

# Advitech

## INTERIM REPORT

Three-month period ended March 31, 2008



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# Message to Shareholders

## **Dear Shareholders,**

During the first quarter of 2008, we pursued the strategic plan started in 2007.

### **SALES AND MARKETING OF DERMYLEX®**

Sales of Dermylex® were \$77,298 for the first quarter of 2008, which is higher than for the corresponding quarter in 2007, and net loss amounted to \$442,920. As indicated in previous press releases, these results do not constitute a good indicator of the full year's performance as the revenues for this product, as was the case in 2006 and 2007, are concentrated in the last two quarters of the year, resulting from the particular sales cycle of psoriasis products. With the introduction, during the second quarter of 2008, of new lines of products from our two technological platforms XP-828L and IM, the sales cycle effect should be less significant in 2009 and would eventually taper off in the following years. For 2008, we are still forecasting increased revenues over 2007.

In order to meet our growth objectives, we have completed the following activities during the first quarter of 2008:

- The appointment of two new senior resources in business development, sales and marketing: Mr. Luc Clouâtre, former CEO of Pierre Fabre U.S. (Las Vegas, Nevada) and Cosmedx (Los Angeles, California), as Vice-President of business development, sales and marketing, to speed up Company development on the U.S. markets, and Mr. Richard Lacerte, formerly with Eli Lilly, as Director of sales and marketing, for all marketing aspects related to Advitech's products and for partners servicing;
- The conclusion of two new distribution agreements for Hong Kong with Associated Medical Supply, and for Iran with Dena Darou Pars Company;
- The conclusion of several regulation files, such as those for Hong Kong and Indonesia, to allow the sale of Dermylex® in these territories, and the follow-up of other strategic markets, such as Mexico, in order to deliver products in the last two quarters of 2008;
- The search for new distribution partners for the Company's strategic markets, the most important markets for 2008 being the United States and Europe.

### **SHORT TERM GROWTH: A DIVERSIFIED PRODUCT PORTFOLIO**

We have made the strategic choice to move from a one-product company to a multi-product

company. To do so, Advitech will launch during the second quarter of the year two new lines of products:

- Derived from IM platform, an innovative line of four products for the preparation and follow-up of skin microdermabrasion procedures;
- Derived from both XP-828L and IM platforms, a line of bioactive growth factors targeting applications for immune system, athletic performances and cognitive functions.

According to the Company's management, these product launches will generate new revenue during the second semester of 2008.

### **MID TERM GROWTH: THE WOUND HEALING**

Bolstered by the positive results of two preclinical studies on wound healing, we have started a strategic planning to position ourselves on this very promising market. We have also recruited experts such as Dr Howard Maibach, from San Francisco University, and Dr Charles Doillon, from the Centre Hospitalier de l'Université Laval Research Centre, to help with the research work. We expect to release new research results during the second quarter of 2008. The Company's objective is to enter the market through a strategic alliance with a partner, ideally from the pharmaceutical sector.

The results of the preclinical studies on wound healing conducted by Dr Doillon have been selected for a presentation during the 3<sup>rd</sup> Congress of the World Union of Wound Healing Societies (June 4-8, 2008), hosted by the Faculty of Medicine and Departments of Medicine and Public Health Sciences of the University of Toronto. The World Union of Wound Healing Societies meeting is held every four years and regroups health care professionals from all corners of the world. This represents a unique opportunity to introduce the IM-fraction technology to wound care professionals and to potential commercial partners.

### **FINANCING ACTIVITIES**

In May 2008, we concluded an agreement with BMO for a \$500,000 bank loan guaranteed by Investissement Québec.

We wish to thank our employees and directors for their commitment and efforts, our partners for their support, the shareholders for believing in our project and finally we thank our products' end users to whom we dedicate this project.

*(signed)*  
Renaud Beauchesne, MBA  
President and Chief Executive Officer  
May 28, 2008

# Management's Discussion & Analysis

*The following management's discussion and analysis of operations' results and financial condition should be read in conjunction with the information from the Company's financial statements and related notes included in this report. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles. All amounts are expressed in Canadian dollars.*

*The information contained in this management's discussion and analysis report reflects all material events occurring up to May 28, 2008, on which date it was approved by the Board of Directors*

## OVERVIEW

Advitech is a health sciences and technology company with a mission to discover and commercialize proprietary and evidence-based natural health products. Effective and safe, these products play a role in the prevention of immune-mediated inflammatory disorders, such as psoriasis, eczema and inflammatory bowel disease. Advitech produces Dermylex® for the treatment of mild-to-moderate psoriasis. Advitech has an ongoing research program to develop new applications related to wound healing. This development is derived from both its XP-828L and IM platforms. Advitech will launch during the second quarter of 2008 a line of products for the preparation and follow-up of skin microdermabrasion procedures and a line of bioactive growth factors targeting applications for immune system, athletic performances and cognitive functions.

