



NVENTA BIOPHARMACEUTICALS CORPORATION

MD&A for the three months ended March 31, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2008

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A) is dated as of May 13, 2008. 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 clinical and other projections as well as statements regarding our future plans, objectives, performance, operating expenses, revenues, growth, profits 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 our 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 designed to stimulate the immune system to identify, target and eliminate virus-infected and cancerous cells; our belief that HspE7 may successfully treat cervical intraepithelial neoplasia, or CIN, by activating and enhancing the body's natural immune system; our anticipation that we will complete our Phase 1 trial during the second quarter of 2008 and initiate a Phase 2 trial shortly thereafter; our belief that our new manufacturing process can be validated for commercial use; our expectation that process and analytical development activities on our adjuvant products will continue throughout 2008; the amount of work required on our Poly-ICLC manufacturing processes before such processes can be validated and used to produce material for large scale clinical trials and commercial use; our belief that therapeutic treatment with HspE7 + Poly-ICLC could constitute a new, simple and non-surgical treatment for patients afflicted with HPV-induced precancerous and cancerous lesions; the expectation to incur substantial losses for the foreseeable future; our intent to pursue initiatives to continue our operations and the possibility that such initiatives may not be sufficient to fund operations; expectations related to fees, payments and revenues in connection with the license option granted to Roche; our plan to initiate and complete a Phase 2 efficacy trial in patients with cervical dysplasia; our plans related to process development, characterization and scale-up of Poly-ICLC; our plan to manufacture additional Poly-ICLC and HspE7; our plan to initiate investigational new drug, or IND, enabling studies of our next CoVal™ therapeutic candidate targeting the treatment of genital warts and recurrent respiratory papillomatosis, or RRP; our plan to expand our product pipeline through the development of additional CoVal™ therapeutic compounds and in-licensing of new or additional technologies to target non-HPV diseases for which there are serious unmet medical needs; our expectation that our Vice President, Research and Development will continue to direct the clinical development of HspE7 + Poly-ICLC and our other research programs; our expectation that the majority of our near-term operating expenses will be paid in U.S. dollars; that the proceeds from the offerings we completed in 2007 provide sufficient resources to fund currently planned program spending and operations into the fourth quarter of 2008; whether our efforts will result in commercially-viable products; our expectation that purchases of equipment in 2008 will be insignificant; our expectation to sell certain pieces of laboratory equipment that are no longer required to support currently planned operations; and the possibility that Avecia may manufacture HspE7 for commercial sale, if the product is successfully developed.

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 possibility that our drug will not treat target diseases as intended; the risk that our manufacturing process will not be validated; risks associated with requirements for approvals by government agencies, such as the U.S. Food and Drug Administration, or FDA, before products can be tested in clinical trials and ultimately marketed; the possibility that such governmental 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 clinical trial materials, collaborative partners and other third parties and the prospects and timing for negotiating supply agreements, corporate collaborations or licensing arrangements; that we will be able to obtain the clinical trial materials necessary to conduct our clinical trials in a timely manner; 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; 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 <http://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 our drug will treat target diseases as intended; that our manufacturing process will be validated; that we will obtain the necessary regulatory approvals in a timely manner; that enough HspE7 and Poly-ICLC will be available to conduct planned trials; that the results of our planned trials will be favorable; that we will obtain timely approval from Institutional Review Boards, or IRBs; that the results from additional preclinical work, if any, will be consistent with the results we have already obtained; that we will attract and retain key personnel; 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 a Biologics License Application (BLA); that competitors will not develop and market drugs that are less expensive, more effective or safer than ours; 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 2007 Annual Information Form filed on SEDAR at <http://www.sedar.com>.

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 financial statements for the three months ending March 31, 2008 and related notes thereto and our annual consolidated financial statements for the year ended December 31, 2007 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 cancer, with a focus on diseases caused by the human papillomavirus (HPV). Our CoVal™ fusion products are designed to stimulate the body's immune system to treat existing viral infections and related diseases.

