# PACIFIC THERAPEUTICS LTD.

FORM 51-102F1

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011

The following Management Discussion and Analysis ("MD&A") for Pacific Therapeutics Ltd. (the "Company") prepared as of November 29, 2011 should be read together with the unaudited interim financial statements and related notes for the three and nine month periods ended September 30, 2011 and the audited financial statements for the year ended December 31, 2010 and related notes attached thereto. The Company's financial statements for the three and nine month periods ended September 30, 2011 and 2010 have been prepared in accordance with International Financial Reporting Standards (IFRS), the financial statements for the year ended December 31 2010 have also been prepared in accordance with IFRS. All amounts are stated in Canadian dollars unless otherwise indicated.

Additional information related to the Company is available on SEDAR at www.sedar.com.

***Forward Looking Statements***

Certain information included in this discussion may constitute forward-looking statements. Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.

***Business Overview and Strategy***

The Company is a development stage specialty pharmaceutical company. The Company is focused on developing late stage clinical therapies and in-licensed novel compounds for fibrosis indications. The Company's lead compound PTL-202 is a combination of already approved drugs with well established safety profiles. The Company's pipeline includes PTL-303, a novel drug for the treatment of liver cirrhosis. PTL-303 has shown efficacy in cellular assays.

The Company will continue to operate virtually, outsourcing all non-core activities such as pre-clinical research and clinical trials and manufacturing. The Company will continue to build core skills in managing clinical development of therapies, licensing and commercialization. The Company will use its skills, taking in-licensed approved and late stage drug candidates through final human clinical trials for rare fibrosis indications including idiopathic pulmonary fibrosis, liver cirrhosis, scleroderma associated pulmonary fibrosis, lung transplant rejection and others. The Company's strategy is to sell or out-license its product candidates and technologies after completing Phase 2 clinical trial proof of principal studies. At this stage of development the value of product candidates has been maximized in relation to the capital spent to develop them.

***Corporate Highlights***

In the first nine months of 2011 the Company accomplished the following milestones,

- January 15, 2011, the Company repriced 4,800,000 Class A common shares, consisting of 4,500,000 Class A common shares originally issued for proceeds of $0.0133 per share to $0.02 per share, for which total proceeds of $30,000 was received, as a result of the repricing an additional 300,000 Class A common shares originally issued for proceeds of $0.0007 per share to $0.02 per share, the Company received total proceeds of $5,800.

- January 31, 2011, the Company completed a private placement of 140,000 units at $0.15 per unit. Each unit comprises of one common share and one warrant to purchase one common share at $0.25 per share exercisable for a period of 2 years.

- January 31, 2011, 300,000 common share purchase warrants were exercised, and 300,000 common shares were issued, for total proceeds of $30,000.

- January 26, 2011, the Company received $275,000 which was placed in trust. The release of the invested funds is governed by the terms of the Irrevocable Subscription Agreements and Escrow Agreement. As a bonus for placing the subscription funds in trust, the Company issued 550,000 Class A common shares based on 20% of the principal value of the subscription and a deemed price per share of $0.15. The Company also issued 2,200,000 common share purchase warrants with an exercise price of $0.15 per warrant and a term of 2 years. The shares and warrants were issued as of the effective date of the Irrevocable Subscription Agreements and Escrow Agreement, January 31, 2011. See *"Irrevocable Subscription Agreements"*

- February 2, 2011, the Company received a further $25,000 in subscription funds which was placed in trust. The release of the invested funds is governed by the terms of the Irrevocable Subscription Agreements and Escrow Agreement between the Company and the investors and the trustee with an effective date of January 31, 2011. As a bonus for placing the subscription funds in trust, the Company issued 50,000 Class A common shares based on 20% of the principal value of the subscription and a deemed price per share of $0.15. The Company also issued 200,000 common share purchase warrants with an exercise price of $0.15 per warrant and a term of 2 years. The shares and warrants were issued as of the effective date of the Irrevocable Subscription Agreements and Escrow Agreement, January 31, 2011. See *"Irrevocable Subscription Agreements"*

- February 28, 2011, 300,000 Class A common shares controlled by a company controlled by the Company's CEO were re-priced from the post split subscription price of $0.00067 per share to $0.02 per share for total proceeds of $5,800.

- February 28, 2011, the Company completed a private placement of 60,000 units at $0.15 per unit. Each unit comprises of one common share and one warrant to purchase one common share at $0.25 per share exercisable for a period of 2 years.

- On February 28, 2011 the Company entered into the IntelGenx Development and Commercialization Agreement. This agreement supersedes the letter of intent between the companies. The agreement calls for the companies to collaborate in the formulation and bio-equivalency testing of PTL-202. The completion of this work will be a significant milestone for PTL-202 as it will include data from human testing. This data may provide the information required to decide to move PTL-202 in to further clinical testing.

- May 16, 2011, the Company received $75,000 which was placed in escrow. The release of the invested funds is governed by the terms of the Irrevocable Subscription Agreements and Escrow Agreement. As a bonus for placing the subscription funds in trust, the Company issued 150,000 Class A common shares based on 20% of the principal value of the subscription and a deemed price per share of $0.15. The Company also issued 600,000 common share purchase warrants with an exercise price of $0.15 per warrant and a term of 2 years. The shares and warrants were issued as of the effective date of the Irrevocable Subscription Agreements and Escrow Agreement, May 16, 2011. See *"Irrevocable Subscription Agreements"*

- On July 21, 2011 the Company's CEO subscribed for 50,000 common shares at $0.15 per share for total proceeds of $7,500.

- On July 27, 2011 the Company settled $16,500 of accounts payable to service providers by issuing 110,000 shares at a deemed value of $0.15 per share.

