

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

This management discussion and analysis ("MD&A") was performed by management using information available as of July 19, 2010 and should be read in conjunction with our audited consolidated financial statements for the year ended March 31, 2010 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 ("Pacgen" or the "Company") can be obtained from SEDAR at www.sedar.com. On June 8, 2010, Pacgen completed a share consolidation ("Share Consolidation") on a two to one basis. All common shares, warrants and options and per share amounts have been retroactively restated in this MD&A to reflect the Share Consolidation.

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 dated July 31, 2008, 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 science technology transfer company focused on the commercial development of novel therapeutic drug candidates up to Phase II, proof of concept efficacy in human. We identify innovative therapeutic drug candidates globally, and develop these drug candidates, with collaborative partners in accordance to the United States Food and Drug Administration (the "FDA") regulatory standards, to feed the product development pipelines of the pharmaceuticals industry. We currently have two product pipelines in our technology portfolio: 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.

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. 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). We obtained our rights to PAC-113 through a sublicense agreement with Demegen, Inc. (the "Demegen Sublicense") in February 2005. The Demegen Sublicense provides us with exclusive worldwide rights to develop and commercialize PAC-113 for human oral disease conditions. Since obtaining these rights, we have completed formulation optimization work, a Phase I/II proof of concept clinical study, as well as a Phase IIb dose-ranging study. The data from our clinical studies demonstrates that PAC-113 is effective in the treatment of oral Candidiasis. The data also suggests that PAC-113 compares favourably to the efficacy demonstrated by Nystatin, a current standard of care. We are currently working with a collaborative partner to develop PAC-113 for the treatment of oral Candidiasis for commercialization in China. We are currently seeking for collaborative partners for regions outside of China.

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. 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. We obtained exclusive worldwide rights to PAC-G31P technology for the prevention and treatment of severe inflammatory diseases characterized by neutrophil over-recruitment in April 2006, through the acquisition of IL Therapeutics Inc. ("ILT"). 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. We are currently seeking for a joint-venture partner to conduct preclinical studies to add data to our package for out licensing purposes.

We currently hold the rights to 26 patents and 31 patent applications in the United States and other jurisdictions relating to products in our development pipeline. We also hold 2 granted patents and 7 patent applications and intellectual properties to two other research compounds that we no longer develop.

CORPORATE DEVELOPMENT SINCE LAST FISCAL YEAR

In April 2009, we appointed Mr. Tsong Chin Lin to our board of directors. Mr. Lin brings to Pacgen over 30 years of management experience in leading industrial technology companies. Mr. Lin currently serves as Chairman, President and Chief Executive Officer of General Biologicals Corporation ("GBC"). Prior to GBC, he served as Chief Executive Officer of Megamedia Corporation and in various leadership roles at General Instrument of Taiwan Ltd.

On June 8, 2009, we signed a share purchase agreement (the "Acquisition Agreement") with the shareholders of Xphase Pharmaceuticals Inc. ("Xphase"). Pursuant to the Acquisition Agreement, we agreed to issue 1.5 million common shares (or 3.0 million pre-consolidated common shares) to Xphase shareholders in exchange for 100% ownership of Xphase as well as management services of Xphase principals ("the Xphase Acquisition"). Upon the achievement of certain pre-defined business development milestones within 12 months from the closing date, Xphase shareholders would be entitled to additional 1.75 million common shares (or 3.5 million pre-consolidated common shares). We completed this acquisition following the approval of the TSX Venture Exchange in August 2009, and issued 1.5 million common shares (or 3 million pre-consolidated common shares) to the shareholders of Xphase.

Following the completion of the Xphase Acquisition, we appointed Dr. Yiu Chung Lee from Xphase, and Mr. Fred Huang, co-founder of Pacgen, to our board of directors. Following these appointments, our board of directors consists of Mr. Chung Yu Wang (Chairman), Mr. Kevin McGarry (lead independent director), Dr. Alan Moore, Dr. Telvin Ju, Mr. Tsong Chin Lin, Dr Yiu Chung Lee and Mr. Fred Huang. In addition, we appointed the following Xphase principals to our management team:

(i) *Dr. Yiu Chung Lee as Chief Executive Officer ("CEO")*

Dr. Lee, an experienced entrepreneur, brings to Pacgen more than 20 years of pharmaceutical development experience earned in various settings, including pharmaceutical company, biotechnology company as well as contract research organization. Prior to co-founding Xphase, Dr. Lee previously held positions in Eli Lilly Canada Inc., Patheon Inc. and PharmEng Technology Inc.

(ii) *Dr. Beverly Inledon as Vice President, Research and Development*

Dr. Inledon brings to Pacgen more than 14 years of pharmaceutical industry experiences and extensive knowledge in drug development and manufacturing operations. Prior to joining Xphase, Dr. Inledon served as Director, Research and Development at Eli Lilly Canada Inc. Dr. Inledon also previously held positions in Glaxo Wellcome Inc. (Canada) and Syntex Inc.

(iii) *Mr. Joel Cheng as Vice President, Business Development*

Mr. Cheng has over 26 years of experience in sales, marketing, business development and corporate management in the North America. Prior to co-founding Xphase, Mr. Cheng served as Senior Director at PharmEng International Inc. Mr. Cheng also previously held positions in MDS, SCIEX and Hewlett Packard/Agilent Technologies.

