

Consolidated Financial Statements

Pacgen Biopharmaceuticals Corporation

(a development stage enterprise)

(Expressed in Canadian dollars)

March 31, 2008 and 2007



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, 2008 and 2007 and the consolidated statements of operations and comprehensive loss, cash flows and shareholder' equity for the years then ended and for the period from April 23, 2004 (inception) to March 31, 2008. 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 whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended and the period from April 23, 2004 (inception) to March 31, 2008 in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada
June 10, 2008.

Ernst & Young LLP

Chartered Accountant

Pacgen Biopharmaceuticals Corporation

(a development stage enterprise)

Incorporated under the Business Corporation Act (British Columbia)

CONSOLIDATED BALANCE SHEETS

[See Note 1 – Nature of Operations and Going Concern]

(expressed in Canadian dollars)

| | March 31, 2008 | March 31, 2007 |
|--|-------------------|-------------------|
| | \$ | \$ |
| ASSETS | | |
| Current | | |
| Cash and cash equivalents [note 6] | 1,438,691 | 5,387,366 |
| Amounts receivable | 12,800 | 132,060 |
| Prepaid expenses and other | 469,307 | 941,629 |
| Total current assets | 1,920,798 | 6,461,055 |
| Property and equipment [note 7] | 101,236 | 134,433 |
| Intangible assets [notes 5 and 8] | 1,002,203 | 1,239,178 |
| Total assets | 3,024,237 | 7,834,666 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current | | |
| Accounts payable and accrued liabilities | 1,378,733 | 1,240,599 |
| Current portion of deferred leasehold inducement | 6,916 | — |
| | 1,385,649 | 1,240,599 |
| Deferred leasehold inducement | 10,375 | - |
| Future income tax liability [note 12] | — | 85,000 |
| Total liabilities | 1,396,024 | 1,325,599 |
| Commitments and contingencies [notes 8, 10 and 11] | | |
| Shareholders' equity | | |
| Share capital [note 9] | | |
| Issued and outstanding: | | |
| Common shares [note 9(a)] | 13,012,118 | 12,286,556 |
| Preferred shares [note 9(b)] | — | — |
| Contributed surplus [notes 8(b) and 9(e)] | 1,163,776 | 795,480 |
| Deficit | (12,547,681) | (6,572,969) |
| Total shareholders' equity | 1,628,213 | 6,509,067 |
| Total liabilities and shareholders' equity | 3,024,237 | 7,834,666 |

See accompanying notes

On behalf of the Board:

/s/ Michael A. Evans
Director

/s/ Kevin McGarry
Director

Pacgen Biopharmaceuticals Corporation
(a development stage enterprise)

**CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE LOSS**

(expressed in Canadian dollars)

| | Year ended March 31, 2008 \$ | Year ended March 31, 2007 \$ | Cumulative from Inception to March 31, 2008 \$ |
|---|---------------------------------------|---------------------------------------|--|
| EXPENSES | | | |
| Research and development | 3,480,523 | 1,987,583 | 6,330,430 |
| General and administration | 1,901,567 | 1,790,765 | 5,026,968 |
| Stock based compensation [note 9(e)] | 346,348 | 580,825 | 927,173 |
| Amortization | 269,245 | 242,274 | 533,503 |
| | 5,997,683 | 4,601,447 | 12,818,074 |
| OTHER | | | |
| Interest and other income | 94,838 | 100,482 | 224,806 |
| Loss on disposal of property and equipment | (9,089) | — | (9,089) |
| Foreign exchange losses | (147,778) | (5,872) | (183,324) |
| | (62,029) | 94,610 | 32,393 |
| Loss before income taxes | (6,059,712) | (4,506,837) | (12,785,681) |
| Future income tax recovery [note 12] | 85,000 | 153,000 | 238,000 |
| Net loss and comprehensive loss for the period | (5,974,712) | (4,353,837) | (12,547,681) |
| Basic and diluted loss per common share | (0.19) | (0.20) | |
| Weighted average number of common shares outstanding | 30,711,416 | 21,941,822 | |

See accompanying notes

Pacgen Biopharmaceuticals Corporation
(a development stage enterprise)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in Canadian dollars)

| | Year ended March 31, 2008 \$ | Year ended March 31, 2007 \$ | Cumulative from Inception to March 31, 2008 \$ |
|---|---------------------------------------|---------------------------------------|--|
| OPERATING ACTIVITIES | | | |
| Loss for the period | (5,974,712) | (4,353,837) | (12,547,681) |
| Add items not affecting cash: | | | |
| Amortization | 269,245 | 242,274 | 533,503 |
| Deferred leasehold inducement | (1,153) | — | (1,153) |
| Future income tax recovery | (85,000) | (153,000) | (238,000) |
| Loss on disposal of property and equipment | 9,089 | — | 9,089 |
| Stock based compensation | 346,348 | 580,825 | 927,173 |
| Unrealized foreign exchange loss | 87,936 | — | 87,936 |
| Write-off of research supplies | — | — | 17,819 |
| Write-off of withholding tax receivable | 5,548 | — | 5,548 |
| | (5,342,699) | (3,683,738) | (11,205,766) |
| Changes in non-cash working capital items relating to operations: | | | |
| Amounts receivable | 119,260 | 40,333 | 130,694 |
| Prepaid expenses and other | 384,386 | (891,643) | (575,062) |
| Accounts payable and accrued liabilities | 138,134 | 1,112,556 | 1,352,741 |
| Cash used in operating activities | (4,700,919) | (3,422,492) | (10,297,393) |
| INVESTING ACTIVITIES | | | |
| Acquisition of IL Therapeutics Inc. | — | 1,257,992 | 1,257,992 |
| Deferred acquisition costs | — | — | (20,903) |
| Proceeds from disposal of property and equipment | 5,775 | — | 5,775 |
| Purchase of property and equipment | (19,485) | (114,980) | (179,202) |
| Purchase of intangible assets | — | — | (59,743) |
| Leasehold inducement | 18,444 | — | 18,444 |
| Cash provided by investing activities | 4,734 | 1,143,012 | 1,022,363 |
| FINANCING ACTIVITIES | | | |
| Issuance of common shares for cash, net of share issuance costs | 747,510 | 6,939,782 | 8,887,292 |
| Issuance of preferred shares for cash, net of share issuance costs | — | — | 1,131,594 |
| Advance from related party | — | — | 694,836 |
| Cash provided by financing activities | 747,510 | 6,939,782 | 10,713,721 |
| Increase (decrease) in cash and cash equivalents | (3,948,675) | 4,660,302 | 1,438,691 |
| Cash and cash equivalents, beginning of period | 5,387,366 | 727,064 | — |
| Cash and cash equivalents, end of period | 1,438,691 | 5,387,366 | 1,438,691 |
| Other supplemental cash flow information | | | |
| Preferred shares issued for technology [note 5] | — | 918,876 | 918,876 |
| Common shares issued for technology [notes 5 and 8(b)] | — | 1,081,124 | 1,561,124 |
| Preferred shares issued to agent as compensation [note 9(b)] | — | — | 52,544 |
| Common shares issued to agent as compensation [notes 5 and 9(a)(ii)] | 21,546 | 130,000 | 151,546 |
| Common shares issued to settle related party advance | — | — | 718,836 |

