion of clinical trials for our product candidates may be delayed by many factors, including:

- our ability to obtain regulatory approval to commence a clinical trial;
- our ability to manufacture or obtain from third parties materials sufficient for use in preclinical studies and clinical trials;
- delays in patient enrollment and variability in the number and types of patients available for clinical trials;
- poor effectiveness of product candidates during clinical trials;
- our ability to reach agreements on acceptable terms with prospective clinical research organizations, or CROs, and trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- unforeseen safety issues or side effects;
- governmental or regulatory delays and changes in regulatory requirements, policy and guidelines; and
- varying interpretation of data by the FDA, TPD and similar foreign regulatory agencies.

It is possible that none of our product candidates will complete clinical trials in any of the markets in which we or our collaborators intend to sell those product candidates. Accordingly, we may not receive the regulatory approvals necessary to market our product candidates. Any failure or delay in commencing or completing clinical trials or obtaining regulatory approvals for product candidates would prevent or delay their commercialization and severely harm our business and financial condition.

Even if our product candidates receive regulatory approval, they could be subject to restrictions or withdrawal from the market and we may be subject to penalties if we fail to comply with regulatory requirements or if we experience unanticipated problems with our products.

Any product candidate for which we receive regulatory approval, together with the manufacturing processes, post-approval clinical data, and advertising and promotional activities for such product, will be subject to continued review and regulation by the FDA and other regulatory agencies. Even if regulatory approval of a product candidate is granted, the approval may be subject to limitations on the indicated uses for which the product candidate may be marketed or on the conditions of approval, or contain requirements for costly post-marketing testing and surveillance to monitor the safety or efficacy of the product candidate. Later discovery of previously unknown problems with our products or their manufacture, or failure to comply with regulatory requirements, may result in:

- restrictions on the products or manufacturing processes;
- withdrawal of the products from the market;
- voluntary or mandatory recalls;
- fines;
- suspension of regulatory approvals;
- product seizures; or
- injunctions or the imposition of civil or criminal penalties.

If we are slow or otherwise unable to adapt to changes in existing regulatory requirements, we may lose marketing approval for any approved products.

Our product candidates may never achieve market acceptance even if we obtain regulatory approvals.

Even if we receive regulatory approvals to market our product candidates, the commercial success of these products will depend, among other things, on their acceptance by physicians, patients, third-party payors and other members of the medical community as a therapeutic and cost-effective alternative to competing products and treatments. The degree of market acceptance will depend on a number of factors, including:

- demonstration of the clinical efficacy and safety of the products;
- cost-effectiveness;
- potential advantage over alternative treatment methods;
- the effectiveness of marketing and distribution support for the products; and
- reimbursement policies of government and third party payers.

If our product candidates fail to gain market acceptance, we may be unable to earn sufficient revenue to continue our business. If our product candidates do not become widely accepted by physicians, patients, third-party payors and other members of the medical community, it is unlikely that we will ever become profitable.

If we are unable to obtain, maintain and enforce our proprietary rights, we may not be able to compete effectively or operate profitably.

Our success is dependent in part on obtaining, maintaining and enforcing our patents and other proprietary rights and will depend in large part on our ability to:

- obtain patent and other proprietary protection for our technology, processes and product candidates;
- defend patents once issued;
- preserve trade secrets; and
- operate without infringing the patents and proprietary rights of third parties.

We currently have a portfolio of sixty-four patents and patent applications that we either own or have licensed around our key products and technologies. As of March 6, 2007, this portfolio included seven issued U.S. patents and ten pending U.S. patent applications, and fifteen issued patents and thirty-two pending patent applications in foreign jurisdictions including Europe, Australia, Canada, Japan, China, and Brazil.

The degree of future protection for our proprietary rights is uncertain. For example:

- we might not have been the first to make the inventions covered by any of our patents, if issued, or our pending patent applications;
- we might not have been the first to file patent applications for these inventions;
- others may independently develop similar or alternative technologies or duplicate any of our technologies;
- it is possible that none of our pending patent applications will result in issued patents or, if issued, these patents may not be sufficient to protect our technology or provide us with a basis for commercially-viable products and may not provide us with any competitive advantages;
- if our pending applications issue as patents, they may be challenged by third parties as not infringed, invalid or unenforceable under United States, Canadian or foreign laws;
- if issued, the patents under which we hold rights may not be valid or enforceable; or
- we may develop additional proprietary technologies that are not patentable and which may not be adequately protected through trade secrets, if for example a competitor were to independently develop duplicative, similar or alternative technologies.

The patent position of biotechnology and pharmaceutical firms is highly uncertain and involves many complex legal and technical issues. There is no clear policy involving the breadth of claims allowed in patents or the degree of protection afforded under patents. Although we believe our potential rights under patent applications provide a competitive advantage, we cannot assure you that patent applications owned by or licensed to us will result in patents being issued, or that, if issued, the patents will give us an advantage over competitors with similar technology, nor can we assure you that we can obtain, maintain and enforce all ownership and other proprietary rights necessary to develop and commercialize our product candidates.

Even if any or all of our patent applications issue as patents, others may challenge the validity, inventorship, ownership, enforceability or scope of our patents or other technology used in or otherwise necessary for the development and commercialization of our product candidates. Further, we cannot assure you that any such challenge would not be successful. Moreover, the cost of litigation to uphold the validity of patents to prevent infringement or to otherwise protect our proprietary rights can be substantial. If the outcome of litigation is adverse to us, third parties may be able to use the challenged technologies without payment to us.
We cannot assure you that our patents, if issued, will not be infringed or successfully avoided through design innovation. Intellectual property lawsuits are expensive and would consume time and other resources, even if the outcome were successful. In addition, there is a risk that a court would decide that our patents, if issued, are not valid and that we do not have the right to stop the other party from using the inventions. There is also the risk that, even if the validity of a patent were upheld, a court would refuse to stop the other party from using the inventions, including on the ground that its activities do not infringe that patent. If any of these events were to occur, our business, financial condition and results of operations would be materially and adversely effected.

In addition to the intellectual property and other rights described above, we also rely on unpatented technology, trade secrets, trademarks and confidential information, particularly when we do not believe that patent protection is appropriate or available. However, trade secrets are difficult to protect and we cannot assure you that others will not independently develop substantially equivalent information and techniques or otherwise gain access to or disclose our unpatented technology, trade secrets and confidential information. We require each of our employees, consultants and advisors to execute a confidentiality and invention assignment agreement at the commencement of an employment or consulting relationship with us. We cannot assure you, however, that these agreements will provide effective protection of our information or, in the event of unauthorized use of our intellectual property or the intellectual property of third parties, provide adequate or effective remedies or protection.

Litigation or third-party claims of intellectual property infringement could require us to divert resources and may prevent or delay our drug discovery and development efforts.

Our commercial success depends in part on our not infringing the patents and proprietary rights of third parties. Third parties may assert that we are employing their proprietary technology without authorization. In addition, third parties may obtain patents in the future and claim that use of our technologies infringes upon these patents. Furthermore, parties making claims against us may obtain injunctive or other equitable relief, which could effectively block our ability to develop and commercialize one or more of our product candidates. Defense of these claims, regardless of their merit, would divert substantial financial and employee resources from our business. In the event of a successful claim of infringement against us, we may have to pay substantial damages, obtain one or more licenses from third parties or pay royalties. In addition, even in the absence of litigation, we may need to obtain additional licenses from third parties to advance our research or allow commercialization of our product candidates. We may fail to obtain any of these licenses at a reasonable cost or on reasonable terms, if at all. In that event, we would be unable to develop and commercialize further one or more of our product candidates. In addition, in the future we could be required to initiate litigation to enforce our proprietary rights against infringement by third parties. Prosecution of these claims to enforce our rights against others could divert substantial financial and employee resources from our business. If we fail to enforce our proprietary rights against others, our business will be harmed.

If any products we develop become subject to unfavorable pricing regulations, third-party reimbursement practices or healthcare reform initiatives, our business could be harmed.

Our ability to commercialize any product candidate profitably will depend in part on the extent to which reimbursement for such product candidate and related treatments will be available from government health administration authorities, private health insurers or private payors, and other organizations in the United States and internationally. Even if we succeed in bringing one or more product candidates to market, these products may not be considered cost-effective, and the amount reimbursed for any product may be insufficient to allow us to sell it profitably. Because our product candidates are in the early stages of development, we are unable at this time to determine their cost-effectiveness and the level or method of reimbursement. There may be significant delays in obtaining coverage for newly approved products, and coverage may be more limited than the purposes for which the product candidate is approved by the FDA, TPD or foreign regulatory agencies. Moreover, eligibility for coverage does not mean that any product will be reimbursed in all cases or at a rate that covers our costs, including research, development, manufacture, sale and distribution. Increasingly, the third-party payors who reimburse patients, such as government and private payors, are requiring that companies provide them with predetermined discounts from list prices and are challenging the prices charged for medical products.

If the reimbursement we are able to obtain for any product we develop is inadequate in light of our development and other costs, our business could be harmed.

We may face potential product liability exposure, and if successful claims are brought against us, we may incur substantial liability for a product candidate and may have to limit its commercialization.

We face an inherent risk of product liability lawsuits related to the testing of our product candidates, and will face an even greater risk if product candidates are introduced commercially. Product liability claims might be brought against us by consumers, health care providers, pharmaceutical companies or others selling our products. If we cannot successfully defend ourselves against these claims, we will incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may result in:

- decreased demand for our product candidates;
- impairment of our business reputation;
- withdrawal of clinical trial participants;
- costs of related litigation;
- substantial monetary awards to patients or other claimants;
- loss of revenues; and
- the inability to commercialize our product candidates.

Although we currently have product liability insurance coverage for our clinical trials, our insurance coverage may not reimburse us or may not be sufficient to reimburse us for any or all expenses or losses we may suffer. Moreover, insurance coverage is becoming increasingly expensive and, in the future, we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses due to liability. We intend to expand our insurance coverage to include the sale of commercial products if we obtain marketing approval for our product candidates in development, but we may be unable to obtain commercially reasonable product liability insurance for any products approved for marketing. On occasion, large judgments have been awarded in class action lawsuits based on products that had unanticipated side effects. A successful product liability claim or series of claims brought against us could cause our stock price to fall and, if judgments exceed our insurance coverage, could decrease our cash and adversely affect our business.

We intend to enter into various arrangements with corporate and academic collaborators, licensors, licensees and others for the research, development, clinical testing, manufacturing, regulatory applications, marketing and commercialization of our products. We will not have control over how they perform their contractual obligations. Accordingly, we will suffer if they do not fulfill their contractual obligations.

We intend to enter into additional corporate agreements to develop and commercialize product candidates. We might not be able to establish such additional collaborations on favourable terms, if at all, or guarantee that our current or future collaborative arrangements will be successful. In addition, third party arrangements may require us to grant certain rights to third parties, including exclusive marketing rights to one or more products, or may have other terms that are burdensome to us. These arrangements may place responsibility on our collaborative partners for Phase III clinical trials, human clinical trials, the preparation and submission of applications for regulatory approval, or for marketing, sales and distribution support for product commercialization. If we enter into such arrangements, the timing for approval of a drug candidate may be largely out of our control. These third parties might not fulfill their obligations in a manner which maximizes our revenues. These arrangements may also require us to transfer certain material rights or issue equity securities to corporate investors, licensees and others. If we license or sublicense our commercial rights to others, as we intend to do, we might realize reduced product revenue compared to our direct commercial exploitation. Moreover, we might not derive any revenue or profit from these arrangements. In addition, our current strategic arrangements might not continue. Collaborators might also pursue alternative technologies or drug candidates, either on their own or in collaboration with others, and compete directly with us.

We have no marketing and sales organization and have no direct experience in the marketing, sales or distribution of drug products. If we are unable to enter into agreements with third parties to market and sell our product candidates, we may not be able to generate product revenues.

We have no direct experience in marketing, sales or distribution, and we do not intend to develop a sales and marketing infrastructure to commercialize pharmaceutical products. If we develop products eligible for commercial sales, we intend to rely on third parties such as licensees, collaborators, joint venture partners or independent distributors to market and sell these products. We might not be able to obtain access to a marketing and sales force with sufficient technical expertise and distribution capability. We also will not be able to control the resources and effort that a third party will devote to marketing our product candidates. If we are unable to develop and maintain relationships with third parties with the necessary marketing and sales force, we may fail to gain market acceptance of our product candidates, and our ability to generate product revenues would likely be impaired.

We rely on a limited number of manufacturers for our product candidates and our business will be harmed if these manufacturers are not able to satisfy our demand and alternative sources are not available.

We do not have an in-house manufacturing capability and depend completely on a small number of third-party manufacturers and active pharmaceutical ingredient formulators for the manufacture of our product candidates. We do not have long-term agreements with any of these third parties, and if they are unable or unwilling to perform for any reason, we may not be able to locate alternative acceptable manufacturers or formulators or enter into favorable agreements with them. Any inability to acquire sufficient quantities of our product candidates in a timely manner from these third parties could delay clinical trials and prevent us from developing our product candidates in a cost-effective manner or on a timely basis. In addition, manufacturers of our product candidates are subject to current Good Manufacturing Practices regulations, or cGMP, and similar foreign standards and we do not have control over compliance with these regulations by our manufacturers. If one of our contract manufacturers fails to maintain compliance, the production of our product candidates could be interrupted, resulting in delays and additional costs. In addition, if the facilities of such manufacturers do not pass a pre-approval plant inspection, the FDA will not grant pre-market approval of our products.

If we fail to obtain the capital necessary to fund our operations, we may be unable to develop our product candidates and we could be forced to share our rights to these product candidates with third parties on terms that may not be favorable to us.

Our operations have consumed substantial amounts of cash since inception and we will need significant amounts of additional capital to support our research and development efforts. If we are unable to secure capital to fund our operations, we will not be able to continue our design and development efforts and we might have to enter into collaborations that could require us to share rights to our product candidates to a greater extent than we currently intend. We anticipate that we will need to raise additional capital by accessing the equity markets. To the extent that we raise additional funds by issuing equity securities, our stockholders may experience significant dilution. Any debt financing, if available, may require us to pledge our assets as collateral or involve restrictive covenants, such as limitations on our ability to incur additional indebtedness, limitations on our ability to acquire or license intellectual property rights and other operating restrictions that could negatively impact our ability to conduct our business. In addition, we cannot guarantee that future financing will be available in sufficient amounts or on terms acceptable to us, if at all. If we are unable to raise additional capital in sufficient amounts or on terms acceptable to us, we will be prevented from pursuing research and development efforts. This could harm our business, prospects and financial condition and cause the price of our securities to fall.

If we fail to attract and retain senior management and key scientific personnel, we may be unable to successfully develop our product candidates, conduct our clinical trials and commercialize our product candidates.

Our success depends in part on our continued ability to attract, retain and motivate highly qualified management, clinical and scientific personnel and on our ability to develop and maintain important relationships with leading academic institutions, clinicians and scientists. We are highly dependent upon our senior management and scientific staff. Certain of our senior management are retained on a part-time basis and therefore do not devote all of their time and efforts to the advancement of our interests. The loss of services of one or more of our other members of senior management or scientific staff could delay or prevent the successful completion of our planned clinical trials or the commercialization of our product candidates. Replacing key employees may be difficult and costly and may take an extended period of time because of the limited number of individuals in our industry with the breadth of skills and experience required to develop and commercialize products successfully.

We anticipate that we will need to hire additional personnel as we expand our clinical development and commercial activities. We may not be able to attract or retain qualified management and scientific personnel on acceptable terms in the future due to the intense competition for qualified personnel among biotechnology, pharmaceutical and other businesses. If we are not able to attract and retain the necessary personnel to accomplish our business objectives, we may experience constraints that will impede significantly the achievement of our research and development objectives, our ability to raise additional capital and our ability to implement our business strategy. In particular, if we lose any members of our senior management team, we may not be able to find suitable replacements, and our business and prospects may be harmed as a result.

We face substantial competition, which may result in others discovering, developing or commercializing products before, or more successfully, than we do.

The biotechnology and pharmaceutical industries are subject to rapid and intense technological change. We face, and will continue to face, competition in the development and marketing of our product candidates from academic institutions, government agencies, research institutions and biotechnology and pharmaceutical companies. We also face significant competition for limited capital in the biotechnology and pharmaceutical space. There can be no assurance that developments by others will not render our product candidates obsolete or noncompetitive. Furthermore, new developments, including the development of other drug technologies and methods of preventing the incidence of disease, occur in the pharmaceutical industry at a rapid pace. These developments may render our product candidates obsolete or noncompetitive. Competitors may seek to develop alternative formulations of our product candidates that address our targeted indications that do not directly infringe on our in-licensed patent rights. Compared to us, many of our potential competitors have significantly greater financial resources and expertise in discovery and development, manufacturing, preclinical and clinical testing, obtaining regulatory approvals and marketing than we do. As a result of these factors, our competitors may obtain regulatory approval of their products more rapidly than we are able to or may obtain patent protection or other intellectual property rights that limit our ability to develop or commercialize our product candidates. Our competitors may also develop drugs that are more effective, useful and less costly than ours and may also be more successful than us in manufacturing and marketing their products. We also expect to face similar competition in our efforts to identify appropriate collaborators or partners to help develop or commercialize our product candidates in markets outside of the United States and Canada.

If we use biological and hazardous materials in a manner that causes contamination or injury or violates laws, we may be liable for damages.

Our research and development activities involve the use of potentially harmful biological materials as well as hazardous materials, chemicals and various radioactive compounds. We cannot completely eliminate the risk of accidental contamination or injury from the use, storage, handling or disposal of these materials. In the event of contamination or injury, we could be held liable for damages that result, and any liability could exceed our resources. We do not maintain liability insurance coverage for our handling of biological or hazardous materials.

We, the third parties that conduct clinical trials on our behalf and the third parties that manufacture our product candidates are subject to federal, state and local laws and regulations governing the use, storage, handling and disposal of these materials and waste products. The cost of compliance with these laws and regulations could be significant. The failure to comply with these laws and regulations could result in significant fines and work stoppages and may harm our business.

ITEM 2. DESCRIPTION OF PROPERTY

Our headquarters are located at 6190 Agronomy Road, Suite 405, Vancouver, British Columbia, Canada, V6T 1Z3, on the campus of the University of British Columbia. We lease office space of 3,600 square feet under a lease that expires in July 2008 with an option to renew for a further term of three years, as well as laboratory space of 5,400 square feet at the University of British Columbia from a third party, under a sub-lease which expires in July 2008.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we may become involved in litigation relating to claims arising from our ordinary course of business. We are not currently a party to any material legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter ended December 31, 2006.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is quoted on the over-the-counter bulletin board, or OTCBB, under the symbol “CHKT,” and traded on the Toronto Stock Exchange, or TSX, under the symbol “CTI.”

The following table sets forth on a per share basis the high and low bid prices, respectively, of our common stock as reported on the OTCBB for the periods indicated.

	OTCBB (U.S.$)	
Period	**High bid**	**Low bid**
Calendar 2006		
Fourth Quarter	$ 0.90	$ 0.55
Third Quarter	$ 0.85	$ 0.55
Second Quarter	$ 0.96	$ 0.60
First Quarter	$ 1.18	$ 0.90
Calendar 2005		
Fourth Quarter	$ 1.18	$ 0.85
Third Quarter	$ 1.22	$ 0.68
Second Quarter	$ -	$ -
First Quarter	$ -	$ -

The source of the information provided in the table above is the OTC Bulletin Board®, Monthly Trade and Quote Summary Report, and represents prices between dealers without adjustments for retail markups, markdowns or commissions, and may not represent actual transactions.

The following table sets forth on a per share basis the high and low sales prices, respectively, of our common stock as reported on the TSX for the periods indicated.

	Toronto Stock Exchange (C$)	
Period	**High**	**Low**
Calendar 2006		
Fourth Quarter	$ 1.07	$ 0.68
Third Quarter	$ 0.91	$ 0.61
Second Quarter	$ 1.10	$ 0.83
First Quarter	$ 1.37	$ 1.06
Calendar 2005		
Fourth Quarter	$ 1.35	$ 1.03
Third Quarter	$ 1.43	$ 0.89
Second Quarter	$ 1.30	$ 0.92
First Quarter	$ 1.50	$ 0.95

Holders

On March 6, 2007, there were approximately 139 shareholders of record of our common stock. This number does not include beneficial owners of our shares whose shares are held in street name by broker-dealers.

Dividends

We have not declared any cash dividends, nor do we intend to at this time. We are not subject to any legal restrictions respecting the payment of dividends, except that we may not pay dividends if the payment would render us insolvent. Our future dividend policy will be based on our cash resources and needs. We do not anticipate declaring dividends for the foreseeable future, as we anticipate that all our available cash will be needed for our operations.

Recent Sales of Unregistered Securities

March 2006 Common Stock Sales

On March 22, 2006, we issued 6,471,698 shares of common stock at a price of CDN$1.06 per share for gross proceeds of CDN$6,860,000. On March 22, 2006, we issued to Osprey Capital Partners warrants to purchase 350,000 shares of common stock at CDN$1.25 per share, exercisable for a period of 24 months, as consideration for Osprey Capital Partners' services in connection with March 22, 2006 common stock offering. We issued these securities pursuant to the exemption from registration set forth in Rule 506 of Regulation D and Section 4(2) of the Securities Act.

2006 Warrant Exercises

During the year ended December 31, 2006, we issued 1,762,844 shares of our common stock pursuant to exercises of issued and outstanding stock purchase warrants.
The exercise prices of such warrants ranged from $0.85 to $0.90 per share and we received approximately $1,558,463 in gross proceeds from such issuances. We issued these securities pursuant to the exemption from registration set forth in Section 4(2) of the Securities Act.

Conversion of Preferred Stock

During the year ended December 31, 2006, all 2,000,000 shares of preferred stock were converted to 2,000,000 shares of common stock on a one-for-one basis. We incurred costs of $237,600 to facilitate the conversion of the preferred shares. Total costs paid in connection of the conversion are included in general and administrative expenses reported on the interim consolidated statements of operations. We issued these securities pursuant to the exemption set forth in Section 3(a)(9) of the Securities Act.

Purchases of Equity Securities

We did not purchase any of our equity securities during the year ended December 31, 2006.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND PLAN OF OPERATIONS

The following discussion and analysis of our financial condition and plan of operations should be read in conjunction with our financial statements and the notes to those statements included elsewhere in this Annual Report on Form 10-KSB. This discussion contains forward-looking statements that involve risks and uncertainties. As a result of many factors, such as those set forth under "Risk Factors" and elsewhere in this Annual Report, our actual results may differ materially from those anticipated in these forward-looking statements.

All references to "$" or "dollars" in this discussion and analysis are to U.S. dollars unless otherwise noted.

Overview

We are a development stage biotechnology company with a focus on the discovery and development of peptide based drugs for human diseases. In particular, we focus on the area of chemokines, small proteins that regulate a large number of physiological functions. We are at various stages in research and development of five drug candidates. Two of our drug candidates are in human clinical trials. Our two lead drug candidates are CTCE-9908 and CTCE-0214, indicated for the prevention of metastasis of cancer and for hematological support, respectively. Our other three drug candidates are in preclinical development in the areas of neovascularization (CTCE-0324), wound healing (CTCE-0422), and stroke (CTCE-0501). In addition, we maintain drug discovery programs to identify potential new drug candidates.

Limited Operating History

We have incurred significant losses since our inception in July 1998. As of December 31, 2006, our accumulated deficit was approximately $24.5 million. We recognized net losses of approximately $7,507,866 and $6,020,166 in 2006 and 2005, respectively. We expect to continue to incur net losses in the near term as we fund clinical trials and until such time as product sales or royalty payments, or both, generate sufficient revenues to fund continuing operations.

Research and Development

Our research and development expenses consist primarily of costs associated with the clinical trials of our drug candidates, compensation and other expenses for research and development personnel, manufacturing of compounds, facility costs, supplies and materials, costs for consultants and related contract research and depreciation. Until December 31, 2006, our research activities were centralized in Vancouver, British Columbia through Globe Laboratories Inc., or Globe Laboratories, in an incubator facility on the campus of University of British Columbia.

Globe Laboratories is a corporation beneficially owned by Dr. Hassan Salari and his family and that was engaged to carry out chemokine research for us on a contracted operating cost basis plus a 2% margin. Pursuant to the terms of our development agreement with Globe Laboratories, all proprietary interest, including all patent rights, trademarks, copyright, trade secrets and confidential information in the product candidates developed by Globe Laboratories for us is our exclusive property.

Effective January 1, 2007, we acquired certain assets of Globe Laboratories, consisting mainly of laboratory equipment and leasehold improvements, through our wholly-owned subsidiary Chemokine Therapeutics (B.C.) Corp., or CTBCC, for consideration of CDN$375,935 reflecting the fair market value of these assets as determined by an independent appraisal. We no longer use Globe Laboratories for research and development services. We did not incur any early termination obligations by terminating our agreement with Globe Laboratories. CTBCC and Globe Laboratories also entered into a definitive agreement which provided for the assignment to CTBCC of a partial sublease by Globe Laboratories in respect of approximately 5,400 square feet of laboratory space located at the University of British Columbia. In accordance with the terms of the agreement, the majority of the former employees of Globe Laboratories were hired by CTBCC. The purchase of the assets of Globe Laboratories and the acquisition of their key staff will allow us to have direct control and management of our research and development activities.

Through our location on the campus of the University of British Columbia and our affiliation with University of British Columbia, we have access to a wide range of equipment and scientific facilities, such as University of British Columbia's animal facility. This allows us to minimize costs while maintaining quality. We lease 3,600 square feet of office space as well as 5,400 square feet of laboratory space (formerly leased by Globe) at the University of British Columbia.

Our research and development activities are primarily focused on the clinical trials of CTCE-9908, a drug candidate for the prevention of metastasis of cancer, and CTCE-0214, a drug candidate for hematological support. We are responsible for all costs incurred in the research and development program of these two lead drug candidates. Our research and development activities also include three other drug candidates that we intend to test in animal models of peripheral arterial disease, wound healing and stroke. We expect our research and development expenses to increase as we continue to work on our drug candidates and to expand our research and development programs. Over the next twelve months, our product research and development plan is summarized as follows:

- Complete the current Phase I/II clinical trial of CTCE-9908;
- File a regulatory submission for a randomized Phase II clinical trial(s) for CTCE-9908;
- Prepare for and commencement of a Phase II clinical trial using CTCE-9908 for prostate cancer;
- Prepare for and commencement of a Phase II clinical trial using CTCE-9908 for ovarian cancer;

- Prepare continued clinical development of CTCE-0214 for hematological support;

- Complete candidate selection for CTCE-0324 and file an investigational new drug application, or IND; and

- Continued pre-clinical efficacy testing of CTCE-0422 and CTCE-0501, additional peptides for wound healing and stroke.

Clinical development timelines, likelihood of success and total costs vary widely. We anticipate that we will make determinations as to which research and development projects to pursue and how much funding to direct to each of the five projects on an ongoing basis in response to the scientific and clinical success of each product candidate, as well as an ongoing assessment of its market potential.

Completion dates and completion costs to bring a drug candidate to market vary significantly for each drug candidate given the nature of the clinical trials and the fact that more clinical trials may be needed to advance a drug candidate based upon the results of each study. In addition, we anticipate partnering with larger pharmaceutical companies to conduct and finance later stage clinical trials and therefore the timing of completion of the approval of a drug will likely not be within our control. Based on these factors we cannot reasonably estimate the completion dates and completion costs required to gain regulatory approval for the marketing and sale of our compounds. The lengthy process of seeking regulatory approvals, and subsequent compliance with applicable regulations, require the expenditure of substantial resources. Delays in obtaining, regulatory approvals could cause our research and development expenditures to increase and, in turn, require additional funding.

Strategic Relationship and Partnering Strategy

We plan to enter into partnership agreements for our by the end of Phase II clinical trials or earlier. Due to the significant costs involved in conducting Phase III or Phase IV clinical trials, we intend to enter into agreements with larger biotechnology and pharmaceutical companies to co-develop our products through Phase III and Phase IV of clinical trials, thereby sharing the costs. As our focus is on the discovery and development of drug candidates, we intend to license the marketing of the products to companies with existing infrastructure for the marketing of pharmaceutical drugs. In addition, we will rely on third-party manufacturers with the manufacturing capabilities to produce sufficient quantities of these products for clinical studies and large-scale commercialization upon their approval.

General and Administrative

General and administrative expenses consist primarily of salaries and other related costs for personnel in executive, finance, accounting and business development functions. Other costs include consulting, legal and accounting services fees, investor relations, patent fees, marketing and promotion and facility costs not otherwise included in research and development expenses.

Capital Expenditures

We intend to acquire laboratory equipment over the next three years at an estimated cost of $520,000. This amount includes approximately $340,000 paid for the acquisition of laboratory equipment and leasehold improvements purchased from Globe Laboratories in January 2007.

Foreign Exchange

We use the U.S. dollar as our functional currency, and presents the consolidated financial statements in U.S. dollars using the current rate method. Under the current rate method, all assets and liabilities are translated using the exchange rate at the balance sheet date and translates revenues, expenses, gains and losses at the weighted average rates of exchange for the respective periods. Before consolidation the financial statements of CTBCC are remeasured from its local currency of Canadian dollars to its functional currency of U.S. dollars at the end of each reporting period. Monetary items of CTBCC's financial statements are remeasured by applying the current exchange rate and non-monetary items are remeasured by applying historical exchange rates. We include the resulting exchange gain or loss in foreign currency upon remeasurement in the foreign exchange gain or loss account in the consolidated statement of operations.

Fluctuations in the relative values of the Canadian and U.S dollars can affect the reported value of Canadian dollar denominated assets and liabilities on our balance sheet. A strengthening (weakening) Canadian dollar in relation to the U.S. dollar results in higher (lower) reported values for our Canadian dollar denominated assets and liabilities.

Critical Accounting Policy

Our discussion and analysis of financial condition and results of operations are based on our financial statements, which have been prepared in accordance with United States generally accepted accounting principles. Differences between U.S. and Canadian GAAP are presented in Note 16 to our annual financial statements. The preparation of financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses and related disclosure of contingent assets and liabilities. We review our estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. While our significant accounting policies are described in Note 2 to our annual financial statements, we believe the following accounting policy to be critical.

Stock-Based Compensation

Effective January 1, 2006, the beginning of our first fiscal quarter of 2006, we adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123R, "Shared-Based Payment" (SFAS 123R), using the modified-prospective transition method. Under this transition method, stock-based compensation expense is recognized in the consolidated financial statements for granted, modified, or settled stock options. Compensation expense recognized includes the estimated expense for stock options granted on and subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R, and the estimated expense for the portion vesting in the period for options granted prior to, but not vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123. Results for prior periods have not been restated, as provided for under the modified-prospective method.

Prior to the January 1, 2006 adoption of SFAS No. 123R, we accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations and as such, generally recognized no compensation cost for employee stock options granted at fair market value but recognized compensation cost for grants of employee stock-based compensation awards equal to the excess of the market price of the underlying common stock at the date of grant over the exercise price of the stock related award. As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," stock-based compensation was included as a pro forma disclosure in the notes to the consolidated financial statements. SFAS 123R is a revision of SFAS No. 123, and supersedes APB Opinion No. 25.

Stock-based compensation represents the cost related to stock-based awards granted to employees. We measure stock-based compensation cost at grant date, based on the estimated fair value of the award, and recognize the cost as expense on a straight-line basis (net of estimated forfeitures) over the employee requisite service period. We estimate the fair value of stock options using a Black-Scholes option valuation model.

As of December 31, 2006, total unrecognized stock-based compensation expense related to nonvested stock options was $78,427, which is expected to be recognized over a weighted average period of approximately 1.2 years.

Results of Operations

Twelve Months Ended December 31, 2006 and 2005

Revenues.

We had no revenues in the twelve months ended December 31, 2006, compared to $275,000 for the twelve months ended December 31, 2005. In fiscal 2005, we recorded revenues of $275,000 from a research collaboration with Proctor & Gamble involving an evaluation of our compounds for cardiovascular applications. The decrease in revenues was due to the one-time nature of the $275,000 payment from Proctor & Gamble under our research collaboration.

Research and development.

Research and development expenses were $4,642,457 during the twelve months ended December 31, 2006, an increase of $945,452 from the $3,697,005 comparative amount recorded in the twelve months ended December 31, 2005. The increase in research and development expenses in fiscal 2006 was primarily attributable to the increased expenses associated with our two lead compounds, CTCE-0214 and CTCE-9908, and our continued efforts with our other early research activities. Research and development expenses include contract research, manufacturing, laboratory supplies, staff salaries and a $100,000 payment to Pharmaceutical Product Development Inc. (PPDI) to re-acquire the rights to our CTCE-0214 compound.

