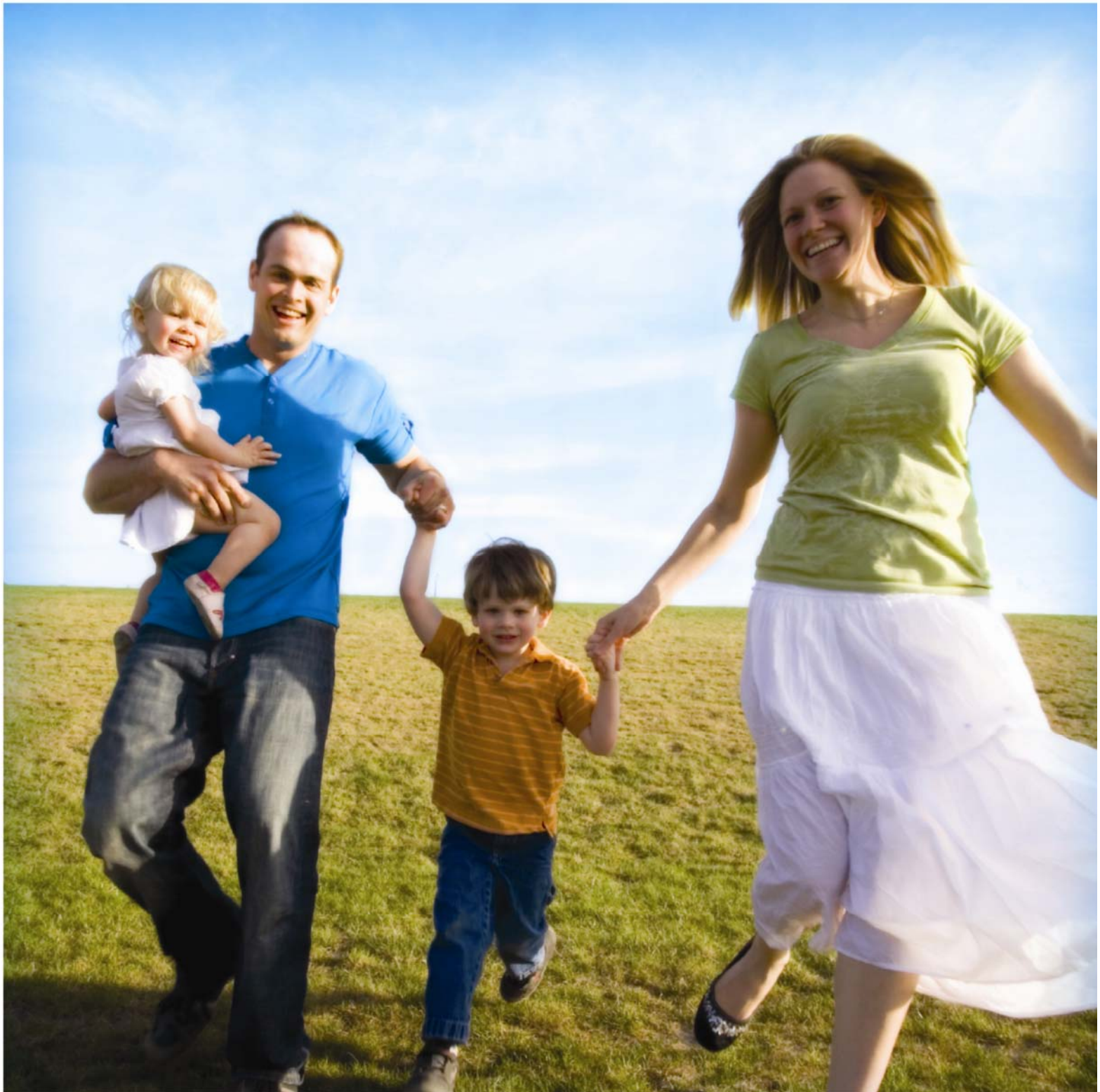


# Advitech

2007 Annual Report



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# Message to Shareholders

## **Dear Shareholders,**

Advitech's management team is satisfied with the Company's accomplishments in 2007. During the past year, we have reached significant milestones by increasing Dermylex® distribution to several new and strategic markets, publishing promising findings on Wound Healing, a new application derived from a combination of both our XP-828L and our new IM platforms, and finally by consolidating the Company's financial structure.

Fiscal 2007 was really the kickoff year for Dermylex®, our product for mild to moderate psoriasis. Following upon the momentum created in the second half of 2006, we have concluded new marketing and distribution agreements for seven additional territories including the US and France, two very strategic markets for the commercialization of our flagship product. Dermylex® is now gaining traction on three continents. As a result of this international expansion, the Company's revenues grew 68% to \$1.1 million over fiscal 2006.

Early in the first quarter of 2008, we announced positive results from a second pre-clinical study on Wound Healing & skin care applications. We believe that Wound Healing & skin care fields will open a significant market opportunity for the Company.

Test results revealed interesting findings for two different fractions, originating from two scientific platforms, which may lead to distinctive therapeutic products. One fraction promotes granulation tissue favouring the acceleration of wound closure, which is an important feature to consider for ulcer management, or wounds that require speedy closure. The second fraction stimulates collagen production by fibroblast without excessive contraction (a physiological phenomena associate with aesthetic scars) which represents an important feature in wound care associated with surgery or any other wound that requires well organized tissue remodelling. These results and the size of the addressable existing market fuelled management's decision to fully support the development of the Wound Healing application and create new short and midterm market opportunities for the Company.

Early in 2007, we completed a \$3.4 million financing plan setting a good foundation for our future growth. As a result of the increase in revenues generated by Dermylex® sales, a noteworthy reduction of the burn rate occurred. Combined with the improvement to the financial structure, it has extended our financial runway.

## **2007 DEVELOPMENT**

### **BUSINESS DEVELOPMENT**

2007 was a very active year in terms of business development. We started fiscal 2007 with two active marketing and distribution agreements (Jamieson Laboratories and Enbio-Life Biotechnology). Jamieson Laboratories, our Canadian partner, had initiated the Dermylex® marketing campaign late in 2006. The product was available in pharmacies across the country. At the beginning of the year, objectives were then to have Dermylex® available in the US, the most important market, and to initiate the distribution in Europe. The plan called for deliveries late in the second half of 2007 both in the US and in Europe. We were proud to report in July that we had struck agreements and had started delivery in both markets. Furthermore, Advitech now has active marketing and distribution agreements covering nine territories: US, France, Belgium, Canada, Taiwan, Pakistan, Mexico, Hong Kong and Indonesia.

#### **Distribution and marketing agreements**

In June 2007, we concluded an agreement with Diversified Natural Products (“DNP”) and Thorne Research (“Thorne”) for Dermylex® to be made available in dermatology clinics, health practitioners and health food stores in the US. Thorne is a leader in the US nutritional supplements industry. It benefits from a strong distribution network of professional representatives across the country. The quality and purity standards by which Thorne conducts its operations are unique and are in synch with Dermylex®. Thorne launched the product at the end of the third quarter of 2007 under the BioDerm and Dermalyx brands.

Still in June 2007, we secured our European introduction with the conclusion of a marketing and distribution agreement for Dermylex® for France and Belgium with Iprad-Santé (“Iprad”), a French pharmaceutical laboratory. Iprad’s products are distributed in more than 22,000 pharmacies spread across France and Belgium. Following an introduction in June during an international dermatology conference, the product was officially launched under the PsoPax brand within the fourth quarter of 2007 and is currently widely available.

In November 2007, a new Dermylex® marketing and distribution partnership was concluded with Maxi HealthCare (“Maxi”) for commercialization of the product in Indonesia. Maxi’s extensive sales force serves 90% of dermatologists in Indonesia, the world’s fourth most populated country. Maxi diligently worked on the Dermylex® local regulatory approval process, so the official certification was awarded in February 2008.

North American distribution of Dermylex® was completed in December 2007 with the conclusion of a marketing and distribution agreement for Mexico

with Darier Dermatology S.A. de C.V. (“Darier”), a pharmaceutical corporation specialized in the development and commercialization of dermatological products in Mexico. Darier’s interest in Dermylex® is to complete its pharmaceutical dermatologic portfolio of products. Darier expects to complete the regulatory process by the end of the fourth quarter of 2008.

Late in December 2007, we concluded a marketing and distribution agreement for Dermylex® with Filix Pharmaceutical (“Filix”) for Pakistan. Filix will make Dermylex® available in this country early in 2008. A first order was delivered at contract signature.

In March 2008, we signed a marketing and distribution agreement with Associated Medical Supplies Co. Ltd. (“AMS”). AMS will market Dermylex® exclusively in Hong Kong.

The resulting distribution network delivered very interesting sales results. In 2007, Dermylex® deliveries increased appreciably over the previous year’s volume. This notable performance fuelled most of the 71% or \$421,520 increase in products revenues in 2007 compared to 2006.

In addition to the development of the Dermylex® distribution network, we concluded a license agreement with DNP for the IBD application of our XP-828L platform. The decision to license out the application was in synch with our strategy to focus the Company’s efforts on dermatological applications to feed our very specialized distribution network.

## **SCIENTIFIC DEVELOPMENT**

In 2007, our scientific team pursued the efforts to further improve the industrial production process and to continue the bio-equivalence program to secure an alternative source of production for the XP-828L compound. But in addition the team conducted *in vivo* studies on the Wound Healing application that resulted in interesting findings.

We announced that two milk-derived proteins extracts, generated by the XP-828L and IM platforms, demonstrated Wound Healing properties in an *in vivo* study. The study demonstrated that these two bioactive protein extracts could have a significant impact on modulating the remodelling of wound tissue and/or the disturbance of age-related collagen fiber formation. The management of skin ulcers, the improvement of scar tissue in surgery and dermabrasion as well as the acceleration of healing in burn wounds are three potential fields of applications that have been identified and are currently considered for further development in 2008.

In the eczema development project, an extract from our XP-828L technological platform known as XP-312 has demonstrated significant results in

reducing murine splenocytes proliferation, IL-4 and IL-10 production *in vitro* and IL-4 production by immune cells *in vivo*. These Th2 cytokines play a crucial role in the initiation of the eczema allergic response. We followed up on the development by assessing XP-312 efficacy with patients suffering from mild-to-moderate eczema.

