PACIFIC THERAPEUTICS LTD.

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

Three-Month Ended March 31, 2013

Overview

This MD&A has been prepared as of May 23, 2013 and the following information should be read in conjunction with the Issuer's un-audited financial statements for the quarter ended March 31, 2013 together with the notes thereto. The Issuer's financial statements for the period 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.

This discussion contains forward-looking statements that involve certain risks and uncertainties. Statements regarding future events, expectations and beliefs of management and other statements that do not express historical facts are forward-looking statements. In this discussion, the words "believe", "may", "will", "estimate", "continue", "anticipate", "intend", "expect", "plan", "predict", "potential" and similar expressions, as they relate to the Issuer, its business and management, are intended to identify forward looking statements. The Issuer has based these forward-looking statements largely on its current expectations and projections about future events and financial trends affecting the financial condition of the business. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward looking statements are based on information available at the time those statements are made and/or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements.

Except as may be required by applicable law or stock exchange regulation, the Issuer undertakes no obligation to update publicly or release any revisions to these forward looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events. Accordingly, readers should not place undue reliance on forward-looking statements. If the Issuer updates one or more forward-looking statements, no inference should be drawn that additional updates will be made with respect to those or other forward-looking statements. Additional information relating to the Issuer, is available by accessing the SEDAR website at www.sedar.com.

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.

Overall Performance

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

Corporate Highlights
During the first three months of 2013 the Issuer accomplished the following:

- January 18, the issuer announced the extension of the expiry dates of 3,133,334 outstanding common share purchase warrants (the "Warrants") of the Company, which were issued in connection with the Company's Irrevocable Subscription Agreement financing in 2011 as well as a private placement on February 28, 2011. Each Warrant originally issued on January 31, 2011 and May 16 2011, as amended, entitles the holder thereof to purchase one common share of the Company at any time until the close of business on January 31, 2014 and May 14, 2014 respectively at the original exercise price of $0.15 per common share. Each Warrant originally issued on February 28, 2011, as amended, entitles the holder thereof to purchase one common share of the Company at any time until the close of business on February 28, 2014 at the original exercise price of $0.25 per common share. The Warrants will be amended, effective January 18, 2013. All other provisions of the Warrants will remain the same.

- February 4, 2013 the Issuer announced that its license agreement with Dalhousie University has been terminated. The intellectual property covered by the agreement no longer fits the Company's intellectual property strategy. In addition Termination of the agreement will save the Company patent maintenance costs and $7,500 per year in annual license fees and potential other payments of $850,000.

- February 12, 2013 the Issuer announced the closing the first tranche of a previously announced $100,000 private placement. The Issuer has issued 1,800,000 units for total proceeds of $90,000.

Each unit consists of a common share and a half warrant. A whole warrant may be exercised to purchase a common share for $0.22 for up to two years from the closing date.

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 months ended March 31, 2013, March 31, 2012 and March 31, 2011 is presented below:

Selected Statement of Operations Data

Period ended	**Three Months ended March 31, 2012 (1)**	**Three Months ended March 31, 2012 (1)**	**Three Months ended March 31, 2011 (1)**
Total revenues	$Nil	$Nil	$Nil
Net and Comprehensive loss	$(174,535)	$(147,137)	$(83,845)
Basic loss per share	$(0.01)	$(0.01)	$(0.01)
Diluted loss per share	$(0.01)	$(0.01)	$(0.01)
Weighted average shares	23,526,825	20,966,447	16,306,604

(1) Financial data for the quarter prepared using IFRS

The net loss and comprehensive loss from operations of $174,535 for the three months ended March 31, 2013 increased when compared to the loss and comprehensive loss from operations of $147,137 for the three months ended March 31, 2012. The increased loss is largely due to an increase in advertising and promotion, investor relations and professional fees in the three month period ended March 31, 2013 as compared to the three month period ended March 31, 2012. These increased expenses were offset by a decrease in interest expense of $78,400 in the three months ended March 31, 2013.

The net loss and comprehensive loss from operations of $147,137 for the three months ended March 31, 2012 increased when compared to the loss and comprehensive loss from operations of $83,845 for the three months ended March 31, 2011. The increased loss is largely due to an increase in interest expense of $63,549 in the three month period ended March 31, 2012 as compared to the three month period ended March 31, 2011.

Selected Balance Sheet Data

Period ended	**March 31, 2013(1)**	**December 31, 2012**
Cash & Equivalents	$7,220	$9,854
Current assets	$64,941	$108,107
Property and equipment (net of depreciation)	$4,009	$4,864
Patents & Licenses (net	52,125	93,562

of amortization)		
Total Assets	$121,075	206,533
Current liabilities	671,600	637,523
Non-Current liabilities	$Nil	$Nil
Total liabilities	$671,600	637,523
Working Capital/(deficit)	$606,659	$529,416

(1) Financial data prepared using IFRS

Cash and equivalents decreased in the first three months by $2,634 from $9,854 on December 31, 2012 to $7,220 as of March 31, 2013.

