

Auditors' Report

To the Shareholders of

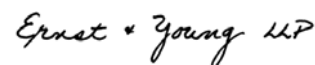
Pacgen Biopharmaceuticals Corporation

We have audited the consolidated balance sheets of Pacgen Biopharmaceuticals Corporation (a development stage enterprise) as at March 31, 2007 and 2006 and the consolidated statements of loss and deficit and cash flows for the years then ended and the period from April 23, 2004 (inception) to March 31, 2007. 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 Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and

significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2007 and 2006 and the results of its operations and its cash flows for the years ended March 31, 2007 and March 31, 2006, and for the period from April 23, 2004 (inception) to March 31, 2007 in accordance with Canadian generally accepted accounting principles.

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

Vancouver, Canada,
June 22, 2007

Chartered Accountants

Consolidated Balance Sheets [See Note 1 — Basis of Presentation]

(expressed in Canadian dollars)	March 31, 2007	March 31, 2006
	\$	\$
ASSETS		
Current		
Cash and cash equivalents [note 5]	5,387,366	727,064
Amounts receivable	132,060	28,899
Prepaid expenses and other	941,629	49,986
Total current assets	6,461,055	805,949
Deferred acquisition costs	—	20,903
Property and equipment [note 6]	134,433	35,253
Intangible assets [note 4 & 7]	1,239,178	557,243
Total assets	7,834,666	1,419,348
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	1,240,599	102,051
Future income tax liability [note 11]	85,000	—
Total liabilities	1,325,599	102,051
Commitments and contingencies [notes 7, 9 and 10]		
Shareholders' equity		
Share capital [note 8]		
Issued and outstanding:		
Common shares [note 8(a)]	12,286,556	2,374,836
Preferred shares [note 8(b)]	—	1,131,593
Contributed surplus [note 7(b) and 8 (e)]	795,480	30,000
Deficit	(6,572,969)	(2,219,132)
Total shareholders' equity	6,509,067	1,317,297
Total liabilities and shareholders' equity	7,834,666	1,419,348

See accompanying notes

On behalf of the Board:

/s/ Chung-Yu Wang
Director

/s/ Michael A. Evans
Director

Consolidated Statements of Loss and Deficit

(expressed in Canadian dollars)	Year ended March 31, 2007	Year ended March 31, 2006	Cumulative from Inception to March 31, 2007
	\$	\$	\$
EXPENSES			
Research and development	1,987,583	791,778	2,849,907
General and administration	1,790,765	767,268	3,125,401
Stock based compensation [note 8(e)]	580,825	—	580,825
Amortization	242,274	19,520	264,258
Loss from operations	4,601,447	1,578,566	6,820,391
OTHER			
Interest and other income	100,482	17,873	129,968
Foreign exchange losses	(5,872)	(7,364)	(35,546)
	94,610	10,509	94,422
Loss before income taxes	(4,506,837)	(1,568,057)	(6,725,969)
Future income tax recovery [note 11]	153,000	—	153,000
Loss for the period	(4,353,837)	(1,568,057)	(6,572,969)
Deficit, beginning of period	(2,219,132)	(651,075)	—
Deficit, end of period	(6,572,969)	(2,219,132)	(6,652,969)
Basic and diluted loss per common share	(0.20)	(0.15)	
Weighted average number of common shares outstanding	21,941,822	10,353,916	

