

Consolidated Financial Statements

Pacgen Biopharmaceuticals Corporation

(a development stage enterprise)

(Expressed in Canadian dollars)

March 31, 2011 and 2010

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pacgen Biopharmaceuticals Corporation

We have audited the accompanying consolidated financial statements of Pacgen Biopharmaceuticals Corporation (the "Company"), which comprise the consolidated balance sheets as at March 31, 2011 and 2010, and the consolidated statements of operations and comprehensive loss, cash flows and shareholders' deficiency for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pacgen Biopharmaceuticals Corporation as at March 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company incurred a net loss of \$421,468 during the year ended March 31, 2011 [for the year ended March 31, 2010 - \$1,625,315] and, as of that date has an accumulated deficit of \$16,877,104 [March 31, 2010 - \$16,455,636]. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, Canada,
July 29, 2011

Ernst + Young LLP

Chartered Accountants

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, 2011 \$	March 31, 2010 \$
ASSETS		
Current		
Cash and cash equivalents	45,216	6,065
Restricted cash [note 7]	—	314,295
Amounts receivable	8,211	2,277
Prepaid expenses and other	4,167	4,088
Total current assets	57,594	326,725
Deferred financing costs	—	5,286
Property and equipment [note 8]	6,804	47,069
Intangible assets [note 9]	—	328,847
Total assets	64,398	707,927
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current		
Accounts payable	21,356	617,100
Accrued liabilities	120,580	316,221
Contingent payments [notes 10[a][i], [v] and 11]	186,582	—
Other payable [note 11]	—	589,164
Convertible debentures [note 12]	—	613,063
Subscription receipts [note 14[a][i]]	—	300,000
Deferred leasehold inducement	—	3,458
	328,518	2,439,005
Long-term obligations [note 13]	328,559	—
Total liabilities	657,077	2,439,005
Commitments and contingencies [notes 15 and 16]		
Shareholders' deficiency		
Share capital [note 14]		
Issued and outstanding:		
Common shares [note 14[a]]	14,617,265	13,162,118
Preferred shares [note 14[b]]	—	—
Contributed surplus	1,667,160	1,562,440
Deficit	(16,877,104)	(16,455,636)
Total shareholders' deficiency	(592,679)	(1,731,078)
Total liabilities and shareholders' deficiency	64,398	707,927

See accompanying notes

On behalf of the Board:

/s/ Telvin Ju
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, 2011 \$	Year ended March 31, 2010 \$	Cumulative from Inception to March 31, 2011 \$
EXPENSES			
Research and development [note 18]	194,809	202,399	8,161,703
General and administration [note 19]	177,475	581,420	6,785,695
Expense recoveries and financial restructuring credits [note 10]	(400,841)	—	(1,266,128)
Stock based compensation [note 14[d]]	104,720	146,053	1,338,633
Amortization of property and equipment [note 8]	20,512	22,118	128,027
Amortization of intangible assets [note 9]	56,975	191,974	960,871
Write-down of intangible assets [notes 9[a] and [b]]	271,872	244,408	516,280
Write-off of prepaid expenses and other [note 10[a][ii]]	—	192,958	216,325
	425,522	1,581,330	16,841,406
OTHER			
Interest and other income	39,738	46,331	355,546
Financing and interest expenses	(16,498)	(225,616)	(294,696)
Loss on disposal of property and equipment	(9,753)	—	(25,362)
Foreign exchange gain (losses)	(9,433)	135,300	(309,186)
	4,054	(43,985)	(273,698)
Loss before income taxes	(421,468)	(1,625,315)	(17,115,104)
Future income tax recovery	—	—	238,000
Net loss and comprehensive loss	(421,468)	(1,625,315)	(16,877,104)
Basic and diluted loss per common share	(0.01)	(0.09)	
Weighted average number of common shares outstanding [note 14]	37,477,110	18,529,881	

See accompanying notes

Pacgen Biopharmaceuticals Corporation
(a development stage enterprise)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in Canadian dollars)

	Year ended March 31, 2011 \$	Year ended March 31, 2010 \$	Cumulative from Inception to March 31, 2011 \$
OPERATING ACTIVITIES			
Loss for the period	(421,468)	(1,625,315)	(16,877,104)
Add items not affecting cash:			
Accretion of convertible debentures	—	82,211	90,488
Accretion of other payable	—	93,126	102,801
Amortization of property and equipment	20,512	22,118	128,027
Amortization of intangible assets	56,975	191,974	960,871
Annual royalty payment settled by common shares	21,139	—	21,139
Deferred leasehold inducement	(3,458)	(6,917)	(18,444)
Expense recoveries and financial restructuring credits	(400,841)	—	(400,841)
Future income tax recovery	—	—	(238,000)
Loss on disposal of property and equipment	9,753	—	25,362
Management fees paid by equity	—	189,408	189,408
Stock based compensation	104,720	146,053	1,338,633
Unrealized foreign exchange (gain) loss	14,940	(128,660)	177,137
Write-off of prepaid expenses and other	—	192,958	216,325
Write-down of intangible assets	271,872	244,408	516,280
	(325,856)	(598,636)	(13,767,918)
Changes in non-cash working capital items relating to operations:			
Restricted cash	14,295	(14,295)	—
Amounts receivable	(5,934)	13,001	135,406
Prepaid expenses	(580)	229,326	(297,887)
Accounts payable, accrued liabilities and contingent payments	(13,347)	97,933	648,376
Other payable	(210,800)	—	417,180
Cash used in operating activities	(542,222)	(272,671)	(12,864,843)
INVESTING ACTIVITIES			
Acquisition of assets	—	(21,341)	1,211,973
Proceeds from disposal of property and equipment	10,000	—	15,775
Purchase of property and equipment	—	(1,313)	(180,516)
Purchase of intangible assets	—	—	(59,743)
Leasehold inducement	—	—	18,444
Cash provided by (used in) investing activities	10,000	(22,654)	1,005,933
FINANCING ACTIVITIES			
Issuance of common and preferred shares, net of share issuance costs	583,297	—	10,602,182
Issuance of convertible debentures for cash	—	—	614,500
Deferred financing costs	5,286	(5,286)	—
Financial restructuring transaction costs	(21,481)	—	(21,481)
Restricted cash	300,000	(300,000)	—
Issuance of subscription receipts	(300,000)	300,000	—
Advance from related party	—	—	694,836
Cash provided by (used in) financing activities	567,102	(5,286)	11,890,037
Increase (decrease) in cash and cash equivalents	34,880	(300,611)	31,127
Effect on foreign exchange rate changes	4,271	(2,195)	14,089
Cash and cash equivalents, beginning of period	6,065	308,871	—
Cash and cash equivalents, end of period	45,216	6,065	45,216
Other supplemental cash flow information			
Common shares and preferred shares issued for technology	—	—	2,480,000
Common shares and preferred shares issued as financing cost	—	—	204,090
Common shares issued as settlement for indebtedness [note 14 [a] [iii]]	893,331	—	893,331
Common shares issued to acquire assets and services [note 6]	—	189,408	189,408
Common shares issued to settle related party advance	—	—	718,836

