

IntelGenx Technologies Corp.  
Form 10-Q  
November 12, 2008

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**Q** QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
**For the quarterly period ended September 30, 2008**

or

**¨** TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-31187

**INTELGEX TECHNOLOGIES CORP.**

(Exact name of small business issuer as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**87-0638336**  
(I.R.S. Employer Identification No.)

6425 Abrams, Ville Saint Laurent, Quebec H4S 1X9, Canada

(Address of principal executive offices)

(514) 331-7440

(Issuer's telephone number)

(Former Name, former Address, if changed since last report)

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

**Q** No **¨**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", "non-accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

☐

Accelerated filer

☐

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Non-accelerated filer

☐ (Do not check if a smaller reporting company)

Smaller reporting company

Q

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDS DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes ☐

No ☐

APPLICABLE TO CORPORATE ISSUERS:

20,850,002 shares of the issuer's common stock, par value \$.00001 per share, were issued and outstanding as of November 6, 2008.

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IntelGenx Technologies Corp.

Form 10-Q

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IntelGenx Technologies Corp.

Consolidated Interim Financial Statements

September 30, 2008

(Expressed in U.S. Funds)

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## IntelGenx Technologies Corp.

Consolidated Balance Sheet  
(Expressed in U.S. Funds)  
(Unaudited)

|   | September 30,<br>2008 | December 31,<br>2007 |
|---|-----------------------|----------------------|
| <b>Assets</b>   |                       |                      |
| <b>Current</b>  |                       |                      |
| Cash and cash equivalents   | \$ 766,012            | \$ 330,967           |
| Restricted cash (note 5)  | 724,521               | -                    |
| Accounts receivable   | 352,730               | 427,476              |
| Income taxes recoverable  | -                     | 11,028               |
| Prepaid expenses  | 66,140                | 23,443               |
| Investment tax credits receivable   | 122,145               | 243,006              |
|   | 2,031,548             | 1,035,920            |
| <b>Property and Equipment</b>   | 187,887               | 235,244              |
|   | \$ 2,219,435          | \$ 1,271,164         |
| <b>Liabilities</b>  |                       |                      |
| <b>Current</b>  |                       |                      |
| Accounts payable and accrued liabilities                                  | 730,661               | 261,485              |
| Convertible notes, less unamortized discount of \$632,442 (note 6)        | 597,799               | -                    |
| Deferred income tax liability   | 161,064               | -                    |
|   | 1,489,524             | 261,485              |
| <b>Loan Payable, Shareholder</b>  | 94,261                | 101,193              |
| <b>Convertible Notes</b> , less unamortized discount \$1,082,366 (note 6) | -                     | 417,634              |
| <b>Deferred Income Tax Liability</b>                                      | -                     | 278,988              |
| <b>Commitments</b> (note 7)   |                       |                      |
| <b>Shareholders' Equity</b>   |                       |                      |
| <b>Capital Stock</b> (note 8)   | 209                   | 162                  |
| <b>Additional Paid-in-Capital</b>   | 5,045,473             | 2,071,818            |
| <b>Accumulated Other Comprehensive Income</b>                             | (37,256)              | 58,542               |
| <b>Accumulated Deficit</b>  | (4,372,776)           | (1,918,658)          |
|   | 635,650               | 211,864              |
|   | \$ 2,219,435          | \$ 1,271,164         |

See accompanying notes

Approved on Behalf of the Board:

/s/ Horst G. Zerbe

Director

/s/ J. Bernard Boudreau Director

IntelGenx Technologies Corp.

Consolidated Statement of Shareholders' Equity  
For the Period Ended September 30, 2008  
(Expressed in U.S. Funds)  
(Unaudited)

|  | <u>Capital Stock</u> |        | Additional         | Accumulated<br>Other           |                | <b>Total</b>                    |
|--|----------------------|--------|--------------------|--------------------------------|----------------|---------------------------------|
|  | Number               | Amount | Paid-In<br>Capital | Comprehensive<br>Income (Loss) | Deficit        | <b>Shareholders'<br/>Equity</b> |
| <b>Balance - December 31, 2007</b>                                       | 16,157,146           | \$ 162 | \$<br>2,071,818    | \$ 58,542                      | \$ (1,918,658) | \$ 211,864                      |
| Foreign currency translation adjustment for the period                   | -                    | -      | -                  | (95,798)                       | -              | <b>(95,798)</b>                 |
| Issue of common stock, net of transaction costs of<br>\$415,290 (note 8) | 4,001,000            | 40     | 1,712,630          | -                              | -              | 1,712,670                       |
| Warrants issued, net of transaction costs of \$131,291<br>(note 9)       | -                    | -      | 541,449            | -                              | -              | 541,449                         |
| Cashless warrants exercised (note 9)                                     | 5,186                | -      | -                  | -                              | -              | -                               |
| Agent's options (note 9)   | -                    | -      | 95,000             | -                              | -              | 95,000                          |
| Stock-based compensation (note 9)  | -                    | -      | 125,728            | -                              | -              | 125,728                         |
| Options exercised (note 8)   | 191,500              | 2      | 88,663             | -                              | -              | 88,665                          |
| Warrants exercised (note 8)  | 100,000              | 1      | 40,999             | -                              | -              | 41,000                          |
| Modification of warrant terms (note 9)                                   | -                    | -      | 92,571             | -                              | -              | 92,571                          |
| Debenture conversions (note 6)   | 235,714              | 2      | 164,998            | -                              | -              | 165,000                         |
| Stock compensation to debenture holders (note 8)                         | 159,456              | 2      | 111,617            | -                              | -              | 111,619                         |
| Net loss for the period  | -                    | -      | -                  | -                              | (2,454,118)    | <b>(2,454,118)</b>              |
| <b>Balance September 30, 2008</b>  | 20,850,002           | \$ 209 | \$<br>5,045,473    | \$ (37,256)                    | \$ (4,372,776) | \$ 635,650                      |

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## IntelGenx Technologies Corp.

## Consolidated Statement of Operations and Comprehensive Loss

(Expressed in U.S. Funds)

(Unaudited)

|   | For the Three-Month Period<br>Ended September 30, |                     | For the Nine-Month Period<br>Ended September 30, |                     |
|---|---|---------------------|--|---------------------|
|   | 2008  | 2007                | 2008   | 2007                |
| <b>Revenue</b>                                    | \$ 271,571  | \$ 178,735          | \$ 708,097                                       | \$ 602,113          |
| <b>Interest</b>                                   | 10,598  | -                   | 30,173   | -                   |
|   | 282,169   | 178,735             | 738,270  | 602,113             |
| <b>Expenses</b>                                   |   |                     |  |                     |
| Research and development                          | 664,829   | 292,056             | 1,630,672  | 548,697             |
| Research and development tax credits              | (42,830)  | (31,577)            | (132,249)  | (81,464)            |
| Management salaries                               | 178,414   | 150,692             | 464,612  | 217,683             |
| General and administrative                        | 63,972  | 52,161              | 168,655  | 115,030             |
| Professional fees                                 | 234,598   | 75,678              | 658,226  | 293,481             |
| Depreciation                                      | 13,151  | 12,659              | 40,272   | 30,411              |
| Foreign exchange                                  | (78,465)  | 407                 | (153,260)  | (485)               |
| Interest and financing fees                       | 116,757   | 160,139             | 633,383  | 219,815             |
|   | 1,150,426   | 712,215             | 3,310,311  | 1,343,168           |
| <b>Loss Before Income Taxes</b>                   | <b>(868,257)</b>                                  | <b>(533,480)</b>    | <b>(2,572,041)</b>                               | <b>(741,055)</b>    |
| Income taxes (note 10)                            | (29,048)  | -                   | (117,923)  | -                   |
| <b>Net Loss</b>                                   | <b>(839,209)</b>                                  | <b>(533,480)</b>    | <b>(2,454,118)</b>                               | <b>(741,055)</b>    |
| <b>Other Comprehensive Loss</b>                   |   |                     |  |                     |
| Foreign currency translation adjustment           | (52,487)  | 65,368              | (95,798)   | 98,508              |
| <b>Comprehensive Loss</b>                         | <b>\$ (891,696)</b>                               | <b>\$ (468,112)</b> | <b>\$ (2,549,916)</b>                            | <b>\$ (642,547)</b> |
| <b>Basic Weighted Average Number of Shares</b>    |   |                     |  |                     |
| <b>Outstanding</b>                                | 20,791,035  | 16,032,375          | 19,256,730                                       | 16,015,784          |
| Basic and Diluted Loss Per Common Share (note 12) | (0.04)  | (0.03)              | (0.13)   | (0.05)              |
| See accompanying notes                            |   |                     |  |                     |

