



**KANE BIOTECH INC.
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008**

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KANE BIOTECH INC.

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") covers information up to November 25, 2008 and should be read in conjunction with the unaudited financial statements for the nine month period ended September 30, 2008 and the audited financial statements for the year ended December 31, 2007, and related notes, which are prepared in accordance with Canadian generally accepted accounting principles. This discussion and analysis provides an update to the Management's Discussion and Analysis for the year ended December 31, 2007, and should be read in conjunction with this document. The Company's independent auditors, KPMG LLP Chartered Accountants, have not reviewed the unaudited interim financial statements. All amounts are expressed in Canadian Dollars unless otherwise noted. Additional information regarding the Company is available on SEDAR at www.sedar.com and on the Company's website at www.kanebiotech.com.

OVERVIEW

Kane Biotech Inc. ("Kane" or the "Company") is a biotechnology company engaged in the development of products to prevent and remove microbial biofilms. Biofilms develop when bacteria and other microorganisms form a protective matrix that acts as a shield against attack. When in a biofilm, bacteria become highly resistant to antibiotics, antimicrobials, biocides and host immune responses. This resiliency contributes to numerous human health problems such as recurrent urinary tract infections, medical device associated infections and tooth decay.

According to the National Institutes of Health (NIH), USA, biofilms are estimated to be responsible for 80% of all human infections and cost industry, governments and hospitals in excess of \$500 billion each year. As such, there is significant demand for safe and effective products to combat the biofilm problem.

Kane has a growing portfolio of products and intellectual property built upon three distinct technology platforms acquired from leading research institutions and the Company's own biofilm research expertise. This arsenal of products that prevents and removes microbial biofilms, along with the numerous other uses for these products, has stemmed from the Company's ability to screen for factors affecting biofilm formation.

Corporate Update

On January 15, 2008, the Company announced it had been approved to receive a \$405,000 contribution from the National Research Council Industrial Research Assistance Program (NRC-IRAP). The contribution is being applied to the development of the Company's novel anti-biofilm topical wound gel containing its patented DispersinB[®] technology. DispersinB[®] wound gel is being developed to treat infections caused by chronic wounds.

On February 13, 2008, the Company announced that an independent research paper on its PS/CHX technology was to appear in an online scientific journal 'Antimicrobial Agents and Chemotherapy' published by the American Society for Microbiology. This external and peer-reviewed validation of Kane's technology is one of a growing list of publications over the past number of years.

On February 28, 2008, the Company closed an announced private placement with aggregate gross proceeds of \$1,550,000 from the sale of 6,200,000 units (the "Units") at a price of \$0.25 per Unit. Each Unit is comprised of one common share of the Company (a "Share") and one-half of one Share purchase warrant (a "Warrant"). Each whole Warrant entitles the holder thereof to purchase one Share at a price of \$0.40 for a period of eighteen months from the date of issuance of the Warrant.

On March 4, 2008, the Company announced that it had retained BioVectra Inc., a biopharmaceutical company in Atlantic Canada, to manufacture clinical grade DispersinB[®] to be used in the Company's wound care product being developed for treating chronic wounds.

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On July 2, 2008, the Company announced a research publication on its DispersinB® technology. The manuscript appeared in the online edition of *Microbial Pathogenesis* (2008), doi: 10/1016/j.micpath.2008.05.007. The publication, entitled “Both leukotoxin and poly-N-acetylglucosamine surface polysaccharide protect *Aggregatibacter actinomycetemcomitans* cells from macrophage killing” authored by Dr. Jeffrey B. Kaplan and his colleagues, demonstrates that when biofilm-embedded *Aggregatibacter actinomycetemcomitans* (A.a) is treated with DispersinB® it makes the bacteria susceptible to macrophage killing. Previously, it has been shown that bacteria in a biofilm are 100 to 1000 times more resistant to antimicrobials and host immune responses than their planktonic counterparts.

On July 7, 2008, the Company announced the meeting of a critical milestone in the manufacturing of DispersinB® with the successful creation of the Master Cell Bank for manufacturing DispersinB® by the contract manufacturer BioVectra. The Master Cell Bank provides a pure cell culture for manufacturing clinical grade DispersinB® by fermentation in a cGMP facility. This represents a significant milestone in the creation of a commercial process for the DispersinB®-based wound gel. As the DispersinB® wound gel progresses through the developmental phases, this compliance standard will allow for the acceptance of the DispersinB® manufacturing process by worldwide regulating agencies.

