

Protox

THERAPEUTICS

*Management Discussion and Analysis
Quarter Ended March 31, 2006*

CORPORATE OFFICE:

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SYMBOL: PRX (TSX Venture Exchange)

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis has been prepared as of May 9, 2006 (the MD&A) and should be read in conjunction with the unaudited financial statements and related notes for the Company for the three months ended March 31, 2006, as well as our audited financial statements for the year ended December 31, 2005, their related notes and the management discussion and analysis included in the 2005 Annual Report. All the financial statements have been prepared in accordance with Canadian generally accepted accounting principles. All dollar amounts are expressed in Canadian dollars unless otherwise specified. Additional information relating to Protox Therapeutics Inc. (Protox or the Company) can be found on SEDAR at www.sedar.com.

Forward Looking Statements

This MD&A may contain forward looking statements. Forward looking statements are statements about the future and are inherently uncertain and can be identified by forward looking terminology such as will, expected, planned, intended to, is being designed, potentially, anticipates and similar expressions or variations thereon, by reference to future dates or events, or that events or conditions will, may, could or should occur. Forward-looking statements are based on the beliefs, opinions and expectations of the Company's management at the time they are made, and the Company does not assume any obligation to update its forward-looking statements. Actual results may differ materially from those contemplated in forward looking statements due to a variety of uncertainties and risks. See Risks and Uncertainties below for a discussion of some of the risks, uncertainties and other factors which may cause actual results to vary materially from current results or the Company's anticipated future results.

The Company

Overview

Protox Therapeutics Inc. is a Canadian biotechnology company focused on the development and commercialization of targeted therapeutics for the treatment of cancer and related diseases. The Company's core technology (PORxinTM) is based upon an engineered form of the naturally occurring bacterial protein, proaerolysin, which we have converted into a class of novel targeted cancer therapeutics. Compounds generated within the PORxinTM platform are highly potent prodrugs designed to preferentially kill cancer cells when activated by tumour-associated proteases. They are expected to offer greater efficacy and lower side effects than current methods of treating cancer and other proliferative diseases. The first engineered PORxinTM developed by Protox, PRX302, has been engineered to be activated by prostate specific antigen (PSA), which is a protease produced in the prostate gland. PSA is found in the blood serum as well as the prostate gland, but PSA is inactive outside of the prostate. PRX302 has been engineered to be activated by the active form of PSA inside the prostate gland making it ideally suited to treat localized prostate cancer and benign prostatic hyperplasia (BPH), also known as prostate enlargement.

In 2005 Protox completed all preclinical studies required by the Food and Drug Administration of the United States of America (FDA) to file an Investigational New Drug (IND) application for PRX302. An IND for the treatment of localized recurrent

prostate cancer using PRX302 was submitted to the FDA on December 14, 2005 and on January 16, 2006, the Company received clearance from the FDA to commence the Phase I clinical trial. Patient enrolment for the Phase I trial commenced after the clinical site initiation in Q2 of 2006 and the first patient was dosed on May 2, 2006. The Company is planning to treat approximately 30 patients in the Phase I study and enrollment is expected to be completed by the end of 2006.

The Company has commenced activities associated with the preparation of a regulatory dossier required for an application to commence a Phase I clinical trial with PRX302 for the treatment of BPH.

The Company continues to work in partnership with scientists at The University of Victoria and Johns Hopkins University to develop other novel forms of PORxin™ for the treatment of other cancers.

On June 1, 2005 the Company entered into a funding agreement with the National Research Council (NRC) of up to \$340,000 from the Industrial Research Assistance Program (IRAP). The NRC has committed this money to the Company to support its development of novel cancer therapeutics. The contribution is nonrepayable. On March 10, 2006 the funding agreement was amended to take into account the change in research activities. The amended agreement provides for a maximum funding of \$140,000. As at March 31, 2006 the Company had submitted claims for \$113,335. The Company intends to draw down on the remaining grant by July 15, 2006.