IntelGenx Technologies Corp.

Consolidated Statement of Cash Flows  
(Expressed in U.S. Funds)  
(Unaudited)

|   | For the Three-Month Period<br>Ended September 30, |                  | For the Nine-Month Period<br>Ended September 30, |                |
|---|---|------------------|--|----------------|
|   | 2008  | 2007             | 2008   | 2007           |
| <b>Funds Provided (Used) -</b>                                  |   |                  |  |                |
| <b>Operating Activities</b>                                     |   |                  |  |                |
| Net loss  | \$ (839,209)                                      | \$ (533,480)     | \$ (2,454,118)                                   | \$ (741,055)   |
| Depreciation  | 13,151  | 12,659           | 40,271   | 30,411         |
| Investor relations services                                     | -   | 2,793            | -  | 67,314         |
| Stock-based compensation  | 64,208  | 156,558          | 125,728  | 195,635        |
| Modification of warrant terms                                   | -   | -                | 92,571   | -              |
| Interest accretion  | 96,095  | 78,746           | 348,889  | 95,664         |
| Deferred income tax   | (29,048)  | -                | (117,923)  | -              |
| Issue of capital stock  | -   | -                | 111,619  | -              |
|   | (694,803)   | (282,724)        | (1,852,963)                                      | (352,031)      |
| Changes in non-cash operating<br>elements of working<br>capital | 151,867   | (188,417)        | 633,116  | (146,889)      |
|   | (542,936)   | (471,141)        | (1,219,847)                                      | (498,920)      |
| <b>Financing Activities</b>                                     |   |                  |  |                |
| Repayment of long-term debt                                     | -   | -                | -  | (107,871)      |
| Issue of capital stock  | 55,250  | -                | 2,930,365  | -              |
| Transaction costs   | -   | -                | (451,581)  | (229,323)      |
| Convertible notes   | -   | -                | -  | 1,500,000      |
|   | 55,250  | -                | 2,478,784  | 1,162,806      |
| <b>Investing Activities</b>                                     |   |                  |  |                |
| Additions to property and<br>equipment                          | -   | (13,045)         | (7,567)  | (27,416)       |
| Restricted cash (note 5)  | 259,873   | -                | (724,521)  | -              |
|   | 259,873   | (13,045)         | (732,088)  | (27,416)       |
| <b>Increase in Cash and Cash Equivalent</b>                     | <b>(227,813)</b>                                  | <b>(484,186)</b> | <b>526,849</b>                                   | <b>636,470</b> |
| <b>Effect of Foreign Exchange on Cash<br/>and Cash</b>          |   |                  |  |                |
| <b>Equivalents</b>  | <b>(49,563)</b>                                   | <b>43,619</b>    | <b>(91,804)</b>                                  | <b>46,014</b>  |
| <b>Cash and Cash Equivalents</b>                                |   |                  |  |                |
| Beginning of Period   | 1,043,388   | 1,350,629        | 330,967  | 227,578        |
| End of Period   | \$ 766,012  | \$ 910,062       | \$ 766,012                                       | \$ 910,062     |
| See accompanying notes  |   |                  |  |                |



IntelGenx Technologies Corp.

Notes to Consolidated Interim Financial Statements

September 30, 2008

Expressed in U.S. Funds

(Unaudited)

1.

### **Basis of Presentation**

The accompanying unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and Article 10 of Regulation S-X and are prepared using the same accounting policies as outlined in note 4 of IntelGenx Technologies Corp. financial statements for the years ended December 31, 2007 and 2006. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ended December 31, 2008. The unaudited financial statements should be read in conjunction with the financial statements and notes thereto included in the IntelGenx Technologies Corp. audited financial statements for the years ended December 31, 2007 and 2006.

2.

### **Going Concern**

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company has reported an accumulated deficit of \$4,372,776 (2007 - \$1,558,920). To date, these losses have been financed principally through capital stock, long-term debt and debt from related parties. Additional capital and/or borrowings will be necessary in order for the Company to continue in existence and attain profitable operations.

Management has continued to develop a strategic plan to build a management team, maintain reporting compliance and establish contracts with pharmaceutical companies. Management anticipates generating revenue through development contracts during the year. In order to achieve profitability, revenue streams will have to increase significantly and there is no assurance that revenues can increase to such a level. The Company has raised additional cash through the issuance of common shares in the nine months period ended September 30, 2008. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

3.

### **Adoption of New Accounting Standards**

#### **Fair Value Measurements**

SFAS No.157 is effective for financial assets and liabilities in fiscal years beginning after November 15, 2007, and for non-financial assets and liabilities in fiscal years beginning after November 15, 2008. The Company adopted SFAS No.157 for financial assets and liabilities in the first quarter of fiscal 2008 with no material impact to the consolidated financial statements. The Company is currently evaluating the potential impact of the application of SFAS No.157 on the non-financial assets and liabilities found on its consolidated financial statements.



IntelGenx Technologies Corp.

Notes to Consolidated Interim Financial Statements

September 30, 2008

Expressed in U.S. Funds

(Unaudited)

3.

**Adoption of New Accounting Standards (Cont d)**

SFAS No. 157 applies to all assets and liabilities that are being measured and reported on a fair value basis. SFAS No. 157 requires new disclosure that establishes a framework for measuring fair value in GAAP, and expands disclosure about fair value measurements. This statement enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The statement requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories: Level 1: Quoted market prices in active markets for identical assets or liabilities. Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data. Level 3: Unobservable inputs that are not corroborated by market data. In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are subject to SFAS No. 157. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

**Fair Value of Financial Instruments**

The table below presents the carrying value and fair value of Company's financial instruments. The disclosure excludes leases. The fair value represents management's best estimates based on a range of methodologies and assumptions. The carrying value of receivables and payables arising in the ordinary course of business, the investment tax credits receivable and the convertible notes approximate fair value because of the relatively short period of time between their origination and expected realization. The loan payable, shareholder is presumed to have a fair value measured by the cash proceeds exchanged at issuance in accordance with APB-21.

|                                   | September 30, 2008 |                      | December 31, 2007 |                      |
|-----------------------------------|--------------------|----------------------|-------------------|----------------------|
|                                   | Carrying Value     | Estimated Fair Value | Carrying Value    | Estimated Fair Value |
| Financial assets                  |                    |                      |                   |                      |
| Cash and cash equivalents         | \$ 766,012         | \$ 766,012           | \$ 330,967        | \$ 330,967           |
| Restricted cash                   | 724,521            | 724,521              | -                 | -                    |
| Investment tax credits receivable | 122,145            | 122,145              | 243,006           | 243,006              |
| Financial liabilities             |                    |                      |                   |                      |
| Loan payable, shareholder         | 94,261             | 94,261               | 101,193           | 101,193              |
| Convertible notes                 | 597,799            | 597,799              | 417,634           | 417,634              |
|                                   | - 7 -              |                      |                   |                      |

IntelGenx Technologies Corp.

