



NVENTA BIOPHARMACEUTICALS CORPORATION

MD&A for the three and nine month periods ended September 30, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A) is dated as of November 1, 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 United 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 new commercial manufacturing process and its ability to support additional clinical development of the product; the assessment by our external manufacturing team that our new commercial manufacturing process can be validated for commercial use; the inclusion of an adjuvant with our reformulated HspE7; that our therapeutic treatment with HspE7 dosed with an adjuvant could constitute a new, simple and non-surgical treatment for patients afflicted with HPV-related diseases; our intent to pursue options to continue our operations; our expectation to dose up to 24 patients in our Phase 1 trial; our plan to engage in process development and testing and manufacturing scale-up of an adjuvant; our plan to initiate a Phase 2 proof of concept efficacy trial in patients with high grade cervical dysplasia; our plan to manufacture additional HspE7 for use in our clinical trials; our plan to initiate a Phase 1/2 efficacy trial in HIV-positive patients with low-grade cervical dysplasia; our plan to develop our CoVal™ platform for a broad set of HPV-related indications; our intent to target diseases for which there are serious unmet medical needs, including genital warts, recurrent respiratory papillomatosis (RRP) and certain forms of cancer such as head, neck, oropharyngeal and cervical cancer; our plan to expand our product pipeline through the development of additional CoVal™ therapeutic compounds; our expectation to sell certain pieces of laboratory equipment that are no longer required to support currently planned operations; our plan to pursue in-licensing opportunities; our ability to fund currently planned program spending and operations into the third quarter of 2008; and the taking of steps to protect our lead compound and the CoVal™ fusion product technology.

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; risks associated with recruiting patients for clinical trials; 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; 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; that there may not be a market for the laboratory equipment that is no longer required; 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 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 the results of our Phase I trial will be favorable; that we will obtain timely approval from Institutional Review Boards (IRBs); that the results from additional preclinical 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 successful clinical trials; 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 and nine months ending September 30, 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 diseases. 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 related diseases. Our lead investigational therapeutic vaccine candidate is HspE7 co-administered with an adjuvant. HspE7 is a novel CoVal™ fusion protein designed to treat diseases caused by 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 new commercial manufacturing process for HspE7 that produces material that is more pure and uniform than material produced by the original process and can support additional clinical development of the product. 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 HspE7 co-administered with an adjuvant. These preclinical data have demonstrated that immunization with HspE7 and an adjuvant results in dramatically enhanced immune responses. Therapeutic treatment with HspE7 dosed with an adjuvant could constitute a new, simple and non-surgical treatment for patients afflicted 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 September 30, 2007 our deficit was \$252,312,000. 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 finance our business activities. In August 2007 and January 2007, we completed offerings under short form prospectuses, resulting in gross proceeds of \$8,613,000 and \$16,194,000, respectively. These funds, however, are insufficient to support our currently planned drug development programs in its entirety and we will be required 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 an agreement with F. Hoffmann-La Roche Ltd. and Hoffmann-La Roche Inc. (collectively, Roche), related to 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 begins upon U.S. Food and Drug Administration (FDA) approval of a biologic license application (BLA) for the first generation product and expires either three months after the approval of the BLA or one year after BLA approval if Roche extends the option by paying a fee.

If Roche exercises its rights to the first generation product, Roche may 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 US\$138,000,000 and sales-based milestones that could result in aggregate payments of up to US\$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 or the date of exercise of the option by Roche. In addition, 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, HspE7, which incorporates the use of an adjuvant.

The agreement gives us the right to independently 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. Under the terms of the agreement, we can pursue such an alternative agreement without the requirement to notify Roche. If we enter into such an alternative transaction, all of Roche's rights under the agreement are terminated. Through the end of the option period, Roche can terminate our right to independently seek an alternative agreement with a third party by paying a fee, which we expect to be either US\$10,000,000 or US\$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 on 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 September 30, 2007, we incurred a net loss of \$3,085,000, or \$0.01 per common share, as compared to \$2,276,000, or \$0.03 per common share, during the same period in 2006. During the nine months ended September 30, 2007, we incurred a net loss of \$10,094,000, or \$0.05 per common share, as compared to \$8,024,000, or \$0.10 per common share, during the same period in 2006.

Collaborative R&D revenue

We recorded collaborative R&D revenue of \$155,000 for both the three months ended September 30, 2007 and 2006. We recorded collaborative R&D revenue of \$465,000 for both the nine months ended September 30, 2007 and 2006. Collaborative R&D revenue relates to the amortization of upfront option fees from Roche.

Research and development

Research and development expenses primarily include costs associated with therapeutic product development and clinical studies related to HspE7 and an 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, our R&D spending was primarily focused on developing HspE7.

