

Consolidated Financial Statements of
(Unaudited)

AKELA PHARMA INC.

Periods ended September 30, 2009 and 2008

NOTICE TO READER

The accompanying unaudited interim financial statements of Akela Pharma Inc. for the periods ended September 30, 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)

Periods ended September 30, 2009 and 2008
(in thousands of US dollars)

Financial Statements

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AKELA PHARMA INC.

Consolidated Balance Sheets
(Unaudited)

As at September 30, 2009 and December 31, 2008
(in thousands of US dollars)

| | September 30, 2009 | December 31, 2008 |
|---|-----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash (note 1) | \$ 807 | \$ 2,345 |
| Restricted cash (note 7) | 600 | 600 |
| Accounts receivable | 1,386 | 6,070 |
| Prepaid expenses and other current assets | 367 | 346 |
| | 3,160 | 9,361 |
| Restricted cash and deposits | 1,258 | 1,258 |
| Property and equipment | 4,565 | 5,229 |
| Intangible assets | 3,485 | 4,755 |
| Goodwill | 6,567 | 6,457 |
| Other assets | 1,782 | 1,397 |
| | \$ 20,817 | \$ 28,457 |
| Liabilities and Shareholders' Deficiency | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 6,056 | \$ 7,491 |
| Deferred revenue | 3,935 | 4,515 |
| Current portion of long-term debt (note 7) | 1,327 | 1,311 |
| | 11,318 | 13,317 |
| Deferred revenue | 14,074 | 16,266 |
| Long-term debt (note 7) | 6,561 | 4,894 |
| Other long-term liabilities | 697 | 426 |
| Shareholders' deficiency: | | |
| Common shares (unlimited authorized, 30,890,338 and 21,655,577 common shares issued and outstanding with no par value at September 30, 2009 and December 31, 2008, respectively) | 67,544 | 66,346 |
| Warrants (note 9) | 2,955 | 2,814 |
| Additional paid-in capital | 8,313 | 8,105 |
| Accumulated other comprehensive income | 3,110 | 3,110 |
| Deficit | (93,755) | (86,821) |
| | (90,645) | (83,711) |
| Total shareholders' deficiency | (11,833) | (6,446) |
| Commitments, contingencies and guarantees (note 11) | | |
| | \$ 20,817 | \$ 28,457 |

See accompanying notes to unaudited consolidated financial statements.

AKELA PHARMA INC.

Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

Periods ended September 30, 2009 and 2008
(in thousands of US dollars, except share and per share data)

| | Three months ended | | Nine months ended | |
|--|--------------------|------------|-------------------|-------------|
| | September 30, | | September 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Revenues | \$ 3,053 | \$ 4,155 | \$ 10,845 | \$ 11,247 |
| Expenses: | | | | |
| Direct costs | 2,581 | 2,160 | 6,803 | 5,598 |
| Selling, general and administrative | 1,362 | 1,679 | 4,098 | 5,485 |
| Research and development | 343 | 3,175 | 2,624 | 8,629 |
| Restructuring <i>(note 6)</i> | 527 | - | 876 | - |
| Stock-based compensation <i>(note 10)</i> | 44 | 103 | 201 | 384 |
| Depreciation of property and equipment | 394 | 497 | 1,122 | 1,405 |
| Amortization of intangible assets | 423 | 736 | 1,269 | 2,160 |
| Interest on long-term debt | 31 | 41 | 108 | 112 |
| Unrealized gain on securities held for trading <i>(note 4)</i> | (15) | - | (69) | - |
| Foreign exchange loss (gain) | 461 | (352) | 629 | (2) |
| | 6,151 | 8,039 | 17,661 | 23,771 |
| Loss before under noted items | (3,098) | (3,884) | (6,816) | (12,524) |
| Other income (expense): | | | | |
| Settlement with LRI <i>(note 4)</i> | - | - | 1,664 | - |
| Provision for repayment of government grants <i>(note 5)</i> | (112) | - | (1,782) | - |
| Loss before income taxes | (3,210) | (3,884) | (6,934) | (12,524) |
| Recovery of income taxes: | | | | |
| Current | - | - | - | - |
| Future | - | 46 | - | 139 |
| | - | 46 | - | 139 |
| Net loss and comprehensive loss | \$ (3,210) | \$ (3,838) | \$ (6,934) | \$ (12,385) |
| Basic and diluted net loss per share | \$ (0.10) | \$ (0.18) | \$ (0.27) | \$ (0.67) |
| Basic and diluted weighted average number of shares outstanding | 30,890,338 | 21,615,577 | 26,081,203 | 18,497,399 |

See accompanying notes to unaudited consolidated financial statements.

