



TURNING NOVEL DISCOVERIES
INTO INNOVATIVE HEALTH CARE SOLUTIONS



KANE
BIOTECH

PRESIDENT'S MESSAGE



2007 > **A Pivotal Year for Our Biofilm Technology.**

In 2007, Kane Biotech continued to make significant progress; obtaining global recognition of our antibiofilm and antimicrobial technology and building a solid foundation of scientific data both externally and internally to support our technology platforms.

By all accounts this has been the most exciting year in Kane Biotech's existence. We signed our first commercial license agreement, three new patents were issued, had a number of scientific journal publications on our technology and were invited to present at the BioInterface Conference in San Mateo, California. In addition, in early 2008 we received a \$405,000 contribution from the National Research Council of Canada's Industrial Research Assistance Program (NRC/IRAP) to advance our DispersinB™ technology.

During the past year the R&D team continued to make progress on our PS/CHX and DispersinB™ technologies. The first priority for our PS/CHX antibiofilm/antimicrobial platform is coating medical devices such as urinary and venous access catheters. Along with our partner, Harland Medical Systems, prototypes are being developed to bring this product to commercial success. We expect this market will take on a re-energized focus as new US legislation will come into effect this October dictating that Medicare and Medicaid will no longer reimburse hospitals for hospital acquired infections including urinary tract and bloodstream infections. Furthermore, hospitals in the US will no longer be able to charge their patients for treating these infections.

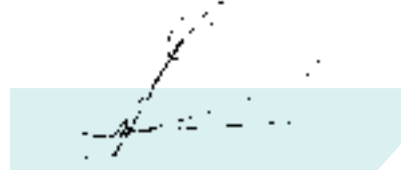
With our DispersinB™ platform, the top priority is to develop a topical wound gel to treat chronic wounds such as diabetic foot ulcers. In May 2007, the FDA completed their review of our request for designation (RFD) for our Triclosan-DispersinB™ Antimicrobial Wound Gel. They concluded that our wound gel is a combination product and have assigned the Center for Devices and Radiological Health (CDRH) as the lead agency for premarket review and regulation based on the product's primary mode of action (PMOA). With this good news we are now actively preparing our pre-IDE regulatory package for the FDA.

In addition, we were able to complete two financings in a tough market. The first financing took place in August 2007 with gross proceeds of \$670,000 and the second one in February 2008 with gross proceeds of \$1,550,000. This capital, along with the NRC/IRAP contribution of \$405,000 will assist in providing the resources to aggressively continue our initiatives.

As we build the Company and move these technologies towards commercialization, we strive to continue earning our shareholders' trust by delivering on both near-term milestones and long-term results.

As I underscored in my message last year, what excites our team is the prospect of providing innovative solutions for unmet healthcare needs. We know that we earn trust through passion for what we do.

On behalf of everyone at Kane Biotech, thank you for your investment in our Company and for your commitment to our future.



Gord Froehlich
PRESIDENT AND CEO

> KANE BIOTECH INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

The following management's discussion and analysis ("MD&A") is current to April 18, 2008 and should be read in conjunction with the audited financial statements for year the ended December 31, 2007, and related notes, which are prepared in accordance with Canadian generally accepted accounting principles. Annual references are to the company's fiscal years, which end on December 31. 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 disperse 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, high temperatures 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, cities and hospitals in excess of \$500 billion each year. Thus, 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 prevent and disperse microbial biofilms, along with the numerous uses for these products, has stemmed from the Company's ability to screen for factors affecting biofilm formation.

Corporate Update

On April 18, 2007, the Company announced it had entered into a global commercial license agreement with Harland Medical Systems, Inc. The agreement provides Harland with world-wide rights to Kane's KBI-5898 antimicrobial technology for use in coatings for urinary, venous access and veterinary catheters. Under terms of the agreement, Harland will pay Kane a royalty on net sales of products which incorporate the proprietary agent.

On May 23, 2007, Srinivasa Madhyastha, PhD, was appointed as the Company's Chief Scientific Officer (CSO). Dr. Madhyastha joined Kane Biotech as senior scientist and manager in January 2002, and later assumed the responsibility of VP of research and development. Dr. Madhyastha has over 20 years experience in scientific research, management and teaching, with over fifty publications in refereed scientific journals and five patents. Prior to joining Kane Biotech, Dr. Madhyastha held several senior research positions in the biotechnology industry including director of research and development at Viventia Biotech Inc. (formerly Novopharm Biotech Inc.) and director of research and human resources Nutratch Inc. He holds a B.Sc. in Biology and Chemistry and M.Sc. in Biochemistry and Microbiology from Mysore University, India and a PhD in Applied Microbiology from the National Institute of Nutrition, India.

On May 23, 2007, the Company announced that in addition to the title of President, Mr. Gord Froehlich would assume the title of Chief Executive Officer (CEO).

On June 28, 2007, the Company announced that an independent research paper on the Company's DispersinB™ technology was to appear in an online scientific journal 'Antimicrobial Agents and Chemotherapy' published by the American Society for Microbiology.

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MANAGEMENT'S DISCUSSION & ANALYSIS

On August 16, 2007, the Company closed an announced private placement with aggregate gross proceeds of \$670,000 from the sale of 1,675,000 units (the "Units") at a price of \$0.40 per Unit. Each Unit was comprised of one common share (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 \$0.60 for a period of eighteen months from the date of issuance of the Warrant.

On October 30, 2007, Mr Eric Johnstone, CA was appointed Chief Financial Officer. Mr. Johnstone is a Chartered Accountant and was previously the Company's Controller. He provides services to Kane through a management contract with Genesys Venture Inc. (GVI). GVI provides management services to Kane and other emerging healthcare and biotechnology ventures through an enhanced business incubator model. Mr. Johnstone succeeded Mrs. April Manness, who is on maternity leave.

On January 15, 2008, the Company announced it had received a \$405,000 contribution from the National Research Council Industrial Research Assistance Program (NRC-IRAP). The 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.

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.

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 has 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.

Intellectual Property

On January 23, 2007, the Company was issued Patent No. 7,144,992 entitled "Synergistic Antimicrobial Compositions and Methods for Reducing Biofilm Formation", by the US Patent and Trademark Office. This patent protects methods of reducing biofilm formation in a variety of applications including medical devices.

On May 14, 2007, the Company was issued Patent No. 2,452,032 to protect compositions and methods of inhibiting biofilm formation in a variety of applications, including medical devices. The patent, entitled "Synergistic Antimicrobial Compositions and Methods of Inhibiting Biofilm Formation", was awarded by the Canadian Intellectual Property Office.