See accompanying notes

Pacgen Biopharmaceuticals Corporation
(a development stage enterprise)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(expressed in Canadian dollars)

| | Common Shares | | Preferred Shares | | Contributed | Deficit | Total |
|---|-------------------|-------------------|------------------|------------------|------------------|---------------------|------------------|
| | Number | Amount | Number | Amount | Surplus | \$ | \$ |
| | | \$ | | \$ | \$ | | |
| Balance, March 31, 2006 | 16,182,554 | 2,374,836 | 2,661,333 | 1,131,593 | 30,000 | (2,219,132) | 1,317,297 |
| Issued pursuant to acquisition of IL Therapeutics Inc. | 1,500,000 | 1,106,124 | 1,250,000 | 918,876 | — | — | 2,025,000 |
| Issued for cash upon exercise share purchase warrants | 2,039,287 | 1,019,645 | — | — | — | — | 1,019,645 |
| Issued for cash pursuant to a public offering | 6,788,786 | 5,920,137 | — | — | — | — | 5,920,137 |
| Compensation to public offering agent | 100,000 | (184,655) | — | — | 184,655 | — | — |
| Conversion of preferred shares to common shares | 3,911,333 | 2,050,469 | (3,911,333) | (2,050,469) | — | — | — |
| Stock based compensation | — | — | — | — | 580,825 | — | 580,825 |
| Net loss for the period | — | — | — | — | — | (4,353,837) | (4,353,837) |
| Balance, March 31, 2007 | 30,521,960 | 12,286,556 | — | — | 795,480 | (6,572,969) | 6,509,067 |
| Issued for cash pursuant to a private placement | 4,515,003 | 747,510 | — | — | — | — | 747,510 |
| Value of share purchase warrant pursuant to a private placement | — | (2,535) | — | — | 2,535 | — | — |
| Compensation to private placement agent | 107,730 | (19,413) | — | — | 19,413 | — | — |
| Stock based compensation | — | — | — | — | 346,348 | — | 346,348 |
| Net loss for the period | — | — | — | — | — | (5,974,712) | (5,974,712) |
| Balance, March 31, 2008 | 35,144,693 | 13,012,118 | — | — | 1,163,776 | (12,547,681) | 1,628,213 |

See accompanying notes

Pacgen Biopharmaceuticals Corporation
(a development stage enterprise)

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

March 31, 2008 and 2007

(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 is a life science company focused on developing therapeutic drugs for the treatment of infectious and inflammatory diseases. The Company is considered to be in the development stage, as most of its efforts have been devoted to research and development of its proposed drug products, 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 use of these principles may not be appropriate because as of March 31, 2008, there was substantial doubt that the Company will be able to continue as a going concern without raising additional financial resources.

The Company has incurred losses from operations since inception and has accumulated a deficit of \$12,547,681 as at March 31, 2008. 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. The Company is currently seeking additional capital to finance its operations. Management is considering all financing alternatives, including equity financing, corporate collaboration and licensing arrangement. There can be no assurance that such financing will materialize on a timely basis or obtained on favorable terms. 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. Such adjustments could be material.

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.

Pacgen Biopharmaceuticals Corporation
(a development stage enterprise)

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

March 31, 2008 and 2007

(expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Use of estimates

The preparation of these consolidated financial statements in conformity 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 for impairment and useful lives of intangible assets, determination of share value in transactions where shares are issued as a consideration, accrued liabilities, estimation of income tax expense and determination of fair value of 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 those 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, which approximate their market values. Interest earned is recognized in operations. At March 31, 2008 and 2007, cash and cash equivalents consisted of cash on deposit with banks.

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 |

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**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

March 31, 2008 and 2007

(expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Intangible assets

Intangible assets of the Company include technology licenses and rights acquired from third parties. Technology licenses and rights 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 reviews the estimated useful lives and carrying values of its technology licenses and rights as part of its periodic assessment for impairment of long-lived assets. No impairment adjustment has been recorded to date.

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.

Impairment of long-lived assets

Property and equipment, and intangible assets with finite life are reviewed for potential impairment whenever events or changes in circumstances indicating that the carrying value of these assets 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. No impairment adjustment has been recorded to date.

Deferred leasehold inducement

Deferred leasehold inducement, which is comprised of a tenant improvement allowance, is being amortized to reduce rent expense on a straight-line basis over the initial term of lease as a reduction on rent expense.

Research and development costs

Research costs, including costs for new patents and patent applications, 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.

Contract research and development expenses, including fees paid to contract research organizations, investigators and other vendors who conduct certain product development activities on behalf of the Company, are recognized in a period 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.

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**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

March 31, 2008 and 2007

(expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Research and development costs (cont'd.)

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 work performed during the period.

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, directors, and consultants pursuant to a stock option plan described in note 9(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. As such, a compensation expense is recorded based on the estimated fair value of options with a corresponding credit to contributed surplus. Any consideration received on the exercise of stock options is credited to share capital.

The fair value of stock-based awards to employees and directors is measured on the date of grant and amortized over the vesting period. The fair value of stock-based awards to consultants is measured at the performance commitment date or the date that the service is delivered.

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 9 are anti-dilutive for all periods presented.

Pacgen Biopharmaceuticals Corporation
(a development stage enterprise)

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

March 31, 2008 and 2007

(expressed in Canadian dollars)

3. CHANGES IN ACCOUNTING POLICIES

Comprehensive income and equity

Effective April 1, 2007, the Company adopted the new recommendations of the CICA Handbook Section 1530, “*Comprehensive Income*” and Section 3251, “*Equity*”. The adoption of these Handbook Sections had no impact on opening deficit.

- § Section 1530 provides standards for reporting and display of comprehensive income, which is defined as the change in equity from transactions and other events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian GAAP.
- § Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in Section 3251 are in addition to Section 1530.

The adoption of these new Handbook sections had no impact on the consolidated financial statements for the year ended March 31, 2008.

Financial instruments

Effective April 1, 2007, the Company also adopted the new recommendations of the CICA Handbook Section 3855, “*Financial Instruments – Recognition and Measurement*” and Section 3861, “*Financial Instruments – Disclosure and Presentation*”. These new accounting standards, which apply to fiscal years beginning on or after October 1, 2006, provide comprehensive requirements for the recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated. The adoption of these Handbook Sections had no impact on opening deficit.

- § Section 3855 requires financial instruments be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are initially measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income. Transaction costs are included in the initial carrying amount of financial instruments except for held-for-trading items in which case they are expensed as incurred. Section 3855 also requires that the embedded derivatives to be identified and separated from the related host contract and be measured at fair value. Subsequent changes in fair value of embedded derivatives are recognized in the consolidated statement of operations in the period the change occurs.

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FINANCIAL STATEMENTS**

March 31, 2008 and 2007

(expressed in Canadian dollars)

3. CHANGES IN ACCOUNTING POLICIES (cont'd.)

Financial instruments (cont'd.)

§ Section 3861 establishes the requirements for presentation and disclosure of financial instruments and non-financial derivatives.

Upon adoption of these new standards, the Company has classified cash and cash equivalents as held-for-trading, amounts receivables as loans and receivables and all financial liabilities as other financial liabilities. The adoption of these new Handbook sections had no impact on the consolidated financial statements for the year ended March 31, 2008.

Accounting changes

In July 2006, the CICA revised Section 1506, "Accounting Changes", which now requires that: (i) a voluntary change in accounting principles can be made if, and only if, it is required by primary source of Canadian GAAP or the changes result in more reliable and relevant information, (ii) changes in accounting policies are accompanied with disclosures of prior period amounts and justification for the change, and (iii) for changes in estimates, the nature and amount of the change should be disclosed. The revised section is effective for the Company's financial year beginning April 1, 2007 for fiscal year 2008. The adoption of this section does not have an impact on the Company's consolidated financial statements for the year ended March 31, 2008.

New accounting pronouncements

The Canadian Accounting Standards Board (AcSB) issued two new Sections in relation to financial instruments: Section 3862, "Financial Instruments – Disclosure", and Section 3863, "Financial Instruments – Presentation". Both sections will become effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company will adopt these standards commencing April 1, 2008. The adoption of these new standards is not expected to have material impact on the Company's consolidated financial statements.

The AcSB issued Section 1535, "Capital Disclosures". This standard requires disclosure regarding what the Company defines as capital and its objectives, policy and processes for managing capital. This standard will be effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company will adopt these standards commencing April 1, 2008. The adoption of these new standards is not expected to have material impact on the Company's consolidated financial statements.

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FINANCIAL STATEMENTS**

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3. CHANGES IN ACCOUNTING POLICIES (cont'd.)

New accounting pronouncements (cont'd.)

In January 2006, CICA Accounting Standards Board (“AcSB”) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards (“IFRS”) for accounting periods commencing on or after January 1, 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

In February 2008, the CICA issued Section 3064, “Goodwill and Intangible Assets”, which replaces Section 3062, “Goodwill and Other Intangible Assets” and Section 3450, “Research and Development Costs”. Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. The new Section will be applicable to the Company’s consolidated financial statements for its fiscal year beginning April 1, 2009. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.