See accompanying notes

Consolidated Statements of Cash Flow

(expressed in Canadian dollars)	Year ended March 31, 2007	Year ended March 31, 2006	Cumulative from Inception to March 31, 2007
	\$	\$	\$
OPERATING ACTIVITIES			
Loss for the period	(4,353,837)	(1,568,057)	(6,572,969)
Add items not affecting cash:			
Amortization	242,274	19,520	264,258
Future income tax recovery	(153,000)	—	(153,000)
Stock based compensation	580,825	—	580,825
Write-off of research supplies	—	17,819	—
	(3,683,738)	(1,530,718)	(5,880,886)
Changes in non-cash working capital items relating to operations:			
Amounts receivable	40,333	40,766	11,434
Prepaid expenses and other	(891,643)	(25,147)	(941,629)
Accounts payable and accrued liabilities	1,112,556	61,012	1,214,610
Cash (used in) operating activities	(3,422,492)	(1,454,087)	(5,596,471)
INVESTING ACTIVITIES			
Acquisition of IL Therapeutics Inc.	1,257,992	—	1,257,992
Purchase of property and equipment	(114,980)	(12,079)	(159,718)
Purchase of intangible assets	—	(29,503)	(59,743)
Deferred acquisition costs	—	(20,903)	(20,903)
Cash provided by (used in) investing activities	1,143,012	(62,485)	1,017,628
FINANCING ACTIVITIES			
Issuance of common shares for cash, net of share issuance cost	6,939,782	—	8,139,780
Issuance of preferred shares for cash, net of share issuance costs	—	1,131,593	1,131,593
Advance from related party	—	—	694,836
Cash provided by financing activities	6,939,782	1,131,593	9,966,209
Increase (decrease) in cash and cash equivalents	4,660,302	(384,979)	5,387,366
Cash and cash equivalents, beginning of period	727,064	1,112,043	—
Cash and cash equivalents, end of period	5,387,366	727,064	5,387,366
Other supplemental cash flow information			
Preferred shares issued for technology [note 4]	918,876	—	918,871
Common shares issued for technology [note 4 and 7(b)]	1,081,124	480,000	1,561,124
Preferred shares issued to agent as compensation [note 8(b)]	—	52,544	52,544
Common shares issued to agent as compensation [note 4 and note 8 (a)(iii)]	130,000	—	130,000
Common shares issued to settle related party advance [note 8(a)(i)]	—	718,836	718,836

See accompanying notes

Notes to Consolidated Financial Statements

March 31, 2007 and 2006 (expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Pacgen Biopharmaceuticals Corporation (the "Company") was incorporated under the Business Corporations Act (British Columbia) on April 23, 2004. The Company's primary business is focused on developing peptide therapeutic drugs for the prevention and treatment of infectious diseases and immune system regulations. The Company is considered to be in the early stage of development, as most of its efforts have been devoted to early research and development, raising capital and recruitment of personnel.

These consolidated financial statements have been prepared on the basis of accounting principles on a going concern which assumes the realization of assets and satisfaction of liabilities in the normal course of business.

The Company has incurred losses from operations since inception and has accumulated a deficit of \$6,572,969 as at March 31, 2007. The Company anticipates it will continue to incur substantial operating expenses in connection with the research and development of its proposed drug products and expects these expenses to result in continuing operating losses for the foreseeable future. The Company has funded its operations primarily by share issuances. The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing, complete development and commercialization of its products and generate profits in the future. Management is planning to raise additional capital to finance expected growth. The outcome of these matters cannot be predicted at this time. If the Company is unable to obtain additional financing, management may be required to curtail the Company's operations.

These consolidated financial statements do not give effect to any adjustment to the amounts or classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are presented in Canadian dollars. The following is a summary of significant accounting policies used in the preparation of these consolidated financial statements.

Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Pacgen Biopharmaceuticals Corporation (Taiwan Branch) and IL Therapeutics Inc. which were incorporated in Taiwan and in Canada under the Canada Business Corporations Act, respectively. All significant inter-company balances and transactions have been eliminated on consolidation.

Use of estimates

The preparation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the consolidated financial statements. Significant areas requiring the use of estimates relate to the assessment of net recoverable value of technology licenses and rights, determination of share value in transactions where shares are issued as a consideration, clinical trial expense accruals, estimation of income tax expense and stock-based compensation. The reported amounts and note disclosures are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned course of actions. Actual results may differ from the estimates.

Foreign currency translation

The Company follows the temporal method of accounting for the translation of foreign currency amounts into Canadian dollars. Under this method, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using the exchange rate in effect on the balance sheet date. All other assets and liabilities are translated at the exchange rates in effect on the transaction dates. Revenue and expense items are translated at the average exchange rates prevailing during the period except for amortization which is translated using historical rates. Foreign exchange gains and losses, both realized and unrealized, are included in the determination of the loss for the period.

