

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

Amendment No. 1 to

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **April 2, 2008**

PHARMATHENE, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

001-32587
(Commission
File Number)

20-2726770
(IRS Employer
Identification No.)

One Park Place, Suite 450, Annapolis, Maryland
(Address of principal executive offices)

21401
(Zip Code)

Registrant's telephone number including area code: **(410) 269-2600**

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

EXPLANATORY NOTE

As reported in a Current Report on Form 8-K (the "Initial Form 8-K") filed by PharmAthene, Inc. ("PharmAthene" or "the Company") on April 8, 2008, PharmAthene completed the acquisition (the "Acquisition") from Avecia Biologics Limited, Avecia Biologics, Inc., Avecia Biotechnology Inc. and Avecia Limited (collectively, "Avecia") of substantially all the assets related to Avecia's biodefense vaccines business ("Avecia Vaccines"), which includes a second generation recombinant protective antigen (rPA) anthrax vaccine, a recombinant dual antigen plague vaccine and a third generation rPA anthrax vaccine, on April 2, 2008. This Amendment No. 1 to Form 8-K (the "Form 8-K/A") amends the Initial Form 8-K and is being filed in order to include the audited historical financial statements of Avecia Vaccines and the related pro forma financial information that were excluded from the Initial Form 8-K as permitted by Item 9.01 of Form 8-K. In accordance with Securities Exchange Act Rule 12b-15, the complete text of Item 9.01 as amended is set forth below.

Item 2.01 Completion of Acquisition or Disposition of Assets.

In connection with the Acquisition, PharmAthene UK Limited entered into a Transitional Services Agreement with Avecia Biologics Limited. Under this agreement, Avecia has agreed that, for agreed upon fees, it will provide transitional information technology, storage, finance/accounting and human resource services for PharmAthene. The work to be performed by Avecia and amounts to be paid to Avecia in connection with each service are set out in various schedules to the Transitional Services Agreement. Fees payable for Avecia's storage, finance/accounting and human resources services amount to an aggregate of £3,000 per month. Information technology services are charged at a daily rate of £750, plus the fixed costs of leased telecommunications lines used by PharmAthene UK. This summary of the Transitional Services Agreement does not purport to be complete and is qualified in its entirety by reference to such agreement. The Transitional Services Agreement is attached hereto as Exhibit 10.29.

Item 9.01 Financial Statements and Exhibits

(a) Financial statements of businesses acquired

The following historical financial information for Avecia Vaccines is attached to this Form 8-K/A as exhibit 99.1 and is incorporated by reference in this Item 9.01.

	<u>Page No. in exhibit</u>
Report of Independent Public Accounting Firm	1
Combined Income Statement for the years ended December 31, 2007 and 2006	2
Combined Balance Sheet at December 31, 2007 and 2006	3
Combined Cash Flow Statement for the years ended December 31, 2007 and 2006	4
Combined Statement of Recognised Income and Expense for the years ended December 31, 2007 and 2006	5
Notes to the Combined Financial Statements	6

(b) Pro forma financial information

The following pro forma financial information is attached to this Form 8-K/A as exhibit 99.2 and is incorporated by reference in this Item 9.01.

	<u>Page No. in exhibit</u>
Unaudited Condensed Combined Pro Forma Financial Statements	1
Unaudited Condensed Combined Pro Forma Balance Sheets as of December 31, 2007	3
Unaudited Condensed Combined Pro Forma Statements of Operations for the year ended December 31, 2007	4
Notes to Unaudited Condensed Combined Pro Forma Financial Statements	5

(d) Exhibits

<u>NO.</u>	<u>DESCRIPTION</u>
10.29	Transitional Services Agreement between Avecia Biologics Ltd, and PharmAthene UK Limited, dated April 2, 2008
23	Consent of KPMG, independent public accounting firm
99.1	Combined Financial Statements for Avecia Vaccines
99.2	Unaudited Condensed Combined Pro Forma Financial Statements

Forward Looking Statements

This Current Report on Form 8-K and the exhibits filed or furnished herewith contain forward-looking statements. Forward-looking statements may be identified by words such as “believes”, “expect”, “anticipates”, “estimates”, “projects”, “intends”, or the negative of such terms or other comparable terminology. Such statements include, but are not limited to, statements about the expected benefits of the transaction involving Avecia Vaccines and the Company, including future financial results. In addition, statements made in this report and/or any of the exhibits filed or furnished herewith about anticipated financial results, future product advancements or potential regulatory awards or approvals are also forward-looking statements. Such forward-looking statements are subject to risks, uncertainties, assumptions and other factors that are difficult to predict and that could cause actual results to vary materially from those expressed in or indicated by them. The Company undertakes no obligation to revise or update any forward-looking statement or to make any other forward-looking statements, whether as a result of new information, future events or otherwise.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PHARMATHENE, INC.
(Registrant)

Date: June 18, 2008

By: /s/ Christopher C. Camut
Christopher C. Camut
Vice President and Chief Financial Officer

DATED APRIL 2, 2008

TRANSITIONAL SERVICES AGREEMENT

between

AVECIA BIOLOGICS LIMITED

and

PHARMATHENE UK LIMITED



Dickson Minto W.S.
London

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THIS AGREEMENT is made the 2nd day of April, 2008 between:

- (1) **AVECIA BIOLOGICS LIMITED**, a company incorporated in England and Wales (company number 5803359) and having its registered office at PO Box 42, Hexagon Tower, Blackley, Manchester M9 8ZS (the “**Supplier**”); and
- (2) **PHARMATHENE UK LIMITED**, a company incorporated in England and Wales (company number 6534363) and having its registered office at Juxon House, 100 St Paul’s Churchyard, London EC4M 8BU (the “**Consumer**”).

BACKGROUND:

- (A) Pursuant to an agreement entered into on 20 March 2008 among Avecia Investments Limited, the Supplier, Avecia Biologics Inc., Avecia Limited, Pharmathene, Inc., Pharmathene U.S. Corporation and the Consumer (the “**SPA**”), the Business Vendors agreed, inter alia, to sell the Target Business and the Business Assets (each as defined in the SPA) to the Consumer, Pharmathene Inc. and Pharmathene U.S. Corporation.
- (B) In order to aid the Consumer to operate the Target Business in the manner in which it has been carried on prior to the date of this Agreement, the Supplier has agreed to continue to supply the Services (as defined herein) to the Consumer and the Consumer has agreed to accept such supply under the terms and conditions of this Agreement.

IT IS AGREED AS FOLLOWS:

1. DEFINITIONS AND INTERPRETATION

1.1. In this Agreement, unless the context otherwise requires, the following expressions shall have the following meanings:

“**Affiliate**” means a company which from time to time is a subsidiary of the party concerned or which is a holding company of such party or a direct or indirect subsidiary of such holding company;

“**Aggregate Liability**” means the total aggregate liability of a party under all and any heads of claim and whether in respect of one or more related or unrelated acts, events, omissions or defaults;

“**Business Day**” means any day (other than a Saturday or Sunday) on which clearing banks are open for normal business in London;

“**Charges**” means the charges payable by the Consumer to the Supplier in relation to a Service as set out in the relevant Schedules;

“**Commencement Date**” means the date hereof;

“**Confidential Information**” has the meaning given to it in Clause 6.1;

“**Indemnified Party**” and “**Indemnifying Party**” each have the meaning given to them in Clause 5.2;

“**Initial Period**” means, in relation to a Service, the initial period set out in the relevant Schedule;

“**Insolvency Event**”, in relation to a party, means:

- (a) the party enters into or resolves to enter into any arrangement, composition, compromise or similar arrangement with (including, but not limited to, a company voluntary arrangement pursuant to Part I of the Insolvency Act 1986) or assignment for the benefit of its creditors or any class of them;
- (b) the party is unable to pay its debts when they are due or is deemed under any statutory provision to be insolvent or a moratorium under Schedule A1 to the Insolvency Act 1986 is in force;
- (c) a liquidator or provisional liquidator is appointed to the party or a receiver (which expression shall include an administrative receiver), receiver and manager, trustee or similar official is appointed over any of the assets or undertakings of the party;
- (d) an application or order is made or a resolution is passed for the winding up of the party (except for the purposes of a bona fide reconstruction or amalgamation); or

- (e) an administration order is made, an administrator is appointed in respect of the party, any resolution is passed resolving to appoint an administrator, or any meeting of the board of directors resolves to appoint an administrator.

“**Internal Consumers**” has the meaning set out in Clause 2.2;

“**Losses**” means any and all claims, losses, injunctive relief, clean up costs, awards, judgements, settlements, fines, penalties, liabilities, damages, expenditures (but excluding any capital improvements and investments), costs or expenses (including, without limitation, reasonable legal fees);

“**Notice Period**” means, in relation to a Service, the notice period set out in the relevant Schedule;

“**Recipient**” has the meaning given to it in Clause 6.1;

“**Services**” means the services as identified in the Schedules;

“**Site**” means, in respect of a Service, the site at which the Service is to be provided;

“**Specifications**” means, in relation to a Service, the specifications set out in the relevant Schedule;

“**Supplier’s Group**” means the Supplier and its Associated Companies;

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“**Tax Authority**” means HM Revenue and Customs or any other person, authority, body or official which is from time to time responsible for the care, management or administration (*inter alia*) of Value Added Tax;

“**Term**” means, in relation to a Service, the term set out in the relevant Schedule;

“**Transfer Regulations**” bears the meaning given in Clause 12.4; and

“**Value Added Tax**” or “**VAT**” means

- (a) any tax imposed in conformity with the Sixth Directive of the Council of the European Economic Communities (77/388/EEC) (including, in relation to the United Kingdom, value added tax imposed by the Value Added Tax Act 1994 and legislation and regulations supplemental thereto); and
- (b) any other tax of a similar nature, whether imposed in a member state of the European Union in substitution for, or levied in addition to, such tax referred to in (a), or elsewhere.

