



**KANE BIOTECH INC.  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009**

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# **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 May 25, 2009 and should be read in conjunction with the unaudited interim financial statements for the three month period ended March 31, 2009 and the audited financial statements for the year ended December 31, 2008, 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, 2008, 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 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. The Company is listed on the TSX Venture Exchange under the symbol "KNE".

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 May 14, 2009, the Company closed a non-brokered private placement offering for gross proceeds of \$250,000 consisting of up to 3,571,429 units at a price of \$0.07 per unit. Each unit is comprised of one common share of the Company and one half of one share purchase warrant. Each whole 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 \$0.10 per share if purchased within 6 months from the date the warrant is issued or \$0.15 per share if purchased after 6 months up to the expiry date of the warrant. The net proceeds of the offering shall be used for research and development and working capital purposes.

On March 9, 2009, the Company appeared in a Washington Post article featuring biofilms and the technologies in development that target bacteria where they live - in the biofilm.

On February 5, 2009, the Company announced that the National Research Council Industrial Research Assistance Program (NRC-IRAP) has increased its contribution to Kane Biotech by \$150,000 bringing the total amount to \$555,000. The additional contribution will be 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 chronic wound infections.

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**Intellectual Property**

<b>Patent #</b>	<b>Title</b>	<b>Jurisdiction</b>
2,452,032	Synergistic Antimicrobial Compositions and Methods of Inhibiting Biofilm Formation	Canada
6,228,638	Escherichia coli CsrB and RNA Encoded Thereby	United States
6,537,815	Method of Altering the expression of CsrB to modify the properties of a cell	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 Biofilms	United States
7,314,857	Synergistic Antimicrobial Compositions and Methods of Inhibiting Biofilm Formation	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

The Company has over 30 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.

<b>Trademark</b>	<b>Jurisdiction</b>
DispersinB®	Canada United States Europe
StrixNB™	United States
Aledex™	United States

**Research and Development**

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.

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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 FDA provided very clear and helpful guidance on the pre-IDE filing and as a result the Company is currently manufacturing its first cGMP (certified good manufacturing practices) supply of the topical 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 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 multi-national 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.

#### **Aledex™ Technology**

The Company has licensed the Aledex™ technology to Harland Medical Systems (Eden Prairie, Minnesota) for applications in urinary, central venous and veterinary catheters. Harland is developing silicone Foley catheters coated with Aledex™ combination in collaboration with Kane. Recently, 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.

#### **DispersinB® Technology**

The Company has completed the creation of a Master Cell Bank (MCB) for manufacturing clinical grade DispersinB® and has also recently completed manufacturing of clinical grade DispersinB®. The contract manufacturer is now producing the wound gel, which will be used to conduct the FDA recommended biocompatibility studies. 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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### **OUTLOOK**

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 in 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.

The Company has taken measures to conserve cash and has substantially reduced the overall use of capital in the near term due to the challenges posed by current economic conditions and their negative impact on the Company's capitalization and ability to raise capital. With these measures in place, the Company believes its cash and cash equivalents are only sufficient to support the Company's activities into the third quarter of 2009. The Company continues to be party to a commercial license agreement with Harland Medical Systems, Inc. and is in discussions with various other potential partners to pursue alliances with regard to its anti-microbial products, which may provide additional funding for research.

The Company's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") that are applicable to a going concern, which contemplates that Kane Biotech Inc. will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has experienced operating losses and cash outflows from operations since inception. The use of these principles may not be appropriate because at March 31, 2009 there was substantial doubt that the Company will be able to continue as a going concern without raising additional financial resources.

The Company's future operations are completely dependent upon its ability to generate product sales, negotiate collaboration or licence agreements with upfront payments, obtain research grant funding, defer expenditures, or other strategic alternatives, and/or secure additional funds. On May 14, 2009, the Company closed a non-brokered private placement offering for gross proceeds of \$250,000 consisting of up to 3,571,429 units at a price of \$0.07 per unit. While the Company is striving to achieve the above plans, there is no assurance these and other strategies will be achieved or that such sources of funds will be available or obtained on favourable terms.