See accompanying notes

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**CONSOLIDATED STATEMENTS
OF SHAREHOLDERS' DEFICIENCY**

(expressed in Canadian dollars)

	Common Shares <i>[note 15]</i>		Preferred Shares		Contributed Surplus	Deficit	Total
	Number	Amount	Number	Amount			
		\$		\$			
	Number	\$	Number	\$	\$	\$	\$
Balance, March 31, 2009	17,572,347	13,012,118	—	—	1,415,409	(14,830,321)	(402,794)
Shares issued to acquire assets <i>[note 6]</i>	1,500,000	150,000	—	—	—	—	150,000
Equity component of a private placement of convertible debentures	—	—	—	—	978	—	978
Stock based compensation <i>[note 14[d]]</i>	—	—	—	—	146,053	—	146,053
Net loss for the period	—	—	—	—	—	(1,625,315)	(1,625,315)
Balance, March 31, 2010	19,072,347	13,162,118	—	—	1,562,440	(16,455,636)	(1,731,078)
Shares issued pursuant to a private placement <i>[note 14[a][i]]</i>	10,000,001	583,297	—	—	—	—	583,297
Shares issued pursuant to a financial restructuring <i>[notes 10 and 14[a][ii]]</i>	12,767,271	871,850	—	—	—	—	871,850
Stock based compensation <i>[note 14[d]]</i>	—	—	—	—	104,720	—	104,720
Net loss for the period	—	—	—	—	—	(421,468)	(421,468)
Balance, March 31, 2011	41,839,619	14,617,265	—	—	1,667,160	(16,877,104)	(592,679)

See accompanying notes

Pacgen Biopharmaceuticals Corporation
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**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

March 31, 2011 and 2010

(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 technology transfer company focused on the commercial development of novel therapeutic drug candidates up to Phase II, proof of concept efficacy in human. The Company identifies innovative therapeutic drug candidates globally, and develops these drug candidates in accordance with the US Food and Drug Administration regulatory standards to feed the product development pipelines of the pharmaceuticals industry.

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from the carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

As of March 31, 2011, the Company has not generated any revenue from its operations and has accumulated a deficit of \$16,877,104. Therefore, the Company is considered to be in the development stage. Given its working capital deficiency as of March 31, 2011 of \$270,924 (2010 - \$2,112,280), the Company may not be able to meet its financial obligations and sustain its operations over the next year in the normal course, all of which cast substantial doubt about the Company’s ability to continue as a going concern without raising new capital. 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. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. Accordingly, these financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not used then the adjustments required to report the Company’s assets and liabilities on a liquidation basis could be material to these financial statements.

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. Despite improvements in the credit markets in the recent months, smaller biotechnology companies, which are generally viewed as higher risk investments, continue to encounter difficulty in raising new capital. This economic environment has also posed significant challenges for these companies to secure collaborative partnerships that would provide upfront licensing revenue or immediate funding for research and development projects. There is significant competition within the biotechnology industry for collaborative partnerships since majority of the smaller companies were unable to fund their research and development projects on their own. In view of these challenges, in order to preserve capital and maintain going concern, the Company continues to focus its operations exclusively in business development seeking for joint-venture and collaborative partners for its research and development projects, as well as assessing new business opportunities. The Company has phased in various cost cutting programs since 2008. The Company currently operates with minimal budget with shareholder managers, who are compensated with stock options, running its business operations. The Company has recently strengthened its financial position by raising new capital through bridge financings, negotiating with major creditors to reduce its liabilities and completing a financial restructuring.

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1. NATURE OF OPERATIONS AND GOING CONCERN (cont'd.)

During the year ended March 31, 2011, the Company completed a private placement financing of \$600,000 (the "Private Placement Financing") [note 14[a][i]] and a financial restructuring to reduce its indebtedness by \$2,373,853 (the "Financial Restructuring") [notes 10 and 14[a][ii]]. In connection with the Private Placement Financing and the Financial Restructuring, the Company effected a share consolidation of its common shares on the basis of one post-consolidation common share for every two pre-consolidation common shares (the "Share Consolidation") [note 14[a][iii]]. On March 14, 2011, the Company announced that it has initiated a corporate transformation by integrating a diagnostics division into its corporate platform.

As part of its corporate transformation, the Company has entered into agreement with General Biologicals Corporation ("GBC") for exclusive distribution right to market and distribute the entire product portfolio of GBC in regions of North America and China. The Company has also signed a non-binding letter of intent to acquire the business and operating assets of CurieMed Corporation ("CurieMed"), a wholly owned subsidiary of GBC. CurieMed provides molecular diagnostics testing and imaging services such as PET/CT scans. The Company plans to leverage these arrangements to transform into a self-sustained revenue generating company. This acquisition remains subject to the negotiation of a definitive agreement between the Company and CurieMed, and certain other conditions. The Company plans to raise a bridge financing to finance its operations to the completion of the acquisition.

The Company expects that the acquisition of CurieMed would generate cash to finance its business operations and financial obligations. The Company plans to continue to seek additional collaborative partners to finance and develop its drug candidates, and to market CurieMed's services and GBC's products.

2. SIGNIFICANT ACCOUNTING POLICIES

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

[a] Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, IL Therapeutics Inc. incorporated in Canada under the Canada Business Corporations Act and Xphase Pharmaceuticals Inc. incorporated under the Business Corporations Act (Ontario). All significant inter-company balances and transactions have been eliminated on consolidation.

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**NOTES TO CONSOLIDATED
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(expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

[b] 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 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.

[c] 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.

[d] Cash and cash equivalents

Cash and cash equivalents consist of unrestricted cash balances in bank accounts and highly liquid financial instruments with a maturity at the date of purchase of 90 days or less. Cash and cash equivalents are classified as held for trading and carried at fair values.

[e] 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
Office furniture and equipment	20% declining balance

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**NOTES TO CONSOLIDATED
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2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

[f] 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.