1.2. In this Agreement unless the context otherwise requires:

- 1.2.1. the Schedules form part of, and shall be construed as incorporated into this Agreement;
- 1.2.2. references to Clauses and Schedules are to the clauses of, and schedules to, this Agreement;
- 1.2.3. the Clause headings, use of bold or italic type and the contents page in this Agreement are for convenience only and shall not affect the construction or interpretation thereof;
- 1.2.4. words and expressions defined in the SPA where used in this Agreement shall have the same meaning;
- 1.2.5. any phrases introduced by the terms “including” or “include” or any similar expression are illustrative and do not limit the sense of the words preceding those terms and shall be deemed to be followed by the words “without limitation”;
- 1.2.6. a reference to any legislation or legislative provision includes any statutory modification, amendment, extension or re-enactment of, or legislative provision substituted for, and any subordinated legislation issued under, that legislation or legislative provision;
- 1.2.7. a reference to any party to this Agreement (or any other document or agreement) includes that party’s successors and permitted assigns;
- 1.2.8. references in this Agreement to persons shall include references to firms, corporations or unincorporated associations;

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- 1.2.9. the masculine gender shall be deemed to include the feminine and neuter and the singular number shall be deemed to include the plural and *vice versa*;
- 1.2.10. the expressions “subsidiary” and “holding company” shall have the same meaning in this Agreement as their respective definitions in the Companies Act 1985 (as amended);
- 1.2.11. where a word or expression is given a particular meaning, other parts of speech and grammatical forms of that word or expression have a corresponding meaning;
- 1.2.12. a reference to any agreement or document is to that agreement or document (and, where applicable, any of its provisions) as amended, novated, supplemented or replaced from time to time; and

1.2.13. a reference to a person, at any time when that person is treated as a member of a group for the purposes of sections 43 to 43D of the Value Added Tax Act 1994 and the Value Added Tax (Groups: eligibility) Order 2004 includes (where appropriate for VAT purposes) a reference to the representative member of that group at that time, and “representative member” is to be construed in accordance with those sections.

1.3. Where specific terms appear in the Schedules they shall apply with respect to the Services to which such Schedule relates. In the case of inconsistency between the Schedules and the terms of the rest of this Agreement, the Schedules shall have priority.

2. SUPPLY OF THE SERVICES

2.1. The Supplier shall supply or make available the Services to the Consumer in accordance with the terms of, and the Specifications set out in, this Agreement in relation to each Service with reasonable skill and care. The Charges are predicated on the nature and extent of the provision of the Services to the Consumer after the Commencement Date being consistent with the nature and extent of such Services as they were provided by the Supplier to the Target Business in the twelve months prior to the Commencement Date. Accordingly, for the avoidance of doubt, subject to any express provision to the contrary contained in this Agreement, the Supplier shall not be obliged to provide a level, extent or type of Service which is materially more extensive, different or more onerous from that previously provided by the Supplier to the Target Business in the twelve months prior to the Commencement Date. Any dispute regarding the level, extent or type of Service shall be dealt with in accordance with Clause 11.

2.2. In relation to those Services which the Supplier also provides to itself, its Affiliates or to other third party customers (“**Internal Consumers**”), the Supplier will supply such Services to the Consumer in good faith and in a manner which does not discriminate against the Consumer in favour of Internal Consumers in relation to (i) the level of the Service to be provided or

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(ii) the allocation of Services in circumstances of restricted availability of supply.

2.3. If either party wishes to change the nature, volume or cost of the Services provided under this Agreement, that party shall make a request to the other party in writing setting out in as much detail as reasonably possible the change required and the reason for requesting the change. The other party shall consider the request in good faith with a view to implementing it if it can reasonably do so provided always that no change to the nature, volume or cost of the Services shall be implemented without the prior consent of the other party.

2.4. If, by agreement between the parties, the Consumer decides to offer permanent employment to any of the Supplier’s staff who would have been part of the resources providing the Services to the Consumer, and they accept such offers, the Supplier and the Consumer will review the extent and cost of the relevant Service and make any necessary adjustment.

2.5. The Supplier shall provide the Consumer with copies of any relevant health and safety information and product literature in relation to the Services that it may possess.

3. CHARGES

3.1. In consideration of the provision of the Services, the Consumer shall pay to the Supplier the Charges for so long as this Agreement has not been terminated in accordance with Clauses 7, 8 or 9 or Schedule 1. The Charges shall be invoiced on a monthly basis, in arrears, in respect of calendar months, and shall be paid by the 30th day after an original invoice is received. All payments shall be made by wire transfer to a bank designated by the Supplier or by such other method as the parties may agree.

3.2. All sums payable by one party to another party pursuant to this Agreement are exclusive of VAT.

3.3. If the Supplier makes a taxable supply to the Consumer for VAT purposes pursuant to this Agreement:

3.3.1. the Consumer shall pay to the Supplier (in addition to any other consideration for that supply) a sum equal to the amount of VAT which is or becomes chargeable on that supply for which the Supplier has the liability to account to the relevant Tax Authority; and

3.3.2. the Consumer shall pay that sum not later than:

- (a) the date by which the relevant Charges are required under the terms of this Agreement to be paid; or
- (b) the date falling five (5) Business Days after receipt by the Consumer of a valid VAT invoice in respect of that supply,

whichever is the later.

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3.4. If:

3.4.1. the Consumer has paid any amount in respect of VAT pursuant to Clause 3.3.2 on the basis that the relevant transaction gave rise to a positive rated supply for VAT purposes, and it subsequently transpires that the transaction did not give rise to a positive rated supply; or

3.4.2. the Consumer has paid any amount in respect of VAT pursuant to Clause 3.3.2, and it subsequently transpires that such amount was in excess of the amount of VAT actually chargeable on the relevant supply for which the party to whom that amount in respect of VAT was paid has the liability to account to the relevant Tax Authority,

the Supplier shall repay to the Consumer an amount equal to the difference between such amount in respect of VAT and the amount of VAT actually chargeable in respect of the relevant transaction or on the relevant supply, such repayment to be made within three Business Days after the Supplier first becomes aware of the relevant error.

- 3.5. If one party ("**Party A**") is required by the terms of this Agreement to reimburse another party ("**Party B**") for any cost or expense, Party A shall reimburse Party B for the full amount of such cost or expense, including any part of it which represents VAT, except:
- (a) where this Agreement provides otherwise, or
 - (b) to the extent that Party B is entitled to credit or repayment in respect of that VAT from the relevant Tax Authority.
- 3.6. If the Consumer fails to pay any amount payable by it under this Agreement, to the extent that the amount is undisputed, the Supplier shall be entitled to charge the Consumer interest on the overdue amount from the date falling five (5) Business Days after the due date to the actual payment at a rate equal to 2% per annum above the base rate for the time being of Barclays Bank plc. The interest shall accrue daily and be calculated on a 365-day year basis.
- 3.7. The Supplier shall establish and maintain accurate books and records documenting the costs charged to the Consumer under this Agreement. The Supplier shall provide the Consumer and its representatives with access, during normal working hours and subject to reasonable prior notice from the Consumer, to such books and records as is reasonably necessary to review the accuracy of the costs billed to the Consumer under this Agreement.

4. LICENCES FROM COMPETENT AUTHORITIES

- 4.1. The Supplier confirms that it holds all approvals known by the Supplier to be required by any regulatory authorities for the provision of the Services in substantially the same form as they were provided in the 12 months prior to the Commencement Date.

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- 4.2. The Supplier shall obtain and maintain, at its own cost, any approval required from any regulatory authorities for the provision of the Services, the Supplier shall obtain all necessary third party consents, and the Consumer shall provide the Supplier with all reasonable assistance required in this regard, provided that the Supplier shall be liable for any third party costs incurred by the Consumer in respect of such assistance, provided such costs shall not be incurred without the prior approval of the Supplier.
- 4.3. The Supplier shall, at its own cost, secure any and all permits, licences and/or variations thereof, governmental or other regulatory authorities required to ensure compliance with all local laws, regulations and ordinances applicable to the provision of the Services to the Consumer.

5. LIABILITY

- 5.1. Without limiting the liability of either party for death or personal injury caused by negligence, for fraud or fraudulent misrepresentation nor where liability cannot be excluded or limited as a matter of law, neither party shall be under any liability whatsoever to the other for any indirect, consequential or special loss or expense or any loss of profits arising out of this Agreement however caused.
- 5.2. Subject to Clause 5.3, each party (the "**Indemnifying Party**") shall indemnify the other (the "**Indemnified Party**") in respect of any Losses directly incurred by the Indemnified Party in respect of destruction, loss of or damage to the Indemnified Party's assets located at the Site and/or arising in respect of the Indemnifying Party's breach of this Agreement, in each case, only to the extent that such Loss is caused by the negligence, recklessness, wilful misconduct, wilful default or fraud of the Indemnifying Party, its servants or agents and not otherwise.
- 5.3. Without limiting the liability of either party for death or personal injury caused by negligence for fraud or fraudulent misrepresentation nor where liability cannot be excluded or limited as a matter of law, each party's Aggregate Liability to the other in respect of any Losses for which the first-mentioned party is liable under this Agreement shall in respect of all such Losses arising by reference or attributable to acts, event, omissions or defaults occurring during a calendar year be limited to a maximum amount equal to £100,000.
- 5.4. Except as otherwise provided in this Agreement, the Supplier makes no representation or warranty of any kind or nature whatsoever, express or implied, with respect to the Services delivered or purchased hereunder and, without limiting the generality of the foregoing, the Supplier expressly disclaims any warranty as to the suitability of the Services for the Consumer's requirements or any other purpose. Any suggestions made or advice given by the Supplier concerning the Services and the use thereof reflect the Supplier's opinion only and the Supplier makes no warranty in relation thereto. The Consumer assumes all risk and responsibility in respect of any such suggestion or advice and the receipt, taking or use of the Services.

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6. CONFIDENTIALITY

- 6.1. Any know-how, trade secrets, information of commercial value or other information proprietary to either party to this Agreement which is disclosed by that party or on its behalf to, or has been made available to, the other party ("**Recipient**") in connection with this Agreement ("**Confidential Information**") shall remain the property of the party making the disclosure and shall not, without the prior written consent of that party, be disclosed to any third party or used by the Recipient except for the performance of the Recipient's obligations under this Agreement. The obligations of non-use and confidentiality contained in this Clause shall not apply to any information which the Recipient can reasonably demonstrate from its written records or otherwise:
- (a) is or has become part of the public domain other than through the fault of the Recipient or the breach of this Agreement by the Recipient;
 - (b) was known to or in the possession of the Recipient otherwise than pursuant to the terms of the Agreement;

- (c) has been lawfully acquired by the Recipient from a third party (other than a member of the Supplier's group) on a non-confidential basis;
 - (d) the Recipient is required to disclose pursuant to any applicable law, lawful governmental, quasi governmental, or judicial order (or on which is required by the applicable rules of any stock exchange on which the securities of the Recipient (or its holding company) are listed or quoted (or on which it is proposed that such securities be listed or quoted during the process of applying to become so listed or quoted) or any other competent regulatory authority (provided that, in any such event, only the obligations of confidentiality in this Clause shall not apply and for the avoidance of doubt the obligation of non-use in this Clause shall continue to apply));
 - (e) has been conceived or generated by the Recipient after the date hereof independently of the information received from the other party; or
 - (f) is required to be disclosed for the purpose of any judicial proceedings arising out of this Agreement.
- 6.2. Either party may freely disclose Confidential Information to its Affiliates and may, with the other party's consent, not to be unreasonably withheld, disclose the Confidential Information to a proposed assignee or transferee under a proposed assignment or transfer permitted under this Agreement provided such proposed assignee or transferee agrees in writing to be bound by Clause 6.1 as if it was a party to this Agreement.
- 6.3. Upon expiry or termination of this Agreement, all information supplied by either party to this Agreement to the other party that contains Confidential Information within the scope of this Clause shall (a) if in a form capable of delivery, be promptly returned by the Recipient to the party which supplied it, and (b) so far as reasonably technically practicable be erased from any

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computer, word processor or other device except in either case for that information which is required to be retained by law or regulation. The obligations of each party under this Clause shall survive the expiry or termination of this Agreement for a period of three (3) years.