- Under the terms of the Dalhousie License Agreement, the Company was required to a) secure $2,000,000 in capital or debt financing by December 31, 2010, b) complete enrolment of a first patient in a Phase II clinical study and c) expend $200,000 per year in research and development related activities. As at December 31, 2010, the Company had not met any of the requirements of the agreement outlined above. During the nine months ended June 30, 2011, the Company received a waiver from Dalhousie for the requirement (a) and (b) above, and requirement (c) was amended to also include a requirement that a first human subject being dosed by December 31, 2012 and initiation of a Phase II study by December 12, 2015.

In 2010 the Company accomplished the following milestones:

Corporate Highlights

- January 25, 2010 the Company amended the Dalhousie License Agreement
- August 20, 2010 closed financing by way of offering memorandum increasing the public shareholder base above the 150 shareholders needed to list the Company's shares on the CNSX
- During the year the Company issued 404,000 pre-split Common Shares (606,000 post-split Common Shares) for a total of $95,500
- During the year, in order to meet CNSX listing requirements, the founders of the Company re-priced 3,000,000 Common Shares of the Company with an initial subscription price of $0.001 per share to $0.02 per share for total proceeds of $57,000
- December 30, 2010 the Company split its equity to 1.5 new shares for each existing share

PTL-202

- January 2010, engaged Biopharmaceutical Research Inc. to develop assay for Pentoxifylline and N-Acetylcysteine
- April 2010 entered into national phase of patent prosecution for PTL-202
- June 18, 2010 signed letter of intent to out-license the United State rights to PTL-202
- November 2010, entered into letter of intent with IntelGenx Corp. for the development and commercialization of PTL-202

PTL-303

- There has been no advancement of PTL-303 due to a lack of working capital

In 2009 the Company accomplished the following milestones:

Corporate Highlights

- February 13: closed a financing of $8,000
- March 24: amended its license agreement with Dalhousie University
- March 9: closed a financing of $82,000
- July 15:Dr. Daryl Knight joined the Company's Scientific Advisory Board
- September 15: issued Offering Memorandum
- November 5: Dr. Wendi Rodrigueza joined the Company's Board of Directors
- November 25: closed a financing of $250,800 including $32,800 in lieu of services under the Offering Memorandum

PTL-202

- April: received positive letter on the validity of the PTL-202 patent from the WIPO

PTL-303

- October 29: filed a PCT patent application covering the composition of matter and method of use of PTL-303

***Overall Performance***

During the nine months ended September 30, 2011 the Company raised $375,000 under the Irrevocable Subscription Agreements, settled debt of $16,500 by issuing 110,000 shares and had cash flows from financing of $109,100 as well as had expenditures of $285,616 consisting of operating and interest expenses.

The Company will continue to operate virtually, outsourcing all non-core activities such as pre-clinical research and clinical trials and manufacturing.

***Selected Annual Information***

The financial information reported here has been prepared in accordance with Canadian GAAP, unless otherwise noted. The Issuer uses the Canadian dollar (CDN) as its reporting currency. Selected audited financial data for annual operations of the Issuer during the fiscal years ended December 31, 2010, December 31, 2009 and December 31, 2008 is presented below:

*Selected Statement of Operations Data*

| **Period ended** | **FYE 2010** | **FYE 2009** | **FYE 2008** |
|---|---|---|---|
| Total revenues | $Nil | $Nil | $Nil |
| Net loss | $(294,244) | $(227,782) | $(371,346) |
| Basic loss per share | ($0.02) | ($0.02) | $(0.01) |
| Diluted loss per share (Unaudited) | ($0.02) | ($0.02) | $(0.01) |
| Weighted average shares | 15,770,994 | 13,700,410 | 8,069,754 |
| | | | |

The loss from operations increased in FYE 2010 compared to FYE 2009 due to a lack of offsetting research and development funding from granting agencies associated with the development of PTL-202 which was recognized in FYE 2009. The addition of directors and officers insurance also contributed to the increased loss in 2010 as compared to FYE 2009. These increases in expense in FYE 2010 as compared to FYE 2009 were offset by a decrease in rent and occupancy costs as a portion of the Issuer's offices were sublet in 2010. The Issuer will continue to sublet a portion of its office space. Of the past three years FYE 2008 had the highest loss from operations. This loss was mainly due to higher spending in research and development in FYE 2008 as compared to FYE 2010 and FYE 2009, as well as not recognizing the government contribution to research and development spending in FYE 2008 until FYE 2009.

*Selected Balance Sheet Data*

| **Period ended** | **FYE 2010** | **FYE 2009** | **FYE 2008** |
|---|---|---|---|
| Cash | $30,457 | $85,587 | $5,046 |
| Current assets | $40,210 | $111,012 | $12,197 |
| Property and equipment | $8,168 | $10,612 | $13,996 |
| Total Assets | $119,918 | $165,558 | $51,811 |
| Current liabilities | $184,273(1) | $93,815 | $79,096 |
| Total Long-term liabilities | $Nil | $Nil | $Nil |
| Total liabilities | $184,273 | $93,815 | $79,096 |
| Working Capital | $(144,063) | $17,197 | $(66,899) |
| | | | |
| Total revenues | $Nil | $Nil | $Nil |
| Net loss | $(294,244) | $(227,782) | $(371,346) |
| Basic loss per share | $(0.02) | $(0.02) | $(0.01) |
| Diluted loss per share (Unaudited) | $(0.02) | $(0.02) | $(0.01) |
| Weighted average shares | 15,770,994 | 13,700,410 | 8,069,754 |

(1) $72,485 of the $184,273 in current liabilities is due to a director and officer of the Issuer.