Notes to Consolidated Interim Financial Statements

September 30, 2008

Expressed in U.S. Funds

(Unaudited)

3.

#### Adoption of New Accounting Standards (Cont d)

The convertible notes use significant unobservable inputs and thus are shown as Level 3 hierarchy items. The fair value of the convertible notes is calculated by discounting the stream of future payments of interest and principal at the prevailing market rate for a similar liability that does not have an associated equity component. Results of discounted cash flow calculations may be adjusted, as appropriate, to reflect other market conditions or the perceived changes in credit risk of the borrower.

The following summarizes the changes in the fair value of the convertible notes for the nine month period ending September 30, 2008:

|  |                   |
|--|-------------------|
| Opening Balance - December 31, 2007        | \$ 417,634        |
| Interest accretion                         | 348,889           |
| Interest paid during the period            | (79,215)          |
| Interest accrued                           | 13,722            |
| Impact of conversions of \$165,000 notes   | (103,231)         |
| <b>Ending Balance - September 30, 2008</b> | <b>\$ 597,799</b> |

4.

#### Significant Accounting Policies

##### Recently Issued Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board issued SFAS Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"). This standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is currently evaluating the impact, if any, that this statement will have on its disclosures related to derivative instruments and hedging activities.

IntelGenx Technologies Corp.

Notes to Consolidated Interim Financial Statements

September 30, 2008

Expressed in U.S. Funds

(Unaudited)

4.

Significant Accounting Policies (Continued)

The FASB issued SFAS 162, "The Hierarchy of Generally Accepted Accounting Principles". The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for nongovernmental entities. Statement 162 is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The adoption of SFAS 162 will not have a material effect on the Company's financial position or results of operations.

The FASB issued FSP APB-14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*. FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*. Additionally, this FSP specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is not permitted. The Company is currently evaluating the impact of this Statement on its financial statements.

The FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets*. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of FSP FAS 142-3 is not expected to have a material effect on the Company's financial position or results of operations.

The FASB issued FSP SOP 90-7-a, *An Amendment of AICPA Statement of Position 90-7 Financial Reporting by Entities in Reorganization under the Bankruptcy Code*. This FSP states that an entity emerging from bankruptcy that uses fresh-start reporting would only follow the accounting standards in effect at the date of emergence as opposed to within the 12 months following the adoption of fresh-start reporting. This FSP is effective for financial statements issued subsequent to April 24, 2008. The adoption of FSP SOP 90-7-a is not expected to have a material effect on the Company's financial position or results of operations.

IntelGenx Technologies Corp.

Notes to Consolidated Interim Financial Statements

September 30, 2008

Expressed in U.S. Funds

(Unaudited)

4.

#### **Significant Accounting Policies (Cont d)**

The FASB issued FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. This FSP states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. The Company is currently evaluating the impact of this Statement on its financial statements.

EITF 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock was ratified by the FASB. This EITF addresses the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock. This EITF is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the impact of this Statement on its financial statements.

EITF 08-3, Accounting by Lessees for Nonrefundable Maintenance Deposits was ratified by the FASB. This EITF prescribes the accounting for all nonrefundable maintenance deposits. This EITF is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of EITF 08-3 is not expected to have a material effect on the Company's financial position or results of operations.

EITF 08-4, Transition Guidance for Conforming Changes to Issue No. 98-5, 'Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios' was ratified by the FASB. This EITF integrates the requirements of EITF 00-21 into EITF 98-5. This EITF is effective for financial statements issued for fiscal years ending after December 15, 2008. The Company is currently evaluating the impact of this Statement on its financial statements.

The FASB issued FSP 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161". This FSP is intended to improve disclosures about credit derivatives by requiring more information about the potential adverse effects of changes in credit risk on the financial position, financial performance, and cash flows of the sellers of credit derivatives. In addition, it requires an additional disclosure about the current status of the payment/performance risk of a guarantee. It also clarifies the effective date in FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities. This FSP is effective for reporting periods (annual or interim) ending after November 15, 2008. The Company is currently evaluating the impact of this Statement on its consolidated financial statements.

IntelGenx Technologies Corp.

Notes to Consolidated Interim Financial Statements

September 30, 2008

Expressed in U.S. Funds

(Unaudited)

5.

### **Collaborative Agreements**

On April 7, 2008, the Company ratified with Cary Pharmaceutical an Agreement to jointly develop and commercialize an oral antidepressant using IntelGenx's proprietary oral delivery technology. Under the terms of the agreement, IntelGenx will provide funding and development support for the product and will be entitled to profit sharing. The Company accounts for this transaction as a collaborative agreement as defined as EITF 07-1 "Accounting for Collaborative agreements". Per the Agreement, \$2,000,000 of the Company's cash and cash equivalents will be restricted for the funding of this venture. This cash was taken from the proceeds of the private placement of March 27, 2008. In accordance with the project plan, as of September 30, 2008, the Company has disbursed approximately \$1,275,479 on the project resulting in a restricted cash balance of \$724,521. Included within these disbursements is approximately \$222,236 paid to Cary Pharmaceutical in respect of management fees. All expenses incurred with respect to the collaborative agreement were expensed in the statement of operations and were classified as research and development expenses and professional fees.

6.

### **Convertible Notes**

On May 22, 2007 the Company entered into convertible note agreements with certain institutional and accredited investors for amounts totaling \$1,500,000. The convertible notes bear interest at the rate of 8% per annum and are repayable on September 22, 2009. Interest is payable quarterly and payments commenced on July 1, 2007. The notes are convertible into common stock of the Company, at the option of the holders, at a rate of \$0.70 per share. The Company also issued to the holders 2,142,857 stock purchase warrants exercisable at \$1.02 per share before May 22, 2012.

On May 22, 2007, the Company paid approximately \$229,323 in cash consideration and issued warrants with a fair value of \$82,993 in consideration for transaction costs. These transaction costs were allocated between the convertible debt and the warrants based on their relative fair value.

The Company may, at its option, elect to pay the interest by the issuance of common shares. The number of shares is to be determined by dividing the amount of the interest payment by the number which is 85% of the average market price of the Company's common shares for the 20 trading days immediately prior to the interest payment date assuming the average market price is equal or greater than \$0.70 as adjusted for reverse and forward share splits, recapitalizations and the like that occur after the date of the Securities Purchase Agreements.