- 6.4. In addition to the Confidential Information identified in Clause 6.1, each party shall (subject, mutatis mutandis, to the exclusions in Clause 6.1(a) to 6.1(f)) treat as Confidential Information all information which it receives or obtains relating to:
- 6.4.1. the contents of or negotiations relating to this Agreement; and
 - 6.4.2. the business and customers of the other party.
- 6.5. Each of the parties may disclose Confidential Information to its directors and employees and professional advisers who need to know the Confidential Information.

7. FORCE MAJEURE

- 7.1. In this Agreement, a "**force majeure event**" shall mean any cause preventing either party from performing any or all of its obligations hereunder (other than payment obligations) due to factors beyond the control of the party, comprising, war, terrorism, sabotage, revolution, riot or civil commotion, prohibitions or measures of any kind on the part of any governmental, parliamentary or local authority (including in respect of imports or exports), explosion, fire, flood, natural disaster, other casualty, or act of God.
- 7.2. If either party is prevented or delayed in the performance of any of its obligations under this Agreement by a force majeure event, that party shall forthwith serve notice in writing on the other party giving full written particulars of the force majeure event, and shall, subject to service of such notice and to Clause 7.3, have no liability in respect of the performance or non-performance of such of its obligations as are prevented by the force majeure event during the continuation of such event, and for such time after it ceases as is necessary for that party, using its best endeavours, to resume full performance of its obligations under this Agreement without delay.
- 7.3. If the circumstances referred to in Clause 7.2 continue for a continuous period of thirty (30) days, the party notified of such circumstances in accordance with Clause 7.2 may, without prejudice to any other rights or remedies which may be available to it, terminate this Agreement with immediate effect by giving written notice of termination to the other party.
- 7.4. The obligations of the Consumer to pay any monies payable under this Agreement, in respect of the Services affected by the relevant force majeure event, shall abate for so long as such force majeure event subsists.

8. TERM

- 8.1. This Agreement shall commence on the Commencement Date and, subject to Clauses 8.2 and 8.3 and to the provisions for early termination set out

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elsewhere in this Agreement, in respect of each Service, shall continue for the Term set out in the relevant Schedule.

- 8.2. The Consumer shall have the right, at any time to give notice to the Supplier for the termination of any Service, such notice to comprise the relevant Notice Period and to expire at any time.
- 8.3. Termination under this Clause 8 with respect to any one or more Services shall not affect this Agreement with respect to any other Services continuing hereunder.

9. TERMINATION

- 9.1. Without prejudice to any other rights or remedies which may be available to them, either party may terminate this Agreement with immediate effect by giving written notice of termination to the other party (the “**Defaulting Party**”) in any of the following circumstances:
- (a) the Defaulting Party commits a breach of any of the provisions of this Agreement and, in the case of a breach capable of being remedied, fails to remedy that breach within twenty (20) Business Days of receiving written notice specifying that breach and requiring the same to be remedied provided that failure to pay any amount to the extent that it is in *bona fide* dispute shall not be a breach;
 - (b) an Insolvency Event occurs in relation to the Defaulting Party and whilst such Insolvency Event is continuing (but not after it ceases) the Defaulting Party fails to pay within ten (10) Business Days of written demand any sum due and payable under this Agreement; or
 - (c) the Defaulting Party ceases to carry on the whole or substantially the whole of its business or that part of its business to which this Agreement relates; or
 - (d) in the case of a force majeure event as set out in Clause 7.3.
- 9.2. In the case of termination under Clause 9.1(a) such termination may be either in respect of this Agreement as a whole or in respect of Services in respect of which the breach was committed (and, for the avoidance of doubt, any other Services identified in the same Schedule as such Services) at the terminating party’s sole discretion.
- 9.3. If the Agreement is terminated by the Consumer due to Clause 7.3 or 9.1 where the Supplier is the Defaulting Party, the Supplier shall provide the Consumer with reasonable assistance in replacing the Service.

10. CONSEQUENCES OF TERMINATION

- 10.1. Without prejudice to any other rights or remedies which either party may have, upon the expiry or termination of this Agreement or any part thereof, howsoever the same occurs, each party shall:

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- 10.1.1. immediately pay to the other party all sums to the extent such sums are not disputed which at the date of termination are due and payable to the other party hereunder, no further Charges shall become payable and any Charges paid in advance prior to the termination of the Services shall be immediately reimbursed to the Consumer;
- 10.1.2. immediately cease all use of any property of the other party, including without limitation any Intellectual Property of the other party; and
- 10.1.3. within 14 days of such expiry or termination, at the expense of the Defaulting Party (where termination is pursuant to Clause 9.1), return to the other party all property of the other party in its possession, custody or control, relating to such expired or terminated Services and subject as provided in this Clause and except in respect of accrued rights, neither party shall have any further obligations to the other.

- 10.2. Clauses 1, 5, 6, 10, 11, 12, 17, 18 and 23 and any other provision of this Agreement which is similarly intended to be capable of continuing to apply after the termination of this Agreement, shall survive such termination howsoever the same occurs.

- 10.3. In the case of expiry or termination in respect of one or some, but not all, Services:

- 10.3.1. Clause 10.1 shall apply in respect of sums and property exclusively in relation to the Services in respect of which such termination occurred only; and
- 10.3.2. the Charges attributable to such terminated Services shall cease to be incurred by the Consumer with effect from the date of termination.

11. DISPUTE RESOLUTION

- 11.1. In the event of any disputes which may arise out of or in connection with this Agreement the parties shall in the first instance promptly refer the matter to the parties’ on-site representatives at the relevant site. Should the on-site representatives be unable to resolve the dispute within ten (10) Business Days of the matter having been first considered or such longer period as may be agreed by these on-site representatives, senior executives of each of the parties shall meet as soon as reasonably practicable and shall use their best endeavours to attempt to resolve such dispute or difference. If the parties’ senior executives are unable to resolve the dispute within a period of ten (10) Business Days following the senior executives’ first meeting to discuss the matter (including a meeting by telephone) then the provisions of Clause 11.2 shall apply.

- 11.2. The following provisions shall apply in the case of any disputes which may arise out of or in connection with this Agreement which have not been resolved in accordance with Clause 11.1:

- 11.2.1. such dispute shall be submitted to arbitration at the request of either party upon notice to that effect to the other party (a Notice of

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Reference) and be finally determined under the arbitration rules of the London Court of International Arbitration (LCIA) in force at the date of this Agreement (the Rules) from time to time (which Rules are deemed to be incorporated by reference into this Clause);

- 11.2.2. the parties shall be entitled to appoint one arbitrator each;

11.2.3. the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If he is not so nominated within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, he shall be chosen by the LCIA; and

11.2.4. neither party shall be required to give general discovery of documents but may be required only to produce specific identified documents which are relevant to the dispute.

12. INDEPENDENT CONTRACTORS

12.1. In making and performing this Agreement, the parties are acting and shall act as independent contractors. Neither party is, nor shall be deemed to be, an agent, legal representative, joint venturer or partner of the other party for any purpose.

12.2. Neither party shall be entitled to (i) enter into any contracts in the name of or on behalf of the other party, (ii) pledge the credit of the other party in any way or hold itself out as having authority to do so or (iii) make commitments or incur any charges or expenses for or in the name of the other party.

12.3. Neither party's personnel are, nor shall they be deemed to be at any time during the term of this Agreement, employees of the other party. Subject to the other terms of this Agreement, each party shall be solely responsible for payment of all compensation owed to its personnel (and all associated income taxes and national insurance contributions).

12.4. The Supplier confirms that there are no individuals who will be engaged in providing the Services to the Consumer to such an extent that on the termination of this Agreement in relation to the provision of such Services, the employment of such individual would transfer to the Consumer under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (the "**Transfer Regulations**").

12.5. If any person employed or engaged by the Supplier in the provision of the Services asserts or alleges that his employment or any liability associated with his employment has transferred to the Consumer by operation of the Transfer Regulations in relation to the provision of the Services (a "**Transferring Employee**") the Consumer shall within 21 days after being notified of this either by the Transferring Employee or by the Supplier (whichever is the earlier) have the option to terminate the employment or purported employment of the Transferring Employee and the Supplier shall indemnify and keep indemnified the Consumer against all liabilities including but not limited to costs, claims, losses, actions, proceedings, penalties, awards,

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demands, expenses, damages, compensation, fines (including without limitation, any liability to tax and national insurance) arising out of or in connection with any claim by a Transferring Employee or any person other than a Transferring Employee (in either case whether on their own behalf or in their capacity as an appropriate representative) relating to or arising from any claims made or threatened before, on or after the transfer and which the Consumer may incur or suffer by virtue of the operation of the Transfer Regulations in connection with the termination of this Agreement provided however that this indemnity shall not apply in respect of any such employee if any member of the Purchaser's Group has accepted services from such employee for a period of three months or more from the date of such notification.

13. AMENDMENTS

13.1. No amendment or variation of this Agreement shall be effective unless in writing and signed by a duly authorised representative of each of the parties.

14. ACCESS RIGHTS

14.1. Subject (save in cases of emergency) to not less than one day's notice and subject to obtaining a "Permit to Work" for engineering work from the Consumer (not to be unreasonably denied or delayed) the Consumer grants the Supplier (and all others authorised and reasonably required by the Supplier, with the Consumer's prior consent) the right during the term of this Agreement and solely in connection with the supply of a Service to enter the Consumer's premises at the Site to the extent necessary in order to carry out the Service and to comply with any of its obligations under this Agreement together with the right to use all access ways within the Consumer's premises at the Site as are necessary for the Supplier to provide the Service to the Consumer provided that the Supplier shall cause as little inconvenience to the Consumer as reasonably practicable in the exercise of such rights and shall promptly make good all damage to the Consumer's premises at the Site and/or any property or chattels of the Consumer caused by such entry and shall fully comply at all times and in all respects with all directions, including but not limited to all health and safety directions, given by the Consumer.