R&D spending increased by approximately 2% to \$1,509,000 during the three months ended September 30, 2007, compared to \$1,484,000 for the same period in 2006. R&D spending decreased by approximately 12% to \$5,047,000 during the nine months ended September 30, 2007, compared to \$5,764,000 for the same period in 2006. We incurred \$1,707,000 in third party R&D expenses during the nine months ended September 30, 2007 related to activities supporting the development of HspE7 in combination with an adjuvant, including \$500,000 in clinical trial expenses and \$1,207,000 in other third party costs. While third party spending increased during the nine months ended September 30, 2007, other costs including compensation expense, lab supplies and other expenses decreased due to the closure of the Victoria facility (see *Corporate restructuring* for further details) and other cost reduction initiatives.

During 2007 we initiated a Phase 1 clinical trial to assess the safety and tolerability of HspE7 combined with an adjuvant in patients with cervical intraepithelial neoplasia, or CIN. Activities associated with our Phase 1 study, which were completed during the nine months ended September 30, 2007, include submission of clinical packages to institutional review boards, submission of our IND amendment to the FDA, initiation of clinical sites and the initiation of enrollment in the first cohort of our clinical trial. We anticipate dosing up to 24 patients in this Phase 1 trial. In addition to safety and tolerability, a key objective of the study will be to determine if HspE7 combined with an adjuvant can elicit T-cell and B-cell specific HPV-E7 immune responses.

Pending adequate funding, resources and appropriate regulatory approval, we intend to focus on the following goals to further the development of HspE7:

- (a) process development, testing and manufacturing scale-up of an adjuvant;
- (b) if we achieve expected results in our Phase 1 clinical trial, the initiation of a Phase 2 proof of concept efficacy trial in patients with high-grade cervical dysplasia;
- (c) the manufacture of additional HspE7 for use in our clinical trials; and
- (d) if we achieve expected results in our Phase 1 clinical trial, the initiation of a Phase 1/2 efficacy trial in HIV-positive patients with low-grade cervical dysplasia.

Pending adequate funding, resources, appropriate regulatory approval, and successful proof-of-concept data for the use of HspE7 together with an adjuvant, we plan to continue our development of our CoVal™ platform for a broader set of HPV-related indications. We also intend to continue to target diseases for which there are serious unmet medical needs, including genital warts, recurrent respiratory papillomatosis (RRP) and certain forms of cancer such as oropharyngeal and cervical cancer. In addition, we plan to expand our product pipeline through the development of additional CoVal™ therapeutic compounds and in-licensing opportunities.

Selling, general and administrative expenses

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

SG&A spending increased by approximately 17% to \$1,177,000 for the three months ended September 30, 2007, from \$1,004,000 for the same period in 2006. The increase in SG&A spending during the three months ended September 30, 2007, as compared to the same period in 2006 is primarily due to stock-based compensation expense totaling \$339,000 during the third quarter of 2007 as compared to \$283,000 for the same period in 2006, and an increase in legal fees. Additional stock-based compensation expense is due to stock options granted during the third quarter of 2007. Approximately one-third of the total number of stock options granted during the third quarter of 2007 vested by September 30, 2007.

SG&A spending increased by approximately 27% to \$3,607,000 for the nine months ended September 30, 2007, from \$2,851,000 as compared to the same period in 2006. The increase in SG&A spending for the nine months ended September 30, 2007 is principally due to increased legal fees, bonus compensation paid to certain members of management and stock-based compensation expense, which totaled \$513,000 during the nine months ended September 30, 2007 as compared to \$464,000 for the same period in 2006.

Corporate restructuring

In June 2007, we consolidated our offices into our San Diego facility and closed our Victoria operations. The consolidation was completed to improve operational efficiencies as we advance HspE7. Our Vice President of R&D relocated to the San Diego area and will continue to direct the clinical development of HspE7.

All terminated employees were offered one-time termination benefits totaling approximately \$401,000 which are included in corporate restructuring on the Consolidated Statement of Operations. As of September 30, 2007, we have reached agreements on termination benefits with all of the Victoria employees, with the exception of three individuals. Of the \$401,000 of termination benefits, \$314,000 was paid by September 30, 2007, while the

remaining balance of \$87,000 was accrued for settlement of termination benefits with the three remaining employees.

Costs associated with the closure of the Victoria facility, estimated to equal approximately \$166,000, were included in corporate restructuring on the Consolidated Statement of Operations. Of the \$166,000 in closure costs, \$102,000 was paid by September 30, 2007 and the remaining balance of \$64,000 was accrued as of September 30, 2007.

Also in conjunction with the closure of the Victoria facility, certain pieces of laboratory equipment were transferred to our San Diego office for use in our research laboratories at that location. Certain other pieces of laboratory equipment are being held for sale on consignment in the office of an equipment reseller. The remainder of the equipment was donated, sold or otherwise disposed. We recorded a loss on the disposal of equipment totaling \$247,000 which was included in corporate restructuring on the Consolidated Statement of Operations.