4. 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. The Company also incurred expenses in New Taiwanese dollars.

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5. 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 as follows:

| | Amount |
|--|---------------|
| | \$ |
| <hr/> | |
| 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) |
| | <hr/> |
| | 2,146,639 |
| <hr/> | |
| Consideration: | |
| Equity securities | 2,025,000 |
| Acquisition expenses | 121,639 |
| | <hr/> |
| | 2,146,639 |
| <hr/> | |

ILT was a development stage company with nominal assets, other than cash and operations at the date of acquisition. Accordingly, the majority of the purchase price has been allocated to the acquired intangible assets which are being amortized over 5 years.

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6. CASH AND CASH EQUIVALENTS

As at March 31, 2008, cash and cash equivalents include \$900,000 [2007 - \$5,110,578] of Canadian dollars term deposits with a weighted average interest rate of 3.84% [2007 - 3.89%].

7. PROPERTY AND EQUIPMENT

| | Cost | Accumulated Amortization | Net Book Value |
|---------------------------------|----------------|-------------------------------------|---------------------------|
| | \$ | \$ | \$ |
| March 31, 2008 | | | |
| Computer equipment and software | 55,280 | 25,450 | 29,830 |
| Leasehold improvement | 41,346 | 8,083 | 33,263 |
| Motor vehicles | — | — | — |
| Office furniture and equipment | 50,456 | 12,313 | 38,143 |
| | 147,082 | 45,846 | 101,236 |
| 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 |

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**NOTES TO CONSOLIDATED
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March 31, 2008 and 2007

(expressed in Canadian dollars)

8. INTANGIBLE ASSETS

| | March 31, 2008 | March 31, 2007 |
|--|---------------------------|---------------------------|
| | \$ | \$ |
| Technology, licenses and rights | | |
| Cost | 1,477,151 | 1,477,151 |
| Accumulated amortization | 474,948 | 237,973 |
| | 1,002,203 | 1,239,178 |

- [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 sublicense, 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 and continues each year thereafter. The Company paid all its minimum royalty payments as of March 31, 2008. 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, 2008. 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 9(a) and (d)].

Pacgen Biopharmaceuticals Corporation
(a development stage enterprise)

**NOTES TO CONSOLIDATED
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March 31, 2008 and 2007

(expressed in Canadian dollars)

9. SHARE CAPITAL

[a] Common shares

| | Number of Shares | Amount \$ |
|--|---------------------|-------------------|
| Authorized | | |
| Unlimited number of common shares without par value | | |
| Balance, March 31, 2006 | 16,182,554 | 2,374,836 |
| Issued pursuant to ILT Acquisition <i>[note 5]</i> | 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 <i>[i]</i> | 6,888,786 | 5,735,512 |
| Conversion of preferred shares to common shares <i>[note 9(b)]</i> | 3,911,333 | 2,050,469 |
| Balance, March 31, 2007 | 30,521,960 | 12,286,556 |
| Issued for cash pursuant to a private placement <i>[ii]</i> | 4,622,733 | 725,562 |
| Balance, March 31, 2008 | 35,144,693 | 13,012,118 |

[i] 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 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 | 80.30% |
| Expected life of options | 2 years |
| Dividend yield | 0.00% |
| Risk free interest rate | 4.00% |

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.

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March 31, 2008 and 2007

(expressed in Canadian dollars)

9. SHARE CAPITAL (cont'd.)

[a] Common shares (cont'd.)

[ii] On March 17, 2008, the Company closed a private placement of 4,515,003 units (the "Units") at \$0.20 per unit for total gross proceeds of \$903,000. Each Unit was comprised of one common share of the Company and one common share purchase warrant. One common share purchase warrant entitled the holder to purchase one common share of the Company at \$0.30 per share until March 16, 2013. In connection with the private placement, the Company issued 107,730 units as compensation (the "Compensation Units") and 34,200 broker warrants (the "Broker's Warrants") to an agent. Each Compensation Unit was converted to one common share and one common share purchase warrant at no cost to the agent. Each Broker's Warrant is exercisable into one Unit at \$0.22 per Unit until March 16, 2010. Upon exercise, each Broker Warrant will convert to one common share, and one common share purchase warrant exercisable into one additional common share at \$0.30 per share until March 16, 2013. The Compensation Units and Broker's Warrants have an estimated value of \$40,960.

The Company adopted the Residual Approach in valuing the share purchase warrants attached to the private placement units issued. Under this approach, proceeds up to the Company's share market value are allocated to the shares and only the excess above the market value is allocated to the attached share purchase warrants. A value of \$2,535 has been allocated to these warrants as determined under the Residual Approach.

The Company also incurred professional and other financing cost of \$155,490.

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(expressed in Canadian dollars)

9. SHARE CAPITAL (cont'd.)

[b] Preferred shares

| | Number of Shares | Amount \$ |
|--|-----------------------------|----------------------|
| Authorized | | |
| Unlimited number of preferred shares without par value | | |
| Issued and outstanding | | |
| Balance, March 31, 2006 | 2,661,333 | 1,131,593 |
| Issued pursuant to the ILT Acquisition <i>[note 5]</i> | 1,250,000 | 918,876 |
| Conversion of preferred shares to common shares | (3,911,333) | (2,050,469) |
| Balance, March 31, 2007 and 2008 | — | — |

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.

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March 31, 2008 and 2007

(expressed in Canadian dollars)

9. SHARE CAPITAL (cont'd.)

[c] Common share purchase warrants

| | Number | Weighted Average Exercise Price \$ |
|---|------------------|---|
| Balance, March 31, 2006 | 5,148,906 | 0.85 |
| Issued on April 4, 2006 the ILT Acquisition [note 5] | 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 9(a)(i)] | 3,394,393 | 1.30 |
| Issued on December 7, 2006 the IPO [note 9(a)(i)] | 543,102 | 1.05 |
| Balance, March 31, 2007 | 7,936,401 | 1.21 |
| Expired on December 7, 2007 | (3,394,393) | 1.30 |
| Issued on March 17, 2008 [note 9(a)(ii)] | 4,515,003 | 0.30 |
| Issued on March 17, 2008 [note 9(a)(ii)] | 107,730 | 0.30 |
| Issued on March 17, 2008 [note 9(a)(ii)] ⁽¹⁾ | 34,200 | 0.22 |
| Balance, March 31, 2008 | 9,198,941 | 0.72 |

| Date of Expiry | Exercise Price | Number of Warrants |
|---|-------------------|-----------------------|
| December 7, 2008 [note 9(b)] | \$1.16 | 2,748,906 |
| December 7, 2008 [note 5] | \$1.16 | 1,250,000 |
| December 7, 2008 [note 9(a)(i)] | \$1.05 | 543,102 |
| March 16, 2013 [note 9(a)(ii)] | \$0.30 | 4,622,733 |
| March 16, 2010 [note 9(a)(ii)] ⁽¹⁾ | \$0.22 | 34,200 |
| Balance, March 31, 2008 | \$0.72 | 9,198,941 |

⁽¹⁾ Upon exercise, each Broker Warrant will convert to one common share, and one common share purchase warrant exercisable into one additional common share at \$0.30 per share until March 16, 2013. After giving effect to the conversion of these Broker Warrants, there are 9,233,141 common share purchase warrants outstanding, at an average exercise price of \$0.72, as of March 31, 2008.

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(expressed in Canadian dollars)

9. SHARE CAPITAL (cont'd.)

[d] Share purchase options

| | Number | Weighted Average Exercise Price \$ |
|---|----------------|---|
| Balance March 31, 2006 | 500,000 | \$2.25 |
| Granted | — | — |
| Forfeited | — | — |
| Balance, March 31, 2007 and 2008 | 500,000 | 2.25 |

As at March 31, 2008, the 500,000 options outstanding are fully exercisable until December 7, 2008 [note 8(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 | 75.00% |
| Expected life of options | 2 years |
| Dividend yield | 0.00% |
| Risk free interest rate | 4.00% |

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9. SHARE CAPITAL (cont'd.)