In accordance with EITF Issue 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios", the Company recognized the value of the embedded beneficial conversion feature of \$490,093 as additional paid-in capital and an equivalent discount which will be expensed over the term of the convertible notes. In addition, in accordance with EITF Issue 00-27 "Application of Issue No.98-5 to Certain Convertible Instruments", the Company has allocated the proceeds of issuance between the convertible notes and the detachable warrants based on their relative fair value. Accordingly, the Company recognized the fair value of the detachable warrants of \$490,093 as additional paid-in capital and an equivalent discount against the convertible

notes. The difference between the face amount of the convertible notes and their carrying value is amortized over the life of the convertible notes. The Black-Scholes Model was used to calculate the fair value of the warrants.

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IntelGenx Technologies Corp.

Notes to Consolidated Interim Financial Statements

September 30, 2008

Expressed in U.S. Funds

(Unaudited)

6.

**Convertible Notes (Cont d)**

The underlying assumptions included in the Black-Scholes Model were as follows:

|                         |         |
|-------------------------|---------|
| Expected volatility     | 64%     |
| Contractual life        | 5 years |
| Risk-free interest rate | 4.39%   |
| Dividend yield          | Nil     |

Substantially all of the assets of the Company have been pledged as security of the convertible notes. For the nine months ended September 30, 2008, \$79,215 (2007- \$43,000) of interest has been paid, and \$348,889 (2007- \$95,664) of interest has been accreted. In the second quarter of 2008, \$165,000 convertible notes were exchanged for 235,714 shares of common stock.

7.

**Commitments**

On May 29, 2008, the Company signed a new agreement with Auctus Capital for investor relation services. As part of the terms of this agreement, the Company is required to pay CDN \$6,000 (US- \$5,638) a month to Auctus Capital for a period of one year.

8.

**Capital Stock**

|   | September 30,<br>2008 | December 31,<br>2007 |
|---|-----------------------|----------------------|
| Authorized -  |                       |                      |
| 100,000,000 common shares of \$0.00001 par value          |                       |                      |
| 20,000,000 preferred shares of \$0.00001 par value        |                       |                      |
| Issued -  |                       |                      |
| 20,850,002 (December 31, 2007 - 16,157,146) common shares | \$ 209                | \$ 162               |

On March 27, 2008, as part of a private placement, the Company issued 4,001,000 units for gross proceeds of \$2,800,700. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of \$1.02 per common share and expires 24 months after the date of issuance. Proceeds were allocated between the common shares and the warrants based on their relative fair value. The common shares were recorded at a value of \$2,127,960. (See note 9 for the portion allocated to the warrants.)

IntelGenx Technologies Corp.

Notes to Consolidated Interim Financial Statements

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(Unaudited)

8.

**Capital Stock (Cont d)**

The Company paid an agent a cash commission in the amount of \$196,000, which is equal to 7% of the gross proceeds of the offering and issued an agent option entitling the agent to acquire 320,080 units (consisting of one common share and one common share purchase warrant) at \$0.70 per unit, which expire 24 months after the date of issuance. Each common share purchase warrant included in the unit entitles the holder to purchase one common share at an exercise price of \$1.02 per common share and expires 24 months after the date of issuance of the unit.

In addition, the Company paid approximately \$256,000 in cash consideration for other transaction costs. All the above transaction costs have been reflected as a reduction of the common shares and the warrants based on their relative fair values.

Pursuant to the terms of the private placement, the Company was obliged to use its best efforts to (i) have the common shares listed on the TSX Venture Exchange, and (ii) prepare and file with, and have declared effective, by the U.S. Securities and Exchange Commission, a resale registration statement in respect of the common shares and the warrants issued to subscribers as well as those issuable upon exercise of the agents warrants, all prior to 4 months after March 27, 2008. All of these provisions were satisfied within the required time limits during the second quarter.

On April 22, 2008, \$100,000 warrants were exercised for 100,000 common shares having a par value of \$1 for cash consideration of \$41,000, resulting in an increase in additional paid-in capital of \$40,999.

On April 22, 2008, the Company entered into agreements to amend the anti-dilution terms of the convertible notes. As consideration for entering into this amendment, the Company agreed to issue to the holders of the convertible notes an aggregate of 159,456 fully paid common shares having a par value of \$2 in aggregate, resulting in an increase in additional paid-in capital of \$111,617.

During the first nine months of 2008, 191,500 stock options were exercised for 191,500 common shares having a par value of \$2 in aggregate, for cash consideration of \$88,665, resulting in an increase in additional paid-in capital of \$88,663.

During the first nine months of 2008, 235,714 common shares were issued as a result of the conversion of \$165,000 of convertible notes.

IntelGenx Technologies Corp.

Notes to Consolidated Interim Financial Statements

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(Unaudited)

9.

**Additional Paid-In Capital****Stock Options**

On March 27, 2008, IntelGenx Technologies Corp. issued 320,080 agent's options exercisable into one common share and one stock purchase warrant per agent's option. The exercise price of the option and the stock purchase warrant are \$0.70 and \$1.02 respectively and they expire on March 27, 2010. As at September 30, 2008, no agent's options were exercised. The agent's options were issued as part of the transaction costs in connection with the private placement described in note 6. The agent's options were accounted for at their fair value, as determined by the Black-Scholes valuation model, of \$95,000, using the assumptions below:

|                         |         |
|-------------------------|---------|
| Expected volatility     | 77%     |
| Expected life           | 2 years |
| Risk-free interest rate | 1.75%   |
| Dividend yield          | Nil     |

A modification was made to the 2006 Stock Option Plan. The life of the options was reduced from 10 years to 5 years to comply with the regulations of the TSX-V. Accordingly, because the grant-date fair value of the modified options was less than the fair value of the original options measured immediately before the modification, no incremental share-based compensation expense resulted from the modification.

On May 22, 2008, the Company granted 51,176 stock options to two non-employee directors to purchase common shares. The stock options are exercisable at \$0.85 per share and have a term of 5 years with immediate vesting provisions. The stock options were accounted for at their fair value, as determined by the Black-Scholes valuation model, of \$21,329, using the following assumptions:

|                         |           |
|-------------------------|-----------|
| Expected volatility     | 76%       |
| Expected life           | 2.5 years |
| Risk-free interest rate | 2.70%     |
| Dividend yield          | Nil       |

On May 29, 2008, 400,000 stock options were granted to Auctus Capital as compensation for investor relation services. The option grant was subject to shareholder approval to increase the number of shares to be issued under the stock option plan, which was subsequently given at the Annual General Meeting, held on September 8, 2008. The exercise price of the options is \$1. The options vest based upon a combination of the achievement of certain performance conditions and the passage of time. As of September 30, 2008, performance conditions have been met for the 200,000 options tranche. The first tranche of the 200,000 stock options were accounted for at its fair value, as determined by the Black-Scholes valuation model, of \$86,112, using the following assumptions:

|                         |            |
|-------------------------|------------|
| Expected volatility     | 75%        |
| Expected life           | 2.69 years |
| Risk-free interest rate | 2.81%      |
| Dividend yield          | Nil        |

IntelGenx Technologies Corp.

Notes to Consolidated Interim Financial Statements

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(Unaudited)

9.

### Additional Paid-In Capital (Cont d)

As a result of the May 29, 2008 grant, the Company recorded a compensation expense of \$28,224 in the nine-month period ended September 30, 2008 for the first tranche of 200,000 options. As at September 30, 2008, the performance conditions for the second tranche of 200,000 stock options has not yet been achieved and as such no compensation expense has been recognized.