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.

[g] 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 long-lived assets, then the carrying value is written down to its fair value, based on the related estimated discounted future cash flow. The impairment test conducted during the fiscal year ended March 31, 2011 resulted in the write-off of the remaining balance of intangible assets of the Company [note 9].

[h] Convertible debentures

The Company's convertible debentures are segregated into their debt and equity components at the date of issuance, in accordance with the substance of the contractual agreements. The debt component of the instruments is classified as a liability, and recorded at the present value of the Company's obligations to make future interest payments and settle the redemption value of the instruments. The carrying value of the debt component is accreted to the original face value of the instruments, over the term of the convertible debentures, using the effective interest rate method. The value of the conversion option makes up the equity component of the instruments. The conversion option is recorded using the residual method. Transaction costs associated with convertible debentures financing are expensed in the period in which they are incurred.

[i] 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

[j] 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.

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.

[k] 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.

[l] Investment tax credits

The Company recognizes tax credits for qualifying research and development costs when there is reasonable assurance of realization of such credits. The Company accounts for investment tax credits relating to research and development expenses as a reduction of such expenses and those relating to capital expenditures as reduction of the cost of the assets acquired. No investment tax credits have been recorded in these financial statements as there is no reasonable assurance of realization.

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2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

[m] Stock-based compensation

The Company grants stock options to employees, directors, and consultants pursuant to a stock option plan described in *note 14[d]*. 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 earliest of the performance commitment date, the service delivery date, or the grant date if they are fully vested and non-forfeitable.

[n] Financial instruments

The Company classifies its financial instruments into one of the following categories: held-to-maturity investments, available-for-sale financial assets, held-for-trading financial assets and liabilities, loans and receivables and other financial liabilities. Financial instruments are measured at fair value on initial recognition. After initial recognition, financial instruments are measured at their fair values, except for financial assets classified as held-to-maturity or loans and receivables and other financial liabilities which are measured at cost or amortized cost using the effective interest method.

The Company's financial instruments consist of cash and cash equivalents, restricted cash, amounts receivable, accounts payable, accrued liabilities and contingent payments, other payable, convertible debentures, subscription receipts and long-term obligations. The following is a summary of the classification and measurement method the Company has applied to apply to each of its significant financial instruments:

Financial Instruments	Classification	Subsequent Measurement
Cash and cash equivalents	Held-for-trading	Fair value
Restricted cash	Held-for-trading	Fair value
Amounts receivable	Loan and receivables	Amortized cost using the effective interest method
Accounts payable, accrued liabilities and contingent payments	Other financial liabilities	Amortized cost using the effective interest method
Other payable	Other financial liabilities	Amortized cost using the effective interest method
Convertible debentures	Other financial liabilities	Amortized cost using the effective interest method
Subscription receipts	Other financial liabilities	Amortized cost using the effective interest method
Long-term obligations	Other financial liabilities	Amortized cost using the effective interest method

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2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

[n] Financial instruments (cont'd.)

Net gains or losses for other financial liabilities at initial recognition were recognized in the statement of operations. Transaction costs associated with the convertible debentures are charged as expense.

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, interest rate risk, and currency risk, disclosed in *note 5* of these consolidated financial statements.

[o] 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 effects of outstanding warrants and options disclosed in *note 14* are anti-dilutive for all periods presented.

3. CHANGES IN ACCOUNTING POLICIES

New Accounting Pronouncements

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 interim and annual financial statements of the Company beginning on January 1, 2011. The Company does not expect these new standards would have material impact on its consolidated financial statements.

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 the interim and annual financial statements of the Company beginning on or January 1, 2011, with early adoption permitted. The Company does not expect these new standards would have material impact on its consolidated financial statements.

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

New Accounting Pronouncements (cont'd.)

In March 2009, the Canadian Accounting Standards Board (the “AcSB”) reconfirmed that Canadian public companies must change over to 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 interim financial statements for the three months ending June 30, 2011, which must include the interim results for the three months ending June 30, 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, 2012, the Company plans 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 the Company’s 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. The second phase includes execution of changes to business processes and information systems, and completion of formal authorization processes to approve recommended accounting policy changes and training. At this time, the impact on the Company’s operations and its consolidated financial statements has not yet been determined.

4. CAPITAL DISCLOSURES

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

The Company includes convertible debentures and equity comprised of issued share capital, contributed surplus and deficit in the definition of capital. Other than the recent issuance of convertible debentures, the Company has financed its capital requirements primarily through share issuances since inception.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. The Company may issue new shares or raise debt. The Company is not subject to any externally imposed capital requirements and the overall strategy with respect to capital management remains unchanged from the year ended March 31, 2010.

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**NOTES TO CONSOLIDATED
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(expressed in Canadian dollars)

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, restricted cash, amounts receivable, accounts payable, accrued liabilities and contingent payments, other payable, convertible debentures, subscription receipts and long-term obligations. The Company has applied to each of its significant financial instruments, the classification and measurement method detailed in *note 2[n]*.

The Company is exposed to credit risk, liquidity risk and market risks including interest rate risk and currency risk detailed herein.

[a] Fair values

The fair values of the Company's amounts receivable, accounts payable, accrued liabilities and contingent payments, and subscription receipts approximate their carrying amounts due to their immediate or short-term maturity.

The financial instruments recorded at fair value on balance sheet are cash and cash equivalents and restricted cash. These have been categorized into one of the three categories, based on a fair value hierarchy in accordance with CICA Handbook Section 3862.

Financial Instruments	Fair Value Measurement Using			March 31,
	Level 1	Level 2	Level 3	2011
	\$	\$	\$	\$
<u>Financial assets</u>				
Cash and cash equivalents	45,216	—	—	45,216
Amounts receivable	8,211	—	—	8,211
	53,427	—	—	53,427

[b] Credit risk

Credit risk is the risk of a financial loss to the Company if counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises for the Company from cash on deposits with banks, and from time to time due to its holdings of short term investments. The Company has investment policies to mitigate against the deterioration of principal, to enhance the Company's ability to meet its liquidity needs and to optimize yields within those parameters. These investment policies limit the investing of excess funds to liquid term deposits with banks and government guaranteed securities with maturities of two years or less.

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5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

[b] Credit risk (cont'd.)

The maximum credit exposure of the Company at period end is the carrying value of its cash and cash equivalents, restricted cash, and amounts receivable. The Company held its cash balances with major banks in Canada and had no short term investment at March 31, 2011. 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 goods and services tax and harmonized sales tax due from the federal government of Canada and a receivable from a previous landlord.

