

Consolidated Financial Statements of
(Unaudited)

AKELA PHARMA INC.

Periods ended March 31, 2009 and 2008

NOTICE TO READER

The accompanying unaudited interim financial statements of Akela Pharma Inc. for the three month periods ended March 31, 2009 and 2008 have been prepared by the management and have not been reviewed by the Company's auditor.

AKELA PHARMA INC.

Consolidated Financial Statements
(Unaudited)

Three month periods ended March 31, 2009 and 2008
(in thousands of US dollars)

Financial Statements

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AKELA PHARMA INC.

Consolidated Balance Sheets
(Unaudited)

March 31, 2009 and December 31, 2008
(in thousands of US dollars)

	March 31, 2009	December 31, 2008
Assets		
Current assets:		
Cash	\$ 3,089	\$ 2,345
Restricted cash (note 6)	600	600
Accounts receivable	2,811	6,070
Prepaid expenses and other current assets	600	346
	7,100	9,361
Restricted cash and deposits	1,258	1,258
Property and equipment	4,938	5,229
Intangible assets	4,331	4,755
Goodwill	6,457	6,457
Other assets	1,638	1,397
	\$ 25,722	\$ 28,457
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 8,784	\$ 7,917
Deferred revenue	4,464	4,515
Current portion of long-term debt (note 6)	1,260	1,311
	14,508	13,743
Deferred revenue	15,628	16,266
Long-term debt (note 6)	4,588	4,894
Shareholders' equity:		
Common shares (unlimited authorized, 21,615,577 common shares issued and outstanding with no par value at March 31, 2009 and December 31, 2008)	66,346	66,346
Warrants (note 8)	2,814	2,814
Additional paid-in capital	8,182	8,105
Accumulated other comprehensive income	3,110	3,110
Deficit	(89,454)	(86,821)
	(86,344)	(83,711)
Total shareholders' equity	(9,002)	(6,446)
Commitments, contingencies and guarantees (note 10)		
	\$ 25,722	\$ 28,457

See accompanying notes to unaudited consolidated financial statements.

AKELA PHARMA INC.

Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

Three month periods ended March 31, 2009 and 2008
(in thousands of US dollars, except share and per share data)

	Three months ended	
	March 31,	
	2009	2008
Revenues	\$ 3,770	\$ 3,870
Expenses:		
Direct costs	2,068	1,688
Selling, general and administrative	1,434	2,093
Research and development	1,389	2,572
Restructuring costs <i>(note 5)</i>	676	-
Stock-based compensation <i>(note 9)</i>	77	170
Depreciation of property and equipment	372	463
Amortization of intangible assets	423	744
Interest on long-term debt	37	31
Unrealized loss on securities held for trading <i>(note 3)</i>	87	-
Foreign exchange (gain) loss	(40)	531
	<u>6,523</u>	<u>8,292</u>
Loss before under noted items	(2,753)	(4,422)
Other income (expense):		
Settlement with LRI <i>(note 3)</i>	1,664	-
Provision for repayment of government grants <i>(note 4)</i>	(1,544)	-
Loss before income taxes	<u>(2,633)</u>	<u>(4,422)</u>
Recovery of income taxes:		
Current	-	-
Future	-	46
	<u>-</u>	<u>46</u>
Net loss and comprehensive loss	\$ (2,633)	\$ (4,376)
Basic and diluted net loss per share	\$ (0.12)	\$ (0.36)
Basic and diluted weighted average number of shares outstanding	21,615,577	12,261,042

See accompanying notes to unaudited consolidated financial statements.

AKELA PHARMA INC.

Consolidated Statement of Shareholders' Equity (Unaudited)

Three month period ended March 31, 2009
(in thousands of US dollars)

	Common Shares		Warrants	Additional Paid-in Capital	Accumulated other comprehensive		Total
	Number	Dollars			income	Deficit	
Balance, December 31, 2008	21,615,577	\$ 66,346	\$ 2,814	\$ 8,105	\$ 3,110	\$ (86,821)	\$ (6,446)
Stock-based compensation <i>(note 9)</i>	-	-	-	77	-	-	77
Net loss	-	-	-	-	-	(2,633)	(2,633)
Balance, March 31, 2009	21,615,577	\$ 66,346	\$ 2,814	\$ 8,182	\$ 3,110	\$ (89,454)	\$ (9,002)

See accompanying notes to unaudited consolidated financial statements.