Cash and equivalents increased in the first three months by $1,127 from $6,094 on December 31, 2011 to $7,221 as of March 31, 2012. Restricted cash decreased by $300,000 from $300,000 December 31, 2011 to $Nil on March 31, 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 Quarters ending March 31, 2013, March 31, 2012 and March 31, 2011

Results of Operations

Revenues

As the focus of management during the first three months of 2013 was on preparing for further clinical trials of PTL-202, no revenues were realized.

Expenses

The net loss and comprehensive loss from operations of $174,535 for the three months ended March 31, 2013 increased when compared to the loss and comprehensive loss from operations of $147,137 for the three months ended March 31, 2012. The increased loss is largely due to an increase in advertising and promotion of $19,158, investor relations of $17,750 and professional fees of $6,903 in the three month period ended March 31, 2013 as compared to the three month period ended March 31, 2012. $78,400 of increased expenses was offset by a reduction in interest expense in the three months ended March 31, 2013.

The net loss and comprehensive loss from operations of $147,137 for the three months ended March 31, 2012 increased when compared to the loss and comprehensive loss from operations of $83,845 for the three months ended March 31, 2011. The increased loss is largely due to an increase in interest expense of $63,549 in the three month period ended March 31, 2012 as compared to the three month period ended March 31, 2011.

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 March 31, 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 March 31 , 2013	**Three Months ended March 31 , 2012**	**Three Months ended March 31, 2011**
Research and Development Expenses			
Personnel, Consulting, and Stock-based Compensation	$Nil	$10,441	$Nil
License Fees and Subcontract research	Nil	Nil	Nil
Facilities and Operations	Nil	Nil	Nil
Less: Government contributions	Nil	6,508	Nil
Total	$Nil	$3,933	$Nil

The increase in R&D expenses in the first three months ended March 31, 2012 is a reflection of the Issuer's contributions to the development and commercialization agreement with IntelGenx. The Issuer's R&D efforts in the first three months ended March 31, 2012 were focused on completing of the formulation of PTL-202 under 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 three months ended March 31, 2013 research and development costs were $Nil (March 31, 2012 - $3,933 and for the three months ended March 31, 2011 research and development costs were $Nil. The research and development costs for the three months ended March 31, 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.

During the next twelve months the Issuer intends to test the bioavailability of a once a day formulation of PTL-202 as well as develop data for chemistry, manufacturing and control for a regulatory submission. The pivotal study will include testing PTL-202 in humans for bio-equivalency and drug/drug interactions. These trials will be human trials of PTL-202 (Phase 1) and will be conducted in healthy individuals.

The Issuer contracted Biopharmaceutical Research Inc. (BRI) of Vancouver, BC to develop and qualify an analytical method to determine if any new molecules are created when Pentoxifylline and NAC are administered together as opposed to when they are delivered individually. This analytical method was used to analyze the blood samples from patients from the drug/drug interaction study in 2012 and will be used in the future pivotal study

The Issuer has entered into the IntelGenx Development and Commercialization Agreement for the formulation, pilot testing and manufacturing of PTL-202. The formulation services include; analytical characterization of the combination, pre-formulation trials, formulation development and pilot studies. Upon completion of the pilot studies, scale up and manufacturing process development a CRO will be contracted to develop data for regulatory submission. The initial estimated cost of this formulation work and initial clinical trials was $248,500. *See "Material Contracts"* That estimate increased to $348,500 due to an increase in the clinical trials cost. The issuers portion of this expenditure is estimated at $120,000. Pivotal Lot; Scale up and Process Development is budgeted at $531,500 and the estimated cost of the regulatory submission is $125,000.

The Issuer may not be able to do soon 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 three months ended March 31, 2013 total general and administrative costs were $112,175 as compared to the six months ended March 31, 2012 were the total general and administrative costs were $68,737. The increased loss is largely due to an increase in advertising and promotion of $19,158, investor relations of $17,750 and professional fees of $6,903 in the three month period ended March 31, 2013 as compared to the three month period ended March 31, 2012

During the three months ended March 31, 2012 total general and administrative costs were $68,737 as compared to the six months ended March 31, 2011 were the total general and administrative costs were $68,994.

During 2013 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. There was a decrease in intangible assets in the first three months ended March 31, 2012 of $41,437. A write off of $42,510 the license fees that had been paid to Dalhousie University under a technology license caused the decrease in intangible assets. The license was terminated during the first quarter of 2012.

Interest Expense/(Income)

The interest expense in the three months ended March 31, 2013 was $900 (March 31, 2012 – $78,400). The interest expense decrease was due to cancellation of the Irrevocable Subscription Agreements which eliminated any interest and the amortization of deemed discounts on Irrevocable Subscription Agreements.

The interest expense in the three months ended March 31, 2012 was $78,400 (March 31, 2011 – $14,851). The interest expense increase was due to $78,430 (March 31, 2011 - $14,851) interest accrued on the Irrevocable Subscription Agreements and the amortization of deemed discounts on Irrevocable Subscription Agreements and shareholder loans.

