Managements' Discussion and Analysis
(Expressed in Canadian Dollars)

KANE BIOTECH INC.

Years ended December 31, 2011 and 2010

The following management's discussion and analysis ("MD&A") covers information up to April 23, 2012 and should be read in conjunction with the annual audited financial statements for the year ended December 31, 2011 which have been prepared for the first time under International Financial Reporting Standards (IFRS). The Company previously prepared its financial statements in accordance with Canadian generally accepted accounting principles. For more information regarding the conversion to IFRS, see note 15 of the financial statements, which contains further information and a reconciliation of Kane's previously reported financial information prepared under Canadian GAAP to IFRS. 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 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, 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 April 17, 2012 the Company announced it had successfully completed its contract with the United States Army Dental and Trauma Research Detachment (USADTRD) to develop an antibiofilm-antimicrobial wound gel formulation comprising Kane Biotech's DispersinB 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 DispersinB and the antimicrobial peptide.

On January 17, 2012 Kane Biotech announced it has renewed the service agreement with Pure Advertising and Marketing Inc. for investor relations services in 2012. 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 renewable term where either party may terminate the agreement at anytime on 6 months prior written notice. Pure Advertising and Marketing will receive a monthly retainer fee of $5,000.00.

On December 15, 2011 the Company announced it has submitted a supplemental application and data on KBI Antibacterial Hard Surface Disinfectant to the Therapeutic Products Directorate of Health Canada for an amendment to already issued Drug Identification Number (DIN). The requested amendment is to expand the label claims to include additional sites of use such as Hospital, Food Processing, Medical Instruments, Institutional/Industrial and Barn.

On December 12, 2011 the Company announced the appointment of Mr. Mark Matthewson CA as the Company's Chief Financial Officer effective January 1, 2012 replacing Ms. April Manness who has served as Interim Chief Financial Officer (CFO) of the Company since July 14, 2011.

On December 8, 2011, the Company announced the issuance of Patent No. ZL 200680024157.1 entitled "Antimicrobial compositions for inhibiting growth and proliferation of microbial biofilm on medical devices" by the State Intellectual Property Office of the P.R. China. This patent covers the synergistic combination of Protamine Sulfate and Chlorhexidine developed for antibiofilm-antimicrobial coating of medical devices to prevent hospital-acquired infections. In addition, the Company was recently issued Patent No. 7,989,604 entitled "DispersinB® polynucleotides and methods of producing recombinant DispersinB polypeptides" by the United States Patent and Trademark Office.

On November 11, 2011, the Company announced that it amended the terms of 3,166,000 warrants (the "Warrants") which are currently outstanding, by extending the exercise period thereof by six-months to June 1, 2012.

On November 9, 2011, the Company announced that the FDA has responded to its DispersinB® briefing document identifying a development path for topical wound care applications. The subsequent research steps include conducting pharmacology and toxicology animal experiments and the completion of the chemistry, manufacturing and control processes. On October 12, 2011, Kane announced that the Therapeutic Products Directorate of Health Canada has issued a Drug Identification Number (DIN) for KBI Antibacterial Disinfectant. The DIN provides approval to manufacture and market KBI Antibacterial Disinfectant for the Canadian household domestic use market. The Canadian household hard surface disinfectant market is estimated at $100 million per year and has been driven by the recent outbreaks of infectious diseases caused by bacterial and viral pathogens throughout the world. KBI Antimicrobial Disinfectant has a unique mode of action by breaking down the polysaccharide matrix (biofilm) and thus making the exposed bacteria more susceptible to antimicrobial killing. KBI Antimicrobial Disinfectant has broad-spectrum antimicrobial activity against common pathogens such as bacteria, fungi and viruses. All regulatory studies were completed following the Drug Submission guideline requirements of Health Canada for hard surface disinfectants.

On August 30, 2011, the Company announced the invention and patenting of a new bone tissue regenerating fusion peptide based on the Company's competence stimulating peptide (CSP) oral care technology. This new patent covers the invention of a unique combination product using the CSP technology to help grow bone cells by enhancing bone cell binding and bone tissue regeneration. The invention could be used for: (i) osteogenic cell binding for repairing the dental bone defects such as those caused by bone loss resulting from moderate to severe periodontitis, (ii) filling tooth extraction sites or sinus elevation grafting, (iii) treatment of fractures, (iv) using as a filler in bone, (v) prevention of decrease in the bone substance related to osteoporosis, and (vi) prevention of fractures associated with osteoporosis and rheumatoid arthritis.