Direct costs for CTCE-0214 were approximately $1,735,000 for the twelve months ended December 31, 2006 compared to $1,874,000 for the twelve months ended December 31, 2005.

We recorded direct costs for CTCE-9908 of approximately $1,776,000 for the twelve months ended December 31, 2006, which included preparatory and clinical trial costs of the Phase I/II clinical trial currently underway, and related manufacturing of compound. This compares to approximately $1,276,800 for the twelve months ended December 31, 2005.

We expect that research and development expenses will increase in the future as and when we incur costs for clinical trials. Completion dates and completion costs to bring a drug candidate to market vary significantly for each drug candidate given the nature of the clinical trials and the fact that more clinical trials may need to be conducted to advance a drug candidate based upon the results of each phase. In addition, we anticipate partnering with larger pharmaceutical companies to conduct and finance later stage clinical trials and therefore the timing of completion of the approval of a drug will likely not be within our control. Based on these factors we cannot reasonably estimate the completion dates and completion costs required to gain regulatory approval of our compounds for sale. Drug candidates are required to successfully complete Phase III clinical trials before gaining regulatory approval for sale which for our drug candidates is not expected to occur for several years.

General and administrative.

General and administrative expenses for the twelve months ended December 31, 2006 were $2,904,595, compared to $2,667,290 for the twelve months ended December 31, 2005. The year over year increase of $237,305 reflects additional salary costs as a result of our adding personnel to support the continued growth in our research and development infrastructure. Other general and administrative expenses included consulting, marketing and promotion expenses incurred for business development.

Interest income.

Interest income was $331,190 for the twelve months ended December 31, 2006 compared with $231,654 for the twelve months ended December 31, 2005

Net loss.

We incurred a net loss of $7,507,866 ($0.19 per share) for the twelve months ended December 31, 2006 compared to $6,020,166 ($0.19 per share) for the twelve months ended December 31, 2005. The increase in our net loss was principally caused by the increase in research and development expenditures as well as general and administrative expenses as described above.

Liquidity and Capital Resources

Since our inception, we have financed substantially all of our operations through the private and public offerings of equity securities. We have received a total of $28.6 million from public and private offerings of our equity securities. In December 2004, we completed the initial public offering of shares of our common stock and raised approximately $13.3 million (CDN$16 million). In January 2005, the agents in our initial public offering exercised their over-allotment option which resulted in additional gross proceeds to us of approximately $1.9 million (CDN$2.4 million). In March 2006, we issued 6,471,698 shares of common stock in a private placement transaction for gross proceeds of approximately $5.9 million (CDN$6.9 million) and net proceeds after offering costs of approximately $5.4 million.

At December 31, 2006, we had approximately $6.1 million in cash and cash equivalents and short term investments on hand, compared to approximately $6.3 million as of December 31, 2005, a decrease of $0.2 million. Our working capital at December 31, 2006 was approximately $5.9 million, compared to approximately $6.3 million at December 31, 2005, a decrease of $0.4 million.

For the twelve months ended December 31, 2006, we used net cash of $6,994,020 in operating activities consisting primarily of the net loss for the period of $7,507,866. Cash generated from financing activities for the twelve months ended December 31, 2006, was $6,890,424 and includes net proceeds of $5,460,668 from our March 22, 2006, private placement and $1,602,927 from the exercise of warrants and options. During the twelve months ended December 31, 2006, we made net advances of $161,480 to Globe Laboratories mainly for the Industrial Research Assistance Program. During the same period, we purchased $154,352 of laboratory equipment from third parties.

We believe that our current funds will be sufficient to fund our operations until January 31, 2008. However, our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary materially. If we are unable to raise additional capital when required or on acceptable terms, we may have to significantly delay, scale back or discontinue one or more of our clinical trials or our operations.

We will continue to incur substantial operating losses. We cannot accurately forecast our future capital requirements because such forecasts depend on many factors, including:

- the rate of progress and cost of our planned or future clinical trials and other development activities;
- the scope, prioritization and number of clinical development and research programs we pursue;
- the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;
- the costs and timing of regulatory approval;
- the costs of establishing or contracting for manufacturing, sales and marketing capabilities;
- the costs of expanding our facilities to support our operations;
- the effect of competing technological and market developments; and
- the terms and timing of any collaborative, licensing and other arrangements that we may establish.

We intend to seek additional funding through licensing arrangements or through public or private financings. However, such additional financing may not be available to us on acceptable terms, or at all, and we may not be able to enter into licensing arrangements on terms that are favorable to us, if at all.

Long Term Obligations

The following table summarizes our contractual obligations at December 31, 2006 and the effect such obligations are expected to have on our liquidity and cash flow in future periods:

	Total	Years Ended December 31, 2007	2008	2009	2010	2012	2012 and thereafter
			(in thousands)				
Contractual obligations [1]	860.3	860.3		-	-	-	-
Loans payable	-	-	-	-	-	-	-
Capital lease obligations [2]	22.3	13.4	8.9	-	-	-	-
Long-term debt	-	-	-	-	-	-	-
Non-cancelable operating lease obligations [3]	155.0	95.8	59.2	-	-	-	-
Total contractual cash obligations	1,037.6						

(1) Includes obligations under various research and development agreements entered into with third parties to perform research and development services on our behalf.

(2) We lease office premises and a vehicle under operating leases which expire at various dates ending July 31, 2008 and January 2009.

(3) This does not include non-cancelable operating lease obligations assumed on January 1, 2007 of $132,800 and $78,100 during the years ended Decmeber 31, 2007 and December 31, 2008, respectively.

License agreement with PPDI

On April 12, 2006, we entered into an agreement with Pharmaceutical Product Development, Inc., or PPDI, to re-acquire the option rights to our CTCE-0214 drug candidate that had previously been granted to PPDI in April 2003. Under this agreement, we are obligated to achieve various milestones and we are committed to make certain milestone payments. Such milestone payments are to be made as follows:

- 250,000 cash upon the dosing of the first subject in a Phase III clinical trial of CTCE-0214
- 250,000 cash upon filing a New Drug Application with the United States Food and Drug Administration ("FDA") with respect to CTCE-0214 (or any equivalent filing in any foreign country)
- 1,000,000 cash upon approval by the FDA (or any equivalent regulatory body in a foreign country) of CTCE-0214 for any therapeutic use
- percent of the first net sales of CTCE-0214 up to $ 1,000,000

Off-Balance Sheet Arrangements

We do not have, and do not have any present plans to implement, any off-balance sheet arrangements.

ITEM 7. FINANCIAL STATEMENTS

Our financial statements required by this item are included after Part III, Item 14 of this Annual Report on Form 10-KSB.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 8A. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that the information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer ("Certifying Officers"), to allow timely decisions regarding required financial disclosures.

Our Certifying Officers performed a review of the effectiveness of our disclosure controls and procedures as of December 31, 2006. Based upon that evaluation, our Certifying Officers concluded that as of such date, our disclosure controls and procedures were not effective to ensure that the information required to be disclosed by us in our reports is recorded, processed, summarized and reported within the time periods specified by the SEC due to a weakness in our controls described below.

We have taken the steps described below to address this weakness and, in light of these changes, our Certifying Officers believe that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

As of December 31, 2006, we did not maintain effective controls over reporting amounts due to us under a research development agreement with Globe Laboratories, Inc., a third party contractor controlled by our former Chief Executive Officer.

Our management and our independent registered public accounting firm identified deficiencies in disclosure controls relating to the structure of the exchange of financial information under this research development agreement, which required the person responsible for collecting financial information on our behalf to pursue the information on behalf of Globe Laboratories from our former CEO, an officer of the Company to whom he reported.

This structure impacted the Company's ability to vigorously collect and scrutinize the financial information supplied on behalf of Globe Laboratories. After identifying this control deficiency, we changed the structure of the reporting obligations under the development agreement so that the individual responsible for collecting financial information on behalf of the Company no longer reports to the individual that supplies such information on behalf of Globe Laboratories. In addition, we terminated the research development agreement effective December 31, 2006 for reasons unrelated to these issues.

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 8B OTHER INFORMATION

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

The information required by this Item 9 is set forth in our definitive proxy statement, relating to the Annual Meeting of Stockholders scheduled to be held in May 2007, under the caption "Election of Directors," "Management," and "Section 16(a) Beneficial Ownership and Reporting Compliance," which is incorporated herein by reference.

ITEM 10. EXECUTIVE COMPENSATION

The information required by this Item 10 is set forth in our definitive proxy statement, relating to the Annual Meeting of Stockholders scheduled to be held in May 2007, under the caption "Executive Compensation," which is incorporated herein by reference.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 11 is set forth in our definitive proxy statement, relating to the Annual Meeting of Stockholders scheduled to be held in May 2007, under the caption "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information," which is incorporated herein by reference.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item 12 is set forth in our definitive proxy statement, relating to the Annual Meeting of Stockholders scheduled to be held in May 2007, under the caption "Certain Relationships and Related Transactions," which is incorporated herein by reference.

ITEM 13. EXHIBITS

(a) Exhibits

Exhibit Number		Exhibit Description
3.1 (1)	—	Certificate of Incorporation
3.2	—	Amendment to Certificate of Incorporation
3.3 (1)	—	Bylaws
3.4 (6)	—	Amendment to Bylaws
10.1 (1)	—	License Agreement between Chemokine Therapeutics Corp. and University of British Columbia dated September 22, 1999
10.2 (1)	—	Development Agreement, dated January 1, 2003, between Chemokine Therapeutics Corp. and Globe Laboratories Inc.
10.3 (1)	—	Employment Agreement dated April 1, 2004, between Chemokine Therapeutics Corp. jointly with Chemokine Therapeutics (B.C.) Corp. and Dr. Hassan Salari
10.4 (1)	—	Employment Agreement dated April 1, 2004, between Chemokine Therapeutics Corp. jointly with Chemokine Therapeutics (B.C.) Corp. and Walter Korz
10.7 (2)	—	2004 Warrant Agreement between Pharmaceutical Product Development, Inc. and Chemokine Therapeutics Corp. dated September 14, 2004
10.8 (2)	—	Amendment to Employment Agreement dated with Dr. Hassan between Chemokine Therapeutics Corp. jointly with Chemokine Therapeutics (B.C.) Corp. and Dr. Hassan Salari
10.9 (3)	—	Lease Agreement dated January 1, 2003, between Salari Enterprises Ltd. and Chemokine Therapeutics Corp.
10.12 (2)	—	The 2004 Stock Option Plan
10.13 (5)	—	Amended Employment Agreement dated March 10, 2005, between Dr. Hassan Salari and Chemokine Therapeutics Corp. jointly with Chemokine Therapeutics (B.C.) Corp.
10.15 (6)	—	Preferred Stock and License Restructuring Agreement dated April 12, 2006, between Pharmaceutical Product Development, Inc. and Chemokine Therapeutics Corp.
10.06 (6)	—	Letter agreement dated April 12, 2005, by and between the University of British Columbia and Chemokine Therapeutics Corp.
10.17 (7)	—	Executive Services Agreement dated June 28, 2006, between Chemokine Therapeutics Corp. jointly with Chemokine Therapeutics (B.C.) Corp. and Dr. Guy Ely, N.D. Life Sciences Corp.

10.18 (8)	—	Termination of the amended employment agreement between Chemokine Therapeutics Corp. jointly with Chemokine Therapeutics (BC) Corp. and David Karp
10.19(9)	—	Purchase Agreement by and among Chemokine Therapeutics Corp., Chemokine Therapeutics (B.C.) Corp. and Globe Laboratories Inc. dated January 1, 2007
10.20(9)	—	Sub-Lease by and between Discovery Parks Trust and Globe Laboratories Inc. dated June 23, 2000
10.21(9)	—	Extension and Amendment of Sub-Lease by and between Discovery Parks Trust and Globe Laboratories Inc. dated December 13, 2006
10.22(9)	—	Partial Assignment of Sub-Lease from Globe Laboratories Inc. to Chemokine Therapeutics (B.C.) Corp. dated January 1, 2007
10.23	—	Sub-Lease Agreement dated May 6, 2005
10.24	—	Form of Indemnification Agreement
10.25	—	Employment Agreement dated November 16, 2006, between Bashir Jaffer and Chemokine Therapeutics Corp. jointly with Chemokine Therapeutics (B.C.) Corp.
10.26	—	Employment Agreement dated March 1, 2007, between Guy Ely and Chemokine Therapeutics Corp. jointly with Chemokine Therapeutics (B.C.) Corp.
21.1	—	List of Subsidiaries of Chemokine Therapeutics Corp.
23.1	—	Consent of M.D. Sassi Company, Independent Registered Public Accounting Firm.
31.1	—	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	—	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	—	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) Incorporated by reference to the exhibit filed with the Registration Statement on Form SB-2 (Reg. No. 333-117858) on August 2, 2004.
(2) Incorporated by reference to the exhibit filed with Amendment No. 1 to Registration Statement on Form SB-2 (Reg. No. 333-117858) on October 20, 2004.
(3) Incorporated by reference to the exhibit filed with Amendment No. 2 to Registration Statement on Form SB-2 (Reg. No. 333-117858) on November 26, 2004.
(4) Incorporated by reference to the exhibit filed with Amendment No. 3 to Registration Statement on Form SB-2 (Reg. No. 333-117858) on December 17, 2004.
(5) Incorporated by reference to the exhibit filed with Form 10-KSB on March 15, 2005.
(6) Incorporated by reference to the exhibit filed with Form SB-2/A (Reg. No. 333-133476) on April 24, 2006.
(7) Incorporated by reference to the exhibit filed with Form 10-QSB on August 10, 2006.
(8) Incorporated by reference to the exhibit filed with Form 10-QSB on November 14, 2006.
(9) Incorporated by reference to the exhibit filed with the Form 8-K on January 8, 2007.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item 14 is set forth in our definitive proxy statement, relating to the Annual Meeting of Stockholders scheduled to be held in May 2007, under the caption “Principal Accountant Fees and Services,” which is incorporated herein by reference.

CHEMOKINE THERAPEUTICS CORP.
(A Development Stage Company)

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of
Chemokine Therapeutics Corp.

We have audited the accompanying consolidated balance sheets of Chemokine Therapeutics Corp. (a development stage company), as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and the related amounts included in the cumulative amounts for the period from inception on July 15, 1998 to December 31, 2006. These 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Chemokine Therapeutics Corp. (a development stage company), as of December 31, 2006 and 2005, and the results of its operations and cash flows for the years then ended, and the related amounts included in the cumulative amounts for the period from inception on July 15, 1998 to December 31, 2006, in conformity with accounting principles generally accepted in the United States.

/s/ M.D. Sassi Company

San Francisco, California
April 11, 2007

CHEMOKINE THERAPEUTICS CORP.
(A Development Stage Company)

CONSOLIDATED BALANCE SHEETS

	December 31, 2006	December 31, 2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 4,446,668	$ 3,719,163
Short term investments (Note 3)	1,642,308	2,627,760
Amounts receivable	60,366	33,214
Prepaid expense and deposits	103,816	154,969
TOTAL CURRENT ASSETS	6,253,158	6,535,106
PROPERTY AND EQUIPMENT, net (Note 4)	332,440	351,438
LICENSE COSTS, net (Note 5)	16,299	23,993
AMOUNT DUE FROM AFFILIATE (Note 6)	253,263	91,783
	$ 6,855,160	$ 7,002,320
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 377,915	$ 253,199
Current portion of capital lease obligation (Note 7)	12,392	11,648
TOTAL CURRENT LIABILITIES	390,307	264,847
CAPITAL LEASE OBLIGATION (Note 7)	8,722	21,157
	399,029	286,004
COMMITMENTS (Notes 5 & 12)		
STOCKHOLDERS' EQUITY		
PREFERRED STOCK		
Authorized – 6,000,000 shares; par value $ 0.001 per share		
Issued and outstanding shares: December 31, 2006 – Nil; December 31, 2005 – 2,000,000	–	2,000
COMMON STOCK		
Authorized – 100,000,000 shares; par value $ 0.001 per share		
Issued and outstanding shares: December 31, 2006 – 42,183,748; December 31, 2005 – 31,897,206	42,184	31,897
ADDITIONAL PAID-IN CAPITAL	30,957,359	23,717,965
(DEFICIT) ACCUMULATED DURING THE DEVELOPMENT STAGE	(24,543,412)	(17,035,546)
	6,456,131	6,716,316
	$ 6,855,160	$ 7,002,320

See accompanying notes to the consolidated financial statements.

CHEMOKINE THERAPEUTICS CORP.
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended December 31,		Cumulative from inception on July 15, 1998 to December 31, 2006
	2006	2005	
REVENUE	$ –	$ 275,000	$ 275,000
EXPENSES			
Research and development	4,642,457	3,697,005	14,595,725
General and administrative	2,904,595	2,667,290	10,253,596
Stock-based compensation	184,085	289,533	558,119
Amortization of license	7,694	7,694	34,304
Depreciation & amortization of property and equipment	173,350	46,684	346,091
	7,912,181	6,708,206	25,787,835
OTHER INCOME			
Foreign exchange gain	73,125	181,386	366,945
Interest income	331,190	231,654	602,478
NET LOSS	$ (7,507,866)	$ (6,020,166)	$ (24,543,412)
NET LOSS PER COMMON SHARE - BASIC AND DILUTED	$ (0.19)	$ (0.19)	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	39,606,809	31,605,162	

See accompanying notes to the consolidated financial statements.

CHEMOKINE THERAPEUTICS CORP.
(A Development Stage Company)

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Period from inception on July 15, 1998 to December 31, 1998
and years ended December 31, 1999 through 2006

	Common stock		Preferred stock		Additional paid-in capital	Share subscriptions	Deferred stock compensation	(Deficit) accumulated during the development stage	Stockholders' equity
	Shares	Amount	Shares	Amount					
Inception, July 15, 1998	–	$ –	–	$ –	$ –	$ –	$ –	$ –	$ –
Issuance of common stock for cash	1	–	–	–	70,650	–	–	–	70,650
Issuance of preferred stock for cash	–	–	6,000,000	6,000	(4,800)	–	–	–	1,200
Net loss	–	–	–	–	–	–	–	(6,212)	(6,212)
Balances at December 31, 1998	1	–	6,000,000	6,000	65,850	–	–	(6,212)	65,638
Issuance of common stock and subscriptions on private placement, net of offering costs of $ 58,794	263,535	264	–	–	342,332	461,205	–	–	803,801
Issuance of warrants for consulting services	–	–	–	–	1,400	–	–	–	1,400
Net loss	–	–	–	–	–	–	–	(408,237)	(408,237)
Balances at December 31, 1999	263,536	264	6,000,000	6,000	409,582	461,205	–	(414,449)	462,602
Issuance of common stock and subscriptions on private placement, net of offering costs of $ 214,300	783,228	783	–	–	1,116,790	(461,205)	–	–	656,368
Conversion of preferred stock to common stock	6,000,000	6,000	(6,000,000)	(6,000)	–	–	–	–	–
Issuance of options for consulting services	–	–	–	–	87,968	–	–	–	87,968
Deferred stock compensation	–	–	–	–	83,500	–	(83,500)	–	–
Amortization of deferred stock compensation	–	–	–	–	–	–	32,920	–	32,920
Net loss	–	–	–	–	–	–	–	(1,020,963)	(1,020,963)
Balances at December 31, 2000	7,046,764	7,047	–	–	1,697,840	–	(50,580)	(1,435,412)	218,895
Issuance of preferred stock for cash	–	–	150,000	150	187,350	–	–	–	187,500
Issuance of common stock net of offering costs of $ 64,585	1,280,496	1,280	–	–	1,362,532	–	–	–	1,363,812
Issuance of warrants for offering costs	–	–	–	–	17,850	–	–	–	17,850
Cancellation of stock options	–	–	–	–	(50,580)	–	50,580	–	–
Net loss	–	–	–	–	–	–	–	(1,743,962)	(1,743,962)
Balances at December 31, 2001	8,327,260	8,327	150,000	150	3,214,992	–	–	(3,179,374)	44,095

See next page

See accompanying notes to the consolidated financial statements

CHEMOKINE THERAPEUTICS CORP.
(A Development Stage Company)

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Period from inception on July 15, 1998 to December 31, 1998
and years ended December 31, 1999 through 2006

	Common stock		Preferred stock		Additional paid-in capital	Share subscriptions	Deferred stock compensation	(Deficit) accumulated during the development stage	Stockholders' equity
	Shares	Amount	Shares	Amount					
Issuance of common stock net of offering costs of $ 194,474	1,492,970	$ 1,493	–	$ –	$ 1,677,746	$ –	$ –	$ –	$ 1,679,239
Issuance of warrants for consulting services	–	–	–	–	139,725	–	–	–	139,725
Issuance of warrants for offering costs	–	–	–	–	62,871	–	–	–	62,871
Capital distribution on sale of subsidiary to related party	–	–	–	–	42,064	–	–	–	42,064
Net loss	–	–	–	–	–	–	–	(2,234,061)	(2,234,061)
Balances at December 31, 2002	9,820,230	9,820	150,000	150	5,137,398	–	–	(5,413,435)	(266,067)
Issuance of common stock net of offering costs of $ 130,628	577,852	578	–	–	644,395	–	–	–	644,973
Issuance of preferred stock	–	–	2,000,000	2,000	2,698,000	–	–	–	2,700,000
Issuance of warrants for consulting services	–	–	–	–	21,835	–	–	–	21,835
Issuance of warrants for offering costs	–	–	–	–	22,454	–	–	–	22,454
Net loss	–	–	–	–	–	–	–	(2,506,705)	(2,506,705)
Balances at December 31, 2003	10,398,082	10,398	2,150,000	2,150	8,524,082	–	–	(7,920,140)	616,490
Issuance of common stock net of offering costs of $ 2,234,671	17,915,714	17,916	–	–	12,144,538	–	–	–	12,162,454
Issuance of common stock for agent's fee	628,977	629	–	–	352,054	–	–	–	352,683
Issuance of common stock for settlement of debt	247,100	247	–	–	199,753	–	–	–	200,000
Issuance of common stock for finder's fees	3,333	3	–	–	4,497	–	–	–	4,500
Conversion of preferred stock to common stock	150,000	150	(150,000)	(150)	–	–	–	–	–
Issuance of warrants for consulting services	–	–	–	–	241,882	–	–	–	241,882
Issuance of warrants for offering costs	–	–	–	–	98,509	–	–	–	98,509
Issuance of warrants for finder's fees	–	–	–	–	3,900	–	–	–	3,900
Stock-based compensation	–	–	–	–	51,581	–	–	–	51,581
Net loss	–	–	–	–	–	–	–	(3,095,240)	(3,095,240)
Balances at December 31, 2004	29,343,206	29,343	2,000,000	2,000	21,620,796	–	–	(11,015,380)	10,636,759

See next page

See accompanying notes to the consolidated financial statements.

CHEMOKINE THERAPEUTICS CORP.
(A Development Stage Company)

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Period from inception on July 15, 1998 to December 31, 1998
and years ended December 31, 1999 through 2006

	Common stock		Preferred stock		Additional paid-in capital	Share subscriptions	Deferred stock compensation	(Deficit) accumulated during the development stage	Stockholders' equity
	Shares	Amount	Shares	Amount					
Issuance of common stock net of offering costs of $ 278,023	2,400,000	$ 2,400	–	$ –	$ 1,658,297	$ –	$ –	$ –	$ 1,660,697
Conversion of warrants to common stock	102,000	102	–	–	85,050	–	–	–	85,152
Issuance of common stock	52,000	52	–	–	(52)	–	–	–	–
Issuance of warrants for agent's fee	–	–	–	–	49,453	–	–	–	49,453
Issuance of warrants for offering costs	–	–	–	–	14,888	–	–	–	14,888
Stock-based compensation	–	–	–	–	289,533	–	–	–	289,533
Net loss	–	–	–	–	–	–	–	(6,020,166)	(6,020,166)
Balances at December 31, 2005	31,897,206	31,897	2,000,000	2,000	23,717,965	–	–	(17,035,546)	6,716,316
Issuance of common stock net of offering costs of $ 471,564	6,471,698	6,472	–	–	5,408,860	–	–	–	5,415,332
Conversion of preferred stock to common stock	2,000,000	2,000	(2,000,000)	(2,000)	–	–	–	–	–
Conversion of warrants to common stock	1,762,844	1,763	–	–	1,556,700	–	–	–	1,558,463
Issuance of common stock for options exercised	52,000	52	–	–	44,413	–	–	–	44,465
Issuance of warrants for agent's fee	–	–	–	–	45,336	–	–	–	45,336
Stock-based compensation	–	–	–	–	184,085	–	–	–	184,085
Net loss	–	–	–	–	–	–	–	(7,507,866)	(7,507,866)
Balances at December 31, 2006	42,183,748	$ 42,184	–	$ –	$ 30,957,359	$ –	$ –	$ (24,543,412)	$ 6,456,131

See accompanying notes to the consolidated financial statements.

CHEMOKINE THERAPEUTICS CORP.
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31, 2006	2005	Cumulative from inception on July 15, 1998 to December 31, 2006
CASH FLOW FROM OPERATING ACTIVITIES			
Net loss	$ (7,507,866)	$ (6,020,166)	$ (24,543,412)
Adjustments to reconcile net cash provided (used) by operating activities			
Depreciation and amortization	181,044	54,378	380,395
Common stock issued for consulting services	–	–	1,033,669
Warrants issued for consulting services	–	–	404,842
Options issued for consulting services	–	–	87,968
Stock-based compensation	184,085	289,533	558,119
Decrease (increase) in			
Amounts receivable	(27,152)	(27,654)	(60,366)
Prepaid expense and deposit	51,153	(97,071)	(103,816)
Increase (decrease) in			
Accounts payable and accrued liabilities	124,716	(359,968)	377,915
Deferred revenue	–	(275,000)	–
Cash (used) by operating activities	(6,994,020)	(6,435,948)	(21,864,686)
CASH FLOW FROM FINANCING ACTIVITIES			
Stock issued for cash	7,489,823	2,023,872	31,647,476
Stock issued for settlement of debt	–	–	200,000
Offering costs	(426,228)	(213,682)	(2,974,596)
Net advances (to) from affiliate	(161,480)	(118,105)	(206,445)
Capital lease payment	(11,691)	(1,845)	(13,536)
Cash provided by financing activities	6,890,424	1,690,240	28,652,899
CASH FLOW FROM INVESTING ACTIVITIES			
Cash held by disposed subsidiary	–	–	(4,754)
Purchase of short term investments	(10,185,725)	(6,185,883)	(16,371,608)
Redemption of short term investments	11,171,178	3,558,123	14,729,301
Payment under license agreement (Note 5)	–	–	(50,603)
Purchase of property and equipment	(154,352)	(343,847)	(643,881)
Cash provided (used) by investing activities	831,101	(2,971,607)	(2,341,545)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	727,505	(7,717,315)	4,446,668
CASH AND CASH EQUIVALENTS, beginning of period	3,719,163	11,436,478	–
CASH AND CASH EQUIVALENTS, end of period	$ 4,446,668	$ 3,719,163	$ 4,446,668

See Note 13.

See accompanying notes to the consolidated financial statements.

1. DESCRIPTION OF BUSINESS

Chemokine Therapeutics Corp. (the "Company") was incorporated in the State of Washington on July 15, 1998 as PTM Molecular Biosystems Inc. In 1999 the Company changed its name to Chemokine Therapeutics Corp. and in 2000 was reincorporated in the State of Delaware.

The Company is in the business of discovering and developing innovative therapeutic products for the treatment of a variety of human diseases. As of December 31, 2006 the Company is considered a development stage company as defined by Statement of Financial Accounting Standards No. 7 ("SFAS No. 7"). The Company commenced operations in July 1998 and has been devoting most of its efforts to date in raising capital and in research and development. At December 31, 2006, the Company had not commenced planned principal operations and, as shown in the accompanying financial statements, has incurred losses during the period from inception to December 31, 2006 of $ 24,543,412.

The Company is subject to all of the risks inherent in an early stage business operating in the biotechnology industry. These risks include, but are not limited to, a limited operating history, limited management resources, and the challenges of bringing a drug through development to approval for sale. Management believes that current working capital will be sufficient to fund the Company's operations through January 31, 2008. The Company also intends to seek additional financing from external sources through the sale of shares.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America. Significant accounting policies utilized in the preparation of the consolidated financial statements are summarized below:

Basis of consolidation
The consolidated financial statements include the accounts of the Company and its former wholly-owned Canadian subsidiary, Chemokine Therapeutics Inc. through to June 9, 2002, the date of disposal of the subsidiary and its wholly-owned Canadian subsidiary Chemokine Therapeutics (B.C.) Corp ("CTBCC").

Revenue recognition
Revenue is not recognized until the product or service has been delivered or otherwise earned, all contractual obligations have been satisfied and collection of amounts due to the Company is reasonably assured. Amounts received by the Company prior to the recognition of associated revenue are reflected on the balance sheet as deferred revenue.

Cash and cash equivalents
Cash and cash equivalents consist of cash on hand, balances with banks and short-term investments. All highly liquid investments with original maturities of three months or less are classified as cash and cash equivalents. The fair value of cash and cash equivalents approximates the amounts shown in the consolidated financial statements.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – continued

Short term investments
Short term investments consist of term deposits and investments in publicly traded debt securities with a maturity of less than one year but more than three months. The Company records its investments in debt securities as held-to-maturity investments since the Company has the positive intent and ability to hold these investments to maturity. The held-to-maturity investments are recorded at amortized cost unless a decline in value is deemed other-than-temporary, in which case the carrying value is adjusted. The amortization of premium or accretion of discount and any unrealized loss deemed other-than-temporary are included in current period earnings.

Property and equipment
Property and equipment are carried at cost less accumulated depreciation. Depreciation and amortization is recorded on a straight-line basis over the estimated useful lives of the property and equipment as follows:

Computer equipment	–	3 years
Computer software	–	2 years
Furniture and fixtures	–	3 years
Leasehold improvements	–	3 years
Equipment	–	3 years
Equipment under capital lease obligation	–	Capital lease term

License Costs
Costs incurred to acquire the license (see Note 5) are capitalized in the accounts and are being amortized on a straight-line basis over five years. The costs of developing and servicing patents on licensed technologies are expensed as incurred.

Impairment of long-lived assets
Long-lived assets to be held and used are assessed for impairment whenever events or changes in circumstances indicate that the carrying values of long-lived assets may not be recoverable.

Foreign currency translation
The Company uses the U.S. dollar as its functional currency, and presents the consolidated financial statements in U.S. dollars using the current rate method. Under the current rate method, the Company translates all assets and liabilities using the exchange rate at the balance sheet date and translates revenues, expenses, gains and losses at the weighted average rates of exchange for the respective periods. Before consolidation, the Company remeasures the financial statements of CTBCC from its local currency of Canadian dollars to its functional currency of U.S. dollars at the end of each reporting period. Monetary items of CTBCC's financial statements are remeasured by applying the current exchange rate and non-monetary items are remeasured by applying historical exchange rates. The Company includes the resulting exchange gain or loss in foreign currency upon remeasurement in the foreign exchange gain or loss account in the consolidated statement of operations.

Fluctuations in the relative values of the Canadian and U.S dollars can affect the reported value of Canadian dollar denominated assets and liabilities on our balance sheet. A strengthening (weakening) Canadian dollar in relation to the U.S. dollar results in higher (lower) reported values for our Canadian dollar denominated assets and liabilities.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – continued

Research and development
Research and development expenses are expensed as incurred. Upfront and milestone payments made to third parties in connection with specific research and development projects are expensed as incurred up to the point of regulatory approval. Payments made to third parties subsequent to regulatory approval are capitalized and amortized over the remaining useful life of the related product.

Use of estimates
The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification
Certain 2005 amounts have been reclassified to conform to the presentation used in the current period.

Income taxes
Income taxes are accounted for under the asset and liability method prescribed by Statement of Financial Accounting Standards ("SFAS") No. 109, "*Accounting for Income Taxes.*" Deferred income taxes are recorded for temporary differences between financial statement carrying amounts and the tax basis of assets and liabilities. Deferred tax assets and liabilities reflect the tax rates expected to be in effect for the years in which the differences are expected to reverse. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax asset will not be realized.

Net loss per common share
Net loss per common share is computed based on the weighted average number of common shares outstanding during each period. Convertible equity securities, such as convertible preferred stock, stock options and stock purchase warrants are not considered in the calculation of net loss per common share as their inclusion would be anti-dilutive.

Stock-based compensation
Effective January 1, 2006, the beginning of the Company's first fiscal quarter of 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123R, "*Share-Based Payment*" ("SFAS No. 123R"), using the modified-prospective transition method. Under this transition method, stock-based compensation expense was recognized in the consolidated financial statements for granted, modified, or settled stock options. Compensation expense recognized included the estimated expense for stock options granted on and subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R, and the estimated expense for the portion vesting in the period for options granted prior to, but not vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement of Financial Accounting Standard No. 123, "*Accounting for Stock-Based Compensation*" ("SFAS No. 123"). Results for prior periods have not been restated, as provided for under the modified-prospective method.