[c] Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. The Company's exposure to liquidity risk is dependent on its purchasing commitments and obligations and its ability to raise funds to meet commitments and sustain operations. The Company manages liquidity risk by continuously monitoring its actual and forecasted working capital requirements, and actively managing its financing activities.

As of March 31, 2011, the Company had a working capital deficiency of \$270,924 (March 31, 2010 - \$2,112,280).

The following summarizes the remaining contractual maturities of the Company's financial liabilities:

	Within 1 Year	1 to 2 Years	Total
	\$	\$	\$
Accounts payable	21,356	—	21,356
Accrued liabilities	120,580	—	120,580
Long-term obligations	—	328,559	328,559
	141,936	328,559	470,495

Given the working capital deficiency and financial commitments as of March 31, 2011, there is a risk that the Company may not be able to meet its financial obligations and sustain its operations without raising new capital and a financial restructuring.

The Company expects that the acquisition of CurieMed would generate cash to finance its business operations and financial obligations. This acquisition remains subject to the negotiation of a definitive agreement between the Company and CurieMed, and certain other conditions. The Company plans to raise a bridge financing to finance its operations to the completion of the acquisition.

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5. FINANCIAL INSTRUMENTS (cont'd.)

[d] Market risk

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. The Company is exposed to interest rate risk on its convertible debentures and other payables which bear floating interest rates. The Company estimates that one percent increase in the interest rate would increase the net loss and cash used in operations for the years ended March 31, 2011 and 2010 by \$4,117 and \$6,983, respectively. An opposite impact would have occurred to net loss and cash used in operations had interest rate decreased by one percent. The Company does not use derivative instruments to reduce its exposure to interest rate risk.

Given the level of cash and cash equivalents held by the Company during the year ended March 31, 2011 and 2010, fluctuations in the market interest rates had no significant impact on its interest income.

Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates primarily within Canada although a portion of its expenses are incurred in United States dollars ("US dollar"). The Company has 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 Company's results of operations, financial position or cash flows.

As at March 31, 2011 and 2010, the Company had the following assets and liabilities denominated in US dollars:

	March 31, 2011 US\$	March 31, 2010 US\$
Cash and cash equivalents	695	1,730
Accounts payable	(174)	(226,579)
Accrued liabilities	(80,290)	(51,393)
Contingent payments	(170,000)	—
Other payable	—	(588,272)
	(249,769)	(864,514)

Based on the above net exposures as at March 31, 2011 and 2010, and assuming that all other variables remain constant, a 5% appreciation or deterioration of the Canadian dollar against the US dollar would result in an increase or decrease of \$12,488 (March 31, 2010 - \$43,226) in the Company's net loss and comprehensive loss.

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6. ACQUISITION OF XPHASE PHARMACEUTICALS INC.

On August 11, 2009, the Company completed its acquisition of all issued and outstanding shares of Xphase Pharmaceuticals Inc. ("Xphase"). The acquisition provided the Company with management services of Xphase principals at no additional compensation, other than grant of options priced at premium [note 14[d]]. The acquisition also provided the Company with the right to acquire the exclusive global rights, excluding China, of AF-05, a novel anti-anxiety drug candidate.

The consideration for the acquisition was 1.5 million common shares of the Company at an aggregate fair value of \$150,000. Upon the achievement of certain pre-defined business development milestones by June 10, 2010, an additional consideration of 1.75 million common shares of the Company would be issued to Xphase shareholders. The pre-defined business development milestones were not met, and the Company's obligations to issue the additional 1.75 million common shares expired on June 10, 2010.

As Xphase was a development stage company and 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 Xphase's identifiable assets and liabilities based on their fair market value:

	Amount
	\$
Identifiable assets acquired:	
Cash	4,742
Other current assets	947
Prepaid management fees	189,408
Liabilities assumed:	
Accounts payable and accrued liabilities	(7,414)
Other liabilities	(11,600)
	176,083
	Amount
	\$
Consideration	
Equity securities	150,000
Acquisition expenses	26,083
	176,083

The prepaid management fees were amortized on a straight-line basis over the service period of one year starting April 1, 2009 when Xphase principals started performing their services.

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7. RESTRICTED CASH

The Company had no restricted cash balances as of March 31, 2011. As of March 31, 2010, the Company had \$14,295 in a bank account that was subject to restrictions set in a sublease agreement between the Company and its subtenant, and \$300,000 of subscription amounts in trust accounts that were subject to the closing of a financing.

8. PROPERTY AND EQUIPMENT

	Cost \$	Accumulated Amortization \$	Net Book Value \$
March 31, 2011			
Computer equipment and software	46,919	40,566	6,353
Leasehold improvement	41,346	41,346	—
Office furniture and equipment	698	247	451
	88,963	82,159	6,804
March 31, 2010			
Computer equipment and software	46,919	37,483	9,436
Leasehold improvement	41,346	26,226	15,120
Office furniture and equipment	44,415	21,902	22,513
	132,680	85,611	47,069

For the year ended March 31, 2011, amortization of property and equipment was \$20,512 [2010 - \$22,118].

9. INTANGIBLE ASSETS

	March 31, 2011 \$	March 31, 2010 \$
Technology, licenses and rights		
Cost	569,742	1,477,151
Accumulated amortization	(297,870)	(903,896)
Write-down of technology, licenses and rights	(271,872)	(244,408)
	—	328,847

For the year ended March 31, 2011, amortization of intangible assets was \$56,975 [2010 - \$191,974].

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9. INTANGIBLE ASSETS (cont'd.)

- [a] On February 1, 2005, the Company entered into a license agreement with Demegen, Inc. ("Demegen"), a third party, to acquire an exclusive world-wide license, with a right to sub-license, use, improve, develop and commercially exploit certain patented technologies for the treatment of human oral disease conditions (the "Demegen Sublicense"). In consideration for the Demegen Sublicense, the Company paid Demegen an initial license fee of US\$50,000.

The Company subsequently entered into an amendment agreement with Demegen, on January 2, 2006, 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 price of \$0.60 per share and 500,000 share purchase options with a fair value of \$30,000 with an exercise price of \$2.25 per share. These warrants expired unexercised on December 7, 2008.

The initial fees at the exchange amount of \$59,742, the fair value of the common shares issued of \$480,000 and the fair value of the share purchase options granted of \$30,000 had been capitalized as technology license and rights and amortized on a straight line basis over ten years. The net book value of the Demegen Sublicense as of March 31, 2011 was \$Nil (March 31, 2010 - \$328,847). The impairment test conducted during the fiscal year ended March 31, 2011 resulted in the write-off of \$271,872 of the remaining balance of net book value of this technology.