Cash and cash equivalents

The Company considers all highly liquid financial instruments with a maturity of 90 days or less when purchased to be cash equivalents. Cash equivalents are carried at cost plus accrued interest, which approximate their market values. Interest earned is recognized in operations.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is provided based on the estimated useful lives of the property and equipment using the following methods and annual rates:

Computer equipment	30% declining balance
Computer software	2 years straight-line
Leasehold improvement	Term of lease
Motor vehicles	5 years straight-line
Office furniture and equipment	20% declining balance

Technology licenses and rights

Technology licenses and rights acquired from third parties are initially recorded at the fair value based on consideration paid and are amortized on a straight-line basis over the estimated useful life of the underlying technologies of 5 to 10 years.

The Company evaluates the recoverability of technology licenses and rights whenever events or changes in circumstances indicating that the carrying value may not be recoverable. If the estimated net recoverable value, calculated based on the estimated undiscounted future cash flow, is less than the carrying value of the underlying technology, then the carrying value is written down to its fair value, based on the related estimated discounted future cash flow.

The amount shown for technology licenses and rights do not necessarily reflect present or future value and the ultimate amount recoverable will be dependent upon the successful development and commercialization of products based on these underlying technologies. No impairment adjustment has been recorded to date.

Research and development costs

Research costs are expensed in the period in which they are incurred. Development costs are expensed in the period in which they are incurred unless such development costs meet the criteria under Canadian generally accepted accounting principles for deferral and amortization. No development cost has been deferred to date.

Clinical trial expenses including fees paid to contract research organizations, investigators and other vendors who conduct certain product development activities on behalf of the Company are a component of research and development costs. The amount of clinical trial expenses recognized in a period related to service agreements are based on estimates of the work performed using an accrual basis of accounting. These estimates are based on patient enrolment, services provided

and goods delivered, contractual terms and experience with similar contracts. The Company monitors these factors to the extent possible and adjust the estimates accordingly.

Amounts advanced to third parties in connection with planned future research and development activities are deferred as prepaid expenses and are expensed as research and development costs based on estimates of the activities.

Future income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between carrying values of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets, net of a valuation allowance, are recorded in the financial statements if realization is considered more likely than not.

Stock-based compensation

The Company grants stock options to employees, officers, directors, consultants and scientific advisory board members pursuant to a stock option plan described in note 8(e). The Company uses the fair value method to account for all stock-based awards granted, modified or settled, and the Black-Scholes option pricing model to determine the fair value of stock options granted. An expense is recognized over the vesting period based on the estimated fair value of options on the date of grant, and is charged to operation as stock-based compensation with a corresponding credit to contributed surplus. Any consideration received on the exercise of stock options is credited to share capital.

Loss per common share

Basic loss per common share is computed using the weighted average number of common shares outstanding during the period. Diluted loss per common share is equivalent to the basic loss per common share as the effect of outstanding warrants and options disclosed in note 8 are anti-dilutive for all periods presented.

Notes to Consolidated Financial Statements

March 31, 2007 and 2006 (expressed in Canadian dollars)

3. FINANCIAL INSTRUMENTS AND RISK

The carrying values of the Company's cash and cash equivalents, amounts receivable, and accounts payable approximate their fair values due to their short term to maturity.

Financial risk to the Company's results of operations arises from the fluctuations and the degree of volatility of foreign currency exchange rates, as the Company's cash and cash equivalents which finance operations are substantially denominated in Canadian dollars and a significant portion of the Company's expenses are denominated in United States dollars and New Taiwanese dollars.

