

ARTEVO CORPORATION
Management Discussion and Analysis
For the three month period ended December 31, 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 three month period ended December 31, 2008. This MD&A should be read in conjunction with the restated unaudited consolidated financial statements as at December 31, 2008 as well as 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;*
- *A worsening of the overall economy and consumer interest in non-essential goods.*

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 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 one 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 for resale, establishing licensing agreements for the reproduction of these works, and building the Artevo brand. Artevo does not follow the traditional art gallery business model where works are taken on consignment and sold. Artevo works with artists to promote their careers and sales of their original artworks and to secure the intellectual property rights to their art. 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 offer a traditional retail environment to purchasers 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, which significantly increases consumer exposure to the galleries.
- 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

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- 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 fine art items catalogued, representing over 160 artists who have 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, ultimately attracting consumers to its website.

SELECTED QUARTERLY 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.

Quarter Ended	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008
Total Revenue	1,263,860	977,852	885,793	706,756
Art Sales	357,484	484,867	259,979	211,112
Prelude Framing	194,125	167,636	139,870	218,678
Abstract Events	710,446	323,087	465,003	271,910
Other Income	1,805	2,262	20,941	5,055
Net and Comprehensive Loss	(790,557)	(1,025,721)	(854,973)	(894,909)
Net Loss per common share				
Basic and Fully Diluted	(0.03)	(0.03)	(0.03)	(0.03)
Total Assets	7,121,882	7,735,616	7,412,677	6,744,783
Total Long Term Financial Liabilities	5,349,241	5,853,803	5,557,121	3,827,144

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Quarter Ended	December 31, 2007	September 30, 2007	June 30, 2007	Prior period information unavailable*
Total Revenue	958,161	547,109	592,896	
Art Sales	389,002			
Prelude Framing	189,022			
Abstract Events	336,013			
Other Income	44,124			
Net and Comprehensive Loss	(349,573)	(538,167)	(621,304)	
Net Loss per common share				
Basic and Fully Diluted	(0.01)	(0.02)	(0.02)	
Total Assets	6,866,832	7,077,465	6,637,286	
Total Long Term Financial Liabilities	3,611,788	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.

Prior period information has been restated to show the effects of the restatements outlined in notes 11 and 12 to the December 31, 2008 restated unaudited consolidated financial statements and note 20 of the September 30, 2008 restated audited consolidated financial statements.

OVERALL PERFORMANCE

Throughout the three month period ended December 31, 2008, Artevo continued to make progress in expanding its owned art inventory and securing licensing agreements to enable production of high quality giclée reproductions. Significant resources were expended to improve the functionality and user experience of its website. Abstract Events had a very strong quarter hosting hospitality, charity and corporate events.

Highlights of the three month period ended December 31, 2008 included securing the rights to sell the artworks of Thomas Kincaid and hosting a Thomas Kincaid exhibition, hosting "The Art of Dr. Seuss Retrospective Tour," as the exclusive dealer for Dr. Seuss in Canada, and hosting a successful charity gala for the Make-a-Wish Foundation.

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 begins to spend again after the holiday season. As such, the Corporation has seen its largest revenues to date during the three month period ended December 31, 2008.

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Revenue

Revenue, which includes sales of fine art, framing, and events management totalled \$1,263,860 for the three month period ended December 31, 2008, an increase of 32% over the prior comparative period's total of \$958,161 and a 24% increase over the quarter ended September 30, 2008 of \$1,019,710, primarily as a result of the increase in Abstract Events revenue.

Abstract Events continued to increase its presence as a full service events management business, and through increased promotion and aggressive business procurement, Abstract increased its revenue by 111% to \$710,466 during the quarter ended December 31, 2008 as compared to \$336,013 in the prior comparative period and increased revenue 96% over the quarter ended September 30, 2008. This was accomplished by increasing marketing activities in order to more fully utilize the capacity of the galleries by hosting larger charity and hospitality events, and by beginning to use off-site venue rentals to expand the business. In the first quarter of fiscal 2008, events revenue represented only venue rental. By the first quarter of fiscal 2009, Abstract was a full service events company providing planning, catering, bar services and entertainment. Over the quarter ended September 30, 2008, Abstract's business increased due to catering to the busy corporate Christmas season, hosting larger events and events off-site. Abstract capitalized on its ability to fully service corporate events and had a very successful corporate holiday season, despite the fact that many corporate clients were downsizing or cancelling their holiday parties. 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 \$357,454 during the quarter ended December 31, 2008, a decrease of 8% from \$389,002 in the prior year. This also represented a decrease of \$127,383 or 26% over the quarter ended September 30, 2008. The sale of fine art has been noticeably affected by the slumping economy as consumers reduce spending on luxury items.