On November 13, 2007, the Company was issued Patent No. 7,294,497, entitled "Compositions and Methods for Enzymatic Detachment of Bacterial Biofilms" by the US Patent and Trademark Office. This patent protects DispersinB™, the Company's core technology, and its use in treating infections caused by biofilms. The DispersinB™ technology has human, animal, plant, and industrial applications.

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MANAGEMENT'S DISCUSSION & ANALYSIS

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.

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.

Kane is also developing toothpaste enhancing products for the prevention of dental plaque. These products are 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 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.

PS/CHX Technology

The Center for Disease Control in Atlanta has reported that one in ten patients in the United States will acquire an infection after admission to a hospital and up to 80% of all hospital acquired infections are medical device related. The result is prolonged hospital stays, an additional US\$5 billion in annual health costs and numerous deaths.

The Company's lead product for coating catheters is PS/CHX. A study comparing urinary catheters coated with PS/CHX to those coated with silver hydrogel and uncoated catheters demonstrated with statistical significance that catheters coated with PS/CHX were less likely to be colonized by bacteria or cause device related infection than those coated with silver-hydrogel or uncoated catheters.

The Company is currently preparing a pre-market notification submission (called a 510(k)) for the US Food and Drug Administration (FDA), with its licensing partner, Harland Medical Systems. The purpose of the submission is to request clearance to market PS/CHX coated urinary catheters in the United States.

DispersinB™ Technology

Kane continues to develop its pipeline of patented anti-microbial and anti-biofilm technologies, including DispersinB™. The Company recently announced positive results from an independent chronic wound care study. The study carried out by Dr. Randy Wolcott's team at the Southwest Regional Wound Care Center in Lubbock, Texas, showed that the combination of DispersinB™ with a bacteriophage mixture was very effective against biofilm-embedded E.coli. More specifically, the DispersinB™ and bacteriophage mixture showed almost 99% inhibition of E.coli growth and proliferation as compared to only 9% inhibition by the bacteriophage mixture alone over the four day period of treatment.

› KANE BIOTECH INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

In addition, an independent research publication on the Company's DispersinB™ technology appeared in a recent online edition of the 'Microbial Pathogenesis' journal. The research findings reported in the publication demonstrated that pre-treatment of *A. pleuropneumoniae* biofilms with DispersinB™ makes them almost 10 times more sensitive to killing by ampicillin antibiotic as compared to the antibiotic alone.

CSP Technology

Dental cavities are one of the most common infectious diseases in humans. Approximately 50% of adults have at least four cavities that have been treated or require treatment. *Streptococcus mutans* (*S. mutans*) is the principal bacterial pathogen responsible for dental cavities in humans and is recognized as the primary initiator of dental cavities when it exists in the biofilm environment of dental plaque.

Kane's CSP technology is being engaged for the development of a novel anti-cavity product. CSP is responsible for the ability of *S. mutans* to form dental plaque, as well as many factors in the ability of bacteria to cause damage to the host. Kane has tested several peptides that have been shown to interfere with the CSP system. These peptides represent a novel approach to the prevention of dental cavities by specifically preventing the formation of *S. mutans* biofilms. There are numerous 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.

› 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 2008 compared to fiscal 2007. This increase in expenditures is expected to result from the continued advancement of Kane's present research activities.

The Company recently closed a private placement offering with gross proceeds of \$1,550,000. As such, Kane has sufficient resources to fund operations into 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 fiscal 2008 to fund operations over the long term. The Company has 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:

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MANAGEMENT'S DISCUSSION & ANALYSIS

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 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.

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MANAGEMENT'S DISCUSSION & ANALYSIS

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 ANNUAL FINANCIAL INFORMATION

The following is selected financial information about the Company, for its 2007, 2006, and 2005 fiscal years:

YEARS ENDED DECEMBER 31,	2007	2006	2005
Revenue	\$ 17,156	\$ 24,098	\$ 22,115
Research expenditures	(423,697)	(457,311)	(430,950)
General and administrative and other expenditures	(683,414)	(522,546)	(600,815)
Loss for the year	(1,089,955)	(955,759)	(1,009,650)
Loss per share	(0.06)	(0.06)	(0.07)
Total assets	1,228,592	1,517,608	1,152,053
Total liabilities	87,858	92,835	134,623
Deficit	(4,337,840)	(3,247,885)	(2,292,126)
Total capital stock and contributed surplus	5,478,574	4,672,658	3,309,556

> 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:

	Q4-2007	Q3-2007	Q2-2007	Q1-2007
Revenue	\$ 4,230	\$ 3,637	\$ 3,514	\$ 5,775
Loss for the period	(291,693)	(220,554)	(382,310)	(195,398)
Loss per share	(0.01)	(0.02)	(0.02)	(0.01)
	Q4-2006	Q3-2006	Q2-2006	Q1-2006
Revenue	\$ 8,333	\$ 10,498	\$ 2,346	\$ 2,921
Loss for the period	(353,878)	(201,933)	(242,914)	(157,034)
Loss per share	(0.02)	(0.01)	(0.02)	(0.01)

It is important to note that historical patterns of expenditures cannot be taken as an indication of future expenditures. The amount and timing of expenditures, and therefore liquidity and capital resources, 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.

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MANAGEMENT'S DISCUSSION & ANALYSIS

The Company's cumulative quarterly loss over the past two years relates primarily to the expansion of the Company's research programs. The increased loss for the quarter ended December 31, 2007, as compared to the average loss over the seven preceding quarters, is primarily stock-based compensation resulting from the revaluation of certain of options and changes to volatility assumptions. During the year, Management concluded that the Company had sufficient trading history to provide a reasonable basis for calculation of volatility of its own securities. Historically, the Company's volatility assumption were based on the trading activity of comparable securities as there was insufficient trading history from which to calculate volatility of its own securities.

