

Managements' Discussion and Analysis
(Expressed in Canadian Dollars)

KANE BIOTECH INC.

Three and nine months ended September 30, 2013 and 2012

KANE BIOTECH INC.

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") covers information up to November 13, 2013 and should be read in conjunction with the interim financial statements for the nine month period ended September 30, 2013. Except as otherwise noted, the financial information contained in this MD&A and in the financial statements has been prepared in accordance with IFRS. 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 wound care, 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 bacterial infections and cost industry, governments and hospitals in the billions of dollars each year. As such, there is significant interest in safe and effective products that can combat the biofilm problem.

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

Strix NB™, DispersinB®, Aledex® and Kane® are registered trademarks of Kane Biotech Inc. All Rights Reserved 2013

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

Corporate Update

This summer the Company has been focusing its resources and capital primarily on the companion animal oral care market segment. The primary objective is to test market and launch the StrixNB concentrated drinking water additive in the Manitoba market, test market entry messages and tactics and develop additional formulations to offer a portfolio of products. As opportunities arise and resources permit, the product is being introduced in other provinces. The company is also actively executing its licensing strategy to license out its intellectual property on a broader scale to industry market leaders. In addition the Company has also developed a number of new antibiofilm-antimicrobial (non-antibiotic) wound care formulations for the veterinary and human wound care markets.

On November 6, 2013 Kane Biotech announced the receipt of Health Canada's approval for Low Risk Veterinary Health Products for its new StrixNB product that can be sprayed directly on the teeth and tongue of the animal or can be applied to treats and dental chews to assist in dental and oral hygiene.

On June 6, 2013 Philip Renaud (Chairman), Dr. Arvind Joshi, Gordon Froehlich and Richard Cherney were elected as directors of the company. All four individuals were current members of the board of directors of Kane Biotech Inc. and had let their names stand for re-election at the Annual and Special Meeting of shareholders.

On May 22, 2013 Kane Biotech officially launched its StrixNB™ pet oral care product to the BC market at Market Hill Animal Hospital in Vancouver. This is one in a series of events designed to raise awareness of this Canadian innovation. Through Pacific Veterinary Sales, the company has been introducing StrixNB™ to veterinarians across BC, Alberta and Saskatchewan.

On April 4, 2013 Kane Biotech reported that in a recently completed dog efficacy field study, StrixNB™ was very effective against halitosis (bad breath). The field study was designed to evaluate the effect of StrixNB™ on bad breath in dogs over a period of 21 days. Five Sheltie dogs ranging in age from 2 years to 14 years were used in the study and had varying degrees of bad breath from slight odour to very strong odour. The Volatile Sulfur Compounds (VSC) measurements were taken 8 times between Day 0 and Day 21 of the study. Dogs with the highest VSC measurements (very strong odour) showed the greatest reduction in bad breath. After 21 days of the study the results showed a reduction of 71% to 82% in dogs with strong odour. The remaining dogs that had no or slight odour also showed VSC reductions but the percentage was lower as the base line was normal.

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On April 3, 2013 Kane Biotech announced that the DispersinB-Gentamicin combination wound gel spray passed the primary skin irritation tests. The purpose of the skin irritation test was to determine the dermal irritation potential of topical DispersinB-Gentamicin wound gel spray as required by the FDA for biocompatibility. The biocompatibility study was conducted on the combination of DispersinB antibiofilm enzyme and the broad-spectrum antibiotic Gentamicin.

On March 18, 2013 the Company announced it has appointed Pacific Veterinary Sales of Abbotsford, B.C. as a distribution partner for the upcoming StrixNB™ pet oral care product launch in Western Canada. Pacific Veterinary Sales has a direct relationship with veterinarians through an established and dedicated sales team that focuses on veterinarians in Western Canada and will warehouse, distribute and sell StrixNB™ to the veterinary market.