## HIGHLIGHTS

In the first quarter of 2008, the Company's revenues were \$77,298, a 45.0% increase over the same quarter in 2007 driven by Dermylex® sales. Revenues for the first quarter of 2008 were lower however than the preceding quarter due to the fact that Dermylex® sales are generally concentrated in the last two quarters of each year, resulting from the particular sales cycle of psoriasis products. Psoriasis appears mostly during the fall to spring period. Therefore, the first quarter revenues are not representative of the full year's expected revenues.

During the first quarter of 2008, the Company concluded two additional Dermylex® marketing and distribution agreements for the following territories:

- Hong Kong, with Associated Medical Supply; and
- Iran, with Dena Darou Pars Company.

In May 2008, the Company concluded with BMO an agreement for a \$500,000 bank loan, bearing interest at prime rate plus 2.25%, repayable over 48 months. The loan is secured by the Company's assets and by a guarantee from Investissement Québec.

## SELECTED FINANCIAL INFORMATION

	Three-month period ended March 31, 2008 (unaudited)		Three-month period ended March 31, 2007 (unaudited)	
Total revenues	\$	77,298	\$	53,315
Net loss	\$	(442,920)	\$	(397,925)
Loss per share, basic and diluted	\$	(0.01)	\$	(0.01)

  

	As at March 31, 2008 (unaudited)		As at December 31, 2007 (audited)	
Total assets	\$	1,866,922	\$	2,242,012
Long-term liabilities	\$	1,729,034	\$	1,710,064

## RESULTS OF OPERATIONS

### Quarter ended March 31, 2008 compared to the quarter ended March 31, 2007

Net loss amounted to \$442,920 for the quarter ended March 31, 2008, compared to a net loss of \$397,925 for the quarter ended March 31, 2007, an increase of \$44,995 or 11.3%, resulting from an increase in operating expenses derived from the addition of senior personnel in sales and marketing and investor relations, and from a lower gross margin due to the absence of royalty revenues.

#### Revenues

For the quarter ended March 31, 2008, total revenues amounted to \$77,298 compared to \$53,315 for the same quarter in 2007. The \$23,983 or 45.0% increase is driven by a growth in product sales.

Revenues from product sales amounted to \$77,298 for the quarter ended March 31, 2008, compared to \$3,315 for the quarter ended March 31, 2007, a \$73,983 increase. The growth in product sales results from the opening of an additional Dermylex® distribution territory in Hong Kong and from higher Dermylex® sales in Taiwan, among others.

There was no revenue from royalties during the first quarter of 2008 compared to a \$50,000 non-recurring royalty for the corresponding period in 2007. This non-recurring royalty was generated by a Company's discontinued product.

#### Operating expenses

For the quarter ended March 31, 2008, the gross margin on product sales, before royalties, amounted to \$47,610, or 61.6%, compared to a gross margin of \$2,346, or 70.8% for the same period in 2007.

Sales, general and administrative expenses amounted to \$333,320 for the quarter ended March 31, 2008, compared to \$262,030 for the same period in 2007, a \$71,290 or 27.2% increase resulting from the addition of two resources in sales and marketing, from an increase in expenses related to investor relations, and from the increase in Dermylex® Quality Control expenses.

Research and development expenses were \$124,146 for the quarter ended March 31, 2008, compared to \$149,777 for the quarter ended March 31, 2007, a \$25,631 or 17.1% decrease resulting from staff transfer from R&D to Quality Control. Research and development tax credits and government grants totalled \$39,347 for the quarter ended March 31, 2008, compared to \$35,646 for the quarter ended March 31,

2007. This \$3,701 or 10.4% increase is mostly the result of higher grants received in the first quarter of 2008.

Financial expenses amounted to \$50,237 for the quarter ended March 31, 2008, compared to \$55,652 for the corresponding period in 2007, a \$5,415 decrease. The increase in interest on long-term debt tied in with new financing concluded in the second quarter of 2007 was offset by a \$35,841 foreign exchange gain in the first quarter of 2008 resulting mostly from an 11% increase of euros value during this period. The Company does not have a foreign currency hedge policy.