Cash decreased by $55,130 to $30,457 in 2010 from $85,587 in 2009 and $5,046 in 2008. In addition, current liabilities increased by $90,458 from $93,815 in 2009 to $184,273 in 2010. The 2010 balance is also an increase over the 2008 balance of $105,177. The decrease in cash and increase in current

liabilities contributed to a decrease in working capital of $161,260, from $17,197 in 2009 to a deficit of $144,063 in 2010. The working capital deficit for 2010 is higher than the working capital deficit for 2008 - $66,899. These changes were due to a decrease in financing activities in 2010 ($224,940) and 2008 ($128,000) as compared to 2009 ($294,010).

**Selected Three and Nine Month Information**

The financial information reported here has been prepared in accordance with IFRS. The Company uses the Canadian dollar (CDN) as its reporting currency. Selected un-audited financial data for interim operations of the Company for the three and nine months ended September 30, 2011 is presented below:

*Selected Statement of Operations Data*

| **Period ended** | **Nine Months ended September 30, 2011 (1)** | **Nine Months ended September 30, 2010 (1)** |
|---|---|---|
| Total revenues | $Nil | $Nil |
| Net and Comprehensive loss | $285,616 | 237,654 |
| Basic loss per share | ($0.02) | ($0.02) |
| Diluted loss per share (Unaudited) | ($0.02) | ($0.02) |
| Weighted average shares(2) | 17,023,052 | 15,775,158 |
| | | |

| **Period ended** | **Three Months ended September 30, 2011 (1)** | **Three Months ended June 30, 2011 (1)** | **Three Months ended March 31, 2011 (1)** |
|---|---|---|---|
| Total revenues | $Nil | $Nil | $Nil |
| Net and Comprehensive loss | $(115,111) | $(86,660) | $(83,845) |
| Basic loss per share | $(0.01) | $(0.01) | $(0.01) |
| Diluted loss per share (Unaudited) | $(0.01) | $(0.01) | $(0.01) |
| Weighted average shares(2) | 17,281,647 | 17,106,275 | 16,306,604 |
| | | | |

| Period ended | Three Months ended September 30, 2010 [1] | Three Months ended June 31, 2010 [1] | Three Months ended March 31, 2010 [1] |
|---|---|---|---|
| Total revenues | $Nil | $Nil | $Nil |
| Net and Comprehensive loss | $(84,248) | $(66,800) | $(86,606) |
| Basic loss per share | $(0.01) | $(0.00) | $(0.01) |
| Diluted loss per share (Unaudited) | $(0.01) | $(0.00) | $(0.01) |
| Weighted average shares[2] | 15,917,011 | 15,834,452 | 15,388,118 |
| | | | |

[1] Financial data for the quarter prepared using IFRS
[2] Weighted average shares reported on a post split basis to account the stock split on December 30, 2010

The net loss and comprehensive loss from operations of $285,616 for the nine months ended September 30, 2011 increased when compared to the loss and comprehensive loss from operations of $237,654 for the nine months ended September 30, 2010. The increase is largely due to an increase in interest expense of $58,471 in the nine month period ended September 30, 2011 as compared to the nine month period ended September 30, 2010.

The net loss and comprehensive loss from operations of $115,111 for the three months ended September 30, 2011 increased when compared to the loss and comprehensive loss from operations of $84,248 for the three months ended September 30, 2010. The increased loss is largely due to an increase in interest expense of $26,695 in the three month period ended September 30, 2011 as compared to the three month period ended September 30, 2010.

The net loss and comprehensive loss from operations of $115,111 for the three months ended September 30, 2011 increased when compared to the loss and comprehensive loss from operations of $86,660 for the previous three months ended June 30, 2011. The increased loss is largely due to an increase in professional fees incurred as a result of the company's efforts to become a reporting issuer. This increase was largely offset by a $3,448 decrease in wages and benefits in the three months ended September 30, 2011 as compared to the previous three month period ended June 30, 2011. Wages and benefits of $28,333 for the three months ended June 30, 2011 is also a decrease as compared to the three months ended June 30, 2010 of $42,272. This decrease in wages and benefits is due to the voluntary reduction of the CEO wages by $60,000 per year.

*Selected Balance Sheet Data*

| Period ended | September 30, 2011 [1] | June 30, 2011 [1] | March 31, 2011 [1] | December 31, 2010 [1] |
|---|---|---|---|---|
| Cash & Equivalents | $4,720 | $3,099 | $4,256 | $30,457 |
| Restricted Cash | $375,000 | $375,000 | $Nil | $Nil |
| Current assets | $400,951 | $405,897 | $11,149 | $40,210 |
| Property and equipment (net of depreciation) | $6,811 | $7,263 | $8,075 | $8,168 |
| Patents & Licenses (net of amortization) | $87,316 | $80,542 | $72,004 | $71,540 |
| Total Assets | $495,078 | $493,702 | $91,228 | $119,918 |
| Current liabilities | $161,849 | $110,994 | $136,653 | 184,273 |
| Non-Current liabilities | $631,640 | $593,360 | $224,179 | 230,696 |
| Total liabilities | $793,489 | $704,354 | $360,832 | $414,969 |

| | | | | |
|---|---|---|---|---|
| Working Capital | $(135,898) | $(80,097) | $(125,504) | ($144,063) |

| **Period ended** | **September 30, 2010 (1)** | **June 30, 2010 (1)** | **March 31, 2010 (1)** | **December 31, 2009 (2)** |
|---|---|---|---|---|
| Cash & Equivalents | $4,256 | $16,442 | $4,256 | $85,587 |
| Restricted Cash | $Nil | $Nil | $Nil | $Nil |
| Current assets | $11,149 | $49,539 | $11,149 | $111,012 |
| Property and equipment (net of depreciation) | $8,075 | $8,920 | $8,075 | $10,612 |
| Patents & Licenses (net of amortization) | $72,004 | $49,533 | $72,004 | $43,934 |
| Total Assets | $91,228 | $107,992 | $91,228 | $165,558 |
| Current liabilities | $136,653 | 115,844 | $136,653 | 93,815 |
| Non-Current liabilities | $224,179 | $218,019 | $224,179 | |
| Total liabilities | $360,832 | $333,863 | $360,832 | $93,815 |
| Working Capital | $(125,504) | $(66,305) | $(125,504) | $17,197 |