Our understanding of XP-828L platform mechanisms of action leads us to believe that it could be used in oral mucositis treatments. Oral mucositis is a common side-effect associated with cancer treatment, both with chemotherapy and radiotherapy. Mucositis accounts for significant pain and discomfort in patients, and it range in severity from redness and swelling to ulcerative lesions. With a deeper understanding of the mechanisms of action of a topical application of XP-828L on *in vitro* 3D skin equivalent models, we will be in a position to assess the products potential for treating oral mucositis. A global research & development project will be initiated in 2008 in order to come up with a proof of concept for the application.

To further understand the efficacy of Dermylex® in different situations and with other therapies, we conducted a post marketing survey with over 60 product users. The data collected shows that using Dermylex® may benefit patients already using topical corticosteroids and vitamin D analogs. Using Dermylex® with topical corticosteroids and vitamin D analogs may create a synergistic effect and improve overall treatment efficacy. Therefore, Dermylex® might act as an adjunct to topical corticosteroids and vitamin D analogs.

## **FINANCIAL DEVELOPMENT**

On the financial front, we completed in 2007 our financing program initiated in 2006 and raised a total of \$3.4 million (\$1.9 million in capital stock and \$1.5 million in debt), positioning the Company with a better cash position. Furthermore, the sustainable increase in revenue from 2006 to 2007 provided for a reduction in burn rate, extending our financial runway.

### **Operations**

Revenues for 2007 were \$1,110,000, a \$449,000 increase over our 2006 performance. The bulk of the increase is the result of further market development for Dermylex® in the US and in Europe. The importance of the US and France markets immediately promoted these as leader in terms of deliveries. These leading markets drove more than 75% of total revenues for 2007. Product launches in our most recent markets like Mexico, Indonesia and Pakistan are expected to raise additional revenues that will balance the leading markets' sales numbers in 2008 and subsequent years. Nevertheless, we believe that the US, due to its size and proximity, and France, due to its interest in alternative medicine, will remain leading markets in the future.

Revenues for 2007 included \$93,000 in non-recurring license royalties. The increase over 2006 is due to the IBD application technology licensed out to DNP.

The \$1.35 million net loss for 2007 is 2% lower than last year. The 68% revenues increase was offset by an increase in operation expenses resulting from the addition of senior management, additional resources invested to expand the Dermylex® distribution network and from higher financial expenses related to new financing activities.

### **Financing plan**

In February, we issued a \$500,000 convertible debenture to Capital Financière Agricole in a private placement. The debenture bears an interest rate of 12% and is payable in full in January 2012.

At the end of March, we completed a second private placement by way of an offering memorandum for a total consideration of \$884,000 including \$448,000 in convertible debentures and \$436,000 by the issuance of a total of 3,634,400 units at a price of \$0.12 per unit. Each unit includes one common share and one warrant. The debentures bear an interest rate of 12% and are payable in full in January 2012.

In April, we completed our financing plan by closing a \$970,000 private equity placement with AgeChem Fund L.P. issuing 8,083,334 units at a price of \$0.12 per unit. Each unit includes one common share and one warrant.

Simultaneously, in April, the terms of the \$750,000 convertible debentures issued in 2004 were amended to extend the payment date from February 2008 to June 2011. These debentures bear an interest rate of 12%.

As a result of these financing, the Company benefits from an improved financial situation compared to 2006, with a cash position of \$1.2 million as of December 31, 2007.

## 2008 OUTLOOK

In 2008, Advitech intends to step up revenues growth experienced in 2007 by expanding the Dermylex® distribution network and the specialized dermatology products portfolio.

We intend to accelerate revenues growth by increasing the geographical reach of our distribution network, specifically in Europe where Dermylex® should be available in the most important industrial countries: the UK, Italy, Germany, Spain and Russia. In addition, we intend to promote the product within the network in order to raise the product flow in these channels.

Given the efficacy findings observed on the Wound Healing experiments and the substantial market potential, we are directing in 2008 an important portion of our scientific and business development efforts to this application to expedite its movement in the product pipeline. The other portion of the plan is still on immune mediated inflammatory disorders such as psoriasis and eczema as well on topics related to quality and process control.

Scientific efforts will more than ever be oriented toward development rather than pure research. Our product pipeline is maturing toward marketable applications.

We begin 2008 with an improved cash position resulting from adequate financing efforts in 2007, sustainable growth in revenues and effective control on spending, resulting in a notable reduction in burn rate.

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  
April 7, 2008

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# 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 April 7, 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 drawn up in 2007 a research program to develop new applications related to Wound Healing. This development is derived from both its XP-828L and IM platforms.

## **GLOBAL PERFORMANCE**

During the past year, the Company has reached significant milestones by increasing Dermylex® distribution in several new and strategic markets, publishing promising results on Wound Healing, a new application derived from a combination of both the XP-828L and IM platforms, as well as completing the consolidation of the Company's financial structure.

### **Revenues and commercial activities**

Revenues reached \$1,110,157 in 2007 compared to \$661,285 in 2006, a \$448,872 or 68% increase resulting from the expansion of the distribution network for Dermylex® mostly in the US and in Europe.

Through 2007, Advitech concluded marketing and distribution agreements in seven different countries. So in addition to Canada and Taiwan which were concluded in 2006, Dermylex® is now distributed or on the way to be distributed in the US, France, Belgium, Mexico, Pakistan, Indonesia, and Hong Kong.

The product was launched and is currently available in the US, France, Belgium, Taiwan and Canada. It was just recently authorized for distribution in Indonesia and is in regulatory process in Hong Kong, Mexico and Pakistan.

### **Research and development**

The most important outcome from the Company's R&D efforts in 2007 was clearly the results from the pre clinical studies on Wound Healing. These revealed that bioactive protein extracts from both the XP-828L and IM platforms could have a significant impact to modulate the remodelling of wound tissue and/or disturbance of age-related collagen fiber formation. These results provide, according to the Company's opinion, an important opportunity for the development of new applications in the management of skin ulcers, the improvement of scar tissues in plastic and reconstructive surgeries, dermabrasion as well as the process of burn wound healing.

## Financing plan

Through the first two quarters of 2007, Advitech completed its financing plan and raised \$2,354,000. In addition to the funds raised in 2006, the financing plan reached a total of \$3,400,000. In February 2007, the Company raised \$500,000 by the issuance of a convertible debenture to Capital Financière Agricole. In March 2007, it closed a private placement of \$884,000 by way of offering memorandum consisting in \$448,000 in convertible debenture and \$436,000 in equity. Finally, in April 2007, Advitech completed an equity investment of \$970,000 with AgeChem Fund L.P. In addition, the Company amended the terms of the convertible debentures originally issued in 2004 for \$750,000, to extend the maturity date from February 2008 to June 2011.

## SELECTED FINANCIAL INFORMATION

	2007	2006	2005
Total revenues	\$ 1,110,157	\$ 661,285	\$ 847,552
Net loss	\$ (1,349,753)	\$ (1,375,059)	\$ (2,015,008)
Loss per share, basic and diluted	\$ (0.02)	\$ (0.02)	\$ (0.04)
Total assets	\$ 2,242,012	\$ 1,236,913	\$ 1,681,767
Long-term liabilities	\$ 1,710,064	\$ 1,092,407	\$ 677,510

## RESULTS OF OPERATION

### Year ended December 31, 2007 compared to year ended December 31, 2006

Net loss amounted to \$1,349,753 for the year ended December 31, 2007, compared to a net loss of \$1,375,059 for the year ended December 31, 2006, a decrease of \$25,306 or 1.8%. The 2007 revenues increase is offset by the result of an increase in operating expenses resulting from the addition of senior management and from higher financial expenses related to new financing completed in the second half of 2006 and the first half of 2007.

### Revenues

For the year ended December 31, 2007, total revenues amounted to \$1,110,157 compared to \$661,285 for 2006. The \$448,872 or 67.9% increase is mainly driven by a growth in products sales.

Revenues from products sales amounted to \$1,016,961 for the year ended December 31, 2007, compared to \$595,441 for 2006, a \$421,520 or 70.8% increase. The growth in products sales results from the opening of additional distribution territories in France and the US among others.

Revenues from non-recurring royalties totalled \$93,196 in 2007 compared to \$65,844 in 2006. The \$27,352 or 41.5% increase is the result of a licensing agreement on one of the Company's technology applications.

### Operating expenses

For the year ended December 31, 2007, the gross margin on products sales, before royalties, amounted to \$565,912, or 55.6%, compared to a gross margin of \$306,759, or 51.5% in 2006. The gross margin increase is the direct result of Dermylex® sales growth in new territories. As per an exclusive license agreement signed with a third party regarding a technology, the Company must pay royalties on sales derived from the underlying technology since January 1<sup>st</sup>, 2007.

Sales and administrative expenses amounted to \$1,097,953 for the year ended December 31, 2007, compared to \$1,048,399 for the same period in 2006, a \$49,554 or 4.7% increase resulting from the addition of senior management.

Research and development expenses were \$556,653 for the year ended December 31, 2007, compared to \$577,727 for the year ended December 31, 2006, a \$21,074 or 3.6% decrease. Research and development tax credits and government grants totalled \$180,433 for the fiscal year ended December 31, 2007, compared to \$148,725 for the year ended December 31, 2006. This \$31,708 or 21.3% increase is mostly the result of new grants received in 2007.

Financial expenses amounted to \$408,762 for the year ended December 31, 2007, compared to \$173,531 for the corresponding period in 2006, a \$235,231 increase resulting from both the increase in interest on long-term debt tied in with the new financing concluded in the second half of 2006 and in the first half of 2007, and a \$73,320 non-recurrent charge resulting from the renegotiation of the 2004 convertible debentures.

For fiscal 2007, depreciation of fixed assets totalled \$19,001, compared to \$58,035 for 2006, a \$39,034 or 67.3% decrease. During 2006, the Company expended 100% of the ERP software remaining net value, which represents \$41,170, given the fact that its use was terminated.