On September 8, 2008, the Company granted 75,000 stock options to a non-employee director to purchase common shares. The stock options are exercisable at \$0.85 per share and have a term of 5 years with immediate vesting provisions. The stock options were accounted for at their fair value, as determined by the Black-Scholes valuation model, of \$30,398, using the following assumptions:

|                         |           |
|-------------------------|-----------|
| Expected volatility     | 78%       |
| Expected life           | 2.5 years |
| Risk-free interest rate | 2.40%     |
| Dividend yield          | Nil       |

On September 8, 2008, the Company granted 100,000 stock options to an officer to purchase common shares. The stock options are exercisable at \$0.85 per share, have a term of 5 years and vest in equal increments over two years at 25% every six months. The stock options were accounted for at their fair value, as determined by the Black-Scholes valuation model, of \$39,735, using the following assumptions:

|                         |           |
|-------------------------|-----------|
| Expected volatility     | 76%       |
| Expected life           | 3.1 years |
| Risk-free interest rate | 2.49%     |
| Dividend yield          | Nil       |

During the first nine months of 2008, the Company recognized \$45,321 in stock-based compensation for options granted to employees in 2006, 2007 and 2008 (2007- \$23,733) and \$52,183 for options granted to non-employees directors (2007-\$61,488).

### Warrants

On March 19, 2008, the Company restated the exercise price of the warrants initially issued with respect to the convertible notes transaction on May 22, 2007 from \$1.02 to \$0.80. This modification was treated as an exchange of the original warrant for a new warrant in accordance to FAS 123 (R) "Share-based payments". This resulted in an increase in fair value of the warrants of \$92,571. This increase was recorded as an additional compensation expense and a corresponding increase in additional paid-up capital.

IntelGenx Technologies Corp.

Notes to Consolidated Interim Financial Statements

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(Unaudited)

9.

#### Additional Paid-In Capital (Cont d)

On March 27, 2008, IntelGenx Technologies Corp. issued 4,001,000 stock purchase warrants exercisable into common shares at \$1.02 per share which expire on March 27, 2010. The Stock purchase warrants were issued in connection with the private placement described in note 6. The stock purchase warrants were valued at \$672,740 based on their relative fair value, as determined by the Black-Scholes valuation model using the assumptions below:

|                         |         |
|-------------------------|---------|
| Expected volatility     | 77%     |
| Expected life           | 2 years |
| Risk-free interest rate | 1.75%   |
| Dividend yield          | Nil     |

As at March 31, 2008, 5,186 shares of common stock were issued as a result of the cashless exercise of 10,638 warrants with an exercise price of \$0.41 and a fair value of \$0.80. These warrants were initially granted for services rendered pursuant to the share exchange transaction of April 28, 2006.

10.

#### Income Taxes

##### Deferred Income Taxes

The balance of deferred income taxes as at September 30, 2008 represents the tax effect of the convertible debt arising from the difference between the convertible debt's basis for accounting purposes and that for income tax purposes and it has been charged to additional paid-in capital. As the convertible debt is repaid, the deferred tax liability will be charged to expenses.

11.

#### Related Party Transactions

During the nine month period ending September 30, 2008, the Company incurred expenses of approximately \$14,783 (2007 - \$13,744) for laboratory equipment leased from a shareholder, who is also an officer of the Company, and \$4,638 (2007 - \$4,157) for interest on the loan payable shareholder.

Included in professional fees are \$Nil (2007 - \$18,104) paid to a director of the Company.

Included in interest and financing fees are \$Nil (2007 - \$79,477) for share-based compensation to an officer and director of the Company.

Included in management salaries are \$14,969 (2007 - \$4,244) for options granted to the CFO under the 2006 Stock Option Plan and \$52,132 for options granted to non employee directors in May and September of 2008.

Also included in management salaries are \$43,217 cash compensation in form of a retainer for two non employee directors.

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IntelGenx Technologies Corp.

Notes to Consolidated Interim Financial Statements

September 30, 2008

Expressed in U.S. Funds

(Unaudited)

11.

Related Party Transactions (Cont d)

Included in accounts payable and accrued liabilities is approximately \$7,353 (2007 - \$7,800) payable to shareholders, who are also officers of the Company and a cash retainer of \$21,306 (2007-Nil) payable to a director.

The above related party transactions have been measured at the exchange amount which is the amount of the consideration established and agreed to by the related parties.

12.

Basic and Diluted Loss Per Common Share

Basic and diluted loss per common share is calculated based on the weighted average number of shares outstanding during the period. The warrants, share-based compensation and convertible notes have been excluded from the calculation of diluted loss per share since they are anti-dilutive.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with the unaudited consolidated financial statements for the nine month periods ended September 30, 2008 and 2007 and notes thereto. Unless otherwise indicated or the context otherwise requires, the "Company", "we", "us", and "our" refer to IntelGenx Technologies Corp. and its subsidiaries including IntelGenx Corp. ("IntelGenx")

### Overview

#### Company Background

We are a drug delivery company established in 2003 and headquartered in Montreal, Quebec, Canada, which focuses on the development of novel oral immediate-release and controlled-release products for the pharmaceutical market. Our business strategy is to develop pharmaceutical products based on our proprietary drug delivery technologies and then license commercial rights for such products to pharmaceutical partners once the viability of a product has been demonstrated. We expect a partner company will, in some cases, fund development of the licensed products, complete the regulatory approval process with the U.S. Food and Drug Administration (FDA) or other regulatory agencies relating to the licensed products, and assume responsibility for marketing and distributing such products.

In addition, the Company anticipates that it may undertake full development of certain products without seeking a partner until the product reaches the marketing and distribution stage. The Company will assess the potential for successful development of a product and associated costs, and then determine at which stage it is most prudent to seek a partner, balancing such costs against the potential for additional returns earned by partnering later in the development process.

The Company has also undertaken a strategy under which it will work with pharmaceutical companies in order to develop new dosage forms in addition to already existing ones for pharmaceutical products for which patent protection is about to expire. Under §(505)(b)(2) of the Food, Drug, and Cosmetics Act, the FDA will grant a market exclusivity of up to three years for such a new dosage form. The Company anticipates significant returns from successfully obtaining market exclusivity in this manner.

The Company is currently continuing to develop the existing products in its pipeline and may also perform research and development on other potential products as the opportunities present themselves.

The Company currently purchases and/or leases, on an as-needed basis, the equipment necessary for performing research and development activities related to its products.

The Company will hire new personnel, primarily in the area of research and development, on an as-needed basis as the Company enters into partnership agreements and increases its research and development activities.

### Recent announcements

#### CPI-300

On October 9, 2008 the Company issued a joint press release with Cary Pharmaceuticals, its collaboration partner in the development of the antidepressant "CPI 300" project.

The press release announced positive results from pivotal clinical trials undertaken in September 2008, which confirm that CPI 300 is bioequivalent to the reference product.



CPI-300 was formulated using IntelGenx's proprietary controlled release technology. It contains a new strength of antidepressant developed to complete the dosing options for physicians who currently prescribe the drug. CPI-300 provides a more convenient dosing option for those patients currently taking the higher strength. It is expected to be indicated for the treatment of major depressive disorder (MDD).

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IntelGenx and Cary Pharmaceuticals will be filing a New Drug Application ("NDA") (505(b)(2) based on the successful results of this study. Approval of the product is expected during the second half of 2009. Commercialization of the product will follow, and management believes that it has the potential to generate substantial income for the Company.

### Currency rate fluctuations

The Company's operating currency is Canadian dollars while its reporting currency is U.S. dollars and, as such, the Company's results of operations and balance sheet position have been affected by currency rate fluctuations. The following management discussion and analysis takes this into consideration whenever significant.