AKELA PHARMA INC.

Consolidated Statement of Shareholders' Deficiency (Unaudited)

Six-month period ended September 30, 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) |
| Purchase of Nventa <i>(note 3)</i> | 9,274,761 | 1,198 | 141 | 7 | - | - | 1,346 |
| Stock-based compensation <i>(note 10)</i> | - | - | - | 201 | - | - | 201 |
| Net loss | - | - | - | - | - | (6,934) | (6,934) |
| Balance, September 30, 2009 | 30,890,338 | \$ 67,544 | \$ 2,955 | \$ 8,313 | \$ 3,110 | \$ (93,755) | (11,833) |

See accompanying notes to unaudited consolidated financial statements.

AKELA PHARMA INC.

Consolidated Statements of Cash Flows (Unaudited)

Periods ended September 30, 2009 and 2008
(in thousands of US dollars)

| | Three months ended | | Nine months ended | |
|---|--------------------|------------|-------------------|-------------|
| | September 30, | | September 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Cash flows from operating activities: | | | | |
| Net loss | \$ (3,210) | \$ (3,838) | \$ (6,934) | \$ (12,385) |
| Adjustments for: | | | | |
| Depreciation of property and equipment | 394 | 497 | 1,122 | 1,405 |
| Amortization of intangible assets | 423 | 736 | 1,269 | 2,160 |
| Settlement with LRI (note 4) | - | - | (101) | - |
| Provision for repayment of government grants (note 5) | 40 | - | 1,710 | - |
| Restructuring (note 6) | 275 | - | 318 | - |
| Stock-based compensation (note 10) | 44 | 103 | 201 | 384 |
| Unrealized foreign exchange loss (gain) | 812 | (389) | 678 | (59) |
| Unrealized gain on securities held for trading (note 4) | (15) | - | (69) | - |
| Future income taxes | - | (46) | - | (139) |
| Net changes in working capital (note 12 (a)) | (495) | 2,621 | 880 | 2,711 |
| | (1,732) | (316) | (926) | (5,923) |
| Cash flows from financing activities: | | | | |
| Repayments of long-term debt | (294) | (137) | (620) | (463) |
| Proceeds from issuance of units | - | - | - | 10,200 |
| Unit issue costs | - | - | - | (1,213) |
| | (294) | (137) | (620) | 8,524 |
| Cash flows from investing activities: | | | | |
| Acquisition of property and equipment | 122 | (1,042) | (1,124) | (3,026) |
| Acquisition of Nventa (note 3) | (21) | - | 1,132 | - |
| Restricted cash | - | (1,258) | - | (1,258) |
| Addition to intangible assets | - | (151) | - | (340) |
| | 101 | (2,451) | 8 | (4,624) |
| Net increase (decrease) in cash | (1,925) | (2,904) | (1,538) | (2,023) |
| Cash, beginning of period | 2,732 | 7,569 | 2,345 | 6,688 |
| Cash, end of period (note 1) | \$ 807 | \$ 4,665 | \$ 807 | \$ 4,665 |

See accompanying notes to unaudited consolidated financial statements.

AKELA PHARMA INC.

Notes to Consolidated Financial Statements
(Unaudited)

Periods ended September 30, 2009 and 2008

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

1. Going concern and basis of presentation:

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 contract services comprised of research and development 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 in note 2. 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, exclusive licensing and development agreements, government grants and working capital. As of September 30, 2009, the Company has a cash balance of \$807 and net current liabilities of \$8,158 and shareholders’ deficit of \$11,833.