14.2. For the avoidance of doubt, in respect of each Service, the rights granted to the Supplier in Clause 14.1 above shall lapse upon termination of the Service or of this Agreement in accordance with Clause 9.

14.3. The Supplier grants the Consumer (and all others authorised and reasonably required by the Consumer, with the Supplier's prior consent) the right during the term of this Agreement and solely in connection with the use and enjoyment of a Service to enter at any time the Supplier's premises at the relevant site to the extent necessary in order to use and enjoy the Service provided that the Consumer shall cause as little inconvenience as reasonably practicable in the exercise of such rights and shall promptly make good all damage to the Supplier's premises at the relevant site and/or any property or chattels of the Supplier caused by such entry and shall fully comply at all

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times and in all respects with all directions, including but not limited to all health and safety directions, given by the Supplier.

14.4. For the avoidance of doubt, in respect of each Service, the rights granted to the Consumer in Clause 14.3 above shall lapse upon expiry or termination of the Service or of this Agreement in accordance with Clauses 8 or 9.

15. ASSIGNMENT

15.1. A party may not assign or transfer all or any part of its rights or obligations under this Agreement without the prior written consent of the other party (such consent not to be unreasonably withheld or delayed) save that:

- 15.1.1. the Supplier may assign and transfer this Agreement to a purchaser of all or substantially all of the assets or rights of its business related to the provision of the Services provided the purchaser thereof agrees in writing to be bound by the terms and conditions of this Agreement;
- 15.1.2. the Consumer may assign and transfer this Agreement to a purchaser of all or substantially all of the assets or rights of its business related to the receipt of the Services provided the purchaser thereof agrees to in writing to be bound by the terms and conditions of this Agreement; and
- 15.1.3. either of the parties may assign this Agreement to any Affiliate subject to that Affiliate (i) not being subject to an Insolvency Event at the time of the assignment, (ii) agreeing in writing to be bound by the terms and conditions of this Agreement, and (iii) agreeing in writing to assign the Agreement back to the party concerned or another of its Affiliates before itself ceasing to be an Affiliate in relation to such party.

16. NOTICES AND SERVICE

16.1. All notices and other communications given or made in relation to this Agreement:

- 16.1.1. shall be in English and in writing;
- 16.1.2. shall be delivered by hand or facsimile or sent by first class registered post;
- 16.1.3. shall be delivered or sent to the party concerned at the relevant address or facsimile number shown in Clause 16.2, subject to such amendments as may be notified from time to time in accordance with this Clause 16 by the relevant party to the other party by not less than 3 Business Days' notice; and
- 16.1.4. shall be deemed to have been received if addressed in the aforesaid manner:

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- (a) in the case of delivery by hand prior to 5pm on a Business Day, upon delivery and in any other case on the Business Day following the day of delivery;
- (b) in the case of delivery by first class registered post, on the second Business Day following the day of posting;
- (c) in the case of air mail posted from a country different to the country of address, be deemed to have been received on the sixth Business Day after the date of posting; or
- (d) in the case of facsimile, on acknowledgement by the addressee's facsimile receiving equipment or on receipt by the sender of an error free confirmation statement from its facsimile provided such acknowledgement or confirmation is dated prior to 5pm on a Business Day, but otherwise, on the next Business Day following the date of such acknowledgement or confirmation.

16.2. For the avoidance of doubt, notices, requests, demands and other communications may be served by other means (including e-mail) but such other means shall not benefit from the presumption of delivery set out at Clause 16.1.

16.3. The initial details for the purposes of Clause 16.1, are in the case of the Supplier:

Avecia Biologics Limited
PO Box 42
Hexagon Tower
Blackley
Manchester M9 8ZS

Facsimile: 0161 721 1886
Attention: Company Secretary/General Counsel

and in the case of the Consumer:
Pharmathene UK Limited
c/o Hogan & Hartson Corporate Services Limited
Juxon House
100 St Paul's Churchyard
London EC4M 8BU

Facsimile: 020 7367 0220
Attention: S. J. Atkinson

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With a copy to:
McCarter & English, LLP
Four Gateway Center
100 Mulberry Street
Newark, NJ 07102

Facsimile: 001 973 624 7070
Attention: Jeff Baumel

and in the case of any assignee pursuant to the terms of Clause 15.1 as set out in the assignee's undertaking to be bound by this Agreement.

16.4 Subject to Clause 16.1, either party may by notice in writing to the other specify a different or additional address or facsimile number for the service of notices or copies of notices.

17. WAIVERS

17.1. A failure to exercise or delay in exercising a right or remedy provided by this Agreement or by law does not constitute a waiver of the right or remedy or a waiver of other rights or remedies and a failure to exercise or delay in exercising a right or remedy provided by this Agreement or by law does not constitute a waiver of the right or remedy or a waiver of other rights or remedies and no single or partial exercise of any right or remedy shall preclude any other or further exercise of it or the exercise of any other right or remedy.

17.2. A waiver of a breach of any of the terms of this Agreement or of a default under this Agreement does not constitute a waiver of any other breach or default and shall not affect the other terms of this Agreement.

17.3. No waiver shall be effective unless in writing and signed by the party whose waiver it purports to be.

17.4. The rights and remedies provided by this Agreement are cumulative (provided that no party may make recovery more than once in respect of the same loss) and (subject as otherwise provided in this Agreement) are not exclusive of any rights or remedies provided by law or this Agreement.

18. SEVERABILITY

18.1. Should any provision of this Agreement be held to be illegal, invalid or unenforceable in any respect by any judicial or other competent authority under any applicable law:

18.1.1. such provision shall, so far as it is illegal, invalid or unenforceable, be given no effect by the parties and shall be deemed not to be included in this Agreement; and

18.1.2. the other provisions of this Agreement shall be binding on the parties as if such provision were not included herein,

the parties shall use their best endeavours to amend such provision in such reasonable manner as most closely achieves the intention of the parties without substantially impairing the parties' original interests and without rendering such provision invalid or unenforceable.

19. COUNTERPARTS

19.1 This Agreement may be executed in more than one counterpart, each of which when executed and delivered shall be deemed to constitute an original. This Agreement shall become effective when one or more counterparts have been signed by all of the parties hereto and such a counterpart (so signed) has been delivered to each of the parties hereto.

19.2 To facilitate execution, this Agreement may be executed through the use of facsimile transmission, and a counterpart of this Agreement that contains the facsimile signature of a party, which counterpart has been transmitted by facsimile transmission to the other party at its facsimile number set out in Clause 17 or at such other facsimile number as such other party shall request, shall constitute an executed counterpart of this Agreement.

20. ENTIRE AGREEMENT

20.1. This Agreement constitutes the entire agreement and understanding of the parties with respect to the subject matter of this Agreement and supersedes all prior agreements, negotiations and discussions between the parties relating to it.

20.2. Each of the parties acknowledges and agrees that in entering into this Agreement it does not rely on, and shall have no remedy in respect of, any statement, representation, warranty or understanding (whether negligently or innocently made) of any person (whether party to this Agreement or not) other than as expressly set out in this Agreement.

20.3. Nothing in this Clause 20 shall, however, operate to limit or exclude any liability for fraud or fraudulent misrepresentation.

21. RIGHTS OF THIRD PARTIES

No person who is not a party to this Agreement shall have any right to enforce any term of this Agreement whether by virtue of the Contracts (Rights of Third Parties) Act 1999 or otherwise.

22. DATA PROTECTION

Each party undertakes to comply with the Data Protection Act 1998 and any other applicable data protection legislation in connection with performance of this Agreement.

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23. GOVERNING LAW AND JURISDICTION

This Agreement shall be governed and construed in accordance with English law and each party hereby irrevocably submits to the exclusive jurisdiction of the English Courts.

IN WITNESS WHEREOF the parties have executed this document as their Agreement on the date first written above.

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Executed on behalf of
AVECIA BIOLOGICS LIMITED
by: Adrian Buckmaster

/s/ Adrian Buckmaster
Director/Authorised Signatory

Executed on behalf of
PHARMATHENE UK LIMITED
by: David P. Wright

/s/ David P. Wright
Director/Authorised Signatory

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SCHEDULE 1 – Storage Services

Service to be Provided

The storage of such equipment as the Consumer may reasonably request from time to time at the Supplier's premises (the "Equipment"). Such Equipment shall be stored until either (i) the next manufacture by the Supplier for the Consumer under the terms of the Master Supply Agreement to be entered into on or around the date of this Agreement, or (ii) the Consumer requests that the Equipment be delivered to an alternate site (at the Consumer's cost), whichever is the earlier.

Specifications

The Equipment shall be stored in a secure area without climate control.

The Equipment shall remain the property of the Consumer at all times.

The Supplier will not modify the Equipment in any way.

The Supplier shall be responsible for any loss, damage, or destruction to the Equipment in its possession to the extent caused by the Supplier's (or its employees or sub-contractor's) misconduct, wilful default, bad faith or negligence but otherwise the Supplier shall have no liability to the Consumer in respect of storage of Equipment under this Agreement, whether resulting from loss or deterioration of or damage to the Equipment or otherwise, howsoever arising.

Charge for the Service

The Charge for the Service shall be £1,000 per calendar month.

Term of the Service

The Service will be provided for a term of (i) 12 months or (ii) until the expiry of the Master Supply Agreement (if later), unless terminated prior to that date in accordance with the terms of this Agreement.

Notwithstanding Clause 10 or any other provision of this Agreement, the Consumer may terminate the Services at any time upon 30 days' notice to the Supplier. Such notice will be deemed to be given if the Consumer notifies the Supplier that it does not intend for the Equipment to be used by the Supplier under the Master Supply Agreement prior to the expiry of the 18 month term.

SCHEDULE 2 – Human Resources Services

1. Service Description

The provision of advice and assistance to management in personnel matters including

- Selection and interviewing of new staff;
- Communications with staff on matters of terms & conditions;
- Performance review and remuneration decisions;
- Benefits administration support; and
- Staff grievances and disciplinary matters.

2. Termination

Notice Period

One month

2.1. Term

Three months from the Commencement Date.

3. Charges

£1,000 per month.

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SCHEDULE 3 – Finance/Accounting Services

1. Service Description

The provision of advice and assistance to management in accounting and financial matters including:

- Preparation and filing of tax returns, including VAT;
- Accounting for transactions under IFRS; and
- Banking and financing.

2. Termination

2.1. Notice Period

One month

2.2. Term

Six months from the Commencement Date.

3. Charges

£1,000 per month.

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SCHEDULE 4 – Information Technology Services

1. Service Description

The provision of advice and assistance to management in information technology matters, including:

- Help desk handling and monitoring of IT problems;
- Resolution of desktop and network problems; and

· Implementation of new IT equipment and network solutions.

