

Interim Consolidated Financial Statements

## **Pacgen Biopharmaceuticals Corporation**

(a development stage enterprise)

(Unaudited - expressed in Canadian dollars)

For the three and nine months ended December 31, 2008 and 2007

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### **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 December 31, 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 nine months ended December 31, 2008. The interim consolidated financial statements have not been reviewed or audited by the Company's auditors. All amounts are stated in Canadian Dollars.

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**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)

	<b>December 31, 2008</b>	<b>March 31, 2008</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	40,221	1,438,691
Amounts receivable	13,344	12,800
Prepaid expenses and other	478,271	469,307
<b>Total current assets</b>	<b>531,836</b>	<b>1,920,798</b>
Property and equipment [note 6]	80,045	101,236
Intangible assets [note 7]	824,473	1,002,203
<b>Total assets</b>	<b>1,436,354</b>	<b>3,024,237</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	1,566,125	1,378,733
Current portion of deferred leasehold inducement	6,916	6,916
	<b>1,573,041</b>	<b>1,385,649</b>
Deferred leasehold inducement	5,187	10,375
<b>Total liabilities</b>	<b>1,578,228</b>	<b>1,396,024</b>
Commitments and contingencies [notes 9 and 10]		
<b>Shareholders' equity</b>		
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	1,365,342	1,163,776
Deficit	(14,519,334)	(12,547,681)
<b>Total shareholders' equity</b>	<b>(141,874)</b>	<b>1,628,213</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,436,354</b>	<b>3,024,237</b>

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 December 31,		Nine Months Ended December 31,		Cumulative from Inception to December 31,
	2008	2007	2008	2007	2008
	\$	\$	\$	\$	\$
<b>EXPENSES (RECOVERY)</b>					
Research and development	208,858	431,197	1,245,309	2,408,620	7,575,739
Research and development expense recovery	(746,516)	—	(746,516)	—	(746,516)
	<b>(537,658)</b>	431,197	<b>498,793</b>	2,408,620	6,829,223
General and administration	277,673	406,920	881,375	1,594,128	5,908,343
Stock-based compensation	51,410	68,928	201,566	226,751	1,128,739
Amortization	66,307	68,661	198,921	205,340	732,424
	<b>(142,268)</b>	975,706	<b>1,780,655</b>	4,434,839	14,598,729
<b>OTHER</b>					
Interest and other income	9,599	20,178	34,795	90,964	259,601
Foreign exchange gain (losses)	(173,565)	(25,194)	(225,793)	(21,556)	(409,117)
Loss on disposal of property and equipment	—	(2,342)	—	(2,342)	(9,089)
	<b>(163,966)</b>	(7,358)	<b>(190,998)</b>	67,066	(158,605)
Loss before income taxes	(21,698)	(983,064)	(1,971,653)	(4,367,773)	(14,757,334)
Future income tax recovery	—	12,079	—	57,278	238,000
<b>Net loss and comprehensive loss for the period</b>	<b>(21,698)</b>	(970,985)	<b>(1,971,653)</b>	(4,310,495)	(14,519,334)
<b>Basic and diluted loss per common share</b>	<b>(0.00)</b>	(0.03)	<b>(0.06)</b>	(0.14)	
<b>Weighted average number of common shares outstanding</b>	<b>35,144,693</b>	30,521,960	<b>35,144,693</b>	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 December 31,		Nine Months Ended December 31,		Cumulative from Inception to December 31,
	2008	2007	2008	2007	2008
	\$	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>					
Loss for the period	(21,698)	(970,985)	(1,971,653)	(4,310,495)	(14,519,334)
Add items not affecting cash:					
Amortization	66,307	68,661	198,921	205,340	732,424
Deferred leasehold improvement	(1,729)	—	(5,187)	—	(6,340)
Future income tax recovery	—	(12,079)	—	(57,278)	(238,000)
Loss on disposal of property and equipment	—	2,342	—	2,342	9,089
Stock-based compensation	51,410	68,928	201,566	226,751	1,128,739
Unrealized foreign exchange loss	180,174	—	216,407	—	304,343
Write-off of research supplies	—	—	—	—	17,819
Write-off of withholding tax receivable	—	—	—	—	5,548
	<b>274,464</b>	<b>(843,133)</b>	<b>(1,359,946)</b>	<b>(3,933,340)</b>	<b>(12,565,712)</b>
Changes in non-cash working capital items relating to operations:					
Amounts receivable	(5,980)	92,190	(545)	93,370	130,150
Prepaid expenses and other	1,228	103,980	69,224	355,246	(505,838)
Accounts payable and accrued liabilities	(469,064)	(254,086)	107,203	(605,001)	1,245,537
<b>Cash used in operating activities</b>	<b>(199,352)</b>	<b>(901,049)</b>	<b>(1,398,470)</b>	<b>(4,089,725)</b>	<b>(11,695,863)</b>
<b>INVESTING ACTIVITIES</b>					
Acquisition of IL Therapeutics Inc.	—	—	—	—	1,237,089
Proceeds from disposal of property and equipment	—	6,221	—	6,221	5,775
Purchase of property and equipment	—	—	—	(19,486)	(179,202)
Purchase of intangible assets	—	—	—	—	(59,743)
Leasehold inducement	—	—	—	—	18,444
<b>Cash provided by (used in) investing activities</b>	<b>—</b>	<b>6,221</b>	<b>—</b>	<b>(13,265)</b>	<b>1,022,363</b>
<b>FINANCING ACTIVITIES</b>					
Issuance of share capital, net of share issuance cost	—	—	—	—	10,018,885
Deferred financing costs	—	(40,214)	—	(54,332)	—
Advance from related party	—	—	—	—	694,836
<b>Cash provided by (used in) financing activities</b>	<b>—</b>	<b>(40,214)</b>	<b>—</b>	<b>(54,332)</b>	<b>10,713,721</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(199,352)</b>	<b>(935,042)</b>	<b>(1,398,470)</b>	<b>(4,157,322)</b>	<b>40,221</b>
Cash and cash equivalents, beginning of period	239,573	2,165,086	1,438,691	5,387,366	—
<b>Cash and cash equivalents, end of period</b>	<b>40,221</b>	<b>1,230,044</b>	<b>40,221</b>	<b>1,230,044</b>	<b>40,221</b>