Our current focus is on the development of HspE7 in combination with an adjuvant, a substance added to certain types of drugs, typically vaccines, to improve immune responses against target antigens. Poly-ICLC is the adjuvant used in our lead investigational therapeutic candidate, HspE7 + Poly-ICLC, which contains the novel CoVal™ fusion protein HspE7 co-administered with Poly-ICLC. HspE7 + Poly-ICLC

is designed to treat precancerous and cancerous lesions caused by 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 with disease-associated antigens, we believe 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.

During 2007, we initiated a Phase 1 clinical trial to assess the safety and tolerability of HspE7 + Poly-ICLC in patients with cervical intraepithelial neoplasia, or CIN. Activities associated with our Phase 1 study completed to date include submission of clinical packages to institutional review boards, submission of our IND amendment to the FDA and initiation of clinical sites. Additionally, we have completed enrollment, dosing and assessment of safety and tolerability of all four cohorts in the trial. In all cohorts, HspE7 + Poly-ICLC was found to be safe and well tolerated, with no serious adverse events being reported in any of the cohorts. An evaluation by the Safety Review Committee was performed after each of the four cohorts reached five weeks of treatment (two doses plus one week of follow-up). Each patient received a total of three (3) doses of drug over a 60-day period. All patients were administered 500 mcg of HspE7 with each of the four cohorts receiving escalating doses of adjuvant – 50, 500, 1,000 and 2,000 mcg.

In addition to safety and tolerability, a key objective of the Phase 1 clinical study is to measure three important immunologic markers: HPV-E7 specific T-cell responses, HspE7 antibody responses, and cytokine responses. We have completed the initial analysis of immunologic markers in the first three cohorts of the trial. Evaluation of biological samples collected from the study's first three cohorts indicates that administration of HspE7 + Poly-ICLC results in an E7-specific T-cell immune response. Previous independent research findings demonstrated that such an immune response may be associated with objective clinical responses in patients with CIN. Accordingly, we believe that HspE7 may successfully induce a targeted immune response to effectively treat CIN. Cohort 1 was designed to establish a baseline for the study with patients in this group being administered 500 mcg of HspE7 and 50 mcg of Poly-ICLC. Consistent with previous preclinical studies conducted by Nventa, this dose level demonstrated anti-HspE7 antibody responses but limited T-cell responses. In cohort 2, patients were administered 500 mcg of HspE7 and 500 mcg of Poly-ICLC. In this group, 3 out of 4 patients showed anti-HspE7 antibody responses and HPV16 E7-specific T-cell responses. In cohort 3, patients were administered 500 mcg of HspE7 and 1,000 mcg of Poly-ICLC. In this group, HPV 16 E7-specific T-cell responses were elicited in all four subjects. All T-cell responses represented significant changes from baseline, indicating that the responses were a direct result of treatment with HspE7. These findings, in addition to data from preclinical models, have provided further evidence of our predicted mechanism-of-action of HspE7 and support the compound's potential to treat HPV-16 induced CIN. HPV-16 is the most common subtype of the HPV virus associated with both CIN and cervical cancer. We anticipate completing this Phase 1 trial during the second quarter of 2008.

Shortly following the completion of the Phase 1 trial, we intend to initiate a randomized, blinded and controlled Phase 2 trial that is statistically powered to evaluate efficacy in patients with CIN 2/3 disease. The primary endpoint will be complete histological regression of CIN lesions at a specified time-point, and secondary endpoints will include assessments of safety and immunological responses, among others. The cost of the Phase 2 trial is estimated to be \$10 million.

We have developed a manufacturing process for HspE7 that produces material that is more pure and uniform than material used in our clinical trials prior to 2007, and which can support additional clinical development of the product. Assuming successful clinical development of HspE7 + Poly-ICLC, we believe the process can be validated for commercial use.

