

Managements' Discussion and Analysis  
(Expressed in Canadian Dollars)

## **KANE BIOTECH INC.**

Three months ended March 31, 2011 and 2010

# KANE BIOTECH INC.

## Management's Discussion and Analysis

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The following management's discussion and analysis ("MD&A") covers information up to June 24, 2011 and should be read in conjunction with the unaudited interim financial statements for the three month period ended March 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 13 of the interim 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 interim financial statements has been prepared in accordance with IFRS. This discussion and analysis provides an update to the Management's Discussion and Analysis for the year ended December 31, 2010, and should be read in conjunction with this document. The Company's independent auditors, KPMG LLP Chartered Accountants, have not reviewed the unaudited interim financial statements. All amounts are expressed in Canadian Dollars unless otherwise noted. Additional information regarding the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.kanebiotech.com](http://www.kanebiotech.com).

### OVERVIEW

Kane Biotech Inc. ("Kane" or the "Company") is a biotechnology company engaged in the development and commercialization of products that prevent and remove microbial biofilms. Biofilms develop when bacteria and other microorganisms form a protective matrix that acts as a shield against attack. When in a biofilm, bacteria become highly resistant to antibiotics, antimicrobials, biocides and host immune responses. This resiliency contributes to numerous human health problems such as recurrent urinary tract infections, medical device associated infections and tooth decay. According to the National Institutes of Health (NIH), USA, biofilms are estimated to be responsible for 80% of all human 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 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 U.S. 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 \$2,391,159.40 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.

# KANE BIOTECH INC.

## Management's Discussion and Analysis

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 Escherichia coli CsrB and RNA Encoded Thereby	Canada
6,228,638		United States
6,923,962	Signal peptides, nucleic acid molecules and methods for Treatment of Caries	United States
7,144,992	Synergistic Antimicrobial Compositions and Methods for Reducing Biofilm Formation	United States
7,294,497	Compositions and Methods for Enzymatic Detachment of Bacterial and Fungal Biofilms Synergistic Antimicrobial Compositions and Methods of Inhibiting Biofilm Formation	United States
7,314,857		United States
7,556,807	Signal Peptides, Nucleic Acid Molecules and Methods for Treatment of Caries	United States
7,597,895	Signal Peptides, Nucleic Acid Molecules and Methods for Treatment of Caries	United States
7,833,523	Compositions and Methods for Enzymatic Detachment of Bacterial and Fungal Biofilms	United States
540731	Compositions and Methods for Enzymatic Detachment of Bacterial and Fungal Biofilms	New Zealand
555378	Compositions and Methods for Enzymatic Detachment of Bacterial and Fungal Biofilms	New Zealand
2003284385	Compositions and Methods for Enzymatic Detachment of Bacterial and Fungal Biofilms	Australia
556114	Signal peptides, Nucleic Acid Molecules and Methods for Treatment of Caries	New Zealand
564904	Antimicrobial compositions for inhibiting growth and proliferation of Microbial Biofilms	New Zealand

The Company has 31 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 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

# KANE BIOTECH INC.

## Management's Discussion and Analysis

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### Research and Development

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

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

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

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

### Aledex™ Technology

In exchange for a future royalty stream, the Company has licensed the Aledex™ technology to Harland Medical Systems (Eden Prairie, Minnesota) for applications in urinary, central venous and veterinary catheters. Kane completed 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. To date, no royalties have been received related to this licence agreement.

### DispersinB® Technology

The Company has created a Master Cell Bank for manufacturing clinical grade DispersinB®, completed manufacturing of clinical grade DispersinB® and the manufacturing of the DispersinB® wound spray. The FDA recommended biocompatibility testing of the wound spray has also been completed and confirms that DispersinB® wound spray is non cytotoxic, non irritant, non mutagenic, non genotoxic, non sensitizing and non-allergenic.