[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.

Details of stock option transactions during the years ended March 31, 2008 and 2007 are summarized as follows:

| | Number | Weighted Average Exercise Price \$ |
|--------------------------------|------------------|---|
| Balance, March 31, 2006 | — | — |
| Granted | 3,207,000 | 1.04 |
| Forfeited | (708,000) | 1.13 |
| Balance, March 31, 2007 | 2,499,000 | 1.02 |
| Granted | 229,000 | 0.70 |
| Forfeited | (94,000) | 1.02 |
| Balance, March 31, 2008 | 2,634,000 | 0.99 |

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9. SHARE CAPITAL (cont'd.)

[e] Stock options (cont'd.)

At March 31, 2008, stock options to executive officers and directors, employees, consultants and clinical advisory board members were outstanding as follows:

| Options Outstanding | | | | Options Exercisable | |
|----------------------------|----------------------------------|---|--------------------------------------|----------------------------------|--------------------------------------|
| Range of Exercise Price | 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 | 685,000 | 7.02 | 0.64 | 288,333 | 0.64 |
| \$1.00 - \$1.05 | 859,000 | 4.58 | 1.05 | 703,917 | 1.05 |
| \$1.10 - \$1.16 | 1,090,000 | 6.46 | 1.16 | 650,000 | 1.16 |
| | 2,634,000 | 6.00 | 0.99 | 1,642,250 | 1.02 |

As of March 31, 2008, stock options to employees, officers, directors, consultants and scientific advisory board members were outstanding as follows:

| Date of Expiry | Exercise Price | Number of Options Outstanding | Number of Options Exercisable |
|--------------------------------|-----------------------|--------------------------------------|--------------------------------------|
| 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 | 242,000 | 165,334 |
| August 22, 2014 | \$1.16 | 940,000 | 560,000 |
| March 6, 2012 | \$1.05 | 180,000 | 180,000 |
| March 6, 2015 | \$1.05 | 127,000 | 58,583 |
| March 6, 2015 | \$1.16 | 150,000 | 90,000 |
| March 27, 2015 | \$0.65 | 500,000 | 233,333 |
| May 31, 2012 | \$1.05 | 40,000 | 30,000 |
| May 31, 2015 | \$0.62 | 18,000 | 18,000 |
| May 31, 2015 | \$0.63 | 157,000 | 27,000 |
| Balance, March 31, 2008 | | 2,634,000 | 1,642,250 |

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9. SHARE CAPITAL (cont'd.)

[e] Stock options (cont'd.)

The fair value of the stock options granted during the year ended March 31, 2008 was estimated using the Black-Scholes valuation model with the following assumptions:

| | |
|--------------------------|-----------------|
| Volatility | 88.90 – 105.16% |
| Expected life of options | 2 – 5 years |
| Dividend yield | 0.00% |
| Risk free interest rate | 4.00 – 4.01% |

The estimated fair value of options granted to employees including officers and directors, and non-employees are as follows:

| | March 31 2008 | March 31 2007 |
|---------------|--------------------------|--------------------------|
| | \$ | \$ |
| Employees | 331,853 | 535,563 |
| Non-employees | 14,495 | 45,262 |
| | 346,348 | 580,825 |

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.

10. 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. Future minimum annual lease payments under the leases are as follows:

| | \$ |
|------|----------------|
| 2009 | 98,273 |
| 2010 | 99,218 |
| 2011 | 51,377 |
| 2012 | 3,537 |
| 2013 | — |
| | 252,405 |

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10. COMMITMENTS (cont'd.)

[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 \$2,969,932 for the fiscal year ending March 31, 2009. Of these commitments, \$454,528 are non-cancellable and \$2,515,404 are cancellable for fiscal year ending March 31, 2009.

[c] License agreements

- [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 8(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 (\$273,000 has been paid to date).

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11. 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.

12. INCOME TAXES

At March 31, 2008, 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 |
|------|---|--|-------------------------------|
| | \$ | \$ | \$ |
| 2011 | — | — | 11,000 |
| 2015 | — | — | 287,000 |
| 2016 | — | 24,000 | 687,000 |
| 2017 | — | 74,000 | — |
| 2018 | — | 53,000 | — |
| 2026 | 43,000 | — | — |
| 2027 | 171,000 | — | 3,548,000 |
| 2028 | 107,000 | — | 5,194,000 |
| | <u>321,000</u> | <u>151,000</u> | <u>9,727,000</u> |

In addition, the Company has unclaimed tax deductions of approximately \$1,489,000 related primarily to scientific research and experimental development expenditures available to carryforward indefinitely to reduce taxable income of future years.

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12. INCOME TAXES (cont'd.)

Significant components of the Company's future tax assets and liabilities as of March 31, 2008 are shown below:

| | 2008 | 2007 |
|---|--------------------|-------------|
| | \$ | \$ |
| Future tax assets: | | |
| Tax basis in excess of accounting value | (108,000) | 192,000 |
| Share issue costs | 235,000 | 319,000 |
| Research and development deductions and credits | 750,000 | 151,000 |
| Operating loss carryforwards | 2,624,000 | 1,451,000 |
| Total future tax assets | 3,501,000 | 2,113,000 |
| Valuation allowance | (3,501,000) | (2,113,000) |
| 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, 2008 and 2007.

The reconciliation of income tax attributable to operations computed at the statutory tax rates to income tax expenses using a 33.47% statutory tax rate [March 31, 2007 – 34.12%] is:

| | 2008 | 2007 |
|--|--------------------|-------------|
| | \$ | \$ |
| Income taxes at statutory rates | (2,034,000) | (1,537,709) |
| Expenses not deductible for tax purposes | 119,000 | 202,000 |
| Benefit of non-capital losses not recognized | 1,793,000 | 1,056,709 |
| Others | 3,000 | |
| Impact of tax rate change | — | 57,000 |
| Foreign tax rate difference | 34,000 | 69,000 |
| Future income tax recovery | (85,000) | (153,000) |

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13. 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.

14. RELATED PARTY TRANSACTIONS

During the year ended March 31, 2008, the Company incurred \$130,819 [2007 - \$204,901] of expenditures for services provided by related parties. These transactions were incurred in the normal course of business and recorded at their exchange amounts. Details of related party transactions during the years ended March 31, 2008 and 2007 are summarized as follows:

| | March 31, 2008 | March 31, 2007 |
|---|---------------------------|---------------------------|
| | \$ | \$ |
| Consulting services provided by directors | 3,186 | 48,729 |
| Consulting services provided by a financial consulting firm of which a director is an executive | — | 14,123 |
| Finder fees, inclusive of issuance of 29,412 common shares, associated with IL Therapeutics Inc. to a financial consulting firm of which a director is an executive | — | 100,000 |
| Research services provided by a consulting firm of which a director is the principal | 1,000 | — |
| Research services provided by a consulting firm of which an officer is the principal | 120,988 | 6,512 |
| Research services provided by a university laboratory of which an officer is a professor | 5,645 | 35,537 |
| | 130,819 | 204,901 |

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management discussion and analysis was performed by management using information available as of July 11, 2008 and should be read in conjunction with our audited consolidated financial statements for the year ended March 31, 2008 and the related notes included thereto. These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). All amounts are expressed in Canadian dollars unless otherwise indicated. Additional information relating to Pacgen Biopharmaceuticals Corporation (the "Company") can be obtained from SEDAR at www.sedar.com.

The forward-looking statements in this discussion regarding our expectations of our future performance, liquidity and capital resources and other non-historical statements include numerous risks and uncertainties, as described in the "Risk Factors" section of our Annual Information Form, which is available on SEDAR at www.sedar.com. The words "anticipates", "believes", "estimates", "expects", "intends", "may", "could", "plans", "projects", "will", "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, level of activity, performance or achievements to be materially different from those implied by such statements. Such factors include, among others, our stage of development, lack of product revenues, additional capital requirements, risk associated with completion of clinical trials and obtaining regulatory approval, dependence on collaborative partners, and our ability to protect our intellectual property. We undertake no obligation to revise or update forward looking statement in this discussion whether as a result of new information, future events or otherwise. Accordingly, readers should not place undue reliance on forward looking statements in this discussion.