See accompanying notes

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

(Unaudited - expressed in Canadian dollars)

	Common Shares		Contributed	Deficit	Total
	Number	Amount	Surplus		
		\$	\$		
<b>Balance, March 31, 2007</b>	<b>30,521,960</b>	<b>12,286,556</b>	<b>795,480</b>	<b>(6,572,969)</b>	<b>6,509,067</b>
Stock-based compensation	—	—	86,405	—	86,405
Net loss for the period	—	—	—	(1,794,656)	(1,794,656)
<b>Balance, June 30, 2007</b>	<b>30,521,960</b>	<b>12,286,556</b>	<b>881,885</b>	<b>(8,367,625)</b>	<b>4,800,816</b>
Stock-based compensation	—	—	71,418	—	71,418
Net loss for the period	—	—	—	(1,544,854)	(1,544,854)
<b>Balance, September 30, 2007</b>	<b>30,521,960</b>	<b>12,286,556</b>	<b>953,303</b>	<b>(9,912,479)</b>	<b>3,327,380</b>
Stock-based compensation	—	—	68,928	—	68,928
Net loss for the period	—	—	—	(970,985)	(970,985)
<b>Balance, December 31, 2007</b>	<b>30,521,960</b>	<b>12,286,556</b>	<b>1,022,231</b>	<b>(10,883,464)</b>	<b>2,425,323</b>

	Common Shares		Contributed	Deficit	Total
	Number	Amount	Surplus		
		\$	\$		
<b>Balance, March 31, 2008</b>	<b>35,144,693</b>	<b>13,012,118</b>	<b>1,163,776</b>	<b>(12,547,681)</b>	<b>1,628,213</b>
Stock-based compensation	—	—	58,810	—	58,810
Net loss for the period	—	—	—	(1,307,501)	(1,307,501)
<b>Balance, June 30, 2008</b>	<b>35,144,693</b>	<b>13,012,118</b>	<b>1,222,586</b>	<b>(13,855,182)</b>	<b>379,522</b>
Stock-based compensation	—	—	91,346	—	91,346
Net loss for the period	—	—	—	(642,454)	(642,454)
<b>Balance, September 30, 2008</b>	<b>35,144,693</b>	<b>13,012,118</b>	<b>1,313,932</b>	<b>(14,497,636)</b>	<b>(171,586)</b>
Stock-based compensation	—	—	51,410	—	51,410
Net loss for the period	—	—	—	(21,698)	(21,698)
<b>Balance, December 31, 2008</b>	<b>35,144,693</b>	<b>13,012,118</b>	<b>1,365,342</b>	<b>(14,519,334)</b>	<b>(141,874)</b>

See accompanying notes

**Pacgen Biopharmaceuticals Corporation**  
(a development stage enterprise)

**NOTES TO INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS**

For the three and nine months ended December 31, 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 December 31, 2008, there was substantial doubt that the Company will be able to continue as a going concern without raising additional financial resources.

The Company has incurred losses from operations since inception and has accumulated a deficit of \$14,519,334 as at December 31, 2008. The Company has funded its operations primarily by share issuances. The Company’s ability to continue as a going concern is dependent upon its ability to obtain additional financing. The Company is currently seeking additional capital to finance its operations. Management is considering all financing alternatives, including equity financing, debt arrangement, merger and acquisition, corporate collaboration and licensing arrangement.