(1) Financial data prepared using IFRS
(2) Financial data prepared using Canadian GAAP

Cash and equivalents decreased in the first nine months by $25,737, from $30,457 on December 31, 2010 to $4,720 as of September 30, 2011. Restricted cash increased by $375,000 from $Nil December 31, 2010 to $375,000 on September 30, 2011. This restricted cash is held in escrow under the Irrevocable Subscription Agreements. In addition, current liabilities decreased by $22,424 from $184,273 as of December 31, 2010 to $161,849 for the period ended September 30, 2011. This decrease is attributable to the shareholders demand loan of $72,485 outstanding on December 31, 2010 being converted to a long term liability as at September 30, 2011 as the shareholders have agreed to extend the repayment date to January 1, 2013. The working capital deficiency at September 30, 2011 of $135,898 is less than the working capital deficiency at December 31, 2010 ($144,273).

The non-current liabilities increased over the period from $230,696 on December 31, 2010 (per IFRS) to $631,640 as at September 30, 2011 (per IFRS.) This increase of $631,640 is due to the issuance of the Irrevocable Subscription Agreements in the nine months ended September 30, 2011, classified as a long term liability and carried at an amortized cost of $208,822 on the balance sheet, as well as the shareholders loan of $170,339, which was reclassified from a short-term liability as of December 31, 2010, to a long-term liability as of September 30, 2011. The remaining $252,479 (September 30, 2011) increase in long-term liabilities from December 31, 2010 to September 30, 2011, is due to the $252,479 long term liability, Class B Series I Preferred Shares, being reclassified from equity per Canadian GAAP as at December 31, 2010 to a long-term liability under IFRS as well as being discounted from its stated value under Canadian GAAP to amortized cost under IFRS on the September 30, 2011 balance sheet. See note 7 of the September 30, 2011 interim financial statements for additional information.

*Results of Operations*

As the focus of management during the first nine months of 2011 was on organizing the Company and negotiating with IntelGenx on the IntelGenx Development and Commercialization Agreement as well as initiating the formulation of PTL-202, no revenues were realized. During this period outstanding warrants were exercised for total gross proceeds of $30,000. The warrants had been issued as part of a private placement of units which was closed in two tranches February 13 and March 9, 2009. The warrants were exercisable up until January 31, 2011 at a price of $0.10 per share on a pre-split basis.

During the nine months ended September 30, 2011, period the Company received $30,000 for the subscription of 200,000 units in a private placement. The private placement was closed in two tranches on January 31, 2011 and February 28, 2011. Each Unit consists of one Common Share and one warrant. The warrants are exercisable for 2 years at a price of $0.25 per share.

As a listing requirement of the CNSX no more than 20% of the outstanding shares of the Company may have been issued for less than $0.02 per share. In order to meet this requirement, on January 15, 2011 the Company received $30,000 from two founders to re-price 4,500,000 Common Shares to $0.02 per share. Also on January 15, 2011 a company controlled by a founder of the Company paid $5,800 and re-priced 300,000 Common Shares owned by him to $0.02 per share.

On January 31, 2011 the Company entered into a series of Irrevocable Subscription Agreements with a group of investors for total proceeds of $300,000. In addition the Company entered into an escrow agreement with the investors and Fasken Martineau Dumoulin LLP. As an incentive to have the investors enter into the subscription agreements the Company, issued a total of 600,000 Common Shares and 2,400,000 warrants to the investors. The warrants are exercisable for up to two years at a price of $0.15 per share.

On May 16, 2011 the Company entered into an additional series of Irrevocable Subscription Agreements with a group of investors for total proceeds of $75,000. In addition the Company entered into an escrow agreement with the investors and Fasken Martineau Dumoulin LLP. As an incentive to have the investors enter into the subscription agreements the Company, issued a total of 150,000 Common Shares and 600,000 warrants to the investors. The warrants are exercisable for up to two years at a price of $0.15 per share.

During the nine month period ended September 30, 2011 the Company entered into the IntelGenx Development and Commercialization Agreement. This agreement supersedes the letter of intent between the companies. The agreement calls for the companies to collaborate in the formulation and bio-equivalency testing of PTL-202. The completion of this work will be a significant milestone for PTL-202 as it will include data from human testing. This data may provide the information required to decide to move PTL-202 in to further clinical testing.

Also during the nine-month period the Company renegotiated its license with Dalhousie University. Under the terms of the license agreement with Dalhousie date April 20, 2007 as amended on, January 25, 2010, March 24, 2009, July 9, 2008 and May 6, 2008, the Company was required to a) secure $2,000,000 in capital or debt financing by December 31, 2010, b) complete enrolment of a first patient in a Phase II clinical study and c) expend $200,000 per year in research and development related activities. As at December 31, 2010, the Company had not met any of the requirements of the agreement outlined above. Subsequent to the year end, the Company received a waiver from Dalhousie for the requirement (a) and (b) above, and requirement (c) was amended to also include a requirement that a first human subject being dosed by December 31, 2012 and initiation of a Phase II study by December 12, 2015.

Also on February 28, 2011 a company controlled by a founder of the Company paid $5,800 and re-priced 300,000 Common Shares owned by him to $0.02 per share.

On March 1, 2011 the Company received a letter from the CEO voluntarily reducing his salary to $120,000 per year until January 31, 2013 or until such time as the Company has a working capital balance in excess of $750,000.

