

Interim Consolidated Financial Statements

Pacgen Biopharmaceuticals Corporation

(a development stage enterprise)

(Unaudited - expressed in Canadian dollars)

For the three and six months ended September 30, 2008 and 2007

Notice to Reader

Management has compiled the unaudited interim consolidated financial statements of Pacgen Biopharmaceuticals Corporation consisting of the interim Consolidated Balance Sheets as at September 30, 2008 and the interim Consolidated Statements of Operations and Comprehensive Loss, Consolidated Statements of Cash Flows and Consolidated Statements of Shareholders' Equity (Deficiency) for the three and six months ended September 30, 2008. The interim consolidated financial statements have not been reviewed or audited by the Company's auditors. All amounts are stated in Canadian Dollars.

Pacgen Biopharmaceuticals Corporation
(a development stage enterprise)
 Incorporated under the Business Corporation Act (British Columbia)

INTERIM CONSOLIDATED BALANCE SHEETS

[See Note 2 – Going Concern and Basis of Presentation]
 (Unaudited - expressed in Canadian dollars)

	September 30, 2008 \$	March 31, 2008 \$
ASSETS		
Current		
Cash and cash equivalents	239,573	1,438,691
Amounts receivable	7,364	12,800
Prepaid expenses and other	420,707	469,307
Total current assets	667,644	1,920,798
Property and equipment [note 6]	87,109	101,236
Intangible assets [note 7]	883,716	1,002,203
Total assets	1,638,469	3,024,237
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	1,796,223	1,378,733
Current portion of deferred leasehold inducement	6,916	6,916
	1,803,139	1,385,649
Deferred leasehold inducement	6,916	10,375
Total liabilities	1,810,055	1,396,024
Commitments and contingencies [notes 9 and 10]		
Shareholders' equity		
Share capital [note 8]		
Authorized:		
Unlimited number of common shares without par value		
Unlimited number of preferred shares without par value		
Issued and outstanding:		
Common shares	13,012,118	13,012,118
Contributed surplus	1,313,932	1,163,776
Deficit	(14,497,636)	(12,547,681)
Total shareholders' equity	(171,586)	1,628,213
Total liabilities and shareholders' equity	1,638,469	3,024,237

See accompanying notes

On behalf of the Board:

/s/ Kevin McGarry
 Director

/s/ Alan Moore
 Director

Pacgen Biopharmaceuticals Corporation
(a development stage enterprise)

**INTERIM CONSOLIDATED STATEMENTS
OF OPERATIONS AND COMPREHENSIVE LOSS**

(Unaudited - expressed in Canadian dollars)

	Three Months Ended September 30,		Six Months Ended September 30,		Cumulative from Inception to September 30,
	2008	2007	2008	2007	2008
	\$	\$	\$	\$	\$
EXPENSES					
Research and development	155,264	912,203	1,036,451	1,977,423	7,366,881
General and administration	298,815	550,878	603,702	1,187,208	5,630,670
Stock-based compensation	91,346	71,418	150,156	157,823	1,077,329
Amortization	66,307	68,569	132,614	136,679	666,117
	611,732	1,603,068	1,922,923	3,459,133	14,740,997
OTHER					
Interest and other income	12,225	26,579	25,196	70,786	250,002
Foreign exchange gain (losses)	(42,947)	1,436	(52,228)	3,638	(235,552)
Loss on disposal of property and equipment	—	—	—	—	(9,089)
	(30,722)	28,015	(27,032)	74,424	5,361
Loss before income taxes	(642,454)	(1,575,053)	(1,949,955)	(3,384,709)	(14,735,636)
Future income tax recovery	—	30,199	—	45,199	238,000
Net loss and comprehensive loss for the period	(642,454)	(1,544,854)	(1,949,955)	(3,339,510)	(14,497,636)
Basic and diluted loss per common share	(0.02)	(0.05)	(0.06)	(0.11)	
Weighted average number of common shares outstanding	35,144,693	30,521,960	35,144,693	30,521,960	

See accompanying notes

Pacgen Biopharmaceuticals Corporation
(a development stage enterprise)

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited - expressed in Canadian dollars)