Prior to the January 1, 2006 adoption of the SFAS No. 123R, the Company accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "*Accounting for Stock Issued to Employees*," and related interpretations and as such, generally recognized no compensation cost for employee stock options granted at fair market value but recognized compensation cost for grants of employee stock-based compensation awards equal to the excess of the market price of the underlying common stock at the date of grant over the exercise price of the stock related award. As permitted by SFAS No. 123, stock-based compensation was included as a pro forma disclosure in the notes to the consolidated financial statements.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – continued

Stock-based compensation represents the cost related to stock-based awards granted to employees. The Company measures stock-based compensation cost at grant date, based on the estimated fair value of the award, and recognizes the cost as expense on a straight-line basis (net of estimated forfeitures) over the employee requisite service period. The Company estimates the fair value of stock options using a Black-Scholes valuation model.

The following table shows the pro forma effect on net loss and net loss per share had compensation cost been recognized based upon the estimated fair value on the grant date of stock options, in accordance with SFAS No. 123 for the year ended December 31, 2005:

	2005 (Pro forma)
Net loss per consolidated statements of operations	$ (6,020,166)
Stock-based compensation intrinsic value basis	289,533
Stock-based compensation fair value basis	(462,321)
Pro forma net loss	$ (6,192,954)
Pro forma net loss per share	$ (0.20)

No pro forma disclosures for the year ended December 31, 2006 are presented because the amounts are recognized in the consolidated financial statements in accordance with SFAS No. 123R.

Recent accounting pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 ("FIN No. 48"), "*Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*," which seeks to reduce the diversity in practice associated with the accounting and reporting for uncertainty in income tax positions. This interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. FIN No. 48 is effective for fiscal years beginning after December 15, 2006 and the Company will adopt the new requirements in its fiscal first quarter of 2007. The adoption of FIN No. 48 is not currently expected to have a significant impact on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements*" ("SFAS No. 157"), which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Early adoption is permitted. The Company will adopt these new requirements in its first fiscal quarter of 2008. The Company has not yet determined the effect on the Company's consolidated financial statements, if any, upon adoption of SFAS No. 157, or if it will adopt the requirements prior to the first fiscal quarter of 2008.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – continued

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, "*Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*" ("SAB No. 108"). The intent of SAB No. 108 is to reduce diversity in practice for the method companies use to quantify financial statement misstatements, including the effect of prior year uncorrected errors. SAB No. 108 establishes an approach that requires quantification of financial statement errors using both an income statement and a cumulative balance sheet approach. SAB No. 108 is effective for fiscal years beginning after November 15, 2006, and the Company will adopt the new requirements in fiscal 2007. The adoption of SAB No. 108 is not currently expected to have a significant impact on the Company's consolidated financial statements.

3. **SHORT TERM INVESTMENTS**

The net carrying value and the aggregate fair value of the short term investments held-to-maturity as at December 31, 2006 are $ 1,642,308. The unrealized holding loss from these investments in 2006 of $ 67,341 resulting from changes in the foreign exchange rates between the date of purchase and the balance sheet date is included in foreign exchange gain or loss in the statement of operations. During the year ended December 31, 2006, the Company sold two short term investments prior to their maturity. The net carrying amount and net realized gain on the date of sale was $ 707,397 and $ 7,567, respectively. Management sold these securities prior to their maturity due to additional cash flow requirements encountered after the short term investments were purchased.

4. **PROPERTY AND EQUIPMENT, net**

	2006	2005
Computer equipment	$ 76,854	$ 57,676
Computer software	15,394	11,783
Furniture and fixtures	42,612	46,059
Leasehold improvements	49,093	43,730
Equipment	351,934	222,424
Equipment under capital lease obligation	34,650	34,650
	570,537	416,322
Accumulated depreciation and amortization	(238,097)	(64,884)
	$ 332,440	$ 351,438

The accumulated amortization on equipment under capital lease obligation as at December 31, 2006 and 2005 was $ 13,445 and $ 1,925, respectively.

5. **LICENSE COSTS, net**

	2006	2005
Cost	$ 50,603	$ 50,603
Accumulated amortization	(34,304)	(26,610)
	$ 16,299	$ 23,993

5. LICENSE COSTS, net

On September 22, 1999 the Company entered into a license agreement with the University of British Columbia ("UBC"). The license grants the Company exclusive worldwide rights to research, develop and commercially exploit certain patented technologies, which remain the property of UBC. The licensed technology relates to therapeutics for a variety of human diseases.

Under the agreement the Company is obligated to achieve various milestones and is committed to make milestone payments and to pay royalties of 2% of any revenues or other consideration derived from the licensed technologies. Should the Company fail to satisfy any of its obligations, UBC has the right to terminate the license agreement.

– Milestone payments are to be made as follows:
  – Cdn$ 100,000 at the time of completion of Phase II clinical trials
  – Cdn$ 250,000 at the time of completion of Phase III clinical trials
  – Cdn$ 500,000 at the time of filing for New Drug Approval

– Minimum annual royalty payments are to be made as follows:
  – Cdn$ 25,000 one year from product approval
  – Cdn$ 50,000 two years from product approval
  – Cdn$ 75,000 three years from product approval
  – Cdn$ 100,000 fours years from product approval
  – Cdn$ 150,000 five years from product approval

As at December 31, 2006, the Company had not achieved any milestones and had not paid or accrued any milestone or royalty payments.

6. AMOUNT DUE FROM AFFILIATE

The amount due from affiliate does not bear interest and has no fixed terms of repayment.

	2006	2005
Globe Laboratories Inc., a Canadian corporation ("Globe") controlled by Dr. Hassan Salari, the Company's former Chief Executive Officer	$ 253,263	$ 91,783

See Note 10 and Note 15

7. CAPITAL LEASE OBLIGATION

The Company entered into a capital lease agreement with a third party during 2005 to lease equipment.

7. CAPITAL LEASE OBLIGATION

The Company has the following future minimum lease payments under the terms of the lease in each of the fiscal years ending December 31:

2007	13,386
2008	8,934
Total minimum lease payments	22,320
Amount representing interest at 6.5%	(1,206)
Balance of the obligation	21,114
Less: Current portion due within one year	(12,392)
	$ 8,722

8. CAPITAL STOCK

Common stock

During the period from inception to December 31, 2006 the Company issued 42,183,748 shares of common stock for total consideration of $ 32,881,145 net of offering costs of $ 3,647,039.

During the year ended December 31, 2006 the Company issued an aggregate 8,286,542 shares of common stock at $ 0.85 to $ 0.91 per share, for cash consideration of $ 7,489,823 before offering costs of $ 471,564.

During the year ended December 31, 2006, all 2,000,000 shares of preferred stock were converted to 2,000,000 shares of common stock on a 1 for 1 basis. The Company incurred costs of $237,600 to facilitate the conversion of the preferred stock. Total costs paid in connection of the conversion are included in general and administrative expenses reported on the consolidated statements of operations.
During the year ended December 31, 2005, the Company issued an aggregate 2,554,000 shares of common stock at $ 0.79 to $ 0.86 per share, for cash consideration of $ 2,023,872, before offering costs of $ 278,023.

Warrants

During the year ended December 31, 2006, the Company issued stock purchase warrants exercisable into 350,000 shares of common stock at $ 1.07 per share with an expiration date of March 22, 2008. The stock purchase warrants were issued as partial consideration for agents' fee. The stock purchase warrants were accounted for at their fair value, as determined by the Black-Scholes valuation model, of $ 45,336. This amount was charged to capital stock as an offering cost.

During the year ended December 31, 2006, stock purchase warrants were exercised for 1,762,844 shares of common stock at $ 0.85 to $ 0.90 per share.

During the year ended December 31, 2006, stock purchase warrants for the issuance of 2,114,665 shares of common stock at $0.86 to $1.25 per share expired unexercised.

8. **CAPITAL STOCK –** (continued)

During the year ended December 31, 2005, the Company issued stock purchase warrants exercisable into 192,000 shares of common stock at $ 0.86 per share with an expiration date of June 30, 2006 and issued stock purchase warrants exercisable into 50,000 shares of common stock at $ 0.80 per share with an expiration date of June 27, 2007. The stock purchase warrants were issued as partial consideration for agents' fee and as consideration for consulting services, respectively. The stock purchase warrants were accounted for at their fair value, as determined by the Black-Scholes valuation model, of $ 64,340. This amount was charged to capital stock as an offering cost.

During the year ended December 31, 2005, stock purchase warrants were exercised for 102,000 shares of common stock at $ 0.86 per share.

During the year ended December 31, 2005, stock purchase warrants for the issuance of 283,650 shares of common stock at $ 1.25 to $ 2.25 per share expired unexercised.

The following table summarizes information regarding stock purchase warrants outstanding at December 31, 2006:

Exercise price	Number outstanding and exercisable	Expiry dates
$ 0.80	50,000	June 2007
0.86 (Cdn$ 1.00)	500,000	December 2007
1.07 (Cdn$ 1.25)	350,000	March 2008
1.25	1,296,000	June 2007 to November 2007
1.35	169,100	July 2007 to November 2007
1.50	56,000	June 2007 to November 2007
	2,421,100	

Common stock reserved for future issuances
Common stock reserved for future issuances as of December 31, 2006 is as follows:

Outstanding stock options	2,547,000
Stock options available for grant	1,951,416
Outstanding stock purchase warrants	2,421,100
	6,919,516

9. **STOCK-BASED COMPENSATION**

As discussed in Note 2, "Significant Accounting Policies", effective January 1, 2006, the Company adopted the fair value recognition provisions for stock-based awards granted to employees using the modified-prospective transition method provided by SFAS No. 123R.

9. STOCK-BASED COMPENSATION

The Company has a stock option plan under which options to purchase common stock of the Company may be granted to employees, directors and consultants. Stock options entitle the holder to purchase common stock at an exercise price determined by the Board of Directors at the time of the grant. Options vest 4% at the time of grant and then at 4% per month for 24 months, at which time the options are fully vested. Options generally expire 5 years from the date of grant.

The maximum number of shares of common stock authorized by the stockholders, reserved, remaining and available for issuance by the Board of Directors is 4,498,416. The compensation cost that has been charged against income for the year ended December 31, 2006 for this plan was $ 184,085, which would be classified as research and development or general and administrative expense based on the classification of cash compensation paid to the same employees in the amounts of $3,728 and $180,357 respectively.

The fair value for stock awards was estimated at the date of grant using the Black-Scholes valuation model with the following weighted average assumptions for the year ended December 31, 2006 and December 31, 2005:

	2006	2005 (Pro forma)
Expected term (in years)	5	5
Expected volatility	22%	58%
Risk-free interest rate	4.7%	3.4%
Expected dividend yield	0.0%	0.0%
Estimated fair value per option granted	$ 0.26	$ 0.45

The expected term of the options represents the estimated period of time until exercise and is based on historical experience of similar awards, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. For 2006, expected volatility is based on historical volatility of the Company's stock. The risk-free interest rate is based on the implied yield available on U.S. Treasury zero-coupon issues with an equivalent remaining term. The Company has not paid dividends in the past and does not plan to pay any dividends in the near future.

The Black-Scholes valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, particularly for the expected term and expected stock price volatility. The Company's stock options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate. Because the Company's stock options do not trade on a secondary exchange, option holders do not derive a benefit from holding stock options unless there is an increase, above the grant price, in the market price of the Company's stock. Such an increase in stock price would benefit all shareholders commensurately.

The fair value of each stock option granted is estimated on the date of grant using Black-Scholes valuation model. The assumptions used to calculate the fair value of options granted are evaluated and revised, as necessary, to reflect market conditions and the Company's experience. Options granted are valued using the Black-Scholes valuation approach, and the resulting expense is recognized using the graded attribution method. Compensation expense is recognized only for those options expected to vest, with forfeitures estimated at the date of grant based on the Company's historical experience and future expectations. Prior to the adoption of SFAS No. 123R, the effect of forfeitures on the pro forma expense amounts was recognized as the forfeitures occurred.

9. **STOCK-BASED COMPENSATION** – continued

A summary of the Company's stock option activity for the year ended December 31, 2006 is presented in the following table:

	Shares under options	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value
Outstanding, January 1, 2006	2,656,500	$ 0.92		
Granted	555,000	0.99		
Exercised	(52,000)	0.90		
Cancelled	(612,500)	1.02		
Outstanding, December 31, 2006	2,547,000	0.92	2.9	$ 0.0
Exercisable, December 31, 2006	2,138,840	$ 0.91	2.1	$ 0.0

The aggregate intrinsic value in the table above is based on the Company's closing stock price of $ 0. 63 as of the last business day of the year ended December 31, 2006, which would have been received by the optionees had all options been exercised on that date. As of December 31, 2006, total unrecognized stock-based compensation expense related to nonvested stock options was $ 78,427 which is expected to be recognized over a weighted average period of 1.2 years. During the year ended December 31, 2006, the total intrinsic value of stock options exercised was $ nil and the total fair value of options vested was $ 184,353.

A summary of the status of the Company's nonvested shares as of December 31, 2006, and changes during the year ended December 31, 2006, is presented below:

Nonvested Shares	Shares	Weighted average grant-date fair value
Nonvested at January 1, 2006	762,580	$ 0.26
Granted	555,000	0.26
Vested	(827,180)	0.22
Forfeited	(82,240)	0.43
Nonvested at December 31, 2006	408,160	0.29

Cash received from options exercised under the share-based payment arrangement for the year ended December 31, 2006 was $ 44,465. Since the Company has not realized any deferred tax benefits, no actual tax benefit was realized relating to the options exercised.

The Company issues shares of common stock upon exercise of stock options from authorized unissued stock.

10. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2006, the Company paid $3,321,492 (2005 - $3,180,453) to Globe, a corporation controlled by Dr. Hassan Salari, the Company's former Chief Executive Officer, for research activities performed on behalf of the Company under the terms of a development agreement. Pursuant to the development agreement, the Company engaged Globe to perform certain research activities on the basis of operating cost plus a 2% margin.

The amount due to the Company from Globe as at December 31, 2006 (excluding any adjustments of costs pursuant to the termination of the development agreement outlined below) was $253,263 (2005 - $ 91,783). The Company terminated the development agreement with Globe effective on January 1, 2007. (See Note 6 and Note 15.)

Upon notification by the Company that it intended to terminate the development agreement with Globe, the Company believes that adjustments to the operating costs charged by Globe to the Company were not properly reflected in the invoices submitted by Globe under the terms of the development agreement. These adjustments relate to scientific research and experimental development tax credits that Globe received during 2006 related to their 2005 tax year. The Company believes that the approximate amount of these adjustments that should have been included in the contracted operating costs charged by Globe is $850,000, of which $425,000 would be apportioned to the year ended December 31, 2006.

In addition, the Company believes that it will be entitled to an additional adjustment under the development agreement in 2007 as final costs under the development agreement are determined by Globe. This additional adjustment relates to scientific research and experimental development tax credits that Globe will be eligible to claim during 2007 related to their 2006 tax year. The Company believes that the approximate maximum amount of this additional adjustment is $775,000.

In accordance with the termination agreement, Globe and the Company were due to settle these amounts within 60 days (See Note 15). As at December 31, 2006, the Company had not recorded any amounts expected to be received from Globe as the Company could not reliably estimate the actual amount that will be settled under the terms of the termination agreement, nor determine the probability of receiving any negotiated settlement amount.

During the year ended December 31, 2006, the Company paid board compensation to its non-executive directors totaling $ 77,500 (2005 - $ 71,750), which are included in general and administrative expense.

During the year ended December 31, 2006, the Company paid rent of $ 10,543 (2005 - $ 17,112) to Salari Enterprises Ltd., a corporation controlled by Dr. Hassan Salari, the Company's former Chief Executive Officer. The tenancy was terminated on June 30, 2006.

During the year ended December 31, 2006, the Company paid consulting fees of $ 26,381 (2005 - $ nil) to a family member directly related to Dr. Hassan Salari, the Company's former Chief Executive Officer and also to two companies controlled by a family member directly related to Dr. Hassan Salari for website administration and investor relations consulting. The Company ceased using these consulting services in January 2007.

11. INCOME TAXES

The provisions for income taxes are as follows:

	2006	2005
Current		
Federal	$ –	$ –
State	–	–
Foreign	–	–
Total current	–	–
Deferred		
Federal	(2,552,700)	(2,046,000)
State	–	–
Foreign	–	–
Total deferred	(2,552,700)	(2,046,000)
Change in valuation allowance	2,552,700	2,046,000
Total income tax expense	$ –	$ –

The following is a reconciliation of income taxes at the statutory United States federal income tax rates to the income taxes at the effective income tax rates. The Company is not subject to U.S. state income taxes.

	2006	2005
Provision (recovery) at United States federal income tax rate	$ (2,552,700)	$ (2,046,000)
Change in valuation allowance	2,552,700	2,046,000
Effective income taxes	$ –	$ –

Deferred income tax assets and liabilities are as follows:

	2006	2005
Assets		
Capitalized research expense	$ 3,960,500	$ 2,518,200
Net operating loss carryforwards	4,034,300	3,173,000
Other	101,000	–
	8,095,800	5,691,200
Valuation allowance	(8,095,800)	(5,691,200)
Net deferred income taxes	$ –	$ –

11. **INCOME TAXES** – continued

As of December 31, 2006 the Company had federal net operating loss carryforwards of approximately $ 11,865,500 and Canadian non-capital loss carryforwards of approximately $ 12,800. The federal net operating loss carryforwards will expire at various dates beginning in 2018, if not utilized beforehand. The Canadian non-capital loss carryforwards will expire at various dates beginning 2015, if not utilized beforehand.

Utilization of the net operating loss carryforwards may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

12. **COMMITMENTS**

Contractual agreements
The Company has entered into various research and development agreements with non-affiliated third parties to perform research and development services on its behalf. As at December 31, 2006, the Company is committed to pay $ 860,305 in respect of contractual agreements in the next twelve months based on invoices submitted as services are provided in accordance with the contractual agreements.

Lease agreements
The Company leases office premises and a vehicle under operating leases which expire at various dates ending December 28, 2008. Included in these commitments is one agreement entered into with Salari Enterprises Ltd., a corporation controlled by Dr. Hassan Salari, the Company's former Chief Executive Officer, which was terminated on June 30, 2006 (see Note 10). The Company is obligated to make the following minimum lease payments under its operating leases in each of the fiscal years ending December 31:

2007	$ 95,793
2008	59,169
	$ 154,962

During the year ended December 31, 2006, the Company incurred rent expense due to operating leases of $115,880 (2005 $84,270), which is included in general and administrative expense in the consolidated statement of operations.

License agreement
On April 12, 2006, the Company entered into an agreement with Pharmaceutical Product Development, Inc. ("PPDI") to re-acquire licensing rights to its drug candidate CTCE-0214 that had previously been granted to PPDI in April 2003.

Under the agreement the Company is obligated to achieve various milestones and is committed to make milestone payments.

Milestone payments are to be made as follows:
- $ 250,000 cash upon the dosing of the first subject in a Phase III clinical trial of CTCE-0214
- $ 250,000 cash upon filing a New Drug Application with the United States Food and Drug Administration ("FDA") with respect to CTCE-0214 (or any equivalent filing in any foreign country)
- $ 1,000,000 cash upon approval by the FDA (or any equivalent regulatory body in a foreign country) of CTCE-0214 for any therapeutic use
- 50 percent of the first net sales of CTCE-0214 up to $ 1,000,000

12. **COMMITMENTS –** (continued)

As at December 31, 2006, the Company had not achieved any milestones and had not paid or accrued any milestone payments.

13. **SUPPLEMENTAL CASH FLOW INFORMATION**

The Company conducted non-cash activities as follows:

	2006	2005
Financing activities		
Capital lease obligation	$ –	$ 34,650
Agent's fees settled with warrants	45,336	63,341
Warrants issued for agent's fees and recognized as offering costs	(45,336)	(63,341)
Investing activities		
Purchase of equipment	–	(34,650)
	$ –	$ –

14. **FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and cash equivalents, short term investments, amounts receivable, amount due from affiliate, accounts payable and accrued liabilities and capital lease obligation.

Fair value
The fair value of cash and cash equivalents, amounts receivable and accounts payable and accrued liabilities approximates their carrying values due to their short terms to maturity. The fair value of short term investments is determined using quoted market prices for those securities or similar financial instruments.

The fair value of the capital lease obligation approximates the carrying amount as the capital lease obligation bears a fair market rate of interest.

The fair value of the amount due from affiliate is not readily determinable as the amount is due from a related party. The amount is carried at the amount of consideration required to discharge the obligation on a current basis.

Credit risk
Cash and cash equivalents, short term investments, amounts receivable and amount due from affiliate expose the Company to credit risk. The Company minimizes its exposure to credit risk by transacting with parties that are believed to be creditworthy. The maximum potential loss on these financial instruments is equal to the carrying amounts of those items.

The Company has cash in excess of the Cdn$ 100,000 insured amount as established by the Canada Deposit Insurance Corporation.

15. SUBSEQUENT EVENTS

(i) In January 2007, the Company issued 300,000 stock options to management employees with an exercise price of Cdn$ 0.78 per share.

(ii) On January 1, 2007, CTBCC and Globe entered into an agreement wherein Globe agreed to sell certain assets (consisting mainly of laboratory equipment and leasehold improvements) to CTBCC for consideration of Cdn$ 375,935 based on the fair market value of these assets as determined by an independent appraisal, and to cease all future research and development services by Globe to the Company.

Pursuant to the agreement, the purchase price of Cdn$ 375,935 was payable by issuing a non-interest bearing promissory note of Cdn$ 125,312, due January 10, 2007 and an interest bearing promissory note of Cdn$ 250,623, bearing interest at 5% due on the earlier of June 30, 2007 or 3 business days after the Company completes a material financing. On January 10, 2007, CTBCC settled the non-interest bearing promissory note of Cdn$ 125,312.

The Company did not incur any early termination obligations by terminating its research agreement with Globe. CTBCC and Globe also entered into an agreement which provided for Globe's assignment of a partial sublease in respect of approximately 5,400 square feet of laboratory space located at the University of British Columbia to CTBCC. The Company is obligated to make minimum lease payments under the assigned sublease of $132,805 and $78,145 during the years ended December 31, 2007 and 2008, respectively.

As of January 1, 2007, in accordance with the terms of the agreement between the Company, CTBCC and Globe, CTBCC has hired the majority of the former employees of Globe.

In accordance with the termination agreement, Globe and the Company were due to settle certain amounts within 60 days (See Note 10). As at March 31, 2007, the Company was still in negotiations with Globe related to the final determination of costs and the settlement of these amounts, along with the settlement of the receivable due from Globe (expected to be offset against the promissory note payable to Globe due to the acquisition of Globe's assets on January 1, 2007).

(iii) In March 2007, C. Richard Piazza was appointed as the Chief Executive Officer of the Company and Dr. Hassan Salari assumed the position of President and Chief Scientific Officer.

16. DIFFERENCES BETWEEN UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The consolidated financial statements are presented in accordance with United States generally accepted accounting principles ("U.S. GAAP"). U.S. GAAP differs in certain material respects from Canadian generally accepted accounting principles ("Canadian GAAP"). The material differences between U.S. GAAP and Canadian GAAP are as follows:

Consolidated statement of operations

	2006	2005
Net loss under U.S. GAAP	$ (7,507,866)	$ (6,020,166)
Stock-based compensation intrinsic value basis (i)	–	289,533
Stock-based compensation fair value basis under U.S. GAAP (i)	184,085	–
Stock-based compensation fair value basis under Canadian GAAP (i)	(184,445)	(462,321)
Net loss under Canadian GAAP	$ (7,508,226)	$ (6,192,954)
Net loss per share under Canadian GAAP	$ (0.19)	$ (0.20)

(i) **Stock-based compensation**

On January 1, 2004 the Company retroactively adopted the revised provisions of the Canadian Institute of Chartered Accountants' Handbook Section 3870 "*Stock-Based Compensation and Other Stock-based Payments*" ("Section 3870"). Section 3870, as revised, requires stock-based compensation be charged to expense based on estimated fair value. The fair value of stock-based compensation is determined, under Section 3870, the same way as under SFAS No. 123 before January 1, 2006. The adoption of this revised standard impacts net loss reported under Canadian GAAP and otherwise has no impact on stockholders' equity or net cash used in operations before the adoption of SFAS No. 123R.

The Company adopted SFAS No. 123R on January 1, 2006. Generally, the approach under SFAS No. 123R is similar to the approach under Section 3870. However, SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values and requires a forfeiture assumption on the Company's unvested awards. Section 3870 does not require the forfeiture estimates.

(ii) **Contributed surplus**

U.S. GAAP uses the phrase "Additional Paid-in Capital" to describe consideration received in excess of the par value of warrants and stock options. Canadian GAAP uses the phrase "Contributed Surplus".

(iii) **Development stage disclosure**

The Company is considered a development stage Company as defined by SFAS No. 7. The Company is also considered a development stage Company under Accounting Guideline 11 "Enterprises in the development stage" of the Canadian Institute of Chartered Accountants' Handbook.

16. **DIFFERENCES BETWEEN UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES** – (continued)

(iv) **Foreign currency translation**

Canadian GAAP does not expressly provide for the concept of a "functional currency" with respect to foreign currency translation. However, the method of translation used by the Company is equivalent to the method required under Canadian GAAP.

(v) **Research and development**

Under U.S. GAAP, costs to purchase rights to unproven technology, which may not have alternative future uses, are expensed as research and development. Under Canadian GAAP, the purchase costs of such rights are generally capitalized as an intangible asset.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on April 16, 2007.

CHEMOKINE THERAPEUTICS CORP.

/s/ C. Richard Piazza
C. Richard Piazza
Chief Executive Officer

/s/ Bashir Jaffer
Bashir Jaffer
Chief Financial Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ C. Richard Piazza C. Richard Piazza	Chief Executive Officer and Chairman of the Board	April 16, 2007
/s/ Hassan Salari Hassan Salari	Director	April 16, 2007
/s/ Matthias C. Kurth Matthias C. Kurth	Director	April 16, 2007
/s/ Michael Evans Michael Evans	Director	April 16, 2007
/s/ John Osth John Osth	Director	April 16, 2007
/s/ Mohammad Azab Mohammad Azab	Director	April 16, 2007

EXHIBITS

Exhibit Number		Exhibit Description
3.1 (1)	—	Certificate of Incorporation
3.2	—	Amendment to Certificate of Incorporation
3.3 (1)	—	Bylaws
3.4 (6)	—	Amendment to Bylaws
10.1 (1)	—	License Agreement between Chemokine Therapeutics Corp. and University of British Columbia dated September 22, 1999
10.2 (1)	—	Development Agreement, dated January 1, 2003, between Chemokine Therapeutics Corp. and Globe Laboratories Inc.
10.3 (1)	—	Employment Agreement dated April 1, 2004, between Chemokine Therapeutics Corp. jointly with Chemokine Therapeutics (B.C.) Corp. and Dr. Hassan Salari
10.4 (1)	—	Employment Agreement dated April 1, 2004, between Chemokine Therapeutics Corp. jointly with Chemokine Therapeutics (B.C.) Corp. and Walter Korz
10.7 (2)	—	2004 Warrant Agreement between Pharmaceutical Product Development, Inc. and Chemokine Therapeutics Corp. dated September 14, 2004
10.8 (2)	—	Amendment to Employment Agreement dated with Dr. Hassan between Chemokine Therapeutics Corp. jointly with Chemokine Therapeutics (B.C.) Corp. and Dr. Hassan Salari
10.9 (3)	—	Lease Agreement dated January 1, 2003, between Salari Enterprises Ltd. and Chemokine Therapeutics Corp.
10.12 (2)	—	The 2004 Stock Option Plan
10.13 (5)	—	Amended Employment Agreement dated March 10, 2005, between Dr. Hassan Salari and Chemokine Therapeutics Corp. jointly with Chemokine Therapeutics (B.C.) Corp.
10.15 (6)	—	Preferred Stock and License Restructuring Agreement dated April 12, 2006, between Pharmaceutical Product Development, Inc. and Chemokine Therapeutics Corp.
10.06 (6)	—	Letter agreement dated April 12, 2005, by and between the University of British Columbia and Chemokine Therapeutics Corp.
10.17 (7)	—	Executive Services Agreement dated June 28, 2006, between Chemokine Therapeutics Corp. jointly with Chemokine Therapeutics (B.C.) Corp. and Dr. Guy Ely, N.D. Life Sciences Corp.
10.18 (8)	—	Termination of the amended employment agreement between Chemokine Therapeutics Corp. jointly with Chemokine Therapeutics (BC) Corp. and David Karp
10.19(9)	—	Purchase Agreement by and among Chemokine Therapeutics Corp., Chemokine Therapeutics (B.C.) Corp. and Globe Laboratories Inc. dated January 1, 2007
10.20(9)	—	Sub-Lease by and between Discovery Parks Trust and Globe Laboratories Inc. dated June 23, 2000
10.21(9)	—	Extension and Amendment of Sub-Lease by and between Discovery Parks Trust and Globe Laboratories Inc. dated December 13, 2006
10.22(9)	—	Partial Assignment of Sub-Lease from Globe Laboratories Inc. to Chemokine Therapeutics (B.C.) Corp. dated January 1, 2007
10.23	—	Sub-Lease Agreement dated May 6, 2005
10.24	—	Form of Indemnification Agreement
10.25	—	Employment Agreement dated November 16, 2006, between Bashir Jaffer and Chemokine Therapeutics Corp. jointly with Chemokine Therapeutics (B.C.) Corp.
10.26	—	Employment Agreement dated March 1, 2007, between Guy Ely and Chemokine Therapeutics Corp. jointly with Chemokine Therapeutics (B.C.) Corp.
21.1	—	List of Subsidiaries of Chemokine Therapeutics Corp.
23.1	—	Consent of M.D. Sassi Company, Independent Registered Public Accounting Firm.

31.1 — Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2 — Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1 — Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) Incorporated by reference to the exhibit filed with the Registration Statement on Form SB-2 (Reg. No. 333-117858) on August 2, 2004.
(2) Incorporated by reference to the exhibit filed with Amendment No. 1 to Registration Statement on Form SB-2 (Reg. No. 333-117858) on October 20, 2004.
(3) Incorporated by reference to the exhibit filed with Amendment No. 2 to Registration Statement on Form SB-2 (Reg. No. 333-117858) on November 26, 2004.
(4) Incorporated by reference to the exhibit filed with Amendment No. 3 to Registration Statement on Form SB-2 (Reg. No. 333-117858) on December 17, 2004.
(5) Incorporated by reference to the exhibit filed with Form 10-KSB on March 15, 2005.
(6) Incorporated by reference to the exhibit filed with Form SB-2/A (Reg. No. 333-133476) on April 24, 2006.
(7) Incorporated by reference to the exhibit filed with Form 10-QSB on August 10, 2006.
(8) Incorporated by reference to the exhibit filed with Form 10-QSB on November 14, 2006.
(9) Incorporated by reference to the exhibit filed with the Form 8-K on January 8, 2007.

Exhibit 21.1

LIST OF SUBSIDIARIES OF CHEMOKINE THERAPEUTICS CORP.

Name	**State of Incorporatio**	**Name Under Which Subsidiary Does Business**
Chemokine Therapeutics (BC) Corp.	British Columbia, Canada	Chemokine Therapeutics (BC) Corp.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANT FIRM

We hereby consent to the use in this Annual Report on Form 10-KSB of our report dated April 11, 2007, relating to the consolidated financial statements of Chemokine Therapeutics Corp., and into the previously filed Registration Statement on Form S-8 (No. 333-122868).

/s/ M.D. Sassi Company

San Francisco, California
April 16, 2007

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, C. Richard Piazza, certify that:

1. I have reviewed this Annual Report on Form 10-KSB for the year ended December 31, 2006 of Chemokine Therapeutics Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 16, 2007

/s/ C. Richard Piazza
C. Richard Piazza
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Bashir Jaffer, certify that:

1. I have reviewed this Annual Report on Form 10-KSB for the year ended December 31, 2006 of Chemokine Therapeutics Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 16, 2007

/s/ Bashir Jaffer
Bashir Jaffer
Chief Financial Officer

Exhibit 32

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, C. Richard Piazza, Chief Executive Officer of Chemokine Therapeutics Corp. (the "Company"), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Annual Report of the Company on Form 10-KSB for the year ended December 31, 2006, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ C. Richard Piazza
C. Richard Piazza
Chief Executive Officer

April 16, 2007

I, Bashir Jaffer, Chief Financial Officer of Chemokine Therapeutics Corp. (the "Company"), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Annual Report of the Company on Form 10-KSB for the year ended December 31, 2006, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Bashir Jaffer
Bashir Jaffer
Chief Financial Officer

April 16, 2007

TECHNICAL ENTERPRISE FACILITY 3 SUB-LEASE

ARTICLE 1. - BASIC TERMS

1.1 The Basic Terms of the Sub-Lease are:

(a) **Landlord:** DISCOVERY PARKS TRUST

(b) **Landlord's address:** 750 - 1333 WEST BROADWAY
VANCOUVER, B.C. V6H 4C1

(c) **Tenant:** CHEMOKINE THERAPEUTICS (B.C.) CORP.