These services would be provided during UK business hours, subject to availability of staff, following a request from nominated members of staff in the consumer.

2. **Termination**

2.1. *Notice Period*

One month

2.2. *Term*

Nine months from the Commencement Date.

3. **Charges**

Charges will be levied per day of time spent on Consumer's issues at a daily rate of £750 and reasonable evidence of time spent by employees of the Supplier in a particular month will be provided with that month's invoice.

Fixed costs of leased telecommunications lines used by the Consumer will be charged to the Consumer at the cost incurred, until such time as ownership of the lines is novated to the Consumer. No guarantee is given on the availability of the lines.

Any equipment purchased at the Consumer's request will be re-invoiced at cost.

SCHEDULE 5 – Storage of Bulk Drug Substance

The parties to this Agreement undertake to use reasonable endeavours to negotiate and agree terms relating to the provision of services for the storage of bulk drug substances as soon as reasonably practicable and in any case within 30 days of the Commencement Date.

[KPMG AUDIT PLC LETTERHEAD]

Avecia Group plc
PO Box 42
Hexagon Tower
Blackley
Manchester
M9 8ZS
Private & confidential.

Our ref ns/005

Contact Tel 0161 246 4165

18 June 2008

Consent of Independent Public Accounting Firm

To the Board of Directors of Avecia Group plc

We consent to the incorporation by reference in the registration statement (No. 333-146463) on Form S-3 of PharmAthene, Inc. of our report dated June 18, 2008, with respect to the combined balance sheets of the Avecia Vaccines business as of December 31, 2007 and 2006, and the related combined statements of income, cash flows, and recognised income and expense for the two years then ended, which report appears in the Form 8-K/A of PharmAthene, Inc. dated April 2, 2008.

Regards,

/s/ KPMG Audit Plc

KPMG Audit Plc
Manchester, United Kingdom

18 June 2008

Independent Auditors' Report

The Board of Directors
Avecia Group plc

We have audited the accompanying combined balance sheets of the Avecia Vaccines business of Avecia Group plc ("the Business") as of December 31, 2007 and 2006, and the related combined statements of income, cash flows, and recognised income and expense for the years then ended. These combined financial statements are the responsibility of Avecia Group plc's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Business's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Business as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ KPMG Audit Plc
KPMG Audit Plc
Manchester, United Kingdom
18 June 2008

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Combined Income Statement
for the years ended 31 December

	<u>Note</u>	<u>2007</u> £000	<u>2006</u> £000
Revenue	2,3	17,747	20,821
Operating costs	4	(17,273)	(21,235)
Operating profit/(loss)		<u>474</u>	<u>(414)</u>
Profit/(loss) before tax		474	(414)
Taxation	7	(12)	—
Profit/(loss) for the year		<u>462</u>	<u>(414)</u>

The notes on pages 6 to 22 form part of these financial statements.

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Combined Balance sheet
as at 31 December

	<u>Note</u>	<u>2007</u> £000	<u>2006</u> £000
ASSETS			
Non-current assets			
Property, plant and equipment	8	769	544
Deferred tax asset	9	17	
Total non current assets		786	544
Current assets			
Trade and other receivables	10	1,683	1,398
Due from parent undertaking		725	334
Total current assets		<u>2,408</u>	<u>1,732</u>

Total assets		3,194	2,276
LIABILITIES			
Non-current liabilities			
Deferred tax liability	9	29	—
Total non-current liabilities		29	—
Current liabilities			
Trade and other payables	11	1,798	1,371
Total current liabilities		1,798	1,371
Total liabilities		1,827	1,371
Net assets		1,367	905
Net invested equity	13	1,367	905

The notes on pages 6 to 22 form part of these financial statements.

/s/ D Mclellan
D Mclellan
Director

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**Combined Cash flow statement
for the years ended 31 December**

	2007 £000	2006 £000
Cash flows from operating activities		
Profit before tax for the year	474	(414)
<i>Adjustments for:</i>		
Depreciation, amortisation and impairment charges	5	64
	538	(414)
(Increase)/decrease in receivables	(285)	1,486
Increase in payables	427	310
Amounts paid to parent undertaking	(391)	(838)
Cash generated from operations	289	544
Taxation paid	7	—
Net cash inflow from operating activities	289	544
Cash flows from investing activities		
Purchase of tangible fixed assets	8	(289)
Net cash outflow from investing activities	(289)	(544)
Net increase in cash and cash equivalents	—	—
Cash and cash equivalents at 1 January	—	—
Cash and cash equivalents at 31 December	—	—

The notes on pages 6 to 22 form part of these financial statements.

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**Combined statements of recognised income and expense
for the years ended 31 December**

	2007 £000	2006 £000
Net expense recognised directly in net investment	—	—
Profit/(loss) for the year	462	(414)

The notes on pages 6 to 22 form part of these financial statements.

Notes (forming part of the financial statements)

1 Basis of preparation

The combined financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRSs”).

Financial statements

The accompanying financial statements have been prepared in connection with the acquisition of the Vaccines business of Avecia Group plc (“Avecia”) (“the Business”), in order to show the financial position, results of operations, recognised income and expenses, cash flows and movements in net investment of the Business. The Business comprises the development of two vaccines for biodefence use, and operates as a subset of Avecia’s Biologics business. The financial statements include the balance sheets as at 31 December 2007 and 31 December 2006 and the income statements, cash flow statements, statement of total recognised income and expense and movements in net investment for each of the years in the two year period ended 31 December 2007.

The accompanying financial statements have been prepared on a carve-out basis as if the Business had formed a discrete operation under common management for the entire two year period. The Business is not a separate legal entity and has not been separately financed. The business has operated within legal entities in the Avecia Group which contain the operations of Avecia Biologics. The specific legal entities from which the Business data has been extracted are Avecia Biologics Limited, Avecia Limited, Avecia Biologics Inc, and Avecia Biotechnology Inc.

Elements of the financial statements, such as revenues, the majority of costs, tangible assets, and trade receivables and payables have been extracted directly from the books and records of the relevant Avecia legal entities. Management believes the assumptions underlying the financial statements are reasonable. The financial statements may not necessarily reflect the financial position, results of operations and cash flows of the Business in the future, or what its financial position, results of operations and cash flows would have been had the business operated as a stand-alone entity during the periods presented.

Central costs

Certain costs and overheads incurred by Avecia amounting to £553,000 in 2007 and £547,000 in 2006 have been attributed to the Business, as if the Business had been a separate independent entity. These include services such as finance, human resources, information technology, audit, insurance, legal and tax advice, and other administrative support. As specific attribution to the Business was not possible, an appropriate allocation basis was used based on Business headcount as a percentage of Avecia’s headcount, reflecting the fact that these costs can tend to increase as Business headcount increases. Business headcount relates to employees who work directly for the Business, and contains no allocations. In all cases management believes the method used was reasonable. While management believes that the attribution of charges to be reasonable, the costs charged to the Business are not necessarily indicative of the costs that would have been incurred if the Business had been a stand alone entity.

Pensions

Avecia employees attributed to the Business are members of both defined benefit and defined contribution pension schemes, and are entitled to certain post-retirement benefits as members of Avecia’s relevant schemes. As there is no contractual agreement or stated policy for charging the net defined benefit cost for the plans as a whole measured in accordance with IAS 19 to the Vaccines Business, the Business has recognised a cost equal to their contribution payable for each period presented. In all cases management believes the allocation method used was reasonable. While management believes that the attribution of charges to be reasonable, they are not necessarily indicative of the outcome if the Business had been a stand alone entity with its own pension and post-retirement benefit schemes.

Notes (continued)

Taxation

The tax charge attributed to the Business in each year has been calculated on a separate return basis based on the taxable earnings of the Business in each major taxable jurisdiction. For cash flow purposes, such tax charges have been treated as settled in the same financial year where a net charge arose, and carried forward as tax losses to be utilized in future years where a tax repayable was calculated.

Net invested equity

The invested equity balance in the financial statements of the Vaccines Business constitutes Avecia’s investment in the Business and represents the excess of total assets over total liabilities. Invested equity includes the effects of carve-out allocations from Avecia and the funding of the Business’s activities to and from Avecia, and the Business’s cumulative net income and losses, including income and losses directly recognised in equity. As a consequence, invested equity does not constitute any contract that evidences a residual interest in the assets after deducting liabilities.

2 Significant accounting policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRSs”).

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Business financial statements.

Avecia’s management considers the following to be the most important accounting policies in the context of the Business’s operations. In applying these accounting policies management makes certain judgements and estimations. Judgements include classification of transactions in the income statements and balance sheets, and the basis adopted for allocation of costs to the Business, whilst estimations focus on areas such as carrying values and estimated lives. Although these estimates are based on management’s best knowledge of the amounts, events or actions, actual results may differ from those estimates.

The accounting policy descriptions set out the areas where judgement needs exercising, the most significant of which are revenue recognition and post retirement benefits.

Transition to IFRS

The Business is preparing its financial statements in accordance with IFRSs as issued by the International Accounting Standards Board for the first time and consequently has applied IFRS 1.

IFRS 1 grants certain exemptions from the full requirements of IFRSs in the transition period. None of the exemptions have been taken by the Business, as there were no tangible fixed assets at the point of transition, nor any cumulative translation differences of foreign operations.

The Business has adopted IAS 39 as at the date of transition. The Business has not retrospectively applied the derecognition criteria of IAS 39.

As the Business has adopted IFRSs at a later date than its parent undertaking, the measurement of the assets and liabilities has been determined at the date of the Business’s transition to IFRS.

IFRS adopted during the year

IFRS 7 ‘Financial Instruments: Disclosures’ and the Amendment to IAS 1 “Presentation of Financial Statements – Capital Disclosures” were adopted during 2007.

Notes (continued)

Measurement convention

The financial statements are prepared on the historical cost basis, except for derivative financial instruments which are stated at their fair value.

Functional and presentation currency

These financial statements are presented in sterling, which is the functional currency of the Business operated in the United Kingdom. There is no trading in those parts of the Business located in the United States of America. All financial information presented in sterling has been rounded to the nearest £ thousand.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful lives they are accounted for as separate property, plant and equipment. Assets in the course of construction are not depreciated.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. The cost of each item of property, plant and equipment is written off evenly over its estimated remaining useful life. Reviews are made periodically of the estimated remaining lives of the productive assets, taking account of commercial and technological obsolescence as well as normal wear and tear. Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. The total asset lives approximate to 8 years for plant and equipment.

At 1 January 2006 the business had no property, plant and equipment.

