PACIFIC THERAPEUTICS LTD.

MANAGMENTS'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Six-Months Ended June 30, 2012

Overview

This MD&A has been prepared as of August 28, 2012 and the following information should be read in conjunction with the Issuer's un-audited financial statements for the quarter ended June 30, 2011 together with the notes thereto. The Issuer's financial statements for the have been prepared in accordance with International Financial Reporting Standards (IFRS). This discussion contains forward-looking statements that involve certain risks and uncertainties. All dollar amounts are expressed in Canadian dollars unless otherwise noted.

Business Overview and Strategy

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

The Issuer will continue to operate virtually, outsourcing all non-core activities such as pre-clinical research and clinical trials and manufacturing. The Issuer will continue to build core skills in managing clinical development of therapies, licensing and commercialization. The Issuer 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 Issuer'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 six months of 2012 the Issuer accomplished the following milestones,

- On January 31, 2012, The Company terminated the irrevocable subscription agreements entered into by the Issuer on January 31, 2011 and May 16, 2011. Termination of these agreements will eliminate 3,000,000 shares that are reserved for Issue improving the Issuer's capital structure. The termination also eliminates the 1% per month interest expense on the money that is held in trust as well as transaction costs associated with issuing shares associated with the draw downs.
- On January 31, 2012, an officer and director of the Company exercised 66,666 warrants @ $0.15 per share for net proceeds of $9,999.90
- On March 14, 2012, subject to CNSX Exchange approval, the Company granted 100,000 options pursuant to the Company's stock option plan. The options may be exercised up until March 1, 2014 at an exercise price of $0.15.
- On May 14, 2012 the Issuer held its Annual General Meeting
- On June 7, 2012, the Issuer announced a proposed private placement of up to 3,333,333 units at $0.15 per unit. Each unit consisted of a common share and a whole warrant. The warrant may be exercised for $0.22 up to June 22, 2014.
- On June 15, 2012, the Issuer contracted with Vantage Wire Communications for advertising and media relations services.
- On June 22, 2012, the Issuer closed the first Tranche of a previously announced private placement and issued 789,336 units for proceeds of $118,400. Each unit consisted of a common share and a whole warrant. The warrant may be exercised for $0.22 up to June 22, 2014.
- On June 29, 2012, the Issuer engaged Sustainable Capital Corp. for investor relations services.

Selected Financial Information

The financial information reported here has been prepared in accordance with IFRS. The Issuer uses the Canadian dollar (CDN) as its reporting currency. Selected un-audited financial data for interim operations of the Issuer for the three and six months ended June 30, 2012, and March 31, 2011, is presented below:

Selected Statement of Operations Data

Period ended	**Three Months ended June 30, 2012**	**Three Months ended June 30, 2011**	**Six Months Ended June 30, 2012**	**Six Months Ended June 30, 2011**
Total revenues	$Nil	$Nil	$Nil	$Nil
Net and Comprehensive loss	$(89,056)	$(86,660)	$(236,193)	$(170,506)
Basic loss per share	$(0.01)	$(0.01)	$(0.01)	($0.01)
Diluted loss per share (Unaudited)	$(0.01)	$(0.01)	$(0.01)	($0.01)
Weighted average shares	21,232,557	17,106,275	21,133,116	16,886,330

The net loss and comprehensive loss from operations of $236,193 for the six months ended June 30, 2012 increased when compared to the loss and comprehensive loss from operations of $170,506 for the six months ended June 30, 2011. The increased loss is largely due to an increase in interest expense of $69,520 in the six month period ended June 30, 2012 as compared to the six month period ended June 30, 2011. The $69,520 interest expense is an accretion of the deemed discount associated with the terminated irrevocable subscription agreements.