On July 26, 2011, Kane announced the results of an in vivo efficacy study conducted by Texas Tech University Health Sciences Center in Lubbock, Texas that demonstrated DispersinB® wound spray is effective against a biofilm-embedded Methicillin-Resistant Staphylococcus aureus (MRSA) strain infection. DispersinB® wound spray was tested in combination with a well known commercial silver wound dressing and the wound dressing alone in a chronic wound mouse model of MRSA infection. The combination of DispersinB® and the silver dressing performed much better resulting in almost 81% reduction in infection compared to the silver dressing alone (14% reduction). This suggests that there is synergy between the two compounds due to DispersinB® enhancing the antimicrobial activity of silver against MRSA by disrupting the biofilm.

On July 15, 2011, the Company appointed April Manness as interim Chief Financial Officer (CFO), replacing Eric Johnstone. Ms. Manness is the former CFO of Kane Biotech having held the position from 2005 to 2007. She will assume the position on an interim basis until a new CFO has been named

On July 7, 2011, Kane submitted a briefing document on DispersinB® wound spray, to the United States Food and Drug Administration (FDA) for review and comments. This was in preparation for the submission of an Investigational New Device Exemption Application to the FDA, to perform clinical studies and demonstrate the safety and preliminary effectiveness of DispersinB®.

On June 28, 2011, Philip Renaud, Essam Hamza, Geoffrey Grant and Richard Cherney were elected as directors of the Company.

On May 31, 2011, the Company announced it has been awarded a contract by the United States Army Dental and Trauma Research Detachment (USADTRD) to develop an antibiofilm antimicrobial wound gel formulation comprising Kane's DispersinB® antibiofilm enzyme and the US Army's KSL W antimicrobial peptide. The awarding of this contract is part of a continued collaborative effort in accordance with the previously announced Cooperative Research and Development Agreement for Material Transfer (CRADA MT) signed with the US Army's Walter Reed Army Institute of Research. The scope of work includes: (i) formulation of the wound gel; (ii) standardization of sterilization and methods to determine the concentrations of both the active and inactive ingredients; (iii) determination of antibiofilm and antimicrobial activity against wound infection associated bacteria; and (iv) comparison of antibiofilm antimicrobial activity of the wound gel with that of selected commercially available antimicrobial wound gels.

On April 15, 2011, Kane closed its previously announced private placement offering with aggregate gross proceeds to the Company of $2,391,159 from the sale of 19,926,328 units at a price of $0.12 per unit. Each unit is comprised of one share of the Company and one share purchase warrant. Each warrant will expire 18 months from the date the warrant is issued and will entitle the holder to purchase one share at a price of $0.17 up to the expiry date.

On February 24, 2011, Kane announced that it had been named one of the top ten companies in the biotech industry by Fast Company in its annual list of the world's "Most Innovative Companies." The magazine, whose editorial team analyzed information on thousands of businesses across the globe, singled out Kane Biotech's "wound care spray that could aid and speed healing" in its March 2011 issue.

On February 8, 2011, the Company announced the issuance of Patent No. 564904 entitled "Antimicrobial Compositions and Uses Thereof" by the New Zealand IP office. This patent covers the method of preventing growth and proliferation of biofilm-embedded microorganisms on medical devices such as urinary and vascular access catheters.

On February 1, 2011, Kane announced that it had developed the DispersinB® enzyme-linked immunosorbent assay (ELISA) kit. The Massachusetts Institute of Technology (MIT), the University of Toronto and the University of Washington are the first to have purchased and received kits. This kit will be used for detection and quantification of minute quantities of DispersinB®.

On January 26, 2011, the Company announced that its DispersinB® wound spray has passed the FDA recommended sub-chronic toxicity test. The test was conducted by WuXi AppTec Inc. (St. Paul, MN) in compliance with Good Laboratory Practice (GLP). Coupled with earlier biocompatibility results, the Company has now confirmed that DispersinB® wound spray is non-cytotoxic, non-mutagenic, non-genotoxic, non-irritant and non-sensitizing and non-allergenic.

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
7,556,807	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
556114	Signal peptides, Nucleic Acid Molecules and Methods for Treatment of Caries	New Zealand
564904	Antimicrobial compositions for inhibiting growth and proliferation of Mirobial 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

The Company has 15 issued and 36 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.

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

Research and Development

DispersinB® Technology

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 US 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 potential applications in coating medical devices to prevent device related hospital acquired infections and Cystic Fibrosis associated infections. Kane has demonstrated 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 vivo efficacy of DispersinB® against a biofilm embedded Methicillin Resistant Staphylococcus aureus (MRSA) strain infection in a chronic wound mouse model has also been confirmed.