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

### **RISKS AND UNCERTAINTY**

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

#### **Risks Related to the Company's Financial Condition:**

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

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- The Company may fail to obtain additional financing and be unable to fund operations and commercialize its product candidates.

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

#### **Risks Related to the Company's Business and Operations:**

- The Company is in various stages of development of products and is dependent on the successful commercialization of products to prevent and remove microbial biofilms. Delays may cause the Company to incur additional costs which could adversely affect the Company's liquidity and financial results.
- The Company's business is subject to significant government regulation and failure to achieve regulatory approval of its products would negatively affect the business.
- The Company relies on contract manufacturers as part of its product development strategy, and it would be negatively affected if it is not able to maintain these relationships and/or the contract manufacturers failed to maintain appropriate quality levels.
- Even if product candidates receive all of the required regulatory approvals, there is no guarantee of market acceptance or commercialization of the resulting product candidates, which will be determined by the Company's sales, marketing and distribution capabilities and the positioning and competitiveness of its products compared with any alternatives.
- The Company's industry is characterized by rapid change and a failure by the Company to react to these changes could have a material adverse effect on its business.
- If the Company fails to hire or retain needed personnel, the implementation of its business plan could slow and future growth could suffer.

#### **Risks Relating to Intellectual Property:**

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

Kane views patents and other means of intellectual property protection as essential to the Company's core business by protecting the Company's proprietary technology from infringement by competitors. To that end, patents will continue to be filed by the Company to ensure the highest level of protection possible is obtained for its products and technologies. The Company requires all employees, consultants, and parties to collaborative research agreements to execute confidentiality agreements upon the commencement of employment, consulting relationships or a collaboration with the Company. These agreements require that all information developed or made known during the course of the engagement with the Company is

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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:

	<b>Q1 - 2009</b>	<b>Q4 - 2008</b>	<b>Q3 - 2008</b>	<b>Q2 - 2008</b>	<b>Q1 - 2008</b>	<b>Q4 - 2007</b>	<b>Q3 - 2007</b>	<b>Q2 - 2007</b>
Investment income \$	2,453	\$ 4,239	\$ 6,780	\$ 10,710	\$ 4,918	\$ 4,230	\$ 3,637	\$ 3,514
Loss for the period	(203,639)	(134,553)	(372,994)	(352,170)	(217,127)	(291,693)	(220,554)	(382,310)
Loss per share	(0.01)	(0.02)	(0.02)	(0.02)	(0.01)	(0.01)	(0.02)	(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, 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 decreasing quarterly losses are mainly due to fluctuation in 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 three months ended March 31, 2009 and 2008 are reflected in the following table:

<b>Three months ended March 31,</b>	<b>2009</b>		<b>2008</b>		<b>Increase (decrease)</b>
Wages, consulting fees, and benefits	\$	69,166	\$	67,232	\$ 1,934
Consumables		4,709		8,080	(3,371)
Contract research and scientific consulting		11,833		23,166	(11,333)
Licence fees		12,325		-	12,325
Laboratory rent and occupancy costs		9,148		8,509	639
Other research costs		1,834		6,731	(4,897)
less: Government assistance		(25,119)		(30,600)	5,481
<b>Research</b>	<b>\$</b>	<b>83,896</b>	<b>\$</b>	<b>83,118</b>	<b>\$ 778</b>

As expected, research expenditures for the three months ended March 31, 2009 were higher as compared to 2008. 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.
- 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 decrease in contract research and scientific consulting is primarily due to a reduction in costs incurred in manufacturing clinical grade DispersinB<sup>®</sup> to be used in the Company's wound care product being developed to treat chronic wounds, as compared to the same period in the prior year.
- The Company began paying an annual minimum royalty fee beginning on April 1, 2008, which was the third anniversary date of the agreement is included in research expenses, under a licence agreement with the University of Medicine and Dentistry of New Jersey.
- Laboratory rent and occupancy costs are consistent with the prior year.
- The decrease in other research costs is primarily due to expenses incurred for travel and conference attendance in the prior year, which were not incurred in 2009.
- The decrease in Government assistance is due to fluctuations in installments received from a NRC-IRAP contribution approved in the first quarter of the year.

