



NVENTA BIOPHARMACEUTICALS CORPORATION

MD&A for the quarter ended March 31, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2007

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A) is dated as of May 4, 2007. It contains statements which, to the extent that they are not recitations of historical fact may constitute forward-looking information under applicable Canadian securities legislation or forward-looking statements within the meaning of the Unites States Private Securities Litigation Reform Act of 1995. Such forward-looking statements or information may include financial and other projections as well as statements regarding the Company's future plans, objectives, performance, revenues, growth, profits, operating expenses or the Company's underlying assumptions. The words "may", "would", "could", "will", "likely", "expect," "anticipate," "intend", "estimate", "plan", "forecast", "project", and "believe" or other similar words and phrases are intended to identify forward-looking statements or information. Persons reading this MD&A are cautioned that such statements or information are only predictions, and that the Company's actual future results or performance may be materially different.

Forward-looking statements or information in this MD&A include, but are not limited to, statements or information concerning: our belief that we can create a proprietary portfolio of CoVal™ fusion products, our commercial manufacturing process and its ability to support additional clinical development of the product, the inclusion of an adjuvant with our reformulated new HspE7, our intent to initiate a Phase 1 clinical trial in patients with cervical dysplasia by the end of the second quarter of 2007, our plan to initiate and successfully complete a Phase 2 efficacy trial in patients with high grade cervical dysplasia, our plan to develop new HspE7 plus adjuvant for a broad set of HPV-related indications, our intent to target patient populations for which there are serious unmet medical needs, including HIV-positive patients co-infected with HPV and certain forms of cancer such as head, neck and cervical, our plan to complete a Phase 1 study and prepare for a Phase 2 study, the taking of steps to protect our lead compound and the CoVal™ fusion product technology and our ability to fund current operations through the fourth quarter of 2007 or beyond that date.

Such forward-looking statements or information involve known and unknown risks, uncertainties and other factors that may cause our actual results, events or developments, or industry results, to be materially different from any future results, events or developments expressed or implied by such forward-looking statements or information. Such factors include, among others, our need for capital; the risk that our commercial manufacturing process will not be validated; risks associated with requirements for approvals by government agencies such as the U.S. Food and Drug Administration (FDA) before products can be tested in clinical trials and ultimately marketed; the possibility that such government agency approvals will not be obtained in a timely manner or at all; risks associated with the requirement that a drug be found safe and effective after extensive clinical trials and the possibility that the results of such trials, if commenced and completed, will not establish the safety or efficacy of our products; our dependence on suppliers of adjuvant, collaborative partners and other third parties and the prospects and timing for negotiating supply agreements, corporate collaborations or licensing arrangements; uncertainties as to future expense levels and the possibility of unanticipated costs or expenses or cost overruns; our ability to attract and retain key personnel; the potential for disruptions to our business in connection with the acquisitions of companies or technologies; our ability to protect and practice our intellectual property; risks associated with the development and manufacturing of our products, including but not limited to the fact that we do not have manufacturing experience; the risk that competitors may develop and market drugs that are less expensive, more effective or safer than ours; the risk associated with our dependence upon the reimbursement from third-parties; risks associated with the volatility of our share price; and other factors as described in detail in our filings with the Canadian securities regulatory authorities at www.sedar.com. Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements and information, which are qualified in their entirety by this cautionary statement.

Assumptions underlying our expectations regarding forward-looking statements or information contained in this MD&A include, among others, that we will raise enough capital, on reasonable terms and in a timely manner; that we will retain our key personnel; that our commercial manufacturing process will be validated; that we will obtain the necessary regulatory approvals in a timely manner; that enough new HspE7 will be available to conduct planned trials; that we will be able to procure the necessary amount of adjuvant to conduct planned trials; that if conducted, the results of our Phase 1 trial will be favorable; that we will obtain timely approval from Institutional Review Boards (IRBs); that the results from additional pre-clinical work, if any, will be

consistent with the results we have already obtained; that we will be able to continue to develop and protect our core technologies, that a sufficient number of patients will be available to conduct a successful clinical trial; that sufficient data will be generated to support an Investigative New Drug (IND) application or amendment; and that we will be able to establish and/or maintain necessary relationships with key suppliers, collaborative partners or third-party contractors.

