KANE BIOTECH INC.
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

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KANE BIOTECH INC.

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") covers information up to November 26, 2010 and should be read in conjunction with the unaudited interim financial statements for the nine month period ended September 30, 2010 and the audited financial statements for the year ended December 31, 2009, and related notes, which are prepared in accordance with Canadian generally accepted accounting principles. This discussion and analysis provides an update to the Management's Discussion and Analysis for the year ended December 31, 2009, and should be read in conjunction with this document. The Company's independent auditors, KPMG LLP Chartered Accountants, have not reviewed the unaudited interim financial statements. All amounts are expressed in Canadian Dollars unless otherwise noted. Additional information regarding the Company is available on SEDAR at www.sedar.com and on the Company's website at www.kanebiotech.com.

OVERVIEW

Kane Biotech Inc. ("Kane" or the "Company") is a biotechnology company engaged in the development and commercialization of products that prevent and remove microbial biofilms. Biofilms develop when bacteria and other microorganisms form a protective matrix that acts as a shield against attack. When in a biofilm, bacteria become highly resistant to antibiotics, antimicrobials, biocides and host immune responses. This resiliency contributes to numerous human health problems such as recurrent urinary tract infections, medical device associated infections and tooth decay. According to the National Institutes of Health (NIH), USA, biofilms are estimated to be responsible for 80% of all human infections and cost industry, governments and hospitals in the billions of dollars each year. As such, there is significant interest for safe and effective products to combat the biofilm problem.

Kane has a growing portfolio of products and intellectual property built upon three distinct technology platforms acquired from leading research institutions and the Company's own biofilm research expertise. These products that prevent and remove microbial biofilms, among other uses for these products, have been developed from the Company's ability to screen for factors affecting biofilm formation.

The Company is listed on the TSX Venture Exchange under the symbol "KNE".

Corporate Update

On November 16, 2010, the Company announced the issuance of Patent No. 7,833,523 entitled "Compositions and methods for enzymatic detachment of bacterial and fungal biofilms" by the United States Patent and Trademark Office. This is the fifth patent to be issued protecting Kane's DispersinB® technology. The other four patents include those already issued in the US (7,294,497) Australia (2003284385) and New Zealand (555378 and 540731). The new US patent specifically protects the use of DispersinB® in various types of wound care products that Kane is currently developing.

On November 8, 2010, the Company announced that its DispersinB® wound spray has passed the FDA-recommended sensitization test. The test was conducted by WuXi AppTec Inc. (St. Paul, MN) in compliance with Good Laboratory Practice (GLP). The in-vivo maximization sensitization test method is designed to evaluate the allergenic potential or sensitizing capacity of DispersinB® wound spray.

On November 2, 2010, the Company announced the appointment of Dr. Essam Hamza as an advisor to the board of directors. Dr. Hamza is CEO and co-founder of Hamza Thindal Capital Corporation, a capital markets consulting company. In addition, he has been a family physician for the past 11 years in British Columbia and Alberta, Canada.

Also on November 2, 2010, Kane announced a private placement offering (the "Offering") of up to 3,125,000 units ("Units") at a price of $0.08 per Unit for gross proceeds of up to $250,000. Each Unit will be comprised of one common share of the

Company (a "Share") and one Share purchase warrant. Each warrant (a "Warrant") will entitle the holder to purchase one Share at a price of $0.13 per Share for a period of 12 months from the date the Warrant is issued. The Warrant is callable, at the option of the Company, any time after four months from the date of close of the Offering in the event the Company's Shares trade at or above $0.20 per Share for any 20 out of 30 consecutive trading days.

On October 14, 2010, the Company announced that it had been selected as one of Canada's Top 10™ Emerging Life Sciences companies. Canada's Top 10™ is organized by OCRI (Ottawa Centre for Research and Innovation). The winners are chosen by an independent expert panel of Canadian and U.S. venture capitalists.

On October 4, 2010, Kane announced that its DispersinB® topical wound spray has passed the FDA-recommended cytotoxicity, primary skin irritation and genotoxicity tests. The tests were conducted in compliance with Good Laboratory Practice (GLP). The Genotoxicity tests included bacterial mutagenicity, in vitro mouse lymphoma and in vivo mouse micronucleus assays.

On September 30, 2010, the Company announced that its DispersinB® topical wound spray has passed all required quality control (QC) tests, including the sterility test, after a 12.5-week accelerated shelf-life study at 25°C and 60 RH (Relative Humidity), which is equivalent to a shelf-life of one year at 4°C. The DispersinB® topical wound spray was manufactured under current Good Manufacturing Practices (cGMP).