4. ACQUISITION OF IL THERAPEUTICS INC.

On April 4, 2006, the Company completed the acquisition (the "ILT Acquisition") of all of the issued and outstanding shares of IL Therapeutics Inc. ("ILT") comprised of common shares and retractable investment shares. The ILT Acquisition provided the Company approximately \$1.5 million in working capital and certain technology relating to the prevention and treatment of severe inflammatory diseases characterized with neutrophil over-recruitment. This technology relates to its PAC-G31P drug candidate. The consideration for the ILT Acquisition comprised 1,250,000 preferred shares, 1,470,588 common shares and 1,250,000 common share purchase warrants of the Company, at an aggregate fair value of \$2,000,000. Each common share purchase warrant entitles the holder to purchase one common share at any time until December 7, 2008, the second anniversary of the initial public offering of the Company (the "IPO"), at \$1.16 per share.

In connection with the ILT Acquisition, the Company paid a financial consulting firm, of which a director is an executive, a cash finder's fee of \$75,000 and 29,412 common shares at a fair value of \$25,000. In addition, the Company incurred additional professional service fees of \$46,639 directly related to the acquisition.

As ILT was a development stage company that did not meet the definition of a business under Canadian GAAP, the transaction was accounted for as an asset acquisition, and not as a business combination. The purchase price has been allocated to ILT's identifiable assets and liabilities based on their fair market value:

	Amount
	\$
Identifiable assets acquired:	
Cash	1,358,728
Other current assets	143,494
Property and equipment	1,000
Technology	907,409
Liabilities assumed:	
Accounts payable and accrued liabilities	(25,992)
Net future income tax liability	(238,000)
	2,146,639
Consideration:	
Equity securities	2,025,000
Acquisition expenses	121,639
	2,146,639

The acquired technology is being amortized over five years.

5. CASH AND CASH EQUIVALENTS

As at March 31, 2007, cash and cash equivalents include \$5,110,578 [2006-\$513,718] of Canadian dollars term deposits with a weighted average interest rate of 3.89% [2006-2.82%], \$124,014 [2006-\$107,461] denominated in Canadian dollars, \$136,202 [2006-\$32,112] denominated in US dollars and \$16,571 [2006-\$67,773] cash denominated in New Taiwanese dollars.

6. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
March 31, 2007			
Computer equipment and software	47,590	7,798	39,792
Leasehold improvement	41,346	2,036	39,310
Motor vehicles	17,916	7,216	10,700
Office furniture and equipment	53,866	9,235	44,631
	160,718	26,285	134,433
March 31, 2006			
Computer equipment and software	7,159	1,085	6,074
Motor vehicles	17,916	4,230	13,686
Office furniture and equipment	19,663	4,170	15,493
	44,738	9,485	35,253

March 31, 2007 and 2006 (expressed in Canadian dollars)

7. INTANGIBLE ASSETS

	March 31, 2007	March 31, 2006
	\$	\$
Technology, licenses and rights		
Cost	1,477,151	569,742
Accumulated amortization	237,973	12,499
	1,239,178	557,243

[a] On February 1, 2005, the Company entered into a license agreement with Demegen, Inc. ("Demegen"), a third party, to acquire an exclusive world-wide license, with a right to sub-license, use, improve, develop and commercially exploit certain patented technologies for the treatment of human oral disease conditions (the "Demegen Sublicense"). These technologies were licensed to Demegen by Boston University. The Demegen Sublicense contains an agreement with Boston University to secure a direct license to the Company should Demegen fail to meet its obligations to Boston University. In consideration for the Demegen Sublicense, the Company paid Demegen an initial license fee of US\$50,000 payable in two installments of US\$25,000 in March 2005 and in September 2005. In addition to the initial license fee and subsequent license fee, the Company is required to pay royalties based on product sales or sublicense revenue, with a minimum annual royalty payment of US\$50,000 per annum. The first minimum royalty payment was due on or before March 31, 2006 (paid) and continues each year thereafter. The Company is also required to pay an annual maintenance fee of US\$50,000 for each year if any agreed clinical development milestone is not met. The Company met the agreed milestone required as of March 31, 2007. This agreement remains in effect until the abandonment, lapse or expiration of the last licensed patent, unless earlier terminated by either party in accordance with the terms of the agreement.