Continued weakness in the global economy has led to an acute shortage of investor capital available for pharmaceutical development, adversely impacting our ability to obtain financing, the solvency of our customer base, the certainty of our revenue projections and the collectability of our outstanding receivables.

Moreover, the Company will continue to encounter difficulty in raising additional financing from either new or existing investors until we significantly reduce the Company’s outstanding debt. The Company could also incur potential future liabilities for executive employment termination litigation resulting from recent organizational changes at Akela (see note 11). As such, the realization of assets and discharge of liabilities in the ordinary course of business are subject to significant uncertainty.

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, the profitable operation of its contract services business, “PharmaForm,” securing financing for its drug development program and continued cooperation of lenders and suppliers. These endeavours are dependent on a number of circumstances outside the Company’s control, such as the macro economic environment, especially as it relates to financing for small biotech and specialty pharmaceutical companies. Management’s actions and plans with respect to addressing the going concern uncertainty include the following:

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- a) On September 2, 2009, Akela announced a change in leadership with the appointment of Greg McKee to the position of President and Chief Executive Officer and Robert Rieder to the position of Chairman of the Board of Directors.
- b) On September 3, 2009, Akela announced a comprehensive corporate restructuring designed to achieve several operational objectives. As part of its efforts to preserve its ability to execute on its development strategy for Fentanyl TAIFUN® and to optimize the infrastructure required to support its PharmaForm clients, the Company reduced its head count by 32 employees to a workforce of 65. Further, Akela announced the closure of several international operations and the centralization of the Company's operational headquarters in Austin, Texas. The restructuring also included the departure of Andrew Reiter as Chief Financial Officer and Taneli Jouhikainen as acting chief executive officer. Ed Margerrison, Ph.D., Akela's Vice President, Program Management took leadership of the Fentanyl TAIFUN® project, and Marcelo Omelczuk, Ph.D. Akela's Senior Vice President, Business and Product Development, took responsibility for the day-to-day operations of PharmaForm. In addition, Rudy Emmelot, formerly with Nventa Biopharmaceuticals, joined Akela as Vice President, Finance (see note 3).
- c) 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 attempt to issue new equity securities, issue new debt or pursue various other funding alternatives (see note 15).

Management believes that the above actions, together with the continued cooperation of lenders, suppliers, securing of additional milestone payments and other financing, and positive operations of Pharmaform, will enable Akela to continue as a going concern. There can, however, be no assurance that the actions taken to date will result in sufficient funds being generated to continue as a going concern for the next twelve months. The financing environment within which the Company operates remains very challenging. The outlook for the contract services business remains positive even though there has been a decrease in demand from the small company segment of the market. Over the last several months direct sales and marketing resources have diversified our client portfolio and have focused on securing longer term supply arrangements and strategic partnerships. In spite of these efforts, the availability of capital in the short term may also require further expense cuts, headcount reductions, the sale or licensing of research and development programs or other Company assets.

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

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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 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. Business acquisition:

On May 21, 2009, the Company acquired all of the issued and outstanding securities of Nventa Biopharmaceuticals Corporation (“Nventa”) by way of plan of arrangement (the “Arrangement”) under the Business Corporations Act (British Columbia). The results of Nventa are consolidated from the date of acquisition.

Nventa, formerly listed on the TSX, is a biopharmaceutical company with a history of developing (i) innovative therapeutics incorporating its proprietary CoVal™ fusion technology for the treatment of viral infections and cancers, with a focus on diseases caused by the human papillomavirus (HPV) and (ii) a Toll-like Receptor 3 (TLR3) agonist for use as a vaccine adjuvant (a substance used to improve immune responses against target antigens) and as an immunotherapeutic for viral infections and cancer. Nventa’s CoVal™ fusion products, in conjunction with its TLR3 agonist adjuvant, are designed to stimulate the body’s immune system to treat existing viral infections and related diseases, and the Company’s proprietary TLR3 agonist may also be licensed to other vaccine developers for use with their prophylactic or therapeutic vaccine candidates.