(iv) *Mr. Gabriel Lam as Senior Director, Greater China Operations*

Mr. Lam has over 25 years of experience in business operations. Prior to co-founding Xphase, Mr. Lam served as Senior Director at PharmEng International Inc. Mr. Lam also previously held various managerial positions in Rootlink Technic Inc. and Hewlett Packard/Agilent Technologies.

The management team also includes existing members, Ms. Christina Yip and Dr. Lewis Choi, serving as Chief Financial Officer, and Vice President, Intellectual Properties and Scientific Affairs, respectively. Mr. Chung Yu Wang resigned as interim CEO but continues to assume his interim President role. Mr. Fred Huang resigned as Senior Vice President and Chief Operating Officer.

In January 2010, we entered into collaboration research and development agreements with Shanghai based New Summit Biopharma Co. (“New Summit Bio”). Under the terms of the agreements, New Summit Bio would collaborate with Pacgen to raise funding and to develop PAC-113 for the treatment of oral candidiasis for commercialization in China.

On April 19, 2010, we announced that we had arranged a non-brokered private placement (the “Financing”) of \$600,000 of subscription receipts (“Subscription Receipts”) subject to satisfactory completion of certain conditions, including the approval of the TSX Venture Exchange. We also announced that we had initiated a financial restructuring (the “Financial Restructuring”) to reduce our indebtedness and that we would seek shareholder approval for a consolidation of our common shares on a two to one basis (the “Share Consolidation”).

In May 2010, we closed the Financing and that obtained shareholder approval at the special meeting of shareholders held on May 25, 2010 for the Share Consolidation. Under the Financing, we issued an aggregate of 10 million Subscription Receipts at a price of \$0.06 per Subscription Receipt for gross proceeds of \$600,000. Upon completion of the Share Consolidation, each Subscription Receipt will be automatically exercised, for no additional consideration, for one common share.

On June 8, 2010, we announced completion of the Share Consolidation and that our common shares commenced trading on the TSX Venture Exchange on the consolidated basis. We issued 22,618,143 common shares pursuant to the Financing and the Financial Restructuring. The 22,618,143 common shares include (i) an aggregate of 10,000,001 common shares issued in connection with the automatic exercise of the 10 million Subscription Receipts of the Financing, and (ii) an aggregate of 12,618,142 common shares issued in connection with the settlement of conversion of an aggregate of approximately \$879,000 of indebtedness as part of the Financial Restructuring. All common shares issued under the Financing and the Shares for Debt Conversion were subject to a four-month holding period which would end on September 29, 2010 and October 9, 2010, respectively. Following the issuance of these shares and the Share Consolidation, we had 41,690,490 of common shares issued and outstanding.

RESEARCH AND DEVELOPMENT UPDATE

We carry out our research and development activities primarily through contract research organizations, and have significantly scaled down these activities in recent years due to financial constraints. We have not initiated any new research and development studies since June 2008, following the completion of our PAC-113 Phase IIb clinical studies. The current development status of each of our research and development programs is as follows:

PAC-113

In May 2007, we completed a Phase I/II proof of concept trial which involved 107 seropositive HIV patients with oral Candidiasis. The clinical trial was conducted at sites in the United States and South Africa. The results showed that PAC-113 was generally safe, well tolerated, and active in the treatment of oral Candidiasis with clinical cure rates comparable to the current standard of care. Based on these results, we initiated a Phase IIb dose-ranging trial to optimize PAC-113 dose and formulation.

In June 2008, we completed the Phase IIb dose-ranging trial. The results demonstrated that PAC-113 was effective in the treatment of oral Candidiasis and compared favorably to the efficacy demonstrated by Nystatin, a current standard of care.

The Phase IIb dose-ranging trial involved 223 seropositive HIV patients with oral Candidiasis, and was conducted at sites in the United States and South Africa. The objectives of the trial were to identify an optimal dose of PAC-113 from among the three doses studied, and to determine the relative efficacy of this PAC-113 dose as compared to Nystatin in eliminating clinical signs and symptoms of oral Candidiasis. Additionally, safety and tolerance and the microbiological response of *Candida albicans* to treatment were also measured.

The optimal dose of PAC-113 demonstrated a 34% increase in the primary endpoint efficacy level (complete clinical cure rate at Day 19) for the Per Protocol analysis as compared to Nystatin, and a 50% increase in the corresponding Intent to Treat analysis. Secondary efficacy endpoints showed similar trends among the three PAC-113 doses and the Nystatin group. The results also confirmed that PAC-113 was generally safe and well-tolerated.

The next development milestone in the United States is to meet with the FDA to discuss the requirements of the final stage of development. We are currently seeking for a collaborative partner to develop and market for the North American regions, as well as other regions outside of China.

The development plan for PAC-113 for the market in China is expected to be finalized by our collaborative partner following a meeting with the China State Food and Drug Administration (“sFDA”). New Summit Bio and Pacgen are currently focusing on fund raising activities in China, and plan to schedule a meeting with the sFDA shortly after the completion of fund raising. Based on the analysis of New Summit Bio, we expect that certain bridging studies are required prior to initiation of a pivotal clinical trial in China. These bridging studies would include studies, at both the pre-clinical and clinical level, conducted in accordance to the standards of sFDA.