Framing revenues increased 3% to \$194,125 in the quarter ended December 31, 2008 from \$189,022 in the prior comparative period. This also represented an increase of \$26,489 or 15% over the three months ended September 30, 2008. This revenue is primarily generated by supplying framing services to the hospitality and corporate industry, supplemented by store front retail sales. Prelude's modest growth was due to further penetration in corporate and hospitality framing services.

Other revenues are generated mainly from events sponsorship and art placement arrangements, and decreased 2344% to \$1,805 in the quarter ended December 31, 2008 as compared to \$44,124 in the three month period ending December 31, 2007. Over the three month period ended September 30, 2008, other revenue decreased by \$458 or 20%. This decrease over the prior comparative period is due to the reduced number of art related events that were cancelled as a result of current market conditions as compared to the quarter ended December 31, 2007.

Gross Profit

Gross profit was \$570,726 or 45% of revenue in the three month period ended December 31, 2008 as compared to \$762,298 or 80% of revenue in the comparative period, representing a decrease of \$191,572, or 45% as a percentage of revenue. The lower gross margin was attributable to the events business being only a venue rental in the first quarter of fiscal 2008 with very few associated costs. Being a full service events company results in higher associated costs as Abstract now

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provides catering, bar and entertainment services. In addition, within the Artevo product mix margins vary considerably between original and reproduction artworks where margins are considerably higher. During the quarter ended December 31, 2008, more original artworks were sold than reproductions resulting in a drop in overall margin. It is anticipated that with the change in economic conditions that reproduction artworks which are more affordable but have higher margins will be the dominant product sold through out the remainder of fiscal 2009.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were \$670,964 or 53% of revenue during the period ended December 31, 2008 as compared to \$698,894 or 73% of revenue during the prior comparative period, a decrease of \$27,930, and 20% as a percentage of revenue. The cost cutting measures implemented during the quarter lead to the reduction of headcount in gallery sales and marketing. The ability of the Corporation to keep SG&A expenses relatively consistent with the prior comparative quarter was positive considering 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.

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 \$219,029 or 17% of revenue for the three months period ended December 31, 2008 compared to \$135,386 or 33% of revenue in the prior comparative period, an increase of \$83,643. This was due primarily to the increase in assets owned by the Corporation with higher rates of amortization, such as the Corporation's investment in its website and the commencement of amortization of its giclée production template library, which was not being amortized in the quarter ended December 31, 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 business into new markets.

Operating Expenses

Operating expenses include building rents, office and general expenses, insurance, and repairs and maintenance expenses. Operating expenses were \$214,791 or 17% of revenue in the period ended December 31, 2008 as compared to \$182,290 or 19% of revenue in the prior comparative period. This represents an increase of 18% in gross costs over the prior year which is in line with expectations, as the addition of the new Victoria gallery brought with it additional operating expenses.

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Stock-Based Compensation

Stock-based compensation expense was \$49,235 or 4% of revenue during the three month period ended December 31, 2008 compared to \$13,539 or 1% of revenue in the comparative period. The increase in stock-based compensation expense was due to increased expense associated with the stock option grant that occurred commensurate with the Qualifying Transaction.

50,000 options were issued to a director during the quarter 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.

Interest Expense

Interest expense was \$198,409 or 16% of revenue for the three month period ended December 31, 2008 compared to \$75,927 or 8% of revenue in the prior comparative period, an increase of 163% in interest expense, or an increase of 8% as a percentage of revenue. Increased interest expenses for the period ended December 31, 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 \$790,557 for the quarter ended December 31, 2008 (\$0.03 per share) compared to a loss of \$349,738 in the prior comparative period (\$0.01 per share), an increase of \$440,819. Increased costs associated with the operations of the Victoria gallery, amortization of the giclée library, and stock option expense were major contributors to the increased loss. The Corporation's focus in the immediate term is to control costs, 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.