On March 1, 2011 the Company received a letter from the CFO voluntarily reducing his annual base fee to $18,000 per year until January 31, 2013 or until such time as the Company has a working capital balance in excess of $750,000.

On March 11, 2011 the Company received a letter from the CEO postponing the payment of $72,879.65 in unpaid salary owed to him by the Company until the earlier of when the Company has working capital of at least $500,000 remaining after any payment made by the company in respect of all or part of the indebtedness, or January 1, 2013

On March 11, 2011 the Company received a letter from the CFO agreeing not to demand payment of $16,380 in unpaid fees owed to him by the Company until the earlier of when the Company has working capital of at least $500,000 remaining after any payment made by the company in respect of all or part of the indebtedness, or January 1, 2013.

In a letter dated May 31, 2011 the CEO agrees to postponing the payment of $122,822 in unpaid salary and shareholder loans owed to him by the Company until January 1, 2013. This letter replaces the letters from the CEO dated March 11, 2011.

In a letter dated May 31, 2011, the CFO agrees not to demand payment of $36,220 in unpaid fees owed to him by the Company until January 1, 2013. This letter replaces the letters from the CFO dated March 11, 2011.

On June 1, 2011 the Company received a letter from the CEO voluntarily reducing his salary to $100,000 per year until January 31, 2013 or until such time as the Company has a working capital balance in excess of $750,000. This letter replaces the letter from the CEO dated March 1, 2011

In a letter dated June 30, 2011 the CEO agrees to postponing the payment of $144,544 in unpaid salary and shareholder loans owed to him by the Company until January 1, 2013. This letter replaces the letters from the CEO dated March 11, 2011 and May 31, 2011.

In a letter dated June 30, 2011, the CFO agrees not to demand payment of $ 37,900 in unpaid fees owed to him by the Company until January 1, 2013. This letter replaces the letters from the CFO dated March 11, 2011 and May 31, 2011.

All but one of the subscribers to the Irrevocable Subscription Agreements with an effective date of January 31, 2011 in letters dated June 30, 2011 have agreed to amend the Irrevocable Subscription Agreements to extend the date at which they may terminate the Irrevocable Subscription Agreements to January 1, 2013 from April 30, 2011. Therefore $275,000 represented by Irrevocable Subscription Agreements with an effective date of January 31, 2011 may not be terminated by the subscriber prior to January 1, 2013.

The subscribers to the Irrevocable Subscription Agreements with an effective date of May 16, 2011 in letters dated May 31, 2011 have agreed to amend the Irrevocable Subscription Agreements to extend the date at which they may terminate the Irrevocable Subscription Agreements to January 1, 2013 from June 30, 2011. Therefore an additional $75,000 represented by Irrevocable Subscription Agreements with an effective date of January 31, 2011 may not be terminated by the subscriber prior to January 1, 2013.

On July 21, 2011 the CEO subscribed for 50,000 common shares at a price of $0.15 per share for total proceeds of $7,500.

On July 28, 2011 the company settled $16,500 in debts with trade creditors by issuing 110,000 common

shares.

*Revenues*

The Company has no drug therapies approved or for sale and has not generated any revenue from the sale of drug therapies. The Company has not recognized any revenue since inception through June 30, 2011. The Company does not expect to receive any revenues until after the completion of the Phase 2 trial of PTL-202. The Company expects to complete this trial by the end of 2015.

The Company's revenues will be earned through upfront payments from licenses, milestone payments included in-licenses and royalty income from licenses. The Company's revenues will depend on out licensing the Company's drug candidates to suitable development and commercialization partners and its partners' abilities to successfully complete clinical trials and commercialize the Company's drug candidates worldwide.

*Research & Development Expense*

Research and development expense consists primarily of salaries for management of research contracts and research contracts for pre-clinical studies, clinical studies and assay development as well as the development of clinical trial protocols and application to government agencies to conduct clinical trials, including consulting services fees related to regulatory issues and business development expenses related to the identification and evaluation of new drug candidates. Research and development costs are expensed as they are incurred.

From inception through to September 30, 2011, the Company incurred total expenses in the development of its intellectual property of $1,462,432, which includes $507,264 of research and development expenses (research and development expenses on the financial statements have been offset by $53,277 in IRAP funding and $187,427 in SR&ED tax credits), $244,234 of professional fees and $710,934 of wages and benefits.

| | **Three Months ended September 30, 2011** | **Three Months ended September 30, 2010** | **Nine months ended September 30, 2011** | **Nine months ended September 30, 2010** |
|---|---|---|---|---|
| **Research and Development Expenses** | | | | |
| Personnel, Consulting, and Stock-based Compensation | $Nil | $5,446 | $Nil | $15,469 |
| License Fees and Subcontract research | Nil | Nil | Nil | Nil |
| Facilities and Operations | Nil | Nil | Nil | Nil |
| Less: Government contributions | Nil | Nil | Nil | Nil |
| Total | $Nil | $5,446 | $Nil | $15,469 |

The decrease in R&D expenses is a reflection of the completion of development of the bio-analytical assay for Pentoxifylline and NAC and the decrease in government contributions. The Company's R&D efforts in the first nine months ended September 30, 2011 have been focused on negotiating and initiating the IntelGenx Development and Commercialization Agreement. Since the signing of the Development and Commercialization Agreement, IntelGenx has been working on the formulation of PTL-202.

For the Nine months ended September 30, 2011 the Company did not recognise any research and development expense because all research and development for the period was covered by IntelGenx under the Development and Commercialization Agreement. The research and development expense of $15,469 for the nine months ended September 30, 2010 was for the development for blood assays conducted by a third party research organization.