Selected Balance Sheet Data

Period ended	**June 30, 2012**	**December 31, 2011**
Cash & Equivalents	$2,486	$6,094
Restricted Cash	$Nil	$300,000
Current assets	**$102,922**	**$325,189**
Property and equipment (net of depreciation)	5,453	$6,358
Patents & Licenses (net of amortization)	$88,716	$90,631
Total Assets	**$197,091**	**$422,178**
Current liabilities	468,128	$182,071
Non-Current liabilities	$Nil	$406,416
Total liabilities	**$468,128**	**$588,487**
Working Capital	$(365,206)	$143,188

Cash and equivalents decreased in the first six months by $3,608 from $6,094 on December 31, 2011 to $2,486 as of June 30, 2012. Restricted cash decreased by $300,000 from $300,000 December 31, 2011 to $Nil on June 30, 2012. This restricted cash was held in escrow under the Irrevocable Subscription Agreements. The cash was returned to subscribers on January 31, 2012 when the Irrevocable Subscription Agreements were terminated.

Comparison of the three and six month periods ending June 30, 2012 and June 30, 2011

Results of Operations

The net loss and comprehensive loss from operations of $89,056 for the quarter ended June 30, 2012 increased when compared to the loss and comprehensive loss from operations of $86,660 for the quarter ended June 30, 2011. The increased loss is largely due to an increase in investor relations expense in the quarter ended June 30, 2012 as compared to the quarter ended June 30, 2011.

The net loss and comprehensive loss from operations of $236,193 for the six months ended June 30, 2012 increased when compared to the loss and comprehensive loss from operations of $170,506 for the six months ended June 30, 2011. The increased loss is largely due to an increase in interest expense of $35,443 in the six month period ended June 30, 2012 as compared to the six month period ended June 30, 2011.

During this period outstanding warrants were exercised for total gross proceeds of $10,000. The warrants had been issued as part of the irrevocable subscription agreements. In addition 789,336 units were issued for proceeds of $118,401. Each unit consisted of a common share and a whole warrant. The warrant may be exercised for $0.22 up to June 22, 2014.

Revenues

As the focus of management during the first six months of 2012 was on completing the formulation of PTL-202 and initializing the clinical trials in India for PTL-202, no revenues were realized.

The Issuer has no drug therapies approved or for sale and has not generated any revenue from the sale of drug therapies. The Issuer has not recognized any revenue since inception through June 30, 2012. The Issuer does not expect to receive any revenues until after the completion of the Phase 2 trial of PTL-202. The Issuer expects to complete this trial by the end of 2015.

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

	Three Months ended June 30, 2012	**Three Months ended June 30, 2011**	**Six Months Ended June 30, 2012**	**Six Months Ended June 30, 2011**
Research and Development Expenses				
Personnel, Consulting, and Stock-based Compensation	$Nil	$Nil	$10,441	$Nil
License Fees and Subcontract research	Nil	Nil	Nil	Nil
Facilities and Operations	Nil	Nil	Nil	Nil
Less: Government contributions	Nil	Nil	6,508	Nil
Total	$Nil	$Nil	$3,933	$Nil

The increase in R&D expenses in the six months ended June 30, 2012 compared to the six months ended June 30, 2011 is a reflection of the Issuer's contributions to the development and commercialization agreement with IntelGenx. The Issuer's R&D efforts in the six months ended June 30, 2012 have been focused on completion of the formulation of PTL-202 under thee 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 six months ended June 30, 2012 research and development costs were $3,933 and for the six months ended June 30, 2011 research and development costs were $Nil. The research and development costs for the three months ended June 30, 2012 were composed of $10,441 that was paid to IntelGenx under the development and commercialization agreement. This expense was offset by a $6,508 government grant.

Additional research and development expenses of approximately $248,500 in 2012 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 Issuer 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.

The Issuer anticipates completing the formulation, drug/drug interaction study of PTL-202, analyzing the blood samples and analyzing the data in 2012; however, the Issuer may not be able to do so on schedule. The Issuer'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 issuers ability to enroll subjects in clinical trials for current and future studies;
- the Issuer'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 Issuer may begin development of PTL-303 for the treatment of Liver Cirrhosis. The Issuer 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 Issuer and, if they are available, they may not be available on acceptable terms. Development of PTL-303 may significantly impact the Issuer'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 six months ended June 30, 2012 total general and administrative costs were $135,994 as compared to the six months ended June 30, 2011 were the total general and administrative costs were $127,549. The increased expense for the six months ended June 31, 2012 is due to an increase in investor relations activities.

During the three months ended June 30, 2012 total general and administrative costs were $82,736 as compared to the three months ended June 30, 2011 were the total general and administrative costs were $58,544. Investor relations expense and an increase in professional fees contributed to the increase costs.