On February 21, 2013 Kane Biotech reported a successful launch of its marketing field test in Manitoba for StrixNB™, its new pet oral care product. Many veterinarians are now recommending StrixNB™ to their clients as an important part of a regular pet oral care program. The response to the marketing field test was very positive with 84% of the veterinary clinics in Manitoba signing up for the Company's promotional campaign that coincided with February's Pet Oral Care month.

On February 7, 2013 Kane Biotech announced it has granted an aggregate of 2,740,000 stock options at an exercise price of \$.14 per common share to directors, management, employees and consultants of the Company. In accordance with securities regulatory requirements, any shares issued pursuant to the exercise of such options will be subject to resale restriction for a period of four months from the date of grant.

In addition, the Company has extended the service agreement with Pure Advertising and Marketing Inc. for investor relations services in 2013. Pure is an established investor relations firm based in Vancouver, BC and works with junior companies in articulating a company's inherent value to the investment community and strategic partners. The services agreement for investor relations is a 12 month term where either party may terminate the agreement at any time on 6 months prior written notice.

Intellectual Property

Patent #	Title	Jurisdiction
2,452,032	Synergistic Antimicrobial Compositions and Methods of Inhibiting Biofilm Formation	Canada
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
7,597,895	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
2,003,284,385	Compositions and Methods for Enzymatic Detachment of Bacterial and Fungal Biofilms	Australia
564904	Antimicrobial Compositions for Inhibiting Growth and Proliferation of Microbial Biofilms	New Zealand
7,989,604	Compositions and Methods for Enzymatic Detachment of Bacterial and Fungal Biofilms	United States
ZL 200680024157.1	Compositions for Inhibiting Growth and Proliferation of Microbial Biofilm on Medical Devices	China
4932731	Signal Peptides, Nucleic Acid Molecules and Methods for Treatment of Caries	Japan
4999842	Antimicrobial Compositions for Inhibiting Growth and Proliferation of Microbial Biofilms	Japan
2,006,265,707	Antimicrobial Compositions for Inhibiting Growth and Proliferation of Microbial Biofilms	Australia
5073169	Compositions and Methods for Enzymatic Detachment of Bacterial and Fungal Biofilms	Japan
2,332,733	Signal Peptides, Nucleic Acid Molecules and Methods for Treatment of Caries	Canada

The Company has 18 issued and 28 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 upon any existing patents issued to third parties and success may, in part, depend on operating without such infringement.

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

Research and Development

DispersinB® Technology

The Company's trademark for the wound care market is DispersinB®. The current global market for wound care management technology is estimated at US \$4.5 billion per year. The company has a number of DispersinB® formulations in development including formulations with antibiotics and the antibiofilm enzyme β -N-Acetylglucosaminidase (hereinafter "Enzyme"). In addition, the Company has developed new antibiofilm-antimicrobial (non-antibiotic) formulations for both the veterinary and human markets.

New wound care formulations developed include antibiofilm-antimicrobial (non-antibiotic) products for chronic ear infections (Otitis) for veterinary use, topical spray for atopic dermatitis-associated infections for veterinary use. A regulatory package has been submitted to Health Canada's Interim Notification Program for Low Risk Veterinary Health Products (LRVHP) for review. In addition, a skin care formulation for human skin infections such as atopic dermatitis (eczema)-associated infections is in development.

The Company has previously developed the antibiofilm Enzyme in combination with Gentamycin and formulated an Enzyme-Gentamycin wound gel spray containing a thermo reversible gelling agent that makes the liquid spray become a gel when applied at body temperature. Gentamycin is an FDA approved broad-spectrum antibiotic and is used in currently marketed wound care products. This wound spray is developed for both human and veterinary applications.

The Company successfully completed the contract with the United States Army Dental and Trauma Research Detachment (USADTRD) to develop an antibiofilm-antimicrobial wound gel formulation that includes its antibiofilm Enzyme and the US Army's antimicrobial peptide. The wound gel reduced over 95% of biofilm-embedded wound associated bacteria as compared to the commercial wound gel which showed only a 50% reduction. The superior performance is due to synergy between the antibiofilm Enzyme and the antimicrobial peptide. This wound gel is intended for treating combat wound associated infections.