OVERVIEW

We are a life sciences company focused on development of novel therapeutic drugs for the treatment of infectious and inflammatory diseases. Our current development efforts are focused on PAC-113, an anti-fungal for the treatment of oral candidiasis and PAC-G31P, a novel peptide therapeutic designed to treat inflammatory diseases characterized by non-beneficial neutrophil.

Oral candidiasis, or thrush, is usually seen as a secondary consequence arising from one of a number of primary or underlying medical conditions including HIV/AIDS, cancer, diabetes, asthma and xerostomia (abnormal dryness of the mouth). In February 2005, we completed a sublicense agreement with Demegen, Inc (the "Demegen Sublicense"). The Demegen Sublicense provides us exclusive worldwide rights to develop and commercialize PAC-113 for human oral disease conditions. PAC-113 is a 12 amino-acid antimicrobial peptide derived from a naturally occurring histatin protein found in saliva. This peptide alters the permeability of fungal cell membranes causing cell death. We are developing PAC-113 in a mouthrinse formulation for the topical treatment of oral candidiasis. In May 2007, we announced positive top-line results from our proof of concept clinical trial (the "Phase I/II clinical trial") demonstrating that PAC-113 is generally safe, well-tolerated and effective in the treatment of oral candidiasis. Also in May 2007, we received results from our formulation studies indicating that the anti-fungal activity of PAC-113 can be increased when the drug is formulated with lower buffer molarity. Based on these results, we initiated a Phase IIb clinical trial in November of 2007 using the optimized PAC-113 formulation. In June 2008, we announced positive results from our Phase IIb clinical trial demonstrating that PAC-113 is effective in the treatment of oral candidiasis and compares favourably to the efficacy demonstrated by Nystatin, a current standard of care. We plan to meet the United States Food & Drug Administration (the "FDA") late 2008 to discuss our proposed Phase III clinical development plan.

Non-beneficial neutrophil recruitment is a key characteristic of a number of acute and chronic inflammatory conditions, including acute respiratory distress syndrome, severe asthma, chronic obstructive pulmonary disease, pneumonia, Crohn's Disease, rheumatoid arthritis and ischemia/reperfusion injury. In April 2006, through the acquisition of IL Therapeutics Inc. ("ILT"), we obtained exclusive worldwide rights to PAC-G31P technology for the prevention and treatment of severe inflammatory diseases characterized by neutrophil over-recruitment. PAC-G31P is a small recombinant protein that is a synthetic analogue of the human cytokine called Interleukin-8 which is the key chemokine involved in neutrophil recruitment. We are developing PAC-G31P to treat inflammatory

diseases. Since taking over the PAC-G31P program, we conducted a number of preclinical and mechanistic studies, and initiated formulation development work. PAC-G31P is currently in preclinical development. In order to determine the optimal first clinical indication for PAC-G31P we plan to complete a number of preclinical studies, as well as conduct manufacturing development and formulation work, over the next year. The results of this preclinical program in conjunction with a successful Investigational New Drug (“IND”) filing will directly support our out-licensing initiatives.

We currently hold the rights to 32 patents and 19 patent applications in the United States and other jurisdictions relating to products in our development pipeline. We also hold 14 patent applications and intellectual properties to two other research compounds that we no longer develop. We plan to invest the majority of our efforts and resources to advance PAC-113 through late stage clinical development and complete preclinical studies on PAC-G31P to support an IND application and out-licensing initiatives.

CORPORATE DEVELOPMENT SINCE LAST FISCAL YEAR

- On May 7, 2007, we reported the topline results from the Phase I/II clinical trial of PAC-113 showing that it is generally safe, well-tolerated, and active in the treatment of oral Candida infection with clinical cure rates comparable to the current standard of care, Nystatin. The Phase I/II clinical trial involved approximately 100 seropositive HIV patients.
- On September 24, 2007, we announced our plan for a Phase IIb dose-ranging clinical trial for an optimized formulation of PAC-113 and released the final results from the Phase I/II clinical trial. The Phase I/II final results showed the per-protocol PAC-113 treated group had a complete clinical cure rate of 44% comparable to the per-protocol Nystatin treated group at 40%; these results were similar to the topline results reported in May 2007. We also announced that a new patent application containing claims covering the findings of the PAC-113 formulation and dose optimization studies has been filed.
- On November 19, 2007, we initiated a Phase IIb dose-ranging trial for an optimized formulation of PAC-113. This study involving approximately 200 seropositive HIV patients was a randomized, examiner-blinded, parallel design trial comparing three different doses of PAC-113 to Nystatin.
- On March 17, 2008, we announced that we closed an offering of 4,515,000 units of our company at a price of \$0.20 per unit for gross proceeds to us of \$903,000.
- On April 15, 2008, we announced that we completed recruitment of patients in its Phase IIb dose-ranging trial for PAC-113.
- On June 5, 2008, we released positive topline results from our Phase IIb dose-ranging trial of PAC-113. The results demonstrated that PAC-113 is effective in the treatment of oral candidiasis and compares favourably to the efficacy demonstrated by Nystatin.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

Our audited consolidated financial statements are prepared in accordance with Canadian GAAP. These accounting principles require us to make certain estimates and assumptions. We believe that the estimates and assumptions upon which we rely are reasonable based upon information available at the time that these estimates and assumptions are made. Actual results could differ from these estimates. Significant areas requiring the use of estimates relate to the assessment for impairment and useful lives of intangible assets, determination of share value in transactions where shares are issued as a consideration, accrued liabilities, estimation of income tax expense and determination of fair value of stock-based compensation. The significant accounting policies that we believe are the most critical in fully understanding and evaluating the reported financial results include those which follow:

Intangible Assets

Intangible assets are comprised technology licenses and rights acquired from third parties. Technology licenses and rights 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. We determine the estimated useful lives for intangible assets based on a number of factors: legal, regulatory or contractual limitations; known technological advances; anticipated market size; and the existence or absence of competition. A significant change in any of the above factors may require a revision of the expected useful life of the intangible asset, resulting in accelerated amortization or an impairment charge, which could have a material impact on our results of operations. We evaluate the recoverability of the net book value of our intangible assets whenever events or changes in circumstances indicate the carrying value may not be recoverable. If the carrying value of the underlying technology exceeds the estimated net recoverable value, calculated based on estimated undiscounted future cash flows, then the carrying value is written down to its fair value, based on the related estimated discounted cash flows. The amounts shown for technology licenses and rights do not necessarily reflect present or future values and the ultimate amount recoverable will be dependent upon the successful development and commercialization of products based on these rights.

Research and Development Costs

Research costs, including costs for new patents and patent applications, 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 GAAP for deferral and amortization. No development cost has been deferred to date.

Contract research and development expenses, including fees paid to contract research organizations, investigators and other vendors who conduct certain product development activities on our behalf, are recognized in an accounting period based on estimates of the work performed during the period using an accrual basis of accounting. Since the service agreements with these vendors may be in force over a number of accounting periods and payments may not coincide with the period in which the services are rendered, judgment is required in estimating the amount of research and development expense to be recorded in each accounting period. Judgment and estimates are also involved in determining the amount of expenditures that are contractually committed under the various agreements. We consider the following factors in estimating the amount of clinical trial expense for an accounting period: the level of patient enrolment; the level of services provided and goods delivered; and the proportion of the overall contracted time that elapsed during the accounting period. In making these assessments, we monitor patient enrolment levels and related activities at a given point in time through internal reviews, correspondence and discussions with contractors and review of contractual terms. We may sometimes rely on the information provided by our contractors. A significant change in the above factors and the accuracy of information provided by our contractors may alter our estimate of our clinical trial expenditure for the accounting period and prepaid expenses or accrued liabilities as of the end of the accounting period. This could have a material impact on our results of operations and accrued liabilities.

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.