Results of Operations nine months ended September 30, 2008 compared to the nine month period ended September 30, 2007.

|                                     | 2008        | 2007       | Increase/<br>(Decrease) | Percentage<br>Change |
|-------------------------------------|-------------|------------|-------------------------|----------------------|
| Revenue                             | \$ 738,270  | \$ 602,113 | \$ 136,157              | 23%                  |
| Research and Development Expenses   | 1,630,672   | 548,697    | 1,081,975               | 197%                 |
| Research and Development Tax Credit | (132,249)   | (81,464)   | (50,785)                | 62%                  |
| Management Salaries                 | 464,612     | 217,683    | 246,929                 | 113%                 |
| General and Administrative Expenses | 168,655     | 115,030    | 53,625                  | 47%                  |
| Professional Fees                   | 658,226     | 293,481    | 364,745                 | 124%                 |
| Interest and Financing Fees         | 633,383     | 219,815    | 413,568                 | 188%                 |
| Foreign Exchange                    | (153,260)   | (485)      | (152,775)               | 31,500%              |
| Net Income (Loss)                   | (2,454,118) | (741,055)  | (1,713,063)             | 231%                 |
| Revenue                             |             |            |                         |                      |

Total revenue for the nine months ended September 30, 2008 was \$738,269, compared with \$602,113 for the same period in 2007, and represents an increase of \$136,156, or 23%.

The increase in revenue is primarily attributable to revenues received pursuant to our research and development agreements with our pharmaceutical partners for development milestones achieved, which amounted to \$708,097 in the nine months to September 30, 2008 compared with \$602,113 in the same period prior year.

Also included within revenue is interest income of \$30,172 earned on the cash proceeds from the sale of our securities in May 2007 and in March 2008.

### Research and Development Expenses

Research and development expenses for the nine months ended September 30, 2008 were \$1,630,672 and represent an increase of \$1,081,975 compared to the same period in 2007.



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Included within R&D expenses for 2008 are approximately \$793,583 of costs related to the development of the CPI-300 pursuant to the collaboration agreement with Cary Pharmaceuticals. These expenses, whilst significant, are in line with both the project plan and with management's expectations. They include approximately \$474,745 related to clinical trials for the Food Effect Study and the Bioequivalence Study undertaken in recent months.

The remainder of the increase is primarily attributable to the increased drug development activities of our other projects.

Also included within R&D expenses for 2008 are R&D Salaries of \$263,202 (\$223,616 in 2007), approximately \$11,487 (\$14,900 in 2007) of which are non-cash compensation.

Since research and development expenses are directly related to the amount of R&D work performed, management expects a further increase of R&D expenses during the current year due to a further increase of development projects.

For the nine months ended September 30, 2008, we have recorded estimated Research and Development Tax Credits and refunds of \$132,249 (\$81,464 in 2007).

### Management Salaries and General and Administrative Expenses

Management salaries increased to \$464,612 for the nine month period ended September 30, 2008 (\$217,683 in 2007) while general and administrative expenses increased to \$168,655 (\$115,030 in 2007).

Included in management salaries are approximately \$43,217 in non-recurring cash compensation in the form of a retainer to non employee directors of the Company, approximately \$51,727 in non cash compensation in the form of options granted to non-employee directors, and approximately \$33,729 in non cash compensation in the form of options granted to management employees in 2007 and 2008. The remaining cash increase in management salaries is attributable to the addition of the full time Chief Financial Officer and Vice-President Business Development.

The increase in G&A expenses is attributed to the increase in corporate operations.

### Professional Fees

Professional fees for the nine month period ended September 30, 2008 increased to \$658,227 from \$293,481 for the same period in 2007.

Included within the costs for 2008 are management fees of approximately \$222,230 related to the CPI 300 project, and expenses of approximately \$108,714 related to the Company's listing on the TSX Venture Exchange.

### Share-Based Compensation Expense, Warrants and Stock Based Payments

Share-based compensation expenses, warrants and share based payments totaled \$329,918 for the nine month period ended September 30, 2008 compared to \$195,635 for the nine months ended September 30, 2007.

We expensed \$111,619 related to the amendment of the anti-dilution terms of the convertible notes whereby, as consideration for entering into this amendment, the Company agreed to issue to the holders of the convertible notes an aggregate of 159,456 fully paid common shares. At the same time, the exercise price of the outstanding warrants to the debenture holders was adjusted from \$1.02 to \$0.80 resulting in an increase in the fair value of the warrant and an additional compensation charge of \$92,571.

We also expensed approximately \$45,216 during the first nine months of 2008 for options granted to Company employees in 2006, 2007 and 2008 under the 2006 Stock Option Plan, \$51,727 for options granted to non-employee

directors, and \$28,785 for options granted to Auctus Capital as per the investor relation agreement.

There remains approximately \$118,484 in stock based compensation to be expensed in fiscal 2008 through 2010 related to the issuance of options during 2006, 2007 and 2008. We anticipate issuance of additional options and warrants in the future, which will continue to result in stock-based compensation expense.

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#### Financing Cost

We incurred interest and financing fee expense of \$633,383 during the nine month period ended September 30, 2008 compared to \$219,815 for the same period in 2007. Included within these expenses for 2008 are approximately \$553,079 of non-cash items.

The costs in 2008 relate primarily to a non-cash accretion expense of \$348,889 and cash interest payments of \$79,215 on the convertible debentures issued in May 2007,

In addition, we expensed a non-cash amount of \$111,619 related to the amendment of the anti-dilution terms of the convertible notes whereby, as consideration for entering into this amendment, the Company agreed to issue to the holders of the convertible notes an aggregate of 159,456 fully paid common shares. At the same time, the exercise price of the outstanding warrants to the debenture holders was adjusted from \$1.02 to \$0.80 resulting in an increase in the fair value of the warrant and an additional non-cash compensation charge of \$92,571.

Based on the outstanding principal amount of the convertible debentures issued in May 2007, and assuming no additional conversions of these debentures into common stock, we expect to incur additional interest expense of approximately \$24,605 in the remainder of 2008 and approximately \$632,442 of accreted interest.

#### Net Loss

The net loss for the nine month period ended September 30, 2008 was \$2,454,118, as compared to a net loss of \$741,055 for the same period in 2007.

The increase of \$1,713,063 in the net loss for the nine month period ended September 30, 2008 is primarily due to:

a)

The increase in research and development expenses of \$1,081,975, of which approximately \$793,583 relates to the collaboration agreement with Cary Pharmaceuticals,

b)

The increase of \$246,929 for management salaries, primarily due to the full year effect of Chief Financial Officer and the Vice-President Business Development, plus approximately \$43,217 in non-recurring cash compensation to non employee directors,

c)

The increase in professional fees of \$364,746, primarily due to management fees of approximately \$222,230 related to the CPI 300 antidepressant, and expenses of approximately \$108,714 related to the Company's listing on the TSX Venture Exchange.