In accordance with the terms and conditions of the Arrangement, the Company issued 0.0355 Akela common shares (the “Ratio”) in exchange for every one common share of Nventa. In addition, Akela common shares are issuable

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pursuant to share purchase warrants and stock options of Nventa, with the number of shares and exercise prices adjusted based on the Ratio.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The purchase price allocation is preliminary and is based upon management's best estimate of the fair values of the identifiable assets acquired and liabilities assumed.

| | |
|--|----------|
| Net assets acquired: | |
| Cash and cash equivalents | 1,344 |
| Accounts Receivable | 104 |
| Goodwill | 110 |
| | <hr/> |
| | \$ 1,558 |
| <hr/> | |
| Consideration: | |
| 9,274,761 common shares | 1,198 |
| 533,565 Akela stock options | 7 |
| 3,430,904 Akela common share purchase warrants | 141 |
| Transaction costs | 212 |
| | <hr/> |
| | \$ 1,558 |

The fair value of Akela's common stock, stock options and share purchase warrants were determined based on the closing share price, the Black-Scholes option pricing model and US/Cdn exchange rates in effect on March 27, 2009, the announcement date of the Arrangement.

4. Settlement with LRI:

On March 10, 2009, the Company agreed to accept a payment of \$2,000 Cdn (\$1,563 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 Black-Scholes pricing model and the following assumptions:

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

A gain in the fair value of the warrants subsequent to the settlement resulted in unrealized gains of \$15 and \$69 on securities held for trading for the three and nine months ended September 30, 2009, respectively. The fair value of the warrants as of September 30, 2009, \$170, has been included in prepaid and other current assets.

5. 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 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. In light of probable losses associated with this event, the Company 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) during the first quarter of 2009. On June 30, 2009 Akela announced that it had reached an agreement with Tekes to settle their demand for immediate repayment of the grants. According to the terms of the agreement, Akela will pay back the grants received plus interest, in equal quarterly instalments, during a period of four years, starting in September 2010 with the last payment to occur in September 2014. As a result of this settlement, the Company's \$1,782 provision for probable losses associated with Tekes' claim has been reclassified as long-term debt (see note 7). The Company continues to accrue interest and penalties on Tekes' claim at a provisional rate of 9.5% until a formal amortization schedule is received, which is anticipated to occur in the fourth quarter of 2009. During the three and nine months ended September 30, 2009, the Company recorded charges of \$112 and \$1,782 for Tekes' claim.

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6. Restructuring costs:

In February and September of 2009, the Company undertook measures to cut costs in order to preserve cash for its continued operations. During the three and nine months ended September 30, 2009, the Company recorded net charges of \$527 and \$876, respectively, as part of this initiative. In addition to a provision of \$1,112 for employee severance and various non-recoverable costs associated with product development and software systems, restructuring also includes the following non-cash items:

- \$456 in gains resulting from Akela's successful negotiation of settlement plans to repay outstanding current obligations to various claimants for the Company's product development program,
- and a \$220 impairment loss on property and equipment.

At September 30, 2009, \$554 of accrued restructuring charges remained unpaid and are included in "Accounts payable and accrued liabilities" on the consolidated balance sheet.

| | Total |
|--|--------------|
| Balance, December 31, 2008 | \$ - |
| Restructuring: | |
| Employee severance | 395 |
| Impairment loss on property and equipment | 220 |
| Termination of license agreement to CGRP, a former non-pain product candidate | 79 |
| Charges to settle current outstanding trade payables | 68 |
| Costs incurred with the abandonment of business software systems | 214 |
| Costs associated with the development of commercial Taifun® injection moulds | 356 |
| Gains on settlement plans to repay current outstanding obligations for product development | (456) |
| | 876 |
| Less noncash items: | |
| Impairment loss on property and equipment | (220) |
| Gains on settlement plans to repay current outstanding obligations for product development | 456 |
| | |
| Provision for cost reduction plan | 1,112 |
| Utilized in 2009: | |
| Cash | (558) |
| Balance, September 30, 2009 | \$ 554 |

