

ARTEVO CORPORATION
Management Discussion and Analysis
For the year ended September 30, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following restated Management's Discussion and Analysis ("MD&A") was prepared on September 2, 2009 and is management's assessment of the Corporation's financial and operating results for the year ended September 30, 2008. This MD&A should be read in conjunction with the restated audited consolidated financial statements as at September 30, 2008 and the notes related thereto.

Additional information on the financial statements, this MD&A and other factors that could affect the Corporation's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com), or at the Corporation's website (www.artevo.com). Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and the Corporation does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws. All dollar figures included herein and in the following MD&A are quoted in Canadian dollars.

READER ADVISORIES

Forward Looking Statements

Information provided herein contains estimates and assumptions which management is required to make regarding future events and may constitute forward-looking statements within the meaning of applicable securities laws. Forward looking statements may include estimates, plans, expectations, opinions, forecasts, projections, guidance or other statements that are not statements of fact. Although the Corporation believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will be realized. The use of any of the words "anticipate", "believe", "continue", "estimate", "expect", "forecast", "may", "will", "project", "plan", "should", and similar expressions are intended to identify forward-looking information. These statements are subject to certain risks and uncertainties and may be based on assumptions that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements. The risks associated with these forward-looking statements include, but are not limited to, the following:

- *Changes in foreign currency exchange and interest rates;*
- *Ability to obtain adequate financing;*
- *Competitive actions taken by other companies;*
- *Actions taken and policies created by governmental or regulatory authorities.*

Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and the Corporation does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws. The Corporation's forward-looking statements are expressly qualified in their entirety by this cautionary statement.

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CORPORATION OVERVIEW

Artevo Corporation (“Artevo” or the “Corporation”) is a Corporation focused on procurement, marketing, production and distribution of original and reproduced fine art, such as images, blown glass, sculpture, and collectable fine art. On May 30, 2008 Artevo amalgamated with Power Play Art Ltd. (“PPAL”), a private Alberta corporation incorporated on February 29, 2000, which constituted the Qualifying Transaction for Artevo pursuant to the policies of the TSX Venture Exchange, which received regulatory approval on June 23, 2008. As Artevo CPC and PPAL were under common control prior to the Qualifying Transaction, the accompanying financial statements to this MD&A represent a continuation of both companies under the continuity of interest accounting. All historical references to Artevo or the Corporation include the operations of PPAL and Artevo combined.

Artevo has a wholly owned subsidiary, Power Play Events Ltd. (operating as Abstract Events) that provides hospitality related event management services. Artevo also owns 50% of the outstanding shares of SMIF Holdings Inc., a private company that owns real estate currently leased by Artevo in the City of Calgary.

Throughout its history, the Corporation has primarily focused on establishing relationships with credentialed artists from around the world. Its business model is based on purchasing original fine art works, establishing licensing agreements for reproduction of these works, and building the Artevo brand. Artevo does not follow the historic art gallery business model where works are taken on consignment, sold, and followed by a continued consignment relationship with the artist where additional works are taken and offered for sale. Artevo is interested in establishing relationships with many of the world’s most popular artists to both promote their careers and to secure the intellectual property rights to their works. This will allow the Corporation to capitalize on giclée technology, which allows high quality reproductions which can then be sold and distributed.

The Corporation operates from a primary location in Calgary, Alberta; a 20,000 square foot heritage building known as the Artevo “Artists of the World” Gallery in the city’s art district. In June of 2008 the Corporation opened its second stand-alone gallery in downtown Victoria, B.C.; a 1,750 square foot retail space in the historic Bay Centre development. Artevo operates its Prelude Framing division from a 12,000 square foot production facility in Calgary from where giclée production, art framing, and order fulfillment business is conducted.

Artevo operates its business through four vertically integrated operating units:

- Artevo Galleries – The Calgary and Victoria galleries are traditional retailers of fine art. The galleries’ primary purpose is to provide valuable branding and a conventional method for the consumer to purchase art. The galleries also provide venues for its Abstract Events business to host events.
- Prelude Framing and Production – Prelude supplements the Artevo galleries and its website by providing a state-of-the-art giclée production facility, and adds value to the Artevo products through framing. Prelude also operates a store front location where it provides framing services to retail consumers and commercial clients.
- Abstract Events – Abstract Events capitalizes on the attractiveness of the Artevo galleries in order to provide venues for business, charity, hospitality, and art related events. This business is forefront to the Corporation’s overall plan to hold art related events and launch the careers of the next great artists. It also provides additional exposure to the Artevo brand to consumers.
- www.artevo.com – Artevo’s web portal is a fully curated, interactive e-commerce art resource for Artevo galleries and third party dealers. The website currently has over 4,000

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fine art items listed, created by over 160 artists who are on exclusive or semi-exclusive contracts with the Corporation. The website has numerous features, many of which are unique in the fine art industry, and are distinctly changing the way fine art is available to galleries, agents and consumers. In addition to the ability for the supply chain to interact on a commercial basis, features within www.artevo.com also provide opportunities for the art community to interact through a centralized social networking site which will include competitions and online promotions.