On July 22, 2008, the Company announced it had entered into a material transfer and evaluation agreement with Ward Industries Group of Monaghan, Ireland, a specialist provider and innovator of unique ingredients to the international human and pet food industries. In this agreement, Ward Industries Group will be evaluating Kane Biotech's antibiofilm and antimicrobial technologies for the development of a novel companion animal product. Upon completion of this agreement, Ward Industries will have an exclusive option to license the technology from Kane Biotech for the development of this product for a specific field of use in the international companion animal market.

On September 2, 2008, Kane announced that it will be featured in an upcoming episode of the Economic Report's Medical Minute Series. The episode will focus on Emerging Developments in Biofilm Technologies and will air in the United States both nationally on Fox Business News and regionally on both CNN & Regional News Networks. The five-minute segment will be filmed on location at the Center for Biofilm Engineering at Montana State University.

On September 9, 2008, the Company announced that BioVectra had successfully completed the manufacturing of clinical grade DispersinB® in their cGMP facility.

On September 17, 2008 an announcement was made that DispersinB® has been registered as a trademark in Canada, the U.S. and Europe.

On September 30, 2008, the Company announced that it had been selected as one of Canada's Top 10™ Emerging Life Sciences companies. Canada's Top 10™ is organized by OCRI (Ottawa Centre for Research and Innovation). The winners are chosen by an independent expert panel of Canadian and U.S. venture capitalists.

Research and Development

The Company's lead product for the prevention of catheter associated infections is PS/CHX. 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 20 million urethral catheters are sold in the U.S. 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 antibiofilm activity of PS/CHX combination against dental plaque and oral bacteria associated with periodontal disease.

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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. On April 21, 2008 the Company submitted the briefing document for a pre-IDE Filing Agreement meeting with the FDA for its Triclosan-DispersinB[®] antimicrobial wound gel. The DispersinB[®] technology also has applications in coating medical devices to prevent device related hospital-acquired infections and Cystic Fibrosis associated infections.

Kane continues to be involved in research related to toothpaste 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 Company has a number of Material Transfer Agreements in place with university research institutions to conduct third party research with its technology. In addition, the Company has Confidential Disclosure Agreements in place with multinational companies in both the Medical Device 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 key to its development and as a positive external validation of the market potential for its products.

PS/CHX Technology

The Company has licensed PS/CHX technology to Harland Medical Systems (Eden Prairie, Minnesota) for applications in urinary, central venous and veterinary catheters. Currently, Harland is developing silicone Foley catheters coated with PS/CHX combination in collaboration with Kane. Recently, Kane completed testing on the durability of PS/CHX coated silicone Foley catheters. Further tests to determine the broad-spectrum activity and durability in artificial urine of the finished PS/CHX-coated silicone Foley catheters were also completed. Harland and Kane are also working together to complete the required tests on a finished product in order to submit the 510(K) application to the FDA for approval.

DispersinB[®] Technology

BioVectra has completed the creation of a Master Cell Bank (MCB) for manufacturing clinical grade DispersinB[®]. This represents a significant milestone in the creation of a commercial process for the DispersinB[®] based wound gel. Also, the company has recently completed manufacturing of clinical grade DispersinB[®]. It will be released after completing all the QC tests. Kane has already formulated prototype DispersinB[®] based wound gels containing research grade DispersinB[®] and other excipients.

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 analog peptides that have been shown to interfere with the induction of biofilm formation in S. mutans and other caries-associated streptococci by CSP. These peptides represent a novel approach to the prevention of dental plaque and cavities by specifically preventing the formation of S. mutans biofilms. Also, CSP at higher concentrations has shown to have antibacterial activity against S. mutans and other oral streptococci and to interfere with the attachment of S. mutans to tooth surface, which is the first step in biofilm/plaque formation. Thus, there are numerous potential applications for a product derived from these peptides including use in toothpaste, mouthwash, chewing gum, candies, and soft drinks; along with dental office and veterinary applications.