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. Biocompatibility testing of the wound spray has also been completed and confirms that DispersinB® wound spray is non cytotoxic, non irritant, non mutagenic, non genotoxic, non sensitizing, and non toxic in rabbits as determined by a 13 week subchronic toxicity study.

The Company collaborated with Texas Tech University Health Sciences Center (Lubbock, TX) to demonstrate the *in vivo* efficacy of DispersinB® wound spray and Acticoat™ (silver wound dressing) combination and Acticoat™ alone using chronic wound mouse model of methicillin-resistant *S. aureus* (MRSA) infection . DispersinB® and Acticoat™ combination performed considerably better than Acticoat™ alone, indicating the synergy between the two compounds due to DispersinB® enhancing the antimicrobial activity of Acticoat™. Prior to starting this *in vivo* efficacy study, we tested the *in vitro* efficacy of DispersinB® wound spray and Acticoat™ combination and Acticoat™ alone against wound-associated bacteria including MRSA using biofilm assays.

The Company has developed a DispersinB® ELISA Kit using anti-DispersinB® monoclonal antibodies for detection and quantification of DispersinB® in: (i) fermentation broth, (ii) device coatings, (iii) wound care products, (iv) DispersinB® solution, and (v) to screen microorganisms for the production of enzymes that are identical to DispersinB®. We also standardized both direct and indirect ELISA (Enzyme-Linked Immunosorbent Assay) methods using anti-DispersinB® monoclonal antibodies and secondary antibodies.

The Company has published the following research papers: (i) "Characterization of poly-β-1,6-*N*-acetylglusamine (PNAG) polysaccharide component in Burkholderia biofilm" by Yakandawala *et al*. in Applied and Environmental Microbiology (77: 8303-8309, 2011); (ii) "*In Vitro* Antimicrobial and Antibiofilm Activity of DispersinB®-Triclosan Wound Gel against Chronic Wound-Associated Bacteria" by Gawande *et al*. in the Open Antimicrobial Agents Journal (3:13-16, 2011); (iii) "Chromogenic Carbamate and Acetal Substrates for Glycosaminidases" by Chibba *et al*. (Jointly with the University of Toronto, which developed a specific substrate for DispersinB® enzyme) in the Journal of Carbohydrate Chemistry (30:549-558, 2011); and (iv) "Recombinant human DNase I decreases biofilm and increases antimicrobial susceptibility in staphylococci" by Kaplan et al. in the Journal of Antibiotics (1-5, 2011; Kane contributed *in vivo* efficacy study data).

Aledex® Technology

The Company's 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% 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 anti biofilm activity of Aledex® combination against dental plaque and oral bacteria associated with periodontal disease.

Kane has completed the testing on the durability of Aledex® coated silicone Foley catheters and in addition confirmed the broad spectrum activity and durability in artificial urine of the finished Aledex® coated silicone Foley catheters.

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.

The Company has initiated a collaborative study with Dr. Caroline Hoemann (Professor, Ecole Polytechnique, Montreal) to confirm the osteogenic activity of CSP and CSP fusion peptide (synthetic and recombinant) using bone marrow stem cells in an *in vitro* system. Prior to testing the peptides for osteogenic activity, they were tested for cytotoxicity using bone marrow stem cells. The results show that neither CSP nor CSP fusion peptide (synthetic or recombinant) is cytotoxic.

Disenfectant Technology

The Therapeutic Products Directorate of Health Canada issued a Drug Identification Number or DIN (02374463) for KBI Antibacterial Disinfectant. The DIN provides approval to manufacture and market KBI Antibacterial Disinfectant for the Canadian household domestic use market. KBI Antimicrobial Disinfectant has a unique mode of action by breaking down the polysaccharide matrix (biofilm) and thus making the exposed bacteria more susceptible to the antimicrobial killing. KBI Antimicrobial Disinfectant has broad-spectrum antimicrobial activity against common pathogens such as bacteria, fungi and viruses.

The Company has submitted a supplemental DIN application to Health Canada for amending the issued DIN to include the other sites of use in addition to domestic site of use. The other sites of use include facilities such as health care, veterinary, aquaculture, industries and institutions, and food processing establishments.

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.

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 2012 as compared to fiscal 2011.

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 and 2011 private placement (see "Liquidity and capital resources"), the Company believes its cash resources are sufficient to support the Company's activities through 2012.

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 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 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 and debt 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 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.