> RESULTS OF OPERATIONS

Research

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

The changes in research expenditures for the years ended December 31, 2007 and 2006 are reflected in the following table:

YEAR ENDED DECEMBER 31,	2007	2006	INCREASE (DECREASE)
Compensation related costs	\$ 322,297	\$ 256,828	\$ 65,469
Consumables	42,507	73,214	(30,707)
Contract research and scientific consulting	17,504	109,707	(92,203)
Laboratory rent and occupancy costs	38,265	41,491	(3,226)
Other research costs	10,624	8,488	2,136
less: Government assistance	(7,500)	(32,417)	24,917
Research	\$ 423,697	\$ 457,311	\$ (33,614)

As expected, research expenditures for the year ended December 31, 2007 were lower as compared to 2006. This decrease can be attributed to the following factors:

- An increase in research staff related costs is primarily due to non-cash stock-based compensation recorded resulting from an increased number options granted to certain research based employees and officers. In addition, cost of living adjustments for research staff resulted in higher compensation costs, as compared to the prior year.
- The reduction in purchases of consumables is directly related to focused research efforts targeted on projects which consume fewer supplies.
- The decrease in contract research and scientific consulting is primarily due to the expiry of two research contracts from the 2006 fiscal year. As the Company's focus moves from basic research to product development, its contract research needs have changed.
- The decrease in laboratory rent and occupancy costs is primarily due to a reduction in square footage on lease, as compared to the prior year.
- The increase in other research costs is primarily due to higher costs incurred for attendance at research conferences during they year, as compared to the prior year.

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

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MANAGEMENT'S DISCUSSION & ANALYSIS

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 years ended December 31, 2007 and 2006 are reflected in the following table:

YEAR ENDED DECEMBER 31,	2007		2006		INCREASE (DECREASE)
Compensation related costs	\$	245,367	\$	113,889	\$ 131,478
Business development costs		251,881		218,734	33,147
Other administration costs		80,307		63,974	16,333
General and administrative	\$	577,555	\$	396,597	\$ 180,958

The increase in costs for the year ended December 31, 2007 as compared to 2006 can be attributed to the following factors:

- The increase in compensation related costs is due, in combination, to the hiring of an in-house investor relations professional; non-cash stock-based compensation recorded resulting from an increased number options granted to certain directors, officers, and management company employees; and cost of living increases.
- During the year, efforts continued on business development, including the pursuit of potential partnerships and financing arrangements. The increase in business development costs is primarily due to travel and investor communications costs incurred.
- The increase in other administration costs is due, in combination, to increased insurance and professional 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 year ended December 31, 2007 and 2006 are reflected in the following table:

YEAR ENDED DECEMBER 31,	2007		2006		INCREASE (DECREASE)
Interest Income	\$	17,156	\$	24,098	\$ (6,942)

The decrease in interest income is the result of a lower average cash balance as compared to the prior fiscal year. The Company anticipates that investment income will increase in the coming quarters due to additional cash and short term investments received from a private placement closed subsequent to year-end.

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MANAGEMENT'S DISCUSSION & ANALYSIS

Results

The loss for the years ended December 31, 2007 and 2006 is reflected in the following table:

YEAR ENDED DECEMBER 31,	2007	2006	INCREASE (DECREASE)
Results	\$ (1,089,955)	\$ (955,759)	\$ 134,196
Loss per share	\$ (0.06)	\$ (0.06)	\$ -

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 December 31, 2007, the Company had cash and cash equivalents totaling \$344,511 compared with \$689,394 at the previous year-end.

Cash used in operating activities

Cash used in operating activities totaled \$798,377 for the year ended December 31, 2007, compared to \$843,129 for the same period in fiscal 2006 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 .

Cash used in investing activities

Cash used in investing activities totaled \$167,193 for the year ended December 31, 2007. Of this amount, \$156,059 was from patent costs and \$1,134 was from the acquisition of property and equipment. In the previous fiscal year, cash used in investing activities, from patent costs and the acquisition of property and equipment, totaled \$185,627.

Cash from financing activities

For the year ended December 31, 2007, cash provided from financing activities totaled \$620,687 (2006 - \$1,336,156). On August 16, 2007, the Company closed a non-brokered private placement offering of 1,675,000 units ("Units") at a price of \$0.40 per Unit for gross proceeds of \$670,000.

Shares and options, and warrants

YEAR ENDED DECEMBER 31,	2007	2006
Common shares issued and outstanding	19,028,491	17,299,327
Options outstanding	1,657,211	1,100,875
Warrants outstanding	953,000	1,525,418

As of April 18, 2008, the Company had not issued any shares, options, or warrants subsequent to year-end. A summary of the Company's capital stock may be found in the Note 8 of the audited financial statements.

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> 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	\$ 160,000	\$ -	\$ -	\$ -	\$ 160,000
Operating leases	27,750	34,688	-	-	62,438
	\$ 187,750	\$ 34,688	\$ -	\$ -	\$ 222,438

A summary of the Company's contractual obligations may be found in the Note 10 of the audited financial statements.

> RELATED PARTY TRANSACTIONS

During the year ended December 31, 2007, the Company paid a company controlled by a director, a total of \$190,987 (2006 - \$191,716) 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. In addition, intellectual property, accounting, payroll, human resources, and information technology services are provided to the Company through the agreement. As of December 31, 2007, included in accounts payable and accrued liabilities is \$3,877 (2006 - nil) owed to Genesys Venture Inc. The Company has provided a non-interest bearing advance of \$5,800 to Genesys Venture Inc. used for payroll processing.

During the same period, the Company also paid a company controlled by an officer \$3,000 (2006 - \$3,000) for rental of equipment. The Company also paid \$2,389 (2006 - \$10,370) 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.

> 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.

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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.

During the year ended December 31, 2007, the Company made changes to its systems of internal controls that did not materially affect 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:

- Research costs Note 2(g)
- Patents and trademarks and technology licenses Notes 2(c), 2(e) and 2(d)
- 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 the Note 2 to the audited financial statements.

> CHANGES IN ACCOUNTING POLICIES

1. New Accounting Standards adopted during the year:

The Company adopted the following CICA Handbook standards: Section 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement" and Section 3861 "Financial Instruments – Disclosure and Presentation.", on January 1, 2007.

Financial Instruments—Recognition and Measurement

According to this standard, all financial instruments are classified into one the following five categories: available for sale, loans and receivables, other financial liabilities, held-for-trading or held to maturity. Initial measurement of financial instruments is at fair value. Subsequent measurement and recognition of changes in fair value of financial instruments depends on their initial classification.

The Company utilizes various financial instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency, or credit risks arising from these financial instruments and the carrying amounts approximate fair values. All transactions related to financial instruments are recorded on a trade date basis. All derivatives, including embedded derivatives, that must be separately accounted for, are valued at fair value in the balance sheet.

> KANE BIOTECH INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

The Company classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Held-for-trading

This category is comprised of cash and investments in term deposits. They are carried in the balance sheet at fair value with changes in fair value recognized in the statement of operations and deficit. Transaction costs related to instruments classified as held-for-trading are expensed as incurred.