	Three Months Ended September 30,		Six Months Ended September 30,		Cumulative from Inception to September 30,
	2008	2007	2008	2007	2008
	\$	\$	\$	\$	\$
OPERATING ACTIVITIES					
Loss for the period	(642,454)	(1,544,854)	(1,949,955)	(3,339,510)	(14,497,636)
Add items not affecting cash:					
Amortization	66,307	68,569	132,614	136,679	666,117
Deferred leasehold improvement	(1,729)	—	(3,458)	—	(4,611)
Future income tax recovery	—	(30,199)	—	(45,199)	(238,000)
Loss on disposal of property and equipment	—	—	—	—	9,089
Stock-based compensation	91,346	71,418	150,156	157,823	1,077,329
Unrealized foreign exchange loss	—	—	—	—	87,936
Write-off of research supplies	—	—	—	—	17,819
Write-off of withholding tax receivable	—	—	—	—	5,548
	(486,530)	(1,435,066)	(1,670,643)	(3,090,207)	(12,876,409)
Changes in non-cash working capital items relating to operations:					
Amounts receivable	2,307	(11,443)	5,435	1,180	136,130
Prepaid expenses and other	(2,000)	103,273	48,600	251,266	(526,462)
Accounts payable and accrued liabilities	135,452	471,569	417,490	(350,915)	1,770,230
Cash used in operating activities	(350,771)	(871,667)	(1,199,118)	(3,188,676)	(11,496,511)
INVESTING ACTIVITIES					
Acquisition of IL Therapeutics Inc.	—	—	—	—	1,237,089
Proceeds from disposal of property and equipment	—	—	—	—	5,775
Purchase of property and equipment	—	(12,564)	—	(19,486)	(179,202)
Purchase of intangible assets	—	—	—	—	(59,743)
Leasehold inducement	—	—	—	—	18,444
Cash provided by (used in) investing activities	—	(12,564)	—	(19,486)	1,022,363
FINANCING ACTIVITIES					
Issuance of share capital, net of share issuance cost	—	—	—	—	10,018,885
Deferred financing costs	—	(14,118)	—	(14,118)	—
Advance from related party	—	—	—	—	694,836
Cash provided by financing activities	—	(14,118)	—	(14,118)	10,713,721
Increase (decrease) in cash and cash equivalents	(350,771)	(898,349)	(1,199,118)	(3,222,280)	239,573
Cash and cash equivalents, beginning of period	590,344	3,063,435	1,438,691	5,387,366	—
Cash and cash equivalents, end of period	239,573	2,165,086	239,573	2,165,086	239,573

See accompanying notes

Pacgen Biopharmaceuticals Corporation
(a development stage enterprise)

**INTERIM CONSOLIDATED STATEMENTS OF
SHAREHOLDERS' EQUITY (DEFICIENCY)**

(Unaudited - expressed in Canadian dollars)

	Common Shares		Contributed	Deficit	Total
	Number	Amount	Surplus		
		\$	\$	\$	\$
Balance, March 31, 2007	30,521,960	12,286,556	795,480	(6,572,969)	6,509,067
Stock-based compensation	—	—	86,405	—	86,405
Net loss for the period	—	—	—	(1,794,656)	(1,794,656)
Balance, June 30, 2007	30,521,960	12,286,556	881,885	(8,367,625)	4,800,816
Stock-based compensation	—	—	71,418	—	71,418
Net loss for the period	—	—	—	(1,544,854)	(1,544,854)
Balance, September 30, 2007	30,521,960	12,286,556	953,303	(9,912,479)	3,327,380

	Common Shares		Contributed	Deficit	Total
	Number	Amount	Surplus		
		\$	\$	\$	\$
Balance, March 31, 2008	35,144,693	13,012,118	1,163,776	(12,547,681)	1,628,213
Stock-based compensation	—	—	58,810	—	58,810
Net loss for the period	—	—	—	(1,307,501)	(1,307,501)
Balance, June 30, 2008	35,144,693	13,012,118	1,222,586	(13,855,182)	379,522
Stock-based compensation	—	—	91,346	—	91,346
Net loss for the period	—	—	—	(642,454)	(642,454)
Balance, September 30, 2008	35,144,693	13,012,118	1,313,932	(14,497,636)	(171,586)

See accompanying notes

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

For the three and six months ended September 30, 2008 and 2007
(Unaudited - expressed in Canadian dollars)

1. NATURE OF OPERATIONS

Pacgen Biopharmaceuticals Corporation (the “Company”) was incorporated under the Business Corporations Act (British Columbia) on April 23, 2004. The Company is a life science company focused on developing therapeutic drugs for the treatment of infectious and inflammatory diseases. The Company is considered to be in the development stage, as most of its efforts have been devoted to research and development of its proposed drug products, raising capital and recruitment of personnel.