(d) **Tenant's address:** 204, 2386 EAST MALL, VANCOUVER, B.C.

(e) **Covenantor:**

(f) **Covenantor's address:**
Premises:

(g) **Rentable Area of Premises:** The rentable area of the Premises is 3,610 sq.ft. and has been confirmed by the Landlord's surveyor in accordance with BOMA standards for office premises.

(h) **Term:** Three (3) years and four (4) months commencing on the Commencement Date

(i) **Commencement Date:** April 1, 2005, subject to the provisions of Article 4;

(j) **Fixturing Period:** The Tenant shall be allowed to occupy the Premises at any time prior to the Commencement Date for the purposes of completing its Tenant Fixturing but not before the time that the Sub-Lease has been executed by the Tenant. Such occupancy shall be free of Basic Rent, Operating Costs and Taxes, except that the Tenant shall be required to pay any incremental costs to the Landlord as a consequence of such occupancy.

(k) **Basic Rent:**

Lease Year	PSF Per Annum	Per Annum	Per Month
Years 1 – 3.33	$19.25	$69,492.50	$5,791.04

(l) **Notwithstanding the foregoing the Tenant shall not be required to pay Basic Rent for the 1st , 2nd, 13th, and 25th months of the Term.**

(m) **Research Activity:** The premises shall be used for the purposes of offices ancillary to their life sciences research.

(n) **Parking Permits:** The Tenant shall have the option to rent from the Landlord 4 parking stalls at the prevailing rates set by the Landlord from time to time. The Tenant shall exercise such option prior to the Commencement Date of the Sublease. If the Tenant does not exercise such option to rent the parking stalls prior to the Commencement Date, the Landlord shall be under no further obligation to rent any parking stalls to the Tenant during the Term of the Sublease. Parking rates shall be subject to applicable goods and services taxes and to annual adjustments during the Term based upon prevailing market rates.

In addition, the Tenant shall have the option to acquire up to 11 parking permits at the Commencement Date of the Term, subject to the payment of the fees and the terms of issuance of such permits by The University of British Columbia.

(o) **Deposit:** $16,327.29 being the first and last months estimated gross rent, including GST.

(p) **Landlord's Work:** The Landlord's Work is that work to complete the base building and to fixture the Premises as described in Schedule A hereto.

(q) **Costs of Changes to Landlord's Work:** subject to change when the actual amounts are determined as provided in clause 10.1.

(r) **Renewal Term:** Option to Renew for a term of 3 years (the "Renewal Term")

The Parties, in consideration of the covenants and agreements in this Sub-Lease contained, covenant and agree each with the other that the Basic Terms, Standard Provisions and schedules attached hereto shall form the Sub-Lease, and the Parties shall be bound by the same. Each reference in the Sub-Lease to any of the Basic Terms shall be construed to include the provisions set forth in Article 1 as well as all of the Standard Provisions where the Basic Terms are more fully set forth.

IN WITNESS WHEREOF the Landlord and the Tenant have executed this Sub-Lease as of the ____ day of _____ , 2005

Landlord:	Tenant:
DISCOVERY PARKS TRUST	**CHEMOKINE THERAPEUTICS B.C. CORP.**
_____	_____
Authorized Signatory	Authorized Signatory

STANDARD PROVISIONS

ARTICLE 2. - DEFINITIONS

2.1 In this Sub-Lease:

(a) "Activities" means the Research Activities as defined in this Sub-Lease carried on by the Tenant or any subtenant or occupant on or about the Premises or the Lands and includes all acts, processes and operations comprised in those activities and all other acts and operations of the Tenant or any subtenant or occupant performed or carried on by any of them on or about the Premises or the Lands;

(b) "Additional Pollution" means Pollution of the Lands or Building as disclosed by a Further Audit and which is not Existing Pollution or the result of the migration of Pollution onto the Lands or Building;

(c) "Affiliate" has the meaning ascribed to it in the Company Act of British Columbia;

(d) "Article" means an Article in this Sub-Lease and includes all clauses therein;

(e) "Audit" means the environmental investigation of the Lands and Building performed Pacific Environmental Consultants and dated September 18, 2001;

(f) "Authority" means any government agency, body, corporation, organization, department or authority responsible for administering or enforcing any Law;

(g) "Basic Terms" means the terms as described in Article 1, clause 1.1 of this Sub-Lease;

(h) "Building" means the building situate on the Lands within which the Premises are located and all improvements thereto;

(i) "Business Days" mean Monday to Friday inclusive in each week, save and except any such day that shall be declared a statutory holiday in British Columbia;

(j) "Campus" means the lands and premises situate west of the Point Grey District of Vancouver, British Columbia and shown in heavy outline in Schedule B attached hereto and forming part hereof;

(k) "Commencement Date of Term" means that date as specified in the Basic Terms, but subject to the provisions of Article 4 herein;

(l) "Common Areas and Facilities" means those areas and facilities of the Lands and/or the Building that are designated by the Landlord as common areas and facilities, which designation may be changed by the Landlord from time to time, including but not limited to the electrical, mechanical, heating, ventilating, air-conditioning, plumbing and drainage systems, the roof, exterior walls and entrances, canopies, elevator, lighting, fire prevention, security and installations and any enclosures therefor;

(m) "Complementary Facilities" means facilities on the Campus such as roadways, parking areas and other improvements which are to be used in connection with the operations of the Tenant and others;

(n) "Consultant" means any qualified environmental consultant designated in writing by the Landlord;

(o) "Development Guidelines" means those guidelines identified from time to time as such by the Head Landlord for the orderly development and operation of buildings on the Campus or any improvements thereon;

(p) "Easement Area" means those areas shown in heavy outline and in heavy outline and cross hatched on plan LMP44331 deposited in the Vancouver Land Title Office on

December 9, 1999, comprising 1.465 ha., more or less;

(q) "Environment" has the meaning given to it in the Canadian Environment Protection Act (Canada) from time to time;

(r) "Exclusive Supplier" means a manufacturer and/or supplier of products or services with whom the Head Landlord has entered into a Strategic Alliance for the exclusive advertising, supply and sale of that manufacturer's or supplier's products and/or services throughout the Campus;

(s) "Existing Pollution" means the Pollution of the Lands or Building, if any, disclosed by the Audit;

(t) "Further Audit" means an environmental audit of the Lands and Building performed by the Consultant on behalf of the Landlord or the Head Landlord to determine the existence, nature and extent of any Additional Pollution and to determine what Remedial Action if any is necessary with respect to any Additional Pollution and to determine the cost of remediating that Additional Pollution;

(u) "Head Landlord" means The University of British Columbia;

(v) "Head Lease" means the lease of the Lands between the Head Landlord as landlord and the Landlord as tenant and dated for reference May 1,2001, and registered in the Vancouver Land Title Office under number , a copy of which is available at the office of the Landlord for the review of the Tenant;

(w) "Landlord's Work" means work to be carried out and completed by the Landlord as described in the Basic Terms;

(x) "Lands" means those lands forming part of the Campus 1999 situate at Esat Mall and Agronomy Road on the Campus comprising 0.2425 ha. more or less and shown in heavy outline and dotted on Reference Plan deposited in the Vancouver Land Title Office on The entire parcel of which the Lands form a part is legally described as:

Vancouver Assessment Area
Parcel Identifier 015-940-357
District Lot 4805
Except portions in plan 9301 and
Statutory Right of Way plan 20570
Group 1 New Westminster District;

(y) "Law" means any Federal, Provincial, Municipal and other governmental laws and regulations relating to protection of the environment or its Pollution including without limitation, the Canadian Environmental Protection Act (Canada) and the Waste Management Act (British Columbia) and the regulations made under them and includes any amendment, revision, re-enactment or replacement of any such Law, regulation or by-law;

(z) "Lease Year" means after the reference date of this Sub-Lease, the 12 month period commencing on January 1 and ending on December 31 during each year of the Term, provided that the first Lease Year shall commence on the Commencement Date set out in Article 4 and end on the last day of the following December and the last Lease Year shall end on the last day of the Term and commence on the preceding first day of January;

(aa) "Main Campus Plan" means The University of British Columbia Main Campus Plan 1992 as adopted by the UBC Board of Governors and as amended up to the date of the Head Lease;

(bb) "Medium" means any land, water or air and includes the Lands, Building and Premises;

(cc) "Normal Business Hours" means the hours on Business Days from 8:00 a.m. to 6:00 p.m.;

(dd) "Notice of Non-Compliance" means any written notice, requisition, requirement or order made by an authority having jurisdiction under any Law relating to the Lands or Building, Pollution of the Lands or Building or the Activities;

(ee) "Occupancy" means the Premises are substantially ready for occupancy by the Tenant to carry on its permitted uses under this Sub-Lease, regardless of whether the Tenant actually occupies the Premises;

(ff) "Operating Expenses" means the total of the Landlord's costs and expenses for any period of every kind and nature incurred in connection with the management, operation, maintenance, repair and replacement of the Lands and Building and every part thereof, such costs and expenses to include without limitation and without duplication of expense:

(i) The total annual cost incurred by the Landlord of insuring the Head Landlord, the Landlord, the Lands, the Building, and the improvements and equipment and other property in the Building and facilities of the Building against property damage, rental loss, general liability and such other perils as the Landlord or Head Landlord may require, acting reasonably, from time to time, in such manner, with such companies and firms, with such coverage and in such amounts as the Landlord, or its mortgagees or the Head Landlord may, from time to time, determine;

(ii) costs of janitorial, security services and devices and patrols, cleaning, snow and ice removal, garbage and waste collection and disposal, operating and maintaining supply loading and receiving areas and truck docks;

(iii) costs of lighting, (including ballasts, starters and tubes but excluding specialty lighting installed by or for tenants) electricity, telephone, gas, steam, hot and cold water, and all other utilities, loud-speakers, public address and musical broadcasting systems, fire prevention and alarm systems and the cost of any signs;

(iv) salaries and wages of all personnel including supervisory personnel and head office personnel who perform duties with respect to the Lands and Building and the operations of the Landlord with respect to the Lands and Building, including contributions towards usual fringe benefits, unemployment insurance, pension plan contributions and similar contributions, provided that if the personnel are employed in performing duties for properties in addition to the Lands and Building, then such part of the salaries and wages and other costs as are attributable to the work done on other properties shall not be included in Operating Expenses;

(v) the rental and cost of acquisition, provision, operation, maintenance, repairs and replacement of any equipment including telephone entry systems, security devices and services;

(vi) the cost of building supplies used by the Landlord in the cleaning and maintenance of the Lands and Building and the costs of employee uniforms and drycleaning;

(vii) heating, air-conditioning and ventilation costs for the Building;

(viii) service contracts with independent contractors for goods and services supplied to the Lands and Building;

(ix) repair and replacements (except where the cost of any such replacements are directly attributable to inherent structural defects) to and maintenance, decoration and operation of the Lands and surrounding areas and Building

including all fixtures, the cost of gardening and landscaping maintenance and any grade level improvements and equipment;

(x) depreciation and interest costs with respect to machinery, equipment, systems, property or facilities installed in or used in connection with the Lands or Building;

(xi) energy saving expenses for the Building;

(xii) engineering, accounting, legal and other consulting and professional services, including the cost of preparing statements of Operating Expenses;

(xiii) a fee for the management of the Lands and the Building incurred by the Landlord with third party managers, or if the Landlord manages the Building, 4% of the total rent for the Building, calculated as if the Building was fully leased at market terms and occupied;

(xiv) all costs payable by the Landlord pursuant to the Head Lease, including without limitation and without duplication, the Service Levy and all charges by the Head Landlord under the Head Lease except the Minimum Rent and Net Rent as defined in the Head Lease;

(xv) all other property management costs, expenses and outlays incurred by the Landlord with respect to the Lands and the Building, the supply of office space and services attributable to the Lands and Building and the operation and management thereof;

and there shall be deducted from such costs and expenses to the extent the same have been included in costs and expenses:

(xvi) amounts directly chargeable (as distinguished from shared costs) by the Landlord to the Tenant hereunder or which would be similarly directly chargeable to another tenant as otherwise provided herein or in such tenant's lease, and amounts for marketing, commissions for leasing premises and expenditures for tenant inducements;

(xvii) costs for which the Landlord is reimbursed by the proceeds of insurance claims to the extent of such reimbursement.

If the Building is not 100% completed or occupied during the whole of any period for which Operating Expenses are being calculated, the Operating Expenses shall be calculated by including such additional costs as would have been incurred if the Building had been 100% completed and occupied during such period, as reasonably determined by the Landlord;

(gg) "Parties" shall mean the parties to this Sub-Lease;

(hh) "Person" includes a person, firm, corporation, partnership, group of persons, or any combination of them, and the personal or other legal representatives of such person to whom the context can apply at law;

(ii) "Pollute" is a verb which means to Release into or unto any Medium any Substance that:

(i) alters the physical, biological or chemical nature of that Medium,

(ii) alters the capacity of the Medium to support any living thing whether animal or plant life,

(iii) injures or is capable of injuring the health or safety of a person in or near the Medium,

(iv) injures or is capable of injuring property or any life form in or near the Medium,

(v) interferes with or is capable of interfering with visibility or the dispersion of light or any photochemical activity within the Medium,

(vi) interferes with or is capable of interfering with normal conduct of business in, on, near or from the Medium,

(vii) causes or is capable of causing physical discomfort to a person in, on or near the Medium,

(viii) damages or is capable of damaging the Environment, or

(ix) is Special Waste,

and such Release is prohibited, regulated, controlled or licensed under any Law and "Polluted" is an adjective and "Pollution" and "Pollutant" are nouns which have meanings that correspond to the meaning contained in this clause.

(jj) "Premises" means the portion of the Building hereby leased to the Tenant designated as "Premises" on the sketch attached hereto as Schedule "C". The Landlord may make variations to the boundaries of the Premises from those shown on Schedule C provided that the variations do not materially adversely affect the use of the Premises for the purpose provided herein;

(kk) "Prime Rate" means the rate of interest per annum (regardless of how or when calculated) designated from time to time by the Landlord's principal banker (the "Bank") as being the prime commercial lending rate (now commonly known as the Bank's prime rate) charged by the Bank for demand loans in Canadian funds made at the main branch of the Bank in Vancouver, British Columbia, and if at any time there is more than one prime commercial lending rate of the Bank then the Prime Rate shall be the highest prime commercial lending rate of the Bank;

(ll) "Release" includes release, store, manufacture treat, generate, transport, spill, leak, pump, pour, dump, abandon, emit, empty, discharge, spray, inoculate, deposit, seep, throw, place, exhaust, inject, escape, leach, dispose, infuse or introduce;

(mm) "Remedial Action" means any act, measure, work or thing done, taken, carried out, acquired or constructed that is or may be reasonably necessary to investigate, assess, control, abate, dissipate, render harmless, mitigate or remove Pollution in accordance with the requirements of any Authority having jurisdiction over a Pollutant;

(nn) "Rent" means the Rent set out in clause 5.1 and all other money payable by the Tenant under this Sub-Lease whether or not designated as "Rent", excluding goods and services taxes payable by the Tenant;

(oo) "Rentable Area" means an area which, in the case of the Building, shall be calculated as if the entire Building were let to tenants occupying whole floors; in the case of premises occupying a whole floor, shall include the area occupied, measured from the interior glass line of exterior glazing and shall include elevator lobbies, washrooms, electric and communication closets, janitor's closets, flues, wet stacks, venting and ducting shafts, vertical ducts and the walls enclosing them and other closets within and exclusively serving that floor, and a portion of electrical and other equipment rooms in the Building, main lobbies and meeting rooms available in the Building for the use of tenants as determined by the Landlord, acting reasonably; in the case of premises occupying less than a whole floor, shall include the area occupied measured from the interior glass line of exterior glazing to the office side of corridor walls and to the centre of partitions separating the premises from adjoining premises, to which shall be added a portion as determined by the Landlord, acting reasonably so as to provide for the Basic Rent payable as if whole floors were rented, of the area of the corridors, elevator lobbies, washrooms, electric and communication closets, janitor's

closets, flues, wet stacks, shafts, vertical ducts and the walls enclosing them, other closets within and exclusively serving that floor, electrical and other equipment rooms in the Building, main lobbies and meeting rooms in the Building for the use of tenants; but Rentable Area shall not include pipe shafts for the air handling unit, stairs (unless installed for the exclusive benefit of a tenant), or elevator shafts; and no deductions shall be made for vestibules inside the Building line or for columns and projections necessary to the Building;

(pp) "Research Activity" means the carrying on or application of scientific and technological research and development as described in the Basic Terms in cooperation with governments, business and industry, foundations, universities and other educational institutions in the application of science and technology for the development of industry in British Columbia and shall, subject to the other terms of this Sub-Lease, include the right of the Tenant to develop and construct prototypes of goods or products, for the purpose of further research, development and testing as part of the carrying on of the Research Activity. In the process of developing the scientific and technological research and development, certain goods and products may be offered for sale;

(qq) "Sales Taxes" means any and all taxes, fees, charges, assessments, rates, levies, duties and excises (whether characterized as sales taxes, purchase taxes, value added taxes, goods and services taxes or any other form of tax) which are imposed on the Tenant or the Landlord or for which the Landlord or Tenant is obliged to pay, or to collect from the Tenant, and which are levied, rated or assessed on the act of entering into this Sub-Lease or otherwise on account of this Sub-Lease, on the use or the occupancy of the Lands and Building or any portion of the Lands and Building, on the Rent payable under this Sub-Lease or any portion of the Rent or in connection with the business of renting the Lands or Building or any portion thereof and include all such taxes, fees, charges, assessments, rates, levies, duties and excises with respect to:

(i) any or all amounts paid or payable by the Landlord for goods and services, repairs, maintenance, real estate taxes, insurance, and all other outlays and expenditures (including capital expenditures) for and in connections with the Lands and the Building, including without limiting the generality of the foregoing, repairs, maintenance and replacements in respect of the Building;

(ii) any or all amounts paid or payable by the Tenant pursuant to this Sub-Lease, including Rents; and

(iii) this Sub-Lease or services or goods supplied or provided or deemed to have been supplied or provided by the Landlord or which the Landlord is deemed responsible to provide in accordance with the terms of this Sub-Lease or the consideration for such goods and services,

whether in each case characterized as goods and services tax, sales tax, multi-stage sales tax, value added tax, consumption tax or any other tax, levy, duty or assessment. Provided however, Sales Taxes shall exclude income tax under Part I of the Income Tax Act of Canada, the Tenant's Taxes and the Taxes;

(rr) "Service Levy" means the charge levied by the Head Landlord against the Landlord for the use of certain services, sometimes provided by municipalities or other public authorities and for the use of the Complementary Facilities both of which are provided by the Head Landlord to all tenants located on the Campus;

(ss) "Special Waste" has the meaning given to it in the Waste Management Act (British Columbia) but if the Waste Management Act (British Columbia) is repealed, "Special Waste" has the meaning given to it on the day immediately proceeding the repeal of that Act or if that Act is amended so that the term "Special Waste" is no longer used in it then "Special Waste" has the same meaning as the term which replaces it in that Act;

(tt) "Strategic Alliance" means the exclusive sponsorship, advertising and/or supply

arrangements set out in any agreement that the Head Landlord has entered into in writing with an Exclusive Supplier whereby restrictions are imposed on the activities of the occupants of premises on the Campus and pursuant to which the Landlord has an obligation to observe such restrictions and to have each tenant covenant to observe such restrictions;

(uu) "Sub-Lease" means this Sub-Lease, including all schedules attached hereto and forming part hereof and any amendments in writing signed by the Parties;

(vv) "Substance" means any hazardous material or matter, whether in liquid, solid, gas or other form, that is prohibited, regulated, controlled or licensed by any Laws;

(ww) "Taxes" means all taxes, fees, levies, charges, assessments, rates, duties and excises which are or may hereafter be levied, imposed, rated or assessed upon or with respect to the Lands and Building or any part of the Lands and Building or any personal property of the Landlord used therefor, by the Government of Canada, the Government of British Columbia, or any political subdivision, political corporation, district, municipality, city, aboriginal group or other political or public entity, whether or not now customary or in the contemplation of the parties on the date of this Sub-Lease. Without restricting the generality of the foregoing, Taxes shall include all:

(i) real property taxes, general and special assessments and capital taxes, and business taxes of the Landlord with respect to the Lands or Building or the undertaking of the Landlord thereon,

(ii) taxes, fees, levies, charges, assessments, rates, duties and excises for transit, housing, schools, police, fire, sewer or other governmental services or for purported benefits to the Lands and Building,

(iii) local improvement taxes, service payments in lieu of taxes, and taxes, fees, levies, charges, assessments, rates, duties and excises, however described, that may be levied, rated or assessed as a substitute for, or as an addition to, in whole or in part, any property taxes or local improvement taxes, and

(iv) costs and expenses including legal fees and other professional fees and interest and penalties on deferred payments, incurred by the Landlord in contesting or appealing any taxes, assessments, rates, levies, duties, excises, charges or other amounts as aforesaid,

but Taxes shall exclude income tax under Part I of the Income Tax Act of Canada, the Tenant's Taxes and the Sales Taxes. If the Building is not 100% completed or occupied during the whole of any period for which Taxes are being calculated, the Taxes shall be calculated by including such additional amounts as would have been assessed if the Building had been 100% completed and occupied during such period, as reasonably determined by the Landlord;

(xx) "Tenant's Proportionate Share" means that proportion, the numerator of which is the Rentable Area of the Premises and the denominator of which is the Rentable Area of the Building;

(yy) "Tenant's Taxes" means all taxes, fees, levies, charges, assessments, rates, duties and excises which are now or may hereafter be levied, imposed, rated or assessed by any lawful authority relating to or in respect of the business of the Tenant or relating to or in respect of personal property and all business and trade fixtures, machinery and equipment, cabinet work, furniture and movable partitions owned or installed by the Tenant or being the property of the Tenant, or relating to or in respect of improvements to the Lands built, made or installed by the Tenant or on behalf of the Tenant or at the Tenant's request whether any such amounts are payable by law by the Tenant or by the Landlord and whether such amounts are included by the taxing authority in the Taxes;

(zz) "Term" means the period of time described in Article 4 hereof;

(aaa) "Transferee" means the assignee, subtenant, purchaser, mortgagee or other party acquiring an interest in this Sub-Lease from the Tenant;

(bbb) "Works" means any alteration, improvement, structure, building or work constructed or to be constructed by or on behalf of the Tenant on the Lands.

SCHEDULES

2.2 The following schedules attached hereto form part of this Sub-Lease:

Schedule A -	Landlord's Work
Schedule B -	Plan of Campus
Schedule C -	Premises
Schedule D -	Exclusive Suppliers

ARTICLE 3. - DEMISE AND EASEMENT

3.1 In consideration of the Rent prescribed herein and the faithful performance by the Tenant of the terms, covenants and conditions herein on the part of the Tenant to be kept and performed the Landlord hereby leases to the Tenant and the Tenant hereby leases from the Landlord the Premises for the Term.

3.2 For the Term the Tenant shall be entitled, in common with all others entitled thereto, to the enjoyment as appurtenant to the Premises, for itself, its invitees and licensees, of the right, privilege and license over the common roadways on the Campus for the purposes of access and egress to and from the Premises. The Head Landlord may alter the boundaries or change the location of any of the roadways and walkways from time to time so long as adequate access to and egress from the Premises is provided.

3.3 The Tenant's entitlement to park on the Campus is subject to the Tenant satisfying the rules and regulations of the Head Landlord generally adopted for parking on the Campus. The Tenant and its invitees and licensees shall not park except in the areas designated by the Head Landlord for parking, and then only with valid parking permits permitting parking in such area properly displayed in accordance with the rules and regulations adopted by the Head Landlord from time to time. The Tenant shall pay all fees imposed by the Head Landlord for parking, and all fines and charges (including without limitation, charges for impounding and towing) imposed on the vehicles of the Tenant, its invitees and licensees. At the Commencement Date of the Term the Tenant shall be entitled, at the Tenant's cost, to the number of parking permits described in the Basic Terms and provided that the Tenant then acquires such permits, the Tenant shall be responsible for the costs of such parking permits and the due observance and performance of the rules and regulations imposed by the Head Landlord from time to time with respect to the same.

3.4 The Tenant shall not register this Sub-Lease in the appropriate land title office or elsewhere without the prior written consent of the Landlord, which consent may require the Tenant to post with the Landlord security for the performance of the Tenant's obligations and shall require the Tenant to bear all costs of registration and of preparation and registration of appropriate plans and of registration of a discharge of this Sub-Lease at the termination of the same, if registered.

ARTICLE 4. - TERM OF SUB-LEASE

4.1 Subject to the provisions of clause 4.2, the Term of this Sub-Lease shall commence on the date described as the Commencement Date of the Term in the Basic Terms and shall continue for the Term described in the Basic Terms unless sooner terminated as herein provided.

4.2 If the Landlord is delayed in completing the Landlord's Work or providing possession of the Premises for any reason other than due to a default of the Tenant, the Commencement Date of the Term shall be extended to the date that is the number of days set out in the Basic Terms as the fixturing period after the date that the Landlord has notified the Tenant that the Tenant may have non-exclusive access to the Premises for the purpose of installing the Tenant's trade fixtures. If the Landlord is delayed in providing possession of the Premises due to the Tenant's default, the Landlord may elect to terminate this Sub-Lease and the deposit described in the Basic Terms and all amounts payable by the Tenant for the Landlord's Work shall be immediately due and payable by the Tenant to the Landlord as an estimate of the damages suffered by the Landlord for the Tenant's default, or the Landlord may elect to continue this Sub-Lease and enforce the terms thereof whereupon the Commencement Date of the Term shall be that date set out in the Basic Terms as the estimated Commencement Date of the Term.

ARTICLE 5. – RENT AND DEPOSIT

5.1 The Tenant covenants and agrees to pay to the Landlord, or as the Landlord may in writing direct, Rent which shall be the aggregate of the sums specified in clauses (a), (b) and (c) of this clause:

(a) as Basic Rent the sum per square foot of Rentable Area of the Premises per annum as set out in the Basic Terms;

(b) the Tenant's Proportionate Share of Operating Expenses and Taxes charged for each Lease Year; and

(c) all other amounts payable by the Tenant to the Landlord as provided in this Sub-Lease.

5.2 The Tenant shall also pay all costs and all utilities referred to in clause 5.6, all Tenant's Taxes, and all Sales Taxes. The Landlord shall be entitled to collect any such amount that is not so paid by the Tenant as rent in arrears.

5.3 The Tenant shall pay the Basic Rent in equal monthly instalments in advance on the first day of each month in the amounts as set out in the Basic Terms, and the Tenant shall pay the rent described in clause 5.1(b) and clause 5.2 from time to time in accordance with the provisions of Article 6.

5.4 The Tenant shall pay the Deposit as set out in the Basic Terms and the Landlord may apply the same against amounts due by the Tenant to the Landlord in the Landlord's sole discretion. If the Landlord has not applied the said Deposit, it shall be credited against the amounts payable for the last months' Rent, with the monies applied firstly against the amount payable for the last month's Rent.

5.5 The Tenant shall deliver to the Landlord at its request receipts for payments of all Taxes and Tenant's Taxes payable by the Tenant, notices of assessments for Taxes or Tenant's Taxes or other assessments received by the Tenant that relate to the Premises, and whatever other information relating to Taxes and Tenant's Taxes that the Landlord reasonably requests from time to time. The Tenant shall deliver to the Landlord at least 10 days before the last date for filing appeals, notice of any appeal or contestation that the Tenant intends to institute with respect to Taxes or Tenant's Taxes payable by the Tenant and obtain the prior written consent of the Landlord for the appeal or contestation, which consent shall not be unreasonably withheld. If the Tenant obtains the Landlord's consent and does not pay the Taxes or Tenant's Taxes before the appeal or contestation, the Tenant shall deliver to the Landlord whatever security for the payment of the Taxes or Tenant's Taxes as the Landlord reasonably requires, and the Tenant shall promptly and diligently prosecute the appeal or contestation, and keep the Landlord informed on all aspects of it. The Tenant shall indemnify and save the Landlord harmless from all loss, cost, charges and expenses arising from Taxes or Tenant's Taxes as well as any taxes, rates, levies and assessments that may be levied or imposed in place of Taxes or Tenant's Taxes, whether against the Landlord or the Tenant including but not limited to, increases in Taxes or Tenant's Taxes arising out of an appeal or contestation by the Tenant. The Tenant shall deliver to the Landlord any security for such an increase in Taxes or Tenant's Taxes or any other taxes that the Landlord reasonably requires.

5.6 The Landlord and Tenant agree that this Sub-Lease is absolutely net to the Landlord

except as otherwise provided in this Sub-Lease, and that all costs with respect to the Premises, and the Tenant's Proportionate Share of all costs with respect to the Lands and Building, without duplication, shall be paid by the Tenant and without limiting the generality of the foregoing, the Tenant shall pay promptly as the same become due and indemnify the Landlord against:

(a) the costs of all utilities and other services required by the Tenant to properly service the Premises;

(b) all rates for electricity, gas, scavenging, sewage, telephone, water, steam and other utilities and services used upon or furnished to the Premises during the Term;

(c) all costs of all maintenance, repairs and replacements to the Premises except as provided in clause 19.4;

(d) every cost with respect to the provision of security services to the Premises, such services and patrols to be provided by the Landlord or as the Landlord may otherwise determine;

(e) every cost payable by the Landlord incurred with respect to the Tenant or the Premises and not otherwise provided for herein.

5.7 All payments by the Tenant to the Landlord of whatsoever nature required or contemplated by this Sub-Lease including all payments of Basic Rent shall be:

(a) paid to the Landlord by the Tenant by either post-dated cheques for such portion of the Term as required by the Landlord from time to time or by pre-authorized payment permitting the Landlord to withdraw from the bank account of the Tenant the Rent payable from time to time by the Tenant;

(b) made when due hereunder, without prior demand, without any set off, compensation or deduction whatsoever, at the office of the Landlord as set out above or at such place as the Landlord may designate in writing from time to time to the Tenant;

(c) applied towards amounts then outstanding hereunder, in such manner as the Landlord may see fit; and

(d) shall be payable and recoverable as Rent, such that the Landlord shall have all rights and remedies against the Tenant for default in making any such payment which may not be expressly designated as Rent as the Landlord has for default in payment of Rent.

5.8 All Rent reserved herein shall be deemed to accrue from day to day and if for any reason it shall become necessary to calculate the same for irregular periods of less than 12 consecutive months an appropriate pro-rata adjustment shall be made on a daily basis in order to compute for such irregular period.

5.9 The Tenant hereby waives and renounces any and all existing and future claims, off-sets and compensation against any Rent or other amounts due hereunder and agrees to pay such Rent and other amount regardless of any claim, set-off or compensation which may be asserted by the Tenant or on its behalf.

ARTICLE 6. - OPERATING EXPENSES AND OTHER COSTS

6.1 As soon as reasonably possible after the Commencement Date and after the commencement of each Lease Year, and from time to time as the Landlord revises the estimate, the Landlord shall furnish to the Tenant an estimate of the Operating Expenses, Taxes, and other amounts payable by the Tenant to the Landlord under this Sub-Lease (excluding Basic Rent) for the period described in such estimate or revised estimate. The Tenant shall pay to the Landlord on the first day of each month the estimated monthly amount. If the Landlord has not furnished to the Tenant the estimate aforesaid, the Tenant shall pay to the Landlord the amount due aforesaid as soon as such estimate is furnished by the Landlord to the Tenant.

6.2 If the actual Operating Expenses, Taxes and other amounts payable by the Tenant exceed the estimated amounts for the period of the Term for which the Landlord has provided the estimate, the Tenant agrees to pay within ten days of written demand by the Landlord such actual amounts properly allocated to the Tenant in accordance with the terms of this Sub-lease, subject to credit being given for the monthly payments made under the provisions of clause 6.1 hereof. The Landlord shall refund to the Tenant or give credit to the Tenant for the amount of any overpayment made by the Tenant occasioned by the actual Operating Expenses, Taxes and other amounts payable by the Tenant for such period being less than the estimate of the same paid by the Tenant for such period. The certificate of a chartered accountant appointed by the Landlord shall, in the event of dispute, be conclusive and binding upon the Landlord and the Tenant as to any amounts payable under this clause 6.2.