### Cash flows

As at March 31, 2008, the Company had a cash position of \$1,034,086 (cash and cash equivalents), compared to \$1,158,459 as at December 31, 2007, a \$124,373 decrease resulting mostly from the operating activities during the first quarter of 2008.

Operating activities accounted for \$109,809 in cash decrease during the first quarter of 2008, represented by a net loss adjusted for items not affecting cash of \$399,841, and a decrease in working capital requirements of \$290,032. Cash used for operations was mainly dedicated to research and development, commercialization activities and its underlying administrative structure. For the first quarter of 2007, operating activities used \$391,364 in cash represented by a net loss adjusted for items not affecting cash of \$339,322 and an increase in working capital requirements of \$52,042.

During the quarter ended March 31, 2008, cash used in investment activities amounted to \$10,380, most of which was related to investments in intellectual property protection. For the first quarter of 2007, cash used for investment activities accounted for \$12,643 out of which, \$8,081 is intellectual property protection.

The Company used \$4,184 in cash in financing activities during the quarter ended March 31, 2008. An amount of \$11,684 was repaid on a term loan while \$14,485 was raised against the Commercial loan, \$6,985 of which was recognized as a government grant and recorded in reduction of sales, general and administrative expenses. For the first quarter of 2007, \$1,387,752 was generated by the Company's financing activities. The Company raised \$948,000 in debentures, \$436,128 in equity, \$77,490 in bank loan, and \$28,431 in Commercial term loan, \$14,000 of which was recognized as a government grant and recorded in reduction of sales, general and administrative expenses. A total of \$88,297 of financing expenses was incurred to complete this financing.

## SUMMARY OF QUARTERLY RESULTS

*Selected Financial Information*  
*Unaudited*  
*(\$)*

	Quarters ended			
	March 31, 2008	December 31, 2007	September 31, 2007	June 30, 2007
Total revenues	77,298	405,576	377,463	273,803
Net loss	(442,920)	(140,381)	(302,048)	(509,399)
Loss per share, basic and diluted	(0.01)	(0.00)	(0.00)	(0.01)
	March 31, 2007	December 31, 2006	September 31, 2006	June 30, 2006
Total revenues	53,315	196,026	298,098	9,039
Net loss	(397,925)	(387,858)	(266,435)	(358,894)
Loss per share, basic and diluted	(0.01)	(0.01)	(0.00)	(0.00)

## **Quarterly variation analysis**

Revenues for the first quarter of 2008 were lower than the preceding quarter due to the fact that Dermyx® sales are concentrated in the last two quarters of each year, resulting from the particular sales cycle of psoriasis products. Revenues growth through fiscal 2007 was driven by the sales of Dermylex® that increased from quarter to quarter as the result of the market development.

Except for the net loss of the second quarter of 2007 which reached \$509,399, mostly as the result of financial expenses related to the investments completed during the period and a \$73,320 non-recurring loss resulting from the 2004 debentures renegotiation, the net loss decrease or increase during the last eight quarters is the result of an increase or decrease in the corresponding period revenues.

## **CONTRACTUAL OBLIGATIONS**

Except for the commitments and guarantees disclosed in the Company's audited financial statements for the year ended December 31, 2007, the Company has no operation or relationship with entities that could significantly affect its operating results, liquid assets or financial resources, or expose the Company to any liabilities not entered into the financial statements.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Liquidity**

Total cash on hand as at March 31, 2008 was \$1,034,086 compared to \$1,158,459 as at December 31, 2007, a \$124,373 decrease resulting mostly from the operating activities during the first quarter of 2008.

### **Capital resources**

The Company has an authorized bank loan for \$150,000 to finance research and development tax credits receivable related to 2007 activities. A total of \$90,892 has been drawn on it and is still owed as at March 31, 2008.

The Company currently has a \$300,000 operating line of credit to finance operations and working capital requirements. The operating line of credit has not been used through the first quarter of 2008. The Company's cash has been sufficient for operations and working capital requirements.

### **Financing plan**

In May 2008, the Company signed with BMO an agreement for a bank loan. Per this agreement, the Company has access to an authorized \$500,000 bank loan, bearing interest at prime rate plus 2.25%, to finance 75% of its fiscal 2007 and fiscal 2008 business development, sales and marketing expenses. The amounts drawn against the loan are repayable over 48 months and secured by the Company's assets and by a guarantee from Investissement Québec.