Artevo plans to expand its retail operations through the opening of two new galleries. A new gallery in Toronto, Ontario is expected to open in April 2009, with an additional gallery in Santa Monica, California contemplated for February 2010. The objective to opening galleries in these high profile locations is not only to provide additional revenue streams to the Corporation through conventional art sales and provide additional events venues, but to enhance the Artevo brand, attracting consumers to its web space.

SELECTED ANNUAL INFORMATION

The following table sets out selected financial information of the Corporation derived from its consolidated financial statements and should be read with in conjunction with such consolidated financial statements and related notes.

Year Ended	September 30, 2008	September 30, 2007	September 30, 2006
Revenue	3,528,562	2,504,147	2,370,677
Art Sales	1,344,960	1,214,915	1,492,975
Prelude Framing	715,206	675,453	496,616
Abstract Events	1,396,013	499,002	239,169
Other Income	72,383	114,777	141,917
Net Loss and Comprehensive Loss	(3,125,176)	(2,431,100)	(1,418,342)
Net Loss per common share			
Basic and Fully Diluted	(0.10)	(0.10)	(0.08)
Total Assets	7,735,616	7,077,465	6,789,891
Total Long Term Financial Liabilities	5,853,803	2,538,732	1,733,513
Cash Dividends Declared per Share	-	-	-

Current period annual information has been restated to show the effect of the restatement outlined in note 21 to the September 30, 2008 restated consolidated financial statements.

Prior period annual information has been restated to show the effects of the restatements outlined in note 20 to the September 30, 2008 consolidated financial statements.

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OVERALL PERFORMANCE

During the year ended September 30, 2008, Artevo made significant progress in expanding its owned art inventory and securing licensing agreements to enable itself to produce high quality giclée reproductions and market itself to an expanding art audience. It has also secured high traffic locations for its planned new art gallery locations, which will enable it to establish its brand across a larger consumer base. During the year, its Abstract Events business established itself as being one of the premier events hosting companies in Calgary attracting new corporate, charity, and hospitality events business.

Highlights of the year ended September 30, 2008 included the amalgamation of PPAL and Artevo CPC to form Artevo Corporation (effectively taking the company public), raising over \$4,000,000 by way of convertible debentures, achieving the goal of increasing overall revenues by 43% year over year, and securing strategic relationships with brands such as Dr. Seuss and Aeroplan. During 2008, Artevo supplemented its growing artist base by entering into relationships with internationally collected artists such as Fabian Perez and Marta Wiley.

Management considers that the revenue generated since inception was incidental, as they are primarily Calgary based and only include sales of fine art, framing, and events services. With many one time costs associated with initial development in the past, Artevo is now beginning to implement its various planned revenue streams that are directed towards the much larger North American market.

During the first three quarters of the year, substantial time and effort was spent on taking the Corporation public and continuing to finance its operations. This took away from potential revenue generating activities, as management was focused on the Qualifying Transaction and raising capital. Accordingly, activity relating to enhancing the performance of its existing galleries during the period was not its primary focus.

Revenue

Revenue, which includes sales of fine art, framing, and events management totalled \$3,528,562 for the fiscal year ended September 30, 2008, an increase of 41% over the prior year's total of \$2,504,147, primarily as a result of the increase in Abstract Events revenue.

An increased focus on Abstract Events resulted in events revenue of \$1,396,013 during the year ended September 30, 2008 as compared to \$499,002 in the prior year, an increase of 180%. This was accomplished by increasing marketing activities in order to more fully utilize the capacity of the galleries to host events. In 2007, events revenue represented only venue rental. In 2008, efforts were expended to transform the business into a full service events company providing planning, catering, bar services and entertainment. Artevo regards this increase as a positive indicator of the incremental revenue that can be generated from more fully utilizing existing gallery space.

Art sales were \$1,344,960 in the year ended September 30, 2008, an increase of 11% from \$1,214,915 in the prior year. This modest growth has been promising considering the depressed market conditions during the latter half of the year ended September 30, 2008. The addition of the Victoria location in June of 2008 contributed an additional \$112,282, representing 8% of total revenue from art sales. As this location was in the development stage, its contribution is considered to be a good start in helping establish the Artevo brand, as the Victoria location begins to service the tourism industry with high quality works with healthy margins.

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Framing revenues increased 6% to \$715,206 in the year ended September 30, 2008 from \$675,453 in the year ended September 30, 2007. This revenue is primarily generated by supplying framing services to the hospitality and corporate industry, supplemented by store front retail sales. The year over year revenue growth is attributed to Prelude's increased penetration into the hospitality market.

Other revenues are generated mainly from events sponsorship and art placement arrangements, and decreased 37% to \$72,383 in the year ended September 30, 2008 as compared to \$114,777 in the year ended September 30, 2007. This decrease is due to the planned reduction in the number of art and artist related promotional events as management's focus was directed towards taking the company public and raising capital.