Amortization of intangible assets totalled \$16,774 for fiscal 2007, compared to \$37,798 for 2006, a \$21,024 decrease resulting from the capitalization of deferred financing fees and the implementation of the effective interest method for long-term debt and debentures under Section 3855 Financial instruments new standards.

## **Cash flows**

Operating activities accounted for \$1,720,756 in cash decrease during 2007, represented by a net loss adjusted for items not affecting cash of \$1,040,878, and an increase in working capital requirements of \$679,878. Cash used for operations was mainly dedicated to research and development, commercialization activities and its underlying administrative structure. For fiscal 2006, operating activities used \$911,629 in cash represented by a net loss adjusted for items not affecting cash of \$1,218,083 and a decrease in working capital requirements of \$306,454.

During the year ended December 31, 2007, cash used in investment activities amounted to \$52,518 most of which was related to investments in intellectual property protection. For 2006, cash used for investment activities accounted for \$46,410 out of which, \$45,955 is intellectual property protection and financing expenses.

The Company generated \$2,330,358 in cash from financing activities in 2007. The Company raised \$948,000 in debentures, \$1,406,128 in equity, \$85,515 in term loans and \$90,892 in bank loans. A total of \$130,515 of financing expenses was incurred to complete this financing. A \$47,313 portion of the term loan was recognized as government grant and recorded in reduction of sales and administrative expenses. Finally, \$22,349 was repaid on a term loan. For 2006, \$872,672 was generated by the Company's financing activities.

## SUMMARY OF QUARTERLY RESULTS

	Quarter 1 March 31	Quarter 2 June 30	Quarter 3 September 30	Quarter 4 December 31
<b>Year 2007</b>				
Total revenues	53,315	273,803	377,463	405,576
Net loss	(397,925)	(509,399)	(302,048)	(140,381)
Loss per share, basic and diluted	(0.01)	(0.01)	(0.00)	(0.00)
<b>Year 2006</b>				
Total revenues	158,122	9,039	298,098	196,026
Net loss	(361,872)	(358,894)	(266,435)	(387,858)
Loss per share, basic and diluted	(0.01)	(0.00)	(0.00)	(0.01)

### Quarterly variation analysis

Revenues growth through fiscal 2007 was driven by the sales of Dermylex® that increased from quarter to quarter as the result of market development mostly in France and the US. For fiscal 2006, revenues for the two trailing quarters were mostly the result of initial sales of Dermylex® in Canada as the first and second quarters' revenue was related to Lactium, a discontinued product since 2005.

Net loss for the second quarter of 2007 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. Loss for the third and fourth quarters of 2007 decreased as the result of revenues increase. For 2006, the third quarter loss was lower than the previous quarters' average due to the revenues increase from Dermylex® in Canada.

### Fourth quarter of 2007 results

Net loss amounted to \$140,381 for the fourth quarter ended December 31, 2007, compared to \$387,858 for the same period in 2006, a \$247,477 or 63.8% decrease. Revenues for the fourth quarter were \$405,576 compared to \$196,026 for the corresponding period in 2006, an increase of \$209,550 or 106.9%. The growth in revenues from the sales of Dermylex® is the major driver.

## CONTRACTUAL OBLIGATIONS

In 2007, the Company entered into a lease for a three-year term ending in June 2010 for administrative offices. The Company is also party to a lease regarding research laboratories expiring in December 2008.

The Company holds an exclusive license agreement with a third party regarding a technology and its patents, for the development and commercialization of its products. The agreement will end in 2013. The Company has an option to extend the term for the remaining related patents duration. The Company agreed to pay a royalty on all products sold derived from the underlying technology.

The Company is party to an agreement with a university institution regarding a research project for which it has agreed to contribute in cash as well as in-kind contributions. The agreement will expire on December 31, 2008.

In 2007, the Company entered into an agreement with a subcontractor regarding some services to be performed in 2008 for which the Company agrees to pay professional fees.

The Company's future total cash and in-kind commitments, for the next three years, amount to \$236,753 in 2008, \$61,743 in 2009 and \$30,872 in 2010. Except for these agreements, the Company has no operation or relationship with entities which could significantly affect its operating results, liquid assets or financial resources, or that could expose the Company to any liabilities not entered in the financial statements.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

Total cash on hand as at December 31, 2007 was \$1,158,459 compared to \$601,375 as of December 31, 2006, a \$557,084 increase resulting from the completion of the Company's financing plan in the first two quarters of 2007. Financing plan included \$85,515 in term loan from CED, a \$500,000 convertible debenture issued to Capital Financière Agricole, \$448,000 in convertible debentures and \$436,128 in equity (3,634,400 shares at \$0.12 and 3,634,400 warrants) through a private placement by way of an offering memorandum, and \$970,000 in equity (8,083,334 shares at \$0.12 and 8,083,334 warrants) with AgeChem Fund L.P.

In 2007, operations used \$1,720,756 in cash. Out of this amount, \$480,670 was used to build up inventories and accounts receivable to support revenues growth.

### Capital resources

The Company currently has a \$300,000 operating line of credit to finance operations and working capital requirements. The operating line of credit has mostly been unused through the year except in one occasion to bridge term deposit. In 2007, the Company's cash has been sufficient for operations and working capital requirements.

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 of December 31, 2007.

### Financing plan

In February 2007, the Company issued a \$500,000 convertible debenture to Capital Financière Agricole in a private offering. The debenture bears an interest rate of 12% and is payable in full in January 2012. The debenture is convertible into common shares at a per-share price of \$0.15, \$0.20, \$0.22, \$0.242 and \$0.266 for the first to fifth years respectively.

In March 2007, the Company completed a subsequent private placement by way of an offering memorandum for a total consideration of \$884,000 including \$448,000 in convertible debentures and \$436,000 through the issuance of a total of 3,634,400 units at a price of \$0.12 per unit, each of them being comprised of one common share and one warrant giving its holder the right to purchase one common share for a two-year period at an exercise price of \$0.20 for the first year and \$0.25 for the second. The debentures bear an interest rate of 12% and are payable in full in January 2012. The debentures are convertible to common shares at a per-share price of \$0.15, \$0.20, \$0.22, \$0.242 and \$0.266 for the first to fifth years respectively.

In April 2007, the terms of the \$750,000 convertible debentures issued in 2004 were renegotiated to extend the maturity date from February 2008 to June 2011. The debentures bear an interest rate of 12% and are convertible to common shares at a per-share price of \$0.15, \$0.20, \$0.22, \$0.242 and \$0.266 for the first to fifth years respectively.

Simultaneously, in April 2007, the Company completed the financing program by closing a \$970,000 private equity placement with AgeChem Fund L.P. In this transaction, a total of 8,083,334 units were issued at a price of \$0.12 per unit, each of them being comprised of one common share and one warrant giving its holder the right to purchase one common share at the price of \$0.17, \$0.19, \$0.21, \$0.23 and \$0.253 for the first to fifth years respectively.

As a result of these financing, the Company enjoys an improved financial situation with a cash position of \$ 1.2 million as at December 31, 2007.

In April 2008, the Company accepted a financing offer from BMO for a \$500,000 bank loan, bearing interest at prime rate plus 2.25%, repayable over 48 months. The loan will be secured by the Company's assets and by a guarantee from Investissement Quebec.

## OFF-BALANCE SHEET ARRANGEMENTS AND CONTINGENCIES

During the year 2007, the Company has not entered into any off-balance sheet arrangements.

## INFORMATION ON OUTSTANDING SHARES

As at April 7, 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 107,001,382, as detailed in the following table:

<b>Outstanding common shares as at April 7, 2008</b>	<b>73,131,719</b>
Options granted pursuant to the Stock Options Plan	3,301,096
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 \$0.15)	11,153,333
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 \$0.20)	3,634,400
Warrants pursuant to the April 2007 private placement (Conversion price at \$0.17)	8,083,334
<b>Balance as at April 7, 2008</b>	<b>107,001,382</b>

## CHANGES IN ACCOUNTING POLICIES

### Changes in accounting policies starting January 1, 2007

On January 1, 2007, the Company adopted the following sections of the Canadian Institute of Chartered Accountants (CICA) Handbook: section 1530 – Comprehensive Income, section 3251 – Equity, section 3855 – Financial Instruments, Recognition and Measurement, and section 3861 – Financial Instruments, Disclosures and Presentation. The prior year's comparative figures have not been restated.

#### *Financial instruments - Recognition and measurement*

Financial assets subject to the new standard are classified as one of the following: held-for-trading, available-for-sale, held-to-maturity and loans and receivables. Financial liabilities subject to the new standard are classified as held-for-trading or other financial liabilities. The new standard allows an entity to designate financial instruments as held-for-trading at the initial accounting or at the adoption of the standard, even if this financial instrument does not satisfy the definition of financial instruments held-for-trading. Financial instruments classified as held-for-trading under the fair value option should have a reliable fair value.

The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. Fair value is based on active

quoted market rates (bid/ask) prices. If not, fair value is based on prevailing market prices for instruments with similar characteristics and risk profiles or internal or external valuation models using observable market based inputs.

*Comprehensive Income*

Following the adoption of these new accounting standards, the Company must present a statement of other comprehensive income. Other comprehensive income includes the net result and the other elements of the comprehensive income. Considering that the Company has classified all of short-term investments as “held for trading” and its long-term debts and convertible debentures in the category “other liabilities”, no variation element was classified in the other elements of the comprehensive income, consequently, net income (net loss) corresponds to the total of the comprehensive income.