2. GOING CONCERN AND BASIS OF PRESENTATION

These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) that are applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The use of these principles may not be appropriate because as of September 30, 2008, there was substantial doubt that the Company will be able to continue as a going concern without raising additional financial resources.

The Company has incurred losses from operations since inception and has accumulated a deficit of \$14,497,636 as at September 30, 2008. The Company has funded its operations primarily by share issuances. The Company’s ability to continue as a going concern is dependent upon its ability to obtain additional financing. The Company is currently seeking additional capital to finance its operations. Management is considering all financing alternatives, including equity financing, debt arrangement, merger and acquisition, corporate collaboration and licensing arrangement.

Subsequent to the quarter ended September 30, 2008, the Company announced that it has entered into a letter of intent for a business combination with Medigen Biotechnology Corp. (“Medigen”), as described in *note 13 [a]*. This transaction remains subject to the negotiation of a definitive agreement between the Company and Medigen and certain other conditions. There can be no assurance that the Company and Medigen will enter into a definitive agreement or that this transaction will be completed as proposed or at all. If the Company is unable to successfully complete the proposed business combination with Medigen or obtain additional capital through other financing alternatives, management may be required to curtail the Company’s operations.

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

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**NOTES TO INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

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2. GOING CONCERN AND BASIS OF PRESENTATION (cont'd)

These unaudited interim consolidated financial statements have been prepared on a basis consistent with the policies outlined in the Company's audited consolidated financial statements for the year ended March 31, 2008 except as described in note 3 below. These unaudited interim financial statements do not include all note disclosures and information required by Canadian GAAP for annual financial statements. Accordingly, they should be read in conjunction with the audited financial statements and notes thereto, for the year ended March 31, 2008. The results of operations for the three and six months ended September 30, 2008 are not necessarily indicative of the results for the full fiscal year. All amounts herein are expressed in Canadian dollars unless otherwise specified.

3. CHANGES IN ACCOUNTING POLICIES

[a] General Standards of Financial Statement Presentations

In May 2007, the Canadian Accounting Standards Board (the "AcSB") amended CICA Handbook Section 1400, "General Standards of Financial Statement Presentation", to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern.

The main features of the changes are as follows:

- (i) management is required to make an assessment of an entity's ability to continue as a going concern;
- (ii) in making its assessment, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date;
- (iii) financial statements must be prepared on a going concern basis unless management either intends to liquidate the entity, to cease trading or cease operations, or has no realistic alternative but to do so;
- (iv) disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern; and
- (v) when financial statements are not prepared on a going concern basis, that fact should be disclosed, together with the basis on which the financial statements are prepared and the reason the entity is not regarded as a going concern.

This section became effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company adopted these standards commencing April 1, 2008. The new disclosure requirements pertaining to this section are contained in *note 2* of these unaudited interim consolidated financial statements.

3. CHANGES IN ACCOUNTING POLICIES (cont'd)

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[b] Capital Disclosures

The AcSB issued Section 1535, “*Capital Disclosures*”. This section establishes standards for disclosing information about an entity’s capital and how it is managed in order that a user of the financial statements may evaluate the entity’s objectives, policies and processes for managing capital. This section became effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company adopted these standards commencing April 1, 2008. The adoption of these new standards did not have a material impact on the Company’s unaudited interim consolidated financial statements. The new disclosure requirements pertaining to this section are contained in *note 4* of these unaudited interim consolidated financial statements.