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The strategic direction of the Company is centered on developing solutions to biofilm related problems. In order to advance these programs, Kane expects to continue incurring operating losses. Based on current projections and strategic plans, it is expected that total expenses will increase into fiscal 2009 as compared to fiscal 2008. This increase in expenditures is expected to result from the continued advancement of Kane's present research activities.

On February 28, 2008, the Company closed a private placement offering with gross proceeds of \$1,550,000. As such, Kane has sufficient resources to fund operations into the second half of fiscal 2009. However, funding requirements may change as a result of numerous factors including progress of the Company's research, commercialization arrangements with partners, and changes or expansions to the Company's research programs. As such, the Company may consider raising additional capital in the near term to fund operations over the long term. The Company continues to be party to a commercial license agreement with Harland Medical Systems, Inc. and is in discussions with various other potential partners to pursue alliances with regards to its anti-microbial products, which may provide additional funding for research.

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

RISKS AND UNCERTAINTY

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

Risks Related to the Company's Financial Condition

- The need to raise capital from investors to continue planned activities. If the Company is unable to fund operations, the Company may cease operations.
- The Company has not derived any revenue to date from the commercial sale of its products; the Company has relied on equity financing to support operations.
- The operating losses are expected to continue. If the Company is unable to achieve significant revenues in the future or secure alternative sources of capital or financing, the Company may cease operations.
- The Company 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.

Risks Related to the Company's Business and Operations

- The Company is in various stages of development of products and unless it is able to generate sufficient product revenue from these candidates, the Company will continue to incur losses from operations and may not achieve or maintain profitability and may have to cease operations.
- The Company intends to rely on revenue from technology licenses with or issued to third parties in the future. Any breach or termination of these license arrangements could have a material adverse effect on the business, financial condition and results of operations.
- Failure to protect intellectual property, or infringement on the intellectual property rights of others, may impede the

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Company's ability to operate freely.

- The Company's business is subject to significant government regulation and failure to achieve regulatory approval of products would negatively affect its business.
- The Company is dependent on the successful outcome of preclinical testing and in some instances, clinical trials.
- Delays in clinical trials will cause the Company to incur additional costs which could jeopardize the trials and adversely affect the Company's liquidity and financial results.
- The Company relies on collaborative arrangements for manufacturing its product candidates as part of its product development strategy, and it would be negatively affected if it is not able to initiate or maintain these relationships.
- 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.
- Competitive products and technologies may reduce demand for the Company's product candidates and technologies.
- 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 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.
- The significant costs that the Company incurs as a result of being a public company in Canada could adversely affect its business.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

	Q3 - 2008	Q2 - 2008	Q1 - 2008	Q4 - 2007	Q3 - 2007	Q2 - 2007	Q1 - 2007	Q4 - 2006
Revenue	\$ 6,780	\$ 10,710	\$ 4,918	\$ 4,230	\$ 3,637	\$ 3,514	\$ 5,775	\$ 8,333
Loss for the period	(372,994)	(352,170)	(217,127)	(291,694)	(220,554)	(382,310)	(195,398)	(353,878)
Loss per share	(0.02)	(0.02)	(0.01)	(0.01)	(0.02)	(0.02)	(0.01)	(0.02)

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, 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 increasing quarterly losses are mainly due to additional costs incurred as part of developing the process to manufacture clinical grade DispersinB®. The operations of the Company are not subject to any material seasonality or cyclical factors.

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RESULTS OF OPERATIONS

Research

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

The changes in research expenditures for the nine months ended September 30, 2008 and 2007 are reflected in the following table:

Nine months ended September 30,	2008	2007	Increase (decrease)
Compensation related costs	\$ 202,533	\$ 236,580	\$ (34,047)
Consumables	29,394	36,041	(6,647)
Contract research and scientific consulting	402,464	17,491	384,973
Laboratory rent and occupancy costs	23,960	29,911	(5,951)
Other research costs	8,066	8,351	(285)
less: Government assistance	(120,935)	(7,500)	(113,435)
Research	\$ 545,482	\$ 320,874	\$ 224,608

As expected, research expenditures for the nine months ended September 30, 2008 were higher as compared to 2007. This increase can be attributed to the following factors:

- Compensation related costs are lower, as compared to the prior year, as no stock options were issued to employees or consultants focused on research and development activities. Direct payroll expenses increased due to cost of living and merit increases.
- The reduction in purchases of consumables is directly related to focused research efforts targeted on projects which consume fewer supplies and use existing inventories.
- The increase in contract research and scientific consulting is primarily due to costs incurred in manufacturing clinical grade DispersinB® to be used in the Company's wound care product being developed to treat chronic wounds.
- The decrease in laboratory rent and occupancy costs is primarily due to a reduction in square footage that was leased, as compared to the same period of the prior year.
- Other research costs is consistent with the same period in the prior year. This is in line with management expectations.
- The increase in Government assistance is due to installments received from a NRC-IRAP contribution approved in the first quarter of the year. In the same period of the prior year, the Company received the final payment of an NSERC grant.