Research and development

Expenditure on research activities is recognised in the income statement as an expense as incurred. Development expenditure is also recognised as incurred. Development expenditure is recognised as an intangible asset when costs and probable future economic benefits can be reliably assessed. Development expenditure previously recognised as an expense is not recognised as an asset in subsequent periods.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Lease payments

Rentals under operating leases are charged to the income statement on a straight-line basis over the lease term. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Notes (continued)

Post-retirement benefits

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Trade and other receivables

Trade and other receivables are recorded initially at fair value. Subsequent to this they are measured at amortised cost less any impairment losses.

Trade and other payables

Trade and other payables are recorded initially at fair value. Subsequent to this they are measured at amortised cost.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in net invested equity, in which case it is recognised in net invested equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Revenue

The Business generates revenue through supply and development contracts. Revenue excludes value added taxes.

Revenue is recognised when services have been rendered and significant risks and rewards in respect of ownership of the products are passed to the customer. Where multiple-element sales arrangements exist, this entails the Business recognizing revenue on individual contract elements for work performed or services rendered during the period. For many contracts, the fair value of the individual elements is readily recognizable or detailed in the contract. Where the contract does not set this out so clearly, management must exercise their judgement in attributing fair value to particular elements of a contract. Where amounts have been invoiced under contracts, but the revenue has not been recognized, the amount not recognized is held in the balance sheet as deferred income.

Cash and cash equivalents

Cash and cash equivalents, for the purpose of the cash flow statement and the balance sheet, comprises cash in hand and deposits repayable on demand. Cash flows to the parent undertaking have been treated as operating cash flows.

Notes (continued)

Impairment

The carrying amounts of the Business's non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Standards in issue not yet adopted

At the date of authorisation of these financial statements the following standards and interpretations were in issue but not yet effective:

- IFRS 8, Operating Segments;
- Amendment to IAS 1, Presentation of Financial Statements;
- Amendment to IAS 23, Borrowing Costs; and
- IFRIC 13, Customer Loyalty Programmes;

Notes (continued)

3 Segmental information

Segment information is presented in respect of the Business's geographical segments.

The following tables analyse certain income statement and net asset items by business geographical segment. No segment allocation has been shown for interest and taxation as they have not been allocated to these geographical segments. The accounting policies for each segment are the same as those for the Business as a whole.

Geographical segments

The Business operates in two principal geographical areas, UK and America.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Year ended 31 December 2007	UK £000	The Americas £000	Total £000
<i>Revenue by destination</i>			
Revenue to third parties	9,009	8,738	17,747
<i>Revenue by origin</i>			
Revenue to third parties	17,747	—	17,747
Segment operating profit	474	—	474
Total assets as at 31 December 2007	3,194	—	3,194
Total liabilities as at 31 December 2007	1,827	—	1,827
Capital expenditure	289	—	289
Depreciation	64	—	64

Notes (continued)

Year ended 31 December 2006	UK £000	The Americas £000	Total £000
<i>Revenue by destination</i>			
Revenue to third parties	1,511	19,310	20,821
<i>Revenue by origin</i>			
Revenue to third parties	20,821	—	20,821
Segment operating loss	(414)	—	(414)
Total assets as at 31 December 2006	2,276	—	2,276
Total liabilities as at 31 December 2006	1,371	—	1,371
Capital expenditure	544	—	544
Depreciation	—	—	—

4 Operating costs

	<u>2007</u> £000	<u>2006</u> £000
Cost of sales	(13,376)	(18,188)
Research and development	(3,344)	(2,500)
Selling, general and administrative expenses	(553)	(547)
	<u>(17,273)</u>	<u>(21,235)</u>
Total charge for depreciation included above	(64)	—

5 Expenses

	<u>2007</u> £000	<u>2006</u> £000
<i>Profit/(loss) for the year (excluding interest and taxation) is stated after charging:</i>		
Depreciation and other amounts written off tangible fixed assets		
Owned	64	—
Operating leases		
Land and buildings	158	137
Exchange losses	15	199
Research and development expenditure	<u>3,344</u>	<u>2,500</u>

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Notes (continued)

6 Staff numbers and costs

The average number of persons employed by the Business (including directors) during the year was as follows:

	<u>Number of employees</u>	
	<u>2007</u>	<u>2006</u>
	<u>56</u>	<u>41</u>

The aggregate payroll costs of these persons were as follows:

	<u>2007</u> £000	<u>2006</u> £000
Wages and salaries	2,274	1,807
Social security costs	201	170
Other pension costs	<u>269</u>	<u>224</u>
	<u>2,744</u>	<u>2,201</u>

7 Taxation

Analysis of charge in year

	<u>2007</u> £000	<u>2006</u> £000
<i>UK corporation tax</i>		
Current tax on income for the year	—	—
Deferred taxation charge/(credit)	<u>12</u>	<u>—</u>
Tax on profit on ordinary activities	<u>12</u>	<u>—</u>

The total tax expense differs from the amount computed by applying the UK rate of 30% to income before tax as a result of the following:

	<u>2007</u> £000	<u>2006</u> £000
<i>Current tax reconciliation</i>		
Profit/(loss) on ordinary activities before tax	<u>474</u>	<u>(414)</u>
Taxation charge at United Kingdom corporation tax rate of 30%	142	(124)
Tax losses (utilised)/created	(116)	124
Lower applicable tax rate	<u>(14)</u>	<u>—</u>
Taxes on income from ordinary activities	<u>12</u>	<u>—</u>

Notes (continued)**Factors affecting the tax charge for the current year**

The current tax charge for the period is lower (2006: higher) than the standard rate of corporation tax in the UK 30%. The differences are explained below.

	2007 £000	2006 £000
Current tax reconciliation		
Profit before tax	474	(414)
Current tax at 30%	142	(124)
Effects of:		
Tax losses (utilised)/created	(99)	124
Lower applicable tax rate	(14)	—
Origination and reversal of temporary differences	(29)	—
Total current tax charge (see above)	—	—
Deferred tax (credit)/charge for the period	12	—
Deferred taxation		
Tax losses recognised	(17)	—
Other timing differences	29	—
Total deferred taxes	12	—
Taxes on income from ordinary activities	12	—

Notes (continued)**8 Property, plant and equipment**

	Plant and equipment £000	Assets in the course of construction £000	Total £000
Cost			
At 1 January 2006	—	—	—
Additions	—	544	544
Transfers	—	—	—
At 31 December 2006	—	544	544
At 1 January 2007	—	544	544
Additions	—	289	289
Transfers	833	(833)	—
At 31 December 2007	833	—	833
Depreciation and impairment losses			
At 1 January 2006	—	—	—
Charge for year	—	—	—
At 31 December 2006	—	—	—
At 1 January 2007	—	—	—
Charge for year	64	—	64
At 31 December 2007	64	—	64
Carrying amounts			
At 1 January 2006	—	—	—
At 31 December 2006	—	544	544

At 1 January 2007	—	544	544
At 31 December 2007	769	—	769

Assets acquired and brought into use represent those purchased to perform analytical work and manufacture of the products being developed by the Business.

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Notes (continued)

9 Deferred tax asset

Recognised deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2007 £000	2006 £000	2007 £000	2006 £000	2007 £000	2006 £000
Tax losses	17	—	—	—	17	—
Property, plant and equipment	—	—	29	—	(29)	—

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2007 £000	2006 £000
Tax losses	8	124

Movement in temporary differences during the year

	Balance 1 Jan 07 £000	Recognised in income £000	Recognised in equity £000	Balance 31 Dec 07 £000
Property, plant and equipment	—	29	—	29

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Notes (continued)

10 Trade and other receivables

	2007 £000	2006 £000
Trade receivables	760	962
Accrued income	923	436
	1,683	1,398

11 Trade and other payables

	2007 £000	2006 £000
Trade payables	1,125	345
Deferred income	673	1,026
	1,798	1,371

12 Borrowings, financial instruments and risk management

The Business has exposure to credit risk, liquidity risk, market risk and currency risk from its use of financial instruments.

The Business finances its operations through borrowings from and deposits with its parent.

Credit risk

Credit risk is the risk of financial loss to the Business if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Business's trade receivables.

Trade and other receivables

The Business's exposure to credit risk is influenced by the individual characteristic of each customer. Each customer is assessed in terms of creditworthiness, and credit limits are established and monitored for each customer. Where collection appears doubtful, specific provisions are made against receivables, although historically there have been no write-offs.

Notes (continued)

The aging of trade receivables at the reporting date:

	2007 £000	2006 £000
Current	760	962
Overdue	—	—
Total trade receivables	760	962

An intercompany debt of £725,000 (2006: £325,000) is due from the parent company. The debt is repayable on demand and interest free

Liquidity risk

Liquidity risk is the risk that the Business will not be able to meet its financial obligations as they fall due.

The following are the contractual maturities of financial liabilities.

	Carrying Amount	Contracted Cash Flows	2007 £000				
			6 months or less	6-12 months	1-2 years	2-5 years	More than 5 Years
Trade payables	1,125	1,125	1,125	—	—	—	—

	Carrying Amount	Contracted Cash Flows	2006 £000				
			6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Trade payables	345	345	345	—	—	—	—

Notes (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Business's income or the value of its holding of financial instruments.

Interest rate risk

The Business's net borrowings from its parent do not attract interest; therefore the Business is not exposed to Interest Rate risk.

Currency risk

The Business is exposed to currency risk on sales and purchases that are in currencies other than sterling. There are no outstanding foreign exchange contracts. Consequently sales and purchases in currencies other than sterling are not hedged.

At 31 December 2007 and 31 December 2006 the Business's assets and liabilities denominated in currencies other than sterling were as follows:

	2007 US dollar £000	2006 US Dollar £000
UK trade receivables	760	962
UK trade payables	(33)	(119)
Net balance sheet exposure	727	843

For the years ended 31 December 2007 and 31 December 2006 the Business's income and expenses denominated in currencies other than sterling were as follows:

2007 US dollar £000	2006 US Dollar £000
---------------------------	---------------------------

UK revenues	8,738	19,310
UK purchases	(850)	(2,150)
Net income exposure	<u>7,888</u>	<u>17,160</u>

The Business's US Dollar income arises on contracts where costs, both Sterling and US Dollar, are recharged on a monthly basis as incurred. As the sterling costs are recharged at the prevailing monthly rate, the Business's net currency risk is restricted to the period during which the invoiced amount is outstanding.

Notes (continued)

The following significant exchange rates between Sterling and the US Dollar applied during the year.

	<u>2007</u>	<u>2006</u>
Average rate for the period	2.00	1.83
Spot rate at reporting date	2.01	1.97

A 10% strengthening of Sterling against the US Dollar would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, including interest rates, remain constant.