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7. Long-term debt:

| | September 30, 2009 | December 31, 2008 |
|--|-----------------------|----------------------|
| <p>Repayment of grants of the Company's Finnish subsidiary in Euros (2009 - €1,190) bearing a current estimated provisional interest of 9.5%. According to the terms of the Company's settlement agreement with the lender, Akela will pay back the grants received plus interest, in equal quarterly installments during a period of four years, starting in September 2010 with the last payment to occur in September 2014. Confirmation of final settlement schedule and interest pending official statement from Tekes anticipated in the fourth quarter of 2009. (See note 5).</p> | \$ 1,782 | \$ - |
| <p>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 nine months ended September 30, 2009 and 2008 no interest was payable on this unsecured debt.</p> | 3,712 | 3,542 |
| <p>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 nine months ended September 30, 2009 and 2008 no interest was payable on this unsecured debt.</p> | 276 | 263 |
| <p>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. The Company agreed to repay \$215 (€147) of the loan balance during the third quarter of 2009 with capital repayments beginning in 2011. At September 30, 2009, the effective interest rate on this unsecured debt was 1.70%.</p> | 679 | 689 |
| <p>Note payable, bearing 8.75% interest, repayable over 60 months to May 2012, secured by a 1st 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 15).</p> | 704 | 874 |
| <p>Capital lease obligations of Akela's subsidiary, PharmaForm, bearing interest from 6% to 10.11%, secured by related laboratory equipment.</p> | 725 | 819 |
| <p>Auto loan of the Company's Indian subsidiary bearing 8.5% interest</p> | 10 | 18 |
| | 7,888 | 6,205 |
| <p>Current portion of long-term debt</p> | 1,327 | 1,311 |
| | \$ 6,561 | \$ 4,894 |

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8. Stock option plan:

During the nine months ended September 30, 2009, 180,000 options were granted under the Company's 2007 Stock Incentive Plan and an additional 533,565 options were issued as part of the Nventa acquisition (see note 3).

Changes in outstanding options issued for the periods ended September 30, 2009 and December 31, 2008 were as follows:

| | Number | Weighted Average Exercise Price (CDN \$'s) |
|---|-----------|---|
| Balance, December 31, 2008 | 1,604,393 | \$ 5.57 |
| Granted | 180,000 | 0.15 |
| Nventa Acquisition (note 3) | 533,565 | 5.14 |
| Expirations | (110,161) | 3.86 |
| Cancellations | (24,760) | 7.37 |
| Balance, September 30, 2009 | 2,183,037 | \$ 5.08 |
| Options exercisable, September 30, 2009 | 1,527,426 | \$ 6.66 |

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 September 30, 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) |
|-----------------------------------|------------------------|---|------------------------|---|---|
| \$80.01 - 171.83 | 2,485 | \$ 118.67 | 2,485 | \$ 118.67 | 0.02 |
| \$22.26 - 80.00 | 9,051 | \$ 67.14 | 9,051 | \$ 67.14 | 0.44 |
| \$22.01 - 22.25 | 8,875 | \$ 22.25 | 8,875 | \$ 22.25 | 0.64 |
| \$10.86 - 22.00 | 21,428 | \$ 10.99 | 21,428 | \$ 10.99 | 6.58 |
| \$7.01 - 10.85 | 384,491 | \$ 8.34 | 384,491 | \$ 8.34 | 5.15 |
| \$6.81 - 7.00 | 466,691 | \$ 6.97 | 430,979 | \$ 6.97 | 5.97 |
| \$5.81 - 6.80 | 229,023 | \$ 6.49 | 224,023 | \$ 6.50 | 6.27 |
| \$1.39 - 5.80 | 402,993 | \$ 3.02 | 336,594 | \$ 3.07 | 0.83 |
| \$0.61 - 1.38 | 478,000 | \$ 1.19 | 109,500 | \$ 1.24 | 8.47 |
| \$0.15 - 0.60 | 180,000 | \$ 0.15 | - | | |
| \$0.15 - 171.83 | 2,183,037 | \$ 5.08 | 1,527,426 | \$ 6.66 | 4.79 |

As of September 30, 2009, 42,357 options remained available for issuance under the Company's stock option plans.