We are developing and scaling up the manufacturing processes for our adjuvant products. In August 2006, we signed a supply agreement with Oncovir, Inc. to provide us with Poly-ICLC adjuvant for use in our current HspE7 + Poly-ICLC clinical trials. In addition, in the third quarter of 2007, we entered into an agreement with SAFC, an operating division of Sigma-Aldrich Inc., to perform process and analytical

development activities on adjuvants, including Poly-ICLC, in support of our future clinical programs. During the fourth quarter of 2007 and the first quarter of 2008, we began process and analytical development activities on our adjuvant products and expect these activities will continue throughout 2008. The Poly-ICLC manufacturing processes will require considerable additional work before they can be used to produce cGMP material for pivotal clinical trials and commercial use.

Preclinical pharmacology studies have been conducted with HspE7 + Poly-ICLC. These preclinical data have demonstrated that immunization with HspE7 + Poly-ICLC results in dramatically enhanced immune responses. We believe that therapeutic treatment with HspE7 + Poly-ICLC could constitute a new, non-surgical treatment for patients afflicted with HPV-induced precancerous and cancerous lesions.

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 process development and manufacturing of HspE7 and Poly-ICLC, preclinical studies, early-stage and late-stage clinical trials and expanded regulatory activities. At March 31, 2008, our deficit was \$256,496,000. Historically, we have depended principally on equity financings and funding from research collaborations to finance our business activities. 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 funds, however, are insufficient to support our currently planned drug development programs, and we will be required to pursue additional equity financings, collaborations with biotechnology or pharmaceutical partners and other strategic initiatives to continue our operations. 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 FDA approval of a biologics 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.

During the option period, 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-driven 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 percent of net sales in the U.S. and Canada, subject to various adjustments. We would receive sales-based payments of 20 percent of net sales in countries other than the U.S. and Canada. If Roche exercises its rights to the first generation product, Roche may fund all prospective development costs. 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 + Poly-ICLC.

At any time prior to the option being exercised, 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 that such discussions are underway or near conclusion. 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 would be either US\$10,000,000 or US\$15,000,000, depending on the stage of development of the product.

Corporate Restructuring

In June 2007, we consolidated our offices into our San Diego facility and closed our Victoria operations, improving operational efficiencies. Our Vice President, Research and Development, relocated to the San Diego area to continue to direct the clinical development of HspE7 + Poly-ICLC. Please see *restructuring expense* under “Results of Operations” for a description of restructuring expenses incurred in 2007 and 2008.

Results of Operations

During the first quarter of 2008, we realized a net loss of \$1,865,000 or \$0.01 per common share as compared to \$3,071,000 or \$0.02 per common share during the same period in 2007. The \$1,206,000 decrease in our net loss in the first quarter of 2008, compared to the first quarter of 2007, principally was due to the favorable impact of foreign exchange and to lower expenses for employee compensation and legal fees in 2008. During the first quarter of 2008, we incurred a foreign exchange gain of \$408,000, compared to a foreign exchange loss of \$194,000 in the first quarter of 2007, resulting in a favorable quarter to quarter impact on our net loss of \$602,000. In addition, employee compensation expense totalled \$852,000 in the first quarter of 2008, compared to \$1,161,000 in the first quarter of 2007, for a quarter to quarter reduction in compensation expense of \$309,000. This quarter to quarter reduction in compensation expense principally was related to a \$274,000 reduction in employee bonus expense and to a \$92,000 reduction in salary and wage expense, partially offset by a \$114,000 increase in stock-based compensation in the first quarter of 2008. The quarter to quarter reduction in bonus expense of \$274,000 primarily was related to the payment of bonuses in the first quarter of 2007 as a result of the achievement of certain corporate goals in the early 2007. The reduction in salary and wage expense of \$92,000 principally was a result of headcount and cost savings initiatives implemented by us in 2007, including the closure of the Victoria facility in June of 2007. The increase in stock-based compensation expense in the first quarter of 2008, compared to the first quarter of 2007, was due to the issuance of a significant number of stock options in the third quarter of 2007 and the first quarter of 2008. In addition to the lower compensation expense in 2008, legal expenses and patent fees during the first quarter of 2008 were only \$308,000, as compared to \$490,000 during the first quarter of 2007, resulting in a quarter to quarter reduction in expenses of \$182,000. These favorable expense reductions, however, were partially offset by lower collaborative research revenue which was \$0 in the first quarter of 2008, compared to \$155,000 in the first quarter of 2007.