During 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 Issuer'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.

Interest Expense/(Income)

The interest expense in the six months ended June 30, 2012 was $84,780 (June 30, 2011 – $42,957). The interest expense increase was due to $69,520 (June 30, 2011 - $Nil) interest accrued on the Irrevocable Subscription Agreements and the amortization of deemed discounts on Irrevocable Subscription Agreements.

The interest expense in the three months ended June 30, 2012 was $6,320 (June 20, 2011 – $28,106). The interest expense decrease was due to the termination of the Irrevocable Subscription Agreements.

Profits

At this time, the Issuer is not anticipating profit from operations. Until such time as the Issuer is able to realize profits from the out licensing of products under development, the Issuer 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 Issuer, please see "*Business Overview and Strategy*".

Stock Based Compensation

For the six months ended June 30, 2012 stock based compensation was $11,564 (June 30, 2011 - $Nil). $6,542 of stock based compensation is attributable to 100,000 options issued March 1, 2012 which vested immediately. $5,022 of stock based compensation is attributable to 75,000 previously issued options that vested on March 5, 2012.

For the three months ended June 30, 2012 stock based compensation was $Nil (June 30, 2011 - $Nil).

Selected Quarterly Information

Period ended	**Three Months ended June 30, 2012**	**Three Months ended March 31, 2012 [(1)]**	**Three Months ended December 31, 2011[(1)]**	**Three Months ended September 30, 2011[(1)]**
Total revenues	$Nil	$Nil	$Nil	$Nil
Net and Comprehensive loss	$(89,056)	$(147,137)	$(210,252)	$(115,111)
Basic loss per share	$(0.01)	$(0.01)	$(0.01)	$(0.01)
Diluted loss per share (Unaudited)	$(0.01)	$(0.01)	$(0.01)	$(0.01)
Weighted average shares[(1)]	21,232,577	20,966,447	18,172,472	17,281,647
Cash	$2,486	$7,221	$6,094	$4,720
Restricted Cash	$Nil	$Nil	$300,000	$375,000
Total Assets	$197,091	$119,505	$422,078	$495,078
Non-Current Liabilities	$Nil	$411,387	$406,416	$631,640

Period ended	**Three Months ended June 30, 2011**	**Three Months ended March 31, 2011 [(1)]**	**Three Months ended December 31, 2010[(1)]**	**Three Months ended September 30, 2010[(1)]**
Total revenues	$Nil	$Nil	$Nil	$Nil
Net and Comprehensive loss	$(86,660)	$(83,845)	(85,858)	$(84,248)
Basic loss per share	$(0.01)	$(0.01)	(0.01)	$(0.01)
Diluted loss per share (Unaudited)	$(0.01)	$(0.01)	$(0.01)	$(0.01)
Weighted average shares[(2)]	17,106,275	16,306,604	16,350,054	15,917,011
Cash	$3,099	$8,557	$30,457	$4,256
Restricted Cash	$375,000	$300,000	$Nil	$Nil
Total Assets	$493,702	$406,277	$119,918	$91,228
Non-Current Liabilities	$593,360	$483,944	$230,696	$224,179

1. Weighted average shares reported on a post split basis to account the stock split on December 30, 2010

Liquidity and Capital Resources

At June 30, 2012, the Issuer had cash and cash equivalents of $2,486 (December 31, 2011 - $6,094) and a working capital deficiency of $365,206 (December 31, 2011 – $143,188). 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 June 30, 2012 the Issuer had restricted cash of $Nil available to it under the Irrevocable Subscription Agreements (June 30, 2011 - $300,000). The irrevocable subscription agreements were terminated on January 31, 2012.

The Issuer's cash inflows from financing activities comprised proceeds from issue of shares, exercise of warrants and shareholder short term loan during the first six months ended June 30, 2012 totalling $156,401 (June 30, 2011 – $101,600).

Cash utilized in operating activities during the six months ended June 30, 2012 was $160,009 (June 30, 2011 –$118,714). This difference was mostly due to an increase in accounts payable and accrued liabilities.