Gross Profit

Gross profit was \$1,911,022 or 54% of revenue in the year ended September 30, 2008 as compared to \$1,119,843 or 45% of revenue in the comparative period, representing an increase of \$791,179, or 9% as a percentage of revenue. The higher gross margin in the year ended September 30, 2008 was attributable to a significant inventory adjustment which occurred in 2007. This adjustment has been explained in note 20 to the September 30, 2008 consolidated financial statements.

Gross profit was considered to be adequate in the current year, however, we believe the results in subsequent periods will result in higher margins as we increase sales of giclée items, capitalizing on the technological advancements the Corporation has made through product enhancement and production at a lower cost.

Selling, General & Administrative Expenses

Selling, general and administrative (SG&A) expenses were \$2,948,425 or 84% of revenue during the year ended September 30, 2008 as compared to \$2,183,846 or 87% of revenue during the year ended September 30, 2007, an increase of \$764,579, but a decrease of 3% as a percentage of revenue. The increase in gross dollars is attributed to the Artevo amalgamation and further development of the business model. Additional salaries and marketing expenses were incurred relating to the addition of the Victoria gallery and additional Abstract Events staff required to develop into a full service events management business.

During the year, management increased its focus on controlling costs that are not directly associated with sales activity; however the amalgamation between Artevo and PPAL and the related activities of taking the company public were a significant distraction and had a noticeable impact on the cost of doing business.

The Corporation has implemented changes that will decrease its overall selling, general and administrative expenses as a percentage of revenue. These include renegotiations on sales commissions combined with marketing initiatives that are better aligned with current market conditions.

Amortization

Amortization on assets owned or under capital lease was \$606,638 or 17% of sales for the year ended September 30, 2008 compared to \$433,292 in the year ended September 30, 2007, also 17% of revenue. This was due primarily to the increase in assets owned by the Corporation with

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higher rates of amortization, such as the Corporation's investment in their website and the commencement of amortization of its giclée production template library begun concurrent with the rebranding and launch of the website, which occurred at the date of amalgamation of Artevo and PPAL on May 30, 2008.

The Corporation expects amortization to increase as additional capital expenditures associated with the ongoing development of the website and related technologies necessary to support its development are incurred, and as additional assets are purchased to expand the physical business into new markets.

Operating Expenses

Operating expenses include building rents, office and general, insurance, and repairs and maintenance expenses. Operating expenses were \$829,927 or 24% of revenue in the year ended September 30, 2008 as compared to \$570,231, also 23% of revenue in the prior comparative period. This represents an increase of 46% in gross costs over the prior year. This is in line with expectations, as the addition of the new Victoria gallery brought with it additional operating expenses.

Stock-Based Compensation

Stock-based compensation expense was \$153,117 or 4% of revenue during the year ended September 30, 2008 compared to \$80,887 or 3% of revenue in the comparative period. The increase in stock-based compensation expense was due primarily to the issuance of 1,272,481 stock options to employees on the completion of the Qualifying Transaction. These options vest one third every six months at an exercise price of \$0.20 per stock option, expiring five years from the date of issuance. In addition, 300,000 options were issued to the sponsor of the Qualifying Transaction and vested immediately at an exercise price of \$0.20 per share on which the stock-based compensation was charged directly against share capital.

The Corporation also issued 100,000 stock options to employees during the year which vest over two years beginning on the first anniversary date, have an exercise price of \$1.00 per share and expire in either four or five years.

100,000 options were also issued to directors during the year which vest over two years beginning on the first anniversary date, have an exercise price of \$0.10 per share, and expire in September 2013. Subsequent to year end, 50,000 stock options with the same terms were issued to another director of the Corporation.

The weighted-average assumptions used in the Black-Scholes model to calculate the fair value of these and other stock options issued during the years are as follows:

	2008	2007
Expected option life (years)	4.5	4.8
Risk-free interest rate	3.40%	4.09%
Expected stock volatility	131%	0%
Expected annual dividends per share	-	-
Weighted-average fair value of options granted during the years	\$ 0.15	\$ 0.14

Additional information on stock options issued during the year can be found in note 11 to the September 30, 2008 consolidated financial statements.

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Interest Expense

Interest expense was \$534,581 or 15% of revenue for the year ended September 30, 2008 compared to \$215,036 or 9% of revenue in the year ended September 30, 2007, an increase of 144% in interest expense, or an increase of 6% as a percentage of revenue. Increased interest expenses for the year ended September 30, 2008 are primarily attributable to interest paid on convertible debentures.

The Corporation acknowledges that as it continues to raise capital through the issuance of interest bearing debt, its interest expenses will become more burdensome. This situation would be effectively eliminated should the existing convertible debentures issued by the Corporation convert to common shares in accordance with the terms of those instruments. At present, it is not expected that these debentures will convert due to the excess of the conversion price over the current market price of its common shares. The impact of future interest payments and related debt issuances is discussed in the liquidity and capital resources section below.