On September 21, 2010, Kane announced that the development and selection of hybridoma cell lines to produce anti-DispersinB® monoclonal antibodies for a DispersinB® immunoassay had been successfully completed. DispersinB® is a very active enzyme used in micro quantities. The development of a specific and sensitive monoclonal antibody-based immunoassay method for detection and quantification of DispersinB® in nanograms or micrograms is essential in the product's development. The successful cloning and selection of stable hybridoma cell lines producing an optimal antibody titer is an important step in the development of a DispersinB® enzyme-linked immunosorbent assay (ELISA) kit.

On September 15, 2010, Kane announced the appointment of Mr. Philip Renaud to its board of directors. Mr. Renaud is Managing Director of Church Advisors, a European investment advisory firm involved in private financings.

On July 20, 2010, the Company announced the appointment of Dr. Jeffrey B. Kaplan to its Scientific Advisory Board. Dr. Jeffrey B. Kaplan is an Associate Professor in the Department of Oral Biology at the University of Medicine and Dentistry of New Jersey and the discoverer of the antibiofilm enzyme DispersinB®.

On June 29, 2010, Kane announced the invention of biotech plants producing DispersinB® antibiofilm enzyme. This provides a proof of concept for developing bacterial disease resistant agricultural crops. The prevention of agricultural crop diseases such as 'soft rot' and 'bacterial wilt' is made possible by preventing the biofilm formation of bacterial pathogens Erwinia carotovora and Ralstonia solanacearum, respectively. DispersinB®-expressing plants are resistant to plant pathogens due to their ability to inhibit and disrupt biofilms. Additionally, this biotech plant can also be used as a bioreactor for commercial scale production of DispersinB® enzyme; an alternative to the fermentation process currently used to produce DispersinB®.

On February 23, 2010, Kane announced that its research and development team had made contributions to two new scientific books. At the invitation of the publishers, Humana Press and Nova Science Publishers, respectively, Kane's team has authored two book chapters reviewing its biofilm research methodology and the antibiofilm antimicrobial technology development strategy for bacterial infection control.

On January 20, 2010, the Company announced the issuance of Patent No. 2003284385 entitled "Compositions and methods for enzymatic detachment of bacterial and fungal biofilms" by IP Australia (Australian Patent and Trademark Office). Australia is the third country to issue a patent covering Kane Biotech's DispersinB® antibiofilm technology.

Intellectual Property

Patent #	Title	Jurisdiction
2,452,032	Synergistic Antimicrobial Compositions and Methods of Inhibiting Biofilm Formation	Canada
6,228,638	Escherichia coli CsrB and RNA Encoded Thereby	United States
6,923,962	Signal peptides, nucleic acid molecules and methods for Treatment of Caries	United States
7,144,992	Synergistic Antimicrobial Compositions and Methods for Reducing Biofilm Formation	United States
7,294,497	Compositions and Methods for Enzymatic Detachment of Bacterial and Fungal Biofilms	United States
7,314,857	Synergistic Antimicrobial Compositions and Methods of Inhibiting Biofilm Formation	United States
7,556,807	Signal Peptides, Nucleic Acid Molecules and Methods for Treatment of Caries	United States
7,597,895	Signal Peptides, Nucleic Acid Molecules and Methods for Treatment of Caries	United States
7,833,523	Compositions and Methods for Enzymatic Detachment of Bacterial and Fungal Biofilms	United States
540731	Compositions and Methods for Enzymatic Detachment of Bacterial and Fungal Biofilms	New Zealand
555378	Compositions and Methods for Enzymatic Detachment of Bacterial and Fungal Biofilms	New Zealand
2003284385	Compositions and Methods for Enzymatic Detachment of Bacterial and Fungal Biofilms	Australia
556114	Signal peptides, Nucleic Acid Molecules and Methods for Treatment of Caries	New Zealand

The Company has 29 pending patents. Successful development of products to prevent and remove microbial biofilms may be dependent upon the ability to obtain these patents; however, there is no guarantee they will be obtained, and, if obtained, it may not be possible to successfully defend against any subsequent infringements to these patents. Currently the Company is unaware that it has infringed on any existing patents issued to third parties and success may, in part, depend on operating without such infringement.