2006 Highlights:

- On January 16, 2006, the Company received clearance from the FDA to commence a Phase I clinical trial for the treatment of localized recurrent prostate cancer using PRX302.
- On April 3, 2006, the Company presented additional preclinical data at the American Association of Cancer Research (AACR) meeting, demonstrating PRX302's validity as a treatment for prostate cancer and benign prostatic hyperplasia.
- On May 2, 2006, the first patient was treated with PRX302 in the Phase I trial for the treatment of localized, recurrent prostate cancer.

Results of Operations

The Company has not earned any income in any of its previous fiscal years, other than income from interest earned on the Company's cash balances. For the quarter ended March 31, 2006, the Company reported a net loss of \$854,824 or \$0.02 per share as compared to a net loss of \$982,913 or \$0.04 per share for the quarter ended March 31, 2005. The decrease in net loss for the three months ended March 31, 2006 compared with the same period last year is primarily due to the transition of PRX302 from preclinical research to human clinical trials. There were no preclinical costs for PRX302 in the first quarter of 2006 compared with a significant amount of preclinical and manufacturing costs during the same period last year. The research and development expenditures are

expected to increase with the commencement of the Phase I clinical trials in the second quarter of 2006.

Interest Income

During the quarter ended March 31, 2006, the Company earned \$33,783 in interest income compared to \$22,178 for the same period last year. The increase in interest income relates to the higher average amounts held in interest bearing accounts.

Research and Development

For the quarter ended March 31, 2006, the Company incurred expenses related to research and development of \$421,977, compared to \$687,347 for the quarter ended March 31, 2005. The majority of the research and development expenditures in the first quarter of 2006 were related to the preparation for the Phase I clinical trials to treat localized, recurrent prostate cancer with PRX302. The research and development expenditures incurred during the same period last year were primarily related to the preclinical animal studies and GMP manufacturing of PRX302. The research expenditures for the three months ended March 31, 2006 were also offset by \$113,335 of IRAP funding claimed during the quarter.

General and Administrative

The Company incurred general and administrative expenses of \$420,019 for the quarter ended March 31, 2006 compared to \$235,979 for the same period last year. The increase in general and administrative expenses is primarily due to the change in management in 2005 and additional employees hired to support the Company's programs and business development activities.

Summary of Quarterly Results

	Three months ended March 31, 2006	Three months ended December 31, 2005	Three months ended September 30, 2005	Three months ended June 30, 2005
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest income	\$ 33,783	\$ 15,079	\$ 8,895	\$ 16,182
Total expenses	\$ 887,020	\$ 1,582,563	\$ 1,455,246	\$ 1,562,306
Net loss	\$ (854,824)	\$ (1,570,622)	\$ (1,447,035)	\$ (1,548,762)
Net loss per share	\$ (0.02)	\$ (0.05)	\$ (0.06)	\$ (0.07)
	Three months ended March 31, 2005	Three months ended December 31, 2004	Three months ended September 30, 2004	Three months ended June 30, 2004
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest income	\$ 22,178	\$ 14,150	\$ 9,757	\$ 6,427
Total expenses	\$ 1,003,506	\$ 1,485,918	\$ 748,719	\$ 435,351
Net loss	\$ (982,913)	\$ (1,471,768)	\$ (738,962)	\$ (428,924)
Net loss per share	\$ (0.04)	\$ (0.06)	\$ (0.03)	\$ (0.03)

Share Capital

As at May 9, 2006, the Company had 35,943,789 common shares issued and outstanding. As at May 9, 2006, the Company had 3,289,587 options to purchase common shares of the Company outstanding, of which 1,331,013 were exercisable into an equivalent number of common shares of the Company at exercise prices ranging from \$0.10 to \$1.00. Certain of these options are subject to escrow provisions in accordance with the policies of the Exchange. For further details on the options that were outstanding at

March 31, 2006, please refer to Note 5 in the interim financial statements of the Company for the quarter ended March 31, 2006. In March 2006, the Company granted certain of its officers, employees and consultants of the Company a total of 705,000 stock options to purchase common shares of the Company at an exercise price of \$0.52 per share.