During the quarter ended December 31, 2008, the Company announced that it has terminated its letter of intent for a business combination with Medigen Biotechnology Corp. (“Medigen”). In accordance with the letter of intent signed in October 2008, the closing of the proposed business combination was subject to certain terms and conditions, including obtaining necessary approvals to enter into a definitive agreement. The parties determined that, in a share for share exchange transaction, the regulatory requirements in Taiwan would require an issuer to redeem dissenting shareholder interests for cash. Both parties anticipated that this requirement would negatively affect the liquidity and capital resources of the combined company, and that the proposed merger would be a significant undertaking given current financial market conditions. As a result, both parties have mutually elected not to proceed with the signing of a definitive agreement.

During the quarter ended December 31, 2008, the Company also made arrangements to settle its outstanding accounts of approximately US\$1.3 million with a vendor. The Company received a credit note and recovered approximately US\$603,000 of research and development expenditures from this vendor, and arranged to settle the remaining balance of approximately US\$708,500 by installment payments, as described in *note 13 [b]*. The Company subsequently made its first installment payment of US\$128,000 in February 2009.

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**NOTES TO INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS**

For the three and nine months ended December 31, 2008 and 2007  
(Unaudited - expressed in Canadian dollars)

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

Subsequent to the quarter ended December 31, 2008, as described in *note 13 [a]*, 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"). On February 3, 2009, the Company completed the first tranche of the Offering for an aggregate principal amount of \$364,500.

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.

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 nine months ended December 31, 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;

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**NOTES TO INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS**

For the three and nine months ended December 31, 2008 and 2007  
(Unaudited - expressed in Canadian dollars)

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

**[a] General Standards of Financial Statement Presentations (cont'd)**

- (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.

**[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.

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**NOTES TO INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS**

For the three and nine months ended December 31, 2008 and 2007  
(Unaudited - expressed in Canadian dollars)

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

**[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.

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 and preserve longer operating window, the Company does not pay out dividends.

The Company is not subject to any externally imposed capital requirements.

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**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and nine months ended December 31, 2008 and 2007  
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**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:

	<b>December 31, 2008</b>	<b>March 31, 2008</b>
	\$	\$
<hr/>		
<b>Financial assets</b>		
Cash and cash equivalents, held-for-trading, recorded at fair value	<b>40,221</b>	1,438,691
Accounts and other receivables, loans and receivables, recorded at amortized cost	<b>1,243</b>	2,868
GST receivable, loans and receivables, recorded at amortized cost	<b>12,089</b>	6,805
Interest receivable, loans and receivables, recorded at amortized cost	<b>12</b>	3,127
	<hr/> <b>53,565</b>	<hr/> 1,451,491
	<b>December 31, 2008</b>	<b>March 31, 2008</b>
	\$	\$
<hr/>		
<b>Financial liabilities</b>		
Accounts payable and accrued liabilities, other financial liabilities, recorded at amortized cost	<b>1,566,125</b>	1,378,733
	<hr/> <b>1,566,125</b>	<hr/> 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 nine months ended December 31, 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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**NOTES TO INTERIM CONSOLIDATED FINANCIAL  
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For the three and nine months ended December 31, 2008 and 2007  
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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 nine months ended December 31, 2008, the Company earned interest income of \$253 and \$9,208, respectively on its cash and cash equivalents. Based on the value of cash and cash equivalents during the three and nine months ended December 31, 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 \$965 and \$4,484 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 December 31, 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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**NOTES TO INTERIM CONSOLIDATED FINANCIAL  
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**5. FINANCIAL INSTRUMENTS (cont'd)**

**[c] Currency risk (cont'd)**

	<b>December 31, 2008 US\$</b>	<b>March 31, 2008 US\$</b>
Cash and cash equivalents	<b>8,717</b>	8,818
Accounts payable and accrued liabilities	<b>1,093,585</b>	1,200,023
	<b>1,102,302</b>	1,208,841

Based on the above net exposures as at December 31, 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 \$71,623 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 December 31, 2008, accounts payable and accrued liabilities includes \$1,566,125 due within the current operating period. Of this amount, the Company has made settlement arrangements to pay approximately US\$708,500 to a vendor by installments and approximately US\$183,000 by prepaid expenses held by another vendor. Payments to Ferghana Partners Inc. and MCM LifeScience Inc. are subject to closing of certain transactions.

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 December 31, 2008, 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, as described in *note 13 [a]*. On February 3, 2009, the Company completed the first tranche of the Offering for an aggregate principal amount of \$364,500.