Trademark	Jurisdiction
Kane®	United States
DispersinB®	Canada
	United States
	Europe
StrixNB™	United States
Aledex™	United States

Research and Development

The Company's lead technology for the chronic wound care market is DispersinB®. Chronic wounds are a serious debilitating complication of vascular disease, diabetes and prolonged immobility and are a huge unmet clinical need that costs the U.S. health care system $20 billion per year. The current global market for wound care management technology is estimated at US $4.5 billion per year. The DispersinB® technology also has applications in coating medical devices to prevent device related hospital acquired infections and Cystic Fibrosis associated infections. Kane has demonstrated the *in vitro* and in vivo efficacy of central venous catheters coated with the combination of DispersinB® and Triclosan against blood stream infection associated bacteria. Furthermore, the in vitro efficacy of DispersinB® in combination with an antimicrobial against wound and Cystic Fibrosis infections associated bacteria has also been confirmed.

The Company's lead product for the prevention of catheter-associated infections is Aledex™. Kane has both *in vitro* and *in vivo* data that demonstrates the product's ability to inhibit the activity of numerous catheter-associated pathogens, and protect against urinary catheter related infections. Approximately 30 million urethral catheters are sold in North America annually and indwelling urinary catheters are used in approximately 15-25% of short-term care patients and all patients in intensive care units. Additionally, in the U.S. alone, more than 150 million intravascular catheters are used and over 5 million central venous lines are inserted. This results in about 250,000 catheter related infections each year. Kane has also demonstrated the antimicrobial and anti-biofilm activity of Aledex™ combination against dental plaque and oral bacteria associated with periodontal disease.

Kane continues to be involved in research related to enhancing products for the prevention of dental plaque and caries. This research is based on the Company's novel Competence Stimulating Peptide ("CSP") technology which targets cavity causing bacteria. The U.S. dental market is over US $70 billion per year. The CSP technology has applications in both human and companion animal oral care. Kane has demonstrated the in vitro efficacy of both CSP and its analogue against dental plaque and caries associated oral bacteria.

The Company has a number of Material Transfer Agreements in place with universities and research institutions to conduct third party research with its technology. In addition, the Company has Confidential Disclosure Agreements in place with a number of companies in both the Medical Device, Wound Care and Oral Care markets. Discussions that take place under these Confidential Disclosure Agreements allow for confidential dialogue and direction on the best design of Kane's research activities. The Company views guidance from market leaders and potential partners as an important external validation of the market potential for its products.

DispersinB® Technology

The Company has created a Master Cell Bank for manufacturing clinical grade DispersinB®, completed manufacturing of clinical grade DispersinB® and the manufacturing of the DispersinB® wound spray. The FDA recommended biocompatibility testing of the wound spray is underway in order to prepare the Investigational Device Exemption (IDE) package for submission to the FDA. The results to date confirm that DispersinB® wound spray is non-cytotoxic, non-irritant, non-mutagenic, non-genotoxic and non-sensitizing. DispersinB® has also successfully been expressed in tobacco plants to test the proof of concept for developing bacterial disease resistant biotech plants. Finally, the Company has recently developed monoclonal antibodies against DispersinB®.

CSP Technology

Kane's CSP technology is being used for the development of novel anti plaque and anti cavity products. CSP is responsible for the ability of Streptococcus mutans (S. mutans) to form dental plaque leading to cavity formation, as well as many factors in the ability of bacteria to cause damage to the host. Kane has tested several CSP analogue peptides that have been shown to interfere with the induction of biofilm formation in S. mutans and other caries associated streptococci by CSP. These peptides represent a novel approach to the prevention of dental plaque and cavities by specifically preventing the formation of S. mutans biofilms. Also, CSP at higher concentrations has shown to have antibacterial activity against S. mutans and other oral streptococci and to interfere with the attachment of S. mutans to tooth surface, which is the first step in biofilm/plaque formation. Thus, there are numerous potential applications for a product derived from these peptides including use in toothpaste, mouthwash, chewing gum, candies, and soft drinks, along with dental office and veterinary applications. Currently, Ward Biotech (Ireland) is developing an oral care formulation which contains CSP analogue E2 among other ingredients, for the companion animal market.

OUTLOOK

The strategic direction of the Company is centered on developing solutions to biofilm related problems. In order to advance these programs, management expects Kane to continue incurring operating losses. Based on current projections and strategic plans, total expenses are expected to be similar in fiscal 2010 as compared to fiscal 2009.