Collaborative R&D revenue

Collaborative R&D revenue was \$0 in the first quarter of 2008, compared to \$155,000 in the first quarter of 2007. Collaborative R&D revenue during 2007 relates to the amortization of upfront license fees from Roche. The amortization of upfront license fees from Roche ended in December 2007. As a result, we will not record any additional amortized license fee revenue from the Roche agreement in 2008 or thereafter.

Research and development

Research and development expenses primarily include costs associated with therapeutic product development and clinical studies related to HspE7 + Poly-ICLC. In order to optimize our financial flexibility and to gain access to specialized knowledge and expertise, we employ clinical research organizations (CROs) to conduct our clinical trials and engage contract suppliers to assist us with product and process development and manufacturing. During the first quarter of 2008 and 2007, our R&D spending was primarily focused on developing HspE7 + Poly-ICLC.

R&D spending decreased by approximately 22 percent to \$1,426,000 during the three months ended March 31, 2008, as compared to \$1,819,000 for the same period in 2007, resulting in a decrease of \$393,000. The decrease in spending during the first quarter of 2008, compared to the first quarter of 2007, is principally

due to salary and overhead cost savings generated in 2008 as a result of the closure of the Victoria research facility in mid-year 2007 (see *Corporate restructuring* for further details). Total research and development employee compensation expense totaled \$230,000 during the first quarter of 2008, compared to \$423,000 in the first quarter of 2007, resulting in a \$193,000 reduction in quarter over quarter spending. This reduction primarily was related to headcount reductions associated with the closure of the Victoria facility. Research project spending totaled \$651,000 in the first quarter of 2008, compared to \$588,000 in the first quarter of 2007, for a quarter to quarter increase of \$64,000. Significant project spending during the first quarter of 2008 included \$217,000 for adjuvant development costs and \$352,000 related to the costs of the HspE7 + Poly-ICLC Phase 1 clinical trial. Significant project spending during the first quarter of 2007 included \$106,000 related to protocol development and preparation costs for the cost of the HspE7 + Poly-ICLC Phase 1 clinical trial, \$238,000 for the cost of HspE7 toxicology studies, and \$134,000 for HspE7 stability testing, product labeling and product storage.

Pending adequate funding, resources, Phase 1 safety and immunologic results and appropriate regulatory approval, we intend to focus on the following goals to further the development of HspE7 + Poly-ICLC and our CoVal™ technology platform:

- (a) initiation and completion of a Phase 2 efficacy trial in patients with cervical dysplasia;
- (b) process development, characterization and scale-up of Poly-ICLC;
- (c) manufacture of additional Poly-ICLC and HspE7 clinical trial material; and
- (d) initiation of IND enabling studies of our next CoVal™ therapeutic candidate targeting the treatment of genital warts and recurrent respiratory papillomatosis or RRP.

In the future, we plan to expand our product pipeline through the development of additional CoVal™ therapeutic compounds and in-licensing of new or additional technologies to target non-HPV diseases for which there are serious unmet medical needs.