The Company expects increased levels of research expenditures for the coming fiscal year.

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General and Administrative

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

The changes in general and administrative expenditures for the nine months ended September 30, 2008 and 2007 are reflected in the following table:

Nine months ended September 30,	2008	2007	Increase (decrease)
Compensation related costs	\$ 122,326	\$ 127,408	\$ (5,082)
Business development costs	176,849	202,616	(25,767)
Other administration costs	78,839	75,346	3,493
General and administrative	\$ 378,014	\$ 405,370	\$ (27,356)

The decrease in costs for the nine months ended September 30, 2008 as compared to 2007 can be attributed to the following factors:

- Compensation related costs are lower, as compared to the prior year, as no stock options were issued to employees or consultants focused on general and administrative activities. Direct expenses increased due mainly to the same period in the prior year due to contracting of an in-house investor relations professional and an increase in the President's compensation.
- During the period, efforts continued on business development, including the pursuit of potential partnerships and financing arrangements. The decrease in business development costs, as compared to the prior year, is due to lower travel and investor communications costs incurred.
- The increase in other administration costs is due, in combination, to increased insurance and office costs, offset by a reduction in legal fees.

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

Interest Income

The changes in interest income for the nine months ended September 30, 2008 and 2007 are reflected in the following table:

Nine months ended September 30,	2008	2007	Increase (decrease)
Interest Income	\$ 22,408	\$ 12,926	\$ 9,482

The increase in interest income is the result of a higher average cash balance as compared to the prior fiscal year. The Company anticipates that investment income will begin to decrease over the coming quarters as the Company uses cash and short term investments received from a private placement closed during the first quarter of 2008.

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Results

The loss for the nine months ended September 30, 2008 and 2007 is reflected in the following table:

Nine months ended September 30,	2008	2007	Increase (decrease)
Results	\$ (942,291)	\$ (798,261)	\$ 144,030
Loss per share	\$ (0.04)	\$ (0.05)	\$ (0.01)

As discussed above, the loss resulted mainly from management's focus on research programs. 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, interest income on funds available for investment and government grants and tax credits. As at September 30, 2008, the Company had cash and cash equivalents totaling \$669,172 compared with \$344,511 at the previous year-end.

Cash used in operating activities

Cash used in operating activities totaled \$965,742 for the nine months ended September 30, 2008, compared to \$659,453 for the same period in fiscal 2007 as a result of an increase in actual cash outflows from ongoing research programs and general and administrative activities, net of non-cash items such as stock based compensation and amortization.

Cash used in investing activities

Cash used in investing activities totaled \$138,002 for the nine months ended September 30, 2008. Of this amount, \$127,572 was from patent costs and the remaining \$10,430 was from a licence fee payment. No cash was used for the acquisition of property and equipment. In the previous fiscal year, cash used in investing activities, from patent costs, totaled \$101,516.

Cash from financing activities

For the nine months ended September 30, 2008, cash provided from financing activities totaled \$1,428,405 (2007 - 620,687). On February 28, 2008, the Company closed a private placement with aggregate gross proceeds of \$1,550,000 from the sale of 6,200,000 Units at a price of \$0.25 per Unit.

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Shares and options, and warrants

	September 30, 2008	December 31, 2007
Common shares issued and outstanding	25,228,491	19,028,491
Options outstanding	1,422,500	1,657,211
Warrants outstanding	4,216,100	953,000

As of November 25, 2008, the Company had not issued any shares, options, or warrants subsequent to the end of the period. A summary of the Company's capital stock may be found in Note 8 of the unaudited interim financial statements.