Net and Comprehensive Loss

The Corporation realized a net and comprehensive loss of \$3,125,176 for the year ended September 30, 2008 (\$0.10 per share) compared to a loss of \$2,431,100 in the prior comparative period (\$0.10 per share), an increase of \$694,076. The increased overall expenses associated with developing the business during this phase of the Corporation's growth cycle and expenses associated with the amalgamation of Artevo CPC with PPAL were significant factors contributing to the operating losses during the year ended September 30, 2008. The Corporation's focus in the immediate term is to implement additional revenue streams throughout North America which are expected to result in increased revenues and margins, and to generate positive operating cash flows from existing operations.

SUMMARY OF QUARTERLY RESULTS

Quarter Ended	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007
Total Revenue	977,853	885,793	706,755	958,161
Art Sales	484,867	259,979	211,112	389,002
Prelude Framing	167,636	139,870	218,678	189,022
Abstract Events	323,087	465,003	271,910	336,013
Other Income	2,263	20,941	5,055	44,124
Net and Comprehensive Loss	(1,025,720)	(854,973)	(894,909)	(349,573)
Net Loss per common share				
Basic and Fully Diluted	(0.03)	(0.03)	(0.03)	(0.01)
Total Assets	7,735,616	7,412,677	6,744,783	6,866,832
Total Long Term Financial Liabilities	5,853,803	5,557,121	3,827,144	3,611,788

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Quarter Ended	September 30, 2007	June 30, 2007	Prior period information unavailable*	Prior period information unavailable*
Total Revenue	547,109	592,896		
Net and Comprehensive Loss	(538,167)	(621,304)		
Net Loss per common share				
Basic and Fully Diluted	(0.02)	(0.02)		
Total Assets	7,077,465	6,637,286		
Total Long Term Financial Liabilities	2,538,732	1,606,440		

Quarterly reporting was not available until the three months ended June 30, 2007. Prior to the three months ended December 31, 2007, management did not analyze revenue by product or service line.

The three month periods ended September 30, 2008 and June 30, 2008 have been restated to show their respective portions of the restatement outlined in note 21 to the September 30, 2008 restated consolidated financial statements.

The three month periods ended September 30, 2007 and June 30, 2007 have been restated to show the effects of the restatements outlined in note 20 to the September 30, 2008 consolidated financial statements.

Seasonality

As Artevo's customer base is broadly end-consumer based, it is affected by seasonality to much the same extent as most other retail businesses. The three months ending December 31 tends to be the strongest quarter as the events business caters to corporate holiday parties supplemented by strong art sales. The three month periods ending March 31 and September 30 tend to be the slowest quarters as consumers recover from the Christmas period and take their summer holidays. The three months ending June 30 have historically been moderate as the market returns to spending after the holiday season.

The following table provides a summary of the three months ended September 30, 2008 and 2007:

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	September 30, 2008 (restated)	September 30, 2007
Revenue	\$ 977,853	\$ 547,109
Cost of sales	426,859	403,820
Gross profit	550,994	143,289
Selling, general and administrative expenses	782,251	431,428
Amortization	228,600	106,309
Operating expenses	285,260	75,502
Stock-based compensation	72,710	13,523
Interest expense	226,918	72,156
Loss before minority interest	(1,044,745)	(555,629)
Minority interest	19,025	17,465
Net and comprehensive loss for the period	\$ (1,025,720)	\$ (538,164)

The three month period ended September 30, 2008 has been restated to show its portion of the effect of the restatement outlined in note 21 to the September 30, 2008 restated consolidated financial statements.

The three month period ended September 30, 2007 has been restated to show its portion of the restatements described in note 20 to the September 30, 2008 consolidated financial statements.

Revenue

Total revenue in the three month period ended September 30, 2008 (Q4 08) was \$977,853 as compared to \$547,109 in the three month period ended September 30, 2007 (Q4 07), an increase of 79%. The increase in revenue over the prior period is due to significant increase in events related revenues and the contribution of \$109,835 from sales at the Victoria gallery which did not exist in the prior comparative period.

Gross Profit

Gross profit was \$550,994 or 56% of revenue in Q4 08 as compared to \$143,289 or 26% of revenue in the three month period ended September 30, 2007. This increase was due to the significant inventory adjustment described in note 20 to the September 30, 2008 consolidated financial statements that occurred in Q4 07.

Selling, General, and Administrative Expenses

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Selling, general, and administrative expenses were \$782,251 or 80% of revenue for the three month period ended September 30, 2008 as compared to \$431,428 or 79% of revenue for the prior comparative period. This represents an increase of \$350,823 or 82% over the prior comparative period and an increase of 1% as a percentage of revenue. The increase in gross SG&A expenses is attributable to the increased activities of Abstract Events, the addition of the Victoria gallery, and salary increases in order to compensate staff at levels comparable to other public companies.

Amortization

Amortization expense was \$228,600 or 23% of revenue for the three month period ended September 30, 2008, a 115% increase over the prior year comparative period's amortization expense of \$106,309 or 19% of revenue. Amortization of the giclée production template library began in June 2008, contributing to most of the increase. The remaining increase over the prior period is due to the addition of the Victoria gallery's assets and the increased level of website development costs.