*Impact of adopting these new standards*

The adjustments related to the classification of short-term investments as held for trading were nil and therefore, no adjustment was recorded in the deficit’s opening balance as at January 1, 2007. The adjustments due to the classification of the long-term debts and convertible debentures as “other” liabilities net of related transaction costs and amortized according to the effective interest rate method, were recorded in the deficit’s opening balance as at January 1, 2007. The result of this adjustment as at January 1, 2007 was a reduction in the deficit’s opening balance of \$44,894. Here is a summary of the effect of these new accounting standards on the opening balance:

	As at December 31, 2006	Adjustments	As at January 1, 2007
<b>ASSETS</b>			
Current assets	\$ 1,034,245	\$ -	\$ 1,034,245
Property, plant and equipment	55,055	-	55,055
Intangible assets and deferred costs	147,613	(38,802)	108,811
	1,236,913	(38,802)	1,198,111
<b>LIABILITIES AND SHAREHOLDERS’ EQUITY</b>			
Current liabilities	514,983	-	514,983
Long-term debt	196,692	(8,047)	188,645
Convertible debentures	895,715	(75,649)	820,066
	1,607,390	(83,696)	1,523,694
Shareholders’ Equity	9,616,249	-	9,616,249
Deficit	(9,986,726)	44,894	(9,941,832)
	(370,477)	44,894	(325,583)
	\$ 1,236,913	\$ (38,802)	\$ 1,198,111

**Future accounting changes**

In 2006 and 2007, the CICA issued four new accounting standards: Section 1535, Capital Disclosure, Section 3862, Financial Instruments – Disclosure, Section 3863, Financial Instruments – Presentation, and Section 3031, Inventories. These standards will be effective for the Company on January 1, 2008.

**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.

## 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.

## 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 Company has not yet determined the impact that these new standards will have on its financial statements.

## FINANCIAL INSTRUMENTS

The Company adopted the recommendations of the Canadian Institute of Chartered Accountants regarding the classification of financial instruments as liability or equity. Accordingly, the value of the convertible debentures and long-term debts is split between a liability component and an equity component. The liability component is valued at a discounted amount of its nominal value. This value will be accreted to its face value over its term through charges to interest expense and, at maturity, this value will be equal to the nominal value of the debentures and long-term debts.

## CLASSIFICATION OF FINANCIAL INSTRUMENTS

### FAIR VALUE

The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. Fair value is based on active quoted market rates (bid/ask) prices. If not, fair value is based on prevailing market prices for instruments with similar characteristics and risk profiles or internal or external valuation models using observable market based inputs.

### OTHER SHORT-TERM ASSETS AND LIABILITIES

The fair value of other short-term assets and liabilities is approximately the same as the carrying value due to the short-term nature of these items.

### TRANSACTION COSTS ON FINANCIAL INSTRUMENTS

Transaction costs related to financial assets classified as held-for-trading are recorded in income as incurred. Transaction costs related to liabilities classified as other financial liabilities are capitalized and amortized to income using the effective interest rate method.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash, payments in transit, and secured bank deposits that are highly liquid investments held for the purpose of meeting short-term cash commitments and are classified as held-for-trading. The change in fair value of these assets is recorded in the comprehensive income as a reduction of the financial expenses.

### DEBENTURES AND LONG-TERM DEBT

The Company has chosen to classify its debentures and long-term debt as other liabilities. The debentures and the long-term debt are valued at cost using the effective interest rate method.

## RISKS RELATED TO FINANCIAL INSTRUMENTS

The Company is exposed to various types of risks according to the nature of its operations, including risks related to the use of financial instruments. Controls have been put in place to manage the risks associated with the use of financial instruments, such as cash and cash equivalents, other short-term assets and liabilities including debentures and long-term debt. These controls include risk management policies and

various risk limits. The primary risks to which the Company is exposed are described below:

#### MARKET RISK

Market risk corresponds to the risk that the value of a financial instrument fluctuates due to the variation of parameters underlying their valuation, including interest rates and exchange rates.

#### INTEREST RATE RISK

Interest rate risk arises when fluctuations in market interest rates change the cash flows of the Company's investments, and do not equally affect the cash flows of the Company's liabilities.

#### CREDIT RISK

The use of financial instruments may lead to a credit risk that corresponds to the risk of financial loss resulting from a counterparty's inability or refusal to completely fulfill their contractual obligations. The Company's risk management policies include the assignment of risk ratings as well as a level of authorization according to the rating and the amount of the financial instrument placed with acceptable financial institutions such as secured bank deposits. Consequently, the Company manages credit risk in accordance with established investment policies. The Company establishes investment policies that are regularly reviewed, updated and approved by the Board of Directors. These policies define the credit risk limits according to the characteristics of the counterparties.

#### CONCENTRATION RISK

Concentration risk arises when investments are made with several entities with similar characteristics or when a substantial investment is made with a single entity. As at December 31, 2007, the accounts receivable of three clients represent 81% of total accounts receivable, representing 16%, 23% and 42% respectively for each of these clients.

#### ILLIQUIDITY RISK

Illiquidity risk represents the contingency that the Company is unable to gather the funds required to respect its financial obligations at the appropriate time and under reasonable conditions. The Company manages this risk so as to ensure that it has sufficient liquidity at all times to be able to honour its current and future financial obligations, in normal conditions and in exceptional circumstances. Financing strategies to ensure management of this risk include resorting to the capital markets, the issuance of equity or debt securities.

#### CURRENCY RISK

The Company realizes approximately 46% [10% in 2006] of its revenues in U.S. dollars and 39% [0% in 2006] in euros, and is thus exposed to foreign exchange fluctuations. The risk is partially offset by purchases in euros. As at December 31, 2007, the Company is exposed to the currency risk through its accounts receivable for an amount of \$179,642 [\$0 in 2006] and \$247,550 [\$0 in 2006] which have been respectively negotiated in US dollars and in euros. It is also exposed to the currency risk through its accounts payable and accrued liabilities for an amount of \$10,308 [\$7,062 in 2006] and \$15,946 [\$77,032 in 2006] which have been respectively negotiated in US dollars and in euros

## **RISKS FACTORS**

The following is a summary of important risks for the Company. This list is not exhaustive:

### **History of Losses**

The Company has a history of net losses. As at December 31, 2007, the Company had an accumulated deficit of \$11,422,100. The Company expects to continue to incur net losses and may not achieve or maintain profitability. There is no assurance that the Company will grow and be profitable.

## **Life Sciences Industry Risk**

The Company will carry on business in the life sciences sector. This industry involves a substantial degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Shareholders must rely on the ability, expertise, judgment, direction and integrity of the management and the Board of Directors of the Company.

## **Future Financing Risk**

The Company will need additional financing in order to make further investments or take advantage of unanticipated opportunities. The ability of the Company to arrange such financing in the future will depend in part upon prevailing capital market conditions, as well as the business success of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. If additional financing is raised by the issuance of shares or other forms of convertible securities from treasury, control of the Company may change and shareholders may suffer additional dilution. If adequate funds are not available, or are not available on acceptable terms, the Company may not be able to take advantage of opportunities, or otherwise respond to competitive pressures and remain in business.

## **Currency**

The Company expects to have a significant portion of its sales denominated in U.S. dollars and Euros, while its expenses will be primarily denominated in Canadian dollars and in Euros. The Company's revenues and expenses, and its assets and liabilities, are recorded in Canadian dollars. Fluctuations between the Canadian dollar and U.S. dollar or the Euro may have a material effect on its profitability. To date, the Company has not engaged in exchange rate hedging actions, and there can be no assurance that any such actions undertaken in the future would prove successful.

## **Trading Market and Volatility**

Announcements of results from research and development efforts, as well as market conditions in the life sciences sector, may have a significant impact on the market price of the Company's shares. Share prices for companies in the life sciences sector have experienced extreme price fluctuations that have been often unrelated to the operations of the companies themselves. In addition, there can be no assurance that an active public market will develop or be sustained for the common shares. The market price of the common shares could be subject to significant fluctuations in response to quarterly variations and operating results of the Company, announcements of innovations by the Company or its competitors, changes in financial estimates by securities analysts or other events or factors, many of which are beyond the Company's control.

## **Product Liability Issues**

In the health sector, lawsuits, often claiming substantial damages, are becoming increasingly common. In particular, in the United States, lawsuits are filed by patients, employees or beneficiaries against companies regarding their products. Therefore, the Company faces an inherent business risk of exposure to product liability and other claims in the event that the development or use of its technology or prospective products is alleged to have caused any adverse effects. The Company maintains a products liability insurance with coverage of \$5 million. There can be no assurance that the Company will be able to obtain or maintain sufficient insurance coverage to protect the Company from product liability lawsuits.

There can be no assurance that the Company will be able to obtain or maintain sufficient insurance coverage on acceptable terms with adequate coverage for its proposed clinical trials and potential products. Such insurance is expensive, difficult to obtain and may not be available in the future on acceptable terms, or at all. An inability to obtain sufficient insurance coverage on reasonable terms or to otherwise

protect against potential product liability claims could prevent or inhibit the commercialization of the Company's potential products. A product liability claim brought against the Company could have a material adverse effect on its business financial condition.

## **Government Regulations**

The activities of the Company are subject to regulation by governmental authorities, particularly Health Canada and the FDA. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of clinical testing and documentation that may be required by governmental authorities. The Company may not be able to obtain the approval of governmental authorities in any country to market its products. Any delays in obtaining, or failure to obtain regulatory approvals in the United States, Europe, Canada or other countries would significantly delay the development of the markets and products and would therefore adversely and severely affect the Company's business and financial condition.

## **Risks Inherent in Research and Development Activities**

Research and development activities in the health sector involve a high degree of risk and the likelihood of obtaining satisfactory results is contingent upon several factors that are beyond the control of the Company, including : (i) the discovery of unexpected toxicities or lack of efficacy of products which make them unattractive or unsuitable for human use; (ii) preliminary results as seen in animal and/or limited human testing may not be substantiated in larger controlled testing or clinical trials; (iii) manufacturing costs or other factors may make manufacturing of products impractical; (iv) proprietary rights of third parties or competing products or technologies may preclude commercialization; there can be no insurance that the Company will be successful in bringing early-stage technologies to market.

## **Market Acceptance and Reliance on Distributors to Market Products**

There can be no assurance that the Company's products, if approved, will gain market acceptance. The extent of physician and patient acceptance of the Company's products will depend on a number of factors including, but not limited to, availability of competitive treatments, the relative cost of competitive treatments and relative safety versus efficacy profile of competitive treatments. The success of the Company's marketing strategy will depend significantly upon its ability to establish strategic alliances and distributorship agreements for its products and on the ability of its distribution partners to market its products effectively. There can be no assurance that the Company will be successful in this regard.

## **Competition**

The market for the Company's products is very competitive. The Company's products may compete with products from large pharmaceutical and life sciences competitors who have longer operating histories, substantially greater financial, technical, marketing resources than the Company does. Moreover, most of the products sold by competitors from the pharmaceutical industry will benefit from reimbursement programs, which are not or may not be available to nutraceutical products.