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 expenses decreased in the first quarter of 2008 by approximately 29 percent to \$958,000, as compared to \$1,340,000 in the first quarter of 2007. This \$382,000 decrease in SG&A spending principally was due to a significant decrease in employee compensation expense, legal expenses and consulting expenses in the first quarter of 2008, as compared to the first quarter of 2007. Total compensation expense was \$622,000 in the first quarter of 2008, compared to \$738,000 in the first quarter of 2007, a decrease of \$116,000. Although salaries and wages increased by \$44,000 in the first quarter of 2008, as compared to the first quarter of 2007, and stock-based compensation increased by \$114,000 over the same period, these increases were more than offset by a \$274,000 reduction in employee bonus expenses in the first quarter of 2008, as compared to the first quarter of 2007. The lower expense level for employee bonuses primarily was related to the payment of bonuses in the first quarter of 2007 as a result of the achievement of certain corporate goals in early 2007. The \$274,000 decrease in employee bonus expense was partially offset by higher expenses for salaries and wages, which totaled \$420,000 in the first quarter of 2008, compared to \$376,000 in the same quarter of 2007, for an increase of \$44,000; and to an increase in stock-based compensation, which totaled \$194,000 in the first quarter of 2008, compared to only \$80,000 in the first quarter of 2007. This \$114,000 increase in stock-based compensation expense was the result of the issuance of a significant number of stock options to employees, consultants and members of the Board of Directors in the third quarter of 2007 and the first quarter of 2008. In addition, legal expenses and consulting expenses were also lower in the first quarter of 2008 as compared to the first quarter of 2007. Legal expenses totaled \$122,000 during the first quarter of 2008, compared to \$324,000 during the first quarter of 2007, a decrease of \$202,000, while consulting fees were \$29,000 in the first quarter of 2008, compared to \$76,000 during the first quarter of 2007. Both of these expense reductions were due to cost reduction efforts by the Company.

Restructuring expense

In June 2007, we consolidated our offices into our San Diego facility and closed our Victoria operations improving operational efficiencies. Our Vice President, Research and Development, relocated to the San Diego area, and will continue to direct the clinical development of HspE7 + Poly-ICLC and our other research programs.

All terminated employees were offered one-time termination benefits totaling approximately \$475,000, which are included in corporate restructuring on the Consolidated Statement of Operations in 2007. Of the \$475,000 in termination benefits, \$315,000 was paid by December 31, 2007 and an additional \$55,000 was paid in the quarter ended March 31, 2008, resulting in a total amount paid as of March 31, 2008 of \$370,000 with \$105,000 remaining to be paid. We have reached settlement agreements with all of the Victoria employees, with the exception of one individual.

Costs associated with the closure of the Victoria facility, estimated to equal approximately \$122,000 at December 31, 2007, were included in corporate restructuring on the Consolidated Statement of Operations in 2007. Of the \$122,000 in closure costs, \$116,000 was paid by December 31, 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 this 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 in 2007, which was included in corporate restructuring on the Consolidated Statement of Operations. As of March 31, 2008, the net book value of the laboratory equipment being held for sale on consignment is \$131,000.

Interest and other income

Interest and other income totaled \$111,000 in the first quarter of 2008, compared to \$127,000 in the first quarter of 2007, a reduction of \$16,000. Although our cash and cash equivalents balance totaled \$10,782,000 at March 31, 2008, essentially unchanged from the cash and cash equivalents balance of \$10,699,000 at March 31, 2007, a significant reduction in interest rates over the past year resulted in lower interest income during the first quarter of 2008, as compared to the first quarter of 2007.

Net foreign exchange gain or loss

During the three months ended March 31, 2008, we reported a \$408,000 foreign exchange gain, as compared to a \$194,000 foreign exchange loss during the first quarter of 2007. The exchange gain in the first quarter of 2008 was due to the strengthening of the U.S. dollar against the Canadian dollar during the first quarter of 2008, which principally increased the Canadian dollar value of our cash and investments held in U.S. dollars. The \$194,000 foreign exchange loss incurred in the first quarter of 2007 was the result of the weakening of the U.S. dollar against the Canadian dollar in the first quarter of 2007, which principally decreased the Canadian dollar value of our cash and investments held in U.S. dollars.