	<u>2007</u>	<u>2006</u>
	<u>£000</u>	<u>£000</u>
Equity	(74)	(84)
Profit & Loss	—	—

A 10% weakening of Sterling against the US Dollar would have had an equal and opposite effect to the amounts shown above.

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of all the Business's financial assets and financial liabilities as at 31 December 2007 and as at 31 December 2006:

	<u>2007</u>	<u>2007</u>	<u>2006</u>	<u>2006</u>
	<u>Carrying</u>	<u>Fair value</u>	<u>Carrying</u>	<u>Fair value</u>
	<u>amount</u>	<u>£000</u>	<u>amount</u>	<u>£000</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Trade receivables	760	760	962	962
Trade payables	(1,125)	(1,125)	(345)	(345)
	<u>(365)</u>	<u>(365)</u>	<u>617</u>	<u>617</u>

All financial assets and financial liabilities are held at amortised cost. None are held for the purpose of dealing or other financial instrument trading activities. None of the financial assets or financial liabilities has been reclassified during the year.

Fair values have been calculated by discounting expected future cash flows at 31 December 2007 market interest rates.

Fair value judgements and changes in market conditions and assumptions could significantly affect these estimates. The disclosed values of those which are representative of fair values at the dates indicated.

Notes (continued)

13 Net invested equity

	<u>2007</u>	<u>2006</u>
	<u>£000</u>	<u>£000</u>
At 1 January	905	1,319
Total recognised income and expense	462	(414)
At 31 December	<u>1,367</u>	<u>905</u>

14 Commitments

There are no capital commitments outstanding.

Total commitments under operating leases are as follows:

<u>2007</u> <u>Land and</u> <u>Buildings</u> <u>£000</u>	<u>2006</u> <u>Land and</u> <u>Buildings</u> <u>£000</u>
---	---

Operating leases which are cancellable		
In one year or less	158	158

15 Employee benefits

The Business is part of the Avecia Group which participates in retirement plans, which cover the majority of its employees. These plans are either defined contribution, where the level of company contribution is fixed at a set level or percentage of employees pay, or defined benefit, where benefits are based on employees' years of service and average final remunerations. In general all plans are funded through separate trustee-administered funds. The pension cost for the main defined benefit plans is established in accordance with the advice of independent qualified actuaries based on valuations undertaken on varying dates.

As there is no contractual agreement or stated policy for charging the net defined benefit cost for the plans as a whole measured in accordance with IAS 19 to the Vaccines Business, the Business has recognised a cost equal to their contribution payable for each period presented.

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Notes (continued)

16 Related party transactions

The Business relies on other parts of the Avecia Group for the manufacture of product for development purposes, and for services including analytical tests. These purchases amounted to £9,433,000 in 2007 (2006: £10,331,000). Under the basis of preparation of these financial statements, the Business has been treated as a stand-alone operation with the Avecia Group with its own resource, assets, and liabilities. Consequently these purchases are included within operating costs. There were no intercompany trading balances outstanding as at 31 December 2007 or 31 December 2006.

The financial statements include indebtedness between the Avecia Group and the Business as if such indebtedness had been in place for the year presented. This debt has been determined by management to be an appropriate amount to include in the financial statements as it represents the net amount of cash generated by the business since its inception. At 31 December 2007 the amount deemed to be outstanding under this indebtedness amounted to £725,000 (2006: £334,000). No interest has been deemed to arise on the net indebtedness.

Related parties include key management personnel who are the senior employees within the Business. Amounts paid to key management personnel in 2007 were £571,000 (2006: £582,000) in respect of short term employee benefits and £69,000 (2006: £64,000) in respect of post retirement benefits.

17 Post balance sheet events

On 2 April 2008 the Avecia Group completed the disposal of its Vaccines Business to Pharmathene Inc. for an initial consideration of \$17m, \$10m of which was received on completion. The remaining \$7m will be received on the earlier of Pharmathene Inc. raising \$15m of additional finance or the eighteen month anniversary of completion. This \$7m deferred consideration is backed by a Standby Letter Of Credit. Further consideration, up to a maximum of \$23m (plus potential royalties) is receivable by the Group on attainment by Pharmathene Inc. of certain milestones relating to further funded development and commercialisation of the vaccines.

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PharmAthene, Inc
Unaudited Condensed Combined Pro Forma Financial Statements

The statements contained in this section may be deemed to be forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. Such statements are intended to be covered by the safe harbor to “forward-looking statements” provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are typically identified by the words “believe,” “expect,” “anticipate,” “intend,” “estimate,” “plan,”

“potential,” “continue” or similar expressions and relate to, among other things, the ability of the Company to achieve milestones or to create value for its stockholders. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements. Such forward-looking statements are based upon current expectations or beliefs of management and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements including, but not limited to, risks associated with obtaining regulatory approvals, unforeseen technical difficulties, dependencies on certain customers or products, market acceptance and competition, ability to receive grant and contract revenue and procurement funding, ability to identify any additional strategic acquisitions or other opportunities to accelerate growth, cash at the end of the year, as well as other risks described in the Company’s filings with the Securities and Exchange Commission, in conference calls and in other communications. Neither PharmAthene nor Avecia undertakes any obligation to update publicly or revise any forward-looking statements.

The unaudited condensed combined pro forma balance sheet is presented to give effect to the acquisition of Avecia Vaccines as if it had occurred on December 31, 2007. The unaudited condensed combined pro forma statement of income is presented to give effect to the acquisition of Avecia Vaccines as if it had occurred on January 1, 2007. This pro forma information is based on, and should be read in conjunction with, the historical financial statements of PharmAthene for the year ended December 31, 2007, included in our Annual Report on Form 10-K filed on March 31, 2008, and the historical financial statements of Avecia Vaccines for the year ended December 31, 2007, which are included elsewhere in this Form 8-K/A, in each case including the related notes thereto. We have not adjusted the historical financial statements for the year ended December 31, 2007 of either PharmAthene or Avecia Vaccines for any costs recognized during the year that may be considered to be nonrecurring.

The unaudited condensed combined pro forma balance sheet combines information from the audited historical consolidated balance sheet of PharmAthene as of December 31, 2007 and historical balance sheet information of Avecia Vaccines as of December 31, 2007 converted into U.S. GAAP (the “U.S. GAAP historical Avecia Vaccines balance sheet information”). The unaudited condensed combined pro forma statement of income for the year ended December 31, 2007 combines information from the audited historical consolidated statement of operations of PharmAthene for the year ended December 31, 2007, and historical income statement information of Avecia Vaccines for the year ended December 31, 2007 converted into U.S. GAAP (the “U.S. GAAP historical Avecia Vaccines income statement information”).

The U.S. GAAP historical Avecia Vaccines balance sheet information included in the unaudited condensed combined pro forma financial statements was derived from Avecia Vaccines’ audited balance sheet as of December 31, 2007, prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”). The historical balance sheet information was converted to U.S. GAAP and translated into U.S. dollars using an exchange rate of £1 = U.S. \$1.99730, which was the closing exchange rate with the Federal Reserve Bank of New York on December 31, 2007. Certain amounts in the U.S. GAAP historical Avecia Vaccines balance sheet information were reclassified to be consistent with PharmAthene’s balance sheet presentation. The U.S. GAAP historical Avecia Vaccines income statement information included in the unaudited condensed combined pro forma financial statements was derived from Avecia Vaccines’ audited income statement for the year ended December 31, 2007, prepared in accordance with IFRS. The historical income statement information was converted to U.S. GAAP and translated into U.S. dollars using an exchange rate of £1 = U.S. \$2.00181, which was the average closing exchange rate with the Federal Reserve Bank of New York for 2007. Certain amounts in the U.S. GAAP Avecia Vaccines historical income statement information were reclassified to be consistent with PharmAthene’s income statement presentation. There were no IFRS to U.S. GAAP differences.

The allocation of the preliminary purchase price as reflected in these condensed combined pro forma financial statements has been based upon preliminary estimates of the total purchase price paid to Avecia by PharmAthene and preliminary estimates of the fair value of Avecia Vaccines’ assets acquired and liabilities assumed as of the date of the acquisition. Management is currently assessing the fair values of in-process research and development, tangible and intangible assets acquired and liabilities assumed. This preliminary allocation of the purchase price is dependent upon certain estimates and assumptions including but not limited to determining the timing and estimated

costs to complete the in-process research and development projects, estimating future cash flows, and developing appropriate discount rates. The fair value estimates for the purchase price allocation are preliminary and have been made solely for the purpose of developing such pro forma condensed combined financial statements.

A final determination of the fair value of Avecia Vaccines in-process research and development and tangible and intangible assets acquired and liabilities assumed will be based on valuations of the actual net tangible and intangible assets of Avecia Vaccines and on-going research and development projects that existed as of the date of the acquisition, and such valuations could change significantly upon the completion of further analyses and asset valuations from those used in the unaudited condensed combined pro forma financial statements presented below. The final valuation is expected to be completed as soon as practicable but no later than August 14, 2008.

The unaudited condensed combined pro forma financial statements were prepared using the assumptions described below and in the related notes. Historical financial information has been adjusted to give effect to pro forma events that are 1) directly attributable to the Acquisition, 2) factually supportable, and 3) with respect to the statement of income, expected to have a continuing impact on the combined results. The unaudited condensed combined pro forma financial statements do not include liabilities resulting from acquisition planning, nor do they include certain cost savings or operating synergies (or costs associated with realizing such savings or synergies) that may result from the Acquisition. Amounts preliminarily allocated to acquired in-process research and development may significantly increase or decrease and amounts allocated to intangible assets with finite lives may increase or decrease significantly, which could result in a material increase or decrease in amortization expense related to acquired intangible assets from that which is estimated in the unaudited condensed combined pro forma financial statements. Therefore, the actual amounts recorded may differ materially from the information presented in the accompanying unaudited condensed combined pro forma financial statements.

The unaudited condensed combined pro forma financial statements are provided for illustrative purposes only. They do not purport to represent what PharmAthene's consolidated results of operations and financial position would have been had the transaction actually occurred as of the dates indicated, and they do not purport to project PharmAthene's future consolidated results of operations or financial position.