In addition, competitors from the nutraceutical industry may develop similar products with alternate technologies and compete effectively against the Company. There can be no assurance that the Company will achieve and maintain a superior position in the market with its products.

## **Key Personnel**

Although the Company has experienced senior management and personnel, the Company is substantially dependent upon the services of a few key senior officers and scientific personnel for the successful operation of its business. The loss of the services of any of these personnel could have a material adverse effect on the business of the Company. Except for the President and CEO, the Company does not have key man insurance on the life of these personnel due to the prohibitive cost of such insurance.

## **Reliance on Contract Manufacturing**

The Company possesses no product manufacturing plant of its own and will depend upon contract processing for the fabrication of its products. The Company currently has access to a pilot production facility but such facility may not be used to achieve full scale production. The Company does not intend to build its own production facility and will have to rely on third-parties for its manufacturing needs for the foreseeable future. There can be no assurance that the Company will secure a production agreement or that such agreement will be secured on satisfactory terms. Moreover, any disruption, delay or production problem from its subcontractors may impair its ability to fulfil sales orders and have a material impact on its business or financial condition.

## **Raw Material Supply**

The Company is depending upon third party organizations regarding raw material supply. Even if the Company is trying to find new suppliers, it could be possible that these suppliers will not be able to supply with material, or to supply with material fully compliant with standards; delivery lead time and prices paid for these supplies could increase; the Company could also be unable to find other suppliers in a reasonable lead time. If one or another of these situations happens, there can be no assurance that the Company will be able to continue its commercialization; sales and profitability could then be negatively affected.

## **Intellectual Property and Licenses**

The success of the Company is based on its ability to protect its technology and its proprietary nutraceutical ingredients through patents and trade secrets. Nothing can guarantee that these measures will be sufficient to protect any illegal appropriation or infringement of its technology by a third party.

The Company may have to initiate proceedings in order to defend its intellectual property, commercial secrets and to determine the validity and range of third party rights, or to defend itself from claims of infringement or personal damages. Such procedures, whether successful or not, could entail significant costs and the diversion of the Company's resources. Moreover, a successful lawsuit against the Company could prevent it from exploiting its technology and restrict the use of its technology under licence in Canada, the United States and overseas, thus having a negative impact on the financial situation and results of the Company.

## **Management of Growth Strategy**

If the Company is unable to effectively manage its planned growth and expansion, its growth strategy could be negatively affected. Any inability to manage growth effectively could have a material adverse effect on the business, results of operations and financial condition of the Company.

## **Penetration of Markets and Continued Growth**

If the Company fails to further penetrate its core markets and existing geographic markets or successfully expand its business into new markets, the growth in sales of products, along with the operating results, could be negatively impacted. The Company's ability to further penetrate its core markets and existing geographic

markets in which it competes or to successfully expand its business into additional countries is subject to numerous factors, many of which are beyond the Company's control. The Company cannot assure that its efforts to increase market penetration will be successful. The Company's failure to do so could have an adverse effect on operating results.

### **Political and Economic Conditions in Geographic Markets**

A significant portion of the Company's sales is derived from its operations in foreign markets. As such, the Company is subject to certain risks arising from its international business operations that could be costly in terms of dollars spent, diversion of management's time, and revenues and profits, including: (i) difficulties and costs associated with staffing and managing foreign operations; (ii) unexpected changes in regulatory requirements; (iii) difficulties in compliance with a wide variety of foreign laws and regulations; (iv) changes in the international distribution network and direct sales forces; (v) political trade restrictions and exchange controls; (vi) political, social or economic unrest; (vii) inadequate and unreliable services and infrastructure; (viii) import or export licensing or permit requirements; and (ix) greater risk on credit terms and long accounts receivable collection cycles in some foreign countries.

## **INFORMATION DISCLOSURE CONTROLS AND PROCEDURES**

The preparation of the Annual 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 Annual 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)*

François Courteau, CA  
Vice-President and Chief Operating Officer  
April 7, 2008

# Management's Report

## Management's responsibility for financial reporting

The Financial Statements of Advitech Inc., which have been approved by the Board of Directors, were prepared by Management in accordance with Canadian generally accepted accounting principles and contain certain amounts based on best judgment and estimates as their final determination is dependant upon subsequent events. It is the opinion of Management that the accounting policies utilized are appropriate in the circumstances and are adequate for reflecting the financial position and the results of operations within reasonable limits of materiality. The financial information presented elsewhere in this Annual Report is consistent with the information contained in the Financial Statements.

In order to carry out its responsibilities with regard to the Financial Statements, Management maintains internal control systems that aim to provide a reasonable degree of certainty that transactions are duly authorized, that the assets are well protected, and that adequate records are kept.

The Board of Directors' Audit Committee, comprised solely of board members who are neither managers nor employees of the Company, ensures that Management assumes its responsibility in terms of Financial Statements. The functions of the Audit Committee are to:

- Review the Financial Statements and recommend them for approval by the Board of Directors;
- Review the systems of internal control and security;
- Recommend the appointment of the external auditors and their fee agreements to the Board of Directors;
- Review other accounting, financial and security matters as required.

This committee meets regularly with Management and the external auditors. The latter may, as they see fit, meet with the Audit Committee, with or without Management, to discuss matters affecting the audit and financial information.

The external auditors are appointed to report to the shareholders regarding the fairness of the presentation of the Company's Financial Statements. The auditors fulfil this responsibility by carrying out an independent audit of these statements in accordance with Canadian generally accepted auditing standards.

On behalf of Management,

*(signed)*

Renaud Beaudesne, MBA  
President and Chief Executive Officer  
April 4, 2008

*(signed)*

François Courteau, CA  
Vice-President and Chief Operating Officer  
April 4, 2008

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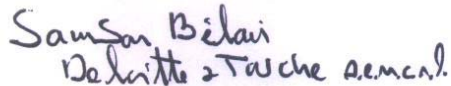
# Auditors' Report

To the Shareholders of **Advitech Inc.**

We have audited the balance sheets of Advitech Inc. as at December 31, 2007, and 2006, and the statements of earnings and comprehensive income, deficit, contributed surplus and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statements presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007, and 2006, and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.



Samson Bélair  
Deloitte & Touche s.e.n.c.r.l.

Samson Bélair / Deloitte & Touche s.e.n.c.r.l.  
Chartered Accountants  
Québec, March 7, 2008  
(Except for note 17 which is as at April 4, 2008)

## STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

Years ended December 31

	2007	2006
<b>Revenues</b>		
Products	\$ 1,016,961	\$ 595,441
Royalties	93,196	65,844
	<b>1,110,157</b>	<b>661,285</b>
<b>Operating Expenses</b>		
Cost of products	451,049	288,682
Royalties on products sales	46,309	-
Sales and administrative expenses	1,097,953	1,048,399
Research and development expenses, net of grants and tax credits	376,220	429,002
Financial expenses (notes 8 & 9)	408,762	173,531
Depreciation of fixed assets (note 5)	19,001	58,035
Amortization of intangible assets (note 6)	16,774	37,798
Stock-based compensation (note 10)	43,842	897
	<b>2,459,910</b>	<b>2,036,344</b>
<b>Net Loss</b>	<b>\$ (1,349,753)</b>	<b>\$ (1,375,059)</b>
<i>Further information on the earnings (note 15)</i>		
<b>Loss per share, basic and diluted (note 11)</b>	<b>\$ (0.02)</b>	<b>\$ (0.02)</b>

## STATEMENTS OF CONTRIBUTED SURPLUS

Years ended December 31

	2007	2006
<b>Balance, beginning of the year</b>	<b>\$ 875,964</b>	<b>\$ 681,642</b>
Warrants issued upon issue of the Units (note 10)	585,887	193,425
Equity component of renegotiated convertible debentures (note 9)	120,000	-
Stock-based compensation (note 10)	43,842	897
<b>Balance, end of the year</b>	<b>\$ 1,625,693</b>	<b>\$ 875,964</b>

## STATEMENTS OF DEFICIT

Years ended December 31

	2007	2006
<b>Balance, beginning of the year</b>	<b>\$ (9,986,726)</b>	<b>\$ (8,554,625)</b>
Changes in accounting policies (note 3)	44,894	-
Shares issue expenses (note 10)	(115,110)	(54,345)
Convertible debentures issue expenses (note 9)	(15,405)	(2,697)
Net loss	(1,349,753)	(1,375,059)
<b>Balance, end of the year</b>	<b>\$ (11,422,100)</b>	<b>\$ (9,986,726)</b>

The accompanying notes are an integral part of these financial statements

## BALANCE SHEETS

As at December 31

	2007	2006
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,158,459	\$ 601,375
Accounts receivable	591,973	170,140
Tax credits receivable	125,571	136,167
Inventories (note 4)	145,602	83,010
Prepaid expenses	39,798	43,553
	<b>2,061,403</b>	<b>1,034,245</b>
<b>Fixed assets (note 5)</b>	<b>43,552</b>	<b>55,055</b>
<b>Intangible assets (note 6)</b>	<b>137,057</b>	<b>147,613</b>
	<b>2,242,012</b>	<b>1,236,913</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Bank loan (note 7)	90,892	-
Accounts payable and accrued liabilities	267,103	482,634
Deferred revenues	15,727	10,000
Current portion of long-term debt (note 8)	48,907	22,349
	<b>422,629</b>	<b>514,983</b>
<b>Long-term debt (note 8)</b>	<b>187,884</b>	<b>196,692</b>
<b>Convertible debentures (note 9)</b>	<b>1,522,180</b>	<b>895,715</b>
	<b>2,132,693</b>	<b>1,607,390</b>
<b>Shareholders' equity</b>		
Share capital (note 10)	9,392,526	8,547,285
Contributed surplus	1,625,693	875,964
Equity component of convertible debentures (note 9)	513,200	193,000
Deficit	(11,422,100)	(9,986,726)
	<b>109,319</b>	<b>(370,477)</b>
	<b>\$ 2,242,012</b>	<b>\$ 1,236,913</b>

Commitments and guarantees (note 12)