[b] On January 2, 2006, the Company entered into an amendment agreement with Demegen to revise the royalty payment terms of the Demegen Sublicense. In exchange for a reduced percentage of royalties on net product sales and net sublicenses revenue, the Company issued to Demegen 800,000 common shares of the Company at a deemed price of \$0.60 per share, based on recent common and preferred share issuances for cash consideration, and 500,000 share purchase options with a fair value of \$30,000 with an exercise price of \$2.25 per share until December 7, 2008, second anniversary of the Company's IPO completion date. The fair value of the common shares issued of \$480,000 and the fair value of the share purchase options granted of \$30,000 has been credited to share capital and contributed surplus, respectively with corresponding increases in technology license and rights [notes 8(a) and (d)].

8. SHARE CAPITAL

[a] Common shares

	Number of Shares	Amount \$
Authorized		
Unlimited number of common shares without par value		
Balance, March 31, 2005	2,400,001	1,190,000
Issued pursuant to asset purchase agreement (i)	12,982,553	694,836
Issued for intangible assets [note 7(b)]	800,000	480,000
Cash received for outstanding loan receivable [ii]	—	10,000
Balance, March 31, 2006	16,182,554	2,374,836
Issued pursuant to ILT Acquisition [note 4]	1,500,000	1,106,124
Issued for cash upon exercise of share purchase warrants	2,039,287	1,019,645
Issued for cash pursuant to a public offering [iii]	6,788,786	5,920,137
Issued as compensation to agent [iii]	100,000	(184,655)
Conversion of preferred shares to common shares [note 8(b)]	3,911,333	2,050,469
Balance, March 31, 2007	30,521,960	12,286,556

[i] In August 2005, the Company entered into an asset purchase agreement with Pacgen Biopharmaceuticals Inc., a related corporation controlled by the shareholders and management of the Company (the "Asset Purchase Agreement"). As consideration the Company issued 12,982,553 common shares valued at \$694,836 based on the carrying value of the net assets acquired. In accordance with CICA Section 3840 "Related Party Transactions" this transaction was measured at the carrying amount, as it was not in the normal course of operations and the amount of the exchange was not supported by independent evidence. The following table details the carrying value of net assets acquired:

	Amount \$
Net assets	
Cash	718,836
Less: assumption of other payable	(24,000)
Consideration paid	694,836

The cash acquired from Pacgen Biopharmaceuticals Inc. in the amount of \$718,836 was advanced to the Company prior to March 31, 2005 and was treated as an advance from related party. The related party advance of \$718,836 was applied as consideration for the issuance of the 12,982,553 common shares in August 2005.

[ii] As at March 31, 2005, the Company had a loan receivable of \$10,000 for the issuance of 20,000 of its common shares which has been presented as a reduction in share capital. The funds were subsequently received during the year ended March 31, 2006 resulting in a corresponding credit to share capital.

[iii] On December 7, 2006, the Company closed its IPO of 6,788,786 units at \$1.05 per unit for total gross proceeds of \$7,128,225. Each unit comprised of one common share of the Company and one half of one common share purchase warrant. One whole warrant entitled the holder to purchase one common share of the

Notes to Consolidated Financial Statements

March 31, 2007 and 2006 (expressed in Canadian dollars)

8. SHARE CAPITAL (CONT'D.)

Company at \$1.30 per share until December 7, 2007. In connection with the IPO, the Company paid a cash commission of \$419,957 and issued 543,102 agent warrants (the "Agents' Warrants") to the underwriting agents with a fair value of \$184,655 using Black Schole Pricing Model with following assumptions:

Volatility	80.3%
Expected life of options	2 years
dividend yield	0.0%
Risk free interest rate	4.0%

Each Agents' Warrant is exercisable for one common share of the Company at \$1.05 per share until December 7, 2008. In addition, the Company also paid the lead underwriting agent an administration fee of \$5,000 and issued 100,000 common shares as corporate finance fees. The Company also incurred professional and other financing cost of \$783,131.