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 Commitments
	Within 1 year	2 - 3 years	4 - 5 years	After 5 years		
Management services agreement	\$ 40,000	\$ -	\$ -	\$ -	\$ 40,000	
Operating leases	6,938	34,690	-	-	41,628	
Purchase services agreement	26,000	-	-	-	26,000	
	\$ 72,938	\$ 34,690	\$ -	\$ -	\$ 107,628	

A summary of the Company's contractual obligations may be found in Note 9 of the unaudited interim financial statements.

RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2008, the Company paid a company controlled by a director, a total of \$140,813 (2007 - \$144,050) for laboratory lease, equipment rental and consulting fees, in accordance with the above noted contractual obligations. The Chief Financial Officer's services are provided through the consulting agreement with Genesys Venture Inc. (GVI). In addition, intellectual property, accounting, payroll, human resources, and information technology services are provided to the Company through the GVI agreement. As of September 30, 2008, included in accounts payable and accrued liabilities is \$3,075 (2007 - 3,877) owed to GVI. The Company has provided a non-interest bearing advance of \$5,800 to GVI used for payroll processing.

During the same period, the Company also paid a company controlled by an officer \$2,250 (2007 - \$2,250) for rental of equipment. The Company also paid nil (2007 - \$2,389) in consulting fees to a shareholder of the Company.

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

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OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

CONTROLS**Effectiveness of disclosure controls and procedures**

Management has established and maintained disclosure controls and procedures for the Company in order to provide reasonable assurance that material information relating to the Company is made known to management in a timely manner and that information required to be disclosed by the Company is reported within time periods prescribed by applicable securities legislation.

A control system can only provide reasonable, not absolute, assurance that the objectives of the control system are met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

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 and to ensure quality financial reporting, the Company is highly reliant on the performance of compensating procedures and senior management's review and approval to ensure that the controls are as effective as possible.

There has been no change in the Company's disclosure controls and procedures or in the Company's internal control over financial reporting that occurred during the most recently completed quarter that has materially affected, or is reasonably likely to materially affect, the Company's disclosure controls and procedures or internal control over financial reporting.

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.

Management believes that its most critical accounting policies and estimates relate to the following areas, with reference to notes contained in the audited financial statements for the year ended December 31, 2007:

- | | |
|--|---------------------------|
| - Research costs | Note 2(g) |
| - Patents and trademarks and technology licenses | Notes 2(c), 2(d) and 2(e) |
| - Stock-based compensation | Notes 2(f), 8(c) and 8(d) |

A summary of all of the Company's significant accounting policies and estimates may be found in Note 2 of the unaudited financial statements for the nine months ended September 30, 2008 and the audited financial statements for the year ended

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CHANGES IN ACCOUNTING POLICIES**1. New Accounting Standards adopted during the year:****(a) Capital disclosures:**

Section 1535 requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any regulatory capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for the Company for interim and annual financial statements beginning on January 1, 2008. These new disclosures are included in Note 12 of the unaudited financial statements for the nine months ended September 30, 2008.

(b) Financial instruments:

Section 3862, Financial Instruments - Disclosure replaces the disclosure standards of Section 3861. The section requires disclosure, by class of financial instrument, that enables users to evaluate the significance of financial instruments to an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable.

Section 3863, Financial Instruments - Presentation replaces the presentation standards of Section 3861. The existing requirements on presentation of financial instruments have been carried forward unchanged to Section 3863.

This standard is effective for the Company for interim and annual financial statements beginning on January 1, 2008. These new disclosures are included in Notes 4 and 13 of the unaudited financial statements for the nine months ended September 30, 2008.

2. Recent accounting pronouncements issued and not yet applied:**(a) Goodwill and intangible assets:**

In February 2008, The CICA issued Handbook Section 3064, Goodwill and Intangible Asset effective for interim and annual periods on or after October 1, 2008. Section 3064, which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research & Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of IFRS IAS 38, Intangible Assets. This new standard is effective for the Company's interim and annual financial statements commencing on October 1, 2008. The Company is assessing the impact of the new standard on its financial statements.

(b) Convergence to International Financial Reporting Standards ("IFRS")

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public entities, being converged with IFRS over a transitional period currently expected to be about five years. These new standards will be effective for the Company's interim and annual financial statements commencing on or after March 1, 2011. The impact of this transition on the Company's financial statements has not yet been determined; however, management continues to monitor these regulatory developments.

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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.