The rationale for holding U.S. dollars instead of Canadian dollars is that we expect the majority of our near-term operating expenses, including clinical trial costs and other product development costs, will be paid in U.S. dollars, and our policy is to hold our existing cash resources in the currency in which we expect future expenditures to occur. At March 31, 2008, approximately 98 percent of our cash and cash equivalents were held in U.S. dollars. Company policy related to the holding of cash and cash equivalents in either U.S. or Canadian currency is periodically reviewed and monitored in conjunction with fluctuations to the respective currency markets.

Basic and diluted loss per share

The 39 percent decrease in net loss to \$1,865,000 during the three months ended March 31, 2008, compared with \$3,071,000 in 2007, was diluted by a 49 percent increase in the weighted average number of

common shares outstanding, as a result of the two capital financings during 2007. As a result of the lower net loss and the increased number of shares, the basic and diluted loss per share was \$0.01 for the three months ended March 31, 2008, as compared to \$0.02 for the first quarter of 2007.

Summary of Quarterly Results

(In thousands except per share amounts)

	Quarter ended			
	June 30, 2007	September 30, 2007	December 31, 2007	March 31, 2008
Revenues	\$ 155	\$ 155	\$ 156	\$ -
Research and development expenses	1,719	1,509	1,549	1,426
Net loss	\$ (3,938)	\$ (3,085)	\$ (2,319)	\$ (1,865)
Basic and diluted loss per common share	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.01)

(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	\$ (3,003)	\$ (2,276)	\$ (2,043)	\$ (3,071)
Basic and diluted loss per common share	\$ (0.04)	\$ (0.03)	\$ (0.02)	\$ (0.02)

^(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 primarily by fluctuations in R&D spending and foreign exchange losses and by the incurrence of restructuring costs. The principal driver of fluctuations in R&D spending relate to costs associated with the development of HspE7 + Poly-ICLC, including research and process development expenses, clinical trial costs, and the cost of manufacturing material used in our clinical trials. In 2006 and 2007, we implemented significant cost-saving initiatives which resulted in an overall decline in R&D spending in the first quarter of 2008 and 2007, as compared to earlier years. Additionally, due to higher cash and cash equivalent balances held in U.S. dollars and a rising Canadian dollar during 2007, we reported higher foreign exchange losses in 2007, as compared to 2006. The strengthening of the Canadian dollar against the U.S. dollar was reversed in the first quarter of 2008, which resulted in a significant foreign exchange gain in the first quarter 2008. 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. Through March 31, 2008, we have net common shares recorded at \$232,583,000 and have an accumulated deficit of \$256,496,000.

At March 31, 2008, cash and cash equivalents totaled \$10,782,000. We incurred a net loss of \$1,865,000 and \$3,071,000 for the three months ended March 31, 2008 and 2007, respectively. We used \$2,482,000 and \$3,108,000 of net cash in operating activities for the three months ended March 31, 2008 and 2007, 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 fourth quarter of 2008.

In order to continue clinical development of HspE7 + Poly-ICLC, we must raise additional funds through equity financings, the exercise of outstanding options and warrants, completion of a significant strategic transaction, and/or enter into collaboration agreements with corporate partners. 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 + Poly-ICLC program. Even assuming we are successful in securing additional sources of financing to fund the HspE7 + Poly-ICLC program and the continued development of additional CoVal™ fusions, or otherwise enter into collaborative agreements or complete other corporate transactions, our efforts may not result in commercially-viable products.

If we raise additional funds through the issuance of equity securities, substantial dilution to our existing shareholders may result. We may need to obtain funds through arrangements with others on unfavorable terms that may require us to relinquish rights to certain technologies, product candidates or products that we would otherwise seek to develop ourselves.

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 significant operating losses.