LIQUIDITY AND CAPITAL RESOURCES

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 the 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 \$440,532 for the three month period ended December 31, 2008 compared to \$282,304 in the prior comparative period, an increase of 56%. The increase in the operating cash out flow year over year is due primarily to costs incurred with

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respect to inventory purchasing, continuing research into improving giclée reproduction technology, and increased salaries, which were increased at the time of the Qualifying Transaction in order to attract the administrative talent necessary to manage a public company. 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 outflows from financing activities for the three month period ended December 31, 2008 were \$110,745 compared to cash inflows of \$475,000 in the prior comparative period. During the period, the Corporation offered for sale a new series of secured debentures, but due to the current market conditions, investor appetite for the offering was poor. The largest source of funding in the prior 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 and reproduction rights, improve the giclée reproduction process, and to fund continuing operations. Artevo acknowledges that the interest burden resulting from raising capital through high interest debentures is significant. Interest payments on these debentures over the next twelve months are expected to be \$555,427, with \$1,175,000 in principal also becoming payable within one year. The Corporation expects \$700,000 of 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 three month period ended December 31, 2008 of \$63,922 compared to \$48,875 for the comparative period, an increase of 31%. In both periods, capital investment was low as the Corporation concentrates on revenue generation during its busiest quarter with investing activities being deemed secondary.

The Corporation has experienced recurring losses through its opening stages of existence. At December 31, 2008, the Corporation had a negative working capital balance (excluding inventory) of \$1,740,649 and an accumulated deficit of \$12,012,695.

As a result of the prolonged economic downturn, the Corporation has experienced a reduction in the expected growth rate of its business. This is due to difficulties in raising the capital required to implement 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. During the first quarter, the Corporation 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 weeks leading up to the holiday season, compounding the inherent difficulty in raising capital at that time of year.

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 expected revenues. However, due to Artevo's competitive advantage in producing high quality giclée reproductions at lower costs,

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combined with the fact that Artevo controls the selling price, the Corporation has positioned itself to be highly flexible as it adapts to current market conditions. 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 interim consolidated financial statements to 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	\$ 1,175,000	\$ 3,770,000	\$ -	\$ -	\$ 4,945,000
Expected interest payments	555,427	181,950	-	-	737,377
Capital leases	48,075	95,236	13,704	-	157,015
Mortgage payable	91,373	305,294	222,722	942,285	1,561,674
Contractual Leases					
Facility leases (note 8)	798,896	3,117,388	2,097,863	5,696,142	11,710,288
Total	\$ 2,668,772	\$ 7,469,867	\$ 2,334,289	\$ 6,638,427	\$ 19,111,354

FINANCIAL INSTRUMENTS

The following is a summary of the classification of the Corporation's financial assets and liabilities with note references to the unaudited interim December 31, 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 \$204,514 based upon a 2% reduction in lenders' rates from the time into which the lease agreements were entered. The fair value of convertible debentures

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payable is \$4,602,672 as at December 31, 2008 based on the terms of the subsequent issuance of secured debentures (note 6). 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 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

The Corporation is exposed to credit risk in relation to its cash and cash equivalents and accounts receivable. 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 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 10).

iii. Market risk

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.

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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 (\$5,102,015 of the total \$6,663,689 was fixed). The Corporation is exposed to interest rate cash flow risk to the extent of interest rate fluctuations on its mortgage payable and guaranteed investment certificate. A 1% increase or decrease in the prime rate would have resulted in a \$3,962 change to net loss during the three month period ended December 31, 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. During the three month period ended December 31, 2008, the Corporation issued secured debentures at a further premium (note 6 to the unaudited December 31, 2008 consolidated financial statement).

In the opinion of management, the Corporation may not be 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 could lead 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.

CHANGES IN ACCOUNTING POLICIES

Going Concern

On October 1, 2008, the Corporation adopted 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. These amendments require management to expand its discussion of why it believes it will continue to be a going concern over at least the next twelve months. See note 3 to the restated unaudited interim consolidated financial statements for this disclosure.

Inventories

As of October 1, 2008, the Corporation adopted 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. The adoption of this new standard did not have a material effect on the financial statements of the Corporation.

Goodwill and Intangible Assets

As of October 1, 2008, the Corporation adopted 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. The adoption of this new standard did not have a material effect on the financial statements of the Corporation.

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.

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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.

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 audited 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 December 31 and September 30, 2008 there were a total of 31,231,176 common shares issued.

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.

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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 December 31, 2008, \$4,945,000 in convertible debentures were outstanding. If converted, 9,890,000 common shares will be issued.

As at December 31, 2008, the Corporation has 2,755,813 outstanding stock options which will convert to 2,755,813 shares if exercised once vested.