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 three months ended March 31, 2013 stock based compensation was $2,030 (March 31, 2012 - $11,564, March 31, 2011 - $Nil). The stock based compensation in the first three months of 2013 wsa due to warrants issued as finders fees. $6,542 of stock based compensation in the first 3 months ended March 31, 2012 is attributable to 100,000 options issued March 1, 2012 which vested immediately. $5,022 of stock based compensation for the three month period ended March 31, 2012 is attributable to 75,000 previously issued options that vested on March 5, 2012.

Selected Quarterly Information

	March 31, 2013	**December 31, 2012**	**September 31, 2012**	**June 30, 2012**	**March 31, 2012**	**December 31, 2011**	**September 31, 2011**	**June 30, 2011**

	$	$	$	$	$	$	$	$
Total Revenues	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net Loss	(174,534)	(205,919)	(163,356)	(89,056)	(147,137)	(190,392)	(115,111)	(86,660)
Loss per Share basic and diluted	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Cash	7,220	9,854	36,004	2,486	7,221	6,094	4,720	3,099
Restricted Cash	Nil	Nil	Nil	Nil	Nil	300,000	375,000	375,000
Total Assets	121,075	206,533	280,629	197,091	119,505	422,178	495,078	493,702
Non-Current Liabilities	Nil	Nil	Nil	Nil	Nil	406,416	631,640	593,360

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

Liquidity and Capital Resources

At March 31, 2013, the Issuer had cash and cash equivalents of $7,220 (December 31, 2012 - $9,854) and a working capital deficiency of $(606,659) (December 31, 2012 – $(529,416)). Working capital is defined as current assets less current liabilities.

The Issuer's cash inflows from financing activities comprised proceeds from issue of shares, exercise of warrants, a promissory note and a decrease in a shareholder short term loan during the first 3 months ended March 31, 2013 totalling $37,422 (March 31, 2012 – $34,000, March 31, 2011 – $85,067).

Cash utilized in operating activities during the three months ended March 31, 2013 was $38,026 (March 31, 2012 - $32,873). This difference was mostly due to an increase in general and administrative expenses, a loss on derivative liability of $18,950 and prepaid expenses of $39,780.

At March 31, 2013, share capital was $2,078,686 comprising 24,386,825 issued and outstanding Common Shares and $Nil issued and outstanding Series II Preferred Shares (December 31, 2012 – $1,995,716 comprising 24,386,825 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 March 31, 2013, is $208,242 (December 31, 2012 – $206,212). An increase in contributed surplus of $2,030 is attributable to the issuance of finders' warrants.

As a result of the net loss for the period ending March 31, 2013 of $174,534 (March 31, 2012 - $147,137, March 31, 2011 – 83,845), the deficit at March 31, 2013 increased to $2,837,452 from $2,662,918 as at December 31, 2012.

At present, the Issuer's operations do not generate cash inflows and its financial success after 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 $7,500 during the 3 months ended March 31, 2012.
- Salaries, director's fees and other benefits paid during the first quarter of 2013 totaled $35,000.

Subsequent Events

On April 4, 2013, the Company issued 350,000 five year stock options to purchase common shares of the company at $0.10 per share to various employees and directors and consultants.

On May 1, 2013, the Company completed a non-brokered private placement for 2,200,000 units at $0.05 per unit for gross proceeds of $110,000. Each unit was comprised of one common share and one-half a purchase warrant. Each whole warrant may be exercised for $0.22 to purchase one common share for a period of two years from closing.

Proposed Transactions

As at the date of this prospectus there are no transactions currently contemplated by the Issuer other than the licensing of the oral dissolving technology from Globe Labs Ltd.

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 and beyond - *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 March 31, 2013, we had an unlimited number of authorized common shares with 24,386,825 common shares issued and outstanding.

As at March 31, 2013 the issuer had 1,675,000 options outstanding. Each option entitles the holder to purchase one additional common share at exercise prices ranging from $0.10 to $0.27 and expiry dates range from October 31, 2014 to December 21, 2017.

As at March 31, 2012 the Issuer had 6,272,058 warrants outstanding. The following table shows the details for the outstanding warrants.

Description of Security (include conversion / exercise terms, including conversion / exercise price)	Number of convertible / exchangeable securities outstanding	Number of listed securities issuable upon conversion / exercise
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, 2014	2,333,334	2,333,334
2011 Unit warrants, 1 whole warrant per unit exercisable at $0.15 up until January 31, 2014	140,000	140,000
2011 Unit warrants, 1 whole warrant per unit exercisable at $0.15 up until February 28, 2013	60,000	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, 2014	600,000	600,000
Preferred shares series 2 warrants, 1 whole warrant per unit exercisable at $0.15 up until October 31, 2013	602,222	602,222
2012 Unit Warrants, 1 whole warrant per unit exercisable at $0.22 up until June 20, 2014	732,670	732,670
2012 Finder Warrants, 1 whole warrant per unit exercisable at $0.22 up until June 19, 2014	56,666	56,666
2012 Unit Warrants 1 whole warrant per unit exercisable at $0.22 up until September 21, 2014	747,166	747,166
2013 Unit Warrants 1 whole warrant per unit exercisable at $0.22 up until February 12, 2015	1,000,000	1,000,000