In the event that any of these assumptions prove to be incorrect, or in the event that we are impacted by any of the risks identified above, we may not be able to continue our business as planned, or at all.

For a complete discussion of the assumptions, risks and uncertainties related to our business, you are encouraged to review our filings with Canadian securities regulatory authorities, including our 2006 Annual Information Form filed on SEDAR at <http://www.sedar.com>. Historical filings relating to the Company prior to the completion of the Company's March 23, 2006 corporate reorganization may be reviewed on SEDAR at <http://www.sedar.com> under the SEDAR profile GVIC Publications Ltd.

All forward-looking statements and information made herein are based on our current expectations as of the date hereof and we disclaim any intention or obligation to revise or update such forward-looking statements and information to reflect subsequent events or circumstances, except as required by law.

The following information should be read in conjunction with our unaudited interim consolidated quarterly financial statements for the three months ending March 31, 2007 and related notes thereto and our annual consolidated financial statements for the year ended December 31, 2006 and related notes thereto, which are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts following are expressed in Canadian dollars unless otherwise indicated.

Overview

We are a biopharmaceutical company developing innovative therapeutics for the treatment of viral infections and related cancers. Unlike traditional preventative treatments that need to be administered before an individual becomes infected, our CoVal™ fusion products are designed to stimulate the body's immune system to treat existing viral infections and cancer. Our lead investigational therapeutic product candidate is HspE7. HspE7 is a novel CoVal™ fusion protein designed to target the treatment of diseases caused by multiple strains of the human papillomavirus (HPV), one of the most common causes of sexually transmitted diseases in the world. HspE7 is derived from our proprietary platform technology that uses recombinant DNA technology to covalently fuse stress proteins (also known as heat shock proteins) to antigens that invoke immune system responses. By covalently fusing heat shock proteins and disease-associated antigens, we believe that we can create a proprietary portfolio of CoVal™ fusion products designed to stimulate the immune system to identify, target and eliminate virus-infected and cancerous cells.

We have developed a commercial manufacturing process for HspE7 (new HspE7) from the original process (original HspE7) which is required to support additional clinical development of the product. The process for new HspE7 produces material that is more pure and uniform. Current assessment by our external manufacturing team is that this new manufacturing process can be validated for commercial use. Preclinical pharmacology studies have been conducted with co-administered new HspE7 and Poly-ICLC, an adjuvant. These preclinical data have demonstrated that immunization with new HspE7 and Poly-ICLC results in dramatically enhanced responses. Therefore, therapeutic treatment with new HspE7 could constitute a new, simple and non-surgical treatment for patients infected with HPV-related diseases.

We have incurred significant losses since our inception and expect to incur substantial losses for the foreseeable future as we invest in our research and product development programs, including manufacturing, preclinical studies, clinical trials and regulatory activities. At March 31, 2007 our deficit was \$245,101,000. Historically, we have depended principally on equity financings, cash flows from our bioreagent business, which was sold in 2005, and funding from research collaborations to fund our business activities. In January 2007, we completed an offering under a short form prospectus, resulting in gross proceeds of \$16,194,000. These funds, however, are insufficient to support our drug development program in its entirety. Therefore we intend to pursue other options to continue our operations, including additional equity financings, corporate partnering opportunities, and other initiatives. Individually or together, these activities may not be sufficient to fund operations.

Roche Agreement

We have a collaboration agreement with F. Hoffmann-La Roche Ltd. and Hoffmann-La Roche Inc. (collectively, Roche), providing for the development and commercialization of HspE7. Under the agreement terms, Roche was granted a worldwide option to license the first generation HspE7 product for all medical conditions. The option period expires three months after the approval of a biologic license application (BLA) for a first generation product by the U.S. Food and Drug Administration (FDA) or one year after BLA approval by the FDA if Roche extends the option by paying a fee.