At May 9, 2006, the Company had 11,786,112 warrants to purchase common shares outstanding with an exercise price of \$0.65 per share. In conjunction with the private placement completed in November 2005, 11,743,600 warrants were issued as part of the unit offering and 42,512 warrants were issued as commission. Each warrant entitles the holder to purchase one common share for a period of 24 months from the closing of the private placement financing until November 2007, at a price of \$0.65 per share. For further details on the warrants that were outstanding at March 31, 2006, please refer to Note 5 in the interim financial statements of the Company for the quarter ended March 31, 2006.

Liquidity

As at March 31, 2006, the Company had cash and cash equivalents of \$4,793,964 compared with \$5,471,804 as at December 31, 2005. As at March 31, 2006, the Company had working capital of \$4,615,094 compared with \$5,166,583 as at December 31, 2005 and \$3,455,528 as at March 31, 2005. The increase in current assets compared with March 31, 2005 can predominantly be attributed to the non-brokered private placement of \$5,619,915, net of cash costs of \$251,885, completed in November 2005.

The Company anticipates that it will have sufficient funds to operate its business into Q2, 2007, based on its current business plan. However, the Company's working capital may not be sufficient to meet its stated business objectives in the event of unforeseen circumstances or a change in the strategic direction of the Company. The Company will need to raise further capital in order to extend its research and development programs beyond Q2, 2007. There can be no assurance that the Company will be able to obtain further financing on terms that are acceptable, if at all.

Related Party Transactions

During the quarter ended March 31, 2006, the Company incurred the following related party transactions in the normal course of operations and recorded them at the exchange amount:

- Certain directors provide finance and operational services to the Company through consulting and other agreements. During the quarter, the Company incurred consulting and operational expenses of \$77,473 (\$43,560 for the three months ended March 31, 2005) provided by companies with a director in common to the Company. At March 31, 2006, the amount owed to these companies was nil (March 31, 2005: \$21,730).

Critical Accounting Estimates

Stock Based Compensation

The Company accounts for all stock-based payments to employees and non-employees using the fair value based method. Under the fair value based method, stock-based payments to employees and non-employees are measured at the fair value of the equity instruments issued. The fair value of stock-based payments to non-employees is periodically re-measured until the services are provided or the options vest, and any change therein is recognized over the period.

Dividends

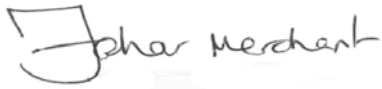
The Company has not, since its inception, declared or paid any dividends on its common shares and it does not expect to do so in the foreseeable future.

Risks and Uncertainties

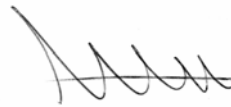
The Company is at an early stage of development and has incurred losses and will continue to incur losses in the foreseeable future. Developing new technologies will require further significant time and expense. It may be a number of years before the Company's technology begins to generate revenues, if at all. There can be no assurance that any of the Company's developments will be successful or successful enough to be commercially viable. The Company is subject to risks, events and uncertainties, or risk factors, associated with being in the biopharmaceutical industry, and being an enterprise with projects in the research and development stage. Such risk factors could cause reported financial information to not necessarily be indicative of future operating results or of future financial position. The Company cannot predict all of the risk factors, nor can it assess the impact, if any, of such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause future results or financial position to differ materially from either those reported or those projected in any forward-looking statements. Accordingly, historical financial information and forward-looking statements should not be relied upon as a prediction of future results.