[b] Preferred shares

	Number of Shares	Amount
		\$
Authorized		
Unlimited number of preferred shares without par value		
Issued and outstanding		
Balance, March 31, 2005	—	—
Issued for cash pursuant to a private placement, net of share issuance cost of \$225,207	2,261,333	1,131,593
Issued as compensation to agent	400,000	—
Balance, March 31, 2006	2,661,333	1,131,593
Issued pursuant to the ILT Acquisition [note 4]	1,250,000	918,876
Conversion of preferred shares to common shares	(3,911,333)	(2,050,469)
Balance, March 31, 2007	—	—

On November 28, 2005, the Company completed a private placement of 2,261,333 units at a price of \$0.60 per unit for total gross proceeds of \$1,356,800. Each unit is comprised of one preferred share and one common share purchase warrant of the Company. Each preferred share will automatically convert into one common share on the closing day of the IPO. Each common share purchase warrant entitles the holder to purchase one common share of the Company at a price equivalent to a 10% premium to the IPO closing price. The common share purchase warrant expires prior to the second anniversary of the IPO. In connection with the unit offering the Company paid a cash commission of \$52,544, issued 400,000 units at a deemed value of \$0.60 per unit, and issued 87,573 common share purchase warrants to the agents. Each of these agent warrants entitles the

holder to purchase one common share of the Company at \$1.16 until December 7, 2008. The Company also incurred legal and professional fees of \$172,663.

The preferred shares rank in priority to the common shares on the liquidation, dissolution or winding-up of the Company. In accordance to the share purchase agreement, the preferred shares automatically converted into common shares on a one to one basis on November 28, 2006, when the Company obtained a receipt for its final prospectus with respect to its IPO.

[c] Common share purchase warrants

	Number	Weighted Average Exercise Price
		\$
Balance, March 31, 2005	2,400,000	0.50
Issued on November 28, 2005 preferred share private placement [note 8(b)]	2,748,906	1.16
Balance, March 31, 2006	5,148,906	0.85
Issued on April 4, 2006 the ILT Acquisition [note 4]	1,250,000	1.16
Exercised during the period	(2,039,287)	0.50
Expired on December 7, 2006	(360,713)	0.50
Issued on December 7, 2006 the IPO [note 8(a)(iii)]	3,394,393	1.30
Issued on December 7, 2006 the IPO [note 8(a)(iii)]	543,102	1.05
Balance, March 31, 2007	7,936,401	1.21

	Exercise Price	Number of Warrants
Date of Expiry		
December 7, 2008 [note 8(b)]	\$1.16	2,748,906
December 7, 2008 [note 4]	\$1.16	1,250,000
December 7, 2007 [note 8(a)(iii)]	\$1.30	3,394,393
December 7, 2008 [note 8(a)(iii)]	\$1.05	543,102
Balance, March 31, 2007	\$1.21	7,936,401

[d] Share purchase options

	Number	Weighted Average Exercise Price
		\$
Balance March 31, 2005	—	—
Granted	500,000	2.25
Forfeited	—	—
Balance, March 31, 2006 and 2007	500,000	2.25

March 31, 2007 and 2006 (expressed in Canadian dollars)

As at March 31, 2007, the 500,000 options outstanding are fully exercisable until December 7, 2008 [note 7(b)].

The fair value of the 500,000 options issued during the year ended March 31, 2007 was determined to be \$30,000 estimated using the Black-Scholes valuation model using the following assumptions:

Volatility	75.0%
Expected life of options	2 years
Dividend yield	0.0%
Risk free interest rate	4.0%

[e] Stock options

On August 22, 2006, the Company adopted a stock option plan (the "Stock Option Plan") providing the granting of options to employees, officers, directors, consultants and scientific advisory board members. The maximum number of common shares that are issuable under the Stock Option Plan is an aggregate of 10% of the issued and outstanding common share, calculated as at the award date of the options. The maximum number of common shares that may be optioned in favour of any single individual will not exceed 5% of the issued and outstanding common shares at the date of grant. The maximum number of common shares that may be optioned in favour of directors and senior officers under the Stock Option Plan is 10% of the issued and outstanding common shares at the date of grant.