Stock-based Compensation and other stock based payments

We grant stock options to employees, directors, and consultants pursuant to a stock option plan. We use 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. A compensation expense is recorded based on the estimated fair value of options with a corresponding credit to contributed surplus. Any consideration received on the exercise of stock options is credited to share capital. The fair value of stock-based awards to employees and directors is measured on the date of grant and amortized over the vesting period. The fair value of stock-based awards to consultants is measured at the performance commitment date or the date that the service is delivered. We amortize the fair value of stock options over the vesting terms of the options which are generally two to three years from grant.

The estimation of the fair value of stock options using the Black-Scholes option pricing model involves subjective assumptions of the expected life of the option, the expected volatility at the time the options are granted, and risk-free interest rate. Changes in these assumptions can materially affect the measure of the estimated fair value of our stock options, hence our results of operations.

CHANGE OF ACCOUNTING POLICIES

Financial Instruments

Effective April 1, 2007, we adopted the new recommendations of the CICA Handbook Section 3855, “*Financial Instruments – Recognition and Measurement*” and Section 3861, “*Financial Instruments – Disclosure and Presentation*”. These new accounting standards, which apply to fiscal years beginning on or after October 1, 2006, provide comprehensive requirements for the recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated. The adoption of these Handbook Sections had no impact on opening deficit.

- § Section 3855 requires financial instruments be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are initially measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income. Transaction costs are included in the initial carrying amount of financial instruments except for held-for-trading items in which case they are expensed as incurred. Section 3855 also requires that the embedded derivatives to be identified and separated from the related host contract and be measured at fair value. Subsequent changes in fair value of embedded derivatives are recognized in the consolidated statement of operations in the period the change occurs.
- § Section 3861 establishes the requirements for presentation and disclosure of financial instruments and non-financial derivatives.

Upon adoption of these new standards, we have classified cash and cash equivalents as held-for-trading, amounts receivables as loans and receivables and all financial liabilities as other financial liabilities. The adoption of these new Handbook sections had no impact on the consolidated financial statements for the year ended March 31, 2008.

Comprehensive Income and Equity

Effective April 1, 2007, we adopted the new recommendations of the CICA Handbook Section 1530, “*Comprehensive Income*” and Section 3251, “*Equity*”. The adoption of these Handbook Sections had no impact on opening deficit.

- § Section 1530 provides standards for reporting and display of comprehensive income, which is defined as the change in equity from transactions and other events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian GAAP.
- § Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in Section 3251 are in addition to Section 1530.

The adoption of these new Handbook sections had no impact on the consolidated financial statements for the year ended March 31, 2008.

Accounting Changes

In July 2006, the CICA revised Section 1506, “Accounting Changes”, which now requires that: (i) a voluntary change in accounting principles can be made if, and only if, it is required by primary source of Canadian GAAP or the changes result in more reliable and relevant information, (ii) changes in accounting policies are accompanied with disclosures of prior period amounts and justification for the change, and (iii) for changes in estimates, the nature and amount of the change should be disclosed. The revised section is effective for our financial year beginning April 1, 2007 for fiscal year 2008. The adoption of this section does not have an impact on our consolidated financial statements for the year ended March 31, 2008.

NEW ACCOUNTING PRONOUNCEMENTS

The Canadian Accounting Standards Board (AcSB) issued two new Sections in relation to financial instruments: Section 3862, “*Financial Instruments – Disclosure*”, and Section 3863, “*Financial Instruments – Presentation*”. Both sections are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. We adopted these standards commencing April 1, 2008. The adoption of these new standards has no material impact on our consolidated financial statements.

The AcSB issued Section 1535, “*Capital Disclosures*”. This standard requires disclosure regarding what we define as capital and its objectives, policy and processes for managing capital. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. We adopted these standards commencing April 1, 2008. The adoption of these new standards has no material impact on the our consolidated financial statements.

In January 2006, CICA Accounting Standards Board (“AcSB”) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards (“IFRS”) for accounting periods commencing on or after January 1, 2011. We continue to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

In February 2008, the CICA issued Section 3064, “*Goodwill and Intangible Assets*”, which replaces Section 3062, “*Goodwill and Other Intangible Assets*” and Section 3450, “*Research and Development Costs*”. Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. The new Section will be applicable to our consolidated financial statements for its fiscal year beginning April 1, 2009. We are currently evaluating the impact of the adoption of this new Section on our consolidated financial statements.

OVERALL PERFORMANCE

Since we commenced operations in April 2004, we have an accumulated deficit of \$12,547,681 as at March 31, 2008. We have not generated any revenue from sales of commercial products to date and do not expect to generate any revenues until we secure a collaborative partnership or upon sales of our product candidates. We expect losses to continue as we invest in our product development, with primary focus for the next two years on our PAC-113 and PAC-G31P programs. As at March 31, 2008, we had \$1,438,691 of cash and cash equivalents. We believe sufficient financial resources exist to fund our operations into the second quarter of Fiscal 2009. We are currently seeking additional capital to finance our operation. Management is considering all financing alternatives, including equity financing, corporate collaboration and licensing arrangement, and has initiated preliminary discussions on some of these alternatives. There can be no assurance that such financing will materialize on a timely basis or obtained on favorable terms. If we are unable to obtain additional financing, we may be required to curtail our operations.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table sets forth consolidated financial data for the fiscal years ended March 31, 2008, 2007 and 2006:

| | For the year ended March 31, | | |
|---|------------------------------|---------------|---------------|
| | 2008 | 2007 | 2006 |
| Net loss for the period | \$(5,974,712) | \$(4,353,837) | \$(1,568,057) |
| Per share loss, basic and fully diluted | \$(0.19) | \$(0.20) | \$(0.15) |
| Total assets | \$3,024,237 | \$7,834,666 | \$ 1,419,348 |

RESULTS OF OPERATIONS

For the year ended March 31, 2008 ("Fiscal 2008"), we recorded a net loss of \$5,974,712 (\$0.19 per common share), compared to a net loss of \$4,353,837 (\$0.20 per common share) for the year ended March 31, 2007 ("Fiscal 2007"). The increase in net loss in Fiscal 2008, as compared to Fiscal 2007, was largely due to the increase of research and development expenditures associated with PAC-113 clinical development and PAC-G31P manufacturing development.

Revenues

We have not generated any revenue from sales of commercial products since our incorporation and we do not expect to generate any revenues until we secure collaborative partners who provide funding on our research and clinical development or upon sales of our product candidates.

Research and Development Expenditures

Research and development expenses were \$3,480,523 for Fiscal 2008, compared to \$1,987,583 for Fiscal 2007. The increase of \$1,492,940 was primarily due to the increased contract research cost associated with PAC-113 clinical development and PAC-G31P manufacturing development. Internal overhead for research and development activities were relatively the same in both fiscal years. Research and development expenditures by programs for two most recent fiscal years and since inception are as follows:

| Program | For the year ended March 31, | | Cumulative from Inception on April 23, 2004 to |
|----------------|------------------------------|---------------------|--|
| | 2008 | 2007 | March 31, 2008 |
| PAC-113 | \$2,302,548 | \$1,292,639 | \$4,314,243 |
| PAC-G31P | 1,146,835 | 680,464 | 1,827,299 |
| Other Projects | 31,140 | 14,480 | 188,889 |
| | <u>\$3,480,523</u> | <u>\$ 1,987,583</u> | <u>\$ 6,330,430</u> |

PAC-113

PAC-113 development cost increased by \$1,009,909 in Fiscal 2008, compared to Fiscal 2007 as the program advanced from a proof of concept Phase I/II stage to a Phase II development stage. The development cost in Fiscal 2008 covered the completion of Phase I/II clinical trial, formulation optimization work, manufacture of Phase IIb drug supply, and the initiation and patient recruitment of Phase IIb clinical trial. The expenditures in Fiscal 2007 covered the clinical site expansion to South Africa and the patient recruitment of Phase I/II trial.

External cost composed of all development costs other than internal overhead, for the Phase I/II trial was approximately \$1.6 million. The Phase I/II trial which involved 107 patients was initiated in Fiscal 2006 and completed in Fiscal 2008. As a result, the related cost was spread over a period of three fiscal years ended March

31, 2008. The estimated external cost for the Phase IIb study, which involved 223 patients, is approximately \$2.5 million of which \$1.9 million was recorded in Fiscal 2008.