Loans and receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They arise principally through grants (accounts receivable), but also incorporate other types of contractual monetary assets. They are initially recognized at fair value (which approximates cost) and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment. Transaction costs related to loans and receivables are expensed as incurred.

Other financial liabilities

Other financial liabilities comprise accounts payables and accrued liabilities. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method. Transaction costs related to other financial liabilities are expensed as incurred.

The Company has not classified any assets or liabilities as held-to-maturity or as available-for-sale. There were no transitional adjustments required as a result of adoption of these policies. The Company had no "other comprehensive income or loss" transactions during the year ended December 31, 2007 and no opening or closing balances for accumulated other comprehensive income or loss. The Company has not presented a statement of comprehensive income as its comprehensive income is nil.

In July 2006, the Accounting Standards Board ("AcSB") issued a replacement of CICA Handbook Section 1506, Accounting Changes ("Section 1506"). The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retroactively unless doing so is impracticable, requires prior period errors to be corrected retroactively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The adoption of Section 1506, effective January 1, 2007, has no impact on these financial statements.

2. Recent accounting pronouncements issued and not yet applied:

(a) Financial instruments and capital disclosure:

In October 2006, the AcSB approved disclosure and presentation requirements for financial instruments that revise and enhance the disclosure requirements of Section 3861. These requirements are included in Section 3862, Financial Instruments - Disclosure ("Section 3862"), which replaces Section 3861. The AcSB also released Section 1535, Capital Disclosures ("Section 1535"), which establishes standards for disclosing information about an entity's capital and how it is managed.

> KANE BIOTECH INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

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.

Section 3862 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. This standard is effective for the Company for interim and annual financial statements beginning on January 1, 2008.

The Company is currently assessing the impact that Section 3862 and Section 1535 will have on the financial statements.

(b) Financial instruments presentation:

In October 2006, the AcSB approved Section 3863, Financial Instruments – Presentation ("Section 3863"), which 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 interim and annual financial statements beginning on January 1, 2008 and is not expected to impact the Company's financial statements.

(c) General standards of financial statement presentation:

In June 2007, the AcSB amended Section 1400, General Standards of Financial Statement Presentation, to incorporate guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Under the new standards, management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. These amendments are effective for interim and annual periods beginning on January 1, 2008.

› KANE BIOTECH INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

› FORWARD-LOOKING STATEMENTS

This "Management's Discussion and Analysis of Financial Condition and Operations" 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.

➤ MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements have been prepared by management and approved by the board of directors of Kane Biotech Inc. (the "Company"). Management is responsible for the information and representations contained in these financial statements and in other sections of this report.

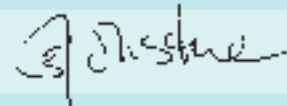
The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies, which management believes are appropriate for the Company, are described in note 2 to the financial statements. The Company maintains a system of internal control and appropriate processes to provide reasonable assurance that assets are safeguarded and to ensure that relevant and reliable financial information is produced.

The board of directors is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities. An audit committee of three non-management directors is appointed by the board. The audit committee reviews the financial statements, audit process and financial reporting with management and with the external auditors and reports to the board of directors prior to the approval of the audited financial statements for publication.

KPMG LLP, the Company's external auditors, who are appointed by the shareholders, audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the financial statements. Their report follows.



Mr. Gord Froehlich
PRESIDENT AND CEO
MARCH 7, 2008



Mr. Eric R. Johnstone, CA
CHIEF FINANCIAL OFFICER

> AUDITORS' REPORT

TO THE SHAREHOLDERS OF KANE BIOTECH INC.

We have audited the balance sheets of Kane Biotech Inc. as at December 31, 2007 and 2006 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed "KPMG LLP"

CHARTERED ACCOUNTANTS

WINNIPEG, CANADA

MARCH 7, 2008

> KANE BIOTECH INC.

BALANCE SHEETS

DECEMBER 31, 2007 AND 2006

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 344,511	\$ 689,394
Accounts receivable	36,352	57,256
Prepaid expenses (Note 11)	24,489	9,567
	405,352	756,217
Property and equipment (Note 5)	101,197	132,548
Patents and trademarks (Note 6)	423,893	340,693
Technology licenses (Note 7)	298,150	288,150
	\$ 1,228,592	\$ 1,517,608
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (Note 11)	\$ 87,858	\$ 92,835
Shareholders' equity:		
Capital stock (Note 8(b))	4,794,288	4,243,739
Warrants (Note 8(d))	70,138	194,338
Contributed surplus (Note 8(e))	614,148	234,581
Deficit	(4,337,840)	(3,247,885)
	1,140,734	1,424,773
Nature and continuation of operations (Note 1)		
Commitments (Note 10)		
Subsequent events (Note 13)		
	\$ 1,228,592	\$ 1,517,608

On behalf of the Board:



Dr. Albert D. Friesen

DIRECTOR



Mr. Peter de Visser, CA

DIRECTOR

> **KANE BIOTECH INC.**
STATEMENTS OF OPERATIONS AND DEFICIT
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Revenue		
Interest	\$ 17,156	\$ 24,098
Expenses		
General and administration	458,648	379,308
Research	357,375	447,654
Amortization	51,021	35,877
Write-down of patents	54,838	90,072
Stock based compensation		
General and administration	118,907	17,289
Research	66,322	9,657
	1,107,111	979,857
Loss and comprehensive loss for the year	(1,089,955)	(955,759)
Deficit, beginning of year	(3,247,885)	(2,292,126)
Deficit, end of year	\$ (4,337,840)	\$ (3,247,885)
Basic and diluted loss per share (Note 8(g))	\$ (0.06)	\$ (0.06)

> KANE BIOTECH INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Cash provided by (used in):		
Operating activities:		
Loss for the year	\$ (1,089,955)	\$ (955,759)
Adjustments for:		
Amortization of property and equipment	33,001	33,381
Amortization of patents	18,020	2,496
Write-down of patents	54,838	90,072
Gain on disposal of property and equipment	(517)	-
Stock based compensation	185,229	26,946
Change in the following:		
Accounts receivable	20,904	1,927
Prepaid expenses	(14,922)	(404)
Accounts payable and accrued liabilities	(4,975)	(41,788)
	(798,377)	(843,129)
Financing activities:		
Issuance of common shares, net of share issue costs	620,687	1,336,156
Investing activities:		
Purchase of property and equipment, net of proceeds on disposal	(1,134)	(20,068)
Patent and trademark costs	(156,059)	(156,824)
Addition to technology licenses	(10,000)	(8,735)
	(167,193)	(185,627)
Increase (decrease) in cash	(344,883)	307,400
Cash and cash equivalents, beginning of year	689,394	381,994
Cash and cash equivalents, end of year	\$ 344,511	\$ 689,394
Supplemental cash flow information:		
Non-cash financing activities:		
Warrants issued as share issue costs	\$ 8,575	\$ 23,866

> KANE BIOTECH INC.