[c] Financial Instruments – Disclosure and Presentation

The AcSB issued two new Sections in relation to financial instruments: Section 3862, “*Financial Instruments – Disclosure*” and Section 3863, “*Financial Instruments – Presentation*”. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. The new presentation standard carries forward the former presentation requirements. Both sections became effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company adopted these standards commencing April 1, 2008. The adoption of these new standards did not have a material impact on the Company’s unaudited interim consolidated financial statements. The new disclosure requirements pertaining to these sections are contained in *note 5* of these unaudited interim consolidated financial statements.

[d] New Accounting Pronouncements

In January 2006, the AcSB adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards (“IFRS”) for accounting periods commencing on or after January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are some significant differences on recognition, measurement and disclosures. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

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3. CHANGES IN ACCOUNTING POLICIES (cont'd)

[d] New Accounting Pronouncements (cont'd)

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

4. CAPITAL DISCLOSURES

The Company's objectives in managing its capital are:

- [i] To safeguard the Company's ability to continue as a going concern in order to pursue the research and development of its products and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable level; and
- [ii] To provide an adequate return to shareholders commensurate with the level of risk associated with a development stage biotechnology company.

The Company sets the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the number of shares issued, sell assets, enter into mergers and acquisitions, acquire debt or enter into some other form of financing facility.

In order to maximize ongoing research and development of its products, the Company does not pay out dividends.

The Company is not subject to any externally imposed capital requirements

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(a development stage enterprise)

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended September 30, 2008 and 2007
(Unaudited - expressed in Canadian dollars)

5. FINANCIAL INSTRUMENTS

Financial instruments of the Company consist of cash and cash equivalents, amounts receivable, and accounts payable and accrued liabilities. The fair value of these instruments approximates their carrying amount due to their immediate or short-term maturity. The Company has classified its financial instruments as follows:

	September 30, 2008	March 31, 2008
	\$	\$
Financial assets		
Cash and cash equivalents, held-for-trading, recorded at fair value	239,573	1,438,691
Accounts and other receivables, loans and receivables, recorded at amortized cost	—	2,868
GST receivable, loans and receivables, recorded at amortized cost	7,098	6,805
Interest receivable, loans and receivables, recorded at amortized cost	266	3,127
	246,937	1,451,491
	September 30, 2008	March 31, 2008
	\$	\$
Financial liabilities		
Accounts payable and accrued liabilities, other financial liabilities, recorded at amortized cost	1,796,223	1,378,733
	1,796,223	1,378,733

The Company did not have any held-to-maturity or available-for-sale financial instruments, nor did it acquire or hold any derivative products during the six months ended September 30, 2008.

The Company's financial instruments are exposed to certain financial risks, including credit risk, interest rate risk, currency risk and liquidity risk:

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5. FINANCIAL INSTRUMENTS (cont'd)

[a] Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally of cash and cash equivalents. 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.

[b] 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 arising from fluctuations in interest rates on its cash and cash equivalents that earn interest at market rates.

The Company does not use derivative instruments to reduce its exposure to interest rate risk. The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis. During the three and six months ended September 30, 2008, the Company earned interest income of \$2,344 and \$8,955, respectively on its cash and cash equivalents. Based on the value of cash and cash equivalents during the three and six months ended September 30, 2008, and assuming that all other variables remain constant, a 1% appreciation or deterioration of the interest rate would result in a decrease/increase of \$1,044 and \$3,389 in the Company's net loss and comprehensive loss, respectively. Fluctuations in market rates of interest do not have a significant impact on the company's results of operation.

[c] Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchanges 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 September 30, 2008, the Company is exposed to currency risk through its cash and cash equivalents and accounts payable and accrued liabilities denominated in US dollars as follows:

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5. FINANCIAL INSTRUMENTS (cont'd)

[c] Currency risk (cont'd)

	September 30, 2008 US\$	March 31, 2008 US\$
Cash and cash equivalents	77,199	8,818
Accounts payable and accrued liabilities	1,575,688	1,200,023
	1,652,887	1,208,841

Based on the above net exposures as at September 30, 2008, and assuming that all other variables remain constant, a 5% appreciation or deterioration of the Canadian dollar against the US dollar would result in a decrease/increase of \$80,641 in the Company's net loss and comprehensive loss.