# **KANE BIOTECH INC.**

## **Management's Discussion and Analysis**

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### **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. Ward Biotech (Ireland) is developing an oral care formulation which contains CSP analogue E2 among other ingredients, for the companion animal market.

### **OUTLOOK**

The strategic direction of the Company is centered on developing solutions to biofilm related problems. In order to advance these programs, management expects Kane to continue incurring operating losses. Based on current projections and strategic plans, total expenses are expected to be similar in fiscal 2011 as compared to fiscal 2010.

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 the recently closed private placements (see "Liquidity and capital resources"), the Company believes its cash resources are sufficient to support the Company's activities through 2011. The Company continues to be party to a commercial license agreement with Harland Medical Systems, Inc. and Ward Biotech Inc. and is in discussions with various other potential companies to pursue alliances with regard to its antimicrobial products, which may provide additional funding for research.

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.

### **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:

# KANE BIOTECH INC.

## Management's Discussion and Analysis

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### 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 BIOTECH INC.

## Management's Discussion and Analysis

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 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:

	Q1 - 2011	Q4 - 2010	Q3 - 2010	Q2 - 2010	Q1 - 2010	Q4 - 2009	Q3 - 2009	Q2 - 2009
Investment income \$	520	\$ 363	\$ 1,227	\$ 2,044	\$ 3,031	\$ 1,806	\$ 937	\$ 1,450
Loss for the period	(356,480)	(196,944)	(263,010)	(236,267)	(277,034)	(105,750)	(307,628)	(260,230)
Loss per share	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)	(0.01)

The Company adopted IFRS in fiscal 2011 with a transition date of January 1, 2010. The quarterly data for 2009 is presented in conformity with Canadian GAAP and has not been restated under IFRS. Accordingly, it may not be comparable with the information for fiscal 2010 and 2011. See "Adoption of International Financial Reporting Standards (IFRS)" on page 12 for a description of the significant differences between Canadian GAAP and IFRS for the Company.

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.

**KANE BIOTECH INC.**  
**Management's Discussion and Analysis**

**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 three months ended March 31, 2011 and 2010 are reflected in the following table:

Three months ended March 31,	2011	2010	Increase (decrease)
Compensation related costs			
Wages, consulting fees, and benefits	\$ 78,710	\$ 73,569	\$ 5,141
Stock-compensation related costs	62,248	-	62,248
Consumables	6,664	9,686	(3,022)
Contract research and scientific consulting	50,790	128,533	(77,743)
Licence fees	9,759	10,178	(419)
Laboratory rent and occupancy costs	8,413	9,063	(650)
Other research costs	4,770	20,307	(15,537)
less: Government assistance	(7,988)	(100,494)	92,506
<b>Research</b>	<b>\$ 213,366</b>	<b>\$ 150,842</b>	<b>\$ 62,524</b>

As expected, research expenditures for the three months ended March 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. During the first quart 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 lower 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.
- Licence fees are consistent with the prior year.
- The decrease in laboratory rent and occupancy costs is primarily due to a reduction in leased square footage, as compared to the prior year.
- Other research costs include derecognition expense related to intellectual property. In the prior year, the Company recorded derecognition expenses for intellectual property no longer pursued. No comparable expense was required in the current year.
- The decrease in Government assistance is due to the completion of a NRC-IRAP contribution received in the first quarter of the prior year.

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

**KANE BIOTECH INC.**  
**Management's Discussion and Analysis**

**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 three months ended March 31, 2011 and 2010 are reflected in the following table:

Three months ended March 31,	2011	2010	Increase (decrease)
Compensation related costs			
Wages, consulting fees, and benefits	\$ 40,687	\$ 40,705	\$ (18)
Stock-compensation related costs	47,180	22,704	24,476
Business development costs	38,860	47,262	(8,402)
Other administration costs	14,641	17,548	(2,907)
	-	-	-
<b>Total general and administrative</b>	<b>\$ 141,368</b>	<b>\$ 128,219</b>	<b>\$ 13,149</b>

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

- Wages, consulting fees, and benefits are generally consistent with the prior year.
- 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, directors and consultants.
- During the year, efforts continued on business development, including the pursuit of potential partnerships and financing arrangements. The decrease in business development costs, as compared to the prior year, is due to lower travel and investor communication costs incurred.
- The decrease in other administration costs is primarily due to a reduction in recorded amortization resulting from having fully amortized the Company's leasehold improvements.