- [b] 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 (the "PAC-G31P Technology"). 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. The ILT Acquisition was accounted for as an asset acquisition and the purchase price was allocated to ILT's identifiable assets and liabilities.

The share purchase price allocated to the acquired PAC-G31P Technology of \$907,409 had been capitalized as technology license and rights and amortized on a straight line basis over five years. The net book value of the acquired technology as of March 31, 2011 was \$Nil (March 31, 2010 - \$Nil). The impairment test conducted during the fiscal year ended March 31, 2010 resulted in the write-off of \$244,408 of the remaining balance of net book value of this technology.

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10. FINANCIAL RESTRUCTURING

In connection to the Private Placement Financing [note 14[a][i]], the Company initiated the Financial Restructuring which involves restructuring of approximately \$2.4 million of indebtedness and commitments as summarized in the following table:

	Form of Restructuring								
	Restructuring Amount	Common Shares	Cash		Non-refundable payments		Contingency Payments	Extension to Long-term	Extension fee settled in common shares
			Cash	Discounts and others	[a] [ii]				
Convertible Debentures [note 12]	\$ 658,289	\$ 658,289	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Other Payable [note 11]	611,599	-	210,800	303,839	-	96,960	-	-	
Demegen Sublicense [note 15[c][i]]	186,384	110,855	22,680	-	-	-	-	52,849	
University of Saskatchewan License [note 13]	328,559	-	-	-	-	-	328,559	-	
Other Indebtedness [a]	589,022	71,338	135,717	97,002	195,343	89,622	-	-	
	2,373,853	840,482	369,197	400,841	195,343	186,582	328,559	52,849	

Note: Restructuring amounts in USD were converted into CAD at the exchange rate on the date of settlement when settled.

[a] The aggregate amount of indebtedness to other vendors of \$589,022 includes the following:

[i] On April 22, 2010, the Company entered into an agreement with a creditor to restructure its indebtedness of US\$70,000 (\$67,872). The agreement provides the creditor with a right to a future contingency payment. The contingency payment is capped at US\$70,000, equal to 10% of the cash receipt from (i) merger or acquisition transaction which gives rise to a minimum cash reserve of US\$500,000 to the combined company between a third party and the Company or its subsidiary, (ii) a financing transaction, or multiple transactions, from April 22, 2010 onward, which gives rise to accumulated proceeds of US\$1 million or more, and (iii) a disposition or licensing transaction, or multiple transactions, associated with the Company's technology portfolio, PAC-113 and PAC-G31P. Other than the contingency payments, there is no fixed repayment term. The contingency payment in the amount of US\$70,000 (\$67,872) is recognized as current liabilities on the consolidated balance sheet as of March 31, 2011.

[ii] On April 30, 2010, the Company obtained agreement from a vendor to apply US\$192,205 (\$195,343) of its non-refundable advance payment with the vendor to offset its indebtedness.

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10. FINANCIAL RESTRUCTURING (cont'd.)

- [iii] On May 25, 2010, the Company obtained agreements from its management and consultants to settle its indebtedness of \$56,799 in connection to business expense reimbursements with common shares of the Company. On June 8, 2010, the Company issued 946,657 common shares at a price of \$0.06 per share as settlement payments.
- [iv] On June 11, 2010, the Company obtained agreements from its consultants to settle its indebtedness of US\$19,487 (\$19,296) with cash payments of US\$7,200 (\$7,382) and 122,875 common shares to be issued at US\$0.10 per share. On March 31, 2011, the Company issued 122,875 common shares, for settlement of the remaining balance of US\$12,287 (\$11,914) of the indebtedness.
- [v] On July 7, 2010, the Company formalized its settlement agreement with a research organization for its indebtedness of \$26,750. Pursuant to this settlement agreement, the Company issued a cash payment of \$5,000. The research organization is entitled to a contingency payment capped at \$21,750 payable upon licensing or sale of PAC-G31P technology of the Company. The contingency payment in the amount of \$21,750 is recognized as current liabilities on the consolidated balance sheet as of March 31, 2011.
- [vi] Pursuant to a consulting agreement between the Company and a consultant, the consultant is entitled to retainer fees contingent upon successful completion of a financing transaction, or multiple transactions, from August 12, 2008 onward, which gives rise to accumulated proceeds of \$2 million or more. The Company had previously accrued \$27,772 of the retainer fees as liabilities, which was reversed as financial restructuring credit in the three months ended June 30, 2010. As of March 31, 2011, the financing milestone was not met.
- [vii] Pursuant to an engagement agreement between the Company and a creditor dated August 2, 2007, the Company had recorded a payable in the amount of \$11,685, which was reversed as financial restructuring credit in the fiscal year ended March 31, 2011.
- [viii] The Company obtained agreements from various other vendors to settle its indebtedness for an aggregate of \$183,813 by issuing common shares of \$2,933 and cash payments of \$123,335. The various other vendors wrote off the balance of \$57,545 of the indebtedness, and a gain was recorded by the Company in the fiscal year ended March 31, 2011.

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11. OTHER PAYABLE

On March 6, 2009, the Company entered into a settlement arrangement with a vendor for an outstanding account of approximately US\$1.3 million. As part of this settlement, the Company received from this vendor a credit note of approximately US\$604,000 as a research and development expense recovery and made an initial payment of US\$128,000 in the year ended March 31, 2009. The Company agreed to pay the balance amount of US\$580,000 over three minimum installments as follows:

Minimum Installments	Amount US\$
July 15, 2009	150,000
October 15, 2009	150,000
December 30, 2009	280,000
	580,000

Failure to make these minimum installments would further obligates the Company to pay interest at a rate of prime plus 6% on amounts due and outstanding from the respective due dates of the minimum installments. All amounts outstanding, including interest, were due and payable in full on December 30, 2009.

At March 6, 2009, the Company recorded the amount payable at the fair value estimated by discounting the future cash stream of the indebtedness at a discount rate of 25% which represents the estimated borrowing rate available for the Company for similar financial arrangements.

	Discounted US\$	Discounted \$
Amount as of March 6, 2009	488,207	627,980
Accretion of discounted liability	7,649	9,675
Unrealized foreign exchange gain	—	(12,232)
Balance as of March 31, 2009	495,856	625,423
Accretion of discounted liability	84,144	93,126
Unrealized foreign exchange gain	—	(129,385)
Balance as of March 31, 2010	580,000	589,164
Payment	(200,000)	(210,800)
Financial restructuring credits received on principal	(280,000)	(303,839)
Unrealized foreign exchange loss	—	22,435
Balance as of March 31, 2011	100,000	96,960

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11. OTHER PAYABLE (cont'd.)