During the three months ended March 31, 2008, there were no purchases of plant and equipment as compared with purchases of \$18,000 during the same period in 2007. We do not expect 2008 purchases of equipment to be significant.

During the first quarter of 2007, we identified certain pieces of laboratory equipment that are no longer required to support currently planned operations. During 2007 and 2008, we sold four pieces of the equipment. The carrying value of the remaining assets held for sale as of March 31, 2008 is \$131,000. We expect to sell the balance of these assets during 2008.

Contractual Commitments

Our contractual obligations primarily consist of agreements related to the development and manufacture of HspE7 and Poly-ICLC, operating leases for facilities, and contractual employment obligations.

We engage several contractors to support the development of HspE7 and Poly-ICLC. These contractors support stability testing, analytical testing, release testing, completion of toxicology studies, and administration of clinical trials, process development activities and clinical manufacturing.

We have a biological services agreement with Avecia Biologics Limited (Avecia), denominated in British pounds, for the process development, scale-up and manufacture of HspE7. In addition, Avecia may manufacture HspE7 for commercial sale, if the product is successfully developed. 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. During November 2007 and again in May 2008, we entered into revised agreements with Avecia in which they agreed to apply the £177,000 non-refundable payment toward the cost of the manufacturing campaign in 2008 or 2009. As a result, the non-refundable payment is classified as a prepaid expense in the March 31, 2008 financial statements. The May 2008 revised letter agreement specifies that in the event a definitive manufacturing agreement is not reached by December 31, 2008, or such later date as mutually agreed upon, or if we notify Avecia that we do not wish to proceed with the campaign, the letter agreement will be deemed terminated and the parties will have no further obligations under the agreement. During the first quarter of 2008, we entered into a separate agreement with Avecia in which they agreed to apply £20,000 (\$44,000) of the £177,000 (\$385,000) non-refundable payment toward the cost of a different research project.

During the third quarter of 2007, we entered into an agreement with SAFC, an operating division of Sigma-Aldrich Inc., to perform process and analytical development activities on adjuvants. 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 \$425,000 was recorded as an R&D cost through March 31, 2008, and \$214,000 was recorded as a prepaid expense as of March 31, 2008.

Except as disclosed above, we currently do not have any other research and development contracts subject to significant cancellation or postponement fees. We have not entered into any minimum supply agreements with any service vendors or contract manufacturers.

Our contracts tend to be cancelable and require payments related to specific work. A discussion of such contractual obligations is included above and in Note 2 to our consolidated financial statements.

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, 2008, the aggregate amount potentially payable pursuant to such agreements total \$1,092,000. See "Corporate Restructuring" for discussion of severance obligations related to our corporate restructuring.

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 lease requires us to make minimum lease payments, plus a share of facility maintenance costs, taxes, insurance, and maintenance. In addition, we have entered into operating leases for certain office equipment that expire in 2010. Total future minimum lease payments for all operating leases as of March 31, 2008 are \$210,000 in 2008, \$6,000 in 2009 and \$2,000 in 2010.

Off-Balance Sheet Arrangements

We did not enter into any off balance sheet arrangements during the three months ended March 31, 2008 or in 2007.

Related Party Transactions

There were no related party transactions during the three months ended March 31, 2008 or in 2007.

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:

Revenue recognition

Revenue from collaborative R&D arrangements may include multiple elements within a single contract. Our accounting policy complies with the revenue determination requirements set forth in CICA AcSB recommendations, Handbook Section 3400, *Revenue*, EIC 141, *Revenue Recognition*, and EIC 142, *Revenue Arrangements with Multiple Deliverables*, relating to the separation of multiple deliverables into individual accounting units with determinable fair values. We estimate the fair value of deliverables in collaboration agreements using standard industry techniques. Changes in the determination of fair values or performance periods relating to certain deliverables, and associated milestones, could impact the timing of future revenue streams.