The Company has taken measures to conserve cash and has substantially reduced the overall use of capital in the near term due to the challenges posed by current economic conditions and their negative impact on the Company's capitalization and ability to raise capital. With these measures in place, the Company believes its cash and cash equivalents are sufficient to support the Company's activities into the fourth quarter of 2010. The Company continues to be party to a commercial license agreement with Harland Medical Systems, Inc. and is in discussions with various other potential partners to pursue alliances with regard to its antimicrobial products, which may provide additional funding for research.

The accompanying unaudited interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and on a basis consistent with the Company's annual audited financial statements for the year ended December 31, 2009 and are applicable to a going concern, which contemplates that Kane Biotech Inc. will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The use of these principles may not be appropriate because at September 30, 2010 there was substantial doubt that the Company will be able to continue as a going concern as a result of the Company's operating losses and its working capital requirements at September 30, 2010.

The Company's future operations are completely dependent upon its ability to generate product sales, negotiate collaboration or licence agreements with upfront payments, obtain research grant funding, or other strategic alternatives, and/or secure additional funds. While the Company is striving to achieve the above plans, there is no assurance that such sources of funds will be available or obtained on favourable terms. If the Company cannot generate product sales, negotiate collaboration or licence agreements with upfront payments, obtain research grant funding, or if it cannot secure additional financing on terms that would be acceptable to it, the Company will have to consider additional strategic alternatives which may include, among other strategies, exploring the monetization of certain tangible and intangible assets as well as seeking to outlicense assets, potential asset divestitures, winding up, dissolution or liquidation of the Company.

The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities and commitments when due is dependent on the successful completion of the actions taken or planned, some of which are described above, which management believes will mitigate the adverse conditions and events which raise doubt about the validity of the going concern assumption used in preparing these financial statements. There is no certainty that these and other

strategies will be sufficient to permit the Company to continue as a going concern.

The Company may decide to accelerate, terminate or reduce its focus in certain research areas, or commence research in new areas as a result of the Company's research progress and the availability of financial resources. These decisions are made with the goals of managing the Company's cash resources and optimizing the Company's opportunities. Management is not presently aware of any factors that would change its strategy over the next year.

RISKS AND UNCERTAINTY

The Company operates in a highly competitive environment that involves significant risks and uncertainties, some of which are outside of the Company's control. The Company is subject to risks inherent in the biotechnology industry, including:

Risks Related to the Company's Financial Condition:

- The Company has not derived any revenue to date from the commercial sale of its antibiofilm products. In light of the length of time and expense associated with bringing new products through commercialization, obtaining regulatory approval and bringing products to market, operating losses are expected to continue.
- The Company has relied on equity financing to support operations and will continue to need significant amounts of additional capital that may not be available to the Company on favourable terms, and may be dilutive.
- The Company may fail to obtain additional financing and be unable to fund operations and commercialize its product candidates.

The Company intends to raise additional financing, as required, through research, partnering and licensing arrangements, the exercise of warrants and options, and through equity and/or debt financing. However, there can be no assurance that these financing efforts will be successful or that the Company will continue to be able to meet ongoing cash requirements. It is possible that financing will not be available or, if available, may not be on favourable terms. The availability of financing will be affected by the results of scientific and clinical research, the ability to attain regulatory approvals, market acceptance of the Company's products, the state of the capital markets generally (with particular reference to pharmaceutical, biotechnology and medical companies), the status of strategic alliance agreements, and other relevant commercial considerations.

Risks Related to the Company's Business and Operations:

- The Company is in various stages of development of products and is dependent on the successful commercialization of products to prevent and remove microbial biofilms. Delays may cause the Company to incur additional costs which could adversely affect the Company's liquidity and financial results.
- The Company's business is subject to significant government regulation and failure to achieve regulatory approval of its products would negatively affect the business.
- The Company relies on contract manufacturers as part of its product development strategy, and it would be negatively affected if it is not able to maintain these relationships and/or the contract manufacturers failed to maintain appropriate quality levels.
- Even if product candidates receive all of the required regulatory approvals, there is no guarantee of market acceptance or commercialization of the resulting product candidates, which will be determined by the Company's sales, marketing

and distribution capabilities and the positioning and competitiveness of its products compared with any alternatives.

- The Company's industry is characterized by rapid change and a failure by the Company to react to these changes could have a material adverse effect on its business.
- If the Company fails to hire or retain needed personnel, the implementation of its business plan could slow and future growth could suffer.