PAC-G31P

We previously conducted certain preclinical studies primarily through our collaboration with the University of Saskatchewan, St. Michael’s Hospital and the University of Iowa. The results from these studies provided additional preclinical data to confirm the mechanism of action of PAC-G31P and the potential use of PAC-G31P in different animal models.

The next development milestone is to conduct necessary studies to enable an investigational new drug application (“IND”) filing with the FDA. We expect these studies to include preclinical safety and toxicology studies at Good Laboratory Standards (“GLP”) level, as well as manufacturing and formulation work at Good Manufacturing Practice Standards (“GMP”) level. We plan to out-license PAC-G31P program to a collaborative partner to undertake these IND enabling studies. Currently, we are seeking for a joint-venture partner to conduct certain preclinical studies to add data to our package for out-licensing purposes.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table sets forth consolidated financial data for the fiscal years ended March 31, 2010, 2009, and 2008:

	For the year ended March 31,		
	2010	2009	2008
Net loss for the period	\$(1,625,315)	\$(2,282,640)	\$(5,974,712)
Per share loss, basic and fully diluted	\$(0.04)	\$(0.06)	\$(0.19)
Total assets	\$707,927	\$1,676,523	\$3,024,237
Total long-term liabilities	—	\$216,459	—

Since our inception, we have not generated any revenue, other than income from interest earned on our excess cash balances. The primary factors affecting the magnitude of our net losses in these fiscal years were the scope of our product developments, and the level of internal operational activities to support our corporate and business development objectives. We have scale-downed our operations since fiscal year ended March 31, 2008 (“Fiscal 2008”) due to financial constraints.

In Fiscal 2008, in response to the recent global financial market downturn, we undertook a comprehensive review of our product development programs, operations and projected cash requirements with the view of conserving cost and deferring cash outflows. Our cost saving programs started in November 2007. In Fiscal 2008, we eliminated certain administrative positions, reduced our management salaries and focused our development efforts primarily on our lead program, PAC-113. In the year ended March 31, 2009 (“Fiscal 2009”), following the completion of our PAC-113 Phase IIb clinical trial in June 2008, we further tighten up our operating expenditures, deferred further research and development studies, and focused our operational activities primarily in financing and business development. In the year ended March 31, 2010 (“Fiscal 2010”), we continued to operational focus in financing and business development activities.

RESULTS OF OPERATIONS

For Fiscal 2010, we recorded a net loss of \$1,625,315 (\$0.09 per common share), compared to a net loss of \$2,282,640 (\$0.13 per common share) for Fiscal 2009. The decrease in net loss by \$657,325 in Fiscal 2010, as compared to Fiscal 2009, was mainly due to a decrease in operating expenses and other losses by \$429,602 and \$227,723, respectively. Operating expenditures, excluding non-recurring charges, for Fiscal 2010 were \$1,143,964, compared to \$2,010,932 in Fiscal 2009. The reduced operating expenses was offset by non-recurring charges amounted to \$437,366 in connection to write-downs of assets in Fiscal 2010. Other losses for Fiscal 2010 were \$43,985, compared to \$271,708 in Fiscal 2009. The decline in other losses was primarily due to an increase in foreign exchange gain, which was partially offset by an increase in financing and interest expenses.

Research and Development Expenditures

Research and development expenses, net of expense recovery, for Fiscal 2010 were \$202,399, compared to \$586,597 for Fiscal 2009. The decrease in research and development expenditures was primarily due to the reduced research and development activities in Fiscal 2010. There was no new research and development study initiated since June 2008. The following provides a summary of the research and development expenditures by programs for the two most recent fiscal years and since inception:

Project	For the year ended March 31,		Cumulative from
	2010	2009	Inception to March 31, 2010
PAC-113			
Expense	\$84,472	\$1,154,902	\$5,553,618
Recovery	—	(865,287)	(865,287)
	84,472	289,615	4,688,331
PAC-G31P	120,496	272,306	2,220,099
Other Projects	(2,569)	24,676	193,177
	\$202,399	\$586,597	\$7,101,607

PAC-113

Development expenses, net of expense recovery, for Fiscal 2010 decreased by \$205,143, as compared to those incurred in Fiscal 2009. The reduced development expenditures were mainly due to our decision to defer further development of PAC-113 until a collaborative partner is secured and new funding is raised. We completed our Phase IIb clinical study in June 2008 and obtained favorable results from this clinical study. Using these results and other data we accumulated, we secured a collaborative partner, New Summit Bio, for the Chinese region. We are seeking for collaborative partners in North America regions.

The development expenditures in Fiscal 2010 include annual license fees, as well as expenditures associated with the continuation of stability studies and clinical trial insurance. The development expenditures in Fiscal 2009 include annual license fees, as well as expenditures associated with the completion of Phase IIb clinical trial and the continuation of stability studies and clinical trial insurance. In Fiscal 2009, as part of our financial settlement with a

vendor, we recovered \$747,214 of the Phase IIb clinical trial expenditures. This expense recovery, together with the underlying accretion interest expense of \$118,073, reduced total expenditures for PAC-113 in Fiscal 2009 by \$865,287.