If Roche exercises its rights to the first generation product, we expect that Roche will fund all prospective development costs. Roche can exercise its rights to the first generation of HspE7 by paying a fee, in which case it would also become responsible for event and program-driven milestones that could result in aggregate payments of up to U.S.\$138,000,000 and sales-based milestones that could result in aggregate payments of up to U.S.\$85,000,000. Under that scenario we would receive the revenue, subject to a royalty payable to Roche, from all first generation HspE7 product sales in the U.S. and Canada for three years following the later of approval of a BLA by the FDA and the date of exercise of the option by Roche. In addition, in return for compensation to us, Roche can elect to co-promote the products in the U.S. and/or Canada. After the expiration of the three-year period mentioned above, we would receive sales-based payments (similar to royalties) of approximately 35% of net sales in the U.S. and Canada, subject to various adjustments. We would receive sales-based payments of 20% of net sales in countries other than the U.S. and Canada. We cannot determine if or when this option will be exercised.

Roche has indicated that they believe that this option covers our current lead product candidate, new HspE7, which incorporates the use of an adjuvant.

The collaboration agreement gives us the right to discuss, negotiate and execute an alternative agreement with a third-party for the development and commercialization of HspE7 through a license, partnership, joint venture or merger transaction. If we enter into such a transaction, Roche's rights are terminated. Through the end of the option period, Roche can terminate this right by paying a fee, which we expect to be either U.S.\$10,000,000 or U.S.\$15,000,000 depending on the stage of development of the product.

Corporate Reorganization

Nventa Biopharmaceuticals Corporation (Nventa or the Company) changed its name from Stressgen Biotechnologies Corporation on June 1, 2006.

On March 23, 2006, following regulatory approval, Stressgen Biotechnologies Corporation (Old Stressgen) was reorganized under a Plan of Arrangement (the Plan) pursuant to the Yukon Business Corporations Act. The Plan was approved by the shareholders of Old Stressgen and by the Yukon Supreme Court and was implemented in March 2006.

Under the Plan, Old Stressgen transferred all of its business assets, ownership interest in subsidiary companies, liabilities and operations to Nventa. As the transfer of the business assets, liabilities and operations to Nventa represented a transaction between entities under common control with no substantive change in shareholder ownership, the transaction was accounted for using continuity of interest accounting. Pursuant to continuity of interest accounting, the assets transferred and the liabilities assumed have been recorded at their respective carrying values as reported by Old Stressgen immediately prior to the reorganization transaction.

Accordingly, for the year ended December 31, 2006, the consolidated financial statements combined the financial results for the business carried on in Old Stressgen from January 1, 2006 to March 23, 2006 with those of Nventa from March 24, 2006 to December 31, 2006. The consolidated financial statements include the assets, liabilities and operating results of the Company and its wholly-owned subsidiaries (Nventa Inc., Stressgen Development Corporation, Stressgen Bioreagents Limited Partnership and Stressgen Holding Corporation). Intercompany accounts and transactions have been eliminated in consolidation.

As part of the corporate reorganization, Nventa sold 94.9% of its equity interest in Old Stressgen, for cash consideration of \$6,250,000 and an additional \$3,000,000 which was held in escrow pending satisfaction of

certain conditions. After completion of the corporate reorganization, Nventa was not related to Old Stressgen, which subsequently changed its name to GVIC Publications Ltd (GVIC). The shares of Old Stressgen not divested by Nventa, representing a 5.1% equity interest, were distributed to the previous shareholders of Old Stressgen on a pro-rata basis. During the third quarter of 2006 we entered into an agreement with GVIC to terminate the escrow agreement and release the escrowed funds prior to satisfaction of all conditions set forth in the escrow agreement. We recorded the \$9,250,000 investment offset by \$1,090,000 related to costs of the reorganization as contributed surplus.

References herein to the Company's business and operations that pre-date the March 23, 2006 corporate reorganization are references to the business and operations of Old Stressgen but are included on the basis that such historical business and operations have been continued by the Company in Nventa.

Results of Continuing Operations

During the three months ended March 31, 2007, we realized a net loss of \$3,071,000 or \$0.02 per common share as compared to \$2,745,000 or \$0.03 per common share during the same period in 2006. The \$326,000 increase in our net loss from the three months ended March 31, 2006, to the same period in 2007 is due to general operational spending as discussed below.