AKELA PHARMA INC.

Consolidated Statements of Cash Flows
(Unaudited)

Three months ended March 31, 2009 and 2008
(in thousands of US dollars)

	Three months ended March 31,	
	2009	2008
Cash flows from operating activities:		
Net loss	\$ (2,633)	\$ (4,376)
Adjustments for:		
Depreciation of property and equipment	372	463
Amortization of intangible assets	423	744
Provision for repayment of government grants <i>(note 4)</i>	1,544	-
Resstructuring charges <i>(note 5)</i>	571	-
Stock-based compensation <i>(note 9)</i>	77	170
Unrealized foreign exchange (gain) loss	(43)	820
Unrealized loss on securities held for trading <i>(note 3)</i>	87	-
Future income taxes	-	(46)
Net changes in operating assets and liabilities <i>(note 11 (a))</i>	1,300	(5)
	1,698	(2,230)
Cash flows from financing activities:		
Repayments of long-term debt	(162)	(219)
Proceeds from issuance of units	-	10,200
Unit issue costs	-	(1,050)
	(162)	8,931
Cash flows from investing activities:		
Acquisition of property and equipment	(792)	(531)
Addition to intangible assets	-	(21)
	(792)	(552)
Net increase in cash	744	6,149
Cash, beginning of period	2,345	6,688
Cash, end of period	\$ 3,089	\$ 12,837

See accompanying notes to unaudited consolidated financial statements.

AKELA PHARMA INC.

Notes to Consolidated Financial Statements
(Unaudited)

Periods ended March 31, 2009 and 2008

(in thousands of US dollars, except share and per share data unless otherwise noted)

1. Nature of operations:

Akela Pharma, Inc. (“Akela” or “the Company”) is an integrated drug development company focused on developing therapies for the growing multi-billion dollar inhalation and pain markets. In addition to our own product portfolio, we provide research and development services including specialty drug manufacturing, product development, quality control testing, analytical method development and patent litigation support.

Akela’s unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) and follow the same accounting policies and methods of their application as the most recent annual consolidated financial statements except as described below. In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the interim financial statements. Such adjustments are of a normal and recurring nature. The results of operations for the interim periods are not necessarily indicative of the operating results for the full year. The interim financial statements do not include all of the disclosures required by GAAP applicable to annual financial statements and should be read in conjunction with the annual consolidated financial statements and notes thereto included in the Company’s annual report for the year ended December 31, 2008.

The accompanying financial statements have been prepared on a going concern basis which contemplates that Akela will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has and continues to incur significant net losses. The Company has funded such losses with external debt, share issuances and working capital. As of March 31, 2009, the Company has net current liabilities of \$7,407.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, the amount and classification of liabilities and the reported revenue and expenses that would be necessary should the Company be unable to continue as a going concern.

Akela’s ability to continue as a going concern is dependent upon, amongst other things, the successful development and marketing of its technologies and securing financing for its drug development activities. These endeavours are dependent on a number of circumstances outside the Company’s control and there is uncertainty about the Company’s ability to successfully conclude on these matters. As such, the realization of assets and discharge of liabilities in the ordinary course of business are subject to significant uncertainty. Management’s actions and plans with respect to addressing the going concern uncertainty include the following:

- a) In February 2009, Akela undertook measures to cut costs in order to preserve cash for its continued operations (see note 5). The reduction in costs is targeted to Akela’s development programs, as well as its service business, PharmaForm. Akela’s product development activities have been curtailed and confined exclusively to Fentanyl TAIFUN®. Phase III clinical trials are now concentrated on a limited size and number of sites.
- b) On March 10, 2009, Akela agreed to accept a payment of \$2,000 Cdn (\$1,562 US) and 500,000 warrants with an exercise price of \$0.50 Cdn (\$0.39 US) from LAB Research Inc. as full and final settlement of its lawsuit relating to a failed Fentanyl TAIFUN® toxicology study (see note 3).
- c) On March 27, 2009, Akela Pharma and Nventa Biopharmaceuticals (“Nventa”) announced the execution of an arrangement agreement to combine the two companies by way of a plan of arrangement under the Business Corporations Act (British Columbia). The transaction is expected to close in May 2009, subject to the satisfaction of

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certain customary closing conditions, including Nventa shareholder approval and a minimum amount of \$1,500 Cdn of net cash in Nventa.