For the fiscal year ending March 31, 2011 (“Fiscal 2011”), we expect to incur research and development expenditures for PAC-113 through our collaborative partnership with New Summit Bio. New Summit Bio and Pacgen are currently focusing on fund raising activities in China and plan to schedule a meeting with the sFDA shortly after the completion of fund raising. Based on the analysis of New Summit Bio, we expect that certain bridging studies are required prior to initiation of a pivotal clinical trial in China. These bridging studies would include studies, at both the pre-clinical and clinical level, conducted in accordance with the standards of sFDA

PAC-G31P

Research expenditures for Fiscal 2010 decreased by \$151,810, as compared to those incurred in Fiscal 2009. We have not initiated any new research studies for this program since Fiscal 2008. Research expenditures in Fiscal 2010 were primarily related to patenting and balance of research commitment under license. Research expenditures in Fiscal 2009 were related continuation of certain research studies and patenting.

For Fiscal 2011, we expect to incur minimal research and development expenditures for PAC-G31P until a joint-venture partner is secured. Patenting related expenditures, which our licensor has agreed to finance as part of our settlement arrangement with them, will be the primarily the research expenditures expected in Fiscal 2011.

General and Administration Expenditures

General and administration expenditures for Fiscal 2010 were \$581,420, compared to \$999,832 for Fiscal 2009. The decrease of \$418,412 was primarily attributable to the implementation of our cost control programs. The following provides a summary of the general and administration expenditures for the two most recent fiscal years and since inception:

General and Administration Expenditures	For the year ended March 31,		Cumulative from
	2010	2009	Inception to March 31, 2010
Salaries and benefits	\$ —	\$307,808	\$2,440,714
Management fees	189,408	—	189,408
Consulting and professional fees	83,760	466,382	1,907,038
Travel and accommodation	54,198	48,202	391,606
Business development and market research	58,490	—	194,640
Other general overhead	195,564	177,440	1,484,814
	<u>\$581,420</u>	<u>\$999,832</u>	<u>\$6,608,220</u>

In comparative to the same line item in Fiscal 2009:

- Salaries and benefits declined by \$307,808 due to our arrangement to replace all full time employment positions with consultant positions. All consultant positions were compensated by stock based compensation in Fiscal 2010.
- Management fees in Fiscal 2010 were related to management services acquired through the Xphase Acquisition. The purchase price of Xphase was recorded as prepaid management fees and amortized over one-year service period starting April 1, 2009.
- Consulting and professional fees declined by \$382,621 in Fiscal 2010, mainly due to our cost cutting measures to internalize our business development activities. The decline in consulting and professional fees is also due to professional fees incurred for an abandoned merger in Fiscal 2009.
- Travel and accommodation expenses were relatively the same in both fiscal years.
- The business development and market research expenses in Fiscal 2010 were related to an extension fee paid to preserve a right to acquire certain intellectual properties, which we subsequently abandoned.

- The increased in other general overhead by \$18,124 primarily related to allocation of certain internal overhead from research and development to general administration due the change of our operational focus.

For Fiscal 2011, we expect our general and administration expenditures to be lower than those incurred in Fiscal 2010. Expenditures associated with the Xphase Acquisition and purchase right extension fees in Fiscal 2010 are non-recurring.

Stock-based Compensation

Stock-based compensation, a non-cash item included in operating expenses, reduced to \$146,053 in Fiscal 2010, compared to \$160,687 in Fiscal 2009. Stock-based compensation attributable to research and development operations and general administration for Fiscal 2010 was \$27,314 [2009 - \$62,391] and \$118,739 [2008 - \$98,296], respectively. The decrease in stock-based compensation was primarily due to the reduced number of options vested during Fiscal 2010 as compared to Fiscal 2009.

Amortization and Write-Downs

Amortization related to property and equipment for Fiscal 2010 reduced to \$22,118 from \$26,842 for Fiscal 2009. The decrease of \$4,424 was due to disposition of certain property and equipment in Fiscal 2009. Amortization related to technology, licenses and rights for Fiscal 2010 reduced to \$191,974 from \$236,974 for Fiscal 2009 for a difference of \$45,000 due to a write-down of intangible asset of \$244,408 in Fiscal 2010.

In Fiscal 2010, we recorded a write-down of \$244,408, the remaining net book value of PAC-G31P technology as a result of our impairment test of long-lived assets. In the same fiscal year, we also wrote off \$192,958 of advance paid to a vendor as a result of the uncertainty surrounding continuation of our planned research and development studies.

Other Loss

Other loss in Fiscal 2010 was \$43,985, compared to \$271,708 in Fiscal 2009. The decrease of \$227,723 in other loss was mainly due to the increased interest and other income by \$7,208 and increased foreign exchange gain by \$387,029 and decreased loss on disposal of property by \$6,520 in Fiscal 2010, as compared to those in Fiscal 2009. These credit balances were offset by increased financing and interest expenses by \$173,034 in Fiscal 2010, as compared to those in Fiscal 2009.