Some of the risks and uncertainties affecting the Company, its business, operations and results include, but are not limited to: the Company's need for additional funds, which may not be available on acceptable terms or at all; the fact that the Company's success is dependent on its ability to obtain patents, licenses and government approvals to technology critical to the development of its business as well as meeting acceptable cost and performance criteria in the marketplace; the need to develop and commercialize products which will require time consuming and costly research and development, the success of which cannot be assured; the Company's dependency on third parties for cGMP grade raw materials, other materials and for research, development, manufacturing and commercialization assistance and support; the Company's dependency on assurances from, and performance by, third parties regarding licensing of proprietary technology owned by such parties or by others; government regulation and the need for regulatory approvals for both the development and commercialization of products, which are not assured; uncertainty that the Company's products, if ultimately commercialized, will be

accepted in the marketplace; risks associated with research and development, including rapid technological change and competition from pharmaceutical companies, biotechnology companies and universities, which may make the Company's research, technology or products obsolete or uncompetitive; the need to attract and retain skilled employees; risks associated with claims of infringement of intellectual property and of proprietary rights, which may not be foreseeable or preventable; risks inherent in manufacturing (including upscaling) and the need to manufacture to regulatory standards; marketing; product liability and insurance risks; risks associated with pre-clinical studies and clinical trials, including the possibility that trials may be terminated early, delayed or unsuccessful; exchange rate fluctuations; political, economic and environmental risks; changes in business strategy or development plans; the Company's need to establish relationships with key customers and suppliers, which cannot be assured; and the risk of unanticipated expenses, any of which could cause the Company to reduce, delay or divest one or more of its research and development programs. The Company's success is also dependent on a number of other significant risks and uncertainties. Please refer to the sections entitled "Liquidity" set out above and to the Company's Prospectus dated June 29, 2004, which can be found at www.sedar.com for a further discussion of the risks and uncertainties facing the Company.



Fahar Merchant
President & CEO



Leonard Cox
Chief Financial Officer

Dated: May 9, 2006

Protox Therapeutics Inc.
(a development stage company)

Interim Financial Statements
First Quarter
Ended March 31, 2006

Protox Therapeutics Inc.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3 (3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Protox Therapeutics Inc.

(a development stage company)

Interim Balance Sheets

	March 31, 2006 (Unaudited)	December 31, 2005 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,793,964	\$ 5,471,804
Prepaid expenses and other receivables	216,022	163,582
	5,009,986	5,635,386
Property and equipment (Note 3)	211,649	217,617
	\$ 5,221,635	\$ 5,853,003
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 164,140	\$ 166,740
Accrued liabilities	191,892	263,954
Current portion of lease obligations (Note 4)	38,860	38,109
	394,892	468,803
Long-term portion of lease obligations (Note 4)	34,780	44,781
	429,672	513,584
Shareholders' equity:		
Common shares (Note 5)	10,500,662	10,198,956
Common share purchase warrants (Note 5)	2,125,010	2,388,681
Other equity (Note 5)	2,042,493	1,773,160
Deficit accumulated during the development stage	(9,876,202)	(9,021,378)
	4,791,963	5,339,419
	\$ 5,221,635	\$ 5,853,003

Nature of operations and going concern (Note 1)

Commitments (Note 9)

Approved by the Board of Directors



Jim Heppell
Director



Frank Holler
Director

The accompanying notes are an integral part of these financial statements.

Protox Therapeutics Inc.

(a development stage company)

Interim Statements of Operations and Deficit (unaudited)

(Unaudited)	For the three months ended March 31,	
	2006	2005
Expenses		
Research and development	\$ 421,977	\$ 687,347
IRAP grant (Note 8)	(113,335)	-
General and administrative	420,019	235,979
Stock-based compensation (Note 5)	138,780	64,223
Amortization	19,579	15,957
	<hr/> 887,020	<hr/> 1,003,506
Other income (expenses)		
Interest income	33,783	22,178
Interest expense	(1,587)	(1,585)
	<hr/> 32,196	<hr/> 20,593
Loss for the period	(854,824)	(982,913)
Deficit accumulated during the development stage - beginning of period	(9,021,378)	(3,472,046)
Deficit accumulated during the development stage - end of period	<hr/> \$ (9,876,202)	<hr/> \$ (4,454,959)
Basic and diluted loss per share	\$ (0.02)	\$ (0.04)
Weighted average number of outstanding shares	<hr/> 35,876,798	<hr/> 23,481,473

The accompanying notes are an integral part of these financial statements.