Included within the net loss for the first nine months of 2008 are non-cash related expenses totaling approximately \$719,078 as follows:

a)

\$348,889 in respect of accretion expense on the convertible debentures issued in May 2007.

b)

\$111,619 related to the amendment of the anti-dilution terms of the convertible notes whereby, as consideration for entering into this amendment, the Company agreed to issue to the holders of the convertible notes an aggregate of 159,456 fully paid common shares.

c)

\$92,571 additional compensation charge relating to the amendment of the exercise price of the outstanding warrants to the debenture holders from \$1.02 to \$0.80 resulting in an increase in the fair value of the warrant.

d)

\$51,727 for options granted to non-employee directors.

e)

\$45,216 for options granted to Company employees.

f)

\$28,785 for options granted to Auctus Capital as per the investor relation agreement.

g)

\$40,271 in respect of the amortization of fixed assets.

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Key items from the Balance Sheet    September 30, 2008 compared to December 31, 2007.

|                               | 2008         | 2007         | Increase/<br>(Decrease) | Percentage<br>Change |
|-------------------------------|--------------|--------------|-------------------------|----------------------|
| Current Assets                | \$ 2,031,548 | \$ 1,035,920 | \$ 995,628              | 96%                  |
| Property and Equipment        | 187,887      | 235,244      | (47,357)                | 20%                  |
| Current Liabilities           | 730,661      | 261,485      | 469,176                 | 179%                 |
| Loan Payable, Shareholder     | 94,261       | 101,193      | (6,932)                 | 7%                   |
| Convertible notes             | 597,799      | 417,634      | 180,165                 | 43%                  |
| Deferred Income Tax Liability | 161,064      | 278,988      | (117,924)               | 42%                  |
| Capital Stock                 | 209          | 162          | 47                      | 29%                  |
| Additional Paid-in-Capital    | 5,045,473    | 2,071,818    | 2,973,655               | 144%                 |
| Current Assets                |              |              |                         |                      |

Current assets totaled \$2,031,548 as at September 30, 2008 compared to \$1,035,920 as at December 31, 2007. The increase of \$995,628 is primarily attributable to an increase in cash resulting from the completion of our private placement on March 27, 2008.

### Prepaid Expenses

As at September 30, 2008 prepaid expenses totaled \$66,140 compared to \$23,443 at December 31, 2007. The increase of \$42,697 is primarily attributable to annual insurance premiums paid, less applicable amortization to date, prepaid commission in respect of business development activities, and the payment of a security deposit of \$18,507 in respect of negotiations regarding a lease agreement for new premises that the Company plans to relocate to in Q1, 2009.

### Liquidity and Capital Resources

Cash and cash equivalents of \$1,490,533 as at September 30, 2008 increased by \$1,159,566 compared to the balance of \$330,967 as at December 31, 2007. The increase relates to the private placement completed on March 27, 2008.

Included within Cash and Cash Equivalents as at September 30, 2008, is a restricted cash amount of \$724,521. This amount represents the remaining balance of the \$2,000,000 cash that was set aside under the terms of the Collaborative Agreement ratified on April 7, 2008 with Cary Pharmaceuticals to jointly develop and commercialize an oral antidepressant using IntelGenx's proprietary oral delivery technology.

As at September 30, 2008 accounts receivable totaled \$352,730 and investment tax credits receivable totaled \$122,145 compared to \$427,476 and \$243,006 respectively as at December 31, 2007.

As at September 30, 2008 accounts payable and accrued liabilities amounted to \$730,661 (\$261,485 as at December 31, 2007), of which approximately \$52,486 relates to professional fees, \$391,524 relates to research and development activities and \$20,438 relates to a retainer to a non-employee director of the Company. Included within other accruals is approximately \$7,353 due to a shareholder.

With the funds received as a result of the financing on March 27, 2008, we are confident that we have sufficient cash available to satisfy our requirements for the current year. Nonetheless, the Company is investigating the possibility to raise additional capital in the fall of 2008 in order to accelerate certain of its development projects. As at September 30, 2008 total assets amounted to \$2,219,435 and shareholders' equity amounted to \$635,650 (\$1,271,164 and \$211,864 respectively as at December 31, 2007).



Property and Equipment

As at September 30, 2008 the net book value of property and equipment amounted to \$187,887 compared to \$235,244 at December 31, 2007. In the nine months ended September 30, 2008 additions to assets totaled \$7,388 and comprised \$3,219 for computer equipment, \$2,014 for laboratory equipment, and \$2,155 for office equipment, fixtures and fittings. Total depreciation in the nine months ended September 30, 2008 amounted to \$40,271 and a foreign exchange loss of \$14,474 was recorded.

Loan Payable, Shareholder

As at September 30, 2008 the loan payable, shareholder amounted to \$94,261 compared to \$101,193 at December 31, 2007. The difference of \$6,932 reflects the currency exchange rate fluctuation.

Convertible Notes Financing

On May 22, 2007 the Company entered into convertible note agreements with certain institutional and accredited investors for amounts totaling \$1,500,000. The convertible notes bear interest at the rate of 8% per annum and are repayable on September 22, 2009. Interest is payable quarterly and payments commenced on July 1, 2007. The notes are convertible into common shares of the Company, at the option of the holders, at a conversion price of \$0.70 per share. The Company also issued to the holders 2,142,857 stock purchase warrants exercisable at \$1.02 per share before May 22, 2012. The exercise price was subsequently amended to \$0.80 per share in the second quarter of 2008.

The Company may, at its option, elect to pay the interest by the issuance of common shares. The number of shares is to be determined by dividing the amount of the interest payment by the number which is 85% of the average market price of the Company's common shares for the 20 trading days immediately prior to the interest payment date assuming that the average market price is equal or greater than \$0.70 as adjusted for reverse and forward share splits, recapitalizations and the like that occur after the date of the Securities Purchase Agreements.

On May 22, 2007 the Company paid approximately \$229,323 in cash consideration and issued warrants with a fair value of \$82,993 in consideration for transaction costs. These transaction costs were allocated between the convertible debt and the warrants based on their relative fair value.

In the second quarter of 2008 the Company issued 159,456 shares of common stock at \$0.70 per share for a total of \$111,619 to convertible note holders. The compensation was for acceptance of the amendment of the anti-dilution terms of the convertible notes required in connection with the Company's TSX listing. At the same time the exercise price of the warrants was amended from \$1.02 to \$0.80 per share.

As at September 30, 2008 we had convertible notes of \$597,799 outstanding compared with \$417,634 at December 31, 2007. In 2008, this represents \$1,230,241 in convertible note financing less unamortized discount and deferred charges of \$632,442. During the first nine months of 2008 a total of 235,714 debentures were converted into common shares resulting in an increase of \$165,000 in additional paid in capital.

Capital Stock

On March 27, 2008, as part of a private placement, the Company issued 4,001,000 units for gross proceeds of \$2,800,700. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of \$1.02 per common share and expires 24 months after the date of issuance.

The Company paid an agent a cash commission in the amount of \$196,000, which is equal to 7% of the gross proceeds of the offering and issued an agent option entitling the agent to acquire 320,080 units at \$0.70 per unit, which expires

24 months after the date of issuance. Each warrant entitles the holder to purchase one common share at an exercise price of \$1.02 per common share and expires 24 months after the date of issuance of the unit.

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The cash consideration paid to the agent and the fair value of the agent option is reflected as a reduction to the additional paid-in capital.

Pursuant to the terms of the private placement, the Company was obliged to use its best efforts to (i) have the common shares listed on the TSX Venture Exchange, and (ii) prepare and file with, and have declared effective, by the U.S. Securities and Exchange Commission, a resale registration statement in respect of the common shares and the warrants issued to subscribers as well as those issuable upon exercise of the agents warrants, all prior to 4 months after March 27, 2008. The Company fully satisfied these provisions within the required time limits during the second quarter of 2008.