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9. Warrants and broker units:

As of September 30, 2009, the following warrants were outstanding:

| Warrants | | Common share equivalents | Exercise price (CDN) | Expiration Date |
|-----------|---------------------------------|--------------------------------|----------------------------|-------------------|
| Number | Fair value at issuance (USD) | | | |
| 1,223,124 | 8 | 1,223,124 | \$ 7.04 | February 22, 2010 |
| 603,750 | 295 | 603,750 | \$ 1.20 | March 28, 2010 |
| 1 | 364 | 252,898 | \$ 8.96 | April 22, 2010 |
| 111,410 | 4 | 111,410 | \$ 14.08 | November 1, 2010 |
| 4,312,500 | 2,155 | 4,312,500 | \$ 1.50 | March 28, 2011 |
| 941,725 | 49 | 941,725 | \$ 7.04 | January 4, 2012 |
| 974,533 | 79 | 974,533 | \$ 7.04 | January 24, 2012 |
| 8,167,043 | \$ 2,954 | 8,419,940 | | |

On May 21, 2009, the Company issued 3,430,904 purchase warrants, 9,274,761 common shares and 533,565 stock options as consideration for all of the issued and outstanding shares of Nventa Biopharmaceuticals Corporation (“Nventa”). The fair value of Akela’s common stock, stock options and share purchase warrants were determined based on the closing share price, the Black-Scholes option pricing model and US/Cdn exchange rates in effect on March 27, 2009, the announcement date of the Arrangement. (See note 3). 180,112 of the stock purchase warrants originally issued as part of the Nventa acquisition expired in August 2009.

10. Stock-based compensation:

During the six months ended September 30, 2009, 180,000 options were granted under the Company’s 2007 Stock Incentive Plan and an additional 533,565 options were issued as part of the Nventa acquisition (see note 3). For the period ended September 30, 2009, the Company recognized total compensation expense of \$201. During the same period in 2008, the Company granted 438,000 options and recognized total stock-based compensation of \$384.

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:

| | 2009 | 2008 |
|-------------------------|---------|--------|
| Risk-free interest rate | 1.67% | 3.05% |
| Expected volatility | 144.09% | 77.11% |
| Expected life in years | 3.00 | 6.00 |
| Expected dividend yield | - | - |

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The following table summarizes the weighted average grant-date fair value per share for options granted during the periods ended September 30, 2009 and 2008:

| | Number of options | Weighted average grant-date fair value (CDN \$'s) |
|------|----------------------|--|
| 2009 | 711,790 | 0.05 |
| 2008 | 438,000 | 0.84 |

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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11. 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 * | 1,020 | 547 | 148 | - | - | - | 1,715 |
| Service contracts | 560 | 560 | 560 | 47 | - | - | 1,727 |
| Clinical studies | 74 | - | - | - | - | - | 74 |
| Long-term debt * | 1,376 | 278 | 704 | 728 | 704 | 4,179 | 7,969 |
| | 4,827 | 3,388 | 2,629 | 2,028 | 1,957 | 16,432 | \$ 31,261 |

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

Operating leases includes an Office Lease Agreement (the "Lease") signed by Formulation Technologies, L.L.C. ("PharmaForm"), a wholly-owned subsidiary of the Company, on July 28, 2008, with HEP-Davis Spring, L.P. The Company estimates that PharmaForm's gross base rental obligation over the term of the Lease will be approximately \$15.8 million.