Aledex® Technology

The Company's trademark for the medical device coating market 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% to 25% of short term care patients and all patients in intensive care units. Additionally, in the US 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 antibiofilm activity of Aledex® combination against dental plaque and oral bacteria associated with periodontal disease.

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Strix NB™ Technology

The Company's trademark for the oral care market is StrixNB. The pet oral care market in the US is estimated at \$450 million per year and dental disease is the number one oral disease in dogs and cats and over 95% of all dogs and cats will have dental disease. Bacteria in the mouth cavity form plaque and as the plaque builds up, bacteria cause tartar build-up, gum infection (gingivitis) and periodontitis.

The Company recently introduced its first StrixNB concentrated drinking water additive into the Manitoba market and has a number of additional formulations in development including an oral care spray formulation, a dry concentrate formulation, toothpaste and a super concentrate liquid. These formulations are being developed to offer a portfolio of pet oral care products to consumers. Regulatory packages for the oral care spray and the dry concentrate have been submitted to Health Canada's INP for LRVHP for review with the oral care spray recently receiving the notification number (NN.TZMT). The Company has also appointed distributors for expanding sales into other provinces as capital and resources permit. The Company is also pursuing its licensing strategy to license out the Company's intellectual property on a broader scale.

The Company has both the *in vitro* and *in vivo* efficacy data to show that the product is effective against bacteria associated with dental plaque, tartar build-up and periodontal diseases. The Company has completed a number of studies for the pet oral care market indicating that the formulation has effects on growth as well as plaque formation. Also, it is superior to tested commercially available products and is palatable and acceptable to dogs.

The Company has demonstrated the efficacy of StrixNB against Halitosis (bad breath)-associated oral bacteria such as *Porphyromonas gingivalis*, *Fusobacterium nucleatum* and *Prevotella intermedia*

The Company participated in a collaborative NSERC-Engage Grant Program funded study with Dr. Caroline Hoemann (Professor, Ecole Polytechnique, Montreal) to confirm the osteogenic activity of CSP and CSP-P15 fusion peptide (synthetic and recombinant) using bone marrow stem cells in an *in vitro* system. The study demonstrated the osteogenic (bone regenerating) activity of the Company's CSP technology based fusion polypeptide. The CSP-based fusion polypeptide promoted significantly better cell adhesion, proliferation and osteogenic activity than CSP alone and a known osteogenic peptide (control) tested in this study.

KBI Disinfectant Technology

The Therapeutic Products Directorate of Health Canada issued a Drug Identification Number or DIN (02374463) for the ready-to-use (RTU) formulation of KBI Antibacterial Disinfectant. The DIN provides approval to manufacture and market KBI Antibacterial Disinfectant for the Canadian market.

The Company submitted a supplemental DIN (Drug Identification Number) application on "KBI Antibacterial Disinfectant concentrate" to Health Canada for review and approval.

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 the Medical Device, Wound Care, Hard Surface Disinfectant 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.

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 2013 as compared to fiscal 2012.

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 the Company believes its cash resources are sufficient to support the Company's activities through 2013.

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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 license assets or potential asset divestitures.

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. See also note 2(c) to the accompanying financial statements.

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 significant revenues 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 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 obtain 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

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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 the 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 will incur 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.

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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:

	Q3-2013	Q2-2013	Q1-2013	Q4-2012	Q3-2012	Q2-2012	Q1-2012	Q4-2011
Investment income	12,381	9,940	5,787	\$ 350	\$ 2,666	\$ 4,073	\$ 5,712	\$ 7,098
Loss for the period	(330,773)	(325,970)	(664,483)	(416,425)	(390,747)	(348,131)	(304,192)	(298,934)
Loss per share	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)

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, the commercialization of its research 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, laboratory rent, consumables, and consulting. The Company is in the development and commercialization stage and devotes a significant portion of its financial resources to research and market-ready product development activities.