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 three months ended March 31, 2011 and 2010 are reflected in the following table:

Three months ended March 31,	2011	2010	Increase (decrease)
Finance income	\$ 520	\$ 3,031	\$ (2,511)
Finance expense	\$ (159)	\$ (208)	\$ 49
Foreign exchange loss (gain), net	\$ (2,107)	\$ (801)	\$ (1,306)

Interest income is lower than the prior fiscal year resulting from lower average cash balances. The change in foreign exchange loss results from fluctuations in the US dollar, relative to the Canadian dollar. The Company anticipates that investment income will increase in the coming year resulting from funds received from a private placement which closed subsequent to year-end.

**KANE BIOTECH INC.**  
Management's Discussion and Analysis

**Loss and comprehensive loss for the year**

The loss and comprehensive loss for the three months ended March 31, 2011 and 2010 is reflected in the following table:

Three months ended March 31,	2011		2010		Increase
Loss and comprehensive loss for the year	\$	(356,480)	\$	(277,039)	\$ 79,441
Loss per share	\$	(0.01)	\$	(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 March 31, 2011, the Company had cash totaling \$96,106 compared with \$187,522 at the previous year-end.

**Cash used in operating activities**

Cash used in operating activities totaled \$76,838 for the three months ended March 31, 2011, compared to \$262,459 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 and depreciation and offset by deferral of payments and changes in other accrual accounts.

**Cash used in investing activities**

Cash used in investing activities totaled \$14,578 for the three months ended March 31, 2011. This amount represents primarily patent costs. In the previous fiscal year, cash used in investing activities, for patent costs and acquisition of property and equipment totaled \$37,380.

**Cash from financing activities**

For the three months ended March 31, 2011, cash provided by financing activities totaled nil (2010 - \$63,176) comprising net proceeds from private placements of common shares and warrants.

**Shares and options, and warrants**

	June 24, 2011	March 31, 2011	December 31, 2010
Common shares issued and outstanding	60,596,229	40,619,901	40,619,901
Options outstanding	3,855,000	3,905,000	1,577,500
Warrants outstanding	26,818,680	5,360,245	5,913,245

# KANE BIOTECH INC.

## Management's Discussion and Analysis

On April 15, 2011, the Company announced that it had closed its previously announced private placement offering (the "Offering") with aggregate gross proceeds to the Company of \$2,391,159.40 from the sale of 19,926,328 units ("Units") at a price of \$0.12 per Unit. Each Unit is comprised of one common share of the Company (a "Share") and one Share purchase warrant (a "Warrant"). Each Warrant will expire 18 months from the date the Warrant is issued (the "Expiry Date") and will entitle the holder to purchase one Share at a price of \$0.17 up to the Expiry Date. 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 6 of the accompanying interim condensed financial statements.

The Company believes it has sufficient resources available to satisfy operating requirements through 2011. 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.

The accompanying 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 and equipment, management services, and certain purchased services. The following table presents commitments arising from agreements currently in force over the next five years.

	Payments due by Period				Total
	Within 1 year	2 - 3 years	4 - 5 years		
Management services agreement <sup>(1)</sup>	\$ 78,000	\$ -	\$ -	\$ 78,000	
Accounts payable and accrued liabilities	206,550	-	-	206,550	
Licence maintenance fees	10,000	20,000	20,000	50,000	
	\$ 294,550	\$ 20,000	\$ 20,000	\$ 334,550	

<sup>(1)</sup> The Management services agreement is for a 12 month term beginning on January 1, 2011 and may be terminated by either party on 90 days notice anytime after December 31, 2011.