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, investigators and other service providers. We recognize expenses related to ongoing clinical trials using a methodology designed to accrue estimated costs in the appropriate accounting period when the services are completed. These expenses are based on estimates of the work performed under the contract, milestones achieved and patient enrollment. 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 record the fair value of warrants in shareholder equity on the date of grant 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.

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

In June 2007, the CICA issued Section 3031, Inventories, replacing Section 3030, Inventories. The new Section is applicable for us effective January 1, 2008. The new Section provides more guidance on the measurement and disclosure requirements for inventories (for example, it requires that fixed and variable production overheads be systematically allocated to the carrying amount of inventory). The new Section did not have an impact on our consolidated financial statements as of March 31, 2008 since we do not have inventories, and are not likely to acquire inventories until our initial drug development candidate(s) are approved for commercial use by regulatory authorities in the U.S., Canada or other countries.

In December 2006, the CICA issued Section 3862, Financial Instruments – Disclosures; Section 3863 Financial Instruments – Presentation; and Section 1535, Capital Disclosures. All three Sections are applicable to us effective January 1, 2008. Section 3862 Disclosures requires the disclosure of information about: a) the significance of financial instruments for the entity's financial position and performance, and b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 Financial Instruments – Presentation is unchanged from the presentation requirements included in Section 3861. Section 1535 Capital Disclosures requires the disclosure of information about an entity's objectives, policies and processes for managing capital.

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. At the end of the period covered by this MD&A, management evaluated the effectiveness of our 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 MD&A, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our 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 material information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

Internal Controls and Procedures

We evaluated the design of our internal controls and procedures over financial reporting as defined under Multilateral Instrument 52-109 for the three months ended March 31, 2008. 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 our internal controls over financial reporting during the period ended March 31, 2008 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Disclosure of Outstanding Share Data

The following table contains information regarding our outstanding equity as of May 13, 2008:

Common shares outstanding	261,135,901
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	17,367,684

Recent Developments

On May 7, 2008, we announced the appointment of John Varian to the Board of Directors. Mr. Varian will also serve on the Audit Committee of the Board of Directors. Mr. Varian currently serves as the chief operating officer and chief financial officer of Aryx Therapeutics, a pharmaceutical company. Mr. Varian has served as Aryx's chief operating officer since December 2003 and as Aryx's chief financial officer since April 2006. He was formerly chief financial officer of Genset S.A., a biotechnology company, and participated as a key member of the negotiating team in the sale of the company to Serono S.A. in 2002. From October 1998 to April 2000, Mr. Varian served as senior vice president, finance and administration of Elan Pharmaceuticals, Inc., joining the company as part of its acquisition of Neurex Corporation. Prior to the acquisition, he served as Neurex Corporation's chief financial officer from June 1997 until October 1998. Mr. Varian is a founding member of the Bay Area Bioscience Center and a former chairman of the Association of Bioscience Financial Officers International Conference. Mr. Varian received a B.B.A. degree from Western Michigan University.

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 March 31, 2008, approximately 98 percent 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 percent 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 \$1,037,000 impact. If the value of the Canadian dollar relative to the U.S. dollar were to increase by 10 percent, our net loss would increase by \$1,037,000. Further, if the value of the Canadian dollar relative to the U.S. dollar were to decrease by 10 percent, our net loss would decrease by \$1,037,000.

We are also exposed to interest-rate risk because we maintain cash equivalents 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 percent change to our average rate of return would result in a \$36,000 impact. If interest rates were to increase by 10 percent, our hypothetical full year net loss would decrease by \$36,000. Further, if interest rates were to decrease by 10 percent, our hypothetical full year net loss would increase by \$36,000. During the first quarter of 2008, 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 \$10,782,000 in cash and cash equivalents as of March 31, 2008.

Additional Information

Additional information regarding the Company, including our 2007 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 <http://www.sedar.com> under the Company's SEDAR profile.