Operating Expenses

Operating expenses were \$285,260 or 29% of revenue for the three month period ended September 30, 2008 as compared to \$75,502 or 14% of revenue in Q4 07, an increase of \$209,758 or 278%. Operating expenses increased due to additional events activity and the addition of the Victoria gallery.

Stock-Based Compensation

Stock-based compensation expenses for the three month period ended September 30, 2008 were \$72,710 or 7% of revenue as compared to \$13,526 or 2% of revenue in the prior comparative period. The additional stock based compensation expense is primarily attributable to the amortization expense related to the large stock option grant to employees that occurred upon completion of the Qualifying Transaction.

Interest Expense

Interest expense was \$226,918 or 23% of revenue for the three months ended September 30, 2008, an increase of 214% from \$72,156 or 13% of revenue in Q4 07. Interest costs increased due to the expense associated with the increased number of convertible debentures outstanding over the prior comparative period.

Net and Comprehensive Loss

Net and comprehensive loss for the three month period ended September 30, 2008 was \$1,025,720 as compared to \$538,167 for the prior comparative period, an increase of 91%. Increased interest expense, amortization of the giclée production template library and increased salaries contributed to the increased loss.

LIQUIDITY AND CAPITAL RESOURCES

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The primary sources of funding for the Corporation has been cash generated through the sale of common shares and convertible debt instruments. It is expected that in order for Corporation to execute its business plan, the continued issuance of common shares and attractive debt will be its primary source of funding until the Corporation begins to generate positive cash flow from operations.

Cash flows used in operating activities totalled \$3,054,227 for the year ended September 30, 2008 compared to \$1,034,514 in FY 07, an increase of 195%. The increase in the operating cash out flow year over year is due primarily to costs incurred with respect to inventory purchasing, continuing research into improving giclée reproduction technology, and increased salaries relating to headcount and salary levels. As the Corporation increases its capacity to reproduce art and distribution according to its business plan, cash flows provided by operations are expected to become positive.

Cash flows from financing activities for the year ended September 30, 2008 were \$3,783,336 compared to \$1,574,360 for the year ended September 30, 2007, an increase of 140%. The largest source of funding in the year ended September 30, 2008 was the sale of convertible debentures. Funds from financing activities have been used to advance plans on new revenue streams and galleries, acquire art inventory, improve the giclée reproduction process, and to fund continuing operations. Artevo acknowledges the interest burden that raising capital through high interest debentures brings. Interest payments on these debentures in the year ended September 30, 2009 are expected to be \$576,000, with \$700,000 in principal also becoming payable within the year. The Corporation expects the debentures that mature during the year to be extended as they are held by directors and officers. The Corporation believes that issuing attractive debentures with relatively short maturities provides a solution to short term liquidity problems as it allows the Corporation to continue to develop its business plan.

Cash used in investing activities for the year ended September 30, 2008 of \$352,785 compared to \$642,681 for the year ended September 30, 2007, a decrease of 45%. This decrease is due to substantial capital investment in printing equipment and giclée production templates in prior years, and entering into capital leases to fund new property, plant and equipment. Although interest rates implicit in capital leases are cumbersome, they allow the Corporation to fund its growth requirements with a smaller initial cash outlay.

The Corporation has experienced recurring losses through its opening stages of existence. At September 30, 2008, the Corporation had a negative working capital balance (excluding inventory) of \$566,551 and an accumulated deficit of \$11,230,993.

As a result of the prolonged economic downturn, the Corporation has experienced a slow down in the expected growth rate of its business. This is due to difficulties in raising the capital required to trigger planned new revenue streams. Historically, the Corporation has issued equity instruments in order to fund continuing operations and growth opportunities. Due to the poor equity markets in recent times, during the year ended September 30, 2008, the Corporation issued and successfully placed unsecured convertible debentures at a premium to market rates, as additional capital was needed to fund continuing operations and the development of growth opportunities. Subsequent to year end, the Corporation has offered secured debentures at a further premium. The Corporation has experienced difficulties in placing this subsequent issuance, which has delayed the launches of new planned revenue streams. Only \$200,000 of the \$3,000,000 offering has been placed to date. Unfortunately, the issuance coincided with the rapid decline in the Canadian dollar which brought additional uneasiness to potential investors in the run up to the Christmas season, compounding the inherent difficulty in raising capital at that time of year.

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The current economic climate has had a negative effect on the sales of fine art and events. In hard economic times, sales of luxury items decrease, and the effects of this have not escaped Artevo. During the first quarter ended December 31, 2008, Abstract events experienced a higher than expected number of corporate events cancellations. As corporate Christmas parties represent a significant portion of Abstract's business, this negatively affected revenues. However, due to Artevo's technological advancements in producing high quality giclée reproductions at lower costs, coupled with the fact that Artevo controls the selling price, we are well positioned to weather the economic storm. New revenue streams focus on marketing giclée as lower cost alternatives to owning original artworks. Substantial margins can be obtained on the sale of giclée product, and the low cost of reproduction allows the Corporation to be flexible with its pricing.