A summary of the Company's contractual obligations may be found in Note 7 of the accompanying financial statements.

### 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 three months ended March 31, 2011 and 2010 are as follows:

	<b>March 31, 2011</b>	<b>March 31, 2010</b>
Business and administrative services	26,000	40,000
Rent	6,938	6,938

The Chief Financial Officer's services are provided through the business and administrative services agreement with Genesys Venture Inc. (the "GVI Agreement"), a company controlled by the Chairman of the Board of Directors. In addition, intellectual property, accounting, payroll, human resources and information technology services are provided to the Company through the GVI Agreement. Key management personnel compensation is disclosed in note 9 to the accompanying interim condensed financial statements.

As of March 31, 2011, included in accounts payable and accrued liabilities is \$816 (December 31, 2010 - nil) 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 resources constraints and the present stage of the Company's development, the Company does not have sufficient size and scale to warrant the hiring of additional staff to correct this potential weakness at this time. To help mitigate the impact of this potential weakness, the Company is highly reliant on the performance of compensating procedures and senior management's review and approval. During the period ended March 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 Canadian generally accepted accounting principles ("Canadian GAAP") requires the Company to select from possible alternative accounting principles and to make estimates and assumptions that determine the reported amounts of assets and liabilities at the balance sheet date, and reported costs and expenditures during the reporting period. Management believes that the estimates and assumptions upon which the Company relies are reasonable based upon information available at the time these estimates and assumptions are made. Estimates and assumptions may be revised as new information is acquired, and are subject to change.

In addition to the going concern assumption described above, management believes that its most critical accounting policies and estimates relate to the following areas, with reference to notes contained in the accompanying financial statements:

# **KANE BIOTECH INC.**

## **Management's Discussion and Analysis**

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### **Research and development costs**

The Company's accounting policy over research and development costs may be found in Note 3(d)(i). Research expenditures are expensed as incurred. Development expenditures are deferred when they meet the criteria for capitalization in accordance with Canadian GAAP, and the future benefits could be regarded as being reasonably certain. Related tax credits are accounted for as a reduction to research and development expenditures on the condition that the Company is reasonably certain that these credits will materialize.

### **Patents and trademarks**

The Company's accounting policy over patents and trademarks may be found in Notes 3(d)(ii). Patents and trademarks are reviewed for impairment on an ongoing basis whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recognized when the carrying amount of an asset to be held and used exceeds the projected undiscounted future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value. Triggering events for reviews for impairment typically include abandonment of patent applications which result in the related asset being derecognized.

### **Technology licenses**

The Company's accounting policy over technology licences may be found in Notes 3(d)(iii). 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. An impairment is recognized when the carrying amount of an asset to be held and used exceeds the projected undiscounted future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value.

### **Stock-based compensation**

The Company's accounting policy over stock-based compensation may be found in Notes 3(f) and 11(b). 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 accompanying financial statements for the three months ended March 31, 2011.

## **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 interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. The Company implemented these standards on January 1, 2011.

## **KANE BIOTECH INC.**

### **Management's Discussion and Analysis**

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The unaudited interim condensed financial statements for the three months ended March 31, 2011 and 2010 are the Company's first financial statements that comply with IFRS. These financial statements have been prepared as described in Note 2 of the interim condensed consolidated financial statements.

In preparing the interim condensed consolidated 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.

Note 13 of the unaudited interim condensed financial statements for the three months ended March 31, 2011 and 2010 contains a detailed description of the Company's conversion to IFRS, including required reconciliations of the Company's financial statements previously prepared under Canadian GAAP to those under IFRS as at January 1, 2010 and for the three months ended March 31, 2011 and 2010 and for the year ended December 31, 2010.

### **FORWARD-LOOKING STATEMENTS**

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

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

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

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