SELECTED ANNUAL FINANCIAL INFORMATION

The following is selected financial information about the Company, for its 2011, 2010 and 2009 fiscal years:

Years ended December 31,	2011	2010	2009 Note 1
Research expenses	$ (586,194)	$ (492,186)	$ (340,108)
General and administrative expenses	(649,053)	(483,163)	(490,757)
Investment income	20,188	6,666	6,647
Loss and comprehensive loss for the year	(1,221,149)	(973,254)	(877,247)
Loss per share	(0.02)	(0.03)	(0.03)
Total assets	2,470,808	1,254,364	1,865,937
Total liabilities	92,725	90,748	68,618
Deficit	(8,486,334)	(7,265,185)	(6,291,931)
Total capital stock, warrants and contributed surplus	10,864,417	8,428,801	8,089,250

Note1: 2009 results were reported under previous Canadian GAAP and has not been restated under IFRS.

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:

	Q4-2011	Q3-2011	Q2-2011	Q1-2011	Q4-2010	Q3-2010	Q2-2010	Q1-2010
Investment income	$ 7,098	$ 8,338	$ 4,232	$ 520	$ 363	$ 1,227	$ 2,044	$ 3,031
Loss for the period	(298,934)	(341,301)	(224,434)	(356,480)	(196,944)	(263,010)	(236,267)	(277,034)
Loss per share	(0.01)	(0.01)	-	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)

The Company adopted IFRS in fiscal 2011 with a transition date of January 1, 2010. 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 years ended December 31, 2011 and 2010 are reflected in the following table:

Years ended December 31,	2011	2010	Increase (decrease)
Compensation related costs			
Wages, consulting fees and benefits	$ 319,018	$ 293,352	$ 25,666
Stock compensation related costs	115,365	-	115,365
Consumables	35,079	27,629	7,450
Contract research and scientific consulting	111,426	178,782	(67,356)
License fees	29,759	10,178	19,581
Laboratory rent and occupancy costs	33,556	34,228	(672)
Other research costs	66,327	73,956	(7,629)
Less: Government assistance and lab work recoveries	(124,336)	(125,938)	1,602
Research	$ 586,194	$ 492,187	$ 94,007

As expected, research expenditures for the year ended December 31, 2011 were higher as compared to 2010. This increase 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 the third quarter of 2011. During the first quarter of 2011, the Company's Board of Directors approved a grant of stock options to employees focused on research activities. No comparable grant was issued in the prior year.
- Consumables are higher than the prior year which results from expected fluctuations in usage.
- The decrease in contract research and scientific consulting is primarily due to manufacturing clinical grade DispersinB® to be used in research related to the Company's wound care product being developed to treat chronic wounds. Expenses related to this project were primarily incurred in the prior year.
- The increase in licence fees is primarily due to a payment made to The University of Toronto.
- Laboratory rent and occupancy costs are consistent with the prior year.
- Other research costs include derecognition expense related to intellectual property. In the year, the Company recorded derecognition expenses of $41,797 (2010 - $57,270) for intellectual property no longer pursued.
- The decrease in Government assistance is due to the completion of a NRC-IRAP contribution received in the prior year which was partially offset by new provincial commercialization assistance.

The Company expects increased levels of research expenditures for the coming fiscal 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, and professional fees such as legal, audit and investor and public relations activities.

The changes in general and administration expenditures for the years ended December 31, 2011 and 2010 are reflected in the following table:

Years ended December 31,	2011	2010	Increase (decrease)
Compensation related costs			
Wages, consulting fees and benefits	$ 204,100	$ 162,789	$ 41,311
Stock compensation related costs	131,859	34,569	97,290
Business development costs	207,998	199,287	8,711
Other administration costs	105,096	86,518	18,578
General and Adminstration	$ 649,053	$ 483,163	$ 165,890

The net increase in costs for the year ended December 31, 2011 as compared to 2010 can be attributed to the following factors:

- Wages, consulting fees, and benefits are higher, as compared to the prior year, due mainly to an increase in the President's compensation.
- The increase in stock compensation related costs is related to an increase in the number of stock options granted to certain of the Company's management and employees.
- During the year, efforts continued on business development for the commercialization of products, including the pursuit of potential partnerships and financing arrangements
- The increase in other administration costs is primarily due accounting fees related to the conversion to IFRS financial reporting standards. The Company expects similar levels of general and administration expenditures for the coming fiscal year.

Finance Income (costs)

The change in investment income for the years ended December 31, 2011 and 2010 are reflected in the following table:

Years ended December 31,	2011	2010	Increase (decrease)
Finance income	$ 20,188	$ 6,666	$ 13,522
Finance expense	(786)	(446)	(340)
Foreign exchange loss (gain), net	3,934	4,124	(191)

Interest income is higher than the prior fiscal year resulting from higher average cash balances.