Risks Relating to Intellectual Property:

- Failure to protect intellectual property, or infringement on the intellectual property rights of others, may impede the Company's ability to operate freely.
- The Company is dependent on strategic partners, including contract research organizations, as part of its product development strategy, and it would be negatively affected if it is not able to initiate or maintain these relationships.

Kane views patents and other means of intellectual property protection as essential to the Company's core business by protecting the Company's proprietary technology from infringement by competitors. To that end, patents will continue to be filed by the Company to ensure the highest level of protection possible is obtained for its products and technologies. The Company requires all employees, consultants, and parties to collaborative research agreements to execute confidentiality agreements upon the commencement of employment, consulting relationships or a collaboration with the Company. These agreements require that all information developed or made known during the course of the engagement with the Company is to be kept confidential. The Company also maintains agreements with scientific staff and all parties contracted in a scientific capacity, providing that all inventions resulting from work performed for Kane, using Kane's property, or relating to Kane's business and conceived or completed during the period covered by the agreement are the exclusive property of the Company.

Risks Relating to the Company's Common Shares:

- The Company has not paid, and does not intend to pay, any cash dividends on its common shares and therefore, its shareholders may not be able to receive a return on their shares unless they sell them.
- The market price and trading volume of the Company's common shares may be volatile. In addition, variations in future earnings estimates by securities analysts and the market prices of the securities of the Company's competitors may also lead to fluctuations in the trading price of the common shares.
- The significant costs that the Company incurs as a result of being a public company in Canada could adversely affect its business.

To date, no dividends have been declared or paid on the common shares, and it is not expected that dividends will be declared or paid in the immediate or foreseeable future. The policy of the Board of Directors of the Company is to reinvest all available funds in operations. The Board of Directors may reassess this policy from time to time. Any decision to pay dividends on the common shares of Kane will be made by the Board of Directors based on the assessment of, among other factors, earnings, capital requirements and the operating and financial condition of the Company.

SELECTED QUARTERLY FINANCIAL INFORMATION

The selected financial information provided below is derived from Kane's unaudited quarterly financial statements for each of the last eight quarters:

	Q3 - 2010	Q2 - 2010	Q1 - 2010	Q4 - 2009	Q3 - 2009	Q2 - 2009	Q1 - 2009	Q4 - 2008
Investment income	$ 1,227	$ 2,044	$ 3,021	$ 1,806	$ 937	$ 1,450	$ 2,453	$ 4,239
Loss for the period	(263,010)	(236,267)	(277,044)	(105,750)	(307,627)	(260,231)	(203,639)	(134,553)
Loss per share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.00)	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.00)

It is important to note that historical patterns of expenditures cannot be taken as an indication of future expenditures. The amount and timing of expenditures, and therefore liquidity and capital resources, may vary substantially from period to period depending on the business and research activities being undertaken at any one time and the availability of funding from investors and prospective commercial partners.

The Company's ongoing quarterly losses relate primarily to the execution of research programs and general and administrative expenses such as professional fees, investor relations, and stock-based compensation. The operations of the Company are not subject to any material seasonality or cyclical factors.

RESULTS OF OPERATIONS

Research

Research expenditures include costs associated with the Company's research programs, the major portion of which are salaries paid to research staff, equipment rental, laboratory rent, consumables, and consulting. The Company is in the development stage and devotes a significant portion of its financial resources to research activities.

The changes in research expenditures for the nine months ended September 30, 2010 and 2009 are reflected in the following table:

Nine months ended September 30,	2010	2009	Increase (decrease)
Compensation related costs			
Wages, consulting fees, and benefits	$ 219,701	$ 205,794	$ 13,907
Stock-compensation related costs	-	14,295	(14,295)
Consumables	21,597	23,130	(1,533)
Contract research and scientific consulting	191,059	120,010	71,049
Licence fees	10,178	12,325	(2,147)
Laboratory rent and occupancy costs	26,081	26,087	(6)
Other research costs	5,508	2,008	3,500
less: Government and other assistance	(123,683)	(47,555)	(76,128)
Research	$ 350,441	$ 356,094	$ (5,653)

As expected, research expenditures for the nine months ended September 30, 2010 were lower as compared to 2009. This net decrease can be attributed to the following factors:

- Compensation related costs are higher, as compared to the prior year, as direct payroll expenses increased due to cost of living and merit increases.
- As expected, purchases of consumables is consistent with the prior year.
- The increase in contract research and scientific consulting is primarily due to costs incurred in manufacturing clinical grade DispersinB® to be used in the Company's wound care product being developed to treat chronic wounds.
- As expected, laboratory rent and occupancy costs are consistent with the prior year.
- Other research costs are higher, as compared to the prior year as a result of an increase in travel and attendance at conferences by the Chief Scientific Officer.
- The increase in Government assistance is due to fluctuations in installments received from a NRC-IRAP contribution agreement based on timing of expenditures.