No minimum installment was made. Accordingly, the Company recorded overdue interest of US\$8,273 (\$8,720) for the year ended March 31, 2010. In April 2010, the Company renegotiated and signed a final settlement agreement with the vendor. Pursuant to the final settlement agreement, the Company issued a payment of US\$200,000 (\$210,800) to the vendor on June 7, 2010 as settlement and the vendor wrote off the principal of US\$280,000 (\$303,839) and interest payable of US\$8,273 (\$8,720). The vendor is entitled to a contingency payment, capped at US\$100,000 (\$96,960), equal to 10% of the cash receipt from a disposition or licensing transaction, or multiple transactions, associated with the Company's technology portfolio, PAC-113 and PAC-G31P. Such contingency payment of US\$100,000 (\$96,960) is recognized as current liabilities on the consolidated balance sheet as of March 31, 2011.

12. CONVERTIBLE DEBENTURES

On January 30, 2009, the Company announced that it intended to offer, through one or more tranches of closings of a non-brokered private placement, convertible debentures in an aggregate principal amount of up to approximately \$610,000 (the "Offering"). The Company completed this Offering in two tranches in February 2009 and April 2009 for an aggregate principal amount of \$614,500.

Maturity Date	Principal Amount \$
February 3, 2010 ⁽¹⁾	364,500
April 14, 2010 ⁽²⁾	250,000
	614,500

⁽¹⁾ Include debentures of \$243,000 held by director or officer of the Company (the "Insiders").

⁽²⁾ The second tranche of the Offering was closed on March 30, 2009 with final completion on April 14, 2009.

The convertible debentures bear interest from the date of issuance at a rate of prime plus 4% per annum. The principal amount plus any accrued interest will be repayable in cash upon the earlier of (i) one year from the date of issuance or (ii) closing of a merger or a financing transaction with a value to the Company of at least US\$1 million (approximately \$1.02 million). At anytime prior to maturity, the debenture holders have the rights to convert these convertible debentures into units of the Company (the "Units") at a conversion price of \$0.10 per Unit upon 10 days written notice. Each Unit consists of one common share of the Company (a "Common Share") and one common share purchase warrant (a "Warrant"). Each Warrant is exercisable into one Common Share at a price of \$0.10 per Common Share and expires on (i) the second anniversary of the date of issuance of the Warrant for non-insider holders or (ii) the maturity date of the convertible debentures for insider holder.

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12. CONVERTIBLE DEBENTURES (cont'd.)

The Company has classified the convertible debentures into its components being financial liabilities and equity components, respectively. The fair value of the liability component was estimated by discounting the future cash stream of debt at a discount rate of 25% which represents the estimated borrowing rate available for the Company for similar debentures having no conversion rights. The residual value was allocated to the equity component. The amount of total proceeds allocated to the liability components and equity components (contributed surplus) at the issuance were:

Allocation	Amount \$
Face value	614,500
Contributed surplus	(90,946)
	523,554
Short-term portion	(310,554)
	213,000

The Company incurred legal and professional fees of \$30,097 associated with the financing. These financing costs were charged as expenses during the year ended March 31, 2009.

No convertible debentures were converted into Units prior to maturity.

	Amount \$	Discounted \$
Balance upon initial recognition	614,500	523,554
Accretion of discounted liability		8,277
Balance as of March 31, 2009	614,500	531,831
Accretion of discounted liability		81,232
Balance as of March 31, 2010	614,500	613,063
Accretion of discounted liability		1,437
Repayment by share issuance	(614,500)	(614,500)
Balance as of March 31, 2011	—	—

On April 22, 2010, the Company entered into debt conversion agreements with all debenture holders to settle its past due debentures in the aggregate of \$658,289, inclusive of principal amount due of \$614,500 and interest payable of \$43,789. Pursuant to the debt conversion agreements, the Company issued 10,971,485 common shares to settle the indebtedness at a conversion price of \$0.06 per common share.

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13. LONG-TERM OBLIGATIONS

Pursuant to a license agreement between the Company's wholly owned subsidiary, IL Therapeutics Inc. (ILT), and University of Saskatchewan (the "US License"), ILT is obligated to provide research funding to the University of Saskatchewan (the "University"). The research would cover but was not limited to research related to the licensed technology for at least \$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. Of these research commitments, \$334,096 was paid and the remaining balance of \$165,904 was due on October 15, 2009. The US License also requires that ILT pays all fees and costs in connection with preparing, filing, maintaining and prosecuting patents of the licensed technology. As of March 31, 2011, patent fees reimbursable to the University amounted to \$149,768.

In August 2010, ILT formalized its settlement with the University. ILT entered into a license amendment and settlement agreement with the University to amend certain terms of the US License and arrange settlement for its indebtedness (the "US License Amendment"). The US License Amendment was effective on March 31, 2010. Pursuant to the US License Amendment, the parties agreed to convert ILT's indebtedness into a loan due on June 30, 2012 (the "US Loan"). The University agreed to finance all upcoming patent filing fees and patent maintenance cost until December 31, 2010 with a 10% surcharge to ILT, which was added to the US Loan. The US Loan bears interest at a rate of prime plus 2% per annum, compounded monthly until repayment, inclusive of interest, in full.

	Amount
	\$
Research funding commitment	165,904
Patent reimbursements	149,768
Accrued interest	9,470
Accrued surcharge	3,417
Balance as of March 31, 2011	328,559

Pursuant to the US License Amendment, ILT is obligated to make early repayment upon successful completion of either a corporate transaction between ILT and a third party, or upon receipt of third party financing in aggregate of \$1,000,000 or more. Until the US Loan is fully repaid, the University has right to terminate the US License with a 30-day advanced notice and is granted to security interest in assets owned by ILT. As of March 31, 2011, assets owned by ILT were primarily related to intellectual properties associated with the technology licensed from the University.