The increase in interest and other income was due to rental income we generated from subleasing part of our office facility. Foreign exchange gain increase was mainly due to the appreciation of the Canadian dollar, in comparison with the US dollar, on our US denominated other payable as well as accounts payable and accrued liabilities. The increase in financing and interest expenses in Fiscal 2010 was due to the accretions of interest of other payable and convertible debentures issued during Fiscal 2009.

SUMMARY OF QUARTERLY RESULTS

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

	4th Quarter Ended Mar 31, 2010 ("Q4 2010")	3rd Quarter Ended Dec 31, 2009 ("Q3 2010")	2nd Quarter Ended Sep 30, 2009 ("Q2 2010")	1st Quarter Ended Jun 30, 2009 ("Q1 2010")
Research and development, net of recovery	\$(131,102)	\$(19,675)	\$(14,916)	\$(36,706)
General and administration	(164,284)	(103,445)	(259,210)	(54,481)
Stock based compensation	(19,316)	(109)	(95,933)	(30,695)
Amortization and write-downs	(217,256)	(307,675)	(63,341)	(63,186)
Other income (loss)	17,127	(37,277)	100	(23,935)
Net loss for the period	(514,831)	(468,181)	(433,300)	(209,003)
Basic and diluted loss per common share	\$(0.03)	\$(0.02)	\$(0.02)	\$(0.01)

	4th Quarter Ended March 31, 2009 ("Q4 2009")	3rd Quarter Ended Dec 31, 2008 ("Q3 2009")	2nd Quarter Ended Sep 30, 2008 ("Q2 2009")	1st Quarter Ended Jun 30, 2008 ("Q1 2009")
Research and development, net of recovery	\$(87,804)	\$537,658	\$(155,264)	\$(881,187)
General and administration	(118,457)	(277,673)	(298,815)	(304,887)
Stock based compensation	40,879	(51,410)	(91,346)	(58,810)
Amortization and write-downs	(64,895)	(66,307)	(66,307)	(66,307)
Other income (loss)	(80,710)	(163,966)	(30,722)	3,690
Net loss for the period	(310,987)	(21,698)	(642,454)	(1,307,501)
Basic and diluted loss per common share	\$(0.02)	\$(0.00)	\$(0.04)	\$(0.07)

Summary of Quarterly Results

The primary factors affecting the magnitude of our losses in the various quarters were (i) the implementation of our cost control programs in different stages since Fiscal 2008 (ii) recovery of part of our Phase IIB clinical expenditures and an underlying accretion interest expense in Fiscal 2009, and (iii) expenditures associated with our PAC-113 Phase I/II and Phase IIB clinical trials in Fiscal 2009.

Research and development expenditures were maintained at relatively the same level throughout Fiscal 2010, except Q4 2010 when we recorded the remaining research commitments of \$100,000 under our license agreement with the University of Saskatchewan. Research and development expenditures were primarily related to patenting, license maintenance and continuation of stability studies and clinical insurance. There was no new research and development study initiated since June 2008. General and administration expenditures were higher in Q2 2010, as compared to Q1 2010, primarily due to (i) inclusion of six-month amortization of management fees of \$94,704 following the completion of the Xphase Acquisition in June 2009 and (ii) an extension fee of \$58,490 paid to preserve a right to acquire certain intellectual properties, which we subsequently abandoned. Stock based compensation was higher in Q2 2010 due to the 1.9 million options grant to management consultants, including Xphase principals, to support our ongoing operations. These options were vested immediately upon grant. The increased amortization and write-downs in Q3 2010 was due to the write-down of \$244,408, the remaining net book value of PAC-G31P technology as a result of our impairment test of long-lived assets. The increased amortization and write-downs in Q4 2010 was due a wrote-off of \$192,958 of advance paid to a vendor as a result of the uncertainty surrounding continuation of our planned research and development studies.

Research and development expenditures were in a declining trend throughout Fiscal 2009 as a result of (i) our decision to focus our development efforts primarily on the completion of PAC-113 Phase IIb clinical study and to scale down of PAC-G31P research and development activities (ii) further reduction in research and development activities following the completion of the Phase IIb study in June 2008, and (iii) a recovery of \$747,214 (approximately US\$604,000) of expenditure associated with PAC-113 Phase IIb in the second half of 2009 and an underlying accretion of interest of \$118,073. General and administration expenditures were also in a declining trend as a result of our cost control programs. The cost control programs in Fiscal 2009 involved (i) replacement of five full-time positions with two consultant positions (ii) appointment of Chairman of our board of directors to act as our interim President and Chief Executive Officer, and (iii) elimination of all director fees effective February 2008.

FOURTH QUARTER RESULTS

	4th Quarter Ended	4th Quarter Ended
	Mar 31, 2010	March 31, 2009
Research and development, net of recovery	\$(131,102)	\$(87,804)
General and administration	(164,284)	(118,457)
Stock based compensation	(19,316)	40,879
Amortization and write-downs	(217,256)	(64,895)
Other income (loss)	17,127	(80,710)
Net loss for the period	(514,831)	(310,987)
Basic and diluted loss per common share	\$(0.03)	\$(0.02)

The increase of 203,844 in net loss was primarily due to increases in operating expenses of \$301,681 in Q4 2010, as compared to those in Q3 2009. The increased operating expenses were offset by an increase of \$97,837 in other income.