In the short term, the ability of the Corporation to raise funds through the sale of debt or equity has been delayed. As a safe guard, the Corporation has reduced spending in its current operations which will help ensure its ability to sustain continuing gallery, events, and website operations, leaving sufficient operating capital to open new galleries and launch its new revenue streams according to its planned timeline.

A summary of the Corporation's contractual obligations with note references to the September 30, 2008 consolidated financial statements is shown below:

	Payments due by period				Total
	less than 1 year	1 to 3 years	4 to 5 years	After 5 Years	
Financial Commitments					
Convertible debentures (note 6)					
Principal repayments	\$ 700,000	\$ 4,245,000	\$ -	\$ -	\$ 4,945,000
Expected interest payments	576,600	310,346	-	-	886,946
Capital leases (note 7)	57,132	96,216	19,134	-	172,482
Mortgage payable (note 8)	90,313	301,247	223,246	968,960	1,583,766
Contractual Leases					
Facility leases (note 15)	615,543	2,936,012	1,949,594	5,576,413	11,077,562
Total	\$ 2,039,588	\$ 7,888,821	\$ 2,191,974	\$ 6,545,373	\$ 18,665,756

FINANCIAL INSTRUMENTS

The following is a summary of the classification of the Corporation's financial assets and liabilities with note references to the September 30, 2008 consolidated financial statements:

- Cash and cash equivalents are classified as held-for-trading. The carrying value included in the consolidated balance sheets approximated fair value due to the short maturity of these instruments;
- Accounts receivable are classified as loans and receivables and are measured at amortized cost. The carrying amount included in the consolidated balance sheets approximated fair value due to the short maturity of these instruments;
- Accounts payable and accrued liabilities, due to related parties, capital lease obligation, convertible debentures, and mortgages payable are classified as other financial liabilities and are measured at amortized cost. The carrying amounts of accounts payable and accrued liabilities and due to related parties approximate their fair value due to their short term maturities. The fair value of the capital lease obligation is \$206,606 based upon a 2%

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reduction in lenders' rates from the time the lease agreements were entered into. The fair value of convertible debentures payable is \$4,609,907 as at September 30, 2008 based on the terms of the subsequent issuance of secured debentures (note 19). The fair value of mortgage payable approximates carrying value due to it being held at a floating interest rate based on bank prime. The effect of changes in interest rates is disclosed in the discussion of interest rate risk below.

After initial recognition, at each period end, all financial instruments are re-measured to their fair value, except for held to maturity instruments, loans and receivables and other financial liabilities which are measured at amortized cost. Any gain or loss resulting from a change in fair value of a financial asset or liability classified as held for trading is included in net loss for the period in which it arises.

During the current period the Corporation did not hold or issue any derivative financial instruments.

The nature of these financial instruments and its operations expose the Corporation to credit, liquidity, interest rate, and foreign exchange risk. The Corporation manages its exposure to these risks by operating in a manner that minimizes them. The Corporation's management has overall responsibility for the establishment and oversight of its risk management framework. Management has established policies in setting risk limits and controls and monitors these risks in relation to market conditions.

i. Credit risk

Credit risk is the risk that the Corporation will experience losses due to the default of their debtors relating to art sales on their accounts. The Corporation is exposed to credit risk in relation to its cash and cash equivalents and accounts receivable. The Corporation maintains cash and cash equivalents with highly rated national banks and therefore the Corporation considers these assets to have negligible credit risk. Accounts receivable arise from corporate art, framing sales and events. The majority of art sales are on a cash basis and as such, the Corporation considers credit risk to be low. Credit is extended to customers who have a long standing relationship with the Corporation and is primarily concentrated to corporate customers in the events business. Credit risk is decreased by deposits received. Little concentration of credit risk exists due to the Corporation's broad customer base.

ii. Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. The Corporation's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Corporation's reputation. Given the Corporation's available liquid resources as compared to the timing of the payments of liabilities and its history of negative cash flow, management assesses the Corporation's risk to liquidity as high. The Corporation's approach to managing liquidity includes the raising of additional working capital through various equity and debt offerings as required, and by reducing its negative cash flow through increased operating revenues (note 18).

iii. Market risk

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Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Corporation's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits while maximizing returns.

a) Interest rate risk

Interest rate risk is the risk that changes in interest rates may affect future cash flows. Interest rate risk is considered by management to be low due to the high level of fixed rate debt as a percentage of total debt (\$5,117,482 of the total \$6,701,248 was fixed). The Corporation is exposed to interest rate cash flow risk to the extent of interest rate fluctuation on its mortgage payable and guaranteed investment certificate. A 1% increase or decrease in the prime rate would have resulted in a \$16,671 change to net loss during the year ended September 30, 2008.

b) Foreign exchange risk

Foreign exchange risk is the risk that changes in foreign exchange rates may affect future cash flows. The Corporation is exposed to changes in the U.S. dollar / Canadian dollar exchange rate, as certain working capital balances are denominated in U.S. dollars. The Corporation's exposure is limited to purchases of art and raw materials inventory from U.S. vendors and capital expenditures paid in U.S. dollars. U.S dollar denominated vendors require payment before shipment, limiting the exposure of payables to foreign exchange rate fluctuation. Foreign exchange risk is considered low as balances denominated in U.S. dollars are concentrated to a small number of suppliers.