6.3 Notwithstanding any other provision in this Sub-Lease, the Landlord may at any time allocate any particular cost, including a cost forming part of the Operating Expenses or Taxes amongst the tenants in the Building based on the extent that such tenants benefit from such cost or such cost is properly allocable to the Lands, the Building or tenants, as determined by the Landlord acting reasonably, and the Tenant covenants to pay any such cost so allocated to the Tenant by the Landlord. Any cost allocated by the Landlord under this clause or similar clauses in other leases of premises in the Building shall not be included in the Operating Expenses, Taxes or other costs payable by the Tenant under clauses 6.1 and 6.2. Any cost allocated to the Tenant under this clause shall be paid by the Tenant to the Landlord upon demand or at the option of the Landlord with respect to any particular cost in the same manner and at the same time the Tenant pays to the Landlord the Tenant's Proportionate Share of the Operating Expenses.

6.4 The Tenant covenants with the Landlord to cooperate with the Landlord in the conservation of all forms of energy in the Building, including without limitation the Premises, and to cooperate with the Landlord with respect to all programs and systems instituted by the Landlord in connection with reducing the costs of energy consumed in the Building including the Premises. If the Landlord decides from time to time to install any machinery, equipment, facilities, systems or property which has the purpose or intention of conserving energy consumed in the Building, including the Premises, the Tenant agrees with the Landlord to pay the Tenant's Proportionate Share of the amortized costs using generally accepted accounting principles, of such machinery, equipment, facilities, systems and property.

ARTICLE 7. - SALES TAXES AND TENANT’S TAXES

7.1 It is the intention of the parties that the Landlord shall be fully reimbursed by the Tenant in respect of any and all Sales Taxes payable by the Landlord. The amount of the Sales Taxes so payable by the Tenant shall be calculated by the Landlord in accordance with the applicable legislation and shall be paid to the Landlord at the same time as the amounts to which such Sales Taxes apply are payable to the Landlord under the terms of this Sub-Lease or upon demand at such other time or times as the Landlord from time to time determines. Notwithstanding anything in this Sub-Lease to the contrary, the amounts payable by the Tenant under this clause 7.1 shall be deemed not to be Rent, but the Landlord shall have all of the same rights and remedies for the recovery of such amounts as it has for recovery of Rent under this Sub-Lease.

7.2 Upon written request of the Landlord the Tenant will promptly deliver to the Landlord for inspection, receipts for payment of all Tenant's Taxes and all utilities and other costs paid directly by the Tenant to the appropriate collecting authority.

7.3 If the Landlord is required by lawful authority or considers it desirable to pay the Tenant's Taxes, utilities or other costs which the Tenant fails or neglects to pay, the Tenant shall pay the amount thereof to the Landlord forthwith after written request therefor.

ARTICLE 8. - INSURANCE

8.1 The Tenant shall obtain and keep in force throughout the Term All Risk property insurance including coverage for flood and earthquakes and such other coverage as the Landlord may reasonably require, on all tenant's trade fixtures and any improvements made by or at the cost or request of the Tenant and all of the Tenant's equipment located on the Premises. The amount of such insurance shall be the full replacement value of all trade fixtures, improvements made by the Tenant and equipment on the Premises.

8.2 The policies of insurance provided for in clause 8.1 shall name the Landlord and Head Landlord as insureds and shall be payable to the Landlord, its mortgagees, the Head Landlord and the Tenant, as their respective interests may appear, and any major loss adjustment shall require the written consent of each of them with an interest therein. The parties hereto agree that the proceeds paid by any such insurer shall be applied to reconstruct or replace the improvements made by the Tenant and the trade fixtures and equipment of the Tenant provided however that if this Sub-Lease is terminated pursuant to Article 19, the proceeds from the insurance shall be paid to the Tenant.

8.3 Throughout the Term the Tenant shall obtain and keep in force general liability insurance fully insuring against liability of the Tenant with respect to the Premises or arising out of the maintenance, use or occupation thereof. Such policy shall be in an amount of not less than $5 Million per occurrence at the commencement of the Term, and thereafter in such amounts as the Landlord may reasonably require. The general liability policy shall name the Landlord and Head Landlord, their respective officers, directors, trustees, governors, employees and agents as additional named insureds, shall contain a cross liability clause and broad form coverage for contractual liability and such insurance shall be primary in respect of claims and shall not participate in or be excess over any insurance carried by the Landlord or the Head Landlord. The Tenant shall obtain and keep in force liability insurance for all motor vehicles, owned and non-owned, operated on the Campus and such other types of insurance as the Landlord may reasonably require.

8.4 All of the insurance provided for in clause 8.1 and 8.3 and all renewals thereof shall be issued by such reputable and duly qualified insurers and in such form and substance as are approved by the Landlord, such approval not to be unreasonably withheld. All policies provided for in clauses 8.1 and 8.3 shall expressly provide that the policy shall not be cancelled or altered without 60 days, prior written notice to the Landlord and Head Landlord, and that all rights of subrogation against the Landlord and Head Landlord are waived. Upon the issue and each renewal thereof, each policy or a certified duplicate thereof or other satisfactory evidence of adequate insurance shall be delivered to the Landlord. Proof of payment of premiums for insurance shall also be delivered to the Landlord if requested.

8.5 The Tenant waives as against the Landlord, the Head Landlord, their respective officers, directors, trustees, governors, employees and agents each claim and demand of every nature whatsoever for damage, loss or injury to the Premises, the improvements and property of the Tenant, its invitees and licensees which shall be caused by or result from fire or other perils, events or happenings which ought to have been covered by insurance, or is covered by insurance pursuant to this Sub-Lease, whether or not such claim is covered by insurance. The Tenant hereby releases the Landlord, the Head Landlord, their respective officers, directors, trustees, governors, employees and agents from all liability with respect to such damage, loss or injury.

ARTICLE 9. - USE OF THE PREMISES

9.1 The Tenant shall not use the Premises, nor permit them to be used for any purpose other than for the Research Activity unless the written consent of the Landlord is first obtained. Provided that the Landlord has not previously consented to such use, the Landlord may prohibit any use which in the Landlord's sole and absolute discretion is inconsistent or incompatible with the definition of Research Activity as is herein contained, or might cause a nuisance, annoyance or disturbance to the Landlord or its other tenants, its employees, the Head Landlord, faculty or students, or to the owners or occupiers of property adjoining the Campus or if the Head Landlord, being so entitled, objects to such use. The Tenant acknowledges that the Head Landlord, if it has not previously consented to such use, may object to a use if it is inconsistent or incompatible with the definition of Research Activity or the proposed research activity or other business of the Tenant or its affiliates might cause public relations problems for the Head Landlord or if the research activities or other businesses of the Tenant or its affiliates are conducted in a manner which is contrary to the Head Landlord's published policies in connection therewith.

9.2 The Tenant has satisfied itself that the Premises once completed in accordance with the Landlord's Work will be suitable for the use permitted herein for which the Premises are leased. The taking of occupation of the Premises by the Tenant shall be deemed to be acknowledgement by the Tenant that the Landlord has satisfactorily completed the Landlord's Work except as detailed in a list of deficiencies provided by the Tenant to the Landlord on or before the Commencement Date of the Term.

9.3 The Tenant shall continuously carry on the Research Activity on the Premises during the Term. For the purpose of this clause, the Tenant shall be deemed to be continuously carrying on the

Research Activity on the Premises if the Premises are equipped and staffed as required to carry out the Research Activity during Normal Business Hours in accordance with sound business practice. If the Tenant does not continuously use the Premises or any portion thereof throughout the Term for the Research Activity, then the Landlord may terminate this Sub-Lease, in addition to all other rights of the Landlord herein.

ARTICLE 10. - COMPLETION OF AND OWNERSHIP OF IMPROVEMENTS

10.1 The Landlord shall complete the Premises to the standard and level of finish described as the Landlord's Work in the Basic Terms. The Tenant shall pay the cost of changes requested by the Tenant to the Landlord's Work and consented to by the Landlord immediately upon being advised of the actual costs of the same, with the estimate of such amounts to be paid in advance as set out in the Basic Terms. The Tenant shall install tenant's trade fixtures required to carry out the Research Activity on the Premises and shall complete the same in accordance with the terms of this Sub-Lease on or before the Commencement Date of the Term. The Landlord shall provide non-exclusive access to the Premises to the Tenant to permit the Tenant to install the Tenant's trade fixtures for the period of days described as the fixturing period in the Basic Terms prior to the Commencement Date of the Term. During such period the Tenant shall not be required to pay Basic Rent but shall pay all other expenses related to such occupation, as rent, upon being advised by the Landlord of the amount of the same.

10.2 Notwithstanding any other terms or provisions of this Sub-Lease, the Tenant shall at no time during the currency of this Sub-Lease be entitled to commence the construction of any Works, nor alteration of the Premises in any manner without the written consent of the Landlord and until complete drawings, plans and specifications for the construction thereof have been provided to the Landlord and approved in writing by the Landlord, and the Head Landlord if necessary. Such drawings, plans and specifications shall specify the location, design, layout, appearance, materials to be used and any and all other necessary details requested by the Landlord. The Landlord's and Head Landlord's reasonable costs of assessing drawings, plans and specifications submitted by the Tenant for approval or any other reasonable related costs, including but not limited to the cost of permits and inspections, shall be payable by the Tenant. The Landlord may approve or disapprove of any proposed construction of any Works. The Landlord shall have the right to inspect the Tenant's construction on reasonable notice.

10.3 The Tenant shall execute all Works permitted by the Landlord on the Premises in accordance with any applicable statute, by-law or regulation of any governmental authority, including without limitation the British Columbia Building Code, the Main Campus Plan and Development Guidelines and the rules and regulations of the Landlord and the Head Landlord, and pay all necessary fees, permits, assessments and charges properly payable to such authorities in relation to any such Works.

10.4 The Tenant covenants that it shall neither do, nor fail to do, any act which may result in any builders lien, or any other statutory lien being registered against the Lands or elsewhere, and if any such lien should be registered against the Lands as a result of any act or failure to act on the part of the Tenant, the Tenant hereby agrees to indemnify and hold harmless the Landlord with respect to such lien, and to take all necessary steps to remove such lien from title to the Campus and or the Lands forthwith upon notice by the Landlord. In the event that the Tenant fails to take such necessary action within ten days of receipt of notice from the Landlord, the Landlord may take all necessary action to remove the same in the name of the Tenant and the Tenant agrees to indemnify the Landlord for any and all costs, charges or expenses with respect to the same including solicitor's fees on an indemnity basis and to pay to the Landlord such costs, charges and expenses within seven days of notice from the Landlord of the same or the Tenant shall be in default as defined in clause 20.1(a) herein.

10.5 If the Tenant bona fide intends to contest any lien or claim of the nature described in clause 10.4 the Tenant shall notify the Landlord of such intention within 5 days after the Tenant learns of such lien or claim and, if the Landlord so requires, shall promptly provide security in favour of either the Landlord and Head Landlord or the claimant for the payment thereof which is reasonable and satisfactory to the Landlord. The Landlord shall be entitled to take, and to require the Tenant to take or cause to be taken, all steps available to cause any lien or claim of lien filed against the title to the Lands or the Campus to be discharged therefrom provided that such steps do not materially prejudice or unreasonably interfere with the Tenant's position in the dispute. If the Tenant complies with the foregoing it shall not be in default hereunder and the Landlord shall not satisfy, discharge or pay, or cause the Tenant to satisfy, discharge or pay such lien or claim until the same becomes legally due and payable and is required to be paid by statute or by order of a court or other competent tribunal, in which case the Tenant shall satisfy

and discharge, or cause to be satisfied or discharged, such lien or claim and all penalties, interest and costs in connection therewith. The satisfaction and discharge of any such lien or claim shall be made before execution is had upon any judgement rendered thereon and before commencement of any proceeding on account thereof subsequent to judgement to dispose of the interest of the Premises therein or any improvement thereon. In the event of any such contest and without limiting clause 16.2, the Tenant shall protect and indemnify the Landlord against all loss, cost, expense and damage resulting therefrom.

10.6 The Tenant shall install only trade fixtures owned by it of a type usual for the permitted use, in good and sufficient manner but not so as to damage or impair the structure or heating, ventilating, air-conditioning, plumbing, electrical and mechanical systems of the Premises or the Building. Upon the termination of this Sub-Lease the Tenant shall have the right, if not in default, to remove its trade fixtures that are easily removable, and shall remove if required by the Landlord, all its trade fixtures, furniture and equipment, making good at the Tenant's expense any damage caused by such removal, and the Tenant shall vacate and surrender the Premises in the same condition as the Premises are required to be maintained during the term. The Tenant further agrees that all leasehold improvements made at any time prior to or after the Commencement Date, whether by the Tenant or the Landlord, shall immediately upon affixation or installation become the property of the Landlord and shall remain upon the Premises, provided that at the end of the Term, if so directed by the Landlord, the Tenant shall remove such of the leasehold improvements as the Landlord may require, making good at the Tenant's expense any damage caused by such removal. All property of the Tenant remaining upon the Premises after the termination of the tenancy shall be deemed to have been abandoned by the Tenant in favour of the Landlord and may be disposed of by the Landlord at its discretion without prejudice to the rights of the Landlord to claim damages from the Tenant for failure to remove the same.

ARTICLE 11. - LANDLORD'S COVENANTS

11.1 The Landlord covenants that if the Tenant without default pays the rent and other amounts at the times and in the manner herein provided and keeps and performs all the terms, covenants, agreements and conditions hereof on the Tenant's part to be kept and performed, the Tenant may possess and enjoy the Premises for the Term without disturbance or interruption by the Landlord or by any person claiming by, through or under the Landlord, subject to the terms and conditions hereof and the rights of the Head Landlord under the Head Lease.

11.2 The Landlord does not warrant that any service or facility provided by it or others in accordance with the provisions of this Sub-Lease will be free from interruption caused or required by any cause including but without limiting the generality of the foregoing, maintenance, repairs, modifications, strikes, riots, insurrections, labour disputes, accidents, fuel shortages, interruption (both intentional and by accident) from the supplier thereof, governmental intervention, force majeure and acts of God. No such interruption shall be deemed to be a disturbance of the Tenant's enjoyment of the Premises nor render the Landlord liable for injury to or for any loss, damage or inconvenience to the Tenant nor relieve the Parties from their obligations under this Sub-Lease. The Landlord shall without delay take all reasonable steps available to it to advise the Tenant of the interruption and to remove the cause of any such interruption if within its control. The Landlord shall not be liable for any loss, damage or inconvenience resulting from the failure or non-supply, reduction or increase in supply of water, steam, electricity, heat, telecommunications services, sewer services, or any other service or the escape of water, steam, electricity or any other matter or service.

11.3 The Landlord agrees with the Tenant that after Normal Business Hours the Tenant shall be permitted to carry on its operations within the Premises subject to the terms, provisions and conditions of this Sub-Lease. In the event the Tenant requires any services after Normal Business Hours which are usually available during Normal Business Hours such as the movement in and out of freight and supplies, supervising of any work, extra security, maintenance, repairs or cleaning, heating, ventilating and air-conditioning services and the Landlord provides such services, then the Landlord shall be entitled to charge the Tenant for these services in accordance with clause 6.3.

ARTICLE 12. - TENANT'S COVENANTS

12.1 The Tenant covenants with the Landlord:

(a) that subject to Article 19 the Tenant shall at its own expense, throughout the Term, whenever necessary or whenever required by the Landlord to do so, decorate, repair,

maintain and keep in a condition that a careful owner would do, the Premises and every part thereof including without limitation leasehold improvements, fixtures, furnishings, whether or not any such items were installed or furnished by the Tenant; provided, however, subject to clause 12.1(b), it shall not be the obligation of the Tenant to repair and maintain the structural components of the Building. The Tenant covenants to perform such maintenance and to effect such repairs and replacements and hereby expressly releases the Landlord from performing such repairs. The Tenant shall not be required to effect those repairs in and to the Premises which are expressly the obligation of the Landlord under this Sub-Lease. If the Tenant fails to commence and diligently proceed to make such repairs, maintenance or replacements which are the obligation of the Tenant after notice from the Landlord to do so, the Landlord shall have the right, at its option, to make such repairs, maintenance and replacements, and a fee for the Landlord's overhead of 15% of the cost thereof together with such cost shall be payable forthwith by the Tenant upon demand by the Landlord;

(b) that if any part of the Building including, without limiting the generality of the foregoing, the Premises, water pipes, drainage pipes, electric equipment, boilers, engines, any apparatus or equipment which may be used for the purpose of heating, ventilating or air-conditioning the Building, the roof, stairways, passageways, entrance halls or outside walls, get out of repair or become damaged or destroyed through the negligence, carelessness or misuse of the Tenant, its employees, agents, invitees or anyone permitted by it to be in the Building, or through it or them in any way stopping up or injuring any of the aforesaid, the expense of the necessary repairs, replacements or alterations shall be borne by the Tenant which shall pay the same to the Landlord forthwith on demand;

(c) that if the Tenant shall fail to repair in accordance with the provisions hereof or if the Building otherwise requires repair, the Landlord, its agents or employees, may forthwith enter the Premises and make the required repairs and the Landlord will not be liable to the Tenant for any inconvenience, annoyance or loss of business or any injury or damages suffered by the Tenant by reason of the Landlord effecting such repairs;

(d) not to place on the Premises any safe, heavy business machine or other heavy thing which exceeds the specifications for the Building relating to bearing loads without obtaining the prior written consent of the Landlord;

(e) not to permit the Premises to become untidy, unsightly, unclean or to permit of waste or refuse to accumulate therein;

(f) not to cause or permit deliveries to be made to or from the Premises except through the prescribed locations for the Building;

(g) that the Landlord may from time to time conduct fire drills and emergency procedures, and test fire alarms and other emergency devices without being in breach of its covenant of quiet enjoyment, and the Tenant shall participate, and shall cause its employees and invitees to participate in such drills and procedures without holding the Landlord liable for any damage or injury caused thereby unless due to the wilful neglect of the Landlord;

(h) to give the Landlord immediate notice in case of fire or accident or malfunctioning of the systems in the Premises or in the Building, of which it or its employees may be aware;

(i) not to erect on the roof of the Building, on any exterior walls of the Premises or in any of the common areas of the Building any aerial, receiving or broadcasting dish or similar telecommunications device without in each instance, the written consent of the Landlord and such telecommunications device so installed without such written consent shall be subject to removal without notice at any time and at the cost of the Tenant;

(j) to be solely responsible and promptly pay to the appropriate third party all

charges for services used or consumed in or provided to the Premises including, without limitation, janitorial service, telephone and data communication services, direct metered electricity and gas;

(k) not to install or permit to be installed equipment which will exceed or overload the capacity of utility facilities servicing the Building and Premises and if equipment installed or permitted to be installed by the Tenant requires additional facilities such facilities shall be installed at the Tenant's expense in accordance with plans and specifications approved by the Landlord in writing prior to installation.

(l) to co-operate in all reasonable ways with the security personnel engaged by the Landlord for the Building;

(m) not to display any sign, picture, advertisement, or notice on any part of the Lands or Building;

(n) to use the services of the janitors, security personnel and others designated by the Landlord from time to time to perform the obligations of the Tenant under this Sub-Lease;

(o) to pay the cost of installation all utilities or Complementary Facilities required by the Tenant to properly service the Premises, excluding the utilities and Complementary Facilities provided at the Commencement Date of the Term.

ARTICLE 13. - CONDUCT OF TENANT IN OCCUPATION

13.1 The Tenant shall comply with and abide by all federal, provincial, municipal and other governmental statutes, ordinances, Laws, other laws and regulations affecting the Campus or the Lands and Premises or any activity or condition on or in the Campus or the Lands and Premises, and the rules and regulations of the Landlord and the Head Landlord adopted from time to time. The Tenant shall obtain and maintain during the Term all licenses, designations, permits and approvals necessary for the operation of its activities in the Premises.

13.2 The Tenant shall comply with and abide by all policies of insurance (and the insurers thereunder and the underwriters thereof) from time to time in force with respect to any improvement or operation on, or any condition, use or occupation of the Premises.

13.3 The Tenant will not carry on or perform or suffer or permit to be carried on or performed or suffered on the Premises, or the Lands or Building, any practice or act or engage in any activity which is or becomes a nuisance or menace or which in any way adversely affects the Lands or Building, the Campus or any part thereof or is or becomes a hazard or nuisance to any person using or occupying the Lands and Building, the Campus or any part thereof.

13.4 The Tenant will keep the Premises clean and sanitary, and will provide proper and adequate receptacles for refuse and rubbish of all kinds and will attend to the removal of the same from the Lands and Premises at regular intervals.

13.5 The Tenant in the conduct of its business from the Premises shall give due credit to the Landlord for any assistance provided by the Landlord but shall not use the name of the Head Landlord nor the Landlord nor any trademark, nor hold itself out as being associated with the Head Landlord or the Landlord nor use the names of employees of the Head Landlord or Landlord in advertisements or publications without first obtaining the written consent of the Head Landlord or the Landlord, as the case may be, to such use.

13.6 The Tenant acknowledges that the Head Landlord has entered into and will continue to enter into Strategic Alliances with Exclusive Suppliers. Notwithstanding any other provision of this Sub-Lease, the Tenant covenants and agrees that, upon the Landlord providing written notice to the Tenant from time to time that the Head Landlord has concluded a Strategic Alliance with an Exclusive Supplier in respect of a category of products and/or services, (the "Exclusive Products/Services Category), the Tenant shall not, nor permit any of its subtenants or occupants of the Premises from the date of the notice to, advertise, purchase, sell or display on or

from the Premises, products or services within the Exclusive Products/Services Category other than those of the Exclusive Supplier and the Tenant and its subtenants and occupants of the Premises will also otherwise comply with all of the requirements of all such Strategic Alliances which are binding upon the Landlord pursuant to the Head Lease. Those Exclusive Suppliers of which the Landlord has given notice to the Tenant as at the date of this Sub-Lease are listed in Schedule D hereto.

ARTICLE 14. - MORTGAGES, LIENS AND ENCUMBRANCES

14.1 The Tenant will not create any mortgage, conditional sale agreement or other encumbrance in respect of any of its interest in this Sub-Lease, the leasehold improvements or any trade fixtures or permit any such mortgage, conditional sale agreement or other encumbrance to be attached to the Premises. The Tenant acknowledges that all leasehold improvements in the Premises are the property of the Landlord.

14.2 In the event that the Tenant fails to release, discharge or vacate from the title to the Lands any such lien, mortgage or encumbrance referred to in clause 14.1, the Landlord may in addition to all of the remedies under this Sub-Lease make any payments required to procure the discharge or release of any such lien, mortgage or encumbrance and shall be entitled to be reimbursed by the Tenant as provided for in clause 10.4 of this Sub-Lease. The Landlord's right to reimbursement shall not be affected or impaired if the Tenant shall then or subsequently establish or claim that a lien, charge or encumbrance so discharged and released was without merit or excessive or subject to any abatement, set off or defence.

ARTICLE 15. - ENVIRONMENTAL CONSIDERATIONS

15.1 The Landlord, at its cost, has caused the Consultant to perform the Audit.

15.2 The Tenant hereby releases the Landlord and Head Landlord from and in respect of any cost, expense, damage, loss or liability which may be incurred or suffered by the Tenant, its employees or agents in connection with the:

(a) need for the Tenant to take any Remedial Action and the taking of Remedial Action as a result of Additional Pollution, or

(b) the effect of Additional Pollution on the health or the property of any Persons,

(c) interference with the Research Activity of the Tenant by any cause whatsoever,

except to the extent that any such cost, expense, damage, loss or liability was caused or contributed to by the Landlords' or Head Landlord's negligent or wilful act or default as the case may be.

15.3 The Tenant shall take all necessary precautions so as to ensure that the Lands and Building and any areas surrounding the Lands and Building do not and are not likely to become Polluted by any Additional Pollution by virtue of any action or lack of action by the Tenant and the Tenant agrees to indemnify and save harmless the Landlord and Head Landlord for any cost, damage, loss or liability incurred or suffered by either of them, or their respective officers, directors, trustees, governors, employees or agents in respect of any Additional Pollution of the Lands and Building and any area or areas surrounding the Lands and Building and also any Pollution of the same caused or contributed to by the Tenant, its officers, directors, employees, invitees or licensees. This indemnity shall survive the expiry or earlier termination of this Sub-Lease.

15.4 The Tenant must use the Premises only as provided under Article 9 and must not at any time cause or allow any Special Waste to be generated, created, used, stored, treated, transferred, transported or disposed of on the Lands or Building except in compliance with all Laws.

15.5 The Tenant shall conform to the procedures adopted by the Landlord from time to time for the management of risks associated with environmental contaminants, including without limiting the generality of the foregoing, conducting or participating in the conduct of inspections and audits of environmental matters to confirm compliance with the requirements of this Sub-Lease, adopting and following reasonable plans for the proper handling and storage of contaminants, maintaining records of storage and use of contaminants, notifying the Landlord of any changes in storage or handling of contaminants and providing to the Landlord all reports as required from time to time. In particular, and without limiting the generality of the foregoing, the Tenant shall comply with the safety and security policies and procedures adopted by the Landlord from time to time with respect to the use, transport, handling and disposal of Substances. The Tenant shall immediately remedy any failure of the Tenant to comply with the provisions of this Article 15. If the Tenant has Substances on the Premises that are required by applicable laws or by the rules and regulations of the Landlord to be designated as hazardous or to have warnings attached to the same, or to otherwise be specially handled, the Tenant shall comply with the requirements of all such applicable laws and the rules and regulations of the Landlord with respect to the storage, use and handling of such Substances, and the provision of all warning labels.

15.6 If the Lands or Building are found to be Polluted by any Additional Pollution, or by Pollution caused or contributed to by the Tenant, and the Landlord is required by any Authority to determine whether the Lands and Building are Polluted or to take Remedial Action regarding Pollution the Landlord or Head Landlord may:

(a) cause the Consultant to perform a Further Audit,

(b) notify the Tenant of the nature and extent of the Pollution and any Remedial Action the Consultant considers reasonably necessary or which any Authority requires be taken or both or which has already been performed where an emergency existed and any Authority required the Landlord or Head Landlord to take Remedial Action immediately,

(c) take any Remedial Action which any Authority requires be taken, or

(d) require the Tenant to take any Remedial Action which any Authority requires be taken with regard to such Pollution including Remedial Action which must be taken immediately where an emergency exists and any Authority requires Remedial Action to be taken immediately;

and the Tenant must permit the Landlord, the Head Landlord, their respective employees and agents including the Consultant to have that access to the Premises which is reasonably necessary to enable the Landlord and Head Landlord to comply with the requirements of any Authority and to take Remedial Action. After request by the Tenant, the Landlord must provide the Tenant with a copy of the results of the Further Audit. The Tenant within 10 days after demand by the Landlord must pay the Landlord the amount allocated to the Tenant by the Landlord, acting reasonably, of the costs of a Further Audit performed under this clause 15.6 and of any Remedial Action which any Authority required the Landlord or Head Landlord to take to the extent that the Remedial Action was in respect of Additional Pollution or by Pollution in either case caused or contributed to by the Tenant, its officers, directors, employees, invitees, licensees, assigns or subtenants.

15.7 If the Landlord or Head Landlord is required by any Authority to take Remedial Action regarding Existing Pollution, the Landlord or Head Landlord or their respective employees and agents may enter the Premises and may:

(a) perform any audits, investigations and surveys any Authority considers necessary to determine better the nature and extent of the Existing Pollution and the necessary Remedial Action, and

(b) take any Remedial Action any Authority requires be taken and the Tenant must permit the Landlord, its employees and agents including the Consultant to have that access to the Premises which is reasonably necessary in the opinion of the Landlord to enable it to comply with the requirements of any

Authority and to take Remedial Action.

15.8 From time to time during the Term and not less than 90 days before expiry of the Term or promptly after the sooner termination of this Sub-Lease the Landlord shall cause the Consultant to perform a Further Audit. The Tenant shall provide access to the Premises as required by the Landlord or the Consultant for the purpose of all inspections and testing. As part of the Further Audit the Consultant must be instructed to provide:

(a) a detailed estimate of the cost of Remedial Action to remediate the Lands and Building which were attributable to any Additional Pollution from the Premises or the Tenant, its officers, directors, employees, invitees, licensees, assigns or subtenants; and

(b) a program of Remedial Action necessary to remediate any such Additional Pollution. The Tenant at its cost, shall be required to undertake immediately and complete without delay the program of Remedial Action and failing which the Landlord may remediate any such Additional Pollution in accordance with that program of Remedial Action and the Tenant shall within 10 days after demand by the Landlord pay the Landlord the amount which is equal to the actual cost to the Landlord of a Further Audit performed and if the Landlord remediates, pay to the Landlord the costs of any Remedial Action carried out pursuant to this clause in respect of such Additional Pollution.

15.9 The Tenant shall cooperate with the Landlord in the provision of such information at the times and in the form required by the Landlord (which may include conducting tests, all investigations and the review of records of the Tenant), acting reasonably, to ensure the proper monitoring and supervision of the Lands and Building with respect to Pollution.

ARTICLE 16. - INDEMNITY, WARRANTY, ETC.

16.1 Neither the Head Landlord nor the Landlord nor their respective officers, directors, trustees, governors, faculty or employees or any of them shall be liable for any death or injury or damage to property of the Tenant or of others, nor for the loss of or damage to any property of the Tenant or of others by theft or otherwise, from any cause whatsoever. Without limiting the generality of the foregoing, the Head Landlord, the Landlord and their respective officers, directors, trustees, governors, faculty and employees or any of them shall not be liable for any injury and damage to persons or property resulting from fire, explosion, falling plaster, steam, gas, electricity, water, rain or snow or leaks from any part of the Building or Lands or from the pipes, appliances or plumbing works or from the roof, street or sub-surface or from any other place or by dampness or by any other cause of whatsoever nature nor from the failure to supply or faulty supply of any utilities or other goods or services; and shall not be liable for any such damage caused by other tenants or persons in the Premises, occupants of the Building or of adjacent property, or the public, or caused by operations in construction or any private, public or quasi-public work. All property of the Tenant kept or stored on the Lands or in the Building or the Premises shall be so kept or stored at the risk of the Tenant only and the Tenant shall hold the Head Landlord and the Landlord harmless from any claims arising out of damage to the same, including subrogation claims by the Tenant's insurers.

16.2 The Tenant will defend, indemnify and save harmless the Head Landlord, the Landlord and their respective officers, directors, trustees, governors, faculty and employees or any of them from and against any and all loss (including loss of rentals, claims, actions, damages, liability and expense in connection with loss of life, personal injury and/or damage to property) arising from or out of any occurrence in, upon or at the Building or the Premises, or the occupancy or use by the Tenant of the Premises or any part thereof, or occasioned wholly or in part by any act or omission of the Tenant, its officers, agents, contractors, employees, invitees, licensees or concessionaires or by anyone permitted to be on the Premises by the Tenant. Notwithstanding the provisions of the prior sentence, in case the Head Landlord or the Landlord or their respective officers, directors, governors, faculty or employees shall, without fault, be made a party to any litigation commenced by or against the Tenant, then the Tenant shall protect and hold the Head Landlord and the Landlord or their respective officers, directors, trustees, faculty and employees harmless and shall pay all costs, expenses and reasonable legal fees

incurred or paid by them in connection with such litigation. The Tenant will also pay all costs, expenses and reasonable legal fees on an indemnity basis incurred by the Landlord in enforcing this Sub-Lease.

16.3 Without limiting the generality of the foregoing sections in this Article, the Head Landlord, the Landlord or their respective officers, directors, trustees, governors, faculty and employees or any of them, shall not, under any circumstances, including circumstances involving negligence of any of them, be liable or responsible in any way for:

(a) consequential loss or damage arising from injury to persons or property, including death resulting therefrom, with respect to the Tenant or any other person while in or about the Lands, Building or the Premises and with respect to property belonging to the Tenant or to any other person while such property is in or about the Lands, Building or Premises;

(b) any loss or damage of any nature whatsoever, however caused, to books, records, files, money, securities, negotiable instruments, papers or other valuables of the Tenant; and

(c) any business, economic or indirect loss or damage suffered or sustained by the Tenant of any nature whatsoever, howsoever caused.

16.4 Notwithstanding anything to the contrary herein, the Head Landlord, the Landlord, their respective officers, directors, governors, faculty, and employees, or any of them, shall under no circumstances, including circumstances involving the negligence of any of them, be liable or responsible in any way for any loss which the Tenant is obliged to insure against under this Sub-Lease or has insured against.

16.5 The indemnities and agreements to indemnify provided in this Sub-Lease by the Tenant shall survive the expiry or earlier termination of this Sub-Lease.

16.6 The Tenant waives against the Head Landlord, the Landlord, their respective officers, directors, trustees, governors, faculty, and employees each claim and demand of every nature whatsoever for damage, loss or injury to the improvements and equipment upon the Premises and to property of the Tenant in, upon or about the Lands and Premises whether or not such claim or demand is covered by insurance. The Tenant shall cause each policy of insurance obtained by the Tenant to acknowledge this waiver of subrogation.