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

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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 three months ended March 31, 2009 and 2008 are reflected in the following table:

<b>Three months ended March 31,</b>	<b>2009</b>	<b>2008</b>	<b>Increase (decrease)</b>
Compensation related costs	\$ 37,633	\$ 37,182	\$ 451
Business development costs	60,821	69,605	(8,784)
Other administration costs	14,877	12,103	2,774
<b>General and administrative</b>	<b>\$ 113,331</b>	<b>\$ 118,890</b>	<b>\$ (5,559)</b>

The net decrease in costs for the three months ended March 31, 2009 as compared to 2008 can be attributed to the following factors:

- Wages, consulting fees, and benefits are consistent with the prior year.
- During the period, efforts continued on business development, including the pursuit of potential partnerships and financing arrangements. The decrease in business development costs, as compared to the prior year, is primarily due to lower travel costs incurred.
- The increase in other administration costs is due, in combination, to increased membership and subscription costs, offset by a reduction in legal fees.

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

**Investment Income**

The change in investment income for the three months ended March 31, 2009 and 2008 are reflected in the following table:

<b>Three months ended March 31,</b>	<b>2009</b>	<b>2008</b>	<b>Increase (decrease)</b>
Investment income	\$ 2,453	\$ 4,918	\$ (2,465)

The decrease in interest income is the result of a lower average cash balance maintained as compared to the prior fiscal year. The Company anticipates that investment income will decrease in the coming year as the Company uses existing cash and any new funds received from a private placement closed subsequent to the end of the quarter.

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**Loss and comprehensive loss for the year**

The loss and comprehensive loss for the three months ended March 31, 2009 and 2008 is reflected in the following table:

Three months ended March 31,	2009		2008		Increase (decrease)
Loss and comprehensive loss for the year	\$	(203,639)	\$	(217,127)	\$ (13,488)
Loss per share	\$	(0.01)	\$	(0.01)	\$ -

The Company's period loss decreased as compared to the prior year. This resulted mainly from management's focus on priority research programs and focused management of available resources. 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, 2009, the Company had cash and cash equivalents totaling \$351,238 compared with \$1,500,605 at March 31, 2008.

**Cash used in operating activities**

Cash used in operating activities totaled \$158,435 for the three months ended March 31, 2009, compared to \$196,197 for the same period in fiscal 2008 as a result of a decrease 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 \$39,310 for the three months ended March 31, 2009. This amount, represents patent and trademark costs. No cash was used for the acquisition of property and equipment or for licence fee payments. In the previous fiscal year, cash used in investing activities, for patent costs, acquisition of property and equipment, and licence fee payments, totaled \$76,114.

**Cash from financing activities**

For the three months ended March 31, 2009, cash provided by financing activities was (2008 - \$1,428,405). On May 14, 2009, Kane closed a private placement with aggregate gross proceeds to the Company of \$250,000.



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**Shares and options, and warrants**

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
Common shares issued and outstanding	25,228,491	25,228,491
Options outstanding	1,247,500	1,257,500
Warrants outstanding	3,100,000	4,216,100

As of May 25, 2009, the Company had not issued any option subsequent to the end of the period. A summary of the Company's capital stock may be found in Note 7 of the unaudited interim financial statements.

Subsequent to year-end, the Company closed a private placement with aggregate gross proceeds of \$250,000 from the sale of 3,571,429 units at a price of \$0.07 per unit. Each unit is comprised of one common share of the Company and one half of one share purchase warrant. Each whole 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 \$0.10 per share if purchased within 6 months from the date the warrant is issued or \$0.15 per share if purchased after 6 months up to the expiry date.

The Company believes it has sufficient resources available to satisfy operating requirements into the third quarter of 2009. The Company's management is considering all financing alternatives and is currently seeking 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. While the Company pursues such financing, there is no assurance that funding will be available or obtained on favourable terms.