Collaborative R&D revenue

We recorded collaborative R&D revenue of \$155,000 and during both the three months ended March 31, 2007 and 2006. Collaborative R&D revenue relates principally to the amortization of upfront license fees.

Research and development

Research and development in our continuing operations includes costs associated with therapeutic product development and clinical studies related to new HspE7 and adjuvant. In order to optimize our financial flexibility, we employ clinical research organizations (CRO) to conduct our clinical trials and engage contract manufacturers to assist us with product development and manufacturing. During 2007 and 2006, primarily all of our R&D spending related to activities in developing new HspE7 and adjuvant.

R&D spending decreased by approximately 18% to \$1,819,000 during the three months ended March 31, 2007, compared to \$2,207,000 for the same period in 2006. The decrease in spending during the three months ended March 31, 2007, as compared to the same period in the prior year is primarily due to approximately \$200,000 decline in third-party spending and the remaining is a decrease in other R&D spending. Our January 2007 financing has given us the financial flexibility to increase our clinical development activity; however, most of that spending will be incurred during the remainder of 2007.

We are focusing our resources on the development of new HspE7 which will incorporate the use of an adjuvant. In preclinical studies, we have demonstrated that the combination of HspE7 with certain adjuvants increases the biological activity compared to HspE7 alone. We submitted our IND amendment to the FDA and submitted clinical packages to institutional review boards in conjunction with our planned clinical trials. We intend to initiate a Phase 1 clinical trial in patients with cervical dysplasia by the end of the second quarter of 2007.

Pending adequate receipt of funding, resources, appropriate regulatory approval and if the compound is safe and well tolerated in the Phase 1 clinical trial, we plan to complete a Phase 2 efficacy trial in patients with high grade cervical dysplasia. Following successful proof-of-concept data for the use of new HspE7 and adjuvant, we plan to continue our clinical development of the HspE7 program for a broader spectrum of HPV-related indications. We are evaluating a Phase 2 trial in patients with genital warts and a pivotal trial in patients with RRP. We also intend to continue to target patient populations for which there are serious unmet medical needs, including HIV-positive patients co-infected with HPV and certain forms of cancer such as head, neck and cervical. In addition, we plan to expand our product pipeline through the development of additional CoVal™ therapeutic compounds.

Selling, general and administrative expenses

Selling, general and administrative expense, or SG&A, includes executive management, business development, investor relations, legal support, professional services and general administrative activities.

SG&A spending through continuing operations increased by approximately 96% to \$1,340,000 for the three months ended March 31, 2007, from \$684,000 for the same period in 2006. The increase in SG&A spending during the three months ended March 31, 2007, as compared to the same period in 2006 is principally due to legal fees spent during the first quarter of 2007 and increased bonus compensation paid to certain members of management.

Interest and other income

Interest and other income from continuing operations increased for the three months ended March 31, 2007 to \$127,000 of income compared to \$19,000 for the same period in 2006. The increase was primarily due to increases in our cash balance during the first quarter of 2007, as compared to the same period in 2006 which resulted in an increase in interest earned on those amounts.

Net foreign exchange loss

During the three months ended March 31, 2007, we reported a \$194,000 foreign exchange loss as compared to a \$28,000 foreign exchange loss for the same period in 2006. The change is principally due higher cash and investment balances held in U.S. dollars and a rising Canadian dollar.

Basic and diluted loss per share

The 12% increase in net loss to \$3,071,000 during the three months ended March 31, 2007, compared with \$2,745,000 in 2006, was diluted by a 111% increase in the weighted average number of common shares outstanding as a result of the capital financings during 2007. As a result, the basic and diluted loss per share was \$0.02 for the three months ended March 31, 2007 and \$0.03 for the same period in 2006.