## **OFF-BALANCE SHEET ARRANGEMENTS AND CONTINGENCIES**

During the first quarter of 2008, the Company has not entered into any off-balance sheet arrangements.

## INFORMATION ON OUTSTANDING SHARES

As at May 28, 2008, the number of outstanding common shares was 73,131,719. With the addition of potential shares per the convertible debentures, warrants and options, the number of shares and potential shares is 104,350,715, as detailed in the following table:

Outstanding common shares as at May 28, 2008	73,131,719
Options granted pursuant to the Stock Options Plan	3,438,762
Conversion Rights of the June 2006 convertible debentures (Conversion price at \$0.20)	1,250,000
Conversion Rights of the 2007 convertible debentures (Conversion price at \$0.20)	8,365,000
Warrants pursuant to the December 2006 private placement (Conversion price at \$0.15)	6,447,500
Warrants pursuant to the March 2007 private placement (Conversion price at \$0.25)	3,634,400
Warrants pursuant to the April 2007 private placement (Conversion price at \$0.19)	8,083,334
<b>Balance as at May 28, 2008</b>	<b>104,350,715</b>

## CHANGES IN ACCOUNTING POLICIES

On January 1, 2008, the Company adopted four new accounting standards: Section 1535, Capital Disclosure, Section 3862, Financial Instruments – Disclosure, Section 3863, Financial Instruments – Presentation, and Section 3031, Inventories. The prior year's comparative figures have not been restated.

### CAPITAL DISCLOSURE

Section 1535 establishes the required disclosure concerning the Company's objectives, policies and procedures for managing capital, quantitative data about what the Company regards as capital, whether the Company has complied with any capital requirements and the consequences of non-compliance with such capital requirements. The Company discloses information on its capital in the note 4 of the interim financial statements.

### FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION

Section 3862 and 3863 replace section 3861, Financial Instrument – Disclosure and Presentation, revising and enhancing its disclosure requirements. Section 3862 and 3863 will increase the emphasis on disclosure that enable users of financial statements to evaluate the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. The adoption of these sections did not have any impact on the Company's interim financial statements.

### INVENTORIES

Section 3031 provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. The adoption of this section did not have any impact on the Company's interim financial statements.

## FINANCIAL INSTRUMENTS

There has been no change during the first quarter of 2008 in the classification of the Company's financial instruments. There has been no significant change in the risks related to these financial instruments during the first quarter of 2008.

## **RISKS FACTORS**

There has been no significant change during the first quarter of 2008 in the Company's risk factors and uncertainties. These risks factors are described in the Company's 2007 Annual Report.

## **INFORMATION DISCLOSURE CONTROLS AND PROCEDURES**

The preparation of the Interim Report is supported by a set of disclosure controls and procedures under management's responsibility. In 2007, this control structure was reviewed and the effectiveness of its design and operation was evaluated by the management. This evaluation confirmed the effectiveness of the design and operation of disclosure controls and procedures as at December 31, 2007. The Company's management can therefore provide reasonable assurance that material information relating to the Company is reported to it on a timely basis so that it may provide investors with complete and reliable information.

Lastly, this Interim Report was reviewed by the Audit Committee, and the Board of Directors, which approved it prior to its publication.

## **FORWARD-LOOKING STATEMENTS**

This document contains forward-looking statements which reflect the Company's current expectations regarding future events. These forward-looking statements involve risks and uncertainties. Actual results may differ materially from those projected herein and depend on a number of factors, including, but not limited, to the successful and timely completion of pre-clinical and clinical studies, uncertainties related to the regulatory process, the commercialization of products, the difficulty of predicting demand for products, the impact of competitive products, the availability of raw materials, the protection of intellectual property and fluctuations in operating results. The reader is cautioned not to rely only on these forward-looking statements.

Additional information on the Company may be obtained on SEDAR website at: [www.sedar.com](http://www.sedar.com).