The unaudited interim 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.

	<b>Payments due by Period</b>				<b>Total</b>
	<b>Within 1 year</b>	<b>2 - 3 years</b>	<b>4 - 5 years</b>		
Management services agreement	\$ 120,000	\$ -	\$ -	\$ 120,000	
Contractual commitments	20,814	26,938	20,000	67,752	
	\$ 140,814	\$ 26,938	\$ 20,000	\$ 187,752	

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

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**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**

During the three months ended March 31, 2009, the Company paid a company controlled by a director, a total of \$46,938 (December 31, 2008 - \$46,938) for laboratory lease, and consulting fees, in accordance with the above noted contractual obligations. The Chief Financial Officer's services are provided through a consulting agreement with 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 March 31, 2009, included in accounts payable and accrued liabilities is \$1,545 (December 31, 2008 - \$2,577) owed to GVI. The Company has provided a non-interest bearing advance of \$5,800 (December 31, 2008 - \$5,800) to GVI used for payroll processing.

During the same period, the Company also paid a company controlled by an officer nil (2008 - \$750) for rental of equipment.

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

**OFF-BALANCE SHEET ARRANGEMENTS**

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

**CONTROLS**

As a result of the Company's limited administrative staffing levels, internal controls which rely on segregation of duties in many cases are not appropriate or possible. Due to resources constraints and the present stage of the Company's development, the Company does not have sufficient size and scale to warrant the hiring of additional staff to correct this potential weakness at this time. To help mitigate the impact of this potential weakness, the Company is highly reliant on the performance of compensating procedures and senior management's review and approval. During the period ended March 31, 2009, 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.

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, 2008:

- |                                  |                           |
|----------------------------------|---------------------------|
| - Research and development costs | Note 2(h)                 |
| - Intangible assets              | Notes 2(c), 2(d) and 2(e) |
| - Stock-based compensation       | Notes 2(g), 8(c) and 8(d) |

A summary of all of the Company's significant accounting policies and estimates may be found in Note 2 to the audited financial statements for the year ended December 31, 2008.

## **CHANGES IN ACCOUNTING POLICIES**

### **1. New Accounting Standards adopted during the period:**

#### **Goodwill and intangible assets:**

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 IAS 38, Intangible Assets. There was no impact on the Company's financial position and results of operations on adoption of this standard.

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

In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB's strategic plan outlines the convergence of Canadian GAAP with IFRS over a five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP.

IFRS 1, *First-time Adoption of International Financial Reporting Standards*, provides guidance for the initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS standards effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 does require certain mandatory exceptions and limited optional exemptions in specified areas of certain standards from this general requirement. The Company is currently evaluating the exceptions and exemptions under IFRS 1 and will provide updated disclosure when available.

# KANE BIOTECH INC.

## Management's Discussion and Analysis

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### Key dates:

- Disclosure of IFRS implementation plan.....December 31, 2008
- Disclosure of IFRS quantitative impact analysis.....December 31, 2009
- Opening IFRS balance sheet and transition adjustment.....January 1, 2010
- First external quarterly IFRS financial statements, including comparatives.....March 31, 2011
- First external annual IFRS financial statements, including comparatives.....December 31, 2011

Management began to develop its IFRS changeover plan in 2008, as the Company's key finance employees attended training sessions and accumulated current literature on IFRS and their interpretations. An initial implementation timetable is in development that identifies key activities that will occur over the next two years leading up to the changeover. In 2009, the Company plans to develop a better understanding of the current differences between Canadian GAAP and IFRS, and as required by the AcSB, the Company will need to finalize its accounting policy choices within IFRS and assess its elective options under first-time adoption of IFRS (IFRS 1).

Management believes that sufficient and appropriate resources have been allocated to this IFRS conversion to ensure a timely and effective transition. As of May 25, 2009, the IFRS conversion plans are progressing according to plan.

### 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.

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**Management's Discussion and Analysis**

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