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14. SHARE CAPITAL

[a] Common shares

	Number of Shares	Amount \$
Authorized		
Unlimited number of common shares without par value		
Balance, March 31, 2009	17,572,347	13,012,118
Issued pursuant to acquisition of assets	1,500,000	150,000
Balance, March 31, 2010	19,072,347	13,162,118
Issued pursuant to Private Placement Financing [i]	10,000,001	583,297
Issued pursuant to Financial Restructuring [ii]	12,767,271	871,850
Balance, March 31, 2011	41,839,619	14,617,265

[i] Private Placement Financing

On April 19, 2010, the Company announced that it had arranged the Private Placement Financing of \$600,000 of Subscription Receipts. In connection to the Private Placement Financing, the Company initiated the Financial Restructuring [note 11] and agreed to seek shareholder approval for the Share Consolidation [iii]. Upon completion of the Share Consolidation, each Subscription Receipt automatically exercised, for no additional consideration, for one common share. Of the Subscription Receipts, \$300,000 was collected in a trust account of the Company and recorded as Restricted Cash [note 7] as of March 31, 2010.

On May 28, 2010, the Company announced closing of the Private Placement Financing. The Company issued an aggregate of 10 million Subscription Receipts at a price of \$0.06 per Subscription Receipt for gross proceeds of \$600,000. In connection to this financing, the Company incurred \$16,703 of professional expenses and listing fees.

On June 8, 2010, following the completion of the Share Consolidation, all Subscriptions Receipts were converted to 10,000,001 common shares of which 5,583,333 were issued to directors and officers who participated in the Private Placement Financing [note 21].

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14. SHARE CAPITAL (cont'd.)

[a] Common shares (cont'd.)

[ii] Financial Restructuring

Under the Financial Restructuring, the Company issued 12,618,146 and 149,125 common shares as settlement of its indebtedness on June 8, 2010 and March 31, 2011, respectively, as summarized in the following table. The Company incurred \$21,481 of transaction fees.

Issuance of common shares for	Number of Shares	Amount \$
Convertible debentures	10,971,485	658,289
Demegen Sublicense, royalties <i>[note 15[c][i]]</i>	550,000	110,855
Demegen Sublicense, extension fee <i>[note 15[c][i]]</i>	150,000	52,849
Other indebtedness (on June 8, 2010)	946,657	56,799
Other indebtedness (on March 31, 2011)	149,125	14,539
Rounding to full unit of common share due to the Share Consolidation	4	—
	12,767,271	893,331

Under the Financial Restructuring, common shares issued to related parties were 6,912,168 common shares for settlement of convertible debentures held by directors or officers and 853,563 common shares for indebtedness to officers, issued at \$0.06 per common share, and 26,250 common shares for indebtedness to an officer, issued at \$0.10 per common share.

[iii] Share Consolidation

On May 25, 2010, the Company obtained shareholder approval at the special meeting of shareholders to consolidate its common shares on the basis of two to one. The Share Consolidation was arranged in connection with the Private Placement Financing and the Financial Restructuring. On June 8, 2010, the Company announced that it has obtained regulatory approvals to effect the Share Consolidation.

Previous disclosure of common shares, warrants, options and per share amounts for the preceding year ended March 31, 2010 has been adjusted to account for the Share Consolidation.

[b] Preferred shares

The authorized share capital of the Company also consists of an unlimited number of preferred shares without par value. As of March 31, 2011 and 2010, there were no preferred shares issued and outstanding.

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14. SHARE CAPITAL (cont'd.)

[c] Common share purchase warrants

	Number	Weighted Average Exercise Price \$
Balance, March 31, 2009	2,328,467	0.60
Expired on March 16, 2010	(17,100)	0.44
Balance, March 31, 2010 and 2011	2,311,367	0.60

Date of Expiry	Exercise Price	Number of Warrants
March 16, 2013	\$0.60	2,311,367

[d] Stock options

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

As of March 31, 2011, the Company had 3,639,000 stock options outstanding granted to officers, directors, consultants and scientific advisory board members. Details of stock option transactions for the years ended March 31, 2011 and 2010 are summarized as follows:

	Number	Weighted Average Exercise Price \$
Balance, March 31, 2009	906,667	1.98
Granted	955,000	0.20
Forfeited or expired	(381,667)	1.80
Balance, March 31, 2010	1,480,000	0.88
Granted	2,234,000	0.06
Forfeited or expired	(75,000)	1.26
Balance, March 31, 2011	3,639,000	0.37

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14. SHARE CAPITAL (cont'd.)

[d] Stock options (cont'd.)

At March 31, 2011, stock options to executive officers, directors and consultants 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 (\$)
\$0.06	2,234,000	4.87	0.06	2,234,000	0.06
\$0.20	955,000	3.82	0.20	955,000	0.20
\$2.10 – \$2.32	450,000	3.24	2.26	450,000	2.26
	3,639,000	4.40	0.37	3,639,000	0.37

Date of Expiry	Exercise Price	Number of Options Outstanding	Number of Options Exercisable
August 22, 2014	\$2.10	75,000	75,000
August 22, 2014	\$2.32	275,000	275,000
March 6, 2012	\$2.10	40,000	40,000
March 6, 2015	\$2.32	60,000	60,000
July 28, 2014	\$0.20	795,000	795,000
July 28, 2017	\$0.20	160,000	160,000
February 14, 2016	\$0.06	2,234,000	2,234,000
Balance, March 31, 2011		3,639,000	3,639,000

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14. SHARE CAPITAL (cont'd.)

[d] Stock options (cont'd.)

The estimated fair value of options granted during the fiscal year ended March 31, 2011, to non-employees including directors and officers who performed services as consultants was \$104,720 (2010 - \$114,600). There were no options granted to employees in both fiscal years. The fair values of the stock options granted during the year ended March 31, 2011 and 2010 were estimated using the Black-Scholes valuation model with the following assumptions:

	2011	2010
Expected volatility	167.49%	211.70%
Expected life of options	5 years	5 - 8 years
Dividend yield	0.00%	0.00%
Risk free interest rate	2.78%	2.68% - 2.93%

The weighted average fair value of options granted during the years ended March 31, 2011 and 2010 was \$0.05 per option and \$0.12 per option, respectively. 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.

15. COMMITMENTS

[a] Operating leases

The Company's lease agreements for its office facilities expired on September 30, 2010. As of March 31, 2011, the Company had no fixed operating lease commitments.

[b] Clinical research and development agreements

In the previous fiscal years, the Company entered into various clinical research and development agreements with third parties which require the Company to fund research and development expenditures. The Company subsequently cancelled all of its commitment, and there were no non-cancellable commitments as of March 31, 2011.

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15. COMMITMENTS (cont'd.)