The Company expects increased levels of research expenditures for the coming fiscal year if additional funding is received.

General and Administrative

General and administrative expenses include those costs not directly related to research activities. This includes expenses associated with management services, and professional fees such as legal, audit and investor relations activities.

The changes in general and administrative expenditures for the nine months ended September 30, 2010 and 2009 are reflected in the following table:

Nine months ended September 30,	2010	2009	Increase (decrease)
Compensation related costs			
Wages, consulting fees, and benefits	$ 122,103	$ 113,666	$ 8,437
Stock-compensation related costs	32,898	27,250	5,648
Business development costs	152,106	180,699	(28,593)
Other administration costs	64,241	58,147	6,094
General and administrative	$ 371,348	$ 379,762	$ (8,414)

The net decrease in costs for the nine months ended September 30, 2010 as compared to 2009 can be attributed to the following factors:

- Compensation related costs are higher, as compared to the prior year, as direct payroll expenses increased due to cost of living and merit increases.

- The increase in stock compensation expense relates to changes in valuation inputs used to assess the non-cash cost of stock options granted. During the the nine months ended September 30, 2010, the Company's Board of Directors granted 390,000 options, as compared to 465,000 options granted over the same period in 2009.
- During the period, efforts continued on business development, including the pursuit of potential partnerships and financing arrangements. The decrease in business development costs, as compared to the prior year, is primarily due to lower travel costs incurred.
- The increase in other administration costs is due, in combination, to an increase in legal fees and audit fees accrual expense, offset by an decrease in membership and subscription costs.

The Company expects similar levels of general and administrative expenditures for the coming fiscal year.

Investment Income

The change in investment income for the nine months ended September 30, 2010 and 2009 are reflected in the following table:

Nine months ended September 30,		2010		2009		Increase (decrease)
Investment income	$	6,292	$	4,841	$	1,451

The increase in interest income is the result of a higher average cash balance maintained as compared to the prior fiscal year. The Company anticipates that investment income will be stable in the coming year as the Company uses existing cash and any new funds that may be received from possible future financings.

Loss and comprehensive loss for the period

The loss and comprehensive loss for the nine months ended September 30, 2010 and 2009 is reflected in the following table:

Nine months ended September 30,		2010		2009		Increase (decrease)
Loss and comprehensive loss for the period	$	(776,321)	$	(771,497)	$	4,824
Loss per share	$	(0.02)	$	(0.03)	$	(0.01)

The Company's period loss increased slightly as compared to the prior year. This resulted mainly from management's focus on priority research programs and specifically, an increase in contract research costs incurred as manufacturing of the DispersinB® topical wound care product neared completion. The Company expects to incur a loss next year as it continues its research programs.

LIQUIDITY AND CAPITAL RESOURCES

Since inception, the Company has financed its operations from public and private sales of equity, the exercise of warrants and stock options, investment income on funds available for investment and government grants and tax credits. As at September 30, 2010, the Company had cash and cash equivalents totaling $165,697 compared with $278,994 at September 30, 2009.

Cash used in operating activities

Cash used in operating activities totaled $618,459 for the nine months ended September 30, 2010, compared to $662,902 for the same period in fiscal 2009 as a result of an increase in actual cash outflows from ongoing research programs and general and administrative activities, net of non-cash items such as stock-based compensation and amortization.

Cash used in investing activities

Cash used in investing activities totaled $87,338 for the nine months ended September 30, 2010. This amount represents $87,231 used for patent and trademark costs and $107 used for the acquisition of property and equipment. No cash was used for licence fee payments. In the same previous in the previous fiscal year, cash used in investing activities, for patent costs, acquisition of property and equipment, and licence fee payments, totaled $94,983.

Cash from financing activities

For the nine months ended September 30, 2010, cash provided by financing activities was $66,575 (2009 - $487,896).

Shares, options, and warrants

	September 30, 2010	December 31, 2009
Common shares issued and outstanding	37,453,901	36,954,085
Options outstanding	1,722,500	1,432,500
Warrants outstanding	3,061,979	3,630,465

As of November 26, 2010, the Company had not issued any shares, options, or warrants, other than disclosed, subsequent to the end of the period. A summary of the Company's capital stock may be found in Note 7 of the unaudited interim financial statements.