CAPITAL DISCLOSURES

The Corporation's objective when managing its capital is to safeguard the Corporation's assets and meet its financial obligations. The Corporation's capital structure consists of working capital, short and long term debt, and shareholders' equity.

The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. Historically, the Corporation has issued equity instruments in order to fund continuing operations and growth opportunities. Due to the poor equity markets in recent times, the Corporation issued and successfully placed unsecured convertible debentures at a premium to market rates during the year, as additional capital was needed to fund continuing operations and growth opportunities. Subsequent to year end, the Corporation has issued secured debentures at a further premium (note 19 to the consolidated financial statements).

In the opinion of management, the Corporation is not subject to the effects of the current depressed market to the same extent as the general economy, as its growth opportunities focus on providing high quality reproductions at substantial discounts from original art works. This leads to higher demand during periods of economic downturn. Management acknowledges that revenue from fine art and events may suffer, but is balanced by the increased opportunities to sell high quality reproductions. The Corporation believes that through increasing operating cash flows through new revenue streams and continuing to raise debt and/or equity financing, it will be able to meet its obligations as they come due. However, management acknowledges that raising capital in the current market is difficult.

The Corporation is not subject to any externally imposed capital requirements.

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OFF BALANCE SHEET ARRANGEMENTS

The Corporation has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

The Corporation had the following related party transactions and balances:

- Fees for legal services in the aggregate of \$68,832 (2007 - \$24,417) have been paid to law firms of which a director and an officer of the Corporation are principals. \$53,032 has been charged against share capital as share issuance costs, with the remainder charged to legal fees. Included in accounts payable and accrued liabilities at September 30, 2008 was \$7,254 (2007 - \$11,337). The law firms of the director and officer provide litigation and corporate law services to the Corporation.
- Fees for consulting services in the aggregate of \$78,300 (2007 - \$22,250) have been paid to an officer of the Corporation. All amounts were charged to consulting services. Included in accounts payable and accrued liabilities at September 30, 2008 was \$nil (2007 - \$3,750). The officer acted as a consultant prior to the amalgamation. Since amalgamation, the officer has been hired as a full time employee.
- The majority shareholder and a director of the Corporation sold inventory to the Corporation for \$54,569 (2007 - \$nil). This shareholder is the principal operating director of Artevo and is also an artist. The purpose of this transaction was to acquire inventory that supplements the ambiance of the Calgary Artevo gallery.
- The majority shareholder and a director of the Corporation advanced funds to the Corporation which were non-interest bearing, unsecured, and had no stated repayment terms. As at September 30, 2008, the balance owing on that loan was \$nil (2007 - \$60,752). This advance ensured that continuing operations could be supported as necessary.
- A Corporation under common control with the minority interest in SMIF Holdings advanced funds to the Corporation bearing interest at 12% per annum, due May 2010. As at September 30, 2008, the balance owing on that loan was \$100,672 (2007 - \$nil). Subsequent to September 30, 2008, \$75,000 was repaid. The advance was to ensure repairs to the Calgary Artevo gallery made necessary by structural damage caused by a building development adjacent to the Gallery were completed. A legal claim against the developer in question has been filed to recover these costs. This has not been disclosed in the consolidated financial statements as the outcome of the case is not estimable, and would be considered a contingent gain.

The transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

SUBSEQUENT EVENTS

On November 19, 2008, the Corporation announced it had offered up to \$3,000,000 principal amount of secured debentures with an interest rate of 15% per annum payable monthly. The debentures are secured by a general security agreement registered against the assets of the Corporation. For every \$3.00 of principal amount of debentures purchased, subscribers will receive a share purchase warrant with each warrant entitling the holder thereof to purchase one common

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share in the capital of the Corporation at an exercise price of \$0.10 per share for a period of one year from the date of issuance.

The debentures have a maturity date of two years from the date of issuance and will not be redeemable by the Corporation during the first year. The Corporation may redeem the debentures during the second year thereby incurring a penalty of 3% of the principal amount of the debentures. The Corporation may pay a commission of up to 6% cash to certain introducing parties in respect on the sale of debentures.

As at February 26, 2009, the Corporation had closed on \$200,000 of the secured debentures.

CHANGES IN ACCOUNTING POLICIES

Financial Instruments and Capital Disclosures

On October 1, 2007, the Corporation adopted CICA Handbook section 3862 "Financial Instruments – Disclosures," section 3863 "Financial Instruments – Presentation," and section 1535 "Capital Disclosures."