[d] 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 purchasing commitments and obligations and raising of 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 at September 30, 2008, accounts payable and accrued liabilities includes \$1,586,798 due within the current operating period. The Company is seeking additional capital to meet these obligations. Management is considering all financing alternatives, including equity financing, debt arrangement, merger and acquisition, corporate collaboration and licensing arrangement. Subsequent to the quarter ended September 30, 2008, the Company announced that it has entered into a letter of intent for a business combination with Medigen, as described in *note 13 [a]*. This transaction remains subject to the negotiation of a definitive agreement between the Company and Medigen and certain other conditions. There can be no assurance that the Company and Medigen will enter into a definitive agreement or that this transaction will be completed as proposed or at all. Subsequent to the quarter end, the Company also secured a settlement arrangement with its major vendor, for an outstanding account equivalent to Canadian \$1,289,165 as at September 30, 2008, as described in *note 13 [b]*. There remains high uncertainty associated with the Company's ability to fulfill the condition set out in the settlement arrangement.

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited - expressed in Canadian dollars)

6. PROPERTY AND EQUIPMENT

	Cost \$	Accumulated Amortization \$	Net Book Value \$
September 30, 2008			
Computer equipment and software	55,280	32,739	22,541
Leasehold improvement	41,346	11,107	30,239
Office furniture and equipment	50,456	16,127	34,329
	147,082	59,973	87,109
March 31, 2008			
Computer equipment and software	55,280	25,450	29,830
Leasehold improvement	41,346	8,083	33,263
Office furniture and equipment	50,456	12,313	38,143
	147,082	45,846	101,236

7. INTANGIBLE ASSETS

	September 30, 2008 \$	March 31, 2008 \$
Technology, licenses and rights		
Cost	1,477,151	1,477,151
Accumulated amortization	593,435	474,948
	883,716	1,002,203

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**NOTES TO INTERIM CONSOLIDATED FINANCIAL
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8. SHARE CAPITAL

[a] Authorized

The authorized share capital of the Company consists of an unlimited number of common shares without par value, and an unlimited number of preferred shares without par value. As of September 30, 2008 and March 31, 2008, there were no preferred shares issued and outstanding.

[b] Common share purchase warrants

At September 30, 2008 and March 31, 2008, the Company had 9,198,941 of common share purchase warrants outstanding. Details of the common share purchase warrants are summarized as follows:

Date of Expiry	Exercise Price	Number of Warrants
December 7, 2008	\$1.16	2,748,906
December 7, 2008	\$1.16	1,250,000
December 7, 2008	\$1.05	543,102
March 16, 2013	\$0.30	4,622,733
March 16, 2010 ⁽¹⁾	\$0.22	34,200
Balance, March 31, 2008, and September 30, 2008	\$0.72	9,198,941

⁽¹⁾ Upon exercise, each Broker Warrant will convert to one common share, and one common share purchase warrant exercisable into one additional common share at \$0.30 per share until March 16, 2013. After giving effect to the conversion of these Broker Warrants, there are 9,233,141 common share purchase warrants outstanding, at an average exercise price of \$0.72, as of September 30, 2008 and March 31, 2008.

[c] Share purchase options

At September 30, 2008 and March 31, 2008, the Company had 500,000 share purchase options outstanding. These share purchase options are fully exercisable until December 7, 2008 at an exercise price of \$2.25 per share.

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8. SHARE CAPITAL (cont'd)

[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.

At September 30, 2008, the Company had 2,613,000 stock options outstanding granted to employees, officers, directors, consultants and scientific advisory board members. Details of stock option transactions for the period ended September 30, 2008 are summarized as follows:

	Number	Weighted Average Exercise Price \$
Balance, March 31 2008	2,634,000	0.99
Granted	175,000	0.26
Forfeited	(196,000)	1.14
Balance, September 30, 2008	2,613,000	0.93

At September 30, 2008, stock options granted to executive officers and directors, employees, consultants and clinical advisory board members were outstanding as follows:

Options Outstanding				Options Exercisable	
Range of Exercise Price	Number of Common Shares Issuable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (\$)	Number of Common Shares Issuable	Weighted Average Exercise Price (\$)
0.50 - \$0.85	853,000	6.19	0.56	499,666	0.51
\$1.00 - \$1.05	790,000	4.22	1.05	701,250	1.05
\$1.10 - \$1.16	970,000	5.97	1.16	720,000	1.16
	2,613,000	5.51	0.93	1,920,916	0.95

