

**IN THE MATTER OF THE PROPOSAL OF  
CHEMOKINE THERAPEUTICS (B.C.) CORP.  
Carrying on business in the City of Vancouver,  
In the Province of British Columbia**

**TRUSTEE'S REPORT ON THE PROPOSAL**

**INTRODUCTION**

On December 5, 2008, Chemokine Therapeutics (B.C.) Corp. ("Chemokine B.C." or the "Company") filed a Notice of Intention to make a Proposal ("NOI"), pursuant to Part III, Division I, Section 50.4 of the *Bankruptcy and Insolvency Act* ("BIA").

Chemokine B.C. filed its Proposal at the Office of the Superintendent of Bankruptcy on December 22, 2008. Deloitte & Touche Inc. ("Deloitte") is named as the Trustee.

A copy of the Proposal is attached herewith for your consideration.

**BACKGROUND**

Chemokine B.C. was incorporated in the Province of British Columbia on March 31, 2004. Chemokine B.C. is a wholly-owned subsidiary of Chemokine Therapeutics Corp. ("Chemokine Corp."), a company incorporated in the State of Delaware. Chemokine Corp. also filed a NOI and a Proposal on December 5, and December 22, 2008 respectively.

The director of the Company, Walter Korz, resigned on December 5, 2008, upon the Company filing the NOI. Prior to his resignation on the same day, the directors of Chemokine Corp. engaged Walter Korz and Donald Wong as consultants to manage the affairs of the Company.

Chemokine B.C.'s operations are directly related to the development and research of the intellectual property held by Chemokine Corp. The Company has encountered financial difficulty as result of a lack of cash to fund its operations and the inability of Chemokine Corp. to raise the necessary capital to continue to support Chemokine B.C.'s operations. The Company decided it needed to file for creditor protection and is in the process of restructuring its operations in order to provide its creditors with at least a partial repayment of outstanding claims and to avoid bankruptcy. In order to make the payments to its creditors in the manner proposed in the Proposal filed herewith, the Company requires the agreement of its creditors. If the creditors of Chemokine B.C. are unwilling to accept this Proposal, the Company will be automatically deemed bankrupt.

Since December 5, 2008, the date of filing its restructuring application, the Company has limited its operations to minimize its costs, focusing on the sale of the Company's assets, in order that it may maximize the recovery for the unsecured creditors.

## ASSETS

At the time of filing the Notice of Intention, the Company had assets with the following book values and the estimated realizable values are as follows:

	<b>Book Value</b>	<b>Estimated Realizable Value</b>
Cash on Hand	\$ 5,200	\$ 5,200
Accounts Receivable	54,000	15,000
Due from Chemokine Corp.	28,500	
Prepaid Expenditures	16,000	Nil
Equipment, including furniture	<u>70,000</u>	<u>30,000</u>
TOTAL	<u>\$173,700</u>	\$ 50,200
Costs of Realization		<u>(25,000)</u>
Estimated Net Recovery		<u>\$ 25,200</u>

The estimated realizable value for the equipment, including furniture, and the accounts receivable is an estimate and actual results will vary. The Proposal allows the Company to continue to actively seek purchasers and to collect its accounts receivable. An orderly sale process is expected to increase the realization from the assets as it allows the Company time to locate a suitable purchaser(s).

## LIABILITIES

### Secured Creditors

While there are parties that have registered their security against the Company in the British Columbia Personal Property Registry, the Company believes there are no amounts outstanding to the Secured Creditors. Accordingly the Company believes there are no Secured Creditors and this Proposal is not made to any Secured Creditors.

### Preferred Creditors

Those proven claims as set forth in section 136(1) of the BIA ("Preferred Creditors") shall be paid in full as set forth therein in priority to all claims of Unsecured Creditors. Preferred claims will be paid in full no later than six months after Court ratification of the Proposal.

The Company does not believe there are any Preferred Creditors.

### Unsecured Creditors

Payments will occur on a pro rata basis to all proven unsecured creditors after full payment has been made to any secured, preferred and deemed trust claims. Funding will be from the sale of all assets of the Company and distribution will occur when the sale of all assets is completed.

### Reviewable Transactions and Preference Payments

The Trustee is not aware of any reviewable transactions or preference payments.

## **RECEIVER GENERAL OF CANADA**

All outstanding source deductions which could be subject to a demand under subsection 224(1.2) of the Income Tax Act, or under any substantially similar provision of provincial legislation as at the date of filing the NOI will be paid within six months of Court approval of this Proposal; or as agreed to by Her Majesty. All outstanding unremitted Goods & Services Tax and for Provincial Sales Tax by the Province of British Columbia as at the date of filing the NOI will be paid in full within six months of Court approval of this Proposal.

## **TRUSTEE'S FEES AND COSTS**

The proper fees and disbursements of the Trustee, including any legal costs of the Trustee and legal costs of the Company, of and incidental to any proceedings relating to, arising out of, or under the Proposal, including the preparation and implementation of the Proposal, shall be paid in priority to all claims of preferred and unsecured creditors. The Trustee's fees and disbursements, estimated to be \$15,000, will be reviewed by the Inspectors of the Estate, if any are appointed, and are subject to taxation by the Court.

## **PROOF OF CLAIM AND VOTING LETTER**

Enclosed with this package is a proof of claim form and voting letter. In order to participate in the Proposal, creditors should complete the attached proof of claim and include the requested supporting documentation. If you cannot attend the meeting, we encourage you to complete the general proxy section of the proof of claim form as well as the voting letter. Should you have any questions regarding completion of the forms, please contact Steven Maher of the Trustee's office at (604) 640-3381.

## **OTHER PROVISIONS**

- The Proposal contemplates the release of all claims against present or former directors of Chemokine B.C. that relates to obligations by Chemokine B.C. where the directors are by law liable in their capacity as directors for the payment of such obligations.

## **APPOINTMENT OF INSPECTORS**

The Proposal provides for the appointment by the affected creditors of one or more, but not exceeding five, inspectors at any meeting of creditors to be held to consider the Proposal. The powers of the inspectors include: advising the Trustee from time to time with respect to any matter which the Trustee may refer to them, approval of the Trustee's accounts in respect of all receipts and disbursements relating to the administration of the Proposal; and approving the making of any Distributions by the Trustee.

## **THE PROPOSAL AND TRUSTEE'S RECOMMENDATION**

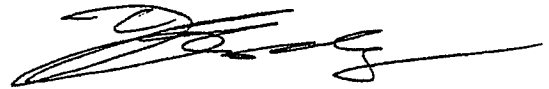
The Proposal calls for payments to the Company's unsecured creditors through the orderly liquidation of the Company's assets. We recommend the creditors accept this Proposal as it will allow the Company time to complete the sale of the Company's assets which will result in reduced professional fees and likely a higher realization value. Payments will occur on a pro rata

basis to all proven unsecured creditors after full payment has been made to any secured, preferred and deemed trust claims.

If the Proposal is not accepted by the creditors at the Meeting of Creditors the Company will be deemed bankrupt. In a Bankruptcy, it is expected that the unsecured creditors will receive substantially less. It is expected that the Proposal provides a better return for all of the unsecured creditors. Based on the above, the Trustee recommends the acceptance of the Proposal.

Dated at Vancouver, this 24th day of December, 2008.

DELOITTE & TOUCHE INC.  
In its capacity as Trustee under the  
Proposal of Chemokine Therapeutics  
(B.C.) Corp. and not in its personal  
capacity.



Jervis C. Rodrigues, CA, CIRP  
Trustee