Protox Therapeutics Inc.
(a development stage company)
Interim Statements of Cash Flow (unaudited)

(Unaudited)	For the three months ended March 31,	
	2006	2005
Cash flows from operating activities		
Loss for the period	\$ (854,824)	\$ (982,913)
Items not affecting cash:		
Stock compensation expense (Note 5)	138,780	64,223
Amortization	19,579	15,957
Change in non-cash working capital:		
Prepaid expenses and other receivables	(52,440)	54,959
Accounts payable	(2,600)	(75,369)
Accrued liabilities	(72,062)	(45,119)
	<u>(823,567)</u>	<u>(968,262)</u>
Cash flows from investing activities		
Purchase of property and equipment	(13,611)	(12,833)
	<u>(13,611)</u>	<u>(12,833)</u>
Cash flows from financing activities		
Issuance of common shares on exercise of warrants (Note 5)	164,738	11,595
Issuance of common shares on exercise of options (Note 5)	3,850	-
Capital lease payments	(9,250)	(5,723)
	<u>159,338</u>	<u>5,872</u>
Decrease in cash and cash equivalents	(677,840)	(975,223)
Cash and cash equivalents - beginning of period	5,471,804	4,911,490
Cash and cash equivalents - end of period	<u>\$ 4,793,964</u>	<u>\$ 3,936,267</u>
Supplemental cash flow information		
Interest received	25,132	13,092
Interest Paid	1,587	1,585
Transfer of trade payable to capital lease obligation	-	115,307
Issuance of shares for license fee liability	-	184,091

The accompanying notes are an integral part of these financial statements.

Protox Therapeutics Inc.

(a development stage company)

Notes to the Interim Financial Statements (unaudited)

1. Nature of operations and going concern

The Company

Protox Therapeutics Inc. (Protox or the Company) is incorporated under the Company Act of British Columbia. The Company began operations on January 11, 2002. The Company's primary focus is the development of targeted therapeutics for cancer and other related diseases through the engineering of naturally occurring toxins. The Company is considered to be in the early development stage, as most of its efforts have been devoted to basic research and development, raising capital and recruitment of personnel.

Going concern

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the realization of assets and discharge of liabilities in the normal course of business. The Company has incurred losses from operations since inception and its ability to continue operations on a going concern basis is dependent upon obtaining additional financing, completing development and commercialization of its products and generating cash from operations. There is no assurance the Company will be successful in achieving these objectives. These financial statements do not give effect to any adjustments that would be necessary should the Company be unable to continue as a going concern.

2. Significant accounting policies

Interim statements

The accompanying unaudited financial statements are prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and do not include all the information required for annual audited financial statements. They are consistent with the policies outlined in the Company's audited financial statements for the year ended December 31, 2005. The interim financial statements and related notes should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2005. When necessary, the financial statements include amounts based on informed estimates and best judgments of management. The results of operations for the interim periods reported are not necessarily indicative of results to be expected for the year.

Protox Therapeutics Inc.