As at September 30, 2008, capital stock amounted to \$209 compared to \$162 at December 31, 2007. The increase reflects the issue of 4,692,856 shares at par value of \$0.00001, the majority of which relates to the private placement completed on March 27, 2008. Capital stock is disclosed at its par value with the excess of proceeds shown in Additional Paid-in-Capital.

#### Additional Paid-in-Capital

Additional paid-in capital totaled \$5,045,473 as at September 30, 2008 compared to \$2,071,818 at December 31, 2007. The change is made up of increases of \$2,127,920, \$672,740, and \$95,000 for the private placement in relation to common stock issued, warrants, and agent compensation respectively as well as a decrease of \$546,581 for transaction costs. Additional paid in capital also increased by \$329,916 for stock based compensation of which \$111,617 relates to compensation to convertible note holders for acceptance of the amendment of the anti-dilution terms of the convertible notes required in connection with the Company's TSX listing and \$92,571 relates to the adjustment of the exercise price of the warrants held by the convertible note holders from \$1.02 to \$0.80, \$125,728 relates to the amortization of stock options granted to employees, grants to directors and the investor relation company. Additional paid in capital increased further by \$164,998 for converted debentures, by \$88,663 for options exercised, and by \$40,999 for warrants exercised.

Key items from the Statement of Cash Flows nine months ended September 30, 2008 compared to the nine month period ended September 30, 2007.

|  | 2008           | 2007         | Increase/<br>(Decrease) | Percentage<br>Change |
|--|----------------|--------------|-------------------------|----------------------|
| Operating Activities                     | \$ (1,219,847) | \$ (498,920) | \$ (720,927)            | 145%                 |
| Financing Activities                     | 2,478,784      | 1,162,806    | 1,315,978               | 113%                 |
| Investing Activities                     | (732,088)      | (27,416)     | 704,672                 | 2,570%               |
| Cash and cash equivalent - end of period | 766,012        | 910,062      | 144,050                 | 16%                  |
| Statement of cash flows                  |                |              |                         |                      |

Net cash used by operating activities in the nine months to September 30, 2008 was \$1,219,847 compared to a use of \$498,920 for the same period in 2007. In the first nine months of 2008, net cash used by operating activities consisted of an operating loss of \$2,454,118 and an increase in non-cash operating elements of working capital of \$633,116.

Non-cash items included in operating activities totaled \$601,155 and included:

- a)
- \$348,889 in respect of accretion expense on the convertible debentures issued in May 2007

- b)

\$111,619 related to the amendment of the anti-dilution terms of the convertible notes whereby, as consideration for entering into this amendment, the Company agreed to issue to the holders of the convertible notes an aggregate of 159,456 fully paid common shares.

c)

\$92,571 additional compensation charge relating to the amendment of the exercise price of the outstanding warrants to the debenture holders from \$1.02 to \$0.80 resulting in an increase in the fair value of the warrant.

d)

\$51,727 for options granted to non-employee directors.

e)

\$45,216 for options granted to Company employees.

f)

\$28,785 for options granted to Auctus Capital as per the investor relation agreement.

g)

\$40,271 in respect of the amortization of fixed assets.

h)

(\$117,923) in respect of deferred income tax related to the convertible debt.

Our operating activities will continue to consume our available funds until we can generate increased sales revenues.

The net cash provided by financing activities was \$2,478,784 for the nine months ended September 30, 2008 compared to \$1,162,806 provided in the same period in 2007. Of the net cash provided by financing activities in 2008, \$2,800,700 came from a private placement financing completed on March 27, 2008 less \$451,581 used to pay related transaction costs and \$129,665 was generated from the issue of capital stock in the second and third quarters.

The net cash used in investing activities was \$732,088 for the nine months ended September 30, 2008 (compared to a use of funds of \$27,416 for the same period in 2007) includes \$724,521 of cash restricted for the CPI-300 project under the collaborative agreement with Cary Pharmaceuticals. Cash of \$7,567 was used to purchase capital assets in 2008.

In accordance with the collaborative agreement between the Company and Cary Pharmaceutical dated April 7, 2008 the Company agreed to restrict \$2,000,000 of its cash reserves in development support activities for an oral antidepressant using the Company's proprietary oral delivery technology. As at September 30, 2008, in line with project planning and management's expectations, the Company had disbursed approximately \$1,275,479 of the \$2,000,000

The balance of cash as at the end of September 2008 was \$766,012 compared to \$910,062 at September 30, 2007. This amount does not include the restricted cash for the CPI-300 project. The decrease in cash is primarily due to an increase in R&D expenses, the full year effect of management salaries, and costs associated with the Company's listing on the TSX Venture Exchange.

#### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Forward-Looking and Cautionary Statements

This report contains certain forward-looking statements that involve risks and uncertainties relating to, among other things, our future financial performance or future events. Forward-looking statements give management's current expectations, plans, objectives, assumptions or forecasts of future events. All statements other than statements of current or historical fact contained in this Form 10Q, including statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "anticipate," "estimate," "plans," "potential," "projects," "ongoing," "expects," "management believes," "we believe," "we intend," and similar expressions. These statements involve known and unknown risks, estimates, assumptions and uncertainties that could cause actual results to differ materially from the results set forth in this Annual Report. You should not place undue reliance on these forward-looking statements. You should be aware that our actual results could differ materially from those contained in the forward-looking statements due to a number of factors such as:

continued development of our technology;

lack of product revenues

successful completion of clinical trials and obtaining regulatory approval to market

ability to protect our intellectual property

dependence on collaborative partners

ability to generate positive cash flow

ability to raise additional capital if and when necessary

dependence on key personnel;

competitive factors;

the operation of our business;

and general economic conditions.

These factors should be considered carefully and readers are cautioned not to place undue reliance on such forward looking statements. These forward-looking statements speak only as of the date on which they are made, and except to the extent required by federal securities laws, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Item 3. Controls and Procedures.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of management, including our chief executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based upon that evaluation, our chief executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to cause the material information required to be disclosed by us in the reports that we file or submit under the Exchange Act to be recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There have been no significant changes in our internal controls or in other factors which could significantly affect internal controls subsequent to the date we carried out our evaluation.

PART II

Item 1. Legal Proceedings

There are no material pending legal proceedings to which we are a party or to which any of our property is subject and to the best of our knowledge, no such actions against us are contemplated or threatened.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

This Item is not applicable.

Item 3. Defaults Upon Senior Securities

This Item is not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

At the Annual General Meeting on September 8, 2008 each of our Directors was re-elected by the Shareholders of the Corporation. The Shareholders also appointed RSM Richter as the Auditors of the Company for 2008. Furthermore the Shareholders of the Corporation approved to amend the 2006 Stock Option Plan to increase the number of shares available for issuance under the Plan from 1,600,749 to 2,074,000, or 10% of the Company's issued and outstanding shares as of July 28, 2008.

Item 5. Other Information

This Item is not applicable.

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Item 6. Exhibits

Exhibit 31.1 Certification of C.E.O. Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification of Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification of C.E.O. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.2 Certification of Principal Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**INTELGENX TECHNOLOGIES CORPORATION**

Date: November 11, 2008

By: */S/ Horst Zerbe*  
Horst G. Zerbe  
President, C.E.O. and  
Director

Date: November 11, 2008

By: */S/ Paul Simmons*  
Paul Simmons  
Principal Accounting Officer

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