(b) Contingencies:

The Company and certain board members are named defendants in actions filed in the District Court of Travis County, Texas and the province of Québec, Canada by four former employees; Michael Crowley, Andrée Giroux, Stephen Lerner and Andrew Reiter. The actions claim actual and compensatory damages in an unspecified amount, costs and other relief in connection with the termination of employment. While the results of litigation cannot be predicted with certainty, the Company does not expect the ultimate conclusion of these matters will have a material adverse 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 September 30, 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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12. Supplemental cash flow disclosure and other information:

(a) Net changes in working capital:

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|------------|---------------------------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| Accounts receivable | \$ 1,145 | \$ (3,799) | \$ 4,787 | \$ (614) |
| Prepaid expenses and other assets | 469 | (23) | 149 | 152 |
| Accounts payable and accrued liabilities | (1,030) | 411 | (1,292) | (1,780) |
| Deferred revenue | (1,079) | 6,032 | (2,764) | 4,953 |
| | (495) | 2,621 | 880 | 2,711 |

(b) Cash paid for:

| | Three months ended September 30, | | Nine months ended September 30, | |
|----------|----------------------------------|-------|---------------------------------|--------|
| | 2009 | 2008 | 2009 | 2008 |
| Interest | \$ 40 | \$ 48 | \$ 77 | \$ 123 |

(c) Non-cash transactions:

| | Three months ended September 30, | | Six months ended September 30, | |
|--|----------------------------------|------|--------------------------------|------|
| | 2009 | 2008 | 2009 | 2008 |
| Receipt of warrants in legal settlement with LRI <i>(note 4)</i> | \$ - | \$ - | \$ 101 | \$ - |
| Property and equipment financed through capital leases | - | 299 | 295 | 544 |
| Issuance of warrants, acquisition of Nventa <i>(note 3)</i> | - | - | 141 | - |
| Issuance of stock options, acquisition of Nventa <i>(note 3)</i> | - | - | 7 | - |
| Issuance of common stock, acquisition of Nventa <i>(note 3)</i> | - | - | 1,198 | - |
| Issuance of warrants, March 2008 public offering <i>(note 9)</i> | - | - | - | 295 |

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13. Financial instruments:

(a) Classification:

The classification of financial instruments as of September 30, 2009 and December 31, 2008 and their respective carrying values and fair values are as follows:

| | Held-for-trading | Loans and receivables | Held-to-maturity | Other financial liabilities | Carrying value | Fair value |
|--|------------------|-----------------------|------------------|-----------------------------|----------------|------------|
| September 30, 2009 | | | | | | |
| Cash | \$ 807 | | | | \$ 807 | \$ 807 |
| Accounts receivable | | 1,386 | | | 1,386 | 1,386 |
| Restricted cash and deposits | | | 1,858 | | 1,858 | 1,858 |
| Accounts payable and accrued liabilities | | | | 6,056 | 6,056 | 6,056 |
| Long-term debt | | | | 7,888 | 7,888 | 3,810 |

| | Held-for-trading | Loans and receivables | Held-to-maturity | Other financial liabilities | Carrying value | Fair value |
|--|------------------|-----------------------|------------------|-----------------------------|----------------|------------|
| December 31, 2008 | | | | | | |
| 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.

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(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 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 September 30, 2009 and December 31, 2008, the carrying amount of assets that the Company has pledged as collateral for long-term debt facilities was approximately \$6.3 million and \$8 million, respectively.

14. 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, deposits 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 nine months ended September 30, 2009 and 2008, a provision of \$480 and \$100 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 nine months ended September 30, 2009, the Company's three largest customers accounted for approximately 35% of revenues. No single customer accounted for more than 10% of accounts receivable at September 30, 2009.

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

| | As of September 30, 2009 |
|--|--------------------------|
| Total accounts receivable | \$ 2,012 |
| Of which: | |
| Not overdue | 1,115 |
| Past due for more than one day but for not more than three months | 506 |
| Past due more for than three months but for not more than six months | 391 |
| Total accounts receivable, gross | \$ 2,012 |
| Allowance for doubtful accounts | (626) |
| Total accounts receivable, net | \$ 1,386 |

(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 September 30, 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 September 30, 2009:

| (in thousands of US dollars) | September 30, 2009 | | | |
|--|-----------------------|--------|-------|------|
| | \$Cdn | Euro | \$Bds | INR |
| Cash | \$ 148 | \$ 312 | \$ 22 | \$ - |
| Accounts receivable | 154 | 45 | 4 | 4 |
| Accounts payable and accrued liabilities | 1,600 | 1,022 | 173 | 70 |
| Long-term debt | - | 6,449 | - | 10 |