The accompanying notes are an integral part of these 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

## STATEMENTS OF CASH FLOWS

Years ended December 31

	2007	2006
<b>OPERATING ACTIVITIES</b>		
Net Loss	\$ (1,349,753)	\$ (1,375,059)
Adjustments for items not affecting cash		
Stock-based compensation (note 10)	43,842	897
Interest charged & capitalized (notes 8 & 9)	155,938	60,246
Loss resulting from the renegotiation of debenture (note 9)	73,320	-
Depreciation of fixed assets (note 5)	19,001	58,035
Amortization of intangible assets (note 6)	16,774	37,798
	<b>(1,040,878)</b>	<b>(1,218,083)</b>
Change in non-cash working capital items		
Accounts receivable and prepaid expenses	(418,078)	257,337
Tax credits receivable	10,596	108,959
Inventories	(62,592)	(56,232)
Accounts payable, accrued liabilities and deferred revenues	(209,804)	(3,610)
	<b>(679,878)</b>	<b>306,454</b>
	<b>(1,720,756)</b>	<b>(911,629)</b>
<b>INVESTING ACTIVITIES</b>		
Additions to fixed assets	(7,498)	(455)
Increase in intangible assets	(45,020)	(45,955)
	<b>(52,518)</b>	<b>(46,410)</b>
<b>FINANCING ACTIVITIES</b>		
Increase in bank loan (note 7)	90,892	-
Repayment of long-term debt	(22,349)	(33,625)
Increase in long term debt (note 8)	38,202	200,000
Issue of Units (note 10)	1,406,128	515,800
Convertible debentures issue (note 9)	948,000	250,000
Convertible debentures and shares issue expenses (note 9 & 10)	(130,515)	(57,042)
Repayment of capital lease	-	(2,461)
	<b>2,330,358</b>	<b>872,672</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>557,084</b>	<b>(85,367)</b>
Cash and cash equivalents - beginning of period	601,375	686,742
<b>Cash and cash equivalents - end of period</b>	<b>\$ 1,158,459</b>	<b>\$ 601,375</b>
Additional information : Interest paid	\$ 119,920	\$ 90,958
<b>Cash and cash equivalents</b>		
Cash	\$ 73,459	\$ 476,375
Temporary investments	1,085,000	125,000
	<b>\$ 1,158,459</b>	<b>\$ 601,375</b>

The accompanying notes are an integral part of these financial statements

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## NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

### 1. 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.

### 2. ACCOUNTING POLICIES

#### Basis of presentation

The Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles and all amounts are expressed in Canadian dollars.

#### Use of estimates

The preparation of Financial Statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

#### Foreign currency conversion

Account balances and transactions denominated in foreign currencies are converted into Canadian dollars using the temporal method. Under the temporal method, monetary assets and liabilities are converted into Canadian dollars at the exchange rates in effect at the balance sheet date and non-monetary assets and liabilities are converted at historical rates. Revenues and expenses are converted at average rates prevailing during the year, except for amortization, which is converted at historical rates. Conversion gains and losses are reflected in net earnings.

#### Inventories

Raw materials are valued at the lower of cost and replacement cost. Finished goods are valued at the lower of cost and net realizable value. The cost of raw materials and of finished goods is determined using the first in-first out method. The cost of finished goods is composed of raw materials and costs related to sub-contractors.

#### Fixed assets

Fixed assets are recorded at cost. They are depreciated over their estimated useful life using the diminishing balance method at the following annual rates:

Research and development equipments:	20 %
Furniture and office equipments:	20 %
Computer hardware and software:	30 %

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## **Intangible assets**

Intangible assets consist of a license and patents and are recorded at cost. The cost includes professional fees and other direct costs incurred to secure them. Amortization is calculated over their useful life using the straight-line method and the following periods:

License:	10 years
Patents:	20 years

## **Impairment of long-lived assets**

Long-lived assets are tested for impairment when events or circumstances indicate that their carrying amount may not be recoverable. Impairment exists when carrying value exceeds the total undiscounted cash flows expected from use and eventual disposition of long-lived assets. The amount of the impairment if any is the excess of the carrying value over its fair value.

## **Financial instruments**

The Company adopted the recommendations of the Canadian Institute of Chartered Accountants regarding the classification of financial instruments as liability or equity. Accordingly, the value of the convertible debentures and long-term debts is split between a liability component and an equity component. The liability component is valued at a discounted amount of its nominal value. This value will be accreted to its face value over its term through charges to interest expense and, at maturity, this value will be equal to the nominal value of the debentures and long-term debts.

### *CLASSIFICATION OF FINANCIAL INSTRUMENTS*

#### **FAIR VALUE**

The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. Fair value is based on active quoted market rates (bid/ask) prices. If not, fair value is based on prevailing market prices for instruments with similar characteristics and risk profiles or internal or external valuation models using observable market based inputs.

#### **OTHER SHORT-TERM ASSETS AND LIABILITIES**

The fair value of other short-term assets and liabilities is approximately the same as the carrying value due to the short-term nature of these items.

#### **TRANSACTION COSTS ON FINANCIAL INSTRUMENTS**

Transaction costs related to financial assets classified as held-for-trading are recorded in income as incurred. Transaction costs related to liabilities classified as other financial liabilities are capitalized and amortized to income using the effective interest rate method.

#### **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of cash, payments in transit, and secured bank deposits that are highly liquid investments held for the purpose of meeting short-term cash commitments and are classified as held-for-trading. The change in fair value of these assets is recorded in the comprehensive income as a reduction of the financial expenses.

#### **DEBENTURES AND LONG-TERM DEBT**

The Company has chosen to classify its debentures and long-term debt as other liabilities. The debentures and the long-term debt are valued at cost using the effective interest rate method.

#### **RISKS**

The Company is exposed to various types of risks according to the nature of its operations, including risks related to the use of financial instruments. Controls have been put in place to manage the risks associated with the use of financial instruments, such as cash and cash equivalents, other short-term assets and liabilities including debentures and long-term debt. These controls include risk management policies and various risk limits. The primary risks to which the Company is exposed are described below:

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#### MARKET RISK

Market risk corresponds to the risk that the value of a financial instrument fluctuates due to the variation of parameters underlying their valuation, including interest rates and exchange rates.

#### INTEREST RATE RISK

Interest rate risk arises when fluctuations in market interest rates change the cash flows of the Company's investments, and do not equally affect the cash flows of the Company's liabilities.

#### CREDIT RISK

The use of financial instruments may lead to a credit risk that corresponds to the risk of financial loss resulting from a counterparty's inability or refusal to completely fulfill their contractual obligations. The Company's risk management policies include the assignment of risk ratings as well as a level of authorization according to the rating and the amount of the financial instrument placed with acceptable financial institutions such as secured bank deposits. Consequently, the Company manages credit risk in accordance with established investment policies. The Company establishes investment policies that are regularly reviewed, updated and approved by the Board of Directors. These policies define the credit risk limits according to the characteristics of the counterparties.

#### CONCENTRATION RISK

Concentration risk arises when investments are made with several entities with similar characteristics or when a substantial investment is made with a single entity. As at December 31, 2007, the accounts receivable of three clients represent 81% of total accounts receivable, representing 16%, 23% and 42% respectively for each of these clients.

#### ILLIQUIDITY RISK

Illiquidity risk represents the contingency that the Company is unable to gather the funds required to respect its financial obligations at the appropriate time and under reasonable conditions. The Company manages this risk so as to ensure that it has sufficient liquidity at all times to be able to honor its current and future financial obligations, in normal conditions and in exceptional circumstances. Financing strategies to ensure management of this risk include resorting to the capital markets, the issuance of equity or debt securities.

#### CURRENCY RISK

The Company realizes approximately 46% [10% in 2006] of its revenues in U.S. dollars and 39% [0% in 2006] in euros, and is thus exposed to foreign exchange fluctuations. The risk is partially offset by purchases in euros. As at December 31, 2007, the Company is exposed to the currency risk through its accounts receivable for an amount of \$179,642 [\$0 in 2006] and \$247,550 [\$0 in 2006] which have been respectively negotiated in US dollars and in euros. It is also exposed to the currency risk through its accounts payable and accrued liabilities for an amount of \$10,308 [\$7,062 in 2006] and \$15,946 [\$77,032 in 2006] which have been respectively negotiated in US dollars and in euros.

#### **Revenue recognition**

The Company recognizes product revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collection is reasonably assured. Royalties are recognized when a royalty report is provided by the Company's strategic partner and collection is reasonably assured.

#### **Research and development expenses**

All costs related to development activities, which do not meet generally accepted criteria for deferral, and research expenses are expensed as incurred. Development costs that meet the generally accepted criteria for deferral are capitalized, net of related tax credits and government grants, and amortized against earnings over the estimated benefit period. As at December 31, 2007, and 2006, the Company had not deferred any development costs.

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## **Government assistance and tax credits**

Government grants pertaining to operating expenses are recorded to earnings when the related expenses are incurred. Government grants pertaining to fixed assets are recorded as a reduction of the cost of the related asset acquired. Government grants are recorded when reasonable assurance exists that the Company has complied, and will continue to comply, with all the terms and conditions of the grant.

The Company incurs research and development expenditures which are eligible for tax credits. The tax credits recorded are based on management's estimates of amounts that should be recovered and are subject to an audit by the taxation authorities.

## **Stock-based compensation**

The Company accounts for the cost of stock options granted using the fair value method. According to this method, the cost of stock options is recorded as an expense and the corresponding amount is recorded in the Company's contributed surplus. Stock-based compensation expenses are amortized over the acquisition periods. Furthermore, all stock-based awards made to non-employees are also measured and recognized using the fair value method.

## **Income taxes**

The Company follows the liability method of accounting for income taxes. Under this method, future income taxes are recognized based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax basis, using the enacted and substantively enacted income tax rates for the years in which the differences are expected to reverse. A future income tax asset is recognized to the extent that it is more likely than not to be realized.

## **Loss per share**

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.

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

### **Changes in accounting policies starting January 1, 2007**

On January 1, 2007, the Company adopted the following sections of the Canadian Institute of Chartered Accountants (CICA) Handbook: section 1530 – Comprehensive Income, section 3251 – Equity, section 3855 – Financial Instruments, Recognition and Measurement, and section 3861 – Financial Instruments, Disclosures and Presentation. The prior year's comparative figures have not been restated.