- d) The Company has and is continuing to implement plans to increase its operational efficiency and profitability, as well as to reduce operational costs. In order to ensure the availability of current capital resources, the Company may also attempt to issue new equity securities, issue new debt or pursue various other funding alternatives (see note 14).

Despite the aforementioned actions, management cannot ensure the continuance of the Company as a going concern. The financing environment within which the Company operates remains very challenging. Management's efforts to secure the funds needed to advance the Fentanyl Taifun® program have not yet yielded any tangible results. The outlook for the contract services business remains positive even though there has been a decrease in demand from the biotech segment of the market. Historically, "Biotechs" have made up an important part of the Company's contract services customer base. Over the last several months direct sales and marketing resources have been focused on securing programs and longer term supply arrangements with larger pharmaceutical and biotech companies. Much progress has been made in realigning our customer base but the transition is lengthy and could lead to limited revenue growth in the short term. Management is also considering the sale of certain strategic assets in an effort to raise the capital required.

2. Significant accounting policies and basis of presentation:

(a) *New accounting policies:*

Section 3064, *Goodwill and Intangible Assets*, replacing 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. The new section, issued in February 2008, is applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of this section did not have any impact on the Company's unaudited interim financial statements.

(b) *Future accounting pronouncements:*

- i) *International Financial Reporting Standards*. The Accounting Standards Board of Canada (AcSB) will converge Canadian GAAP for publicly accountable enterprises with International Financial Reporting Standards ("IFRS") over a transition period that will end effective January 1, 2011 for publicly accountable profit oriented enterprises. The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. IFRS uses a conceptual framework similar to Canadian generally accepted accounting principles, but there are significant differences in recognition, measurement and disclosure requirements. The Company has not yet determined the impact of the adoption of IFRS on its consolidated financial statements.
- ii) Section 1582, *Business Combinations*. This new Section will be applicable to business combinations for which the acquisition date is on or after the Company's interim and fiscal year beginning January 1, 2011. Early adoption is permitted. The 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

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effects. The Company has not yet determined the impact of the adoption of this new Section on its consolidated financial statements.

- iii) Section 1601, *Consolidated Financial Statements*. This new Section will be applicable to financial statements related to the Company's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for the preparation of the consolidated financial statements. The Company has not yet determined the impact of the adoption of this new Section on its consolidated financial statements.
- iv) Section 1602, *Consolidated Financial Statements*. This new Section will be applicable to financial statements related to the Company's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Company has not yet determined the impact of the adoption of this new Section on its consolidated financial statements.

3. Settlement with LRI:

On March 10, 2009, the Company agreed to accept a payment of \$2,000 Cdn (\$1,562 US) and 500,000 common share purchase warrants with an exercise price of \$0.50 Cdn (\$0.39 US) from LAB Research Inc. (LRI) as full and final settlement of its lawsuit relating to a failed Fentanyl TAIFUN® toxicology study. The fair value of the warrants together with the cash proceeds received as part of this settlement resulted in a one-time gain of \$1,664.

The fair value of the warrants as of March 10, 2009, \$130 Cdn (\$101 US), was determined using the following Black-Scholes pricing model assumptions:

	Warrants
Risk-free interest rate	0.98%
Expected volatility	103.85%
Expected life in years	1.8
Expected dividend yield	-

A decline in the fair value of the warrants subsequent to the settlement resulted in an \$87 loss on securities held for trading for the period ended March 31, 2009. The fair value of the warrants as of March 31, 2009, \$15, has been classified as prepaid and other current assets.