Interest and other income

Interest and other income increased for the three months ended September 30, 2007 to \$159,000 compared to \$72,000 for the same period in 2006. Interest and other income increased for the nine months ended September 30, 2007 to \$430,000 compared to \$121,000 for the same period in 2006. The increase in interest and other income during the three and nine months ended September 30, 2007 as compared to the same periods during 2006 is due to interest earned on higher cash and cash equivalents received through our equity financings during 2007.

Net foreign exchange (loss) gain

During the three months ended September 30, 2007 we reported a \$693,000 foreign exchange loss compared to a \$15,000 foreign exchange loss for the same period in 2006. During the nine months ended September 30, 2007 we reported a \$1,521,000 foreign exchange loss compared to a \$5,000 foreign exchange gain for the same period in 2006. The change is principally due to higher cash and cash equivalent balances held in U.S. dollars and a rising Canadian dollar. As we expect the majority of our future operating expenses, including clinical trial costs and other product development costs, will be paid in U.S. dollars, current Company policy is to hold most of our cash and cash equivalents in U.S. dollars. Company policy related to the holding of cash and cash equivalents in either U.S. or Canadian currency is continually reviewed and monitored in conjunction with fluctuations to the respective currency markets.

Basic and diluted loss per share

The net loss for the three months ended September 30, 2007 increased by 36% to \$3,085,000 from \$2,276,000 for the same period in 2006. Principally as a result of a 165% increase in the weighted average number of common shares outstanding because of the completion of our offerings during 2007, the basic and diluted loss per share was \$0.01 for the three months ended September 30, 2007 and \$0.03 in for the same period in 2006.

The net loss for the nine months ended September 30, 2007 increased by 26% to \$10,094,000 from \$8,024,000 for the same period in 2006. Principally as a result of a 136% increase in the weighted average number of common shares outstanding because of the completion of our offerings during 2007, the basic and diluted loss from continuing operations per share was \$0.05 for the nine months ended September 30, 2007 and \$0.10 in for the same period in 2006.

Summary of Quarterly Results

(In thousands except per share amounts)

	Quarter ended			
	September 30, 2007	June 30, 2007	March 31, 2007	December 31, 2006
Revenues	\$ 155	\$ 155	\$ 155	\$ 156
Research and development expenses	1,509	1,719	1,819	1,587
Net loss	\$ (3,085)	\$ (3,938)	\$ (3,071)	\$ (2,043)
Total basic and diluted loss per common share ^(a)	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.02)

(In thousands except per share amounts)

	Quarter ended			
	September 30, 2006,	June 30, 2006	March 31, 2006	December 31, 2005
Revenues	\$ 155	\$ 155	\$ 155	\$ 156
Research and development expenses	1,484	2,073	2,207	2,083
Net loss	\$ (2,276)	\$ (3,003)	\$ (2,745)	\$ (3,872)
Total basic and diluted loss per common share ^(a)	\$ (0.03)	\$ (0.04)	\$ (0.03)	\$ (0.05)

^(a) 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 HspE7. In 2005 we implemented cost saving initiatives which resulted in an overall decline in R&D spending thus far in 2007 and in 2006 as compared to 2005. Additionally, due to higher cash and cash equivalent balances held in U.S. dollars and a rising Canadian dollar during the first three quarters of 2007, we reported higher foreign exchange losses during 2007 as compared to 2006 and 2005. See the discussion under the caption "Results of Continuing Operations--Research and Development" for additional information.

Liquidity and Capital Resources

We rely principally on equity financings to fund our research and development programs, operations and capital expenditures. To date we have raised net equity of \$242,074,000 and have a deficit of \$252,312,000.

At September 30, 2007, we had cash and cash equivalents totaling \$14,345,000. We incurred a net loss of \$10,094,000 and \$8,024,000 for the nine months ended September 30, 2007 and 2006, respectively. We used \$9,000,000 and \$8,789,000 of net cash in operating activities for the nine months ended September 30, 2007 and 2006, respectively.

In January and August 2007 we completed offerings under short form prospectuses resulting in gross proceeds of \$16,194,000 and \$8,613,000 respectively. These proceeds provide sufficient resources to fund currently planned program spending and operations into the third quarter of 2008.

In order to continue clinical development of HspE7, we must raise additional funds through financings, complete a corporate transaction and/or enter 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 CoVal™ 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, for which no assurance can be given, we will continue to incur operating losses.

During the three and nine months ended September 30, 2007, purchases of equipment totaled \$19,000 and \$70,000, respectively. We did not purchase equipment during the three months ended September 30, 2006. Equipment purchases totaled \$122,000 for the nine months ended September 30, 2006.