#### *Financial instruments - Recognition and measurement*

Financial assets subject to the new standard are classified as one of the following: held-for-trading, available-for-sale, held-to-maturity and loans and receivables. Financial liabilities subject to the new standard are classified as held-for-trading or other financial liabilities. The new standard allows an entity to designate financial instruments as held-for-trading at the initial accounting or at the adoption of the standard, even if this financial instrument does not satisfy the definition of financial instruments held-for-trading. Financial instruments classified as held-for-trading under the fair value option should have a reliable fair value.

The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. Fair value is based on active quoted market rates (bid/ask) prices. If not, fair value is based on prevailing market prices for instruments with similar characteristics and risk profiles or internal or external valuation models using observable market based inputs.

*Comprehensive Income*

Following the adoption of these new accounting standards, the Company must present a statement of other comprehensive income. Other comprehensive income includes the net result and the other elements of the comprehensive income. Considering that the Company has classified all of short-term investments as “held for trading” and its long-term debts and convertible debentures in the category “other liabilities”, no variation element was classified in the other elements of the comprehensive income, consequently, net income (net loss) corresponds to the total of the comprehensive income.

*Impact of adopting these new standards*

The adjustments related to the classification of short-term investments as held for trading were nil and therefore, no adjustment was recorded in the deficit’s opening balance as at January 1, 2007. The adjustments due to the classification of the long-term debts and convertible debentures as “other” liabilities net of related transaction costs and amortized according to the effective interest rate method, were recorded in the deficit’s opening balance as at January 1, 2007. The result of this adjustment as at January 1, 2007 was a reduction in the deficit’s opening balance of \$44,894. Here is a summary of the effect of these new accounting standards on the opening balance:

	As at December 31, 2006	Adjustments	As at January 1, 2007
<b>ASSETS</b>			
Current assets	\$ 1,034,245	\$ -	\$ 1,034,245
Property, plant and equipment	55,055	-	55,055
Intangible assets and deferred costs	147,613	(38,802)	108,811
	1,236,913	(38,802)	1,198,111
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities	514,983	-	514,983
Long-term debt	196,692	(8,047)	188,645
Convertible debentures	895,715	(75,649)	820,066
	1,607,390	(83,696)	1,523,694
Shareholders' Equity	9,616,249	-	9,616,249
Deficit	(9,986,726)	44,894	(9,941,832)
	(370,477)	44,894	(325,583)
	\$ 1,236,913	\$ (38,802)	\$ 1,198,111

**Future changes in accounting**

In 2006 and 2007, the CICA issued four new accounting standards: Section 1535, Capital Disclosure, Section 3862, Financial Instruments – Disclosure, Section 3863, Financial Instruments – Presentation, and Section 3031, Inventories. These standards will be effective for the Company on January 1, 2008.

**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.

**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.

## 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 Company has not yet determined the impact that these new standards will have on its financial statements.

## 4. INVENTORIES

	2007		2006	
Finished goods	\$	94,438	\$	22,897
Raw materials		51,164		60,113
	\$	145,602	\$	83,010

## 5. FIXED ASSETS

	2007			2006		
	Cost	Accumulated amortization	Net value	Cost	Accumulated amortization	Net value
Research and development equipment	\$ 58,655	\$ 49,099	\$ 9,556	\$ 80,132	\$ 63,098	\$ 17,034
Furniture and office equipment	79,896	62,968	16,928	79,540	58,796	20,744
Computer hardware and software	72,036	54,968	17,068	177,895	160,618	17,277
	\$ 210,587	\$ 167,035	\$ 43,552	\$ 337,567	\$ 282,512	\$ 55,055

An amount of \$19,001 has been recorded as depreciation for 2007 [\$58,035 in 2006].

## 6. INTANGIBLE ASSETS

	2007			2006		
	Cost	Accumulated amortization	Net value	Cost	Accumulated amortization	Net value
Patents	\$ 71,570	\$ 6,329	\$ 65,241	\$ 33,807	\$ 2,736	\$ 31,071
License	114,648	42,832	71,816	107,392	29,652	77,740
	186,218	49,161	137,057	141,199	32,388	108,811
Deferred costs	-	-	-	146,326	107,524	38,802
	\$ 186,218	\$ 49,161	\$ 137,057	\$ 287,525	\$ 139,912	\$ 147,613

Following adoption of Section 3855 on January 1<sup>st</sup>, 2007, the net value of deferred costs as at December 31, 2006 has been capitalized and accounted against corresponding liabilities. These costs are now depreciated in accordance with the effective interest rate method (note 3).

## 7. BANK LOAN AND CREDIT FACILITIES

The Company has access to an authorized \$300,000 credit line secured by the accounts receivable. The amounts drawn against the credit line bear interest at prime rate plus 1.50%. As at December 31, 2007, the credit line was not used.

The Company has access to an authorized \$150,000 bank loan to finance a maximum of 75% of 2007 research and development tax credits receivable. The amounts drawn against this loan, bearing interest at prime rate plus 2.5%, are secured by the accounts receivable including research and development tax credits receivable. As at December 31, 2007, an amount of \$90,892 was drawn against this credit facility.

## 8. LONG-TERM DEBT

	2007	2006
Commercial loan, without interest, to be repaid in four equal annual consecutive payments from two years following the end of the project	\$ 38,202	\$ -
Participative loan, bearing interest at 12%, to be repaid in 48 equal payments from the 13th month following the closing date	177,651	200,000
Capitalized interest on the participative loan	17,014	19,041
Charged interest on the commercial loan	3,924	-
	<b>236,791</b>	<b>219,041</b>
Current portion of long-term debt	48,907	22,349
	<b>\$ 187,884</b>	<b>\$ 196,692</b>

The Commercial loan is authorized at \$100,000. As at December 31, 2007, \$85,515 was drawn against the Commercial loan. A \$47,313 government grant was recognized in regard of the fact the loan is interest free, and recorded against sales and marketing expenses. Interest expense on the Commercial loan is calculated using the effective interest rate method.

Capital repayments to be made on long-term debt within the next five years are as follows: \$48,907 in 2008, \$55,109 in 2009, \$83,477 in 2010, \$55,322 in 2011 and \$21,379 in 2012.

## 9. CONVERTIBLES DEBENTURES

	2007	2006
Convertible debentures, 12% interest, unsecured, maturing in February 2008 (renegotiated in April 2007)	\$ -	\$ 750,000
Convertible debentures, issued in June 2006, 12% interest, unsecured, maturing in June 2011	250,000	250,000
Convertible debentures, issued in February 2007, 12% interest, unsecured, maturing in January 2012	500,000	-
Convertible debentures, issued in March 2007, 12% interest, unsecured, maturing in January 2012	448,000	-
Convertible debentures, 12% interest, unsecured, maturing in June 2011 (renegotiated in April 2007)	725,000	-
Less : Equity component of convertible debentures	<b>(513,200)</b>	<b>(193,000)</b>
	<b>1,409,800</b>	<b>807,000</b>
Interest charged and capitalized on convertible debentures, and issue expenses	112,380	88,715
	<b>\$ 1,522,180</b>	<b>\$ 895,715</b>

In 2007, the Company issued 12% convertible debentures for a total of \$948,000. The debentures are convertible into common shares at the holders' option at a price per share of \$0.15, \$0.20, \$0.22, \$0.242 and \$0.266 for the first to fifth years respectively. The debenture is payable at the Company's option at any time without penalty. The debenture matures on January 31, 2012. From the issue date to August 31, 2007, interest was capitalized and will be payable at maturity. An amount of \$15,405 was accounted for as debenture issuance fees for the equity portion of the financial instrument and recorded under the deficit.

In 2007, the holders of the \$750,000 convertible debentures issued in 2004 maturing on February 1, 2008, agreed to set new maturity date to June 1, 2011 and a new conversion price schedule of \$0.15, \$0.20, \$0.22, \$0.242 and \$0.266 for the first to fifth years respectively. All other terms and conditions remained unchanged. Pursuant the Emerging Issues Committee Abstract – EIC-88 “Debtor’s Accounting for a Modification or Exchange of Debt Instruments”, management has determined that the replacement of the existing 2004 convertible debentures with the new convertible debenture constitutes an extinguishment of debt. As a result, a non-recurrent charge on extinguishment of debt of \$73,320 was accounted for as financial expenses in 2007.

In 2007, a \$25,000 convertible debenture issued in 2004 was converted at \$0.15 per share into 166,667 common shares (note 10).

## 10. SHARE CAPITAL

### Authorized

Unlimited number of shares.

Common Shares, voting, without par value.

Preferred Shares, without par value and issuable in series.

### Issued

	2007		2006	
	Number of shares	Amount	Number of shares	Amount
Outstanding common shares at the beginning of the year	61,247,318	\$ 8,547,285	54,799,818	\$ 8,224,910
Shares issued in connection with the issue of Units	11,717,734	820,241	6,447,500	322,375
Shares issued on debenture conversion	166,667	25,000	-	-
<b>Outstanding common shares at the end of the year</b>	<b>73,131,719</b>	<b>\$ 9,392,526</b>	<b>61,247,318</b>	<b>\$ 8,547,285</b>

### Issue of shares

In 2007, the Company closed a private placement of Units for \$436,128. Under the transaction, the Company issued 3,634,400 Units at \$0.12 per Unit. Each Unit includes a common share of the Company's share capital and a warrant (the “Units”). The yield of this issuance was distributed proportionally between the share capital and the contributed surplus according to the respective values of the shares and warrants issued, in keeping with the Black-Scholes option-pricing model. An amount of \$34,398 was accounted for as share issuance fees and recorded under the deficit.

In 2007, the Company closed a private placement of Units with S.E.C. AgeChem for \$970,000. Under the placement, Advitech issued 8,083,334 Units at \$ 0.12 per Unit. Each Unit includes a common share of the Company's share capital and a warrant (the “Units”). The yield of this issuance was distributed proportionally between the share capital and the contributed surplus according to the respective values of the shares and warrants issued, in keeping with the Black-Scholes option-pricing model. An amount of \$80,712 was accounted for as share issuance fees and recorded under the deficit.