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Unaudited Condensed Combined Pro Forma Balance Sheet
As of December 31, 2007
(in 000's)

	Historical PharmAthene	Historical Avecia	Pro Forma Adjustments		Pro Forma Combined
Cash and cash equivalents	\$ 40,583	\$ —	\$ (28,250)	A	\$ 12,333
Restricted cash	—	—	5,000	B	5,000
Short term investments	12,154	—	—		12,154
Accounts receivable, net	5,246	4,809	(1,448)	C	8,607
Prepaid expenses	477	—	—		477
Other assets	15	—	—		15
Total current assets	58,475	4,809	(24,698)		38,586
Long term restricted cash			13,250	B	13,250
Property and equipment, net	6,571	1,536	(1,367)	E	6,740
Patents, net	1,313	—	1,500	D	2,813
Goodwill	—	—	2,000	D	2,000
Other long term assets	184	34	(34)	I	184
Deferred costs	68	—	—		68
Total assets	\$ 66,611	\$ 6,379	\$ (9,349)		\$ 63,641
Current liabilities:					
Accounts payable	\$ 1,394	\$ 2,247	\$ —		\$ 3,641
Accrued expenses and other current liabilities	3,603	58	1,564	F	5,225
Deferred revenue	—	1,344	—		1,344
Deferred consideration	—	—	7,000	G	7,000
Current portion of long term debt	4,000	—	—		4,000
Total current liabilities	8,997	3,649	8,564		21,210
Other long term liabilities	374	—	—		374
Long term debt	16,668	—	—		16,668
Total liabilities	26,039	3,649	8,564		38,252
Common stock – \$0.0001 par value; authorized 100,000,000 shares; 22,138,723 and 22,087,121 shares issued and outstanding, respectively, at December 31, 2007	2				2
Additional paid-in capital	126,491	—	—		126,491
Accumulated other comprehensive loss	1,482	—	—		1,482
Retained earnings / (Accumulated deficit)	(87,403)	2,730	(17,913)	H	(102,586)
Total stockholders' equity	40,572	2,730	(17,913)		25,389
Total liabilities and stockholders' equity	\$ 66,611	\$ 6,379	\$ (9,349)		\$ 63,641

See accompanying notes to unaudited pro forma condensed combined financial statements.

3

Unaudited Condensed Combined Pro Forma Statement of Operations
For the Year Ended December 31, 2007
(in 000's)

	Historical PharmAthene	Historical Avecia	Pro Forma Adjustments		Pro Forma Combined
Revenues:					
Contract and Grant Revenue	\$ 14,625	\$ 35,526	\$ —		\$ 50,151
Other Revenue	19	—	—		19
Total Revenues	14,644	35,526	—		50,170
Costs and expenses:					
Research and Development	16,560	33,342	—		49,902
General and Administrative	13,882	1,107	—		14,989
Depreciation & Amortization	705	128	36	J	869
Total costs and expenses	31,147	34,577	36		65,760
Operating income (loss)	(16,503)	949	(36)		(15,590)

Other income (expense):				
Interest Income	1,123		(710) K	413
Gain on extinguishment of debt	887			887
Interest Expense	(2,123)			(2,123)
Change in market value of derivative instruments	3,029			3,029
Total other income (loss)	2,916	—	(710)	2,206
Income (loss) before taxes	(13,587)	949	(746)	(13,384)
Provision for taxes	—	(24)	—	(24)
Net income (loss)	(13,587)	925	(746)	(13,408)
Accretion of redeemable convertible preferred stock to redemptive value	(4,134)	—		(4,134)
Net income (loss) attributable to common stockholders	<u>\$ (17,721)</u>	<u>\$ 925</u>	<u>\$ (746)</u>	<u>\$ (17,542)</u>
Weighted average shares outstanding	9,442,885			9,442,885
Net income (loss) per share	<u>\$ (1.88)</u>			<u>\$ (1.86)</u>

See accompanying notes to unaudited pro forma condensed combined financial statements.

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NOTES TO UNAUDITED CONDENSED COMBINED PRO FORMA FINANCIAL INFORMATION

Note 1 — Description of Transactions and Basis of Pro Forma Presentation

As previously disclosed, on March 20, 2008, PharmAthene, Inc. and certain of its affiliates (including a newly-formed UK subsidiary) (collectively, “PharmAthene” or the “Company”) entered into a Sale and Purchase Agreement (the “Purchase Agreement”) with Avecia Biologics Limited, Avecia Biologics, Inc., Avecia Biotechnology Inc. and Avecia Limited (collectively, “Avecia”) for the acquisition of substantially all of the assets related to Avecia’s biodefense vaccines business which includes a second generation recombinant protective antigen (rPA) anthrax vaccine, a recombinant dual antigen plague vaccine and a third generation rPA anthrax vaccine (the “Acquisition”). The Purchase Agreement was amended effective April 2, 2008 as described below.

On April 2, 2008, the Company completed the Acquisition acquiring substantially all of the assets and assuming the liabilities, in each case, exclusively associated with Avecia’s biodefense vaccines business in accordance with the terms of the Purchase Agreement, as amended, including certain products, patents, trademarks, domain names and other intellectual property, license agreements, contracts, goodwill and other intangibles.

At closing, PharmAthene paid to Avecia the initial consideration of \$10 million in cash (which is subject to a working capital adjustment) (the “Initial Consideration”) and provided a letter of credit in the amount of \$7 million as security for the deferred consideration in such amount (the “Deferred Consideration”) which is payable upon the earlier to occur of (a) the completion of a financing transaction in which PharmAthene receives gross proceeds of not less than \$15 million and (b) eighteen months following the consummation of the Acquisition. Additional amounts may become payable to Avecia in connection with the Acquisition assuming that certain milestones are achieved (the “Milestone Consideration”) as follows:

- \$3 million upon the entry by PharmAthene into a multi-year funded contract or series of contracts with the US Department of Defense (or other agency or representative or sub-contractor of the US government) or the Defence Science Technology Laboratory, an agency of the UK Ministry of Defence (or any other agency or representative or sub-contractor of the US or UK government) for the further development of Avecia’s pneumonic and bubonic plague (“rYP”) vaccine with a total committed aggregate value in excess of \$30 million; and
- \$10 million upon the entry by PharmAthene into a multi-year funded contract with the US Department of Defense (or other agency or representative or sub-contractor of the US government) for the further development of rYP vaccine as a result of (a) a Resources Allocation Decision of the Resource Allocation Review Board and the Resource Allocation Advisory Committee of the US Department of Defense or (b) some other similar substantial funding in excess of \$150 million (including the value of any option elements within such contract); and
- \$5 million upon the entry by PharmAthene into a multi-year funded development contract to be issued by the Biological Advanced Research and Development Authority (part of the US Department of Health and Human Services) under solicitation number RFP-BARDA-08-15 for the further development of Avecia’s anthrax (“rPA”) vaccine; and
- \$5 million upon the entry by PharmAthene into a contract or contracts for the supply of rPA vaccine into the Strategic National Stockpile; and
- in an amount equal to 2.5% of net sales (as defined under the Purchase Agreement) of rPA vaccine made by PharmAthene to the US government within the period of ten years from the consummation of the Acquisition after the first 25 million doses; and

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- in an amount equal to 1% of net sales (as defined under the Purchase Agreement) of third generation anthrax vaccine made by PharmAthene to the US government within the period of ten years from the consummation of the Acquisition.

The vaccines described above were originally developed by the Defence Science and Technology Laboratories (“DSTL”), an agency of the UK Ministry of Defence. As part of the Acquisition, Avecia assigned to PharmAthene certain licenses to the intellectual property for the practice of the vaccine programs from DSTL and, as part of the Acquisition, PharmAthene has entered into a long-term manufacturing agreement with Avecia for the manufacture of the vaccines. In addition, PharmAthene also took assignment of three pending patent applications, two relating to a method for assaying antigens and one for vaccine composition. Various trademarks and domain names were also acquired in the transaction.

Note 2 — Preliminary Merger Purchase Price and Allocation

The unaudited condensed combined pro forma financial statements reflect a preliminary allocation of the purchase price as if the Acquisition of Avecia Vaccines had been completed at January 1, 2007. The final determination of the purchase price allocation will be based on the fair values of the assets and the fair value of the liabilities assumed at the effective date of the Acquisition. The final determination of purchase price allocation will be completed as soon as practical but no later than August 14, 2008. The final amounts allocated to assets and liabilities could differ significantly from the amounts presented in the unaudited condensed combined pro forma balance sheet and related notes.

The preliminary purchase price was determined as follows:

<u>(amounts in 000's)</u>	<u>Initial Fair Value</u>
Preliminary purchase price per the Purchase Agreement, as amended (1)	\$ 17,000
Other, including estimated acquisition costs	1,622
	<u>\$ 18,622</u>

(1) This preliminary purchase price is subject to certain potential adjustments due to the working capital adjustment mechanism in the Purchase Agreement and the change in estimated occurrence of milestones according to the Purchase Agreement.

Based on PharmAthene's preliminary valuation of the fair value of the assets acquired and the liabilities assumed, the preliminary purchase price is as follows:

<u>(amounts in 000's)</u>	<u>Initial Fair Value</u>
Tangible Assets & Liabilities	
Accounts receivable	\$ 3,361
PPE	169
Accounts payable	(3,591)
Net assets acquired	(61)
Intangible assets	1,500
Goodwill - workforce	2,000
Acquired in process research and development	15,183
Total Purchase Price	<u>\$ 18,622</u>

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Note 3 — Pro Forma Adjustments

Balance sheet

- A Represents the cash paid to the seller of \$10.0 million, the letter of credit and restricted cash of \$18.3 million required as a result of the Acquisition.
- B Represents the \$7.0 million letter of credit and \$11.3 million of restricted cash required per the amended Loan Modification Agreement modifying the credit facility with Silicon Valley Bank and Oxford Financial.
- C Represents the elimination of Avecia Vaccines historic receivables of \$1.4 million which were not acquired.
- D To record intangibles and goodwill acquired in the Acquisition.
- E Represents the elimination of Avecia Vaccines historic fixed assets of \$1.4 million which were not acquired.
- F Represents the acquisition costs incurred by PharmAthene as a result of the Acquisition and the elimination of Avecia Vaccines liabilities that were not assumed.
- G Represents the liability for the consideration to be paid to the seller at the earlier of (a) the completion of a financing transaction in which PharmAthene receives gross proceeds of not less than \$15 million or (b) eighteen months following the consummation of the transaction.
- H Represents the elimination of the historical equity of Avecia Vaccines of \$2.7 million and the adjustment of \$15.2 million of in-process research and development, a non recurring charge that will be recorded in the second quarter of 2008. Accordingly, this charge is not reflected as an adjustment in the accompanying unaudited condensed combined pro forma statement of income for the year ended December 31, 2007.
- I Represents the elimination of Avecia Vaccines historical deferred tax assets which were not acquired.

Income statement

- J Represents the amortization of acquired intangibles assuming an estimated life of 10 years and the reduction in depreciation expense relating to fixed assets not acquired.
- K Represents decrease in interest income relating to cash paid to the seller of \$10.0 million as part of the purchase price.

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