4. Provision for repayment of government grants:

In 2004 and 2005, the Company's Finnish subsidiary entered into certain funding arrangements with Tekes, the Finnish Funding Agency for Technology and Innovation. These arrangements provided for funding grants and loans, payable to the Company in instalments, with respect to inhalation technology development. Following the Company's decision to down-size its Finnish operations in the summer of 2007, the Company was notified that this agency was reviewing loans and subsidies previously granted totalling €3,150 and €956, respectively. The agency concluded that the loans would not be

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collected prematurely but made a demand for repayment of the grants, together with interest. In April 2009 the Company's appeal against this decision was rejected by the Administrative Court of Turku, which concluded that Tekes had the right, by virtue of its lawful discretion, to order repayment of financing received through the grants. The Company intends to file an appeal against this ruling with the Supreme Administrative Court; however, there can be no assurance that the ruling of the Administrative Court of Turku will be overturned. In light of probable losses associated with this event, the Company has recorded a one time charge of \$1,544, the US dollar equivalent of the grants received \$1,269 (€956), together with interest from July 2007 through March 31, 2009, \$275 (€207).

5. Restructuring costs:

In February 2009, the Company undertook measures to cut costs in order to preserve cash for its continued operations. In connection with the cost reduction plan, the Company terminated approximately 40 employees and recorded a restructuring charge of \$676, which included a \$136 impairment loss on property and equipment, \$105 for employee severance, \$356 in costs associated with the development of commercial TAIFUN® injection moulds and \$79 in charges resulting from the termination of the Company's license agreement to CGRP, a former non-pain product candidate. At March 31, 2009, \$435 of accrued restructuring charges remained unpaid and are included in "Accounts payable and accrued liabilities" on the consolidated balance sheet.

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6. Long-term debt:

	March 31, 2009	December 31, 2008
Capital loans of the Company's Finnish subsidiary in Euros (2009 - €2,539 ; 2008 - €2,539) bearing interest at the basic rate of interest of the Bank of Finland less 1%, with a minimum interest rate of 3%. The term of the loans are eight years to February 2013 with no capital repayments in the first four years; interest or other remuneration are conditional on specified equity requirements in the Company's Finnish subsidiary. For the three months ended March 31, 2009 and 2008 no interest was payable on this unsecured debt.	3,373	3,542
Capital loans of the Company's Finnish subsidiary in Euros (2009 - €188; 2008 - €188) bearing interest at 5%; interest or other remuneration are conditional on specified equity requirements in the Company's Finnish subsidiary. For the three months ended March 31, 2009 and 2008 no interest was payable on this unsecured debt.	250	263
Note payable of the Company's Finnish subsidiary in Euros (2009 - €494; 2008 - €494) bearing interest at the basic rate of interest of the Bank of Finland less 3%, with a minimum interest rate of 1%. The term of the loan is eight years to December 2013 with capital repayments beginning in 2011. At March 31, 2009, the effective interest rate on this unsecured debt was 1.70%.	656	689
Note payable, bearing 8.75% interest, repayable over 60 months to May 2012, secured by a 1 st lien on accounts receivable and property and equipment and by \$600 of restricted cash. At December 31, 2008 the current and debt coverage ratios required as part of Akela's covenant with the lender were not achieved. As the lender has the right to demand immediate repayment, the outstanding balance of this note has been classified as current. No demand for repayment of this debt has been made. (See note 14).	819	874
Capital lease obligations of Akela's subsidiary, PharmaForm, bearing interest from 6% to 10.11%, secured by related laboratory equipment.	735	819
Auto loan of the Company's Indian subsidiary bearing 8.5% interest	15	18
	5,848	6,205
Current portion of long-term debt	1,260	1,311
	\$ 4,588	\$ 4,894

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7. Stock option plan:

No stock awards have been issued by the Company. Changes in outstanding options issued under the Company's stock option plan for the periods ended March 31, 2009 and December 31, 2008 were as follows:

	Number	Weighted Average Exercise Price (CDN \$'s)
Balance, December 31, 2007	1,126,393	7.43
Granted	478,000	1.19
Balance, December 31, 2008	1,604,393	\$ 5.57
Cancellations	(24,760)	7.37
Balance, March 31, 2009	1,579,633	\$ 5.54
Options exercisable, March 31, 2009	1,104,255	\$ 7.08