*(signed)*  
Christian Labbé  
Finance Director  
May 28, 2008

## INTERIM STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

Three-month periods ended March 31

	2008 (unaudited)	2007 (unaudited)
<b>Revenues</b>		
Products	\$ 77,298	\$ 3,315
Royalties	-	50,000
	<b>77,298</b>	<b>53,315</b>
<b>Operating Expenses</b>		
Cost of products	29,688	969
Royalties on products sales	3,730	141
Sales, general and administrative expenses	333,320	262,030
Research and development expenses, net of grants and tax credits	84,799	114,131
Financial expenses	50,237	55,652
Depreciation of fixed assets	2,629	3,527
Amortization of intangible assets	4,635	3,627
Stock-based compensation	11,180	11,163
	<b>520,218</b>	<b>451,240</b>
<b>Net Loss</b>	<b>\$ (442,920)</b>	<b>\$ (397,925)</b>
<i>Further information on the earnings (note 7)</i>		
<b>Loss per share, basic and diluted (note 6)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>

## INTERIM STATEMENTS OF CONTRIBUTED SURPLUS

Three-month periods ended March 31

	2008 (unaudited)	2007 (unaudited)
<b>Balance, beginning of the period</b>	\$ 1,625,693	\$ 875,964
Warrants issued upon issue of the Units	-	181,720
Stock-based compensation	11,180	11,163
<b>Balance, end of the period</b>	<b>\$ 1,636,873</b>	<b>\$ 1,068,847</b>

## INTERIM STATEMENTS OF DEFICIT

Three-month periods ended March 31

	2008 (unaudited)	2007 (unaudited)
<b>Balance, beginning of the period</b>	\$ (11,422,100)	\$ (9,986,726)
Changes in accounting policies	-	44,894
Shares issue expenses	-	(34,398)
Convertible debentures issue expenses	-	(15,405)
Net loss	(442,920)	(397,925)
<b>Balance, end of the period</b>	<b>\$ (11,865,020)</b>	<b>\$ (10,389,560)</b>

The accompanying notes are an integral part of these interim financial statements

## INTERIM BALANCE SHEETS

	As at March 31, 2008 (unaudited)	As at December 31, 2007 (audited)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,034,086	\$ 1,158,459
Accounts receivable	278,655	591,973
Tax credits receivable	159,255	125,571
Inventories	140,402	145,602
Prepaid expenses	70,799	39,798
	<b>1,683,197</b>	<b>2,061,403</b>
<b>Fixed assets</b>	<b>41,922</b>	<b>43,552</b>
<b>Intangible assets</b>	<b>141,803</b>	<b>137,057</b>
	<b>1,866,922</b>	<b>2,242,012</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Bank loan	90,892	90,892
Accounts payable and accrued liabilities	313,049	267,103
Deffered revenues	5,980	15,727
Current portion of long-term debt (note 5)	50,388	48,907
	<b>460,309</b>	<b>422,629</b>
<b>Long-term debt (note 5)</b>	<b>184,992</b>	<b>187,884</b>
<b>Convertible debentures</b>	<b>1,544,042</b>	<b>1,522,180</b>
	<b>2,189,343</b>	<b>2,132,693</b>
<b>Shareholders' equity</b>		
Share capital	9,392,526	9,392,526
Contributed surplus	1,636,873	1,625,693
Equity component of convertible debentures	513,200	513,200
Deficit	(11,865,020)	(11,422,100)
	<b>(322,421)</b>	<b>109,319</b>
	<b>\$ 1,866,922</b>	<b>\$ 2,242,012</b>

The accompanying notes are an integral part of these interim financial statements