At June30, 2012, share capital was $1,885,655 comprising 21,845,159 issued and outstanding Common Shares and $Nil issued and outstanding Series II Preferred Shares (December 31, 2011 – $1,765,754 comprising 20,989,157 issued and outstanding Common Shares and Nil issued and outstanding Class B Preferred Series II shares, and Nil Class B Series I preferred shares). The Issuer's shares were split at a ratio of 1.5 new shares for every 1 existing share on December 30, 2010.

Contributed Surplus at June 30, 2012, is $173,616 (December 31, 2011 – $162,052). An increase in contributed surplus of $6,542 of stock based compensation is attributable to 100,000 options issued March 1, 2012 which vested immediately. $5,022 of stock based compensation is attributable to 75,000 previously issued options that vested on March 5, 2012 also contributed to the increase in contributed surplus.

As a result of the net loss for the period ending June 30, 2012 of $236,193 (June 30, 2011 – $170,506), the deficit at June 30, 2012 increased to $2,330,308 from $2,094,115 as at December 31, 2011.

At present, the Issuer's operations do not generate cash inflows and its financial success after June 30, 2012 is dependent on management's ability to continue to obtain sufficient funding to sustain operations through the development stage and successfully bring the Issuer's technologies to the point that they may be out licensed so that the Issuer achieves profitable operations. The research and development process can take many years and is subject to factors that are beyond the Issuer's control. See *"Risk Factors"*.

In order to finance the Issuer's future research and development and to cover administrative and overhead expenses in the coming years the Issuer may raise money through equity sales. Many factors influence the Issuer's ability to raise funds, including the Issuer'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

- Accounting fees were paid to Derick Sinclair the company's Chief Financial Officer and a shareholder of $9,000 during the 6 months ended June 30, 2011.
- Salaries, directors fees and other benefits paid during the first six months of 2012 totaled $50,597.
- Amounts in accounts payable and accrued liabilities owing to a consultant and director of the Company for legal fees as at June 30, 2012 $14,991 (June 30, 2011, $14,991).
- Amount in accounts payable and accrued liabilities owing to a shareholder and director of the Company for unpaid salary and expenses as of June 30, 2012 $56,632 (June 30, 2011, 23,306)

- Amounts in accounts payable and accrued liabilities owing to a shareholder of the Company for accounting fees as of June 30, 2012 $12,180 (June 30, 2011, $3,360)

Subsequent Events

- On July 5, 2012, the Company granted 475,000 options pursuant to the Company's stock option plan. The options may be exercised up until July 5, 2017 at an exercise price of $0.10.
- On August 22, the Issuer began its phase 1 clinical trial

Proposed Transactions

As at the date of this prospectus there are no transactions currently contemplated by the Issuer.

Changes in Accounting Policies including Initial Adoption

The Issuer 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 Issuer'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 Issuer 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.

Disclosure of Outstanding Share Data

As at June 30, 2012, the Issuer had an unlimited number of authorized common shares with 21,845,159 common shares issued and outstanding.

As at June 30, 2012 the issuer had 1,300,000 options outstanding. Each option entitles the holder to purchase one additional common share at exercise prices ranging from $0.15 to $0.27 and expiry dates range from September 1, 2012 to March 5, 2015.

As at June 30, 2012 the Issuer had 4,484,892 warrants outstanding. The following table shows the details for the outstanding warrants.

Description of Warrant (include exercise terms, including exercise price)	Number of Warrants outstanding
2011 bonus warrants issued as an inducement for the Irrevocable Subscription Agreements, 1 whole warrant per unit exercisable at $0.15 up until January 31, 2013	2,333,334
2011 Unit warrants, 1 whole warrant per unit exercisable at $0.15 up until January 31, 2013	140,000
2011 Unit warrants, 1 whole warrant per unit exercisable at $0.15 up until February 28, 2013	60,000
2011 bonus warrants issued as an inducement for the Irrevocable Subscription Agreements, 1 whole warrant per unit exercisable at $0.15 up until May 16, 2013	600,000
Preferred shares series 2 warrants, 1 whole warrant per unit exercisable at $0.15 up until October 31, 2013	602,222
2012 Unit warrants, 1 whole warrant per unit exercisable at $0.22 up until June 22, 2014	789,336