[c] License agreements

- [i] Pursuant to the Demegen Sublicense [note 9[a]], 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. The Company is also obligated to pay an annual maintenance fee of US\$50,000 if any of the agreed clinical development milestones are not met. The Company is further obligated to pay royalties on sales revenue and sub-licensing revenue.

On April 22, 2010, the Company entered into an amendment license agreement to arrange settlement for its indebtedness of overdue minimum royalties of US\$107,000 (\$112,395) and to amend certain terms of the Demegen Sublicense (the "Demegen License Amendment"). In accordance to the Demegen License Amendment, the Company made a payment of US\$22,120 (\$22,680) and issued 500,000 common shares for the remaining balance of US\$84,880 (\$89,716) to settle its indebtedness in June 2010. The Company also issued 150,000 common shares as extension fee payment of US\$50,000 (\$52,849) to extend a development milestone timeline from June 30, 2010 to June 30, 2011.

Pursuant to the Demegen License Amendment, the Company further issued 50,000 common shares to settle in advance US\$20,000 (\$21,139) of the minimum annual royalty of US\$50,000 for the current fiscal year ended March 31, 2011. The Demegen License Amendment also provides the Company with a right to further extend the development milestone timeline to June 30, 2012 at a fee of US\$50,000 (accrued as liabilities as of March 31, 2011), which is payable in cash or equivalent number of common shares of the Company. The share payment will be based on the prevailing market price of the common share of the Company on the date of extension notice.

- [ii] Pursuant to the US License [note 13], ILT 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 (amounting to \$425,000) of the licensed technology. ILT 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. ILT is further obligated to pay royalties on sales revenue and sub-licensing revenue. As of March 31, 2011, none of these milestone payments or royalty payments was due or outstanding.

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16. 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.

17. INCOME TAXES

At March 31, 2011, 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
	\$	\$	\$
2015	—	—	330,000
2016	—	24,000	—
2017	—	34,000	—
2018	—	47,000	—
2019	—	16,000	—
2026	43,000	—	2,004,000
2027	99,000	—	4,162,000
2028	84,000	—	4,276,000
2029	30,000	—	671,000
2030	—	—	1,093,000
2031	—	—	606,000
	256,000	121,000	13,142,000

In addition, the Company has unclaimed tax deductions of approximately \$1,132,910 related primarily to scientific research and experimental development expenditures, and \$591,776 of net capital losses available to carryforward indefinitely to reduce taxable income of future years.

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17. INCOME TAXES (cont'd.)

Significant components of the Company's future income tax assets and liabilities as of March 31, 2011 are shown below:

	2011	2010
	\$	\$
Future income tax assets:		
Tax basis in excess of accounting value	156,000	86,000
Share issuance costs	26,000	73,000
Research and development deductions and credits	566,000	565,000
Write-off of investment	134,000	148,000
Operating loss carryforwards	3,286,000	3,297,000
Total future income tax assets	4,168,000	4,169,000
Valuation allowance	(4,168,000)	(4,169,000)
Total future income tax assets	—	—
Future income tax liabilities:		
Intangible assets	—	—
Net future income tax liabilities	—	—

The potential income tax benefits relating to the net future income 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 income tax assets have been recognized as at March 31, 2011 and 2010.

The reconciliation of income tax attributable to operations computed at the statutory tax rates to income tax expenses using a 28.00% statutory tax rate [March 31, 2010 - 29.63%] is:

	2011	2010
	\$	\$
Income taxes at statutory rates	(118,000)	(481,000)
Benefits not recognized (recognized)	13,000	(88,000)
Gains not recognized or expenses not deductible for tax purposes	34,000	245,000
Benefit of non-capital losses not recognized	71,000	324,000
Future income tax recovery	—	—

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18. RESEARCH AND DEVELOPMENT EXPENSES

By project, excluding recoveries	Year ended March 31, 2011 \$	Year ended March 31, 2010 \$	Cumulative from Inception to March 31, 2011 \$
PAC-113	154,532	84,472	5,708,150
PAC-G31P	40,277	120,496	2,260,376
Other Projects	—	(2,569)	193,177
	194,809	202,399	8,161,703

By type of expenses, excluding recoveries	Year ended March 31, 2011 \$	Year ended March 31, 2010 \$	Cumulative from Inception to March 31, 2011 \$
Contract clinical and research	808	20,181	5,691,514
License fees	152,622	159,660	487,195
Patent filing and maintenance expenses	40,277	17,765	399,852
Clinical insurance	—	9,106	44,374
Consulting and professional fees	—	(5,250)	441,845
Salaries and benefits	—	—	915,558
Travel and accommodation	—	—	113,116
Other	1,102	937	68,249
	194,809	202,399	8,161,703

19. GENERAL AND ADMINISTRATION EXPENSES

By type of expenses, excluding recoveries	Year ended March 31, 2011 \$	Year ended March 31, 2010 \$	Cumulative from Inception to March 31, 2011 \$
Consulting fees	4,286	2,939	846,339
Professional fees	65,695	80,821	1,130,681
Management fees	—	189,408	189,408
Market studies and business development	—	58,490	194,639
Salaries and benefits	—	—	2,440,714
Travel and accommodation	27,433	54,198	419,039
Overhead and other	80,061	195,564	1,564,875
	177,475	581,420	6,785,695

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20. 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.

21. RELATED PARTY TRANSACTIONS

During the year ended March 31, 2011, the Company incurred \$1,793 [2010 - \$74,467] of interest expenses related to convertible debentures held by directors or officers. The Company issued 5,583,333 Subscription Receipts at a price of \$0.06 per Subscription Receipt to related parties who participated in the Private Placement Financing [note 14[a][i]]. These Subscription Receipts were automatically converted into common shares on June 8, 2010, consistent to the terms to other investors. Under the Financial Restructuring [note 14[a][ii]], the Company, issued 6,912,168 common shares for settlement of convertible debentures held by directors or officers and 853,563 common shares for indebtedness to officers, at a conversion price of \$0.06 per common share, and 26,250 common shares for indebtedness to an officer, at a conversion price of \$0.10 per common share. These transactions were incurred in the normal course of business and recorded at their exchange amounts.

As of March 31, 2011, the Company had the following amounts due to related parties:

	March 31, 2011	March 31, 2010
	\$	\$
Accounts payable to directors, officers, or contract managers in connection to business expense reimbursements	14,013	49,786
Interest payable	—	27,277
Debentures held by officers or directors ⁽¹⁾	—	386,333
	14,013	463,396

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

22. COMPARTIVE FIGURES

Certain comparative figures have been reclassified from statements previously presented to conform to the presentation of current year consolidated financial statements.