Summary of Quarterly Results

(In thousands except per share amounts)

	Quarter ended			
	June 30, 2006	September 30, 2006,	December 31, 2006	March 31, 2007
Revenues	\$ 155	\$ 155	\$ 156	\$ 155
Research and development expenses	2,073	1,484	1,587	1,819
Net loss	<u>\$ (3,003)</u>	<u>\$ (2,276)</u>	<u>\$ (2,043)</u>	<u>\$ (3,071)</u>
Basic and diluted loss per common share ^(a)	<u>\$ (0.04)</u>	<u>\$ (0.03)</u>	<u>\$ (0.02)</u>	<u>\$(0.02)</u>

Summary of Quarterly Results (continued)

(In thousands except per share amounts)

	Quarter ended			
	June 30, 2005	September 30, 2005	December 31, 2005	March 31, 2006
Revenues from continuing operations	\$ 166	\$ 160	\$ 156	\$ 155
Research and development expenses from continuing operations	8,270	4,874	2,083	2,207
Net (loss) income				
From continuing operations	(10,381)	(5,582)	(3,872)	(2,745)
From discontinued operations	7,043	-	-	-
Net loss	<u>\$ (3,338)</u>	<u>\$ (5,682)</u>	<u>\$ (3,872)</u>	<u>\$ (2,745)</u>
Basic and diluted (loss) income per common share				
From continuing operations ^(a)	\$ (0.14)	\$ (0.08)	\$ (0.05)	\$ (0.03)
From discontinued operations ^(a)	\$ 0.09	\$ -	\$ -	\$ -
Total basic and diluted loss per common share	<u>\$ (0.05)</u>	<u>\$ (0.08)</u>	<u>\$ (0.05)</u>	<u>\$ (0.03)</u>

^(a) Income (loss) per share is computed independently for each of the quarters presented and therefore may not sum to the total for the year.

Our financial results over the past eight quarters were affected principally by our R&D spending. The principal driver of R&D spending variations relates to costs associated with the development of the HspE7 program. In 2006 we implemented cost saving initiatives which caused an overall decline in R&D spending in 2006 as compared to 2005. See the discussion under the caption "Results of Continuing Operations--Research and Development" for additional information.

Additionally during the second quarter of 2005, we signed a definitive agreement to sell our bioreagent business. We recorded a \$6,710,000 gain associated with the sale. Under the terms of the Asset Purchase Agreement (APA), we received a \$7,345,000 cash payment on the day the transaction closed, and an additional U.S.\$650,000 (\$725,000) deposited into a third party escrow account for satisfying any indemnification claims of the buyer resulting from debts, liabilities, or claims not expressly assumed by the buyer or resulting from any breach by us of any obligation, representation, warranty, covenant or agreement made by us in connection with the transaction. Although the release of money held in escrow was not scheduled until April 2006, we received U.S.\$621,449 (\$725,000) of the escrow funds in January 2006. In consideration for early release, we provided, among other things, a financial discount on the aggregate amount held in escrow.

Liquidity and Capital Resources

Since inception we have relied principally on equity financings, cash flows from our bioreagent business, and funding from research collaborations, to fund our research and development programs, operations and capital expenditures. To date we have raised net equity of \$226,076,000 and have an accumulated deficit of \$245,101,000.

At March 31, 2007, we had cash, cash equivalents and short-term investments totaling \$14,263,000. We incurred a net loss of \$3,071,000 and \$2,745,000 for the three months ended March 31, 2007 and 2006, respectively. We used \$3,108,000 and \$2,721,000 of net cash in operating activities for the three months ended March 31, 2007 and 2006, respectively.

In January 2007 we completed an offering under a short form prospectus, resulting in gross proceeds of \$16,194,000. These proceeds provide sufficient resources to fund currently planned program spending and operations through the fourth quarter of 2007. Our planned program spending includes completion of a Phase 1 clinical trial and preparations for a Phase 2 clinical trial.

In order to continue clinical development of the HspE7 program, we must raise additional funds through financings, completing a corporate transaction and/or entering into collaboration agreements with third parties. We may not be successful in securing additional resources and if secured, such arrangements may not provide funds sufficient to continue to finance operations including clinical development and commercialization of the HspE7 program. Even assuming we are successful in securing additional sources of financing to fund the HspE7 program and the continued development of additional CoValTM fusions, or otherwise enter into collaborative agreements or complete a corporate transaction, our efforts may not result in commercially viable products.

Historically, we have incurred significant losses from operations. Until such time as our research and development efforts are commercialized or fully funded by third parties, of which no assurance can be given, we will continue to incur operating losses.