For the three months ended September 30, 2011 research and development costs were $Nil. For the three months ended September 30, 2010 research and development costs were $5,446.

Additional research and development expenses of approximately $248,500 are required to complete the formulation of PTL-202 and a pilot study of bioequivalence and drug/drug interaction. The results of this work will provide the information required to move PTL-202 to the next step of its development. Of this $248,500 the Company will incur expenses of approximately $67,000. The remaining expense of $181,500 will be paid by IntelGenx under the IntelGenx Development and Commercialization Agreement.

In cooperation with IntelGenx and utilizing the funds available from the Irrevocable Subscription Agreements the Company will have the funds available to complete the formulation of PTL-202 and test its bio-equivalency in humans. Additional financing will be required to complete the development and commercialize PTL-202 beyond the formulation and pilot study Phase 1 trial that is planned. There is no assurance that such financing will be available or that the Company will have the capital to complete this proposed development and commercialization.

The Company anticipates completing the formulation, drug/drug interaction study of PTL-202, analyzing the blood samples and analyzing the data in 2012; however, the Company may not be able to do so on schedule. The Company's clinical development studies and regulatory considerations relating to PTL-202 are subject to risks and uncertainties that may significantly impact its expense estimates and development schedules, including:

- the scope, rate of progress and cost of the development of PTL-202;
- uncertainties as to future results of the drug/drug interaction study of PTL-202;
- uncertainties as to future results of the formulation development and pilot study of PTL-202;
- the company's ability to enrol subjects in clinical trials for current and future studies;
- the company's ability to raise additional capital; and
- the expense and timing of the receipt of regulatory approvals.

In addition to the formulation and clinical development plans for PTL-202 the Company may begin development of PTL-303 for the treatment of Liver Cirrhosis. The Company will only be able to begin development of PTL-303 if additional funds are available. There is no guarantee that these funds will be available to the Company and, if they are available, they may not be available on acceptable terms. Development of PTL-303 may significantly impact the Company's expense projections and development timelines.

*General and Administrative Expenses*

General and administrative costs consist primarily of personnel related costs, non-intellectual property related legal costs, accounting costs and other professional and administrative costs associated with general corporate activities.

During the Nine months ended September 30, 2011 total general and administrative costs were $209,804 as compared to the nine months ended September 30, 2010 were the total general and administrative costs were $220,313. This decrease in general and administrative expense was largely due to a decrease in computer costs of $4,382 and a decrease of wages and benefits of $28,214. Some of the decreases were off set by an increase in professional fees of $34,096 in the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010.

During the three months ended September 30, 2011 total general and administrative costs were $82,256 as compared to the three months ended September 30, 2010 where the total general and administrative costs were $78,088 (a difference of $4,168). This increase in general and administrative expense was largely due to an increase in professional fees of $30,948 and a decrease in wages and benefits which were $15,115 lower for the three months ended September 30, 2011 as compared to the three months ended June 30, 2010.

The Company expects general and administrative expenses to decrease during the next year. This decrease will be due to decreased wages, advertising and promotion, computer costs, travel and professional fees. The savings will be possible as the major thrust of the Company's operations will be the development of PTL-202 in partnership with IntelGenx.

As part of these reductions:

- the CEO has agreed to reduce his salary by $60,000 per year;
- the CFO has agreed to reduce his annual fees by $18,000; and
- $14,000 in consulting fees will not be recurring in 2011.

From 2012 and beyond, as PTL-202 begins clinical development and as operations are developed to move PTL-202 and other drug candidates through the clinical trial process, general and administrative expenses will increase. Increases in personnel costs, professional fees and expenses related to additional equipment will make up a significant portion of these planned expenditures.

*Intellectual Property and Intangible Assets*

All license and option fees paid to licensors for intellectual property licenses are accrued to intangible assets on the Company's financial statements. In addition, any expenses for intellectual property protection including patent lawyers services fees and any filing fees with government agencies or the WIPO are accrued to intangible assets. This expense will decrease this year as no new filings are anticipated.

*Interest Expense/(Income)*

The interest expense in the nine months ended September 30, 2011 was $75,812 (September 30, 2010 – $17,341). The interest expense increase was due to $48,437 (September 30, 2010 - $17,341) interest accrued on the Irrevocable Subscription Agreements and the amortization of deemed discounts on Irrevocable Subscription Agreements, class B series I preferred shares and shareholder loans.

The interest expense for the three months ended September 30, 2011 was $32,855 (June 30, 2010 - $6,160). The interest expense increase of $26,695 was due to interest of $21,605 (June 30, 2010 - $6,160) incurred on the Irrevocable Subscription Agreements and amortization of deemed discounts on Irrevocable Subscription Agreements, class B series I preferred shares and shareholder loan.

*Profits*

At this time, the Company is not anticipating profit from operations. Until such time as the Company is able to realize profits from the out licensing of products under development, the Company will report an annual deficit and quarterly deficit and will rely on its ability to obtain equity/or debt financing to fund on-going operations. For information concerning the business of the Company, please see "*Business Overview and Strategy*".

*Liquidity and Capital Resources*

At September 30, 2011, the Company had cash and cash equivalents of $4,720 (December 31, 2010 - $30,457) and a working capital deficiency of $(135,898) (December 31, 2010 – ($144,063)). Working capital is defined as cash and cash equivalents, amounts receivable and prepaid expenses less accounts payable, unearned revenue and security deposit as well as shareholders demand loan and amounts due under the Irrevocable Subscription Agreements within the current fiscal year. At September 30, 2011 the Company had restricted cash of $375,000 available to it under the Irrevocable Subscription Agreements. The Company may draw this capital down when it pleases in $50,000 tranches. The Company estimates that general and administrative expenses will total $204,861 over the 12 months following the Company becoming a reporting company. The Company must also make payments of $67,000 over the next 12 months under the IntelGenx Development and Commercialization Agreement. See *"Use of Available Funds"*

The use of the Company's available funds during the next twelve months following the listing date is consistent with the Company's stated business objectives of completing the formulation and initiating human trials of PTL-202.