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The following exchange rates applied during the reporting period and for the three and nine months ended September 30, 2009:

| Currency | Exchange | Average | | Closing |
|-----------------|----------|--|---|---|
| | | Three months ended September 30, 2009 | Nine months ended September 30, 2009 | Nine months ended September 30, 2009 |
| Canadian dollar | US/Cdn | 0.9115 | 0.8575 | 0.9340 |
| Euro | US/Euro | 1.4304 | 1.3651 | 1.4621 |
| Barbadian | US/Bds | 0.5076 | 0.5076 | 0.4661 |
| Indian Rupee | US/INR | 0.0207 | 0.0204 | 0.0209 |

(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 September 30, 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 of approximately \$2 and \$5 for the three and nine months ended September 30, 2009. The Company currently does not have any outstanding credit facilities, other than those described in note 7.

(d) *Liquidity risk:*

Liquidity risk, which is considered high by the Company (see note 1), 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 September 30, 2009:

| | Carrying Amount | Less than 1 year | 1 to 3 years |
|--|--------------------|---------------------|--------------|
| Accounts Payable and accrued liabilities | \$ 6,000 | 6,000 | - |
| Capital leases * | 1,715 | 1,020 | 695 |
| Long-term debt * | 7,969 | 1,376 | 982 |
| | \$ 15,684 | 8,396 | 1,677 |

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

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15. 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 February and September of 2009, the Company undertook measures to cut costs in order to preserve cash for its continued operations. In connection with these cost reduction efforts, the Company has reduced its headcount by 72 employees to a workforce of 65. As part of this initiative, no new patients are currently being enrolled into the Fentanyl TAIFUN® clinical program until additional sources of funding are secured. The Company has terminated its licensing agreement to CGRP, and the GHRH program has been placed on hold until an out-licensing agreement or program specific financing is secured. Several of Akela's international operations are in the process of being closed. (See note 6).

Our ability to raise funding from the capital markets is challenging and is expected to remain so for the foreseeable future. The Company's strategy therefore is to operate within the revenue generated by PharmaForm and seek funding for our proprietary compounds from our current and new commercial partners. Until such partner funding is secured we are not recruiting any further patients into clinical studies.

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, \$704, 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 7). On October 20, 2009, the Company repaid \$634 of the outstanding balance on this note, and it has arranged to repay the remaining \$53 balance in full by December 2009.

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

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16. Related party transactions:

The Company incurred legal and consulting fees totalling nil and \$46 during the three months ended September 30, 2009 and 2008 and fees of \$73 and \$146 during the nine months ended September 30, 2009 and 2008 for legal services provided by Knorr Rechtsanwälte, a firm associated with Dr. Günter Knorr, the Company's former Chairman of the Board.

During the three and nine months ended September 30, 2008, the Company also incurred nil and \$71 in expenses for IT consulting services provided by Guardus Corporation, firm a owned by Dr. Halvor Jaeger, the Company's former Chief Executive Officer (CEO).

The Company incurred additional expense of nil and \$66 during the three months ended September 30, 2009 and 2008 and fees of \$114 and \$254 during the nine months ended September 30, 2009 and 2008 for management services provided by PRI International Consulting Inc., a company directly controlled by Dr. Jaeger.

During the three and nine months ended September 30, 2009 and 2008, the Company incurred expenses totalling \$147 and \$420 and \$155 and \$479, respectively, for consulting services paid to three current shareholders and the former principal owners of PharmaForm. One of these shareholders is Robert O. Williams III, Ph.D., a member of the Board of Directors.

Finally, during the three and nine months ended September 30, 2009, the Company incurred nil and \$53 in expenses, respectively, for financial consulting services performed by Charlestown Capital Advisors, LLC, private investment company founded and managed by Raj Maheshwari, a former board member of the Company.

With the exception of the previously mentioned consulting services provided by Dr. Williams, all related party transactions with board members of the Company ceased with the appointment of a new Board of Directors which took effect in June 2009.

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

17. Comparative figures:

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