During the three months ended March 31, 2007, purchases of plant and equipment totaled \$18,000 as compared with purchases of \$5,000 during the same period in 2006.

We are seeking additional funds from various sources, including, but not limited to, public and private equity financings, corporate transactions and potential corporate partners for research and development collaborations. If we raise additional funds by issuing equity securities, substantial dilution to our existing shareholders may result. We may need to obtain funds through arrangements with others that are on unfavorable terms such as relinquishing rights to certain technologies, product candidates or products that we would otherwise seek to develop ourselves.

Contractual Commitments

During the fourth quarter of 2006, we entered into an agreement with Pathology Solutions, Inc. (PSI) for services associated with our preclinical toxicology studies which were initiated during 2006. Under the terms of the contract, we have the right to terminate any study prior to completion by giving written notice to PSI. In the case of termination, we are required to pay for all of the services incurred to-date plus 20% of the total contract price provided that the aggregate of the amount paid does not exceed the total contract price. As of March 31, 2007, we have not canceled any activities under this agreement; therefore, no cancellation penalty liability has been recorded as of March 31, 2007. As of March 31, 2007, we would be required to pay approximately U.S.\$84,000 (\$97,000) in addition to amounts paid to PSI through March 31, 2007 to cover cancellation penalties if the study were terminated. We recorded U.S.\$7,000 (\$8,000) in amounts payable to PSI for services performed during the three months ended March 31, 2007. We have obligations totaling approximately U.S.\$49,000 (\$56,000) under the contract for services expected to be performed during the second quarter of 2007.

We have a biological services agreement with Avecia Biotechnologies (Avecia), denominated in British pounds, for the process development, scale-up and manufacture of new HspE7. The Avecia agreement is cancelable upon notice and subject to payment of cancellation penalties owed at that time. The cancellation fee is based on a sliding percentage of certain future program milestones. Accordingly, the cancellation fee is modified each month during the course of the agreement, based on the timing of activities performed by Avecia and prepayments for those activities. As of March 31, 2007, we have not canceled any activities under this agreement; therefore, no cancellation penalty liability has been recorded as of March 31, 2007. In addition, Avecia may manufacture additional clinical trial material and/or material for commercial sale. During the first quarter of 2007, the Company signed a letter of intent for the manufacture of additional clinical trial material. The letter of intent requires a deposit of UKP177,000 (\$406,000) during the second quarter of 2007.

Contractual Employment Obligations

We have agreements with certain key employees which include payment obligations to such employees if they are terminated without cause. As of March 31, 2007, the aggregate amount potentially payable pursuant to such agreements total either \$1,004,000 or \$1,105,000, depending on whether certain of such terminations were to occur after a change of control of the Company.

Patent Opposition

On October 22, 2002, Antigenics Inc. (Antigenics) announced that it had filed an opposition in the European Patent Office (EPO) to a European patent (European Patent No. 700,445) and requests for re-examination in the U.S. Patent and Trademark Office (USPTO) of two U.S. patents (U.S. Patent Nos. 6,338,952 and 6,335,183) licensed from the Whitehead Institute and Massachusetts Institute of Technology in connection with our platform technology.

In December 2006, the EPO, during oral proceedings, made a decision to revoke European Patent No. 700,445. An appeal of this decision was filed on December 15, 2006. The EPO's decision to revoke European Patent No. 700,445 is suspended until the conclusion of the appeal process. We do not know when the European opposition/appeal proceedings will be concluded or what the final results from these proceedings will be.

On April 4, 2006, the USPTO mailed the notice of intent to issue re-examination certificates for both U.S. patents, stating the amended claims were patentable and terminating the re-examination process. As of March 13, 2007 the USPTO had issued Ex-Parte Reexamination Certificates, which allow both of the patents to be maintained in amended form, officially concluding the reexaminations process.

In October 2003, Antigenics filed an opposition in the EPO to an additional, product specific, European patent (European Patent No. 1,002,110). The EPO held a first instance oral hearing in October 2005 concerning the opposition. The Company received a favorable decision. The patent was maintained in amended form. On January 30, 2006 Antigenics gave notice of appeal. We do not know when the European appeal proceedings will be concluded or what the final results from these proceedings will be. If maintained on appeal, the patent would otherwise expire in 2018.