The weighted average exercise price and remaining life of outstanding and exercisable options issued under the Company's stock option plan for the period ended March 31, 2009 was as follows:

Range of exercise prices (CDN)	Options outstanding	Weighted average exercise price (CDN)	Options exercisable	Weighted average exercise price (CDN)	Weighted average remaining contractual life (years)
\$10.86 - 10.99	21,428	\$ 10.99	14,286	\$ 10.99	7.09
\$8.51 - 10.85	137,135	\$ 9.78	137,135	\$ 9.78	4.33
\$7.01 - 8.50	247,356	\$ 7.54	237,832	\$ 7.55	6.35
\$6.81 - 7.00	466,691	\$ 6.97	430,979	\$ 6.97	6.48
\$6.51 - 6.80	157,239	\$ 6.64	157,239	\$ 6.64	6.39
\$5.81 - 6.50	71,784	\$ 6.18	66,784	\$ 6.19	7.67
\$0.61 - 1.38	478,000	\$ 1.19	60,000	\$ 1.12	9
\$0.61 - 10.99	1,579,633	\$ 5.54	1,104,255	\$ 7.08	6.38

8. Warrants and broker units:

As of March 31, 2009, the following warrants were outstanding:

Warrants		Common share equivalents	Exercise price (CDN)	Expiration Date
Number	Fair value at issuance (USD)			
1	\$ 364	252,898	\$ 7.83	April 22, 2010
4,312,500	2,155	4,312,500	\$ 1.50	March 28, 2011
603,750	295	603,750	\$ 1.20	March 28, 2010
4,916,251	\$ 2,814	5,169,148		

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9. Stock-based compensation:

For the period ended March 31, 2009, the Company granted nil (2008 – 240,000) options and recognized total stock-based compensation of \$77 (2008 – \$170).

The weighed average fair value of each option granted is estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

	2008
Risk-free interest rate	4.18%
Expected volatility	63.95%
Expected life in years	6.00
Expected dividend yield	-

The following table summarizes the weighted average grant-date fair value per share for options granted during the period ended March 31, 2008:

	Number of options	Weighted average grant-date fair value (CDN \$'s)
Exercise price per share equal to market price per share at date of grant:		
2008	240,000	3.78

Dividend yield was excluded from the calculation since it is the present policy of the Company to retain all earnings to finance operations.

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10. Commitments, contingencies and guarantees:

(a) Commitments:

The annualized aggregate maturities of the Company's contractual obligations are as follows:

	2009	2010	2011	2012	2013	2014+	Total
Operating leases	1,797	2,003	1,217	1,253	1,253	12,253	\$ 19,776
Capital leases *	907	397	110	-	-	-	1,414
Service contracts	921	795	560	47	-	-	2,323
Clinical studies	1,587	-	-	-	-	-	1,587
Product development	330	-	-	-	-	-	330
Long-term debt *	1,171	13	243	267	243	3,782	5,719
	6,713	3,208	2,130	1,567	1,496	16,035	\$ 31,149

* Long-term debt and capital leases include principal and related interest and \$411 in purchase commitments to acquire laboratory equipment and software.

The Company is party to license agreements with Auxilium Pharmaceutical, Inc. ("Auxilium") granting Auxilium an exclusive, worldwide royalty-bearing license to develop, make and sell products that contain oral transmucosal film technology for which there is an issued patent in the United States. The terms of these license agreements are for the life of the licensed patents.

The intellectual rights associated with this agreement are based on sublicense agreements with the University of Mississippi and the University of Texas. In the event that the University of Mississippi or the University of Texas license agreements are terminated during the term of the Auxilium agreement, PharmaForm shall pay to Auxilium one-half of all direct expenses and costs Auxilium has incurred relating to the research and development of the compounds, technology, or products pursued under the Agreement which exceed the cumulative gross profit earned by Auxilium on such products, as of the date of the termination of such agreement. With respect to each of the University of Mississippi sublicense agreement, the right to terminate for convenience may only be exercised by all inventors as a group. One of the Company's board members is an inventor. The University of Texas license agreement may only be terminated for convenience by mutual agreement of the parties thereto. As of March 31, 2009, the minimum amount of this contingency is \$2.3 million, representing one-half of amounts received by the Company from Auxilium, and is subject to upward adjustment for any additional amounts incurred by Auxilium on this project. The Company has not recorded a liability with respect to this guarantee as the Company does not expect to make any payments for this item and the standby liability is nominal.