16.7 If during the Term of this Sub-Lease the Tenant is disturbed in its quiet enjoyment of the Premises or any portion thereof, it will not be entitled to call upon the Landlord to defend or warrant it against such disturbance unless the disturbance is caused by the negligent act or omission of the Landlord, its officers, directors, trustees or employees, the default of the Landlord hereunder, or proceedings involving a defect in title of the Landlord to the Lands or Building or any portion thereof. In the event of such disturbance the Tenant shall, until evicted from the Premises, abide by and fulfil each of its obligations hereunder in the same manner as if such disturbance had not taken place. If the Tenant is evicted the Landlord shall indemnify the Tenant for each loss, cost and liability it suffers as a result of such eviction but only if such eviction is caused by reason of the negligent act or omission of the Landlord, its officers, directors, trustees or employees, the default of the Landlord hereunder or a defect in title of the Landlord to the Lands or Building or any portion thereof. The Landlord shall not be liable to the Tenant for any loss or damage, including indirect or consequential loss or damage, resulting from interference with or interruption of the Tenant's business caused by any labour dispute in or around the Building and/or the Lands or any exercise of the rights of the Head Landlord. Proceedings related to or arising out of any expropriation of the Building or any portion thereof, shall be deemed not to involve lack of title of the Landlord thereto.

ARTICLE 17. - SUBLETTING AND ASSIGNMENTS

17.1 The Tenant covenants not to sell, assign, sublet or transfer or part with possession of this Sub-Lease or any portion of the Term or the Premises or any interest therein except with the prior consent of the Landlord and except as expressly provided herein, and then only to a party who covenants with the Landlord in accordance with clause 17.6 and only if such party carries on the Research Activity or other similar activity consented to by the Landlord in writing prior to such sale, subletting, assignment or other disposition. The Tenant acknowledges that before the Landlord gives its consent pursuant to this Article 17, the Landlord is required to obtain the consent of the Head Landlord, and that the Head Landlord may refuse to consent if the proposed purchaser, assignee, subtenant, transferee or occupant carries on businesses or research or is owned by a party who carries on business or research which could, in the Head Landlord's reasonable opinion, cause a public relations problem for the Head Landlord or conflict with a Strategic Alliance that the Head Landlord has entered into.

17.2 Neither this Sub-Lease nor any sublease or assignment hereof, nor the leasehold estate of the Tenant or any subtenant or assignee in the Premises or improvements or equipment thereon shall be subject to involuntary assignment, subletting, transfer or sale, or to assignment, transfer or sale by operation of law in any manner whatsoever, and any such attempted or purported involuntary assignment, subletting, transfer or sale shall be ineffective against the Landlord.

17.3 Any effective change in the present control of the Tenant as a result of any transaction including, but not limited to, a transfer of shares, a corporation formed as a result of a merger or amalgamation with the Tenant, a corporate reorganization of the Tenant or any Affiliate which is in possession of all or part of the Premises shall be deemed, for the purposes hereof, to be an assignment of this Sub-Lease and thereby subject to this Article 17.

17.4 The Tenant will not permit a change in the control of the voting shares issued and outstanding in the capital of the Tenant or any parent corporation of the Tenant, nor will any of the issued and outstanding shares of the Tenant or any parent corporation of the Tenant be transferred without the prior written approval of the Landlord, such approval not to be unreasonably withheld. If there has been a transfer of such shares without the consent first being obtained, then at the option of the Landlord, this Sub-Lease may be terminated pursuant to the provisions of Article 19.

17.5 Any consent of the Landlord to any assignment or subletting under this Article 17 shall not constitute a waiver of necessity for such consent to any subsequent assignment or subletting.

17.6 No sublease or assignment or agreement to grant the same shall grant rights to a Transferee beyond the scope of this Sub-Lease and a Transferee shall have no rights to the Premises except under the Tenant. Any sublease or assignment shall be expressly subject to this Sub-Lease and shall contain covenants by the Transferee:

(a) to comply with and fulfil each of the obligations undertaken by the Tenant in this Sub-Lease, including the termination of this Sub-Lease or the sublease in the event of default by the Transferee;

(b) not to further sublease, assign, transfer the interest of the Subtenant (including a deemed assignment under this Sub-Lease) or part with possession without first obtaining the consent of the Landlord as required for an assignment or sublease of this Sub-Lease;

(c) not to do or permit upon the Premises anything which is, or will result in, a contravention of any term of this Sub-Lease;

(d) to carry out the Research Activity continuously during the term of such sublease, assignment or transfer;

(e) to observe and perform each and every one of the covenants and agreements on the part of the Tenant under this Sub-Lease to be observed and performed

and to provide the indemnities provided in this Sub-Lease.

17.7 Upon the termination, forfeiture or acceptance of surrender of this Sub-Lease prior to the expiry of the Term, any sublease or assignment or other interests created by the Tenant in respect of the Premises and the rights of all persons claiming thereunder shall be extinguished.

17.8 If requested by the Landlord, a copy of any or all instruments and documents evidencing the assignment or subletting, including assignments of lease and sublease, shall be furnished to the Landlord by the Tenant together with the particulars of registration in the Land Title Office, if applicable.

17.9 If there is a permitted assignment or subletting, the Landlord may collect rent from the Transferee, and apply the net rent collected to the Rent required to be paid pursuant to this Sub-Lease, but no acceptance by the Landlord of any payment by a Transferee shall be deemed a waiver of any covenants under this Sub-Lease including this Article on the part of the Tenant to be observed or performed, or the acceptance of the Transferee as tenant. No assignment, subletting or other disposition shall release the Tenant from its obligations under this Sub-Lease.

ARTICLE 18. - INSPECTION

18.1 The Head Landlord, the Landlord, and their respective employees, agents, contractors and representatives, shall be entitled at all reasonable times (after written notice given to the Tenant specifying the purpose) to go upon the Premises for any of the following purposes:

(a) inspecting the same;

(b) inspecting the performance by the Tenant of the terms, covenants, agreements and conditions of this Sub-Lease;

(c) posting and keeping posted thereon notices as required or permitted by any law or regulation;

(d) doing any work to the Premises, the utility facilities and other improvements, or work to be done in the Premises for the benefit of the Building or other premises;

(e) any other reasonable purpose.

The Tenant shall not change the locks or install a security system or other method of controlling access to the Premises without first obtaining the written consent of the Landlord and providing the Landlord with an access key and any code required to gain access to the Premises at all times.

ARTICLE 19. - DAMAGE AND DESTRUCTION

19.1 If there is damage to the Lands or Building or damage to the Campus or Complementary Facilities which prevents access to the Premises or the supply of services essential to the Premises, and if the damage is such that the Premises or a substantial part of the Premises is rendered not reasonably capable of use by the Tenant for the purposes contemplated herein for a period of time exceeding 30 days, then the rent payable hereunder for the period beginning at the date of occurrence of the damage until at least a substantial part of the Premises is again reasonably capable of use and occupancy for the purpose aforesaid, will abate in the proportion that the area of the Premises rendered not reasonably capable of use by the Tenant bears to the whole of the Premises, and such abatement shall be credited immediately against the Rent payable hereunder.

19.2 If the Premises shall be damaged by fire or other casualty and this Sub-Lease is not terminated then rent will abate until at least a substantial part of the Premises is again reasonably capable of use and occupancy for the purpose of the Tenant.

19.3 If the Premises shall be damaged by fire or other casualty, and this Sub-Lease

is not terminated, then the damage to the Premises shall be repaired by the Landlord with reasonable diligence at its expense, to the extent of any recovery by the Landlord under the insurance policies of the Landlord, and repairs to alterations, additions or improvements made by the Tenant shall be performed by the Landlord at the expense of the Tenant and the Tenant shall at its own expense make all repairs and replacements of property which the Tenant is entitled to remove under the provisions of clause 10.6.

19.4 Notwithstanding the foregoing, if there is damage to the Building or to the Premises or to the Campus or the provision of utilities and other services to the Building and the Head Lease is terminated due to such damage or destruction, this Sub-Lease shall terminate upon notice in writing given to the Tenant within thirty days of the date of election to terminate the Head Lease and in such event the Landlord and the Tenant shall have no obligation to repair the Premises and the Tenant shall immediately surrender this Sub-Lease and vacate the Premises. If the Head Lease is not terminated, the Landlord and the Tenant shall diligently proceed to repair such damage in accordance with their respective obligations as described in clause 19.3 herein.

19.5 Notwithstanding acceptance of a surrender of this Sub-Lease, the Tenant shall fully perform each obligation of the Tenant under this Sub-Lease (except the obligation of restoration and rehabilitation of the damaged or destroyed Premises and improvements thereon) relating to an event occurring, or circumstance existing, prior to the date of such surrender including the payment of any rent, taxes, assessments, charges and costs which the Tenant is obliged to pay hereunder or which may have accrued in respect of, or may be a lien upon the Premises at the date of such surrender.

ARTICLE 20. - DEFAULT, TERMINATION, REMEDIES, ETC.

20.1 If the Tenant:

(a) fails or neglects to make any payment due to the Landlord or any other person hereunder within five (5) Business Days after the Landlord gives written notice that the payment is overdue;

(c) operates on the Lands and Premises in a manner contrary to the terms of Article 9 hereof;

(b) fails or neglects to cure any default of any of the other terms, covenants, agreements or conditions herein on its part to be observed, kept or performed, within 30 days after the Landlord gives to the Tenant written notice of such default or such shorter period as may be appropriate given the nature of the default;

then in each such event the Landlord may by written notice to the Tenant, forthwith terminate this Sub-Lease without entry on the Premises and all rights of the Tenant thereto shall then cease. Such right of termination shall be in addition to any other rights that exist at law or in equity or pursuant to the terms of this Sub-Lease arising from the failure of the Tenant to comply with any other covenant or condition herein.

20.2 The Tenant covenants that:

(a) if any proceedings under the Bankruptcy and Insolvency Act of Canada, the Company Creditors Assistance Act or other statute of similar purport are commenced against the Tenant, and such proceedings are not dismissed before an adjudication of bankruptcy, the appointment of a trustee, or the confirmation of a composition, arrangement or plan or reorganization, or

(b) if the Tenant or the Covenantor is adjudged insolvent or makes an assignment for the benefit of its creditors or otherwise takes the benefit of any statute for the benefit of insolvent debtors, or

(c) if a writ of attachment or execution is levied on the leasehold estate hereby created or any property of the Tenant upon the Lands and Premises and is not released or satisfied within 30 days thereafter, or

(d) if a receiver, trustee, sequestrator or liquidator is appointed in any proceeding or action with authority to take possession or control of the leasehold interest of the Tenant hereunder, any portion of the Lands and Premises or the business conducted thereon by the Tenant, and such appointee is not discharged within a period of 45 days after his appointment, or

(e) if the Tenant abandons the Lands and Premises, or

(f) if a creditor of the Tenant, including any Approved Lender, attempts to execute, realize upon or otherwise enforce any charge or encumbrance secured against the Sub-Lease,

(g) if any sale, transfer, assignment, sublease or parting with possession which is contrary to this Sub-Lease occurs or purports to occur, or

(h) if any resolution is passed or other step taken for the winding-up, liquidation or other termination of the existence of the Tenant or the Covenantor, if any;

each such event shall be deemed to constitute a default under this Sub-Lease by the Tenant and shall, at the election of the Landlord by written notice, but without entry or other action of the Landlord, terminate this Sub-Lease as to all or any portion of the Premises immediately upon the sending of such notice and in respect of such terminated portion of all rights of the Tenant under this Sub-Lease and all rights of any persons claiming under the Tenant, shall thereupon cease and all Rent then due plus Rent for the next following three months shall forthwith become due and be payable to the Landlord.

20.3 In the event of termination or expiration of the Sub-Lease pursuant to this Article 20, the Tenant agrees to deliver the Premises to the Landlord, in good state and condition, free and clear of all rights, mortgages, privileges and encumbrances placed thereon by or on account of the Tenant and without indemnity or compensation to the Tenant for any reason whatsoever.

20.4 Notwithstanding anything in this Sub-Lease, a party shall not be in default with respect to the performance of any of its obligations within this Sub-Lease excluding payment of monies, if the default is due to any strike, lockout, labour dispute, civil commotion, invasion, rebellion, hostilities, sabotage or acts of God beyond the control of the party required to perform.

20.5 If the Landlord, being entitled so to do, levies distress against the goods and chattels of the Tenant, such force as may be deemed necessary for the purpose and for gaining admission to the Premises may be used without the Landlord being liable for any action in respect thereof or for any loss or damage occasioned thereby and the Tenant hereby expressly releases the Landlord, its employees and agents from all action, proceedings, claims or demand whatsoever for or on account or in respect of any such forcible entry or any loss or damage sustained by the Tenant in connection therewith.

20.6 Notwithstanding the benefit of any law to the contrary, the Landlord may seize and may sell all of the Tenant's goods, chattels and property, whether within the Premises or not, and may apply the proceeds of such sale upon rental or upon any other amounts outstanding hereunder and upon the costs of the seizure and sale; in the same manner as might have been done if such law had not been passed. The Tenant further agrees that if it vacates the Premises, leaving any rental or other moneys provided to be paid hereunder unpaid, the Landlord, in addition to any remedy otherwise provided by law, may seize and sell the goods and chattels of the Tenant at any place to which the Tenant or any other person may have removed them, in the same manner as if such goods and chattels had remained upon the Premises.

20.7 If the Landlord is entitled to re-enter the Premises under any provisions of this Sub-Lease, then in addition to all other rights it may have, the Landlord shall have the right as agent of the Tenant and without terminating this Sub-Lease to enter the Premises as agent of the Tenant and re-let them and to receive the rent therefor and apply the same firstly to the costs of re-letting, including the costs of commissions and alterations required and then on account of the

rent due and to become due under this Sub-Lease and the Tenant shall be liable to the Landlord for the deficiency, if any.

20.8 If the Tenant fails to make any payment to the Landlord or otherwise under this Sub-Lease when due, the Tenant shall pay to the Landlord a fee of $200.00 for each such late or missed payment, and interest calculated from the date that the payment was due until the date payment is actually made to the Landlord, at the Prime Rate plus 5% per annum, calculated daily, not in advance. Acceptance of any late payment without the fee or interest shall not constitute a waiver of the Landlord's right to require the fee and interest. The Tenant shall be deemed to have failed to make a payment on, and the fee and interest shall be due from, the date such payment is first payable, and not the date after the expiry of notice of non-payment, if any notice is required to be given or is given.

ARTICLE 21. - HEAD LEASE

21.1 The Parties acknowledge that this Sub-Lease is a "Sub-Lease", that the Tenant is a "Sub-Tenant", and that the Premises form a portion of the "Subleased Lands" within the meaning and definitions of the Head Lease, and the Parties agree that the definitions in the Head Lease shall apply to this Sub-Lease so far as the same are necessary, but not inconsistent with the terms of this Sub-Lease, to interpret the Tenant's responsibilities and covenants under clause 21.2.

21.2 This Sub-Lease is expressly subject to the Head Lease and the Tenant covenants with the Landlord:

(a) not to do or permit upon the Premises anything which is, or will result in, a contravention of any term of the Head Lease;

(b) to provide to the Landlord upon request by the Landlord therefor from time to time any certificate required to be provided pursuant to the Head Lease;

(c) to permit this Sub-Lease to be terminated by the Landlord in the event of a default by the Tenant after notice reasonably approximating the length of notice provided for in the Head Lease for a similar default;

(d) that the Head Landlord has the right to manage and control the Campus and the Complementary Facilities and the Tenant will abide by all rules and regulations of the Head Landlord with respect to the same;

(e) that the Head Landlord has the rights reserved in the Head Lease and this Sub-Lease is subject to such rights, including without limitation, the rights described in Article 17 thereof.

21.3 The Tenant acknowledges that the Landlord is required to obtain the consent of the Head Landlord to the grant of this Sub-Lease on the terms herein contained and that prior to granting its consent, the Head Landlord requires covenants in favour of the Head Landlord from the Tenant as provided in this Sub-Lease. The Tenant acknowledges the receipt of valuable consideration for such covenants made by the Tenant in favour of the Head Landlord by the giving of the consent of the Head Landlord to this Sub-Lease.

ARTICLE 22. - OVERHOLDING

22.1 If the Tenant shall continue to occupy the Premises after the expiration or earlier termination of the Term granted hereby and the Landlord shall accept Rent, the new tenancy thereby created shall not be yearly but shall be deemed to be a monthly tenancy and shall be subject to the covenants and conditions save and except those relating to the Term in this Sub-Lease insofar as the same are applicable to a tenancy from month to month.

ARTICLE 23. - ARBITRATION

23.1 Any dispute required to be determined by arbitration in accordance with the provisions of this Sub-Lease shall be determined by a single arbitrator if the Landlord and Tenant can agree on a single arbitrator within 7 days of receipt of notice to arbitrate given by one party hereto to the other (the "Arbitration Notice") and if the Landlord and the Tenant cannot agree on a single arbitrator within such period such dispute shall be determined by the decision of the majority of three arbitrators, one to be appointed by each of the parties within fourteen (14) days of the receipt of the Arbitration Notice and the third to be appointed by such two arbitrators within 28 days of receipt of the Arbitration Notice. The third arbitrator shall be the chairman of the arbitration. The arbitration shall be initiated and conducted in accordance with the provisions of the Commercial Arbitration Act of British Columbia as amended from time to time. The determination or award of the arbitration shall be in writing, shall be binding upon the Parties and may contain an order as to the costs of the arbitration. If there is no order as to the costs of the arbitration, each party shall bear its own costs and one half of the common costs of the arbitration. The costs of the arbitration shall not be limited to those set out in the tariff or schedule to the Commercial Arbitration Act as amended from time to time referred to and determined by arbitration in Vancouver, British Columbia at an office or place of business selected by the sole arbitrator or the chairman of the arbitration hereinafter appointed, as the case may be, and the reasonable fees and disbursements of the single arbitrator or the third arbitrator for his or her professional time shall be considered costs of the arbitration.

ARTICLE 24. - NOTICES

24.1 All notices, demands and other writings (hereinafter called a "Notice") contemplated to be given, made or sent, by any party to any of the others pursuant to this Sub-Lease shall be in writing addressed to the other or others at its address hereinbefore given, or if any party has notified the others in writing of a change of its address, at the last address of which notice has been given pursuant to this clause. Any Notice shall be deemed to have been received on the date of actual delivery if delivered, or the date of receipt at such address if mailed, or the date of confirmation of transmission if sent by facsimile transmission. No other method of delivery or giving of written notice or demand is precluded by this clause.

ARTICLE 25. - INDEMNITY

25.1 In consideration of the Landlord entering into this Sub-Lease and in consideration of the sum of $10.00 now paid by the Landlord and for other good and valuable consideration (the receipt of which is hereby acknowledged by the Covenantor) the Covenantor hereby makes the following indemnity and agreements with and in favour of the Landlord that:

(a) the Covenantor covenants with the Landlord:

(i) to make the due and punctual payment of all Rent, money and charges expressed to be payable under this Sub-Lease by the tenant during the Term and renewals, extensions and continuations of the Term and overholding after the Term,

(ii) to effect prompt and complete performance of each of the terms contained in this Sub-Lease on the part of the Tenant to be kept observed or performed during the Term and any renewals, extensions and continuations of the Term and overholding after the Term,

(iii) to indemnify and save harmless the Landlord from all losses, costs and damages arising out of any failure to pay the Rent, money and charges or the failure by the Tenant to perform any of the terms of this Sub-Lease;

(b) the Covenantor expressly waives notice of acceptance of this indemnity and all notices of non-performance, non-payment, and non-observance on the part of the Tenant of the terms, covenants, conditions and provisions of this Sub-

Lease;

(c) any notice waived by the Tenant or given or deemed to have been given by the Landlord to the Tenant shall be deemed to have been waived by or given simultaneously to the Covenantor;

(d) the Covenantor is jointly and severally bound with the Tenant for the fulfilment of all obligations of the Tenant under this Sub-Lease as though the Covenantor had been named with the Tenant in the Sub-Lease as the "Tenant", and in the enforcement of its rights under this Sub-Lease, the Landlord may proceed against the Covenantor as if the Covenantor were so named and had so executed this Sub-Lease,

(e) without limiting the generality of the foregoing, the liability of the Covenantor under this indemnity shall not be deemed to have been waived, released, discharged, impaired or affected by reason of the release or discharge of the Tenant in any receivership, bankruptcy, winding-up or other creditor's or debtor's proceeding in respect of the Tenant, or any release or discharge therefrom, and such liability shall continue with respect to the periods prior thereto. The liability of the Covenantor shall not be affected by any repossession of the Lands and Premises or any portion of the Lands and Premises by the Landlord or by the recognition of any subtenant or Tenant;s mortgagee;

(f) in the event of a default by the Tenant or the Covenantor under this Sub-Lease, the Covenantor waives any right to require the Landlord to:

(i) proceed against the Tenant or other obligor or pursue any rights or remedies with respect to this Sub-Lease,

(ii) proceed against or exhaust any security held by the Landlord of the Tenant or other person, or

(iii) pursue any other remedy whatsoever in the Landlord's power,

before proceeding against the Covenantor;

(g) the Landlord shall have the right to enforce this indemnity regardless of the acceptance of additional security from the Tenant or any other person and regardless of the release or discharge of the Tenant or any other obligor in respect of the Sub-Lease, whether granted by the Landlord or by others or by operation of any law; and

(h) no action or proceeding brought or instituted under this indemnity and no recovery in pursuance of this indemnity shall be a bar or defence to any further action or proceeding which may be brought under this indemnity by reason of any further default in the performance or observance of any of the terms, covenants, conditions or provisions in this Sub-Lease or this indemnity.

25.2 The Indemnity and agreements in clause 25.1 are absolute and unconditional and the obligation of the Covenantor shall not be released, discharged, mitigated, impaired or affected by:

(a) any extensions of time, indulgences or modifications which the Landlord may extend or make with the Tenant in respect of the observance or performance of any of the obligations of the Tenant under this Sub-Lease;

(b) any waiver by the Landlord of, or neglect or failure of the Landlord to enforce, any of the terms, covenants, conditions or provisions of this Sub-Lease.

25.3 No modification of this indemnity shall be effective unless it is in writing and signed by the Covenantor and two authorized representatives of the Landlord.

25.4 The Covenantor shall do all such acts and execute all such deeds and assurances as the Landlord may reasonably require to give effect to the intent of this indemnity.

25.5 If any other person at any time joins in the covenants of the Covenantor under this Sub-Lease, the obligations and liabilities of each such person and the Covenantor shall be joint and several.

ARTICLE 26. - RIGHT TO RELOCATE TENANT

26.1 If the Landlord requires the Premises during the Term, the Landlord may by written notice to the Tenant relocate the Tenant to other premises sufficient for the use permitted under this Sub-Lease for the Premises. Such notice shall state the effective date of such relocation, which shall not be less than one month after the date of the notice. If the Tenant so relocates, the Landlord shall pay the reasonable moving costs of relocating the Tenant to such substitute premises. If the unexpired portion of the Term which would exist after the effective date of such relocation is less than two years, the Tenant may elect by notice to the Landlord given within 15 days of the date of such notice to relocate, to terminate this Sub-Lease on the effective date of such relocation, in lieu of relocating, whereupon this Sub-Lease shall expire on the date that the Tenant would have been required to relocate.

ARTICLE 27.- OPTION TO RENEW

27.1 Provided that the Tenant pays Rent and performs each and every one of the covenants, provisos and agreements herein contained on the part of the Tenant to be paid and performed punctually and in accordance with the provisions of this Sub-Lease, and provided that the Tenant has interacted with the faculty and staff of the Head Landlord and used the services of the Head Landlord such as the library, computing, networking, security, athletic services of the Head Landlord, all in a manner and to an extent satisfactory to the Head Landlord, the Landlord shall grant to the Tenant one option of renewal for a period described in the Basic Terms (the "Renewal Term"). This option of renewal shall be exercised by the Tenant by giving written notice to the Landlord not less than six (6) months prior to the end of the Term electing to renew the Term for the Renewal Term on the same terms and conditions set forth in this Sub-Lease, save and except this option of renewal shall not form part of the Sub-Lease of the Renewal Term, the Landlord shall have no obligation to do any work described as Landlord's Work, there shall be no fixturing period, and no rent forgiveness or tenant inducements, and the Rent. The Rent for the Renewal Term shall be determined as hereinafter provided.

27.2 Rent payable with respect to the Renewal Term shall be the greater, per month, of:

(a) the Rent paid per month during the last twelve (12) month period of the preceding Term; or

(b) the fair market rental value for space of comparable size, quality and location to that of the Premises as at the commencement date of the Renewal Term.

27.3 The Parties shall make bona fide efforts to agree as to the fair market rental value with respect to the Premises for the Renewal Term. If however, the Parties have not agreed as to the amount of Rent by the sixtieth (60th) day prior to the commencement of the Renewal Term, then such Rent shall be determined by arbitration as referred to in Article 23.

27.4 If the Tenant fails to exercise the option of renewal within the prescribed time period referred to in clause 27.1, such option of renewal will be null and void and the Tenant shall have no further options of renewal in respect of this Sub-Lease.

27.5 Provided that the Tenant, being entitled to do so, renews the Term of the Sub-Lease for the Renewal Term and pays Rent and performs each and every one of the covenants, provisos and agreements herein contained on the part of the Tenant to be paid and performed punctually and in accordance with the provisions of this Sub-Lease, and provided that the Tenant

has interacted with the faculty and staff of the Head Landlord and used the services of the Head Landlord such as the library, computing, networking, security, athletic services of the Head Landlord, all in a manner and to an extent satisfactory to the Head Landlord, the Landlord shall grant to the Tenant one option of renewal for a period described in the Basic Terms as the Second Renewal Term. This option of renewal shall be exercised by the Tenant by giving written notice to the Landlord not less than six (6) months prior to the end of the immediately preceding Term electing to renew the Term for the Second Renewal Term on the same terms and conditions set forth in this Sub-Lease, save and except there shall be no further option of renewal, the Landlord shall have no obligations to do any work described as Landlord's Work, there shall be no fixturing period, and no rent forgiveness or tenant inducements, and the Rent. The Rent for the Second Renewal Term shall be determined as hereinafter provided. There shall be no further options of renewal of the Renewal Term.

27.6 Rent payable with respect to the Second Renewal Term shall be the greater, per month, of:

(a) the Rent paid per month during the last twelve (12) month period of the immediately preceding Term; or

(b) the fair market rental value for space of comparable size, quality and location to that of the Premises as at the commencement date of the Second Renewal Term.

27.7 The Parties shall make bona fide efforts to agree as to the fair market rental value with respect to the Premises for the Second Renewal Term. If however, the Parties have not agreed as to the amount of Rent by the sixtieth (60th) day prior to the commencement of the Second Renewal Term, then such Rent shall be determined by arbitration as referred to in Article 23.

27.8 If the Tenant fails to exercise the second option of renewal within the prescribed time period referred to in clause 27.5, such option of renewal will be null and void and the Tenant shall have no further options of renewal in respect of this Sub-Lease.

ARTICLE 28. - GENERAL TERMS

28.1 Subject to the terms of this Sub-Lease, the Tenant shall observe and cause its employees, invitees and others over whom the Tenant can reasonably be expected to exercise control, to observe such rules and regulations and amendments and changes therein, not inconsistent with the permitted use of the Premises and the terms of this Sub-Lease, as may hereinafter be made by the Head Landlord or the Landlord of which notice in writing shall be given to the Tenant and all such rules and regulations shall be deemed to be incorporated into and form part of this Sub-Lease.

28.2 No condoning, excusing or overlooking by the Landlord of any default, breach or non-observance at any time or times in respect of any covenant, proviso or condition herein contained shall operate as a waiver of the Landlord's rights hereunder with respect to any continuing or subsequent default, breach or non-observance, or so as to defeat in any way the rights of the Landlord in respect of any such continuing or subsequent default or breach, and no waiver shall be inferred from or implied by anything done or omitted by the Landlord save only an express waiver in writing.

28.3 The Tenant shall comply with all unemployment insurance and workers compensation legislation and regulations applicable to it and the occupation and conduct of its business in the Premises and shall require all of its agents and contractors to similarly comply.

28.4 The Landlord and the Tenant covenant to cooperate with each other in minimizing the effect of any labour dispute which either party may have upon the operations of the other party. The Landlord and the Tenant each covenant that in the event of a labour dispute the party hereto involved in such dispute shall take all appropriate steps to protect the party hereto not involved in the dispute from the interference with its operations caused by the dispute and without limiting the generality of the foregoing to eliminate picketing which may cause such interference. Such steps shall be taken at the expense of the party involved in the dispute and the

non-involved party shall have the right to retain counsel at its own expense to recommend to the party involved in the dispute appropriate action to protect the party not involved. In the event of such recommendation, the party involved shall give due consideration to the recommendation of counsel for the party not involved. This clause shall not be construed to require a party involved in a dispute to meet the demands of any party with whom it has the dispute. Neither the Landlord nor the Tenant shall bring action against, or claim damages or compensation from the other for any loss, cost, expense or liability suffered as a result of a labour dispute other than in respect of a breach of the covenant contained in this clause 28.4.

28.5 No exercise of a specific right or remedy by the Landlord precludes it from or prejudices it in exercising another right or pursuing another remedy or maintaining an action to which it may otherwise be entitled either at law or in equity.

28.6 In the event the Landlord sells, transfers, or assigns its interest in the Building, then so long as the purchaser, transferee or assignee agrees to assume, observe and perform, as landlord, the covenants, conditions and agreements on the part of the Landlord to be observed and performed in this Sub-Lease, the Landlord shall no longer have any duties and obligations under this Sub-Lease, and consequently, shall not be liable to the Tenant for the performance of any such duties and obligations.

28.7 At any time and from time to time upon not less than seven (7) days prior notice, the Tenant shall execute and deliver to the Landlord and, if required by the Landlord, to the Head Landlord or to any mortgagee or prospective purchaser of the Landlord's interest a statement in writing certifying that this Sub-Lease is unmodified and in full force and effect (or, if modified, stating the modifications and that the same is in full force and effect as modified), the amount of the Rent then being paid hereunder, the dates to which the same and other charges hereunder have been paid, by instalments or otherwise, and whether or not there is any existing default on the part of the Landlord of which the Tenant is aware or has notice and any other matters pertaining to this Sub-Lease as to which the Landlord shall request.

28.8 If the Premises or any part thereof are expropriated or condemned at any time during the Term, the Landlord shall have no liability to the Tenant for the Landlord's inability to fulfil any of its covenants herein, but in each such event the Landlord and the Tenant may seek compensation separately from the expropriating authority but shall co-operate in seeking such compensation, and if a joint award of compensation is made, it shall be divided as agreed between the Landlord and the Tenant and failing agreement within 90 days of the award, as determined by arbitration pursuant to Article 23.

28.9 Whenever the Landlord's consent is required under this Sub-Lease, the same shall not be deemed to have been given unless in writing, and the Landlord may refuse to consent to any matter or thing if the Landlord is required pursuant to the terms of the Head Lease to obtain the consent of the Head Landlord to such matter or thing and the Head Landlord does not consent or if the granting of the consent of the Landlord may result in the Landlord being in default of its obligations under any other covenants or agreements of the Landlord.

28.10 Time is expressly declared to be of the essence of this Sub-Lease and of each and every term, covenant, agreement, condition and provision hereof and observance and performance thereof.

28.11 This Sub-Lease is made in accordance with the laws of the Province of British Columbia and is to be construed and interpreted in accordance therewith. Any action or proceeding arising concerning this Sub-Lease shall be brought in the courts of the said Province and the parties attorn exclusively to the said courts.

28.12 The index and Article headings in this Sub-Lease are for convenience only and are not to be considered in the construction of this Sub-Lease or as in any way limiting or amplifying the provisions hereof.

28.13 This Sub-Lease and the schedules and riders, if any, attached hereto and forming a part hereof and the Agreement to Lease described in the Basic Terms set forth all the covenants, promises, agreements, conditions and understandings between the Landlord and the Tenant concerning the Premises and there are no representations, covenants, agreements,

conditions or understandings, either oral or written, between them other than which are herein set forth. Except as herein otherwise provided, no subsequent alteration, amendment, change or addition to this Sub-Lease shall be binding upon the Landlord or the Tenant unless in writing and signed by each of them.

28.14 If any term, covenant or condition of this Sub-Lease or the application thereof to any person or circumstance shall, to any extent, be held or rendered invalid, void unenforceable or illegal, it or its application shall be considered separate and severable from this Sub-Lease to such extent and the remainder of this Sub-Lease, or the application of such term, covenant or condition to persons or circumstances other than those as to which it is held invalid, void, or unenforceable or illegal, shall not be affected thereby and each term, covenant or condition of this Sub-Lease shall be valid and enforceable to the fullest extent permitted by law.