We plan to meet with the FDA late 2008 to discuss our proposed Phase III clinical development plan (the “Post Phase II Meeting”). For the fiscal year ending March 31, 2009 (“Fiscal 2009”), we expect to incur research and development expenditures primarily associated with the completion of Phase IIb trial and the Post Phase II Meeting.

PAC-G31P

PAC-G31P research cost increased by \$466,371 in Fiscal 2008, compared to Fiscal 2007. The research cost in both fiscal years covered the activities related to pre-clinical studies, mainly through our collaboration with the University of Saskatchewan, and manufacturing development of PAC-G31P. We initiated our manufacturing development and formulation work in February 2007 and successfully reproduced PAC-G31P at Good Laboratory Practices Standards (“GLP”) level in July 2007.

In order to determine the optimal first clinical indication for PAC-G31P we plan to complete a number of preclinical studies, as well as continue our manufacturing development and formulation work at Good Manufacturing Practice Standards (“GMP”) level, over the next year. The results of these studies in conjunction with a successful IND application filing will directly support our out-licensing initiatives. For Fiscal 2009, we expect to incur research and development expenditures primarily associated with the additional pre-clinical studies and formulation work.

General and Administration Expenditures

General and administration expenses for Fiscal 2008 were \$1,901,567 compared to \$1,790,765 for Fiscal 2007. The increase of \$110,802 was primarily attributable to the increase of \$96,075 in salaries and wages and \$115,813 in market research. These increases were offset by a decrease of \$176, \$41,199 and \$59,711 in consulting and professional fees, travel and accommodation, and other general overhead respectively. The following provides a summary of the general and administration expenditures:

| General and Administration Expenditures | For the year ended March 31, | | Cumulative from |
|---|------------------------------|--------------------|---|
| | 2008 | 2007 | Inception on April 23, 2004 to March 31, 2008 |
| Salaries and benefits | \$811,353 | \$715,278 | \$2,132,906 |
| Consulting and professional fees | 539,543 | 539,719 | 1,356,897 |
| Travel and accommodation | 87,530 | 128,729 | 289,206 |
| Market research for product candidate | 125,981 | 10,168 | 136,149 |
| Other general overhead | 337,160 | 396,871 | 1,111,810 |
| | <u>\$1,901,567</u> | <u>\$1,790,765</u> | <u>\$5,026,968</u> |

The increase in salaries and benefits was primarily incurred in the first half of Fiscal 2008. As a precautionary step to reduce our cash burn, we initiated a cost management program in the second half of Fiscal 2008. The cost control program involved elimination of two junior administrative positions and 30% reduction in management salaries starting November 2007. A further 20% reduction in management salaries was implemented in February 2008. The increase in market research expenditure was primarily related to product market studies to support our out licensing activities for PAC-113. The decreases in other general administrative expenditures were also primarily due to the cost control program initiated in November 2007.

For Fiscal 2009, we expect our general and administration expenditures to be relatively the same as those incurred in the second half of Fiscal 2008.

Stock-based Compensation

Stock based compensation, a non-cash item included in operating expenses, was \$346,348 in Fiscal 2008 compared to \$580,825 in Fiscal 2007. For Fiscal 2008, stock based compensation attributable to research and development

operations and general administration was \$131,702 [2007 - \$203,265] and \$214,646 [2007 - \$377,560], respectively. The decreases in stock based compensation were mainly due to the reduced number of stock options granted and vested during Fiscal 2008 as compared to Fiscal 2007 when we first adopted our stock option plan on August 22, 2006.

Amortization

Amortization was \$269,245 in Fiscal 2008 compared to \$242,274 in Fiscal 2007. Amortization related to technology, licenses and rights in Fiscal 2008 was \$236,975 compared to \$222,754 in Fiscal 2007. The remaining amortization was related property and equipment.

Other Income (Loss)

Other loss in Fiscal 2008 was \$62,029 as compared to other income of \$94,610 in Fiscal 2007. The increase in other loss of \$156,639 was mainly due to the higher foreign exchange loss in Fiscal 2008. A net foreign exchange loss of \$147,778 was recorded in Fiscal 2008 compared to \$5,872 in Fiscal 2007 as a result of the U.S. dollar depreciation in comparison with the Canadian dollar on our US denominated retainer payments to foreign vendors. We are exposed to market risk related to currency exchange rates in the United States because the majority of our clinical development and manufacturing development expenditures are incurred in United States dollars. To a lesser degree, we are also exposed to market risk related to currency rates in Taiwan with some of administrative expenditures in Taiwanese new dollars.

SUMMARY OF QUARTERLY RESULTS

Set forth below is the selected consolidated financial data for each of the last eight quarters:

| | 4th Quarter Ended | 3rd Quarter Ended | 2nd Quarter Ended | 1st Quarter Ended |
|--|----------------------|----------------------|----------------------|----------------------|
| | March 31, 2008 | December 31, 2007 | September 30, 2007 | June 30, 2007 |
| Research and development ⁽¹⁾ | \$(1,071,903) | \$(431,197) | \$ (912,203) | \$(1,065,220) |
| General and administration ⁽¹⁾ | (307,439) | (406,920) | (550,878) | (636,330) |
| Stock based compensation | (119,597) | (68,928) | (71,418) | (86,405) |
| Amortization | (63,905) | (68,661) | (68,569) | (68,110) |
| Other income (loss) | (129,095) | (7,358) | 28,015 | 46,409 |
| Future income tax recovery | 27,722 | 12,079 | 30,199 | 15,000 |
| Net loss for the period | (1,664,217) | (970,985) | (1,544,854) | (1,794,656) |
| Basic and diluted loss per common share | \$(0.05) | \$(0.03) | \$(0.05) | \$(0.06) |

| | 4th Quarter Ended | 3rd Quarter Ended | 2nd Quarter Ended | 1st Quarter Ended |
|--|----------------------|----------------------|----------------------|----------------------|
| | March 31, 2007 | December 31, 2006 | September 30, 2006 | June 30, 2006 |
| Research and development ⁽¹⁾ | \$(1,146,359) | \$(459,812) | \$ (212,115) | \$(169,297) |
| General and administration ⁽¹⁾ | (754,348) | (358,022) | (256,886) | (421,509) |
| Stock based compensation ⁽¹⁾ | (166,676) | (414,149) | - | - |
| Amortization ⁽¹⁾ | (58,516) | (60,871) | (61,881) | (61,006) |
| Other income | 58,343 | 17,561 | 12,204 | 6,502 |
| Future income tax recovery | 94,000 | 16,000 | 14,000 | 29,000 |
| Net loss for the period | (1,973,556) | (1,259,293) | (504,678) | (616,310) |
| Basic and diluted loss per common share | \$(0.07) | \$(0.06) | \$(0.03) | \$(0.03) |

- (1) Stock based compensation and amortization figures have been presented as separate line items to conform to presentation adopted in the quarter ended March 31, 2007.

Summary of Quarterly Results

The primary factors affecting the magnitude of our losses in the various quarters were (i) development costs associated with the PAC-113 program in-licensed in February 2005; (ii) research cost associated with the PAC-G31P program acquired in April 2007; (iii) general and administration expenditures to support our initial public offering (“IPO”) in December 2007; (iv) general and administration expenditures to support business development and corporate growth from inception to November 2007; (iv) stock based compensation following the adoption of our stock option plan in August 2006; and (v) cost control program initiated in November 2007.

The significant increase in research and development expenditures in Q4 2007, compared to other quarters in Fiscal 2007, was due to the rapid patient recruitment in the PAC-113 Phase I/II clinical trial, following our clinical site expansion in South Africa in October 2007, and the initiation of manufacturing development of our newly acquired PAC-G31P program in February 2007. The increase in general and administration expenditures in Q4 2007, compared to other quarters in Fiscal 2007, was mainly due to increased consulting and professional fees associated with the IPO and business development, added personnel, and other overhead associated with the new public company entity.