**On behalf of the Board,**

*(signed)*

Renaud Beauchesne, MBA  
 Director  
 President and Chief Executive Officer

*(signed)*

Pierre Labbé, CA  
 Director  
 President of Audit Committee

## INTERIM STATEMENTS OF CASH FLOWS

Three-month periods ended March 31

	2008 (unaudited)	2007 (unaudited)
<b>OPERATING ACTIVITIES</b>		
Net Loss	\$ (442,920)	\$ (397,925)
Adjustments for items not affecting cash		
Stock-based compensation	11,180	11,163
Interest charged & capitalized	24,635	40,286
Depreciation of fixed assets	2,629	3,527
Amortization of intangible assets	4,635	3,627
	<b>(399,841)</b>	<b>(339,322)</b>
Change in non-cash working capital items		
Accounts receivable and prepaid expenses	282,317	74,749
Tax credits receivable	(33,684)	(32,184)
Inventories	5,200	(107,925)
Accounts payable, accrued liabilities and deferred revenues	36,199	13,318
	<b>290,032</b>	<b>(52,042)</b>
	<b>(109,809)</b>	<b>(391,364)</b>
<b>INVESTING ACTIVITIES</b>		
Additions to fixed assets	(999)	(4,562)
Increase in intangible assets	(9,381)	(8,081)
	<b>(10,380)</b>	<b>(12,643)</b>
<b>FINANCING ACTIVITIES</b>		
Increase in bank loan	-	77,490
Repayment of long-term debt	(11,684)	-
Increase in long term debt (note 5)	7,500	14,431
Issue of Units	-	436,128
Convertible debentures issue	-	948,000
Convertible debentures and shares issue expenses	-	(88,297)
	<b>(4,184)</b>	<b>1,387,752</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(124,373)</b>	<b>983,745</b>
Cash and cash equivalents - beginning of period	1,158,459	601,375
<b>Cash and cash equivalents - end of period</b>	<b>\$ 1,034,086</b>	<b>\$ 1,585,120</b>
Additional information : Interest paid	\$ 70,742	\$ 27,854
<b>Cash and cash equivalents</b>		
Cash	\$ 293,222	\$ 960,120
Temporary investments	740,864	625,000
	<b>\$ 1,034,086</b>	<b>\$ 1,585,120</b>

The accompanying notes are an integral part of these interim financial statements

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## **NOTES TO INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

Three-month periods ended March 31, 2008 and 2007

### **1. INTERIM FINANCIAL INFORMATION**

The financial information as at March 31, 2008 and for the three-month periods ended March 31, 2008 and 2007 is unaudited and has not been examined by the Company's external auditors. However, in the opinion of management, all adjustments necessary to present fairly the results of these periods have been included. The adjustments made were of a normal recurring nature. Interim results may not necessarily be indicative of results for the year.

These unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and use the same accounting policies and methods used in the preparation of the Company's most recent annual financial statements, except for the new accounting standards as disclosed in note 3. All disclosures required for annual financial statements have not been included in these financial statements. These unaudited interim financial statements should therefore be read in conjunction with the Company's most recent audited annual financial statements.

### **2. STATUTES AND NATURE OF ACTIVITIES**

The Company is specialized in the research, development and commercialization of nutraceutical ingredients and products.

The Company was created on June 30, 2004, pursuant to Canadian Business Corporations Act (CBCA) as a result of the amalgamation of Dupont Capital Inc., a capital pool company, and Advitech Solutions Inc., a company incorporated on May 31, 1995, under the CBCA.

As a development stage company, the Company's continued existence depends on its ability to develop and commercialize its products, and, as required, to obtain regulatory authorities approvals for its products in the specific geographical markets, as well as to obtain financial support from its shareholders.

### **3. CHANGES IN ACCOUNTING POLICIES**

On January 1, 2008, the Company adopted four new accounting standards: Section 1535, Capital Disclosure, Section 3862, Financial Instruments – Disclosure, Section 3863, Financial Instruments – Presentation, and Section 3031, Inventories. The prior year's comparative figures have not been restated.

#### **CAPITAL DISCLOSURE**

Section 1535 establishes the required disclosure concerning the Company's objectives, policies and procedures for managing capital, quantitative data about what the Company regards as capital, whether the Company has complied with any capital requirements and the consequences of non-compliance with such capital requirements. See note 4.

#### **FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION**

Section 3862 and 3863 replace section 3861, Financial Instrument – Disclosure and Presentation, revising and enhancing its disclosure requirements. Section 3862 and 3863 will increase the emphasis on disclosure that enable users of financial statements to evaluate the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. The adoption of these sections did not have any impact on the Company's interim financial statements.

#### **INVENTORIES**

Section 3031 provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. The adoption of this section did not have any impact on the Company's interim financial statements.

#### 4. CAPITAL DISCLOSURE

The Company's objective in managing capital is to ensure a sufficient liquidity position to finance its research and development activities, sales, general and administrative expenses, working capital and overall capital expenditures, including those associated with patents and trademarks. In the management of capital, the Company includes shareholders' equity, long-term debt, convertible debentures, and cash and cash equivalents.

Historically, the Company has financed its activities through rounds of public and private financing as well as by obtaining tax credits and government grants. According to its capacities and prevailing market conditions, the Company could finance its activities and long-term assets through long-term debt and shares issuance.

The Company monitors capital in the light of its monthly burn rate and short-term obligations linked to its financial liabilities. The capital management objective of the Company remains the same as that of previous years. The Company is not subject to any capital requirements imposed by any regulators.