28.15 The language in all parts of this Sub-Lease shall in all cases be construed as a whole and not strictly for nor against either the Landlord or the Tenant.

28.16 Whenever the context so requires, the neuter gender shall include the masculine and the feminine, and the singular number shall include the plural, and vice versa.

28.17 Each of the Parties agrees to do all acts and sign such documents as may be requested by any of the other Parties in order to give effect to the terms and intentions expressed herein.

28.18 This Sub-Lease shall enure to the benefit of, and be binding upon and apply to the successors and assigns of the Landlord and the successors, permitted assigns, and permitted subtenants of the Tenant.

IN WITNESS WHEREOF the Parties hereto have executed this Sub-Lease by signing the same after the Basic Terms hereof.

SCHEDULE "A" - LANDLORD'S WORK

The Landlord will design, construct and coordinate the completion of the Building in which the Premises shall be located, such Building to be similar to the building described in the plans and specifications prepared by Chernoff Thompson Architects titled "Technology Enterprise Facility 3 (TEF3)" and issued for construction" on February 5, 2002, with such changes as the Landlord shall approve. Changes to the Building may be made as a result of the approval process for all permits to construct the Building, as part of the construction process, and as the Landlord, acting reasonably, deems beneficial for the construction and leasing of the Building in accordance with its mandate.

The Tenant shall do finishing and fixturing of the Premises ("Tenant Improvements") and the Landlord shall contribute to the Tenant the cost or a portion of the cost of such Tenant Improvements to a maximum amount of Twenty-Five Dollars ($25.00) per square foot of Rentable Area (the "Tenant Improvement Allowance"). The Tenant shall be responsible for any cost over and above such amount. The Tenant shall provide to the Landlord a total cost estimate for such Tenant Improvements and the Landlord shall approve such costs, such approval not to be unreasonably withheld. The work to be done to the Premises by the Tenant shall conform to the drawings and specifications ("TI Plans") prepared by the Tenant and approved by the Landlord. The Tenant shall not be entitled to make any changes to the TI Plans without the Landlord's prior written consent, such consent not to be unreasonably withheld, and any such changes shall be made at the sole cost of the Tenant, including any costs to the Landlord of reviewing and approving such changes. If the Landlord has not consented to such changes prior to the date that the Tenant commences to construct the Tenant Improvements, the Tenant shall complete the Tenant Improvements without changes.

Prior to commencing the Tenant Improvements the Tenant shall provide the Landlord with the names of all contractors, subcontractors and suppliers providing work and materials for such Tenant Improvements for the Landlord's consent. The Landlord may withhold its consent for reasons including, but not limited to, the failure of the Tenant to demonstrate, in the Landlord's sole discretion, that such contractor, subcontractor, or supplier produces works, services or products of a quality consistent with the quality of the base building construction, or that such contractors, subcontractors, or suppliers works or services may jeopardise the validity of any warranties or guarantees of the base building systems, and the Landlord may require a performance bond for all or a portion of the work and materials.

The Tenant shall be required to provide a bond, letter of credit, or other form of security acceptable to the Landlord, equal to the difference between the total cost of the Tenant Improvements and the Tenant Improvement Allowance prior to commencing construction. The Tenant shall obtain a building permit from UBC for all Tenant Improvements prior to commencing construction. The Landlord shall pay the Tenant Improvement Allowance to the Tenant upon certification by the Landlord's architect that the Tenant Improvements have been completed satisfactorily.

SCHEDULE "B" - PLAN OF CAMPUS

SCHEDULE "C" - SKETCH OF PREMISES

SCHEDULE "D" – EXCLUSIVE SUPPLIERS

1. Coca-Cola Bottling Ltd.
2. Aramark Canada
3. Air Canada
4. Telus

CHEMOKINE THERAPEUTICS CORP.

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT (this "Agreement") is effective as of •, 2007, by and between _____ ("Indemnitee") and Chemokine Therapeutics Corp., a Delaware corporation (the "Company").

WHEREAS, the Company and Indemnitee recognize the significant cost of directors' and officers' liability insurance and the general reductions in the coverage of such insurance;

WHEREAS, the Company and Indemnitee further recognize the substantial increase in corporate litigation in general, subjecting officers and directors to expensive litigation risks at the same time as the coverage of liability insurance has been severely limited; and

WHEREAS, the Company desires to attract and retain the services of highly qualified individuals, such as Indemnitee, to serve as officers and directors of the Company and to indemnify its officers and directors so as to provide them with the maximum protection permitted by law.

NOW, THEREFORE, in consideration for Indemnitee's services as an officer and/or director of the Company, the Company and Indemnitee hereby agree as follows:

1. Indemnification.

(a) Third Party Proceedings. The Company shall hold harmless and indemnify Indemnitee to the fullest extent permitted by the Delaware General Corporation Law (the "Statute"). The Company shall indemnify Indemnitee if Indemnitee was or is a party, target, or witness or is threatened to be made a party, target, or witness in any threatened, pending or completed action, suit, investigation, proceeding or any alternative dispute resolution mechanism, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Company) (a "Third Party Proceeding") by reason of the fact that Indemnitee is or was an officer and/or director of the Company, or of any subsidiary of the Company, or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement (if such settlement is approved in advance by the Company, which approval shall not be unreasonably withheld) actually and reasonably incurred by Indemnitee in connection with such Third Party Proceeding if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe Indemnitee's conduct was unlawful. The termination of any Third Party Proceeding by judgment, order, settlement, conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, of itself, create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had reasonable cause to believe that Indemnitee's conduct was unlawful.

(b) Proceedings By or in the Right of the Company. The Company shall indemnify Indemnitee if Indemnitee was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit, investigation, proceeding or any alternative dispute resolution mechanism by or in the right of the Company or any subsidiary of the Company to procure a judgment in its favor (a "Company Proceeding") by reason of the fact that Indemnitee is or was an officer and/or director of the Company, or any subsidiary of the Company, or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) and, to the fullest extent permitted by law, amounts paid in settlement actually and reasonably incurred by Indemnitee in connection with the defense or settlement of such Company Proceeding if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, except that no indemnification shall be made in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged to be liable to the Company unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery of the State of Delaware or such other court shall deem proper.

(c) Mandatory Payment of Expenses. To the extent that Indemnitee has been successful on the merits or otherwise in defense of or in connection with any Third Party Proceeding or Company Proceeding referred to in Subsections (a) and (b) of this Section 1, or otherwise in defense of any claim, issue or matter therein (collectively, a "Proceeding"), Indemnitee shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by Indemnitee in connection therewith.

2. Expenses; Indemnification Procedure.

(a) Advancement of Expenses. The Company shall advance all expenses actually and reasonably incurred by Indemnitee in connection with the investigation, defense, settlement or appeal of any Proceeding (but not amounts actually paid in settlement of any such Proceeding) Indemnitee hereby undertakes to repay such amounts advanced only if, and to the extent that, it shall ultimately be determined that Indemnitee is not entitled to be indemnified by the Company as authorized hereby. The advances to be made hereunder shall be paid by the Company to Indemnitee within thirty (30) days following delivery of a written request therefor by Indemnitee to the Company.

(b) Notice/Cooperation by Indemnitee. Indemnitee shall, as a condition precedent to his right to be indemnified under this Agreement, give the Company notice in writing as soon as practicable of any claim made against Indemnitee for which indemnification will or could be sought under this Agreement. Notice to the Company shall be directed to the President of the Company at the address shown on the signature page of this Agreement (or such other address as the Company shall designate in writing to Indemnitee). Notice shall be deemed received three business days after the date postmarked if sent by domestic certified or registered mail, properly addressed; otherwise notice shall be deemed received when such notice shall actually be received by the Company. In

addition, Indemnitee shall give the Company such information and cooperation as it may reasonably require and as shall be within Indemnitee's power.

(c) Procedure. Any indemnification and advances provided for in Section 1 and this Section 2 shall be made no later than thirty (30) days after receipt of the written request of Indemnitee. If a claim under this Agreement, under any statute, or under any provision of the Company's Certificate of Incorporation or Bylaws providing for indemnification, is not paid in full by the Company within thirty (30) days after a written request for payment thereof has first been received by the Company, Indemnitee may, but need not, at any time thereafter bring an action against the Company to recover the unpaid amount of the claim and, subject to Section 12 of this Agreement, Indemnitee shall also be entitled to be paid for the reasonable expenses (including reasonable attorneys' fees) of bringing such action. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in connection with any action, suit or proceeding in advance of its final disposition) that there was either (i) a determination made by the Company that Indemnitee has not met the standards of conduct which make it permissible under applicable law for the Company to indemnify Indemnitee for the amount claimed, or (ii) on good faith referral and consideration pursuant to Section 145(d) of the Statute there has been no determination that indemnification is proper in the circumstances. However, Indemnitee shall be entitled to receive interim payments of expenses pursuant to Subsection 2(a) unless and until such defense may be finally adjudicated by court order or judgment from which no further right of appeal exists. It is the parties' intention that if the Company contests Indemnitee's right to indemnification, the question of Indemnitee's right to indemnification shall be for the court to decide, and neither the failure of the Company (including its Board of Directors, any committee or subgroup of the Board of Directors, independent legal counsel, or its stockholders) to have made a determination that indemnification of Indemnitee is proper in the circumstances because Indemnitee has met the applicable standard of conduct required by applicable law, nor an actual determination by the Company (including its Board of Directors, any committee or subgroup of the Board of Directors, independent legal counsel, or its stockholders) that Indemnitee has not met such applicable standard of conduct, shall create a presumption that Indemnitee has or has not met the applicable standard of conduct.

(d) Notice to Insurers. If, at the time of the receipt of a notice of a claim pursuant to Section 2(b) hereof, the Company has directors' and officers' liability insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policies.

(e) Selection of Counsel. In the event the Company shall be obligated under Section 2(a) hereof to pay the Indemnitee's expenses in connection with any Proceeding, the Company, if appropriate, shall be entitled to assume the defense of such Proceeding, with counsel approved by Indemnitee, which approval shall not be unreasonably withheld, upon the delivery to Indemnitee of written notice of its election to do so. After delivery of such notice, approval of such counsel by Indemnitee and the retention of such counsel by the Company, the Company will not be liable to Indemnitee under this Agreement for any fees of counsel subsequently incurred by Indemnitee with

respect to the same Proceeding; *provided* that Indemnitee shall have the right to employ Indemnitee's counsel in any such Proceeding at Indemnitee's expense; and *provided further* that if (i) the Company has expressly authorized (and continues to authorize) the employment of counsel by Indemnitee at the Company's expense, (ii) the use of counsel chosen by the Company to represent Indemnitee would present such counsel with a conflict of interest, or (iii) the Company shall not, in fact, have employed counsel reasonably satisfactory to Indemnitee within a reasonable time after notice of the institution of such Proceeding, Indemnitee shall have the right to employ counsel at the expense of the Company in accordance herewith.

3. Additional Indemnification Rights; Nonexclusivity.

(a) Scope. Notwithstanding any other provision of this Agreement, the Company hereby agrees to indemnify the Indemnitee to the fullest extent permitted by law, notwithstanding that such indemnification is not specifically authorized by the other provisions of this Agreement, the Company's Certificate of Incorporation, the Company's Bylaws or by statute. In the event of any change, after the date of this Agreement, in the Statute or any other applicable law, statute, or rule which expands the right of a Delaware corporation to indemnify an officer or a member of its board of directors, such changes shall be, *ipso facto*, within the purview of Indemnitee's rights and Company's obligations, under this Agreement. In the event of any change in any applicable law, statute or rule which narrows the right of a Delaware corporation to indemnify an officer or a member of its board of directors, such changes, to the extent not otherwise required by such law, statute or rule to be applied to this Agreement shall have no effect on this Agreement or the parties' rights and obligations hereunder.

(b) Nonexclusivity. The indemnification provided by this Agreement shall not be deemed exclusive of any rights to which Indemnitee may be entitled under the Company's Certificate of Incorporation, its Bylaws, any agreement, any vote of stockholders or disinterested directors, the General Corporation Law of the State of Delaware, or otherwise, both as to action in Indemnitee's official capacity and as to action in another capacity while holding such office. The indemnification provided under this Agreement shall continue as to Indemnitee for any action taken or not taken while serving in an indemnified capacity even though he may have ceased to serve in such capacity at the time of any action, suit or other covered proceeding.

4. Partial Indemnification. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the expenses, judgments, fines or penalties actually or reasonably incurred by him in the investigation, defense, appeal or settlement of any civil or criminal action, suit or proceeding, but not, however, for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion of such expenses, judgments, fines or penalties to which Indemnitee is entitled.

5. Mutual Acknowledgement. Both the Company and Indemnitee acknowledge that in certain instances, Federal law or applicable public policy may prohibit the Company from indemnifying its officers and directors under this Agreement or otherwise. Indemnitee understands and acknowledges that the Company has undertaken or may be required in the future to undertake with the Securities and Exchange Commission to submit the question of indemnification to a court in

certain circumstances for a determination of the Company's right under public policy to indemnify Indemnitee.

6. Directors' and Officers' Liability Insurance. The Company shall, from time to time, make the good faith determination whether or not it is practicable for the Company to obtain and maintain a policy or policies of insurance with reputable insurance companies providing the officers and directors of the Company with coverage for losses from wrongful acts, or to ensure the Company's performance of its indemnification obligations under this Agreement. Among other considerations, the Company will weigh the costs of obtaining such insurance coverage against the protection afforded by such coverage. In all policies of directors' and officers' liability insurance, Indemnitee shall be named as an insured in such a manner as to provide Indemnitee the same rights and benefits as are accorded to the most favorably insured of the Company's officers and/or directors, as applicable. Notwithstanding the foregoing, the Company shall have no obligation hereunder to obtain or maintain such insurance if the Company determines in good faith that such insurance is not reasonably available, if the premium costs for such insurance are disproportionate to the amount of coverage provided, if the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit, or if Indemnitee is covered by similar insurance maintained by a subsidiary or parent of the Company.

7. Severability. Nothing in this Agreement is intended to require or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. The Company's inability, pursuant to court order, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. The provisions of this Agreement shall be severable as provided in this Section 7. If this Agreement or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Company shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.

8. Exceptions. Any other provision herein to the contrary notwithstanding, the Company shall not be obligated pursuant to the terms of this Agreement:

(a) Claims Initiated by Indemnitee. To indemnify or advance expenses to Indemnitee with respect to proceedings or claims initiated or brought voluntarily by Indemnitee and not by way of defense, except with respect to proceedings brought to establish or enforce a right to indemnification under this Agreement or any other statute or law or otherwise as required under Section 145 of the Delaware General Corporation Law, but such indemnification or advancement of expenses may be provided by the Company in specific cases if the Board of Directors has approved the initiation or bringing of such suit; or

(b) Lack of Good Faith. To indemnify Indemnitee for any expenses incurred by the Indemnitee with respect to any proceeding instituted by Indemnitee to enforce or interpret this Agreement, if a court of competent jurisdiction determines that each of the material assertions made by the Indemnitee in such proceeding was not made in good faith or was frivolous; or

(c) Insured Claims. To indemnify Indemnitee for expenses or liabilities of any type whatsoever (including, but not limited to, judgments, fines, ERISA excise taxes or penalties, and

amounts paid in settlement) which have been paid directly to Indemnitee by an insurance carrier under a policy of directors' and officers' liability insurance maintained by the Company.

(d) Claims Under Section 16(b). To indemnify Indemnitee for expenses and the payment of profits arising from the purchase and sale by Indemnitee of securities in violation of Section 16(b) of the Securities Exchange Act of 1934, as amended, or any similar successor statute.

9. Construction of Certain Phrases.

(a) For purposes of this Agreement, references to the "Company" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that if Indemnitee is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, Indemnitee shall stand in the same position under the provisions of this Agreement with respect to the resulting or surviving corporation as Indemnitee would have with respect to such constituent corporation if its separate existence had continued.

(b) For purposes of this Agreement, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on Indemnitee with respect to an employee benefit plan; and references to "serving at the request of the Company" shall include any service as a director, officer, employee or agent of the Company which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants, or beneficiaries; and if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan, Indemnitee shall be deemed to have acted in a manner "not opposed to the best interests of the Company" as referred to in this Agreement.

10. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall constitute an original.

11. Successors and Assigns. This Agreement shall be binding upon the Company and its successors and assigns, and shall inure to the benefit of Indemnitee and Indemnitee's estate, heirs, legal representatives and assigns.

12. Attorneys' Fees. In the event that any action is instituted by Indemnitee under this Agreement to enforce or interpret any of the terms hereof, Indemnitee shall be entitled to be paid all court costs and expenses, including attorneys' fees, actually and reasonably incurred by Indemnitee with respect to such action, unless as a part of such action, the court of competent jurisdiction determines that each of the material assertions made by Indemnitee as a basis for such action were not made in good faith or were frivolous. In the event of an action instituted by or in the name of the Company under this Agreement or to enforce or interpret any of the terms of this Agreement, Indemnitee shall be entitled to be paid all court costs and expenses, including attorneys' fees, actually and reasonably incurred by Indemnitee in defense of such action (including with respect to

Indemnitee's counterclaims and cross-claims made in such action), unless as a part of such action the court determines that each of Indemnitee's material defenses to such action were made in bad faith or were frivolous.

13. Notice. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed duly given (i) if delivered by hand and receipted for by the party addressee, on the date of such receipt, or (ii) if mailed by domestic certified or registered mail with postage prepaid, on the third business day after the date postmarked. Addresses for notice to either party are as shown on the signature page of this Agreement, or as subsequently modified by written notice.

14. Consent to Jurisdiction. The Company and Indemnitee each hereby irrevocably consent to the jurisdiction of the courts of the State of Delaware for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement and agree that any action instituted under this Agreement shall be brought only in the state courts of the State of Delaware.

15. Choice of Law. This Agreement shall be governed by and its provisions construed in accordance with the laws of the State of Delaware, as applied to contracts between Delaware residents entered into and to be performed entirely within Delaware without regard to the conflict of law principles thereof.

16. Period of Limitations. No legal action shall be brought and no cause of action shall be asserted by or in the right of the Company against Indemnitee, Indemnitee's estate, spouse, heirs, executors or personal or legal representatives after the expiration of two years from the date of accrual of such cause of action, and any claim or cause of action of the Company shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such two-year period; *provided, however,* that if any shorter period of limitations is otherwise applicable to any such cause of action, such shorter period shall govern.

17. Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Company effectively to bring suit to enforce such rights.

18. Amendment and Termination. No amendment, modification, termination or cancellation of this Agreement shall be effective unless it is in writing signed by both the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

19. Integration and Entire Agreement. This Agreement sets forth the entire understanding between the parties hereto and supersedes and merges all previous written and oral negotiations, commitments, understandings and agreements relating to the subject matter hereof between the parties hereto.

[*signature page follows*]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

CHEMOKINE THERAPEUTICS CORP.
a Delaware corporation

_____
Signature of Authorized Signatory

_____
Print Name

_____
Title

Address:

AGREED TO AND ACCEPTED:

INDEMNITEE:

_____
Signature

_____
Print Name

_____
Title

Address:

EMPLOYMENT AGREEMENT

THIS AGREEMENT is made as of the 16st, day of November 2006.

BETWEEN:

Chemokine Therapeutics Corp. a Delaware Corporation and its wholly owned subsidiary **Chemokine Therapeutics (B.C.) Corp.** a B.C. Corporation (collectively the "Company"), having a business office at 6190 Agronomy Rd. Suite 405, Vancouver, BC. V6T 1Z3

(the "Company")

AND:

Mr. Bashir Jaffer of 1617 Page Road, North Vancouver, BC V7K 1R9

(the "Employee")

WHEREAS,

A. The Company is engaged in the business of the development of biotechnology products.

B. The Employee is presently employed, or is about to be employed, by the Company on the terms and conditions which are now set forth in this Agreement.

NOW THEREFORE THIS AGREEMENT WITNESSES that for and in consideration of the Employee's continued employment, the premises and mutual covenants and agreements hereinafter contained, the sum of $1.00 of lawful money of Canada now paid by the Company to the Employee and other good and valuable consideration (the receipt and sufficiency of which is hereby acknowledged) the parties hereto covenant and agree as follows:

1.0 Employment

1.1 The Company hereby employs the Employee in the position of **Chief Financial Officer and Corporate Secretary**.

1.2 The Employee shall report to **Dr. Hassan Salari (President & CEO)**, and shall perform, observe and conform to such duties and instructions as from time to time are reasonably and lawfully assigned or communicated to the Employee and are consistent with the position.

1.3 Where the Employee is a new employee, the first three months of the Employee's employment with the Company shall constitute a probationary period so that the Company shall have an opportunity to determine the Employee's ability to perform the duties of and the suitability for that position. The Company may terminate the Employee's employment during the Probationary Period as provided for in section 6 herein.

1.4 Throughout the term of this Agreement the Employee shall:

(a) diligently, honestly and faithfully serve the Company and shall use all reasonable efforts to promote and advance the interests and goodwill of the Company;

(b) conduct himself at all times in a manner which is not materially prejudicial to the Company's interests;

(c) devote all of his business time to the business and affairs of the Company; and

(d) not acquire, directly or indirectly, any interest that constitutes 10% or more of the voting rights attached to the outstanding shares of any corporation or 10% or more of the equity or assets in any firm, partnership or association, the business and operations of which in any manner, directly or indirectly, compete with the trade or business of the Company.

1.5 The Employee shall disclose all potential conflicts of interest and activities which could reasonably be seen to compete, indirectly or directly, with the trade or business of the Company, to the Board of Directors of the Company, as from time to time constituted (the "Board"). The Board shall determine, in its sole discretion, whether the activity in question constitutes a conflict of interest or competition with the Company. To the extent that the Board, acting reasonably, determines a conflict or competition exists, the Employee shall discontinue such activity forthwith or within such longer period as the Board agrees. The Employee shall immediately certify in writing to the Company that he has discontinued such activity and that he has, as required by the Board, cancelled any contracts or sold or otherwise disposed of any interest or assets over the 10% threshold described in subsection 1.4(d), herein acquired by the Employee by virtue of engaging in the impugned activity, or where no market exists to enable such sale or disposition, by transfer of the employee's beneficial interest into blind trust or other fiduciary arrangements over which the Employee has no control or direction, or other action that is acceptable to the Board.

1.6 Notwithstanding sections 1.4 (d) and 11, the Employee is not restricted from nor is required to obtain the consent of the Company to make investments in any company, which is involved in pharmaceuticals or biotechnology and the securities of which are listed for trading on any Canadian or U.S. stock exchange, quotation system or the over-the-counter market.

1.7 For the purposes of sections 1.4, 1.5 and 1.6 herein, the Employee includes any firm or company owned or controlled by the Employee.

1.8 It is understood and agreed that as the Company grows, the Employee's responsibilities may be changed to meet the needs of the Company, however, such responsibilities shall be those that are reasonably assigned to the Employee by the Board and are consistent with the Employee's position.

2.0 Compensation

2.1 In consideration of the services rendered by the Employee under this Agreement, the Company shall pay to the Employee the gross sum of **$150,000** per annum in equal semi-monthly instalments ("Base Salary"). Where the Employee is a new employee, on successful completion of the probationary period, the Employee's salary will be increased to $N/A per annum. Thereafter, increases to the Employee's Salary shall be in the absolute discretion of the Company.

2.2 The Employee shall be eligible to participate in the Company's pension plan.

2.3 The Company shall have the right to deduct and withhold from the Employee's compensation any amounts required to be deducted and withheld under the applicable provincial or federal laws of Canada.

3.0 Benefits

3.1 Subject to the successful completion of the three (3) month Probationary Period and, subject to any eligibility requirements, the Employee shall be entitled to such benefits which the Company offers from time to time to similar employees (the “Benefits”).

3.2 The introduction and administration of the Benefits is within the Company's sole discretion, and the introduction, deletion or amendment of the Benefits shall not constitute a breach of this Agreement.

4.0 Vacation

4.1 The Employee shall be entitled to an annual vacation of three (3) weeks per year. The Employee's entitlement to vacation shall not be cumulative from year to year and any vacation entitlement not taken during the current year in excess of the minimum standard provided for in the *Employment Standards Act*, R.S.B.C. 1996, c. 113. as amended, shall be forfeited. The

timing of vacations shall be in accordance with the Company's policies and practices and with the Company's needs.

4.2 At the time of termination of this Agreement any accrued vacation time for the current fiscal year of the Company shall be paid out or taken as time off, at the election of the Employee.

5.0 Term of Employment

5.1 The term of employment of the Employee by the Company pursuant to the terms of this Agreement shall commence as of the date of this Agreement and shall continue until such time as this Agreement is terminated pursuant to section 6 herein.

6.0 Termination

6.1 The Company may terminate the Employee's employment at any time, with no notice, for cause.

6.2 If this Agreement and the Employee's employment are terminated for cause, no notice, salary, benefits or allowances shall be paid or payable to the Employee after or as a result of such termination except in respect of those amounts which were payable in respect of the period ending immediately prior to such termination.

6.3 The Company may terminate the Employee's employment, without cause:

(a) at any time during the first, second and third months of the Probationary Period without notice or pay in lieu of notice;

(b) at any time after the third month of the Probationary Period, without cause, by providing the Employee with:

(i) one (1) week written notice or pay of in lieu of notice or any combination of written notice and pay in lieu of notice equal to one (1) week Base Salary; and

(ii) an additional one (1) week of written notice or pay in lieu of notice or any combination of written notice and pay in lieu of notice equal to one (1) week Base Salary for each year of service with the Company, prorated to the extent that a year of service is incomplete, provided that the total amount of notice or payment in lieu of notice hereunder does not exceed eight (8) weeks. If the Employee completed at least one year of full employment with the Company and his

employment was terminated without cause, then the Company will pay an additional one month severance pay.

6.4 The Employee may terminate this employment Agreement with the Company during the Probationary Period without notice. Thereafter the Employee may terminate this employment Agreement with the Company upon giving the Company four (4) weeks notice of resignation. On the giving of such notice by the Employee, or at any time thereafter, the Company shall have the right to elect to immediately terminate the Employee's employment, and upon such election, shall provide to the Employee a lump sum equal to the Base Salary only for four (4) weeks or to such proportion of the time that remains outstanding at the time of the election.

7.0 Confidentiality and Company Property

7.1 The Employee understands and acknowledges that the Company is engaged in a continuous program of research, development and production relating to Chemokine Research and related products ("Business"). Because of the nature of the Business, the Employee's employment creates a relationship of confidence between the Employee and the Company with respect to certain information that gives the Company an advantage in its business and marketplace. In the course of carrying out and performing the Employee's duties and responsibilities to the Company, the Employee will obtain access to and be entrusted with Confidential and Proprietary Information (as hereinafter defined) relating to the Business and other affairs of the Company.

7.2 The term "Confidential and Proprietary Information" as used in this Agreement means all trade secrets, proprietary information and other data or information (and any tangible evidence, record or representation thereof), whether prepared, conceived or developed by an employee of the Company (including the Employee) or received by the Company from an outside source which is maintained in confidence by the Company or any of its customers to obtain a competitive advantage over competitors who do not have access to such trade secrets, proprietary information, or other data or information. Without limiting the generality of the foregoing, Confidential and Proprietary Information includes:

(a) any information, ideas, improvements, know-how, concepts, research, inventions, innovations, products, services, sales, scientific or other formulas, systems, strategies, formulae, algorithms, patterns, processes, methods, machines, manufactures, compositions, processes, procedures, tests, treatments, developments, data, experimental software, libraries and routines, audio-visual displays technical specifications, technical data, designs,

devices, patterns, concepts, computer programs, training or service manuals, plans for new or revised services or products or other plans, items or strategy methods on compilation of information, or works in process, or any Invention (as defined in Section 8 below), or parts thereof, and any and all revisions and improvements relating to any of the foregoing (in each case whether or not reduced to tangible form) that relate to the Business or affairs of the Company or its subsidiary or affiliated companies, or that result from its marketing, research and/or development activities;

(b) any information relating to the relationship of the Company with any consultants, collaborators, associates, clients, customers, suppliers, principals, contacts or prospects of the Company and any information relating to the requirements, specifications, proposals, orders, contracts or transactions of or with any such consultants, collaborators, associates, clients, customers, suppliers, principals, contacts or prospects of the Company. Including but not limited to client lists;

(c) any sales plan, price schedule, product literature, user documentation, technical documentation, marketing material, plan or survey, business plan or opportunity, product or service development plan or specification, business proposal; and

(d) any information relating to the present Business or proposed business of the Company.

7.3 The Employee acknowledges and agrees that the Confidential and Proprietary Information is and will remain the exclusive property of the Company. The Employee also agrees that the Confidential and Proprietary Information:

(a) constitutes a proprietary right which the Company is entitled to protect; and

(b) constitutes information and knowledge not generally known to the trade.

7.4 The Employee understands that the Company has from time to time in its possession information belonging to others or which is claimed by others to be confidential or proprietary and which the Company has agreed to keep confidential. The Employee agrees that all such information shall be Confidential and Proprietary Information for the purposes of this Agreement.

7.5 For purposes of the copyright laws of the United States of America, to the extent, if any, that such laws are applicable to any Confidential and Proprietary Information, it shall be considered a work made for hire and the Company shall be considered the author thereof.

7.6 The Employee agrees to maintain securely and hold in strict confidence all Confidential and Proprietary Information received, acquired or developed by the Employee or disclosed to the Employee as a result of or in connection with the Employee's employment with the Company. The Employee agrees to continue to hold the Confidential and Proprietary Information in strict confidence at all times after the termination of the Employee's employment for whatever reason. The Employee will not disclose any of the Confidential and Proprietary Information to any person, firm or corporation, nor will the Employee use any of the Confidential and Proprietary Information for any purpose other than in the normal and proper course of the Employee's duties either during the term of the Employee's employment with the Company or at any time afterwards without the express written consent of the Company. The Employee will use the Employee's best efforts to protect and safeguard Confidential and Proprietary Information from, without limitation, loss, theft, destruction or seizure.

7.7 The Employee agrees that documents, copies, records and other materials made or received by the Employee that pertain to the Business and affairs of the Company or its subsidiary or affiliated companies, including all Confidential and Proprietary Information and which are in the Employee's possession or under the Employee's control are the property of the Company and that the Employee will return same and any copies of them to the Company forthwith upon the termination of the Employee's employment or at any time immediately upon the request of the Company.

7.8 The restrictive obligations set forth above shall not apply to the disclosure or use of any information which:

(a) is or later becomes publicly known under circumstances involving no breach of this Agreement by the Employee;

(b) is already known to the Employee outside his work for the Company at the time of receipt of the Confidential Information;

(c) is disclosed to a third party under an appropriate confidentiality agreement;

(d) is lawfully made available to the Employee by a third party;

(e) is independently developed by the Employee who has not been privy to the Confidential Information provided by the Company, or

(f) is required by law to be disclosed but only to the extent of such requirement and the Employee shall immediately notify in writing the Chief Executive Officer of the Company upon receipt of any request for such disclosure.

7.9 The Employee represents and warrants that he has not brought and will not bring with him to the Company any materials or use, while performing his duties for the Company, any materials or documents of a former employer which are not generally available to the public. The Employee understands that, while employed by the Company, the Employee shall not breach any obligation or confidence or duty the Employee may have to a former employer and the Employee agrees that the Employee will fulfil all such obligations during the Employee's employment with the Company.

7.10 The Employee represents and warrants that the Employee will not use or cause to be incorporated in any of the Employee's work product any data software, information, designs, techniques or know-how which the Employee or the Company does not have the right to use.

7.11 The provisions of this section 7 shall survive the termination of this Agreement.

8.0 Inventions

8.1 The Employee agrees that all Confidential and Proprietary Information and all other discoveries, inventions, ideas, concepts, processes, products, protocols, treatments, methods, tests and improvements, algorithms, computer programs, or parts thereof, conceived, developed, reduced to practice or otherwise made by the Employee either alone or with others, and in any way relates to the present or proposed programs, services, products or Business of the Company, or to task assigned to the Employee during the period of the Employee's employment by the Company, whether or not conceived, developed, reduced to practice or made during the Employee's employment (collectively "Inventions"), and any and all services and products which embody, emulate or employ any such Invention shall be the sole property of the Company and all copyrights, patents, patent rights, trademarks, service marks and reproduction rights to, and other proprietary rights in, each such Invention, whether or not patentable or copyrightable, shall belong exclusively to the Company. For purposes of the copyright laws of the United States of America, to the extent, if any, that such laws are applicable to any such Invention or any such service or product, it shall be

considered a work made for hire and the Company shall be considered the author thereof.

8.2 The Employee will promptly disclose to the Company, or any persons designated by it, all Inventions.

8.3 The Employee hereby assigns to the Company or its nominee, their successors or assigns, all the Employee's rights, title and interest in and to the Inventions.