On September 7, 2007, the Company issued 166,667 common shares upon conversion of a \$25,000 convertible debenture issued in 2004 (note 9). The issue is not shown in statements of cash flows since it is not a monetary operation.

### Stock options plan

The Company has a Stock Options Plan (the "Plan") reserving for issue 5,400,000 common shares. Under the Plan, the Board of Directors may grant, at its discretion, options to purchase shares to certain employees, officers, directors and consultants of the Company. The exercise price is established by the Board of Directors.

The Company's outstanding stock options as at December 31, 2007 and 2006 and changes that occurred during the years then ended are as follows:

	2007		2006	
Stock options plan	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of the year	3,110,262	\$ 0.21	3,863,476	\$ 0.22
- Granted	589,000	0.20	560,000	0.15
- Cancelled	(398,166)	0.19	(1,313,214)	0.21
<b>Outstanding, end of the year</b>	<b>3,301,096</b>	<b>\$ 0.21</b>	<b>3,110,262</b>	<b>\$ 0.21</b>
<b>Exercisable, end of the year</b>	<b>2,469,598</b>	<b>\$ 0.22</b>	<b>1,741,429</b>	<b>\$ 0.23</b>

The following table summarizes information relating to the stock options outstanding as at December 31, 2007:

	Outstanding options as at December 31, 2007		Exercisable options as at December 31, 2007	
Stock options plan	Number of options	Weighted average remaining life (years)	Number of options	Weighted average remaining life (years)
- Exercisable price \$ 0,15	608,906	2.5	361,574	1.6
- Exercisable price \$ 0,20	665,190	4.0	151,190	2.6
- Exercisable price \$ 0,22	751,000	2.1	680,834	2.1
- Exercisable price \$ 0,25	1,276,000	1.5	1,276,000	1.5
	<b>3,301,096</b>	<b>2.3</b>	<b>2,469,598</b>	<b>1.8</b>

During the year ended December 31, 2007, the Company granted 589,000 options [560,000 in 2006] to certain employees, directors and consultants. The fair value of each granted option was determined using the Black-Scholes option pricing model and the following weighted average assumptions:

	<b>2007</b>
Risk-free interest rate	4.03%
Expected volatility	132%
Expected life	5 years
Expected dividend yield	0%
Fair value of granted options	\$0.10

The stock-based compensation expenses pertaining to the options granted have been amortized using the graded vesting method. A compensation expense of \$43,842 was recorded in 2007 [\$897 in 2006].

## Warrants

As part of the private offering completed in 2007, the Company issued 3,634,400 common shares purchase warrant entitling its holder to purchase one additional common share at the price of \$0.20 per share until March 28, 2008 and at a price of \$0.25 per share until March 31, 2009. As part of the private placement completed in 2007, the Company issued 8,083,334 common shares purchase warrant entitling its holder to purchase one additional common share at the price of \$0.17 per share until April 30, 2008, then at \$0.19, \$0.21, \$0.23 and \$0.253 for the second, third, fourth and fifth years from the closing date, respectively.

The warrant's fair market value of \$585,887, in accordance to the Black-Sholes option pricing model based on the following weighted average assumptions, was recorded in contributed surplus:

	<b>2007</b>
Risk-free interest rate	4.07%
Expected volatility	142%
Expected life	4 years
Expected dividend yield	0%
Fair value of granted options	\$0.05

The following table presents Company's outstanding warrants as at December 31, 2007 and 2006:

Warrants	2007		2006	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Warrants issued in connection with the Units Offering of December 2006 maturing in average in 1.0 year	6,447,500	\$ 0.15	6,447,500	\$ 0.15
Warrants issued in connection with the Units Offering of March 2007 maturing in average in 1.2 year	3,634,400	0.20	-	-
Warrants issued in connection with the Units Offering of April 2007 maturing in average in 4.3 years	8,083,334	0.17	-	-
<b>Outstanding, end of the year</b>	<b>18,165,234</b>	<b>\$ 0.17</b>	6,447,500	\$ 0.15
<b>Exercisable, end of the year</b>	<b>18,165,234</b>	<b>\$ 0.17</b>	0	\$ -

## 11. LOSS PER SHARE

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

	2007		2006	
Net loss	\$	(1,349,753)	\$	(1,375,059)
Weighted average number of outstanding shares - basic and diluted		69,529,113		55,011,791
<b>Net loss per share basic and diluted</b>	<b>\$</b>	<b>(0.02)</b>	<b>\$</b>	<b>(0.02)</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.

## 12. COMMITMENTS AND GUARANTEES

In 2007, the Company entered into a three years term lease expiring in June 2010 for administrative offices. The Company is also party to a lease regarding research laboratories expiring in December 2008.

The Company holds an exclusive license agreement with a third party regarding a technology and its patents, for the development and commercialization of its products. The agreement will end in 2013. The Company has an option to extend the term for the remaining related patents duration. The Company agreed to pay a royalty on all products sold derived from the underlying technology.

The Company is party to an agreement with a university institution regarding a research project for which it has agreed to contribute in cash as well as in-kind contributions. The agreement will expire on December 31, 2008.

In 2007, the Company entered into an agreement with a subcontractor regarding some services to be performed in 2008 for which the Company agrees to pay professional fees.

The Company's future total cash and in-kind commitments, for the next three years, amount to \$236,753 in 2008, \$61,743 in 2009 and \$30,872 in 2010.

## 13. INVESTMENT TAX CREDITS RECEIVABLE

The amounts recorded as research and development tax credits receivable are related to amounts claimed which have not yet been subject to a review by the tax authorities. In case of differences between the amounts claimed by the Company and the amounts granted by the tax authorities, any adjustment will be recorded during the year in which they are determined.

## 14. UNREALIZED TAX BENEFIT

As at December 31, 2007, the tax losses that can be carried forward are as follows:

<u>Year of expiration</u>	<u>Federal</u>	<u>Provincial</u>
Tax loss expiring in 2008	\$ 267,000	\$ 259,000
Tax loss expiring in 2009	1,603,000	1,101,000
Tax loss expiring in 2014	137,000	175,000
Tax loss expiring in 2014	651,000	644,000
Tax loss expiring in 2015	1,193,000	1,180,000
Tax loss expiring in 2026	1,083,000	1,070,000
Tax loss expiring in 2027	902,000	882,000
	<u>\$ 5,836,000</u>	<u>\$ 5,311,000</u>

In addition to its carried forward tax losses, the Company has capital losses that can be carried forward to reduce future taxable capital gains for \$347,000.

As at December 31, 2007, in addition to these carried forward tax losses, the Company has unclaimed research and development expenses (\$2,301,000 at the federal level and \$3,562,000 at the provincial level), \$338,000 of financing costs that can be carried forward to reduce future taxable income, and \$481,000 in additional tax credits, representing the non-refundable and unrecorded portion of the federal tax credit. Furthermore, the undepreciated capital cost of fixed assets for tax purposes is \$827,000 at the federal level and \$943,000 at the provincial level (net book value of \$180,609). The unrealized tax benefit, estimated at \$2,602,000 and related to these losses carried forward and undeducted expenses, has not been recorded.

## 15. FURTHER INFORMATION ON THE EARNINGS

	2007	2006
<b>Sales and marketing expenses</b>		
Government assistance (note 8)	\$ 47 313	\$ 7 247
<b>Research and development expenses</b>		
Government assistance	\$ 42 470	-
SR&ED tax credits	\$ 137 963	\$ 148 725
<b>Financial expenses</b>		
Foreign exchange loss	\$ 23 840	\$ 10 467
Interest revenues	\$ 48 497	\$ 12 807

## 16. SEGMENT INFORMATION

Revenues	2007	2006
Canada	\$ 157,069	\$ 471,945
United States	419,659	67,114
Europe	428,943	-
Other countries	104,486	122,226
	\$ 1,110,157	\$ 661,285

Revenues are allocated to geographic regions based on where the client is located, excepted for one client located in Canada with whom the Company signed a distribution agreement exclusively for the territory of the US. For both this client and distribution agreement, revenues are allocated to the US.

Moreover, during the year, sales made to two customers represent approximately 81% of the Company's revenues, representing 42% and 39% respectively. During the year 2006, sales made to two customers were approximately 89% of the Company's revenues, from which 71% was for one of them.

## 17. SUBSEQUENT EVENT

On April 4, 2008, the Company accepted a financing offer from BMO for a \$500,000 bank loan, bearing interest at prime rate plus 2.25%, repayable over 48 months. The loan will be secured by the Company's assets and by a guarantee from Investissement Quebec.

## 18. 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>2</sup>  
President and COO  
Desjardins Securities inc.

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

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

André Lemire, B.Sc.Soc. (Econ)<sup>1</sup>  
Corporate Director

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

<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

## 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

## MANAGEMENT TEAM

Renaud Beauchesne, MBA  
President  
Chief Executive Officer

François Courteau, CA  
Vice-President  
Chief Operating Officer

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

Luc Clouâtre  
Vice-President  
Business Development, Sales and  
Marketing

Christian Labbé, BAA  
Financial Director

## ASSOCIATE RESEARCHERS

Dr Sylvie Gauthier, Ph.D.  
Professor  
Laval University, Québec, Canada

Dr Yves Pouliot, Ph.D.  
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## WEBSITE

[www.advitech.com](http://www.advitech.com)

## ANNUAL MEETING

The Annual General Meeting of  
Shareholders will be held on  
Thursday, May 8, 2008 at 4:00 PM  
at hotel Germain-des-Prés,  
Rochette Nadeau room, 1200,  
avenue Germain-des-Prés, Québec  
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## AUDITORS

Samson Bélair/Deloitte & Touche  
Chartered Accountants  
925, Grande-Allée West  
Québec (Qc) G1S 4Z4  
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## LEGAL COUNSEL

McCarthy Tétrault s.e.n.c.r.l./s.r.l.  
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## TRANSFER AGENT

Computershare  
1500, University Street  
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Montréal (Qc) H3A 3S8  
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## STOCK REGISTRATION

TSX Venture Exchange  
Stock Symbol: AVI

## INVESTOR RELATIONS

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