The increase in research and development expenses by \$43,298 was primarily due to the recognition of the remaining research commitments of \$100,000 under our license agreement with the University of Saskatchewan. There was no new research and development study initiated since June 2008. Further development on PAC-113 and PAC-G31P would be subject to funding from existing partner or new partners.

The increase in general and administration expenses by \$45,827 was primarily attributable to the quarterly amortization of management fees of \$47,352 from the Xphase Acquisition. Stock based compensation increased by \$60,195 due to year-end adjustments to fair value estimates for options granted to consultants in Fiscal 2009.

The increase in amortization and write-downs by \$152,361 was primarily due to the \$192,958 write-off of advance paid to a vendor, as a result of the uncertainty surrounding continuation of our planned research and development studies. This increase was offset by a decrease in amortization of intangible assets due to a write down of net book value of PAC-G31P technology in Q3 2010.

Other income increased by \$97,837 mainly due to increase in foreign exchange gain as a result of appreciation of the Canadian dollar, in comparison with the US dollar, on our US denominated other payable as well as accounts payable and accrued liabilities. The increase in foreign exchange gain was offset by a reduction in accretion expenses of other payable and convertible debentures due to maturities of some of these financial instruments.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

Since inception, our operational activities were financed mainly from equity financings, other than issuance of convertible debentures in Fiscal 2009 and the cash acquired from IL Therapeutics Inc. in fiscal year ended March 31, 2007.

Cash used in operating activities for Fiscal 2010 was \$258,376, compared to \$1,752,558 for Fiscal 2009. Cash used in operating activities was comprised of net loss, add-backs or adjustments not involving cash and net change in non-cash working capital items. The decrease of \$1,494,182 in cash used in operating activities in Fiscal 2010, as compared to Fiscal 2009, was primarily due to a decline in operating expenses requiring cash and the delay of payments to trade accounts. Cash used in investing activities in Fiscal 2010 was \$22,654, compared to \$3,775 in Fiscal 2008. The increase of cash used in investing activities was primarily due to cash used in connection to the Xphase Acquisition.

Cash used in financing activities in Fiscal 2010 was \$19,581, compared to \$614,500 cash provided by financing activities in Fiscal 2009. Cash used in financing activities in Fiscal 2010 was associated with the Financing of \$600,000 of Subscription Receipts closed in May 2010. Cash provided by financing activities in Fiscal 2009 was from our private placement financing of convertible debentures.

As of March 31, 2010, we had a working capital deficiency of \$2,112,280 (March 31, 2009 - \$1,023,213). Given the working capital deficiency and our contractual obligations as of March 31, 2010, there is a risk that we may not be able to meet our financial obligations and sustain our operations over the next year without raising new capital and a financial restructuring.

Subsequent to Fiscal 2010, we closed the Financing of \$600,000 of Subscription Receipts in May 2010. Of the Subscription Receipts, \$300,000 was collected in our trust account and recorded as restricted cash as of March 31, 2010. In connection to this Financing, we initiated the Financial Restructuring and agreed to seek shareholder approval for the Share Consolidation. Under the Financing, we issued an aggregate of 10 million Subscription Receipts at a price of \$0.06 per Subscription Receipt for gross proceeds of \$600,000. On June 8, 2010, following the completion of the Share Consolidation, all Subscriptions Receipts were automatically converted into 10,000,001 common shares.

As of the date of this MD&A, we have completed substantially all of our negotiations with our creditors. The Financial Restructuring involves restructuring of approximately \$2.3 million of indebtedness and commitments as detailed in *note 21* to our audited consolidated financial statements for Fiscal 2010 and summarized in the following table:

	Indebtedness on Date of Settlement	Form of Settlements			
		Common Shares	Cash	Cash Discounts or Credits	Other
		\$	\$	\$	\$
Convertible debentures ^[ii]	658,289	658,289	—	—	—
Other payable ^[iii]	597,568	—	203,160	394,408	—
Demegen Sub-license ^[iv]	179,796	157,327	22,469	—	—
US License ^[v]	292,104	—	—	—	292,104
Other liabilities ^[vi]	562,730	69,281	145,550	255,043	92,856
	2,290,487	884,897	371,179	649,451	384,960

[i] All US denominated amounts were converted into Canadian Dollars at the closing rate on March 31, 2010 of CAD\$1.00 = US\$0.9844.

[ii] On June 8, 2010, we issued 10,971,485 common shares at price of \$0.06 per share to settle these debentures

[iii] On July 7, 2010, we issued a payment of US\$200,000 (\$203,160) to settle our indebtedness with this creditor.

[iv] On June 8, 2010, we issued a payment of US\$22,120 (\$22,469) and 700,000 common shares at an average price of \$0.22 per share to settle our indebtedness and certain upcoming license commitments with Demegen, Inc for our PAC-113 license.

- [v] In June 2010, we completed our negotiation with the University of Saskatchewan (the “University”), our licensor for PAC-G31 technology. The parties agreed that the University will be entitled to up to 20% of new capital raised by our subsidiary, IL Therapeutics Inc. and that the indebtedness plus interest shall be repaid in full by June 30, 2012.
- [vi] The aggregate amount of indebtedness to other creditors was settled in various arrangements we entered into or agreed to subsequent to Fiscal 2010, as detailed in *note 21 [b][v]* to our consolidated financial statements.