8.4 The Employee hereby waives for the benefit of the Company and its successors and assigns all the Employee's moral rights in respect of the Inventions.

8.5 The Employee further agrees to assist the Company in every proper way (but at the Company's expense) to obtain and from time to time to enforce patents or copyrights in respect of the Inventions in any and all countries, and to that end the Employee will execute all documents for use in applying for, obtaining and enforcing patents and copyrights on such Inventions as the Company may desire, together with any assignments of such Inventions to the Company or persons designated by it. The Employee's obligation to assist the Company in obtaining and enforcing patents and copyrights for the Inventions in any and all countries shall continue beyond the termination of the Agreement.

8.6 In the event that the Company is unable for any reason whatsoever to secure the Employee's signature to any lawful and necessary document required to apply for or execute any patent, copyright, trademark or other applications with respect to any Invention (including improvements, renewals, extensions, continuations, divisions or continuations in part thereof), the Employee hereby irrevocably appoints the Company and its duly authorized officers and agents as the Employee's agents and attorneys-in-fact to execute and file any such application and to do all other lawfully permitted acts to further the prosecution and issuance of patents, copyrights or other rights thereon with the same legal force and effect as if executed by the Employee.

8.7 The Employee hereby represents and warrants that the Employee is subject to no contractual or other restriction or obligation, which will in any way limit the Employee's activities on behalf of the Company. The Employee hereby represents and warrants to the Company that the Employee has no continuing obligations to any previous employer (a) with respect to any previous invention, discovery or other item of intellectual property or (b) which require the Employee not to disclose any information or data to the Company.

8.8 The provisions of this section 8 shall survive the termination of this Agreement.

9.0 Remedies

9.1 The Employee acknowledges and agrees that a breach by the Employee of any of the covenants contained in sections 7 and 8 of this Agreement herein shall result in damages to the Company and that the Company could not be adequately compensated for such damages by a monetary award. Accordingly, in the event of any such breach, in addition to all other remedies available to the Company at law or in equity, the Company shall be entitled as a matter of right to apply to a court of competent jurisdiction for such relief by way of restraining order, temporary or permanent injunction, to cure any such breach, or as may be appropriate, to ensure compliance with the provisions of this agreement.

10.0 Property Rights of the Company

10.1 Notwithstanding anything else in this Agreement, it is expressly acknowledged and understood by the Employee that all the work product of the Employee while engaged by the Company pursuant to the terms hereof shall vest in the Company absolutely and notwithstanding the generality of the foregoing, all software, product information, improvements, notes, documents, correspondence, produced by the Employee during the term of employment hereunder shall belong absolutely to the Company. The Employee further agrees to execute without further consideration any assignments, conveyances, other documents and assurances as may be necessary to effect the intent of this provision. Notwithstanding the generality of the foregoing, the Company acknowledges that intellectual property, know-how and the like known by or in possession of the Employee as of or prior to the Employee becoming an employee of the Company is hereby expressly excluded from the foregoing restrictions.

11.0 Non-Competition

11.1 The Employee agrees that following the termination of his employment with the Company for any reason, he shall not, within Canada, the United States of America and the countries comprising the European Economic Union, for a period of twelve (12) months from the date of such termination (without the prior written consent of the Company) either individually or in partnership, or in conjunction with any person or persons, firm, association, syndicate, company or corporation as principal, agent, director, officer, employee, consultant, investor or in any other manner whatsoever carry on or be engaged in or be concerned with or interested in, or advise, lend money to, guarantee the debts or obligations of or permit his name or any part thereof to be used or employed by any person or persons, firm, association, syndicate, company or corporation, engaged in

or concerned with any business that is engaged in the field of Chemokine research and development.

11.2 The Employee acknowledges that a breach by the Employee of any of the covenants contained in section 1.4(d) and section 11 herein shall result in damages to the Company and that the Company could not be adequately compensated for such damages by a monetary award. Accordingly, in the event of any such breach, in addition to all other remedies available to the Company at law or in equity, the Company shall be entitled as a matter of right to apply to a Court of competent jurisdiction for such relief by way of restraining order, temporary or permanent injunction, decree or otherwise, as may be appropriate to ensure compliance with the provisions of this Agreement.

11.3 The Employee agrees that all documents, copies, records and other materials made or received by the Employee and which are in his possession or under his control that pertain to the business and affairs of the Company are the property of the Company and shall be returned to the Company by the Employee forthwith upon the termination of this Agreement or at any time during the term hereof immediately upon the request of the Company.

11.4 The Employee hereby agrees that all restrictions in this Agreement are reasonable and valid and all defences to the strict enforcement thereof by the Company are hereby waived by the Employee.

12.0 Employment Standards

12.1 In the event that the minimum standards in the *Employment Standards Act, as* it exists from time to time, are more favourable to the Employee in any respect, including but not limited to the provisions herein in respect of notice of termination, minimum wage or vacation entitlement than provided for herein, the provisions of the Employment Standards Act shall apply.

13.0 General Provisions

13.1 In this Agreement, unless context otherwise requires, words Importing the singular include the plural and vice versa, and words importing gender include all genders.

13.2 The headings and the clauses of this Agreement have been inserted as a matter of convenience and for reference only and in no way define, limit or enlarge the scope or meaning of this Agreement or any of its provisions.

13.3 This Agreement may not be assigned by either party. This Agreement shall enure to the benefit of the parties and shall be binding upon the successors of the Company.

13.4 The waiver of the Company of a breach of any provision of this Agreement by the Employee shall not operate or be construed as a waiver of any subsequent breach by the Employee.

13.5 This Agreement constitutes the entire agreement between the parties hereto relating to the employment of the Employee and supersedes any and all employment agreements or understandings, oral or written, between the Company and the Employee and any such prior agreements relating to the employment of the Employee by the Company are hereby terminated and cancelled.

13.6 This Agreement shall not be amended except in writing signed by both parties.

13.7 In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, the remaining provisions and portions of this Agreement shall not be affected by such determination and shall remain in full force and effect to the fullest extent permitted by law.

13.8 The Employee shall, upon the reasonable request of the Company, make, do, execute or cause to be made, done or executed, all such further and lawful acts, deeds, things, documents and assurances of whatsoever nature and kind for the better or more perfect or absolute performance of the terms, conditions and intent of this Agreement.

13.9 Every notice, request, demand or direction (each for the purposes of this section, a "notice") to be given pursuant to this Agreement by any party to another shall be in writing and shall be delivered in person or sent by registered mail postage prepaid or by facsimile addressed as applicable as follows:

If to the Employee at:

1617 Page Road,
North Vancouver,
BC, V7K 1R9

If to the Company at:

6190 Agronomy Rd,
Suite 405,

Vancouver,
BC, V6T 1Z3

or at such other address as specified by the particular party by notice to the other.

13.10 Any notes delivered or sent in accordance with section 13.09 will be deemed to have been given and received:

(a) if personally delivered, on the day of delivery,

(b) if by registered mail, on the earlier of the day of receipt and the fifth (5th) business day after the day of mailing, or

(c) if by facsimile, on the first business day following the day of transmittal.

If a notice is sent by registered mail and mail service is interrupted between the point of mailing and the destination by strike, slow down, force majeure or other cause within three (3) days before or after the time of mailing, the notice will not be deemed to be received until actually received, and the party sending the notice will use any other service which has not been so interrupted or will deliver the notice in order to ensure prompt receipt.

13.11 A reference to a statute includes all regulations made pursuant thereto, all amendments to the statute or regulations in force from time to time, and any statute or regulation which supplements or supersedes such statute or regulations.

13.12 All sums of money which are referred to in this Agreement are expressed in lawful money of Canada. This agreement is governed by the laws of Province of British Columbia.

13.13 Time is of the essence of this Agreement.

14.0 Independent Legal Advice

14.1 The Employee acknowledges that this Agreement has been prepared by the Company's solicitors and acknowledges that the Employee has had sufficient time to review this Agreement thoroughly, that the Employee has read and understood the terms of this Agreement and that the Employee has been given the opportunity to obtain independent legal advice concerning the interpretation and effect of this Agreement prior to its execution.

IN WITNESS WHEREOF this Agreement has been executed by the parties hereto as of the day and year first above written.

SIGNED SEALED AND DELIVERED)
By:)

Employee:_____
Name and Address: Bashir Jaffer, 1617 Page Road, North Vancouver, BC, V7K 1R9

in the presence of:)

_____
Witness)
)

_____
Address)
)

_____

The Corporate Seal of)
Chemokine Therapeutics Corp.)
was hereunto affixed.)
Per:) c/s
)
)

_____
Dr. Hassan Salari
President and CEO

EMPLOYMENT AGREEMENT

THIS AGREEMENT is made as of the 1st, day of March 2007.

BETWEEN:

Chemokine Therapeutics Corp. a Delaware Corporation and its wholly owned subsidiary **Chemokine Therapeutics (B.C.) Corp.** a B.C. Corporation (collectively the "Company"), having a business office at 6190 Agronomy Rd. Suite 405, Vancouver, BC. V6T 1Z3

(the "Company")

AND:

Dr. Guy Ely of 2372 Valley Forest Way, Oakville, ON L6H 6W9

(the "Employee")

WHEREAS,

A. The Company is engaged in the business of the development of biotechnology products.

B. The Employee is presently employed, or is about to be employed, by the Company on the terms and conditions which are now set forth in this Agreement.

NOW THEREFORE THIS AGREEMENT WITNESSES that for and in consideration of the Employee's continued employment, the premises and mutual covenants and agreements hereinafter contained, the sum of $1.00 of lawful money of Canada now paid by the Company to the Employee and other good and valuable consideration (the receipt and sufficiency of which is hereby acknowledged) the parties hereto covenant and agree as follows:

1.0 Employment

1.1 The Company hereby employs the Employee in the position of **Chief Medical Officer**.

1.2 The Employee shall report to **Dr. Hassan Salari (President & CEO)**, and shall perform, observe and conform to such duties and instructions as from time to time are reasonably and lawfully assigned or communicated to the Employee and are consistent with the position.

1.3 Throughout the term of this Agreement the Employee shall:

(a) diligently, honestly and faithfully serve the Company and shall use all reasonable efforts to promote and advance the interests and goodwill of the Company;

(b) conduct himself at all times in a manner which is not materially prejudicial to the Company's interests;

(c) devote approximately 40 hours or 5 days per month to the business and affairs of the Company; and

(d) not acquire, directly or indirectly, any interest that constitutes 10% or more of the voting rights attached to the outstanding shares of any corporation or 10% or more of the equity or assets in any firm, partnership or association, the business and operations of which in any manner, directly or indirectly, compete with the trade or business of the Company.

1.4 The Employee shall disclose all potential conflicts of interest and activities which could reasonably be seen to compete, indirectly or directly, with the trade or business of the Company, to the Board of Directors of the Company, as from time to time constituted (the "Board"). The Board shall determine, in its sole discretion, whether the activity in question constitutes a conflict of interest or competition with the Company. To the extent that the Board, acting reasonably, determines a conflict or competition exists, the Employee shall discontinue such activity forthwith or within such longer period as the Board agrees. The Employee shall immediately certify in writing to the Company that he has discontinued such activity and that he has, as required by the Board, cancelled any contracts or sold or otherwise disposed of any interest or assets over the 10% threshold described in subsection 1.3(d), herein acquired by the Employee by virtue of engaging in the impugned activity, or where no market exists to enable such sale or disposition, by transfer of the employee's beneficial interest into blind trust or other fiduciary arrangements over which the Employee has no control or direction, or other action that is acceptable to the Board.

1.5 Notwithstanding sections 1.3 (d) and 11, the Employee is not restricted from nor is required to obtain the consent of the Company to make investments in any company, which is involved in pharmaceuticals or biotechnology and the securities of which are listed for trading on any Canadian or U.S. stock exchange, quotation system or the over-the-counter market.

1.6 For the purposes of sections 1.3, 1.4 and 1.5 herein, the Employee includes any firm or company owned or controlled by the Employee.

1.7 It is understood and agreed that as the Company grows, the Employee's responsibilities may be changed to meet the needs of the Company, however, such responsibilities shall be those that are reasonably assigned to the Employee by the Board and are consistent with the Employee's position.

2.0 Compensation

2.1 In consideration of the services rendered by the Employee under this Agreement, the Company shall pay to the Employee the gross sum of **$66,000** per annum in equal semi-monthly instalments ("Base Salary") for the provision of services as outlined in Appendix A based on approximately 40 hours or five days per month for the term of this agreement. It is expected that the Employee spend one week per month in the offices of the Company. Mutually agreed upon additional hours beyond those in this agreement shall be compensated for at the pro rata rate of $230.00 (two hundred and thirty dollars) per hour. Increases to the Employee's Salary shall be in the absolute discretion of the Company.

2.2 The Employee shall be eligible to participate in the Company's pension plan.

2.3 The Company shall have the right to deduct and withhold from the Employee's compensation any amounts required to be deducted and withheld under the applicable provincial or federal laws of Canada.

3.0 Benefits

3.1 The Employee shall be entitled to such benefits which the Company offers from time to time to similar employees (the “Benefits”).

3.2 The introduction and administration of the Benefits is within the Company's sole discretion, and the introduction, deletion or amendment of the Benefits shall not constitute a breach of this Agreement.

4.0 Vacation

4.1 The Employee shall be entitled to an annual vacation of one (1) week per year. The Employee's entitlement to vacation shall not be cumulative from year to year and any vacation entitlement not taken during the current year in excess of the minimum standard provided for in the *Employment Standards Act*, R.S.B.C. 1996, c. 113. as amended, shall be forfeited. The timing of vacations shall be in accordance with the Company's policies and practices and with the Company's needs.

4.2 At the time of termination of this Agreement any accrued vacation time for the current fiscal year of the Company shall be paid out or taken as time off, at the election of the Employee.

5.0 Term of Employment

5.1 The term of employment of the Employee by the Company pursuant to the terms of this Agreement shall commence as of the date of this Agreement and shall continue until such time as this Agreement is terminated pursuant to section 6 herein.

6.0 Termination

6.1 The Company may terminate the Employee's employment at any time, with no notice, for cause.

6.2 If this Agreement and the Employee's employment are terminated for cause, no notice, salary, benefits or allowances shall be paid or payable to the Employee after or as a result of such termination except in respect of those amounts which were payable in respect of the period ending immediately prior to such termination.

6.3 The Company may terminate the Employee's employment, without cause:

(a) at any time, without cause, by providing the Employee with:

(i) one (1) week written notice or pay of in lieu of notice or any combination of written notice and pay in lieu of notice equal to one (1) week Base Salary; and

(ii) an additional one (1) week of written notice or pay in lieu of notice or any combination of written notice and pay in lieu of notice equal to one (1) week Base Salary for each year of service with the Company, prorated to the extent that a year of service is incomplete, provided that the total amount of notice or payment in lieu of notice hereunder does not exceed eight (8) weeks. If the Employee completed at least one year of full employment with the Company and his employment was terminated without cause, then the Company will pay an additional one month severance pay.

6.4 The Employee may terminate this employment Agreement with the Company upon giving the Company four (4) weeks notice of resignation. On the giving of such notice by the Employee, or at any time thereafter, the Company shall have the right to elect to immediately terminate the Employee's employment, and upon such election, shall provide to the Employee a lump sum equal to the Base Salary only for four (4) weeks or to such proportion of the time that remains outstanding at the time of the election.

7.0 Confidentiality and Company Property

7.1 The Employee understands and acknowledges that the Company is engaged in a continuous program of research, development and production relating to Chemokine Research and related products ("Business"). Because of the nature of the Business, the Employee's employment creates a relationship of confidence between the Employee and the Company with respect to certain information that gives the Company an advantage in its business and marketplace. In the course of carrying out and performing the Employee's duties and responsibilities to the Company, the Employee will obtain access to and be entrusted with Confidential and Proprietary Information (as hereinafter defined) relating to the Business and other affairs of the Company.

7.2 The term "Confidential and Proprietary Information" as used in this Agreement means all trade secrets, proprietary information and other data or information (and any tangible evidence, record or representation thereof), whether prepared, conceived or developed by an employee of the Company (including the Employee) or received by the Company from an outside source which is maintained in confidence by the Company or any of its customers to obtain a competitive advantage over competitors who do not have access to such trade secrets, proprietary information, or other data or information. Without limiting the generality of the foregoing, Confidential and Proprietary Information includes:

(a) any information, ideas, improvements, know-how, concepts, research, inventions, innovations, products, services, sales, scientific or other formulas, systems, strategies, formulae, algorithms, patterns, processes, methods, machines, manufactures, compositions, processes, procedures, tests, treatments, developments, data, experimental software, libraries and routines, audio-visual displays technical specifications, technical data, designs, devices, patterns, concepts, computer programs, training or service manuals, plans for new or revised services or products or other plans, items or strategy methods on compilation of information, or works in process, or any Invention (as defined in Section 8 below), or parts thereof, and any and all revisions and improvements relating to any of the foregoing (in each case whether or not reduced to tangible form) that relate to the Business or affairs of the Company or its subsidiary or affiliated companies, or that result from its marketing, research and/or development activities;

(b) any information relating to the relationship of the Company with any consultants, collaborators, associates, clients, customers, suppliers, principals, contacts or prospects of the Company and any information relating to the requirements, specifications, proposals, orders, contracts or transactions of or with any such consultants, collaborators, associates, clients, customers, suppliers, principals, contacts or prospects of the Company. Including but not limited to client lists;

(c) any sales plan, price schedule, product literature, user documentation, technical documentation, marketing material, plan or survey, business plan or opportunity, product or service development plan or specification, business proposal; and

(d) any information relating to the present Business or proposed business of the Company.

7.3 The Employee acknowledges and agrees that the Confidential and Proprietary Information is and will remain the exclusive property of the Company. The Employee also agrees that the Confidential and Proprietary Information:

(a) constitutes a proprietary right which the Company is entitled to protect; and

(b) constitutes information and knowledge not generally known to the trade.

7.4 The Employee understands that the Company has from time to time in its possession information belonging to others or which is claimed by others to be confidential or proprietary and which the Company has agreed to keep confidential. The Employee agrees that all such information shall be Confidential and Proprietary Information for the purposes of this Agreement.

7.5 For purposes of the copyright laws of the United States of America, to the extent, if any, that such laws are applicable to any Confidential and Proprietary Information, it shall be considered a work made for hire and the Company shall be considered the author thereof.

7.6 The Employee agrees to maintain securely and hold in strict confidence all Confidential and Proprietary Information received, acquired or developed by the Employee or disclosed to the Employee as a result of or in connection with the Employee's employment with the Company. The Employee agrees to continue to hold the Confidential and Proprietary Information in strict confidence at all times after the termination of the Employee's employment for whatever reason. The Employee will not disclose

any of the Confidential and Proprietary Information to any person, firm or corporation, nor will the Employee use any of the Confidential and Proprietary Information for any purpose other than in the normal and proper course of the Employee's duties either during the term of the Employee's employment with the Company or at any time afterwards without the express written consent of the Company. The Employee will use the Employee's best efforts to protect and safeguard Confidential and Proprietary Information from, without limitation, loss, theft, destruction or seizure.

7.7 The Employee agrees that documents, copies, records and other materials made or received by the Employee that pertain to the Business and affairs of the Company or its subsidiary or affiliated companies, including all Confidential and Proprietary Information and which are in the Employee's possession or under the Employee's control are the property of the Company and that the Employee will return same and any copies of them to the Company forthwith upon the termination of the Employee's employment or at any time immediately upon the request of the Company.

7.8 The restrictive obligations set forth above shall not apply to the disclosure or use of any information which:

(a) is or later becomes publicly known under circumstances involving no breach of this Agreement by the Employee;

(b) is already known to the Employee outside his work for the Company at the time of receipt of the Confidential Information;

(c) is disclosed to a third party under an appropriate confidentiality agreement;

(d) is lawfully made available to the Employee by a third party;

(e) is independently developed by the Employee who has not been privy to the Confidential Information provided by the Company, or

(f) is required by law to be disclosed but only to the extent of such requirement and the Employee shall immediately notify in writing the Chief Executive Officer of the Company upon receipt of any request for such disclosure.

7.9 The Employee represents and warrants that he has not brought and will not bring with him to the Company any materials or use, while performing his duties for the Company, any materials or documents of a former employer which are not

generally available to the public. The Employee understands that, while employed by the Company, the Employee shall not breach any obligation or confidence or duty the Employee may have to a former employer and the Employee agrees that the Employee will fulfil all such obligations during the Employee's employment with the Company.

7.10 The Employee represents and warrants that the Employee will not use or cause to be incorporated in any of the Employee's work product any data software, information, designs, techniques or know-how which the Employee or the Company does not have the right to use.

7.11 The provisions of this section 7 shall survive the termination of this Agreement.

8.0 Inventions

8.1 The Employee agrees that all Confidential and Proprietary Information and all other discoveries, inventions, ideas, concepts, processes, products, protocols, treatments, methods, tests and improvements, algorithms, computer programs, or parts thereof, conceived, developed, reduced to practice or otherwise made by the Employee either alone or with others, and in any way relates to the present or proposed programs, services, products or Business of the Company, or to task assigned to the Employee during the period of the Employee's employment by the Company, whether or not conceived, developed, reduced to practice or made during the Employee's employment (collectively "Inventions"), and any and all services and products which embody, emulate or employ any such Invention shall be the sole property of the Company and all copyrights, patents, patent rights, trademarks, service marks and reproduction rights to, and other proprietary rights in, each such Invention, whether or not patentable or copyrightable, shall belong exclusively to the Company. For purposes of the copyright laws of the United States of America, to the extent, if any, that such laws are applicable to any such Invention or any such service or product, it shall be considered a work made for hire and the Company shall be considered the author thereof.

8.2 The Employee will promptly disclose to the Company, or any persons designated by it, all Inventions.

8.3 The Employee hereby assigns to the Company or its nominee, their successors or assigns, all the Employee's rights, title and interest in and to the Inventions.

8.4 The Employee hereby waives for the benefit of the Company and its successors and assigns all the Employee's moral rights in respect of the Inventions.

8.5 The Employee further agrees to assist the Company in every proper way (but at the Company's expense) to obtain and from time to time to enforce patents or copyrights in respect of the Inventions in any and all countries, and to that end the Employee will execute all documents for use in applying for, obtaining and enforcing patents and copyrights on such Inventions as the Company may desire, together with any assignments of such Inventions to the Company or persons designated by it. The Employee's obligation to assist the Company in obtaining and enforcing patents and copyrights for the Inventions in any and all countries shall continue beyond the termination of the Agreement.

8.6 In the event that the Company is unable for any reason whatsoever to secure the Employee's signature to any lawful and necessary document required to apply for or execute any patent, copyright, trademark or other applications with respect to any Invention (including improvements, renewals, extensions, continuations, divisions or continuations in part thereof), the Employee hereby irrevocably appoints the Company and its duly authorized officers and agents as the Employee's agents and attorneys-in-fact to execute and file any such application and to do all other lawfully permitted acts to further the prosecution and issuance of patents, copyrights or other rights thereon with the same legal force and effect as if executed by the Employee.

8.7 The Employee hereby represents and warrants that the Employee is subject to no contractual or other restriction or obligation, which will in any way limit the Employee's activities on behalf of the Company. The Employee hereby represents and warrants to the Company that the Employee has no continuing obligations to any previous employer (a) with respect to any previous invention, discovery or other item of intellectual property or (b) which require the Employee not to disclose any information or data to the Company.

8.8 The provisions of this section 8 shall survive the termination of this Agreement.

9.0 Remedies

9.1 The Employee acknowledges and agrees that a breach by the Employee of any of the covenants contained in sections 7 and 8 of this Agreement herein shall result in damages to the Company and that the Company could not be adequately compensated for such damages by a monetary award. Accordingly, in the event of any such breach, in addition to all other remedies available to the Company at law or in equity, the Company shall be entitled as a matter of right to apply to a court of competent jurisdiction for such relief by way of restraining order, temporary or permanent

injunction, to cure any such breach, or as may be appropriate, to ensure compliance with the provisions of this agreement.

10.0 Property Rights of the Company

10.1 Notwithstanding anything else in this Agreement, it is expressly acknowledged and understood by the Employee that all the work product of the Employee while engaged by the Company pursuant to the terms hereof shall vest in the Company absolutely and notwithstanding the generality of the foregoing, all software, product information, improvements, notes, documents, correspondence, produced by the Employee during the term of employment hereunder shall belong absolutely to the Company. The Employee further agrees to execute without further consideration any assignments, conveyances, other documents and assurances as may be necessary to effect the intent of this provision. Notwithstanding the generality of the foregoing, the Company acknowledges that intellectual property, know-how and the like known by or in possession of the Employee as of or prior to the Employee becoming an employee of the Company is hereby expressly excluded from the foregoing restrictions.

11.0 Non-Competition

11.1 The Employee agrees that following the termination of his employment with the Company for any reason, he shall not, within Canada, the United States of America and the countries comprising the European Economic Union, for a period of twelve (12) months from the date of such termination (without the prior written consent of the Company) either individually or in partnership, or in conjunction with any person or persons, firm, association, syndicate, company or corporation as principal, agent, director, officer, employee, consultant, investor or in any other manner whatsoever carry on or be engaged in or be concerned with or interested in, or advise, lend money to, guarantee the debts or obligations of or permit his name or any part thereof to be used or employed by any person or persons, firm, association, syndicate, company or corporation, engaged in or concerned with any business that is engaged in the field of Chemokine research and development.

11.2 The Employee acknowledges that a breach by the Employee of any of the covenants contained in section 1.4(d) and section 11 herein shall result in damages to the Company and that the Company could not be adequately compensated for such damages by a monetary award. Accordingly, in the event of any such breach, in addition to all other remedies available to the Company at law or in equity, the Company shall be entitled as a matter of right to apply to a Court of competent jurisdiction for such relief by way of restraining order, temporary or permanent injunction, decree or otherwise, as may be appropriate to ensure compliance with the provisions of this Agreement.

11.3 The Employee agrees that all documents, copies, records and other materials made or received by the Employee and which are in his possession or under his control that pertain to the business and affairs of the Company are the property of the Company and shall be returned to the Company by the Employee forthwith upon the termination of this Agreement or at any time during the term hereof immediately upon the request of the Company.

11.4 The Employee hereby agrees that all restrictions in this Agreement are reasonable and valid and all defences to the strict enforcement thereof by the Company are hereby waived by the Employee.

12.0 Employment Standards

12.1 In the event that the minimum standards in the *Employment Standards Act, as* it exists from time to time, are more favourable to the Employee in any respect, including but not limited to the provisions herein in respect of notice of termination, minimum wage or vacation entitlement than provided for herein, the provisions of the Employment Standards Act shall apply.

13.0 General Provisions

13.1 In this Agreement, unless context otherwise requires, words Importing the singular include the plural and vice versa, and words importing gender include all genders.

13.2 The headings and the clauses of this Agreement have been inserted as a matter of convenience and for reference only and in no way define, limit or enlarge the scope or meaning of this Agreement or any of its provisions.

13.3 This Agreement may not be assigned by either party. This Agreement shall enure to the benefit of the parties and shall be binding upon the successors of the Company.

13.4 The waiver of the Company of a breach of any provision of this Agreement by the Employee shall not operate or be construed as a waiver of any subsequent breach by the Employee.

13.5 This Agreement constitutes the entire agreement between the parties hereto relating to the employment of the Employee and supersedes any and all employment agreements or understandings, oral or written, between the Company and the Employee and any such prior agreements relating to the employment of the Employee by the Company are hereby terminated and cancelled.

13.6 This Agreement shall not be amended except in writing signed by both parties.

13.7 In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, the remaining provisions and portions of this Agreement shall not be affected by such determination and shall remain in full force and effect to the fullest extent permitted by law.

13.8 The Employee shall, upon the reasonable request of the Company, make, do, execute or cause to be made, done or executed, all such further and lawful acts, deeds, things, documents and assurances of whatsoever nature and kind for the better or more perfect or absolute performance of the terms, conditions and intent of this Agreement.

13.9 Every notice, request, demand or direction (each for the purposes of this section, a "notice") to be given pursuant to this Agreement by any party to another shall be in writing and shall be delivered in person or sent by registered mail postage prepaid or by facsimile addressed as applicable as follows:

If to the Employee at:

2372 Valley Forest Way,
Oakville,
ON, L6H 6W9

If to the Company at:

6190 Agronomy Rd,
Suite 405,
Vancouver,
BC, V6T 1Z3

or at such other address as specified by the particular party by notice to the other.

13.10 Any notes delivered or sent in accordance with section 13.09 will be deemed to have been given and received:

(a) if personally delivered, on the day of delivery,

(b) if by registered mail, on the earlier of the day of receipt and the fifth (5th) business day after the day of mailing, or

(c) if by facsimile, on the first business day following the day of transmittal.

If a notice is sent by registered mail and mail service is interrupted between the point of mailing and the destination by strike, slow down, force majeure or other cause within three (3) days before or after the time of mailing, the notice will not be deemed to be received until actually received, and the party sending the notice will use any other service which has not been so interrupted or will deliver the notice in order to ensure prompt receipt.

13.11 A reference to a statute includes all regulations made pursuant thereto, all amendments to the statute or regulations in force from time to time, and any statute or regulation which supplements or supersedes such statute or regulations.

13.12 All sums of money which are referred to in this Agreement are expressed in lawful money of Canada. This agreement is governed by the laws of Province of British Columbia.

13.13 Time is of the essence of this Agreement.

14.0 Independent Legal Advice

14.1 The Employee acknowledges that this Agreement has been prepared by the Company's solicitors and acknowledges that the Employee has had sufficient time to review this Agreement thoroughly, that the Employee has read and understood the terms of this Agreement and that the Employee has been given the opportunity to obtain independent legal advice concerning the interpretation and effect of this Agreement prior to its execution.

IN WITNESS WHEREOF this Agreement has been executed by the parties hereto as of the day and year first above written.

SIGNED SEALED AND DELIVERED)
By:)

Employee:_____
Name and Address: Guy Ely, 2372 Valley Forest Way, Oakville, ON L6H 6W9

in the presence of:)

_____
Witness)
)

_____
Address)
)

_____

The Corporate Seal of)
Chemokine Therapeutics Corp.)
was hereunto affixed.)
Per:) c/s
)
)

_____
Dr. Hassan Salari
President and CEO

Appendix A

Job Profile – Chief Medical Officer

Job Purpose

The Chief Medical Officer (CMO) is an officer of the company and is accountable to the CEO and the Board of Directors. The CMO is responsible for preparing a Clinical Development Plan (CDP) with specific protocols for the organization in keeping with the overall strategic direction as set by the CEO and approved by the Board of Directors. The CMO is responsible for providing direction specific to the corporate clinical development activities in compliance with all regulatory requirements. The CMO serves as the organizations expert for use/application of all products under development for human use. The CMO serves as the primary thought leader for clinical trials.

Primary Duties and Responsibilities

The Chief Medical Officer performs and is responsible for:

Leadership

- Report to the CEO
- Participating with the CEO and senior management in fulfilling the organizations vision and strategic plan
- Identify, assess, and inform the CEO and Directors of internal and external medical, and scientific issues that affect the organization
- Act as a professional advisor to the CEO and senior management on all aspects of the organization's activities
- Act as a spokesperson for the organization on medical related issues as required
- Represent the organization with various stakeholders as required to enhance the organization's profile

Program Planning and Operations

- Developing a CDP which incorporates goals and objectives that work towards the strategic direction of the organization
- Collaborating with other physicians, researchers, Clinical Advisory Board members, regulatory authorities in the development of specific protocols in keeping with the CDP
- Serving as an advisor for Drug Development, and an additional point of contact for technical, scientific, and medical issues pertaining to clinical research and development of products
- Preparing and presenting to the management and the Board of Directors a CDP as well as all medical/clinical reports as required

- Consulting with Management and Clinical/Regulatory Team in developing processes and procedures to promote efficient and cost-effective management of clinical trials according to the CDP
- Is responsible for accurate and quality protocols, investigator brochures, and other clinical documents, providing clinical content as appropriate
- Consulting with Management and Clinical/Regulatory Team in preparing clinical filings to regulatory authorities in Canada, the United States and other jurisdictions as required
- Providing guidance for, and actively participates in, analysis, interpretation, reporting of clinical study findings
- Working with the Clinical Team to serve as physician liaison to investigators and CROs.
- Interfacing with the Clinical/Regulatory Team with the planning and implementation of all clinical protocols
- Overseeing and managing all patient related issues with clinical trial sites and the regulatory authorities
- Ensuring that the clinical programs undertaken by the organization meet the commitments (budget and timelines) made to the various internal and external stakeholders
- Providing recommendations to Management and Clinical/Regulatory Team on service providers and outsourcing channels in an effort to provide efficient clinical program delivery