The Company is party to a royalty bearing license for a drug delivery system in which it is required to pay 75% of any sublicense fees received by the Company to the licensors. The Company's sublicense to Auxilium is subject to these agreements.

(b) Contingencies:

In 2004 and 2005, the Company entered into certain funding arrangements with Tekes, the Finnish Funding Agency for Technology and Innovation. These arrangements provided for funding grants and loans, payable to the Company in instalments, with respect to inhalation technology development. Following the Company's decision to down-size its Finnish operations in the summer of 2007, the Company was notified that this agency was reviewing loans and subsidies previously granted to totalling €3,150 and €956, respectively. The agency

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concluded that the loans would not be collected prematurely but made a demand for repayment of the grants, together with interest. In April 2009 the Company's appeal against this decision was rejected by the Administrative Court of Turku, which concluded that Tekes had the right, by virtue of its lawful discretion, to order repayment of financing received through the grants. The Company intends to file an appeal against this ruling with the Supreme Administrative Court; however, there can be no assurance that the ruling of the Administrative Court of Turku will be overturned. In light of probable losses associated with this event, the Company has recorded a one time charge of \$1,544, the US dollar equivalent of the grants received \$1,269 (€956), together with interest from July 2007 through March 31, 2009, \$275 (€207). (See note 4).

The Company is the defendant in an action filed in the District Court of Travis County, Texas by a former executive. The action claims actual and compensatory damages in an unspecified amount, costs and other relief in connection with the termination of employment in October 2007. The Company does not expect the resolution of this matter will have a material effect on the Company's consolidated financial statements.

(c) Guarantees:

The Company has entered into a number of standard indemnification agreements in the ordinary course of its business. Pursuant to these agreements, the Company indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party, who are generally the Company's business partners or customers. The Company agrees to indemnify for claims, demands or judgments that arise out of negligence or misconduct of the Company, or act of alleged infringement of intellectual property by any third-party with respect to the Company's activities under the agreement. At March 31, 2009 and December 31, 2008, the Company has not recorded a liability with respect to these guarantees as the Company is not aware of any such claim and does not expect to make any payments for the aforementioned items and the standby liability is nominal.

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11. Supplemental cash flow disclosure and other information:

(a) Net changes in operating assets and liabilities:

	Three months ended March 31,	
	2009	2008
Accounts receivable	\$ 3,259	\$ 2,588
Prepaid expenses and other assets	(342)	(628)
Accounts payable and accrued liabilities	(928)	(1,242)
Deferred revenue	(689)	(723)
	<u>1,300</u>	<u>(5)</u>

(b) Cash paid for:

	Three months ended March 31,	
	2009	2008
Interest	\$ 36	32

(c) Non-cash transactions:

	Three months ended March 31,	
	2009	2008
Receipt of warrants as full and final settlement of lawsuit with LRI on March 10, 2009 regarding a failed toxicology study (note 3)	\$ 101	\$ -
Issuance of warrants to underwriters as compensation for March 27, 2008 public offering and issuance of 8,625,000 units (note 8)	-	295

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12. Financial instruments:

(a) Classification:

The classification of financial instruments as of March 31, 2009 and December 31, 2008 and their respective carrying values and fair values are as follows:

March 31, 2009	Held-for-trading	Loans and receivables	Held-to-maturity	Other financial liabilities	Carrying value	Fair value
Cash	\$ 3,089				\$ 3,089	\$ 3,089
Accounts receivable		2,811			2,811	2,811
Restricted cash and deposits			1,858		1,858	1,858
Accounts payable and accrued liabilities				8,784	8,784	8,784
Long-term debt				5,848	5,848	1,605

December 31, 2008	Held-for-trading	Loans and receivables	Held-to-maturity	Other financial liabilities	Carrying value	Fair value
Cash	\$ 2,345				\$ 2,345	\$ 2,345
Accounts receivable		6,070			6,070	6,070
Restricted cash and deposits			1,858		1,858	1,858
Accounts payable and accrued liabilities				7,917	7,917	7,917
Long-term debt				6,205	6,205	2,110