Research and development expenditures were relatively the same throughout Fiscal 2008 except Q3. The decline in research and development expenditures in Q3 2008 was primarily due to the lower level operational activities during the quarter as we prepared to advance PAC-113 into Phase IIb and completed PAC-G31P GLP manufacturing development. The significant timelines impacting our research and development cost in Fiscal 2008 were: the completion of PAC-113 Phase I/II clinical trial in May 2007, the completion of PAC-G31P manufacturing development at GLP level in July 2007, and the initiation of PAC-113 Phase IIb trial in November 2007. General and administration expenditures were in a declining trend throughout Fiscal 2008. This was primarily due to the elimination of non-routine expenditures associated with the IPO in December 2007 and PAC-113 market research in Q1 2008, as well as the initiation of our cost control program in November 2007.

FOURTH QUARTER RESULTS

Net loss for the Q4 2008 was \$1,664,217, or \$0.05 per share, compared to net loss of \$1,973,556, or \$0.07 per share, for the same quarter in Fiscal 2007. The decrease in net loss was due to the reduced operating expenditures other than amortization; this decrease was offset by an increase in other loss and a decline in future income tax recovery in Q4 2008, as compared to Q4 2007.

Research and development costs for the Q4 2008 were \$1,071,903, as compared to \$1,146,359 in the same quarter in Fiscal 2007. The decrease of \$74,456 was primarily due to the reduced internal overhead to manage or research and development program following our initiation of cost control program in November 2007. Specifically, we incurred lower research and development related salaries and benefits and consulting fees in Q4 Fiscal 2008, as compared to the same quarter in Fiscal 2007. General and administration expenses for Q4 2008 were \$307,439, as compared to \$754,348 in the same quarter in Fiscal 2007. The decrease of \$446,909 was primarily attributable to the initiation of cost control program in November 2007 and the non-routine IPO related expenditure in Q4 2007. Specifically, we incurred lower general administration related salaries and benefits, consulting and professional fees, travel and accommodation, and other overhead in Q4 Fiscal 2008, as compared to the same quarter in Fiscal 2007.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

Since inception to March 31, 2008, our operational activities were financed mainly from equity financings and the cash acquired from ILT.

Cash used in operating activities for Fiscal 2008 was \$4,700,919 compared to \$3,422,492 for Fiscal 2007. Cash used in operating activities was composed of net loss, add-backs or adjustments not involving cash and net change in non-cash working capital items. The increase in cash used in operating activities in Fiscal 2008 as compared to Fiscal 2007 was primarily due to the increased operating loss.

Cash provided by investing activities in Fiscal 2008 was \$4,734 as compared to \$1,143,012 cash provided in investing activities in Fiscal 2007. The primary source of cash provided by investing activities in Fiscal 2007 was the acquisition of ILT (“ILT Acquisition”). Cash used in the purchases of property and equipment in Fiscal 2008 was \$19,485, a decrease of \$95,495 when compared to \$114,980 in Fiscal 2007.

Cash provided by financing activities in Fiscal 2008 was \$747,510 compared to \$6,939,782 in Fiscal 2007. Cash provided by financing activities in Fiscal 2008 was associated with our private placement financing of units in March 2008. The cash provided by financing activities in Fiscal 2007 resulted in net proceeds of \$5,920,137 from our IPO financing in December 2007 and cash receipts of \$1,019,645 from the issuance of common shares upon the exercise of share purchase warrants.

In connection with the private placement financing in March 2008, we closed a private placement of 4,515,003 units (the “Units”) at \$0.20 per Unit for total gross proceeds of \$903,000. Each Unit was comprised of one common share of the Company and one common share purchase warrant. One common share purchase warrant entitles the holder to purchase one common share of the Company at \$0.30 per common share until March 16, 2013. In connection with this private placement, we issued 107,730 units as compensation (the “Compensation Units”) and 34,200 broker warrants (the “Broker’s Warrants”) to an agent. Each Compensation Unit was comprised of one common share of the Company and one common share purchase warrant. Each Broker’s Warrant is exercisable into one unit at \$0.22 per unit until March 16, 2010. Upon exercise, each Broker Warrant will convert to one common share of the Company and one common share purchase warrant exercisable into one additional common share at \$0.30 per common share until March 16, 2013. The Compensation Units and Broker’s Warrants have an estimated value of \$40,960.

At March 31, 2008, we had working capital of \$535,149, compared to \$5,220,456 at March 31, 2007. We had available cash reserves comprised of cash and cash equivalents of \$1,438,691 at March 31, 2008, compared to \$5,387,366 at March 31, 2007. We estimate that our working capital at March 31, 2008 is adequate to fund the Company’s research and development programs, capital needs and operations into the second quarter of Fiscal 2009.

As of March 31, 2008 and in the normal course of business we have obligations to make future payments, representing contracts and other commitments that are known, committed and non-cancellable.

| | Contractual Obligations payment due by period | | | | |
|---|---|--------------------|------------------|-----------------|-----------------|
| | Total | 2009-2010 | 2011-2012 | 2013 | Thereafter |
| Operating Leases | \$252,405 | \$197,491 | \$54,914 | \$ - | \$ - |
| Clinical Research Agreements ⁽¹⁾ | 2,969,932 | 2,969,932 | - | - | - |
| License Agreements ⁽²⁾ | 534,444 | 329,148 | 102,648 | 51,324 | 51,324 |
| Total | \$3,756,781 | \$3,496,571 | \$157,562 | \$51,324 | \$51,324 |

⁽¹⁾ The total commitment of \$2,969,932 reflects \$454,528 of commitments that are non-cancellable and \$2,515,404 of commitments that are cancellable should we decide to discontinue the related clinical research work.

⁽²⁾ Pursuant to the Demegen Sublicense, we have a commitment to pay minimum annual royalties of US\$50,000 described in Note 7(a) of our annual consolidated financial statements for the fiscal year ended March 31, 2008. This commitment is converted into Canadian Dollars at the closing rate on March 31, 2008 of CAD\$1.00 = US\$0.9742. Pursuant to a license agreement between ILT and the University of Saskatchewan (the “US License”), we have a commitment to sponsor \$500,000 for research to be performed at the University of Saskatchewan, including, but not necessarily limited to, research related to the licensed technology PAC-G31P, within 5 years of the term of the agreement (\$273,000 has been paid as of March 31, 2008).

OUTSTANDING SHARE CAPITAL

As of June 30, 2008, there were 35,144,693 common shares issued and outstanding, 9,233,141 common share purchase warrants outstanding at a weighted average price of \$0.72 per share, 500,000 share purchase option outstanding at an exercise price of \$2.25 per share, and 2,634,000 incentive stock options outstanding at a weighted average exercise price of \$0.99.

OFF-BALANCE SHEET ARRANGEMENTS

We have no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

During Fiscal 2008, we incurred \$3,186, [2007 - \$48,729] for director consulting services, \$nil [2007 - \$114,123] for consulting services provided by a financial consulting firm of which a director is an executive, \$1,000 [2007 - \$nil] for research services provided by a consulting firm of which a director is the principal; \$120,988 [2007 - \$6,512] for research services provided by a consulting firm of which an officer is the principal; and \$5,645 [2007 - \$35,537] for research services provided by a university laboratory of which an officer is a professor.

FINANCIAL INSTRUMENTS AND RISKS

We are exposed to market risks related to changes in interest rates and foreign currency exchange rates. We invest our cash reserves in fixed rate and highly liquid term deposits. We have not entered into any foreign currency contracts or other financial derivatives to hedge foreign exchange risk. We are subject to foreign exchange rate changes that could have a material effect on future operating results or cash flows.

We believe that our working capital as of March 31, 2008 should be sufficient to finance our operational and capital needs into the second quarter of Fiscal 2009. However, our future cash requirements may vary materially from those expected due to a number of factors, including the costs associated with the completion of the clinical trials, collaborative and license arrangements with third parties, and opportunities to in-license complementary technologies. We will continue to review our financial needs and seek additional financing as required from sources that may include equity financing, and collaborative and licensing arrangements. However, there can be no assurance that such additional funding will be available or if available, whether acceptable terms will be offered.