The changes in research expenditures for the period ended September 30, 2013 and 2012 are reflected in the following table:

Nine months ended September 30,	2013	2012	Increase (decrease)
Compensation related costs			
Wages, consulting fees and benefits	\$ 268,896	\$ 255,713	\$ 13,183
Stock compensation related costs	51,511	44,091	7,420
Consumables	38,538	39,776	(1,238)
Contract research and scientific consulting	13,182	121,916	(108,734)
License fees	10,156	9,917	239
Laboratory rent and occupancy costs	57,578	61,049	(3,471)
Other research costs	69,697	71,133	(1,436)
Less: Government assistance and lab work recoveries	(84,312)	(88,044)	3,732
Research	\$ 425,246	\$ 515,551	(90,305)

Research expenditures for period ended September 30, 2013 were lower as compared to 2012. This 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 in 2013 and stock compensation related costs increased due to the 2013 grant of stock options to research employees.
- Consumables have decreased from the prior year as a result from expected fluctuations in usage and are offset by decreased lab work cost recoveries.

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- The decrease in contract research and scientific consulting is primarily due to the change from the 2012 manufacturing of clinical grade DispersinB[®] for the development of the regulatory pathway for wound care, canine clinical study and disinfectant product testing to the test marketing of products for commercialization.
- Other research costs include derecognition expense related to intellectual property. In the period, the Company recorded derecognition expenses of \$50,526 (2012 - \$52,248) for intellectual property no longer pursued.
- The decrease in government assistance and lab work cost recoveries is primarily due to a decrease in eligible government assistance offset, in part, by StrixNB test market sales.

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

General and Administration

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

The changes in general and administration expenditures for periods ended September 30, 2013 and 2012 are reflected in the following table:

Nine months ended September 30,	2013	2012	Increase (decrease)
Compensation related costs			
Wages, consulting fees and benefits	\$ 361,626	\$ 299,188	\$ 62,438
Stock compensation related costs	221,733	32,360	189,373
Business development costs	221,613	109,454	112,159
Other administration costs	100,232	95,282	4,950
General and Administration	\$ 905,204	\$ 536,284	\$ 368,920

The net increase in costs for the periods ended September 30, 2013 as compared to 2012 can be attributed to the following factors:

- Wages, consulting fees, and benefits are higher, as compared to the prior period, due mainly to the addition of a business development associate to commercialize the company's products.
- Stock compensation related costs increased from 2012 to 2013 due to the 2013 grant of stock options to directors, management, employees and consultants.
- During the year, efforts continued in the pursuit of potential commercialization partnerships and financing arrangements. Business development costs have increased primarily due to increased marketing costs for the commercialization of StrixNB[™].
- The increase in other administration costs is primarily due to additional office space in 2013 and legal costs.

Finance Income (Costs)

The change in investment income for the periods ended September 30, 2013 and 2012 are reflected in the following table:

Nine months ended September 30,	2013	2012	Increase (decrease)
Finance income	\$ 12,381	\$ 12,451	\$ (70)
Finance expense	(641)	(509)	(132)
Foreign exchange loss, net	(1,294)	(3,462)	2,168

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Loss and comprehensive loss for the year

The loss and comprehensive loss for the periods ended September 30, 2013 and 2012 is reflected in the following table:

Nine months ended September 30,	2013	2012	Increase (decrease)
Loss and comprehensive loss for the period	\$ (1,321,227)	\$ (1,043,069)	\$ (278,158)
Loss per share	\$ (0.02)	\$ (0.02)	\$ 0.00

The Company's loss increased compared to the prior period. This increase primarily resulted from 2013 grant of stock options and increased product commercialization related expenses. The Company expects to incur a loss in the year as it continues its research and commercialization 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, 2013, the Company had cash totaling \$367,456 compared with \$1,319,386 at the previous year-end.