We have and continue to take steps to minimize the impact of a possible negative ruling in these proceedings. These steps include filing additional patent applications to provide further protection of our reformulated lead compound and the CoValTM fusion product technology.

Leases

During the first quarter of 2007, we signed a sublease for a new facility in San Diego that expires on November 30, 2008. The future lease payments for the years ended December 31, 2007 and 2008 are \$260,000 and \$317,000, respectively.

Off-Balance Sheet Arrangements

We did not enter into any off balance sheet arrangements during the three months ended March 31, 2007.

Related Party Transactions

There were no related party transactions during the three months ended March 31, 2007 or in 2006.

Critical Accounting Policies

Our significant accounting policies are disclosed in Note 1 to our annual consolidated financial statements. Certain of our policies require the application of management judgment in making estimates and assumptions that affect the amounts reported in the consolidated financial statements and disclosures made in the accompanying notes. Those estimates and assumptions are based on historical experience and various other factors deemed applicable and reasonable under the circumstances. The use of judgment in determining such estimates and assumptions is, by nature, subject to a degree of uncertainty. Accordingly, actual results could differ from the estimates made. Our critical accounting policies include:

Research and development costs

Research and development costs associated with our various research and development programs consist of direct and indirect expenditures, including a reasonable allocation of overhead expenses. Overhead expenses are

comprised of general and administrative support provided to the research and development programs. These expenses include costs associated with support activities such as information technology, finance and human resources as well as for the use of facilities. Research and development costs are expensed as incurred, unless they meet criteria for deferral and amortization. We reassess whether we have met the relevant criteria for deferral and amortization at each reporting date. To date, no development costs have been deferred.

We recognize expenses related to our ongoing clinical trials using a methodology designed to accrue estimated costs in the appropriate accounting period when the expenses are incurred. Based on the design of the trial including the number of patients, number of clinical sites, schedule of treatment and follow-up, the methodology could vary from trial to trial. In addition, we evaluate the nature and structure of each clinical trial contract and make adjustments as necessary to capture expenses in the appropriate period. As each trial progresses, we evaluate the total contract cost and make adjustments accordingly.

Stock-based payments

We apply the fair value method of accounting for all stock option awards, unrestricted and restricted stock awards, warrants issued to third parties and other stock based payments. Under this method we recognize a compensation expense for all stock options awarded, based on the fair value of the options on the date of grant which is determined by using an option pricing model. Assumptions used in the pricing model are based on expected life of the option which is evaluated during each reporting period, its related risk free interest rate, historical volatility calculated from actual stock price fluctuations and the exercise price of the grant. The fair value of the options is expensed over the vesting period of the options.

We recognize compensation expense for all unrestricted and restricted stock awards based on the common share price on the date of grant. The fair value of the restricted stock awards is expensed over the vesting period of the award.

We recognize expense related to issued warrants based on the fair value of the warrants on the date of grant which is determined by using a pricing model. Assumptions used in the pricing model are based on expected life of the warrant which is typically equal to its contractual life, its related risk free interest rate, historical volatility calculated from actual stock price fluctuations and the exercise price of the warrant. As the warrants are fully vested upon issuance the fair value of the warrants is expensed on the date of issuance.

Other stock based payments, such as payments made in shares to third parties as consideration for services, are expensed on the date that the payment is earned based on the common share price on that day.

Recent Accounting Pronouncements

The CICA issued four new standards: Financial Instruments – Recognition and Measurement, Financial Instruments – Disclosure and Presentation, Hedges and Comprehensive Income (the New Standards). These New Standards began to apply to us on January 1, 2007.

The Financial Instruments standards prescribe when a financial asset, liability or non-financial derivative is to be recognized in the balance sheet and the measurement of that amount. They also specify how financial instrument gains and losses are to be presented. The Hedges standard is applicable for designated hedging relationships and builds on existing Canadian GAAP guidance by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The Comprehensive Income standard introduces new requirements for presentation and disclosure of components of comprehensive income.