We expect to use up to \$400,000 of the net proceeds from the Financing to settle its obligations from the Financial Restructuring. We estimate that the remaining net proceeds should be sufficient to finance our core business operations and financial obligations over the next fiscal year.

Contractual Obligations

As of March 31, 2010 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	2011	2012-2013	2014-2015	Thereafter
Operating leases	\$50,131	\$50,131	—	—	—
License agreements ⁽¹⁾	304,740	50,790	101,580	101,580	50,790
Total	\$354,871	\$100,921	\$101,580	\$101,580	\$50,790

⁽¹⁾ Pursuant to the Demegen Sublicense, we have a commitment to pay minimum annual royalties of US\$50,000 as described in *note 16[c]* of our annual consolidated financial statements for Fiscal 2010. This commitment is converted into Canadian Dollars at the closing rate on March 31, 2010 of CAD\$1.00 = US\$0.9844. On June 8, 2010, we issued 150,000 common shares as payment for US\$20,000 (\$20,316) of the minimum annual royalties for Fiscal 2011.

Capital Risk Management

Our objectives when managing capital are to ensure our ability to continue as a going concern in order to pursue the development of our drug candidates and the ultimate sale or out-license of these drug candidates to pharmaceutical companies. We attempt to maximize return to shareholders by minimizing shareholder dilution and, when possible, utilizing non-dilutive funding arrangements, such as collaborative partnership arrangements.

We include convertible debentures and equity comprised of issued share capital, contributed surplus and deficit in the definition of capital. Other than the issuance of convertible debentures in Fiscal 2009, we have financed our capital requirements primarily through share issuances since inception.

We manage our capital structure and make adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. We may issue new shares or raise debt. We are not subject to any externally imposed capital requirements and the overall strategy with respect to capital management remains unchanged from the preceding fiscal year.

OUTSTANDING SHARE CAPITAL

As of July 19, 2010, there were 41,690,490 common shares issued and outstanding, 2,311,367 common share purchase warrants outstanding at a weighted average exercise price of \$0.60 per common share, and 1,480,000 incentive stock options outstanding at a weighted average exercise price of \$0.88.

OFF-BALANCE SHEET ARRANGMENTS

We have no off-balance sheet arrangements.

FINANCIAL INSTRUMENTS

Our financial instruments consist of the following:

	March 31, 2010	March 31, 2009
	\$	\$
<i>Financial assets</i>		
Cash and cash equivalents, measured at fair value	6,065	308,871
Restricted cash, measured at fair value	314,295	—
Amounts receivable, measured at amortized cost	2,277	15,155
<i>Financial Liabilities</i>		
Accounts payable and accrued liabilities, measured at amortized cost	933,320	911,688
Other payable, measured at amortized cost	589,164	625,423
Convertible debentures, measured at amortized cost	613,063	531,831
Subscription receipts, measured at amortized cost	300,000	—

Cash and equivalents and restricted cash are classified as held for trading. Amounts receivable are classified as loan and receivable. Accounts payable and accrued liabilities, subscription receipts, convertible debentures and other payable are classified as other financial liabilities.

Credit risk

Credit risk is the risk of a financial loss to us if counterparty to a financial instrument of ours fails to meet its contractual obligations. Credit risk arises from our cash on deposits with banks, and from time to time due to its holdings of short term investments. The carrying value of our cash and cash equivalents, restricted cash and accounts receivable is our maximum credit exposure at March 31, 2010. We have investment policies to mitigate against credit risks, and hold our cash balances with major banks in Canada. The restricted cash is cash balances held in trust accounts with major banks in Canada that is either subject to certain release conditions or the closing of a financing. Amounts receivable primarily consist of good and services tax due from the federal government of Canada.

Liquidity risk

Liquidity risk is the risk that we will not be able to meet our obligations as they come due. Our exposure to liquidity risk is dependent on our purchasing commitments and obligations and our ability to raise funds to meet commitments and sustain operations. We manage liquidity risk by continuously monitoring its actual and forecasted working capital requirements, and actively managing its financing activities. A discussion on our liquidity is provided in “*Liquidity and Capital Resources*” section of this MD&A.

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. We are exposed to interest rate risk on our convertible debentures and other payables which bear floating interest rates.

Currency risk

We are exposed to the financial risk related to the fluctuation of foreign exchanges rates. We operate primarily within Canada although a portion of our expenses are incurred in United States dollars (“US dollar”). We have not entered into foreign exchange derivative contracts. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar could have an effect on the our results of operations, financial position or cash flows.

RELATED PARTY TRANSACTIONS

We incurred \$503 for consulting services provided by directors in the preceding fiscal year. These transactions were incurred in the normal course of business and recorded at their exchange amounts. As of March 31, 2010, we had the following amounts due to related parties:

	March 31, 2010	March 31, 2009
	\$	\$
Accounts payable to directors, officers, or contract managers in connection to business expense reimbursements	49,786	1,666
Interest payable	27,277	2,467
Debentures held by officers or directors ⁽¹⁾	386,333	243,000
	463,396	247,133

⁽¹⁾ During the year ended March 31, 2010, two debenture holders, who hold convertible debentures of \$143,333, were appointed to be our director or officer.