The Company believes it has sufficient resources available to support the Company's activities into the fourth quarter of 2010. The Company's management may consider financing alternatives and may seek to raise additional funds for operations from current stockholders and other potential investors. This disclosure is not an offer to sell, nor a solicitation of an offer to buy the Company's securities. Where the Company pursues such financing, there is no assurance that funding would be available or obtained on favourable terms.

The Company's future operations are completely dependent upon its ability to generate product sales, negotiate collaboration or licence agreements with upfront payments, obtain research grant funding, defer expenditures, or other strategic alternatives, and/or secure additional funds. While the Company is striving to achieve the above plans, there is no assurance these and other strategies will be achieved or that such sources of funds will be available or obtained on favourable terms.

The Company's ability to continue as a going concern is dependent on its ability to obtain sufficient funds to conduct its research and development, and to successfully commercialize its products. The outcome of these matters cannot be predicted at this time. The Company's interim financial statements do not reflect adjustments to the carrying values of the assets and liabilities, expenses, and the balance sheet classification used, that would be necessary if the going concern assumption were not appropriate. Such adjustment could be material.

CONTRACTUAL OBLIGATIONS

The Company periodically enters into long-term contractual agreements for the lease of laboratory facilities and equipment, management services, and certain purchased services. The following table presents commitments arising from agreements currently in force over the next five years.

	Payments due by Period			
	Within 1 year	2 - 3 years	4 - 5 years	Total
Management services agreement	$ 160,000	$ -	$ -	$ 160,000
Contractual commitments	-	20,000	20,000	40,000
	$ 160,000	$ 20,000	$ 20,000	$ 200,000

A summary of the Company's contractual obligations may be found in Note 8 of the Company's unaudited interim financial statements.

GUARANTEES

The Company periodically enters into research and license agreements with third parties that include indemnification provisions customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of claims arising from research and development activities undertaken on behalf of the Company. In some cases, the maximum potential amount of future payments that could be required under these indemnification provisions could be unlimited. These indemnification provisions generally survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay. Historically, the Company has not made any indemnification payments under such agreements and no amount has been accrued in the accompanying financial statements with respect to these indemnification obligations.

RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2010, the Company paid Genesys Venture Inc. ("GVI"), a company controlled by the Chairman, a total of $140,813 (2009 - $140,813) for laboratory lease and consulting fees, in accordance with the above noted contractual obligations. The Chief Financial Officer's services are provided through a consulting agreement with GVI. In addition, intellectual property, accounting, payroll, human resources, and information technology services are provided to the Company through the GVI agreement. As of September 30, 2010, included in accounts payable and accrued liabilities is $615 (December 31, 2009 - $917) owed to GVI.

These transactions are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

OFF-BALANCE SHEET ARRANGEMENTS

Other than as described above, the Company does not have any off-balance sheet arrangements.

CONTROLS

As a result of the Company's limited administrative staffing levels, internal controls which rely on segregation of duties in many cases are not appropriate or possible. Due to resources constraints and the present stage of the Company's development, the Company does not have sufficient size and scale to warrant the hiring of additional staff to correct this potential weakness at this time. To help mitigate the impact of this potential weakness, the Company is highly reliant on the performance of compensating procedures and senior management's review and approval. During the period ended September 30, 2010, the Company made no material changes to its systems of internal controls over financial reporting.

As a venture issuer, the Company is not required to certify the design and evaluation of the Company's disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR), and as such has not completed such an evaluation.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("Canadian GAAP") requires the Company to select from possible alternative accounting principles and to make estimates and assumptions that determine the reported amounts of assets and liabilities at the balance sheet date, and reported costs and expenditures during the reporting period. Management believes that the estimates and assumptions upon which the Company relies are reasonable based upon information available at the time these estimates and assumptions are made. Estimates and assumptions may be revised as new information is acquired, and are subject to change.

In addition to the going concern assumption described above, management believes that its most critical accounting policies and estimates relate to the following areas, with reference to notes contained in the audited financial statements for the year ended December 31, 2009:

Research and development costs

The Company's accounting policy over research and development costs may be found in Note 2(i). Research expenditures are expensed as incurred. Development expenditures are deferred when they meet the criteria for capitalization in accordance with Canadian GAAP, and the future benefits could be regarded as being reasonably certain. Related tax credits are accounted for as a reduction to research and development expenditures on the condition that the Company is reasonably certain that these credits will materialize.