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

1. NATURE AND CONTINUATION OF OPERATIONS:

Kane Biotech Inc. (the "Company") was established to use a patent protected technology intended to find compounds which prevent or disrupt biofilms in medical and industrial applications.

To date, the Company has no products currently in commercial production or use. Accordingly, the Company is considered to be a development stage enterprise for accounting purposes.

Since May 17, 2001, the date of incorporation of Kane Biotech Inc., through to December 31, 2007, the Company has expended approximately \$1,873,909, net of government assistance, on research.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has experienced operating losses and cash outflows from operations since incorporation.

The Company's ability to continue as a going concern is dependent on its ability to obtain sufficient funds to conduct its research and development, and to successfully commercialize its products.

The outcome of these matters cannot be predicted at this time. These financial statements do not reflect adjustments to the carrying values of the assets and liabilities which may be required should the Company be unable to continue as a going concern.

Subsequent to year-end, the Company closed an equity offering for gross proceeds of \$1,550,000 (Note 13).

2. SIGNIFICANT ACCOUNTING POLICIES:

(a) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and balances with banks as well as highly liquid short-term investments. The Company considers all highly liquid short-term investments with terms to maturity when acquired of three months or less to be cash equivalents.

(b) Property and equipment:

Property and equipment are stated at cost. Amortization is recorded over the estimated useful lives of the assets at the following rates:

Asset	Basis	Rate
Computer equipment	Diminishing balance	30%
Scientific equipment	Diminishing balance	20%
Office equipment	Diminishing balance	20%
Leasehold improvements	Straight-line	5 years

(c) Patents and trademarks:

Costs incurred in obtaining a patent or trademarks are capitalized and amortized on a straight-line basis over the legal life of the respective patent or trademark, being approximately twenty years, or its economic life, if shorter. The cost of servicing the Company's patents and trademarks is expensed as incurred. Amortization of patent costs began in 2003 for those patent applications approved in the year.

> KANE BIOTECH INC.

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

(d) Technology licenses:

Technology licenses are recorded at cost. The license fee paid to the University of Toronto Innovations Foundation consists of the initial fee paid and the value assigned to shares issued as consideration for acquisition of the technology license (Note 7). In addition, a license initiation fee paid to the University of Medicine and Dentistry of New Jersey is included in technology licenses.

The cost of technology licenses will be amortized over a three year period commencing in the period in which sales of the licensed product are first earned.

(e) Impairment of long-lived assets:

On a regular basis, management reviews the valuation of long-lived assets, which include property and equipment, patent and trademark costs and technology licenses, taking into consideration any events and circumstances which may impact recoverable value. Section 3063 of the CICA Handbook, Impairment of Long-Lived Assets prescribes revised and more rigorous principles for the recognition, measurement and disclosure of any impairment of long-lived assets. Management has reviewed the carrying value of the long-lived assets using this amended guidance and determined no impairment currently exists.

(f) Stock-based compensation:

The Company has a stock option plan [Note 8(c)] for its directors, management, employees, management company employees and consultants. The Company uses the fair value based method to account for all stock-based compensation and other stock-based payments. The fair value is estimated at measurement date using the Black Scholes option pricing model. For all options granted to directors, management, employees, management company employees and consultants under the Company's stock option plan, compensation expense is recognized over the period(s) in which the related services were rendered.

(g) Research and development:

All costs of research activities are expensed in the period in which they are incurred. Development costs are charged as an expense in the period incurred unless the Company believes a development project meets stringent criteria for deferral and amortization. No development costs have been deferred to date.

(h) Investment tax credits:

Investment tax credits relating to scientific research and experimental development are recorded as either a reduction of the applicable capital assets or credited in the statement of operations depending on the nature of the expenditures which gave rise to the credits. The investment tax credit is recorded in the period that the credit has been approved by Canada Revenue Agency.

(i) Income taxes:

The Company uses the asset and liability method to provide for income taxes in the financial statements. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. When realization of future income tax assets does not meet the more likely than not criterion then a valuation allowance is provided for the difference.

> KANE BIOTECH INC.

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

(j) Per share amounts:

Per share amounts are computed using the weighted average number of shares outstanding during the period including contingently issuable shares where the contingency has been resolved. The diluted per share amounts are calculated based on the weighted average number of common shares outstanding during the period, plus the effect of dilutive common share equivalents such as options and warrants. This method requires that diluted per share amounts be calculated using the treasury stock method, as if all the common share equivalents where the average market price for the period exceeds the exercise price had been exercised at the beginning of the reporting period, or at the date of issue, if later, as the case may be, and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of the common shares during the period.

(k) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant estimates are used in determining, but are not limited to, research costs, stock based compensation, and valuation of patents and trademarks and technology licenses. Actual results could differ from those estimates.

3. NEW ACCOUNTING STANDARDS ADOPTED DURING THE YEAR:

The Company adopted the following CICA Handbook standards: Section 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments—Recognition and Measurement" and Section 3861 "Financial Instruments—Disclosure and Presentation", on January 1, 2007.

Financial Instruments—Recognition and Measurement

According to this standard, all financial instruments are classified into one of the following five categories: available for sale, loans and receivables, other financial liabilities, held-for-trading or held to maturity. Initial measurement of financial instruments is at fair value. Subsequent measurement and recognition of changes in fair value of financial instruments depends on their initial classification.

The Company utilizes various financial instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency, or credit risks arising from these financial instruments and the carrying amounts approximate fair values. All transactions related to financial instruments are recorded on a trade date basis. All derivatives, including embedded derivatives, that must be separately accounted for, are valued at fair value in the balance sheet.

The Company classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Held-for-trading

This category is comprised of cash and cash equivalents. They are carried in the balance sheet at fair value with changes in fair value recognized in the statement of operations and deficit. Transaction costs related to instruments classified as held-for-trading are expensed as incurred.

> KANE BIOTECH INC.