Cash and equivalents decreased by $25,737 from $30,457 at December 31, 2010 to $4,720 at September 30, 2011. In addition, current liabilities decreased by $22,424 from $184,273 at December 31, 2010 to $161,849 at September 30, 2011. The decrease in cash and equivalents is due to the use of cash in operations. The decrease in working capital is due to the use of cash in operations and the restricted cash $375,000 (December 31, 2010 - $Nil) not being available as working capital until it has been drawn down by the Company. The decrease in current liabilities is due to the shareholder loans of $72,485 being reclassified to shareholders long term loan. His decrease has been offset by an increase in accounts payable and accrued liabilities.

The Company's cash inflows from financing activities comprised proceeds from share issuances, exercise of warrants and re-pricing of founders shares during the first 9 months ended September 30, 2011 totalling $109,100 (September 30, 2010 – $92,500).

As part of the CNSX listing requirements no more than 20% of the issued and outstanding shares of a company listed on the exchange may be Builders Shares. Builders Shares include any share issued at a price of less than $0.02 per share. In order to meet this listing requirement the founders of the Company contributed $30,000 in the nine months ended September 30, 2011 (2010 - $Nil) to re-price 4,500,000 common shares to $0.02 per share. In addition a company controlled by a founder of the Company re-priced an additional 600,000 founders shares to $0.02 during the period for proceeds of $11,600 (2010 -

$Nil). This $41,600 (2010 – $Nil) is included in the Company's financing activities for the nine month period ended September 30, 2011.

Cash utilized in operating activities during the nine months ended September 30, 2011 was $285,616 (2010 –$237,654). This difference was mostly due to an increase in amortization of deemed discounts on Irrevocable Subscription Agreements, Class B Series I Preferred shares and shareholder loans in the first nine months of 2011 $75,812 (2010 - $17,341) and interest incurred on the Irrevocable Subscription Agreements September 30, 2011 $27,375 (2010 - $Nil).

At September 30, 2011, share capital was $1,349,704 comprising 17,340,451 issued and outstanding Common Shares and 203,250 issued and outstanding Series II Preferred Shares (December 31, 2010 – $1,133,136 comprising 15,930,451 issued and outstanding Common Shares and 203,250 issued and outstanding Class B Preferred Series II shares, and 1,500,000 Class B Series I preferred shares, as Series I preferred were classified as equity under Canadian GAAP as at December 31, 2010.) The Company's shares were split at a ratio of 1.5 new shares for every 1 existing share on December 30, 2010.

Contributed Surplus at September 30, 2011, is $201,798 (December 31, 2010 – $136,110 per IFRS). The increase is attributable to the $45,610 unamortized discount on the Irrevocable Subscription Agreement, allocated to contributed surplus, and $21,078 of unamortized discount on the shareholder loan allocated to contributed surplus, in the nine month period ended September 30, 2011. The remaining increase to contributed surplus from December 31, 2010, is due to the $93,162 IFRS adjustment, resulting from the classification of the Company's Class B Series I Preferred Shares from equity as of December 31, 2010 per Canadian GAAP, to a long-term liability as at June 30, 2011 per IFRS. For additional information, see note 7 to the September 30, 2011 interim financial statements.

As a result of the net loss for the nine month period ending September 30, 2011 of $285,617 (September 30, 2010 – $237,654), as well as an IFRS adjustment to the December 31, 2010 income statement, totalling $23,858, the deficit at September 30, 2011 increased to $1,849,913 from $1,540,439 as at December 31, 2010.

During the nine month period ended September 30, 2011, the Company's net cash provided by financing activities increased to $109,100 (September 30, 2010 – $92,500).

At present, the Company's operations do not generate cash inflows and its financial success after 2011 is dependent on management's ability to continue to obtain sufficient funding to sustain operations through the development stage and successfully bring the Company's technologies to the point that they may be out licensed so that the Company achieves profitable operations. The research and development process can take many years and is subject to factors that are beyond the Company's control.

In order to finance the Company's future research and development and to cover administrative and overhead expenses in the coming years the Company may raise money through equity sales. Many factors influence the Company's ability to raise funds, including the Company's track record, and the experience and calibre of its management. Actual funding requirements may vary from those planned due to a number of factors, including the progress of research activities. Management believes it will be able to raise equity capital as required in the long term, but recognizes there will be risks involved that may be beyond their control. Should those risks fully materialize, it may not be able to raise adequate funds to continue its operations.

*Off Balance Sheet Arrangements*

There are currently no off balance sheet arrangements which could have an effect on current or future results or operations or the financial condition of the company.

*Transactions with Related Parties*

During the nine month period ended September 30, 2011 the Company received $30,000 from two founders to re-price 4,500,000 Common Shares to $0.02 per share.

Also during the nine month period a company controlled by the CEO of the Company paid $11,600 and re-priced 600,000 Common Shares owned by it to $0.02 per share.

Of the $300,000 in subscription proceeds from the Irrevocable Subscription Agreements received by the Company with an Irrevocable Subscription Agreement dated January 31, 2011, $75,000 was received from directors and officers of the Company.

During the nine month period ended September 30, 2011 the Company received $7,500 from the CEO to purchase 50,000 Common Shares to $0.15 per share.

*Subsequent Events*

On October 12, 2011 the Company received its conditional listing letter from the Canadain National Stock Exchange

On October 14, 2011 the Company became a reporting issuer in British Columbia.