As a result of these new accounting pronouncements, we record all cash equivalents and available-for-sale securities at fair value in the Consolidated Balance Sheet. Unrealized holding gains and losses related to available-for-sale investments are included in other comprehensive income (loss) until such gains or losses are realized or other than temporary impairment is determined to have occurred. The Company estimates the fair value of financial instruments on the balance sheet date using quoted market prices for available for sale securities. The adoption of the New Standards did not have a material effect on our financial statements at January 1, 2007 or March 31, 2007. Net loss and comprehensive loss for the three months ended March 31, 2007 are \$3,071,000.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this management's discussion and analysis, management evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws.

Based on that evaluation, management has concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws, and that materials information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

Internal Controls and Procedures

The Company evaluated the design of its internal controls and procedures over financial reporting as defined under Multilateral Instrument 52-109 for the three months ended March 31, 2007. Based on this evaluation, management has concluded that the design of these internal controls and procedures over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. No changes were made in the Company's internal controls over financial reporting during the period ended March 31, 2007 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Disclosure of Outstanding Share Data

The following table contains information regarding our outstanding equity as of May 4, 2007:

Common shares outstanding	191,627,501
Roche warrants outstanding	814,574
Warrants under 2005 Financing outstanding	3,443,332
Agent's warrants under 2005 Financing outstanding	605,875
Warrants issued to GVIC	250,000
Warrants under 2007 Financing outstanding	53,979,120
Agent's warrants under 2007 Financing outstanding	7,557,076
Stock options outstanding	2,534,683

Quantitative and Qualitative Disclosures About Market Risk

We use the Canadian dollar as our measurement and functional currency. As a result, we are exposed to foreign currency fluctuations through our operations because a substantial amount of our contract research and development spending has been transacted in other currencies, principally in U.S. dollars and British pounds. We hold investment balances in the currencies in which we have expenditures planned during the foreseeable future. At March 31, 2007, approximately 82% of cash, cash equivalents and short-term investments were held in U.S. dollars. At March 31, 2007, less than one percent of our cash and cash equivalents were held in British pounds. We translate monetary assets and liabilities into Canadian dollars using the rates of exchange prevailing at our balance sheet date. We record the resulting exchange gains and losses in our statement of operations. Although we do not currently engage in hedging or other activities to reduce foreign currency risk we may do so in the future if conditions change.

A hypothetical change in foreign exchange rates by applying a 10% change to our quarter-end foreign exchange rate, then applying that rate to our average level of U.S. dollar investments during the quarter, would result in a \$41,000 impact. If the value of the Canadian dollar relative to the U.S. dollar were to increase by 10%, our net

loss would decrease by \$41,000. Further, if the value of the Canadian dollar relative to the U.S. dollar were to decrease by 10%, our net loss would increase by \$41,000.

We are also exposed to interest rate risk because we maintain cash equivalents and short-term investment portfolio holdings of various issuers, types, and maturity dates with large banks and investment banking institutions. The market value of these short-term investments on any day during the investment term may vary as a result of market interest rate fluctuations.

To differentiate between the effect of a change in the market valuation of securities caused by market interest rate changes versus a change in the annual rate of interest we could earn on a security, we calculated that a hypothetical change in interest rates comparable to a 10% change to our average rate of return would result in an \$8,000 impact. If interest rates were to increase by 10%, our net loss would decrease by \$8,000. Further, if interest rates were to decrease by 10%, our net loss would increase by \$8,000. During the first quarter of 2007, our funds were held primarily in cash and cash equivalents. Therefore our exposure to interest rate fluctuation was minimized.

We have not used derivative financial instruments in our investment portfolio. We had \$14,263,000 in cash, cash equivalents and short-term investments as of March 31, 2007.

Additional Information

Additional information regarding the Company, including our 2006 Annual Information Form, may be examined and/or obtained through the internet by accessing the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) website at www.sedar.com under the Company's SEDAR profile. Historical documents relating to the Company's business and operations prior to completion of the March 23, 2006 corporate reorganization, including Old Stressgen's annual information form dated March 16, 2006, may be examined and/or obtained through the SEDAR website under the SEDAR profile of GVIC Publications Ltd.