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9. COMMITMENTS

[a] Operating leases

The Company has entered into lease agreements for its office premises in Canada for terms of up to five years expiring on March 28, 2012. Future minimum annual lease payments under the leases are as follows:

	\$
2009	49,608
2010	99,218
2011	51,377
2012	3,537
2013	—
	<u>203,740</u>

[b] Clinical research and development agreements

The Company has entered into various clinical research and development agreements with third parties which require the Company to fund research and development expenditures of \$2,648,881 for the fiscal year ending March 31, 2009. Of these commitments, \$466,198 are non-cancellable and \$2,182,683 are cancellable.

[c] License agreements

[i] Pursuant to a license agreement with Demegen, Inc. (the “Demegen Sublicense”), the Company is required to make minimum annual royalty payments of US\$50,000 until the expiry date of the last patent right and to pay an annual maintenance fee of US\$50,000 if any of the agreed clinical development milestones are not met.

[ii] Pursuant to a license agreement between the Company’s wholly owned subsidiary, IL Therapeutics Inc. (“ILT”), and University of Saskatchewan (the “US License”), the Company is responsible for up to \$510,000 of milestone payments. The Company is also responsible for up to \$1,070,000 of milestone payments linked to marketing approval in five regions (United States, Europe, Japan, Canada and Hong Kong) and another one time payment of \$100,000 for an added indication in any country. The Company is further obligated to pay royalties on sales revenue and sub-licensing revenue.

Also as part of the US License, the Company has agreed to provide funding to the University of Saskatchewan. The research will cover but is not limited to research related to the licensed technology for not less than \$500,000 within the first five years of the term of the license agreement, with minimum \$100,000 per year for the first two years (\$273,000 has been paid to date).

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10. CONTINGENCIES

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

11. 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.

12. RELATED PARTY TRANSACTIONS

The Company has incurred the following expenditures for services provided by related parties. These amounts are recorded at their exchange amounts and subject to normal trade terms.

	Three Months Ended September 30,		Six Months Ended September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Consulting services provided by a director	503	—	503	1,598
Consulting services provided by a consulting firm of which a director is a related party	—	2,000	—	4,000
Research services provided by a consulting firm of which an officer is the principal	—	31,875	—	63,750
	503	33,875	503	69,348

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13. SUBSEQUENT EVENTS

[a] Proposed business combination

On October 24, 2008, the Company announced it has entered into a letter of intent for a business combination with Medigen Biotechnology Corp. ("Medigen"), a biotech company traded over the bulletin board in Taiwan. In connection with the transaction, the Company would acquire all of the issued and outstanding shares of Medigen by way of share purchase or through such other transaction structure as may be determined by the mutual agreement of the Company and Medigen. It is anticipated that each issued and outstanding share of Medigen would be exchanged for 2.77 common shares of the Company issued from treasury. Following the business combination, the current shareholders of Medigen would own majority interest of the combined company. Upon entering into a definitive agreement, the Company and Medigen would apply to list the combined company's common shares for trading on a TSX Group exchange. The transaction remains subject to the negotiation of a definitive agreement between the Company and Medigen and certain other conditions. There can be no assurance that the Company and Medigen will enter into a definitive agreement or that this transaction will be completed as proposed or at all.

In connection with the proposed transaction, Mr. Duffy DuFresne departed the Company as President, CEO and director to pursue other interests, effective as of October 31, 2008. Mr. DuFresne has been retained as a consultant. Following the departure of Mr. DuFresne, the Company appointed Mr. Chung Yu Wang, Chairman and director, as interim President and Chief Executive Officer and Mr. Kevin McGarry, director, as lead independent director of the Board.

[b] Accounts payable and accrued liabilities

On November 20, 2008, the Company entered into a settlement agreement with its major vendor to settle its outstanding account of approximately US\$1.2 million. Under the terms of this settlement agreement, the vendor agrees to accept US\$650,000 from the Company as full and final settlement for the outstanding account, subject to the condition that the payment of US\$650,000 be made by no later than December 24, 2008. The Company has not recognized any portion of the potential discount on its books.