(b) Fair value:

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. In the absence of quoted prices in active markets, considerable judgment is required in estimating fair value. Estimates are not necessarily indicative of the amounts the Company could realize in a current market transaction. The following methods and assumptions were used to estimate fair values:

(i) Available-for-sale

Cash – Cash is classified as “available-for-sale” due to its short-term nature and the fact that it must be readily available to finance the Company's operations. The carrying value is therefore considered a reasonable approximation fair value.

(ii) Loans and receivables

Accounts receivable and restricted cash – Due to their short-term nature, the carrying values of accounts receivable and restricted cash is considered a reasonable approximation of fair value.

(iii) Other financial liabilities

Accounts payable, accrued liabilities and long-term debt – Accounts payable and accrued liabilities are measured at amortized cost which approximates fair value due to their short-term nature. The fair value of long-term debt is estimated based on discounted cash flows using period-end market

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yields or the market value of similar instruments with the same maturity, or quoted market prices when available. Due to the judgment used in applying a wide range of acceptable techniques and estimates in calculating fair value amounts, fair values are not necessarily comparable among financial institutions or other market participants and may not be realized in an actual sale or the immediate settlement of the instrument.

As of March 31, 2009 and December 31, 2008, the carrying amount of assets that the Company has pledged as collateral for long-term debt facilities was approximately \$8.1 million and \$8 million, respectively.

13. Financial risk management:

The following is a discussion of the Company's exposure to and management of risks arising from financial instruments, including credit risk, foreign currency risk, interest rate risk, and liquidity risk.

(a) Credit risk:

Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. Financial instruments that potentially subject the Company to credit risk consist primarily of cash, restricted cash and accounts receivable. Cash and restricted cash are maintained with a high credit quality financial institution. For accounts receivable, the Company performs periodic credit evaluations and typically does not require collateral. Provisions are recognized, if necessary, in order to reflect risks related to bad debts. During the three months ended March 31, 2009 and 2008, no provision was recorded as a result of this evaluation. The carrying amount of cash, restricted cash and trade accounts receivable represents the Company's maximum credit exposure.

For the three ended March 31, 2009, the Company's three largest customers accounted for approximately 39% of revenues. One of these customers accounted for approximately 10% of accounts receivable at March 31, 2009.

The following table sets forth details of the age of receivables:

	As of March 31, 2009
Total accounts receivable	\$ 2,960
Of which:	
Not overdue	1,821
Past due for more than one day but for not more than three months	826
Past due more for than three months but for not more than six months	314
Total accounts receivable, gross	\$ 2,961
Allowance for doubtful accounts	(150)
Total accounts receivable, net	\$ 2,811

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(b) *Foreign currency risk:*

The functional currency of the Company and its subsidiaries is the US dollar. Foreign currency risk is limited to the portion of the Company's business transactions denominated in currencies other than US dollars and by the translation of assets and liabilities denominated in currencies other than the US dollar at each balance sheet date. Revenues are primarily received in US dollars and other currencies while a portion of expenses are paid in other currencies, primarily the Canadian dollar and the Euro. The Company's consolidated loss could therefore be affected by the Canadian and Euro/US dollar exchange rate and other exchange rates relative to the US dollar, which exchange rates may fluctuate over time and cannot be accurately predicted. From time to time, the Company engages in the use of derivative financial instruments to manage its currency exposure. At March 31, 2009 and December 31, 2008, the Company had not entered into any derivative financial instruments.