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 future income tax 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 the following:

Intangible Assets

Intangible assets are comprised of 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 lives 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.

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 earliest of the performance commitment date, service delivery date, or the grant date if they are fully vested and non-forfeitable.

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 the risk-free interest rate. Changes in these assumptions can materially affect the measurement of the estimated fair value of our stock options, hence our results of operations.

CHANGE OF ACCOUNTING POLICIES

Effective April 1, 2009, we adopted CICA issued Section 3064, “Goodwill and Intangible Assets”, which replaces Section 3062, “Goodwill and Other Intangible Assets” and Section 3450, “Research and Development Costs”. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. The adoption of these new standards did not have a material impact on our consolidated financial statements.

Effective April 1, 2009, we adopted CICA Emerging Issues Committee Abstract 173, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities”. This guidance requires that an entity's own credit risk and the credit risk of the counterparty be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to our financial periods ending on or after January 20, 2009 with retrospective application without restatement of prior periods. The adoption of these new standards did not have a material impact on our consolidated financial statement.

Effective March 31, 2010, we adopted amendments to CICA Section 3862, “Financial Instruments - Disclosures”. These amendments include enhanced disclosures relating to the fair value of financial instruments and the liquidity risk associated with financial instruments. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of the three hierarchy levels as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2 – Inputs, other than quoted prices in active market, that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The new disclosure requirements pertaining to this section are contained in note 5 of these consolidated financial statements.

Amendments to CICA Section 3855 “Financial Instruments – Recognition and Measurement” were made to converge with international standards for impairment of debt instruments by changing the categories into which debt instruments are required or permitted to be classified. The adoption of these new standards did not have material impact on our consolidated financial statement.

FUTURE ACCOUNTING STANDARDS

In January 2009, the CICA issued Section 1601 “*Consolidations*” and Section 1602 “*Non-controlling Interests*”. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are applicable to our interim and annual financial statements beginning on January 1, 2011. We are in the process of evaluating the impact of these standards.

In January 2009, the CICA issued Section 1582 “*Business Combinations*” replacing Section 1581 “*Business Combinations*”. The new section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The section is applicable to our interim and annual financial statements of the Company beginning on or January 1, 2011, with early adoption permitted. We are in the process of evaluating the impact of this standard.

In February 2008, the Canadian Accounting Standards Board (the “AcSB”) confirmed that Canadian GAAP for public companies will be converged with International Financial Reporting Standards (“IFRS”) for accounting periods commencing on or after January 1, 2011. The Company will be required to report using IFRS commencing with its unaudited financial statements for the three months ended June 30, 2011, which must include the interim results for the three months ended June 20, 2010 prepared on the same basis. IFRS uses a conceptual framework similar to Canadian GAAP, but there are some significant differences on recognition, measurement and disclosures.

In fiscal year ending March 31, 2011, we plan to complete the process to transition to IFRS from the current Canadian GAAP. The first phase consists of an analysis of the impact of IFRS on Canadian GAAP as they apply to the Company. This analysis will take into account any potential impact on our current accounting policies, financial disclosures, information systems, internal control systems and on its business activities. An assessment of related training requirements will also be required. At this time, we are unable to indicate the consequences of this transition on our operations and our consolidated financial statements.

RISKS AND UNCERTAINTIES

Due to the inherent nature of our business, investing in our securities involves a high degree of risk and uncertainties. Such risk 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, reliance on our collaborative partner, New Summit Bio, to raise funding for PAC-113 development for the Chinese market, dependence on lack of collaborative partners for PAC-113 regions outside of China, lack of collaborative partners for PAC-G31P at this time, dependence on collaborative partners to develop and commercialize our products, our ability to protect our intellectual property and our ability to stay competitive in a rapid changing industry environment.

We are in the early stage of development and have limited operating history. We have not generated any revenues to date from product sales, nor do we expect any product revenues for the immediate future. To achieve profitable operations, we must successfully develop our products that are currently in the research and development phase with collaborative partners. These product developments may take a number of years and involve significant risks and uncertainties. As a result, substantial capital is required to finance our product developments through collaborative partnerships.

The global economic crisis in recent years has led to a substantial reduction in capital in the credit markets, especially for companies in the development stage like Pacgen. This economic market environment has also affected our ability to secure collaborative partnerships that provide upfront licensing revenue or immediate funding for product developments. We are currently working with New Summit Bio to raise funding for PAC-113 development in China. We are also seeking collaborative partners for PAC-113 regions outside of China and a joint-venture partner to conduct certain preclinical studies to add data to our PAC-G31P package for out-licensing purposes. There can be no assurance that these partnership objectives can be met on a timely basis, or at all.

Despite the completion of our recent financing and financial restructuring, we have limited working capital on hand. We estimate that our current working capital would be sufficient to cover our core business operations and financial obligations over the fiscal year ending March 31, 2011. However, our funding requirements may change. We may be required to arrange financing earlier than expected. There can be no assurance that such financing will be available on favorable terms, if at all. If we are unable to obtain additional financing, we may be required to curtail or discontinue our operations.

We are also subject to other significant risks and uncertainties listed in the section entitled “Risk Factors” in our Annual Information Form dated July 31, 2008.