As of March 31, 2007, the Company had 2,499,000 stock options outstanding granted to employees, officers, directors, consultants and scientific advisory board members. Of these stock options, 494,000 vested upon completion of IPO and the remainder 2,005,000 vest from February 14, 2007 to August 22, 2009. These options expire from August 22, 2008 to March 27, 2014.

Details of stock option transactions during the year ended March 31, 2007 are summarized as follows:

	Number	Weighted Average Exercise Price
		\$
Balance, March 31, 2005 and March 31, 2006	—	—
Granted	3,207,000	1.04
Forfeited	(708,000)	1.13
Balance, March 31, 2007	2,499,000	1.02

At March 31, 2007, stock options to executive officers and directors, employees, consultants and clinical advisory board members were outstanding as follows:

Range of Exercise Price	Options Outstanding		Options Exercisable		
	Number of Common Shares Issuable	Weighted Average Remaining Contractual Life Years	Weighted Average Exercise Price	Number of Common Shares Issuable	Weighted Average Exercise Price
\$			\$		\$
0.50–0.85	510,000	7.99	0.65	110,000	0.64
1.00–1.05	869,000	5.75	1.05	560,916	1.05
1.10–1.16	1,120,000	7.51	1.16	210,000	1.16
	2,499,000	7.07	1.02	880,916	1.02

As of March 31, 2007, stock options to employees, officers, directors, consultants and scientific advisory board members were outstanding as follows:

	Exercise Price	Number of Options Outstanding	Number of Options Exercisable
Date of Expiry			
August 22, 2014	\$0.50	10,000	10,000
August 22, 2008	\$1.00	40,000	40,000
August 22, 2009	\$1.05	80,000	80,000
August 22, 2011	\$1.05	150,000	150,000
August 22, 2014	\$1.05	282,000	94,000
August 22, 2014	\$1.16	940,000	150,000
March 6, 2012	\$1.05	180,000	150,000
March 6, 2015	\$1.05	137,000	46,916
March 6, 2015	\$1.16	180,000	60,000
March 27, 2015	\$0.65	500,000	100,000
Balance, March 31, 2007		2,499,000	880,916

The weighted average fair value of the stock options granted during the year ended March 31, 2007 was estimated to be \$0.56 per share using the Black-Scholes valuation model with the following assumptions:

Volatility	88.9%
Expected life of options	2–5 years
Dividend yield	0.0%
Risk free interest rate	4.0%

The estimated fair value of options granted to employees, officers, directors, consultants and scientific advisory board members is amortized to expense over the vesting period of the stock options resulting in compensation expense of \$580,825 during the year ended March 31, 2007 [2006–\$nil].

Option-pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates.

Notes to Consolidated Financial Statements

March 31, 2007 and 2006 (expressed in Canadian dollars)

9. COMMITMENTS

[a] Operating leases

The Company has entered into lease agreements for its office premises in Canada for terms of up to five years expiring March 28, 2012 and its laboratory facility in Taiwan for a term of three years expiring February 5, 2010. Future minimum annual lease payments under the leases are as follows:

	\$
2008	107,328
2009	96,309
2010	97,184
2011	49,928
2012	3,021
	353,770

[b] Clinical research and development agreements

The Company has entered into various clinical research and development agreements with third parties which require the Company to fund research and development expenditures of \$1,091,162 and \$1,557,963 for the fiscal year ending March 31, 2008 and 2009, respectively. Of these commitments, \$25,815 and \$nil are non-cancellable and \$1,065,347 and \$1,557,963 of commitments are cancellable for fiscal year ending March 31, 2008 and 2009, respectively.