Cash used in operating activities

Cash used in operating activities totaled \$958,735 for nine months ended September 30, 2013, compared to \$833,119 for the same period in fiscal 2012 as a result of an increase in actual cash outflows from ongoing research programs, general, administrative and commercialization activities net of non-cash items such as stock-based compensation, depreciation, and the write-down of patents and offset by deferral of payments and changes in other accrual accounts.

Cash from financing activities

For the nine months ended September 30, 2013 cash receipts of \$30,608 were received from the exercise of warrants.

Cash used in investing activities

Cash used in investing activities totaled \$119,432 for the nine months ended September 30, 2013. This amount represents patent costs and the acquisition of property and equipment. In the previous fiscal period, cash used in investing activities, for patent costs and acquisition of property and equipment totaled \$73,826.

Shares, options, and warrants

	November 13, 2013	September 30, 2013	December 31, 2012
Common shares issued and outstanding	79,100,329	79,013,829	78,631,229
Options outstanding	6,287,500	6,362,500	4,222,500
Warrants outstanding	18,480,700	18,567,200	38,876,128

A summary of the Company's capital stock may be found in Note 6 of the accompanying financial statements.

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The Company believes it has sufficient resources available to satisfy operating requirements through 2013. 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. If the Company should pursue such financing, there would be no assurance that funding would be available or obtained on favourable terms.

As disclosed in note 2 to the accompanying financial statements there is substantial doubt about the use of the going concern assumption. The financial statements do not reflect adjustments in the carrying values of the Company's assets and liabilities, expenses, and the balance sheet classifications used, that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

CONTRACTUAL OBLIGATIONS

The Company periodically enters into long-term contractual agreements for the lease of laboratory facilities, equipment 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
Facility lease agreements	\$ 18,945	\$ 141,500	\$ 23,583	\$ 184,028
Accounts payable and accrued liabilities	131,733	-	-	131,733
Investor relations service agreement	22,500	-	-	22,500
Licence maintenance fees	-	20,000	20,000	40,000
	\$ 173,178	\$ 161,500	\$ 43,583	\$ 378,261

GUARANTEES

The Company periodically enters into research and licence 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

Related party transactions incurred during the nine months ended September 30, 2013 and 2012 are as follows:

	September 30, 2013	September 30, 2012
Legal services	7,329	3,486

During 2013 and 2012 the Company engaged in legal services with a Director of the Company.

OFF-BALANCE SHEET ARRANGEMENTS

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

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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 resource 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 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 International Financial Reporting Standards ("IFRS") 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 accompanying financial statements:

Research and development costs

The Company's accounting policy over research and development costs may be found in Note 3(d)(i) in the Company's financial statements. Research expenditures are expensed as incurred. Development expenditures are deferred when they meet the criteria for capitalization in accordance with IFRS 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 3(d)(ii) in the Company's financial statements. 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. If any such indication exists, then the asset's recoverable amount is estimated. An impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell or its value in use. The fair value less costs to sell calculation is based on available data from observable market prices, less incremental costs. The value in use calculation is based on a discounted cash flow model. These calculations require the use of estimates and forecasts of future cash flows. Qualitative factors, including market size and market growth trends, strength of customer demand and degree of variability in cash flows, as well as other factors, are considered when making assumptions with regard to future cash flows and the appropriate discount rate. A change in any of the significant assumptions of estimates used to evaluate the underlying assets could result in a material change to the results of operations.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed, to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment had been recognized. Write-downs as a result of impairment are recognized in research expense in the statement of comprehensive loss.

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Technology licenses

The Company's accounting policy over technology licences may be found in Notes 3(d)(iii) in the Company's financial statements. Technology license costs are initially recorded based on the fair value of the consideration paid. They are amortized over their expected useful lives commencing in the period in which the licence becomes available for use, which is no later than when 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.

Stock-based compensation

The Company's accounting policy over stock-based compensation may be found in Notes 3(f)(ii) and 6(c) in the Company's financial statements. 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 3 to the financial statements.

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;
- market competition;
- tax benefits and tax rates;
- the Company's ongoing relations with its employees and with its business partners.

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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.