Loss and comprehensive loss for the year

The loss and comprehensive loss for the years ended December 31, 2011 and 2010 is reflected in the following table:

Years ended December 31,	2011	2010	Increase (decrease)
Loss and comprehensive loss for the year	$ 1,221,148	$ 973,254	$ 247,894
Loss per share	$ (0.02)	$ (0.03)	$ 0.01

The Company's annual loss increased compared to the prior year. This resulted mainly from management's focus on priority research programs and specifically, an increase in non-cash stock-based compensation expenses. 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 December 31, 2011, the Company had cash totaling $1,319,386 compared with $187,522 at the previous year-end.

Cash used in operating activities

Cash used in operating activities totaled $940,305 for the year ended December 31, 2011, compared to $792,058 for the same period in fiscal 2010 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, depreciation, and the write-down of patents in 2010 and offset by deferral of payments and changes in other accrual accounts.

Cash from financing activities

For the year ended December 31, 2011, cash provided by financing activities totaled $2,188,393 (2010 - $304,982) comprising net proceeds from private placements of common shares and warrants.

Cash used in investing activities

Cash used in investing activities totaled $116,224 for the year ended December 31, 2011. This amount represents patent costs and acquisition of property and equipment. In the previous fiscal year, cash used in investing activities, for patent costs and acquisition of property and equipment totaled $130,321.

Shares, options, and warrants

	April 23, 2012	December 31, 2011	December 31, 2010
Common shares issued and outstanding	60,596,229	60,596,229	40,619,901
Options outstanding	3,815,000	3,815,000	1,577,500
Warrants outstanding	24,624,435	24,624,435	5,913,245

On April 15, 2011, the Company closed a private placement offering (the "2011 Offering") of 19,926,328 units (a "Unit") at a price of $0.12 per Unit, for aggregate gross proceeds to the Company of $2,391,159 from the sale. Each Unit was comprised of one common share of the Company (a "Share") and one Share purchase warrant (a "Warrant"). Each whole Warrant entitles the holder to purchase one Share at a price of $0.17 for a period of 18 months from the date the warrant was issued. Net proceeds of the Offering shall be used for research and development and working capital purposes

A summary of the Company's capital stock may be found in Note 8 of the audited financial statements.

The Company believes it has sufficient resources available to satisfy operating requirements through 2012. 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 audited 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	$ 71,200	$ -	$ -	$ 71,200
Accounts payable and accrued liabilities	92,726	-	-	92,726
Investor relations service agreement	60,000	-	-	60,000
Licence maintenance fees	10,000	20,000	20,000	50,000
	$ 233,926	$ 20,000	$ 20,000	$ 273,926

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 years ended December 31, 2011 and 2010 are as follows:

	December 31, 2011	December 31, 2010
Business and adminstrative services	104,068	160,000
Facility rent	27,750	27,750

The Chief Financial Officer's services were provided through the business and administrative services agreement with Genesys Venture Inc. (the "GVI Agreement"), a company controlled by the former Chairman of the Board of Directors. In addition, intellectual property, accounting, payroll, human resources and information technology services were provided to the Company through the GVI Agreement. Commencing in 2012 these services were provided by independent third parties or the company's employees. Key management personnel compensation is disclosed in note 11 to the accompanying audited financial statements.

As of December 31, 2011, included in accounts payable and accrued liabilities is $1,037 (December 31, 2010 - $919) owed to Genesys Venture Inc.

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 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 ended December 31, 2011, 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 audited 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.

Technology licenses

The Company's accounting policy over technology licences may be found in Notes 3(d)(iii) in the Company's initial financial statements filed under IFRS. 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 8(c) in the Company's audited 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 audited financial statements.

CHANGES IN ACCOUNTING POLICIES

Adoption of International Financial Reporting Standards (IFRS):

In February 2008 the Canadian Accounting Standards Board ("AcSB") confirmed that the use of IFRS would be required for Canadian publicly accountable enterprises for fiscal years beginning on or after January 1, 2011. The Company implemented these standards on January 1, 2011 with a transition date of January 1,2010.

During 2011, the Company filed its interim condensed financial statements for the three months ended March 31, June 30 and September 30, 2011, under IFRS. As the Company's interim and annual financial statements were previously prepared in accordance with previous Canadian GAAP, disclosure of the transition from previous Canadian GAAP to IFRS is included in Note 15 to the accompanying financial statements.

In preparing the audited financial statements in accordance with IFRS 1, the Company has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

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.

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.