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**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and nine months ended December 31, 2008 and 2007  
(Unaudited - expressed in Canadian dollars)

**6. PROPERTY AND EQUIPMENT**

	Cost \$	Accumulated Amortization \$	Net Book Value \$
<b>December 31, 2008</b>			
Computer equipment and software	55,280	36,383	18,897
Leasehold improvement	41,346	12,619	28,727
Office furniture and equipment	50,456	18,035	32,421
	<b>147,082</b>	<b>67,037</b>	<b>80,045</b>
<b>March 31, 2008</b>			
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**

	December 31, 2008 \$	March 31, 2008 \$
<b>Technology, licenses and rights</b>		
Cost	1,477,151	1,477,151
Accumulated amortization	652,678	474,948
	<b>824,473</b>	<b>1,002,203</b>

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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 December 31, 2008 and March 31, 2008, there were no preferred shares issued and outstanding.

**[b] Common share purchase warrants**

At December 31, 2008 and March 31, 2008, the Company had 4,691,133 of common share purchase warrants outstanding. Details of the common share purchase warrants are summarized as follows:

<b>Date of Expiry</b>	<b>Exercise Price</b>	<b>Number of Warrants</b>
March 16, 2013	\$0.30	4,622,733
March 16, 2010 <sup>(1)</sup>	\$0.22	34,200
<b>Balance, March 31, 2008, and December 31, 2008</b>	<b>\$0.30</b>	<b>4,656,933</b>

<sup>(1)</sup> 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 4,691,133 common share purchase warrants outstanding, at an average exercise price of \$0.30, as of December 31, 2008 and March 31, 2008.

**[c] 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.

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**8. SHARE CAPITAL (cont'd)**

**[c] Stock options (cont'd)**

At December 31, 2008, the Company had 2,450,000 stock options outstanding granted to employees, officers, directors, consultants and scientific advisory board members. Details of stock option transactions for the period ended December 31, 2008 are summarized as follows:

	<b>Number</b>	<b>Weighted Average Exercise Price \$</b>
<b>Balance, March 31 2008</b>	<b>2,634,000</b>	<b>0.99</b>
Granted	175,000	0.26
Forfeited	(359,000)	1.06
<b>Balance, December 31, 2008</b>	<b>2,450,000</b>	<b>0.93</b>

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

<b>Options Outstanding</b>				<b>Options Exercisable</b>	
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	835,000	5.93	0.56	481,666	0.50
\$1.00 - \$1.05	675,000	4.35	1.05	586,250	1.05
\$1.10 - \$1.16	940,000	5.71	1.16	690,000	1.16
	2,450,000	5.41	0.93	1,757,916	0.94

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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	25,343
2010	99,218
2011	51,377
2012	3,537
2013	—
	<u>179,475</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 \$64,838 and \$2,745,451 for the fiscal years ending March 31, 2009 and 2010, respectively. Of these commitments, \$45,988 and \$473,787 (\$465,594 has been paid and withheld by a vendor) are non-cancellable and \$18,850 and \$2,271,664 are cancellable for the fiscal years ending March 31, 2009 and 2010, respectively.

**[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.

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	\$	\$	\$	\$
Consulting services provided by a director	—	—	503	1,598
Consulting services provided by a consulting firm of which a director is a related party	—	—	—	4,000
Research services provided by a consulting firm of which an officer is the principal	—	31,875	—	95,625
	503	31,875	503	101,223

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**13. SUBSEQUENT EVENTS**

**[a] Financing**

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 Company completed the first tranche of the Offering for an aggregate principal amount of \$364,500 on February 3, 2009.

The convertible debentures will mature one year from the date of issuance, and will bear interest from the date of issuance at a rate of prime plus 4% per annum. The principal amount under the convertible debentures plus any accrued interest will be repayable in cash or convertible, at the option of the holder, into units of the Company (the "Units") at a conversion price of \$0.10 per Unit. Each Unit will consist of one common share of the Company (a "Common Share") and one common share purchase warrant (a "Warrant"), each Warrant entitling a non-insider holder to purchase one Common Share at an exercise price of \$0.10 per Common Share at any time prior to 24 months following the date of issuance of the Warrant upon conversion of the convertible debenture. The Warrants comprising the Units issuable upon conversion of convertible debentures issued to insiders of the Company will expire upon the earlier of the maturity date of the convertible debentures and the date that is 24 months following date of issuance of the Warrants upon conversion of the convertible debentures.

**[b] Accounts payable and accrued liabilities**

In December 2008, the Company made arrangements to settle its outstanding accounts of approximately US\$1.3 million with a vendor. The Company received a credit note and recovered approximately US\$603,000 of research and development expenditures from this vendor, and arranged to settle the remaining balance of its outstanding account of approximately US\$708,500 by installment payments. The Company subsequently made its first installment payment of US\$128,000 in February 2009.