(a development stage company)

Notes to the Interim Financial Statements (unaudited)

3. Property and equipment

Property and equipment consist of the following:

	March 31, 2006 (Unaudited)		
	Cost	Accumulated amortization	Net book value
Computer hardware and software	\$ 51,248	\$ 20,596	\$ 30,652
Laboratory equipment	220,816	76,527	144,289
Furniture and fixtures	16,035	5,552	10,483
Leasehold improvements	36,593	10,368	26,225
	<u>\$ 324,692</u>	<u>\$ 113,043</u>	<u>\$ 211,649</u>

	December 31, 2005 (Audited)		
	Cost	Accumulated amortization	Net book value
Computer hardware and software	\$ 40,642	\$ 16,498	\$ 24,144
Laboratory equipment	219,811	63,678	156,133
Furniture and fixtures	14,035	4,750	9,285
Leasehold improvements	36,593	8,538	28,055
	<u>\$ 311,081</u>	<u>\$ 93,464</u>	<u>\$ 217,617</u>

4. Lease payable

In January 2005, the Company entered into a 36 month capital lease arrangement to finance certain laboratory equipment purchased in 2004 costing a total \$115,307:

	March 31, 2006 (Unaudited)	December 31, 2005 (Audited)
Capital equipment lease at 7.82%	<u>\$ 73,640</u>	<u>\$ 82,890</u>
Less current portion	<u>38,860</u>	<u>38,109</u>
Long-term portion	<u>\$ 34,780</u>	<u>\$ 44,781</u>

Lease payments over the next three years are as follows:

Fiscal year	
2006	\$ 32,436
2007	43,246
2008	3,604
Total lease payments	\$ 79,286
Less interest portion	5,646
Capital lease payable	<u>\$ 73,640</u>

Protox Therapeutics Inc.

(a development stage company)

Notes to the Interim Financial Statements (unaudited)

5. Shareholders' equity

(a) Common shares

Authorized: unlimited (2005: unlimited) common shares without par value

Issued: 35,943,789 (2005: 35,575,814) common shares without par value

	Number of shares	Amount (in dollars)
Balance at December 31, 2005	35,575,814	\$ 10,198,956
Issuance of common shares on exercise of options	38,500	26,950
Issuance of common shares on exercise of warrants	329,475	274,756
Balance at March 31, 2006	35,943,789	\$ 10,500,662

(b) Stock options

Under the Company's stock option plan, the Company may grant stock options to employees, directors, officers, scientific advisory board members and consultants and is authorized to issue up to 4,000,000 common shares upon exercise of such stock options. The board of directors or a committee appointed by the board administers the plan and determines the vesting and terms of each award. The stock options have vesting periods of up to four years and an exercise period of up to five years.

A summary of the activity of the Company's stock option plan for non-employees, employees and directors is presented below:

	Number of options	Weighted average exercise price
Balance outstanding - December 31, 2005	2,740,345	\$ 0.79
Options granted	705,000	0.52
Options cancelled	(109,103)	1.00
Options exercised	(38,500)	0.10
Options expired	(8,155)	1.00
Balance outstanding - March 31, 2006	3,289,587	\$ 0.73

Protox Therapeutics Inc.

(a development stage company)

Notes to the Interim Financial Statements (unaudited)

5. Shareholders' equity (continued)

The following table summarizes information about stock options for employees, directors, officers, scientific advisory board members and consultants outstanding at March 31, 2006:

Exercise price	Number outstanding	Options outstanding		Options exercisable	
		Weighted average remaining contractual life (years)	Weighted average exercise price	Number	Weighted average exercise price
\$ 0.10	346,500	2.3	\$ 0.10	346,500	\$ 0.10
0.50	473,535	2.5	0.50	473,535	0.50
1.00	1,764,552	3.8	1.00	510,978	1.00
0.52	705,000	5.0	0.52	-	0.52
	<u>3,289,587</u>	<u>3.7</u>	<u>\$ 0.73</u>	<u>1,331,013</u>	<u>\$ 0.59</u>

On March 20, 2006, the Company granted 670,000 options to employees and officers and 35,000 options to non-employees. The exercise price of the options is \$0.52.

Stock-based compensation expense for the three months ended March 31, 2006 was \$138,780 (\$64,223 for the three months ended March 31, 2005). Stock-based compensation expense for non-employees amounted to \$ nil for the three months ended March 31, 2006 (2005: nil).