The following is a breakdown of financial instruments by foreign currency as of March 31, 2009:

(in thousands of US dollars)	March 31,				
	2009				
	\$Cdn	Euro	\$Bds	INR	Total
Cash	\$ 1,748	\$ 466	\$ 32	\$ 31	2,277
Accounts receivable	52	176	4	4	236
Accounts payable and accrued liabilities	1,231	3,293	243	14	4,781
Long-term debt	-	4,279	-	15	4,294
	\$ 3,031	\$ 8,214	\$ 279	\$ 64	\$ 11,588

The following exchange rates applied during the reporting period and for the three months ended March 31, 2009:

Currency	Exchange	Average	Closing
Canadian dollar	US/Cdn	0.8946	0.8210
Euro	US/Euro	1.4202	1.3951
Barbadian	US/Bds	0.5076	0.5096
Indian Rupee	US/INR	0.0219	0.0207

(c) *Interest rate risk:*

The Company's exposure to interest rate risk primarily arises from a loan in Euros from a Finnish governmental body, which bears interest at floating rates. As of March 31, 2009, \$0.7 million of the Company's total debt portfolio was subject to movement in floating interest rates. A 1% change in interest rates would have an effect on the loss from continuing operations before income taxes for the three months ended March 31, 2009 of approximately \$2. The Company currently does not have any outstanding credit facilities, other than those described in note 6.

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(d) *Liquidity risk:*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by continuously monitoring forecasts and actual cash flows and through regular distribution of this information to the Board of Directors and the Audit Committee.

The following are the contractual maturities of financial liabilities as of March 31, 2009:

	Carrying Amount	Less than 1 year	1 to 3 years
Accounts Payable and accrued liabilities	\$ 8,784	8,784	-
Operating leases	19,776	1,797	3,220
Capital leases *	1,414	907	904
Service contracts	2,323	921	1,355
Clinical studies	1,587	1,587	-
Product development	330	330	-
Long-term debt *	5,719	1,171	256
	\$ 39,933	15,497	5,735

* Long-term debt and capital leases include principal and related interest and \$411 in purchase commitments to acquire laboratory equipment and software.

14. Capital Management

The Company's objectives when managing capital are:

- To preserve our primary goal of becoming an integrated product development company with a profitable pharmaceutical services business,
- To maintain a flexible capital structure which optimizes the cost of capital at acceptable risk,
- To sustain our ability to continue as a going concern in order to provide returns for shareholders.

In the management of capital, the Company includes cash, long-term debt and shareholders' equity (excluding comprehensive income) in the definition of capital.

In order to ensure the availability of immediate capital, the Company implemented a cost reduction plan in February 2009 (see note 5) which includes a reduction in the scope of Akela's product development programs and an acceleration in the productivity of the Akela's subsidiary, PharmaForm, a profitable provider of contract formulation and drug development services. To ensure the availability of current capital resources in the coming twelve months, the Company may also attempt to issue new equity securities, issue new debt or pursue various other funding alternatives, such as the sale of certain strategic assets.

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At December 31, 2008 the Company did not achieve the following externally imposed capital requirements associated with a term loan repayable in May 2012.

- Current Ratio for the U.S. subsidiaries as of the end of each fiscal year not less than 2 to 1.0, with “Current Ratio” defined as current assets divided by Current Liabilities.
- Debt Coverage Ratio for the U.S. subsidiaries as of the end of each year not less than 1.25 to 1.0, with “Debt Coverage Ratio” defined as the ratio of Cash Flow to the sum of Current Maturities of Long Debt plus interest expense.

As the lender has the right to demand immediate repayment, the outstanding loan balance, \$819, and a \$600 cash deposit pledged as collateral have been classified as current. No demand for repayment of this note has been made. (See note 6).

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

15. Related party transactions:

During the three-months ended March 31, 2009 and 2008, the Company incurred \$35 and \$17 for legal services provided by a firm associated with the Board of Directors.

During the three-months ended March 31, 2008, the Company also incurred \$62 in expenses for IT consulting services provided by a firm owned by the Company’s former Chief Executive Officer (CEO), a current member of the Board of Directors. In addition, during the three-months ended March 31, 2009 and 2008, the Company incurred expenses of \$55 and \$92, respectively, for management services provided by PRI International Consulting Inc., a company directly controlled by this board member.

During the three-months ended March 31, 2009 and 2008, the Company incurred expenses totalling \$147 and \$164, respectively, for consulting services paid to three current shareholders and the former principal owners of PharmaForm. One of these shareholders is also a member the board of directors.

These transactions are measured at the exchange amount of consideration established and agreed to by the related parties.

16. Comparative figures:

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current year.