[c] License agreement

- [i] Pursuant to the Demegen Sublicense, the Company is required to make minimum annual royalty payments of US\$50,000 for the period until the expiry date of the last patent right and to pay an annual maintenance fee of US\$50,000 if any of the agreed clinical development milestones are not met [note 7(a)].
- [ii] Pursuant to a license agreement between the Company's wholly owned subsidiary, ILT, and University of Saskatchewan (the "US License"), the Company is responsible for up to \$510,000 of milestone payments linked to successful completion of preclinical proof of concept (\$60,000 paid), successful filing of investigational new drug application (\$25,000) and successful completion of Phase I to Phase III clinical studies (amount to \$425,000) of the licensed technology. The Company is also responsible for up to \$1,070,000 of milestone payments linked to marketing approval in five regions (United States, Europe, Japan, Canada and Hong Kong) and another one time payment of \$100,000 for an added indication in any country. The Company is further obligated to pay royalties on sales revenue and sub-licensing revenue.

Also as part of the US License, the Company has agreed to provide funding to the University of Saskatchewan. The research will cover but is not limited to research related to the licensed technology for not less than \$500,000 within the first five years of the term of the license agreement, with minimum \$100,000 per year for the first two years (\$125,000 has been paid to date).

10. CONTINGENCIES

The Company has entered into license and research agreements with third parties that include indemnification provisions that are customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of third party claims or damages arising from these transactions. In some cases, the maximum potential amount of future payments that could be required under these indemnification provisions is unlimited. These indemnification provisions may survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay. Historically, the Company has not made any indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.

11. INCOME TAXES

At March 31, 2007, the Company has non-capital loss carryforwards and investment tax credits available to offset future taxable income and future income taxes payable in Canada, respectively that expire as follows:

	Federal Investment Tax Credits	Provincial Investment Tax Credits	Non-Capital Losses
	\$	\$	\$
2009	—	—	11,000
2013	—	—	35,000
2014	—	—	336,000
2015	43,000	24,000	603,000
2016	23,000	13,000	320,000
2017	—	—	3,726,000
	66,000	37,000	5,031,000

In addition, the Company has unclaimed tax deductions of approximately \$259,000 related primarily to scientific research and experimental development expenditures available to carryforward indefinitely to reduce taxable income of future years.

March 31, 2007 and 2006 (expressed in Canadian dollars)

Significant components of the Company's future tax assets and liabilities as of March 31 are shown below:

	2007	2006
	\$	\$
Future tax assets:		
Tax basis in excess of accounting value	192,000	186,000
Share issue costs	319,000	58,000
Research and development deductions and credits	151,000	157,000
Operating loss carryforwards	1,451,100	401,000
Total future tax assets	2,113,000	802,000
Valuation allowance	(2,113,000)	(802,000)
Total future tax assets	—	—
Future income tax liabilities:		
Intangible assets	85,000	—
Net future income tax liabilities	85,000	—

The potential income tax benefits relating to the net future tax assets have not been recognized in the consolidated financial statements as their realization did not meet the requirements of "more likely than not" under the liability method of tax allocation. Accordingly, no net future tax assets have been recognized as at March 31, 2007 and 2006.

The reconciliation of income tax attributable to operations computed at the statutory tax rates to income tax expenses using a 34.12% statutory tax rate [March 31, 2006–34.5%] is:

	2007	2006
	\$	\$
Income taxes at statutory rates	(1,537,709)	(541,000)
Expenses not deductible for tax purposes	202,000	15,000
Benefit of temporary differences not recognized	—	91,000
Impact of tax rate change	57,000	—
Benefit of non-capital losses not recognized	1,056,709	399,000
Foreign tax rate difference	69,000	36,000
Future income tax recovery	(153,000)	—

12.SEGMENTED INFORMATION

The Company operates primarily in one business segment with substantially all of its consolidated assets located in Canada and operations located in Canada.

13.RELATED PARTY TRANSACTIONS

The Company has incurred the following expenditures for services provided by related parties:

	Year ended March 31, 2007	Year ended March 31, 2006
	\$	\$
Consulting services provided by directors	48,729	16,500
Consulting services provided by a financial consulting firm of which a director is an executive	114,123	41,236
Research services provided by a university laboratory of which an officer is a professor	42,049	—
	204,901	57,736