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

Loans and receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They arise principally through grants (accounts receivable), but also incorporate other types of contractual monetary assets. They are initially recognized at fair value (which approximates cost) and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment. Transaction costs related to loans and receivables are expensed as incurred.

Other financial liabilities

Other financial liabilities comprise accounts payables and accrued liabilities. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method. Transaction costs related to other financial liabilities are expensed as incurred.

The Company has not classified any assets or liabilities as held-to-maturity or as available-for-sale. Upon adoption of these new standards, the Company reallocated \$194,338 for warrants issued in prior fiscal year from common shares and contributed surplus based on their fair values under the Black-Scholes model. The Company had no "other comprehensive income or loss" transactions during the year ended December 31, 2007 and no opening or closing balances for accumulated other comprehensive income or loss. The Company has not presented a statement of comprehensive income as its comprehensive income is nil.

In July 2006, the Accounting Standards Board ("AcSB") issued a replacement of CICA Handbook Section 1506, Accounting Changes ("Section 1506"). The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retroactively unless doing so is impracticable, requires prior period errors to be corrected retroactively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The adoption of Section 1506, effective January 1, 2007, has no impact on these financial statements.

4. RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET APPLIED:

(a) Financial instruments and capital disclosure:

In October 2006, the AcSB approved disclosure requirements for financial instruments that revise and enhance the disclosure requirements of Section 3861. These requirements are included in Section 3862, Financial Instruments—Disclosure ("Section 3862"), which replaces Section 3861. The AcSB also released Section 1535, Capital Disclosures ("Section 1535"), which establishes standards for disclosing information about an entity's capital and how it is managed.

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.

> KANE BIOTECH INC.

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

Section 3862 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. This standard is effective for the Company for interim and annual financial statements beginning on January 1, 2008.

The Company is currently assessing the impact that Section 3862 and Section 1535 will have on the financial statements.

(b) Financial instruments presentation:

In October 2006, the AcSB approved Section 3863, Financial Instruments—Presentation ("Section 3863"), which 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 interim and annual financial statements beginning on January 1, 2008 and is not expected to impact the Company's financial statements.

(c) General standards of financial statement presentation:

In June 2007, the AcSB amended Section 1400, General Standards of Financial Statement Presentation, to incorporate guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Under the new standards, management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. These amendments are effective for interim and annual periods beginning on January 1, 2008.

5. PROPERTY AND EQUIPMENT:

DECEMBER 31, 2007	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Computer and office equipment	\$ 12,199	\$ 6,678	\$ 5,521
Scientific equipment	126,321	66,095	60,226
Leasehold improvements	82,789	47,339	35,450
	\$ 221,309	\$ 120,112	\$ 101,197

DECEMBER 31, 2006	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Computer and office equipment	\$ 10,266	\$ 5,126	\$ 5,140
Scientific equipment	127,171	51,638	75,533
Leasehold improvements	82,789	30,914	51,875
	\$ 220,226	\$ 87,678	\$ 132,548

Included in general and administration expenses is a gain on sale of property and equipment of \$517 (2006 - nil).

> KANE BIOTECH INC.

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

6. PATENTS AND TRADEMARKS:

			2007	2006
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	NET BOOK VALUE
Patents	\$ 442,068	\$ 21,863	\$ 420,205	\$ 340,693
Trademarks	3,688	-	3,688	-
	\$ 445,756	\$ 21,863	\$ 423,893	\$ 340,693

7. TECHNOLOGY LICENCES:

The Company has the worldwide exclusive rights to a number of patents and technologies from the University of North Texas Health Science Center. The Company is obligated to pay all costs of filing and maintaining patents, pay a royalty of a stipulated percentage on the net sales of licensed products, and pay a stipulated percentage of any sublicense fee. Fees payable, if any, are to be paid quarterly. The agreement terminates on the expiration or invalidity of the last patent issued under the agreement.

On December 31, 2004, the Company acquired the worldwide exclusive rights to the Competence Stimulating Peptide (CSP) technology from the University of Toronto. Under the terms of the agreement, the Company paid an initial license fee of \$30,000 to University of Toronto Innovations Foundation (UTIF) and, in fiscal 2005, issued 165,000 common shares to each of UTIF and the Governing Council of University of Toronto for an aggregate of 330,000 common shares at deemed consideration of \$0.72 per share or \$237,600. The Company is also obligated to pay \$20,000 to UTIF for each patent issued as a result of this license agreement to a maximum of \$40,000 as well as pay for all costs of filing and maintaining the patents. In further consideration of granting of the license, the Company will pay a royalty to UTIF of a stipulated percentage of the net sales of the licensed products. If the Company sub-licenses any rights under the agreement to a third party, the Company shall pay UTIF a stipulated percentage of a sub-license fee and sub-license royalty fee. The royalty, sub-license and sub-license royalty fees, if any, are to be paid quarterly. The agreement terminates on the expiration or invalidity of the last patent issued under the agreement. There were no sales of licensed products to December 31, 2007.

On April 1, 2005, the Company acquired the worldwide exclusive license to all human and industrial applications of the DispersinB™ enzyme from the University of Medicine and Dentistry of New Jersey (UMDNJ) and paid a license fee of \$11,815 (USD \$10,000). Under the terms of the agreement, the Company has committed to: pay all costs of filing and maintaining the patents; pay a license initiation fee of USD \$10,000 during the first year; and, additional negotiated milestone payments throughout the term of the agreement. The Company will pay an annual royalty payment beginning on the third anniversary date of the agreement. The Company will also pay a royalty to UMDNJ of a stipulated percentage of the net sales of the licensed products. If the Company sub-licenses any rights under the agreement to a third party, the Company shall pay UMDNJ a stipulated percentage of a sub-license fee and sub-license royalty fee. The royalty, sub-license and sub-license royalty fees, if any, are to be paid quarterly. This agreement terminates on the expiration or invalidity of the last patent issued under the agreement. During fiscal 2006, the Company negotiated an expansion to the scope of the original license agreement with UMDNJ and, as a result, paid an additional fee of \$8,735 (USD \$7,500). During fiscal 2007, as a result of the issuance of a patent, a \$10,000 milestone payment was incurred. There were no sales of licensed products to December 31, 2007.

> KANE BIOTECH INC.

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

8. CAPITAL STOCK:

(a) Authorized:

The Company has authorized share capital of an unlimited number of common voting shares and an unlimited number of class A common voting shares.