During the first quarter of 2007, we identified certain pieces of laboratory equipment that are no longer required to support currently planned operations. During the third quarter of 2007 we sold one piece of the equipment. The carrying value of the remaining assets held for sale as of September 30, 2007 is \$145,000. We expect to sell the balance of these assets during the fourth quarter of 2007 or in early 2008.

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 third quarter of 2007, we entered into an agreement with SAFC, an operating division of Sigma-Aldrich Inc., to complete process and analytical development activities. Under the terms of the agreement, we have the right to terminate the agreement or any individual study undertaken under the agreement prior to completion upon issuance of 60 days written notice to SAFC and payment of all amounts then due. In no event shall such termination payments exceed the amount that would have been paid had the study not been terminated. During the third quarter of 2007, we made advance payments under the contract to SAFC of \$639,000, of which \$31,000 was recorded as an R&D cost during the third quarter of 2007 and \$608,000 as a prepaid expense as of September 30, 2007.

We have a biological services agreement with Avecia Biotechnologies (Avecia), denominated in British pounds, for the process development, scale-up and manufacture of HspE7. During the first quarter of 2007, we signed a letter of intent for the manufacture of additional clinical trial material. The letter of intent required a deposit of £177,000 (\$385,000) that was paid 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 September 30, 2007, the aggregate amount potentially payable pursuant to such agreements total \$1,027,000. See "Corporate restructuring" for discussion of severance obligations related to the Company's corporate restructuring.

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 core 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 will be from these proceedings.

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, thus, 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 reexamination 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 will be from these proceedings. If maintained on appeal, the patent would otherwise expire in 2018.

We have taken, and continue to take, steps which would help minimize the impact if we were to receive a negative ruling in these proceedings. These steps include filing additional patent applications to provide further protection of our reformulated lead compound, HspE7, and other CoValTM fusions.

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 during the fourth quarter of 2007 and the eleven months ended November 30, 2008 are \$75,000 and \$274,000, respectively.

Off-Balance Sheet Arrangements

We did not enter into any off balance sheet arrangements during the three and nine months ended September 30, 2007 or 2006.

Related Party Transactions

There were no related party transactions during the three and nine months ended September 30, 2007 or 2006.

Critical Accounting Estimates

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.

Clinical trial expenses are a component of research and development costs. These expenses include fees paid to clinical research organizations (CROs), investigators and other service providers. The Company recognizes expenses related to its ongoing clinical trials using a methodology designed to accrue estimated costs in the appropriate accounting period when the services are completed. In the event payments differ from the amount of service completed, prepaid expense or accrued liabilities amounts are adjusted on the balance sheet. These expenses are based on estimates of the work performed under the contract, milestones achieved and patient enrolment. We monitor each of these factors to the extent possible and adjust estimates accordingly. Based on the design of the trial, including the number of patients, number of clinical sites, and the schedule of treatment and follow-up, the methodology could vary from trial to trial.

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 first applied 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 September 30, 2007. Net loss and comprehensive loss for the three and nine months ended September 30, 2007 is \$3,085,000 and \$10,094,000, respectively.

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 nine months ended September 30, 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 September 30, 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 November 1, 2007:

Common shares outstanding	260,585,901
Warrants under 2005 Financing outstanding	3,138,332
Warrants issued to GVIC	250,000
Warrants under January 2007 Financing outstanding	53,979,120
Agent's warrants under January 2007 Financing outstanding	7,557,076
Warrants under August 2007 Financing outstanding	34,454,200
Agent's warrants under August 2007 Financing outstanding	4,823,588
Stock options outstanding	12,151,184

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. We hold investment balances in the currencies in which we have expenditures planned during the foreseeable future. At September 30, 2007, approximately 92% of cash and cash equivalents were held in U.S. dollars. 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 nine months ended September 30, 2007, would result in a \$507,000 impact. If the value of the Canadian dollar relative to the U.S. dollar were to increase by 10%, our net loss would increase by \$507,000 for the nine months ended September 30, 2007. Further,

if the value of the Canadian dollar relative to the U.S. dollar were to decrease by 10%, our net loss would decrease by \$507,000 for the nine months ended September 30, 2007.

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 \$28,000 impact. If interest rates were to increase by 10%, our net loss would decrease by \$28,000 for the nine months ended September 30, 2007. Further, if interest rates were to decrease by 10%, our net loss would increase by \$28,000 for the nine months ended September 30, 2007. During the first nine months of 2007, our funds were held primarily in cash and cash equivalents. Our exposure to interest rate fluctuation, therefore, was minimized.

We have not used derivative financial instruments in our investment portfolio. We had \$14,345,000 in cash and cash equivalents as of September 30, 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.