

**IN THE MATTER OF THE PROPOSAL OF  
CHEMOKINE THERAPEUTICS 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 Corp. ("Chemokine Corp." 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 Corp. 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 Corp. was incorporated in the State of Washington on July 15, 1998 as PTM Molecular Biosystems Inc. In 1999, the Company changed its name to Chemokine Therapeutics Corp. and in 2000 was reincorporated in the State of Delaware. Chemokine Corp. has a wholly-owned subsidiary in British Columbia, Chemokine Therapeutics (B.C.) Corp. ("Chemokine B.C."), a company incorporated under the laws of the Province of British Columbia. Chemokine B.C. also filed a NOI and a Proposal on December 5 and December 22, 2008 respectively.

The directors of the Company, Edward Taylor, Brian Kuhn, Bernard Byrd, George Kowalchuk and Walter Korz, resigned on December 5, 2008, upon the Company filing the NOI. Prior to their resignation they engaged Walter Korz and Donald Wong as consultants to manage the affairs of the Company.

Chemokine Corp. is publicly traded on the Toronto Stock Exchange and the Over-The-Counter Bulletin Board in the United States, focusing on the discovery and development of innovative therapeutic products for the treatments of a variety of human diseases. Since commencing operations in July 1998 Chemokine Corp. has devoted most of its efforts in research and development, funding its operations from raising money in the public market. Chemokine Corp. has incurred losses from inception to September 30, 2008 of approximately US \$33 million.

The Company has encountered financial difficulty as result of a lack of cash to fund its operations and its inability to raise the necessary capital to continue 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 Corp. 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 NOI, Chemokine Corp. 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	\$ 300	\$ 300
Licenses	<u>2,834</u>	<u>Unknown</u>
TOTAL	<u>3,134</u>	<u>N/A</u>
Costs of Realization		<u>Unknown</u>
Estimated Net Recovery		<u>N/A</u>

Prior to the filing of the NOI, for the last four years the Company had and continues to have ongoing discussions with various groups regarding licensing one or more of its drug candidates, in order that it may raise additional capital. Approximately six months ago, the Company also initiated merger and acquisition discussions with some parties, including parties who are continuing to complete a due diligence review of the Company's assets and financial information.

Since the filing of the NOI on December 5, 2008 Chemokine Corp. has been working to sell the Company's intellectual property to maximize the distribution to its unsecured creditors. The Company sought expressions of interest for its assets and the shares of the entity. As of the time of drafting of this report, the Company received four (4) Letters of Interest ("LOI"). The Company is currently in discussions with these parties that have expressed an interest to determine the suitability and likelihood of a successfully asset/share sale. It is expected that an offer will be finalized, subject to creditor and Court approval, by the First Meeting of Creditors ("Meeting"). Certain assets are under license with the University of British Columbia ("UBC") and any sale of these assets will also require UBC's consent. More details are expected to be provided at the Meeting.

## 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.

All claims of landlords as described in the Proposal shall be included as part of the class of unsecured creditors.

### **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.

### **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.

### **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 amount of the Trustee's fees and disbursements will be dependent on if the assets and/or shares are sold. The Trustee's fees and disbursements 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 Corp. that relates to obligations by Chemokine Corp. where the directors are by law liable in their capacity as directors for the payment of such obligations.
- The Proposal contemplates that the Company's landlord of the lease at #400 – 1727 West Broadway Vancouver, BC may file a proof of claim pursuant to subsection 65.2 (4)(b) of the BIA, for the lesser of:

i) the aggregate of:

a) the rent provided for in the lease for the first year of the lease following the date on which the disclaimer or resiliation becomes effective, and

b) fifteen per cent of the rent for the remainder of the term of the lease after that year, and

ii) three years' rent

All claims of the landlord under this paragraph shall be included as part of the class of Unsecured Creditors.

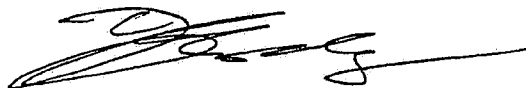
## **THE PROPOSAL AND TRUSTEE'S RECOMMENDATION**

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 there will be a deemed bankruptcy. 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 24<sup>th</sup> day of December, 2008.

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

A handwritten signature in black ink, appearing to read "J. Rodrigues", with a long horizontal flourish extending to the right.

Jervis C. Rodrigues, CA, CIRP  
Trustee