#### 5. LONG-TERM DEBT

	As at March 31, 2008 (unaudited)	As at December 31, 2007 (audited)
Commercial loan, without interest, to be repaid in four equal annual consecutive payments from March 1st, 2010	\$ 45,702	\$ 38,202
Participative loan, bearing interest at 12%, to be repaid in 48 equal payments from the 13th month following the closing date	165,967	177,651
Capitalized interest on the participative loan	17,634	17,014
Charged interest on the commercial loan	6,077	3,924
	<b>235,380</b>	<b>236,791</b>
Current portion of long-term debt	50,388	48,907
	<b>\$ 184,992</b>	<b>\$ 187,884</b>

The Commercial loan is authorized at \$100,000. As at March 31, 2008, \$100,000 was drawn against the Commercial loan following a \$14,485 receipt in March 2008 from which a \$6,985 government grant was recognized and recorded against sales and marketing expenses. The total government grant recognized in regard of the fact the loan is interest free is \$54,298. Interest expense on the Commercial loan is calculated using the effective interest rate method.

## 6. LOSS PER SHARE

The following table shows the reconciliation between basic and diluted loss per share:

	Three-month period ended March 31, 2008	Three-month period ended March 31, 2007
	<i>(unaudited)</i>	<i>(unaudited)</i>
Net loss	\$ (442,920)	\$ (397,925)
Weighted average number of outstanding shares - basic and diluted	73,131,719	64,881,718
<b>Net loss per share basic and diluted</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>

Loss per share is calculated using the weighted average number of outstanding shares during the year. The weighted average number of outstanding shares is the same for both basic and diluted per-share calculations since the potential addition of shares in regards with convertible debentures, options and warrants is anti-dilutive.

## 7. FURTHER INFORMATION ON THE EARNINGS

	Three-month period ended March 31, 2008	Three-month period ended March 31, 2007
	<i>(unaudited)</i>	<i>(unaudited)</i>
<b>Sales and marketing expenses</b>		
Government assistance (note 5)	\$ 6,985	\$ 14,000
<b>Research and development expenses</b>		
Government assistance	\$ 5,663	\$ 3,461
SR&ED tax credits	\$ 33,684	\$ 32,185
<b>Financial expenses</b>		
Foreign exchange gain (loss)	\$ 35,841	\$ (2,372)
Interest revenues	\$ 8,518	\$ 5,834

## 8. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with to the current year's presentation.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

Claude R. Livernoche, eng., MBA<sup>1,2,3</sup>  
Chairman  
Corporate Director

Renaud Beauchesne, MBA  
President and CEO  
Advitech inc.

Germain Carrière, MBA<sup>1,2</sup>  
President and COO  
Desjardins Securities inc.

Pierre Labbé, CA<sup>1</sup>  
Vice-President and CFO  
Medicago inc.

Colin Bier, Ph.D.<sup>2,3</sup>  
Corporate Director

Richard Bordeleau<sup>3</sup>  
Executive Vice-President  
Biocad Medical inc.

<sup>1</sup> Audit Committee

<sup>2</sup> Human Resources and Corporate  
Governance Committee

<sup>3</sup> Strategic Planning Committee

## SCIENTIFIC ADVISORY COMMITTEE

Robert Béland, B.Sc.  
Senior Vice-President  
MDS Pharma Inc., USA

Dr Jean-Paul L. Marty, Ph.D.  
Professor, Faculty of Pharmacy  
University of Paris-Sud, France

Dr Fernand Labrie, OC, OQ, MD, Ph.D.  
Director of Research  
CHUL Research Center (CHUQ)

## MANAGEMENT TEAM

Renaud Beauchesne, MBA  
President  
Chief Executive Officer

Christina Juneau, Ph.D.  
Vice-President  
Research and Development

Luc Clouâtre  
Vice-President  
Business Development, Sales and  
Marketing

Christian Labbé, BAA  
Finance Director

## ASSOCIATE RESEARCHERS

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Dr Yves Pouliot, Ph.D.  
Professor  
Laval University, Québec, Canada

## SCIENTIFIC ADVISORS

Dr Howard Maibach  
Professor, Department of Dermatology  
University of San Francisco, CA, USA

Dr Georges M. Halpern, MD, Ph.D.  
Professor  
Hong Kong Polytechnic University  
Hong Kong

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## TRANSFER AGENT

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## STOCK REGISTRATION

TSX Venture Exchange  
Stock Symbol: AVI

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