(b) Shares issued and outstanding:

Shares issued and outstanding are as follows:

	NUMBER OF SHARES	AMOUNT
Balance, December 31, 2005	14,623,156	\$ 3,101,921
Issued for cash, net of issue costs of \$159,604 and fair value assigned to warrants of \$170,472 ⁽¹⁾	2,676,171	1,141,818
Balance, December 31, 2006	17,299,327	4,243,739
Issued for cash, net of issue costs of nil	54,164	16,249
Issued for cash, net of issue costs of \$74,137 and fair value assigned to warrants of \$61,563 ⁽²⁾	1,675,000	534,300
Balance, December 31, 2007	19,028,491	\$ 4,794,288

⁽¹⁾ On May 31, 2006, the Company closed a private placement offering (the "Offering") of 2,676,171 units (a "Unit") at a price of \$0.55 per share, for aggregate gross proceeds to the Company of \$1,471,894. Each Unit was comprised of one common share (a "Share") and one half of one share purchase warrant (a "Warrant"). Each whole Warrant entitled the holder to purchase one Share at a price of \$0.70 per Share at any time within eighteen months of the closing date of the Offering. The Warrants expired on November 30, 2007. The fair value assigned to the warrants upon issuance was \$170,472.

Certain individuals and companies assisted the Company by introducing potential subscribers for the offering and received a finder's fee of eight percent of the total subscription proceeds received from subscribers introduced to the Company by each particular individual and company. In addition, these individuals and companies were issued 187,333 compensation warrants (a "Compensation Warrant"), equivalent to seven percent of the units subscribed for by subscribers introduced to the Company by each particular individual and company. Each Compensation Warrant entitled the holder to purchase one Share at a price of \$0.55 per Share within one year of the closing date of the Offering. The Warrants expired on May 31, 2007. The fair value assigned to the warrants upon issuance was \$23,866.

⁽²⁾ On August 16, 2007, the Company closed a private placement offering (the "Offering") of 1,675,000 units (a "Unit") at a price of \$0.40 per Unit, for aggregate gross proceeds to the Company of \$670,000. Each Unit is comprised of one common share (a "Share") and one half of one Share purchase warrant (a "Warrant"). Each whole Warrant entitles the holder to purchase one Share at a price of \$0.60 at any time within eighteen months of the closing date of the Offering. The Warrants will expire on February 16, 2009. The fair value assigned to the Warrants upon issuance was \$61,563.

> KANE BIOTECH INC.

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

Certain individuals and companies assisted the Company by introducing potential subscribers for the offering and received a finder's fee of eight percent of the total subscription proceeds received from subscribers introduced to the Company by each particular individual and company. In addition, these individuals and companies were issued 115,500 compensation warrants (a "Compensation Warrant"), equivalent to seven percent of the Units subscribed for by subscribers introduced to the Company by each particular individual and company. Each Compensation Warrant entitles the holder to purchase one Share at a price of \$0.50 per Share within one year of the closing date of the Offering. The Compensation Warrants will expire on August 16, 2008.

Included in share issue costs is \$8,575 of non-cash compensation recognized from Compensation Warrants issued to brokers.

(c) Options:

The Company has a stock option plan which is administered by the Board of Directors of the Company with stock options granted to directors, management, employees, management company employees and consultants as a form of compensation. The number of common shares reserved for issuance of stock options is limited to a maximum of 10% of the issued and outstanding shares of the Company at any one time.

Changes in the number of options outstanding during the year ended December 31, 2007 are as follows:

	2007		2006	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, beginning of year	1,100,875	\$ 0.41	1,023,875	\$ 0.44
Granted	625,000	0.42	127,000	0.35
Exercised	(54,164)	0.30	-	-
Forfeited, cancelled or expired	(14,500)	0.35	(50,000)	0.80
Balance, end of year	1,657,211	0.42	1,100,875	0.41
Options exercisable, end of year	1,649,711		1,100,875	
Weighted average fair value per unit of option granted during the year		\$ 0.30		\$ 0.21

During the year ended December 31, 2007, 625,000 stock options with strike prices ranging from \$0.40 to \$0.42 were granted to certain directors, officers, employees and management company employees.

During the same period, 54,164 options were exercised and 14,500 stock options previously granted were forfeited or cancelled.

Options outstanding at December 31, 2007 consist of the following:

RANGE OF EXERCISE PRICES	OUTSTANDING NUMBER	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	EXERCISABLE NUMBER
\$0.30 - \$0.55	1,657,211	2.79 years	\$0.42	1,649,711

> KANE BIOTECH INC.

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

For the year ended December 31, 2007, compensation expense of \$185,229 (2006 - \$26,946) was recorded to recognize options granted. The compensation expense was determined based on the fair value of the options at the date of measurement using the Black-Scholes option pricing model with the following weighted average assumptions:

	DECEMBER 31, 2007	DECEMBER 31, 2006
Expected option life	5.0 years	5.0 years
Risk free interest rate	3.15%	3.95%
Dividend yield	nil	nil
Expected volatility	79.76%	70.00%

The cost of stock based payments to non-employees that are fully vested and non-forfeitable at the measurement date is measured and recognized at that date. For awards that vest at the end of a vesting period, compensation cost is recognized on a straight-line basis over the period of service. The Company recognizes the effect of forfeitures on unvested options as they occur.

(d) Warrants:

Changes in the number of warrants outstanding during the year ended December 31, 2007 are as follows:

	2007			2006		
	WARRANTS	AMOUNT	WEIGHTED AVERAGE EXERCISE PRICE	WARRANTS	AMOUNT	WEIGHTED AVERAGE EXERCISE PRICE
Balance, beginning of year	1,525,418	\$ 194,338	\$ 0.68	-	\$ -	-
Granted, pursuant to private placements (Note 8(b))	837,500	61,563	0.60	1,338,085	170,472	0.70
Granted (Note 8(b))	115,500	8,575	0.50	187,333	23,866	0.55
Expired (Note 8(e))	(1,525,418)	(194,338)	0.68	-	-	-
Balance, end of year	953,000	\$ 70,138	0.59	1,525,418	\$ 194,338	0.68
Weighted average remaining contractual life (years)			1.07 years			0.85 years

In 2007, the Company granted 837,500 Warrants together with common shares under the Offering (Note 8(b)), entitling the holders to purchase one common share at a price of \$0.60 for a period of eighteen months commencing from the closing of the Offering. Net proceeds were allocated to common shares and warrants based on their relative fair values using the Black-Scholes model. These warrants will expire on February 16, 2009.