Section 3862 and Section 3863 replace Section 3861 "Financial Instruments – Disclosure and Presentation", revising disclosures related to financial instruments, including hedging instruments, and carrying forward unchanged presentation requirements. See note 2(l) for these disclosures.

Section 1535 requires the Corporation to provide disclosures about its capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate objectives, policies and processes for managing capital. The new section places increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the Corporation manages those risks. See note 18 to the September 30, 2008 consolidated financial statements for these disclosures.

Accounting Changes

Effective October 1, 2007 the Corporation adopted the revised recommendations of CICA section 1506, Accounting Changes. Under the revised standards, voluntary changes in accounting policies are permitted only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. These standards are effective for all changes in accounting policies, changes in accounting estimates and corrections of prior period errors initiated in periods beginning on or after October 1, 2007.

Future Accounting Pronouncements

Going Concern

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On October 1, 2008, the Corporation will be required to adopt certain amendments to CICA section 1400, "General Standards of Financial Statement Presentation" with respect to requirements to assess and disclose the Corporation's ability to continue as a going concern. The adoption of these amendments is not expected to have a significant impact on the consolidated financial statements.

Inventories

As of October 1, 2008, the Corporation will be required to adopt a new CICA standard, Section 3031, "Inventories", which replaces Section 3030 and harmonizes the Canadian standard related to inventories with International Financial Reporting Standards. This Section provides more extensive guidance on the determination of cost, including allocation of overhead; narrows the permitted cost formulae; requirements for impairment testing; and expands the disclosure requirements to increase transparency. This new standard was issued in June 2007 and upon adoption of these amendments, the Corporation does not expect any significant impact on the consolidated financial statements.

Goodwill and Intangible Assets

As of October 1, 2008, the Corporation will be required to adopt CICA Section 3064, "Goodwill and Intangible Assets." New standards have been established for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous CICA Handbook Section 3062 and upon adoption of these standards, the Corporation does not expect any significant impact on the consolidated financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In February 2008, the CICA Accounting Standards Board confirmed that the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises, effective for the interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Corporation will adopt IFRS for its fiscal year beginning October 1, 2011. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Corporation's reported financial position and results of operations. The Corporation continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS on its financial statements.

The Corporation will begin to gather IFRS compliant data in order to present its opening balance sheet as at October 1, 2010 with a statement of explicit and unreserved compliance with IFRS. The Corporation has reviewed the requirements of IFRS 1 – *First-time adoption of IFRS*, and has concluded that the adoption of IFRS 1 optional exemptions and mandatory exceptions will not have a significant impact on its financial statements. Most policy choices under IFRS 1 do not apply to the Corporation.

Upon initial inspection, the Corporation has not identified any significant differences between Canadian GAAP and IFRS. Accordingly, it does not anticipate this change having a significant effect on its information technology and data systems, and as such, it has no plans to modify them, as its current systems will gather IFRS compliant data. There are also no plans to modify existing procedures and internal controls over financial reporting.

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The adoption of IFRS will not have an effect on the Corporation's debt covenants or capital requirements, as it currently has no externally imposed covenants or restrictions. If in the future, sources of capital which carry externally imposed restrictions are explored, the effects of the adoption of IFRS on those restrictions will be evaluated at that time. The Corporation also does not expect the adoption of IFRS to have a significant effect on compensation arrangements.

In summary, the Corporation does not expect the adoption of IFRS to have a significant impact on its financial statements, with the exception of additional required reconciliations in the year of adoption and continued expanded note disclosure.

OTHER ITEMS

Additional information relating to Artevo Corporation is available on the SEDAR website at www.sedar.com.

OUTSTANDING SHARE DATA

On May 29, 2008, Artevo CPC amalgamated with Power Play Events Ltd. ("PPAL") to form Artevo Corporation. Upon amalgamation, each former shareholder of Artevo CPC and PPAL received one common share of Artevo Corporation for each common share they held in the predecessor companies. For more information on the amalgamation, see note 1 to the September 30, 2008 consolidated financial statements.

The Corporation has authorized an unlimited number of common shares to be issued, without par value. Each common share carries the right to one vote at the Corporation's annual general meeting. As at September 30, 2008 there were a total of 31,231,176 common shares issued as compared to 29,940,136 as at September 30, 2007.

Included in the share data above are 351,000 common shares with detachable warrants which entitle the holder to purchase one ½ common share for each share they hold at an exercise price of \$1.60 per share. If exercised, 175,500 common shares will be issued.

The Corporation has issued convertible debentures, convertible at a rate of \$0.50 per share if the trading price of Artevo common shares on the TSX Venture exceeds \$1.00 per share for ten consecutive days, and are convertible into Artevo common shares at \$0.50 per share at the option of the holder at any time before maturity. As at September 30, 2008, \$4,945,000 in convertible debentures were outstanding. If converted, 9,890,000 common shares will be issued.

As at September 30, 2008, the Corporation has 2,854,813 outstanding stock options which will convert to 2,854,813 shares if exercised once vested.