Patents and trademarks

The Company's accounting policy over patents and trademarks may be found in Notes 2(d) and 2(f). Patents and trademarks are reviewed for impairment on an ongoing basis whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recognized when the carrying amount of an asset to be held and used exceeds the projected undiscounted future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value. Triggering events for reviews for impairment typically include abandonment of patent applications which result in the related asset being written down to a nil value.

Technology licenses

The Company's accounting policy over technology licences may be found in Notes 2(e) and 2(f). Technology license costs are initially recorded based on the fair value of the consideration paid and are amortized on a straight-line basis over their useful life once the related product is launched commercially and sales of the licensed products are first earned. The carrying amounts of technology license costs do not necessarily reflect present or future fair values and the ultimate amount recoverable will be dependent upon the successful development and commercialization of products based on these rights. Technology licences are reviewed for impairment on an ongoing basis whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, and are subject to an annual impairment test until commercialization of the related product. An impairment is recognized when the carrying amount of an asset to be held and used exceeds the projected undiscounted future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value.

Stock-based compensation

The Company's accounting policy over stock-based compensation may be found in Notes 2(h), 8(c) and 8(d). Where the Company issues warrants and stock options (to its employees, directors and officers), a fair value is derived using the Black-Scholes pricing model. The application of this pricing model requires Management to make assumptions regarding several variables, including the expected life of the options and warrants, the price volatility of the Company's stock over a relevant timeframe, the determination of a relevant risk-free interest rate and an assumption regarding the Company's dividend policy in the future.

A summary of all of the Company's significant accounting policies and estimates may be found in Note 2 to the audited financial statements for the year ended December 31, 2009.

CHANGES IN ACCOUNTING POLICIES

1. New Accounting Standards adopted during the period:

There were no changes in Accounting Policies during the period.

2. International Financial Reporting Standards (IFRS) Changeover Plan:

In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB's strategic plan outlines the convergence of Canadian GAAP with IFRS over a five-year transitional period. In February 2008, the AcSB confirmed that IFRS will be mandatory in Canada for profit-oriented publicly accountable entities for fiscal periods beginning on or after January 1, 2011. The Company's first IFRS financial statements will be for the fiscal year ending December 31, 2011 and will include the comparative period for fiscal 2010.

The Company is in the process executing its implementation plan which identifies key activities to occur leading up to the changeover. The Company is nearing completion of detailed gap assessment of the current differences between Canadian GAAP and IFRS applicable to the Company. A summary analysis indicates that in most cases, the Company would opt for a prospective application when the choice is available. The Company needs to finalize its accounting policy choices within IFRS and assess its elective options under first-time adoption of IFRS.

The Company is nearing completion of necessary scoping and diagnostic activities and continues to analyze certain aspects related to the current Canadian GAAP to IFRS conversion, and is in the process of developing mock financial statements in accordance with IFRS standards.

FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis contains forward-looking statements which may not be based on historical fact, including without limitation, statements containing the words "believes," "may," "plan," "will," "estimate," "continue," "anticipates," "intends," "expects," and similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, events or developments to be materially different from any future results, events or developments expressed or implied by such forward-looking statements. Such factors include, among others, the Company's stage of development, lack of product revenues, additional capital requirements, risks associated with the completion of clinical trials and obtaining regulatory approval to market the Company's products, the ability to protect its intellectual property and dependence upon collaborative partners. These factors should be considered carefully and readers are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements are made as of the date hereof, and the Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments.

Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about:

- general business and economic conditions;
- interest rates and foreign exchange rates;
- the timing of the receipt of regulatory and governmental approvals for the Company's research and development projects;
- the availability of financing for the Company's research and development projects, or the availability of financing on reasonable terms;
- the Company's costs of trials;
- the Company's ability to attract and retain skilled staff;
- the impact of changes in Canadian-US dollar and other foreign exchange rates on the Company's costs and results;
- market competition;
- tax benefits and tax rates;
- the Company's ongoing relations with its employees and with its business partners.

Management cautions you that the foregoing list of important factors and assumptions is not exhaustive. Events or circumstances could cause actual results to differ materially from those estimated or projected and expressed in, or implied by, these forward-looking statements. You should also carefully consider the matters discussed under "Risk Factors" in this MD&A. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements or the foregoing list of factors, whether as a result of new information or future events or otherwise.