The Company granted 115,500 Compensation Warrants relating to the private placement offering of August 16, 2007, entitling the holders to purchase one common share at a price of \$0.50 for a period of one year commencing from the closing of the Offering. Share issue costs of \$8,575, were recorded in the 2007 fiscal year to reflect the value of these warrants. These warrants will expire August 16, 2008.

	DECEMBER 31, 2007	DECEMBER 31, 2006
Expected life	1.4 years	1.0 years
Risk free interest rate	4.33%	4.29%
Dividend yield	nil	nil
Expected volatility	90.73%	70.00%

> KANE BIOTECH INC.

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

(e) Contributed surplus:

Changes in contributed surplus are as follows:

	DECEMBER 31, 2007	DECEMBER 31, 2006
Balance, beginning of year	\$ 234,581	\$ 207,635
Options granted	185,229	26,946
Fair value of expired warrants (Note 8(d))	194,338	-
Balance, end of year	\$ 614,148	\$ 234,581

(f) Escrowed shares:

The Company's issued share capital includes 2,550,000 (2006 - 3,825,000) shares which are currently remaining in escrow and will be released for trading in four installments of 637,500 each. The initial release of shares from escrow was September 30, 2003 and all shares will be released by September 30, 2009.

(g) Per share amounts:

The weighted average number of common shares outstanding for the year ended December 31, 2007 and 2006 was 17,959,930 and 16,199,531, respectively. The dilution created by options and warrants has not been reflected in the per share amounts as the effect would be anti-dilutive.

9. INCOME TAXES:

Significant components of the Company's future tax assets are as follows:

	2007	2006
Future tax assets:		
Non-capital loss carry-forwards	\$ 998,243	\$ 886,771
Scientific research and experimental development	168,627	199,029
Share issue costs	39,608	61,700
Property and equipment	(8,457)	(12,829)
Patents	(59,253)	(46,871)
Other	291	-
	1,139,059	1,087,800
less: Valuation allowance	(1,139,059)	(1,087,800)
	\$ -	\$ -

The reconciliation of the Canadian statutory rate to the income tax provision is as follows:

	2007	2006
Canadian federal and provincial income taxes at 36.12% (2006 - 36.62%)	\$ (393,692)	\$ (350,000)
Change in rates	164,818	96,200
Rate difference between current and future taxes	73,367	33,600
Permanent differences and other items	104,248	(1,200)
Change in valuation allowance	51,259	221,400
	\$ -	\$ -

> KANE BIOTECH INC.

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

At December 31, 2007, the Company has the following available for application in future years:

- Unutilized Canadian non-capital loss carried forward balances for income tax purposes of \$3,565,000 (2006 - \$2,687,000), with expiry dates ranging from 2008 to 2027;
- Unutilized scientific research and development expenditures of \$602,000 (2006 - \$602,000), with no expiry;
- Scientific research and development tax credits of \$130,000 (2006 - \$260,000), which can be applied against income taxes otherwise payable, with expiry by 2015.

10. COMMITMENTS:

The Company leases its laboratory space under an operating lease. The minimum annual rental payments to the end of the lease term are as follows:

2008	\$	27,750
2009		27,750
2010		6,938
	
	\$	62,438

The annual lease payments are exclusive of maintenance, property taxes, insurance and other operating costs. The premises are leased from a company controlled by a director.

The Company has a business and administration services agreement with Genesys Venture Inc. The Company is committed to pay \$160,000 per annum. The agreement shall be automatically renewed for succeeding terms of one year on terms to be mutually agreed upon by the parties.

11. RELATED PARTY TRANSACTIONS:

During the year ended December 31, 2007, the Company paid Genesys Venture Inc., a company controlled by a director, a total of \$160,000 (2006 - \$157,449) for consulting fees in accordance with the above noted contractual obligation and \$30,987 (2006 - \$34,267) under a sub-lease rental agreement in accordance with the above noted contractual obligation. During the same period, the Company also paid a company controlled by an officer \$3,000 (2006 - \$3,000) for rental of equipment.

As of December 31, 2007, included in accounts payable and accrued liabilities is \$3,877 (2006 - nil) owed to Genesys Venture Inc. The Company has provided a non-interest bearing advance of \$5,800 (2006 - \$5,800) to Genesys Venture Inc. used for payroll processing, which is included in prepaid expenses.

During the year ended December 31, 2007, the Company paid \$2,389 (2006 - \$10,370) in consulting fees to a shareholder of the Company.

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

> KANE BIOTECH INC.

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

12. GOVERNMENT ASSISTANCE:

During the year ended December 31, 2007, the Company received \$7,500 (2006 - \$32,417) in government assistance for the purpose of research. The funding has been recorded against the related research expenditures.

13. SUBSEQUENT EVENTS:

In February 2008, the Company entered into an agreement with BioVectra Inc. to provide services to manufacture clinical grade DispersinB™ to be used in the Company's wound care product for treating chronic wounds. Under the terms of the Agreement, the Company will pay up to \$382,500 for services to be provided.

On February 28, 2008, the Company closed a non-brokered private placement offering (the "Offering") of 6,200,000 units ("Units") at a price of \$0.25 per Unit for gross proceeds of \$1,550,000. Each Unit will be comprised of one common share of the Company (a "Share") and one half of one Share purchase warrant (a "Warrant"). Each whole Warrant will entitle the holder to purchase one Share at a price of \$0.40 per Share for a period of 18 months from the date of the closing of the Offering. The net proceeds of the Offering shall be used for research and development and working capital purposes.

14. COMPARATIVE FIGURES:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

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PRESIDENT & CEO, MEDICURE INC.

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FOUNDING PARTNER, DE VISSER GRAY
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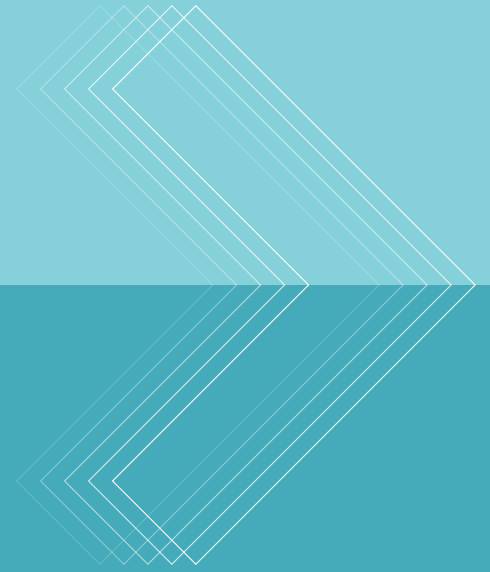
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