The fair value of options granted to employees and directors in March 2006 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions; expected life of the options 2.5 - 3 years, volatility 115%, dividend yield 0%, and risk-free interest rate 3.95%.

(c) Warrants

At March 31, 2006, the Company had warrants to purchase common shares outstanding as follows:

Date:	Description:	Number outstanding:	Weighted Exercise price:	Fair Value at date of grant:
Balance at December 31, 2005		12,503,077	\$0.66	\$ 2,388,681
January 2006	Ascribed value of exercised warrants	(329,475)	0.50	(110,018)
January 2006	Ascribed value of expired warrants	(387,490)	0.96	(153,653)
Balance at March 31, 2006		<u>11,786,112</u>	<u>\$0.65</u>	<u>\$ 2,125,010</u>

In January, 2006, 329,475 warrants with an exercise price of \$0.50 were exercised for proceeds of \$164,738. A total of 387,490 warrants expired in January, 2006; 29,250 warrants with an exercise price of \$0.50 and 358,240 warrants with an exercise price of \$1.00. As such, the Company reclassified the warrant value of the expired warrants to other equity in the amount of \$153,653.

Protox Therapeutics Inc.

(a development stage company)

Notes to the Interim Financial Statements (unaudited)

5. Shareholders' equity (continued)

(d) Other equity

At March 31, 2006 the Company had other equity recorded as follows:

	Amount (in dollars)
Balance at December 31, 2005	\$ 1,773,160
Issuance of common shares on exercise of options	(23,100)
Expiration of warrants	153,653
Stock compensation expense	138,780
Balance at March 31, 2006	\$ 2,042,493

6. Related party transactions

During the period ended March 31, 2006, the Company incurred the following related party transactions in the normal course of operations and recorded them at the exchange amount:

- Certain directors provide finance and operational services to the Company through consulting and other agreements. During the three month period ended March 31, 2006, the Company incurred consulting and operational expenses of \$77,473 (\$43,560 for the three months ended March 31, 2005) provided by companies with a director in common to the Company. At March 31, 2006, the amount owed to these companies was nil (March 31, 2005: \$21,730).

7. Segmented information

The Company identifies its operating segments based on business activities, management responsibility and geographical location. The Company operates within a single operating segment, being the research and development of targeted therapeutics and operates in one geographic area, being Canada. All of the Company's assets are located in Canada.

8. Agreements

(a) Clinical trial agreement with Scott & White

On October 26, 2005, Protox entered into a clinical trials agreement with Scott & White, to conduct a Phase I clinical study of PRX302 for the treatment of localized, recurrent prostate cancer. On January 16, 2006, the Company received clearance from the United States Food and Drug Administration to commence Phase I clinical trials.

(b) IRAP funding agreement

On June 1, 2005 the Company entered into a funding agreement with the National Research Council (NRC) of up to \$340,000 from the Industrial Research Assistance Program (IRAP). The NRC has committed this money to the Company to support its development of novel cancer therapeutics. The contribution is non-repayable. On March 10, 2006 the funding agreement was amended to take into account the change in research activities. The amended agreement provides for a maximum funding of \$140,000. As at March 31, 2006 the Company had submitted claims for \$113,335.

Protox Therapeutics Inc.

(a development stage company)

Notes to the Interim Financial Statements (unaudited)

9. Commitments

(a) Laboratory facilities

In December, 2004, the Company signed a three-year lease agreement commencing January 1, 2005 for laboratory facilities. Minimum payments for each of the next two years are as follows:

	Amount (in dollars)
2006	\$ 13,040
2007	9,780
	<u>\$ 22,820</u>

The Company has an option to terminate the lease agreement at the end of the first and second years subject to a penalty of \$14,109 and \$7,331, respectively.

(b) Equipment lease

In January 2005, the Company entered into a 36 month capital lease arrangement to finance certain laboratory equipment purchased in 2004 costing a total \$115,307 (Note 4).