On October 31, 2011 as per the Company's articles the class B preferred shares series 2 automatically converted to 1,791,564 common shares. The outstanding class B preferred shares series 2 shares were cancelled.

On October 31, 2011 as per the Company's articles the class B preferred shares series 1 automatically converted to 1,500,000 common shares. The outstanding class b preferred shares series 1 shares were cancelled.

On November 15, 2011, one subscriber to the irrevocable subscription agreements requested their $25,000 subscription be returned. The escrowed funds and accrued interest were paid to the subscriber on November 15, 2011.

On November 16, 2011 the Company's common shares began trading on the Canadian National Stock Exchange

*Proposed Transactions*

As at the date of this MD & A there are no transactions currently contemplated by the Company.

*Changes in Accounting Policies including Initial Adoption*

The Company has adopted IFRS as discussed in the "Annual MD&A for the years ended December 31, 2010 - *Changes in Accounting Policies including Initial Adoption – International Financial Reporting Standards ("IFRS")"*

*Financial Instruments and Other Instruments*

The Company's financial instruments consist of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities, amounts due to shareholders, irrevocable subscriptions and Class B Series I Preferred Shares. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from financial instruments. Amounts due to shareholders, irrevocable subscriptions and Class B Series I Preferred Shares are classified as financial liabilities and are carried at amortized cost. The fair value of cash and cash equivalents, amounts receivable and accounts payable and accrued liabilities approximates their carrying value due to their short-term maturity or capacity for prompt liquidation.

**Additional Disclosure for Venture Issuers**

The following table sets forth certain financial information for the Issuer, which has been derived from the Issuer's financial statements. This summary should be read in conjunction with the Issuer's financial statements.

The following table details the Issuer's expenditures for the fiscal years ended December 31, 2010, December 31, 2009 and December 31, 2008:

| **Expenditures** | **Year ended December 31, 2010** | **Year ended December 31, 2009** | **Year ended December 31, 2008** |
|---|---|---|---|
| Net research costs expensed | $15,469 | $(63,903) | $52,362 |
| Professional Fees | 67,443 | 68,360 | 44,964 |
| Wages and benefits | 159,709 | 159,221 | 120,179 |
| Loss on Abandonment of Option | Nil | Nil | 18,382 |
| Corporate costs | 43,379 | 59,205 | 68,675 |
| Depreciation and amortization | 5,553 | 5,078 | 5,582 |
| Interest expense (income) | 2,691 | (179) | (2,107) |
| Stock based compensation | Nil | Nil | 63,309 |
| Recovery of future income taxes | Nil | Nil | |
| **Net Loss** | $294,244 | $227,782 | $371,346 |

**Additional Disclosure for Venture Issuers Without Significant Revenue**

*Expensed Research and Development Costs*

| | Nine months ended September 30, 2011 (1,2) | Nine months ended September 30, 2010 (1) |
|---|---|---|
| **Research and Development Expenses** | | |
| Personnel, Consulting, and Stock-based Compensation | $Nil | $15,469 |
| License Fees and Subcontract research | Nil | Nil |
| Facilities and Operations | Nil | Nil |
| Less: Government contributions | Nil | Nil |
| Total | $Nil | $15,469 |

(1) Data above for the nine months ended September 30, 2011 and September 30, 2010 has been prepared in accordance with IFRS.
(2) All research and development during the nine months ended September 30, 2011 has been completed under the InteGenx Development agreement.

## Disclosure of Outstanding Share Data.

The table below provides information concerning the designation and number of each class of equity securities for which there are securities outstanding as of the dates noted below:

| **Type of Security** | **November 28, 2011[(1)]** | **Quarter Ended September 30, 2011 [(1)]** | **Year ended December 31, 2010 [(1)]** |
|---|---|---|---|
| Common Shares | 20,632,015 | 17,340,451 | 15,930,451 |
| Preferred Shares Series 1 [(2)] | Nil | 1,500,000 | 1,500,000 |
| Preferred Shares Series 2 [(3)(4)] | Nil | 203,250 | 203,250 |
| Preferred Shares Series 2 Warrants [(3)(4)] | 602,222 | 602,222 | 0 |
| Options | 1,800,000 | 1,800,000 | 1,875,000 |
| Outstanding Warrants | 3,271,767 | 3,271,767 | 1,009,267 |
| **Total** | 26,306,004 | 24,717,690 | 20,517,968 |

(1) These share amounts include a 1.5 to 1 forward split of the Issuer's equity as of December 30, 2010. Includes 600,000 bonus common shares issued on January 31, 2011 as an inducement for investors to enter into the Irrevocable Subscription Agreement. Includes 300,000 common shares issued on January 31, 2011 on the exercise of warrants. Includes 200,000 common shares issued as a part of a unit on January 31 and February 28, 2011. Includes 150,000 bonus common shares issued on May 16, 2011 as an inducement for investors to enter into the Irrevocable Subscription Agreements.

(2) The Class B Preferred Shares Series 1 will automatically convert to Common Shares on a 1 to 1 basis upon listing of the Common Shares on a stock exchange.

(3) The Class B Preferred Shares Series 2 will automatically convert to Common Shares upon listing of the Common Shares on a stock exchange. Each Series 2 Preferred Share will convert into Common Shares at a 25% discount to the Transaction Price. In addition for each common share issued on the conversion of the Series 2 Preferred Share, one-half of one warrant will be issued.

(4) The Class B Preferred shares Series 2 will be converted to common shares upon listing of the common shares on the CNSX. The number of common shares to be issued on conversion assumes the initial listing price of the Common Shares is $0.15. Upon conversion the Issuer will issue 1,590,357 Common Shares. See *"Class B Series 2 Preferred Shares"*

/s/ ***Doug Unwin***

Douglas H. Unwin
Director, CEO and President

November 28th, 2011