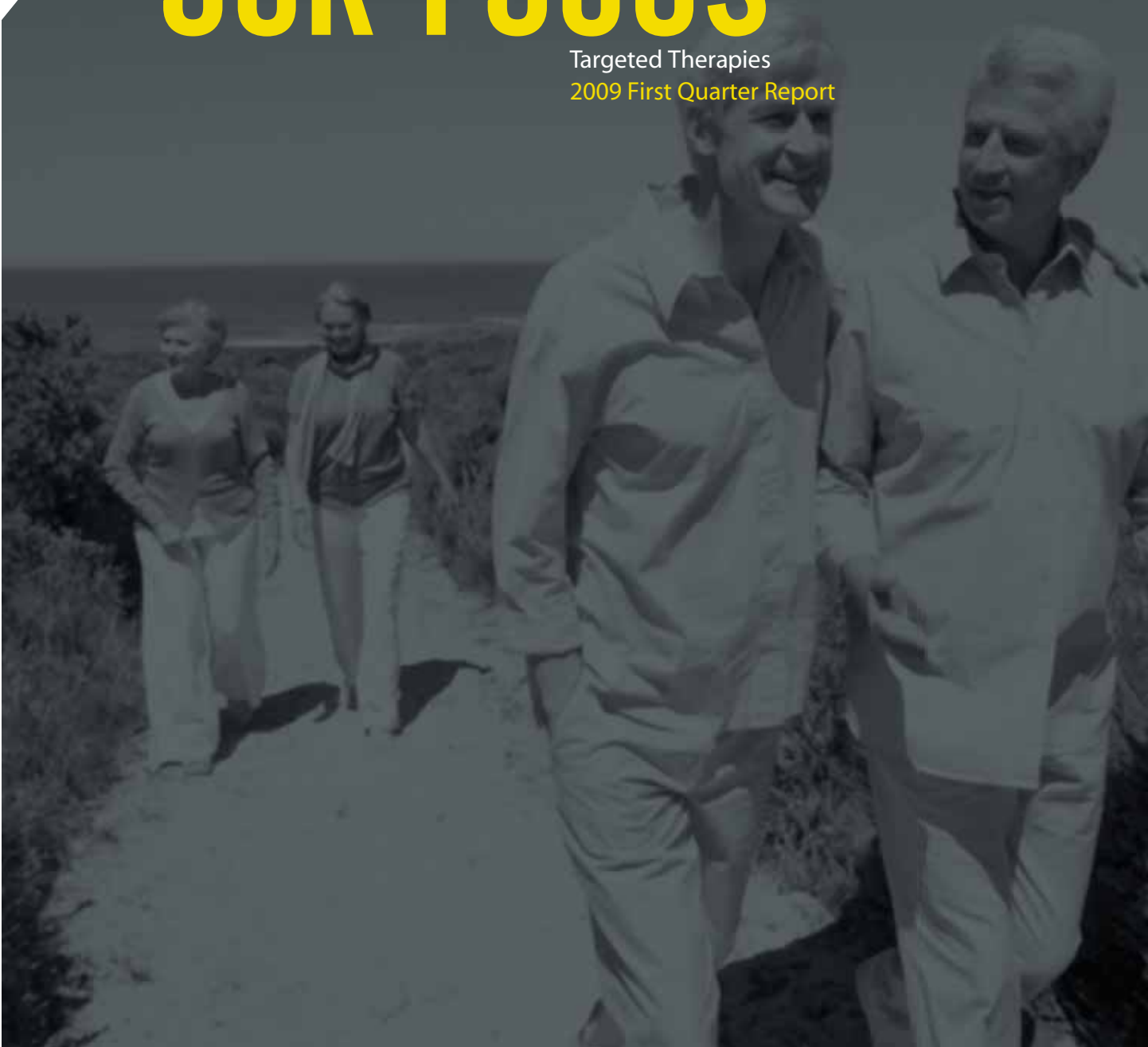


OUR FOCUS

Targeted Therapies
2009 First Quarter Report



Proto**x**
THERAPEUTICS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") has been prepared as of May 11, 2009 and should be read in conjunction with our audited financial statements for the year ended December 31, 2008 and the Company's Annual Information Form, dated March 23, 2009 (collectively known as the "Financial Statements"). All the financial information has been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and all dollar amounts are expressed in Canadian dollars unless otherwise noted. Additional information relating to Protox Therapeutics Inc., including the Company's Financial Statements, can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

Certain statements and information in this MD&A contain "forward-looking information" within the meaning of applicable Canadian securities laws. Such forward-looking statements or information include, but are not limited to, statements or information with respect to our intent, belief or current expectations primarily with respect to the regulatory approvals, market and general economic conditions, future costs, expenditures and our future operating performance and financial condition related to the future advancement, success and commercialization of our development programs. Often, these statements include words such as "plans", "expects", "estimates", "forecasts", "intends", "anticipates", "believes" or "continues" or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. With respect to forward-looking statements and information included herein, we have made numerous assumptions including among other things, assumptions about our future financing requirements and our ability to meet our obligations, our ability to meet regulatory requirements, the anticipated market for our products and our ability to achieve our goals. Even though our management believes that the assumptions made and the expectations represented by such statements or information are reasonable, there can be no assurance that the forward-looking statement(s) will prove to be accurate. By their nature, forward-looking statements and information are based on assumptions and involve known and unknown risks, uncertainties and other factors, many of which are beyond the Company's control that may cause our actual results, events or developments to differ materially from those that are expressed or implied by such forward-looking information. Such risks, uncertainties and other factors include, among other things, the following: negative results from our clinical studies; drug product supply for our clinical trials; inability to fund our development programs; unexpected delays in drug discovery, clinical development and manufacturing; program delays due to reliance on third-party service providers; raw material and operating costs; changes in government regulation; fluctuations in demand and supply for our products; industry production levels; general economic and business conditions; our ability to execute our business plan; and those additional risks set forth under the heading "Risk Factors" in our Annual Information Form for our financial year ending December 31, 2008. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements or information prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated, expected or continued. Accordingly, readers should not place undue reliance on forward-looking statements or information. We undertake no obligation to reissue or update forward-looking statements or information as a result of new information or events after the date hereof except as may be required by law. All forward-looking statements and information made in this document are qualified by this cautionary statement pursuant to the "safe harbour" provisions of applicable securities legislation.

COMPANY OVERVIEW

Protox Therapeutics Inc. (the "Company" or "Protox") is a biopharmaceutical company focused on the research, development and commercialization of novel receptor targeted fusion proteins for the treatment of human diseases. These fusion proteins are designed to specifically deliver potent payloads to targeted tissues or cells to either cause cell death or promote survival without the side-effects normally associated with conventional therapeutics.

Protox is advancing a pipeline of receptor targeted fusion proteins based on three complementary technology platforms: PORxin™, INxin™ and HUMxin™. The payloads used to generate our lead compounds are derived from genetically engineered bacterial toxins or fully human Bcl-2 family of proteins. The Company's lead PORxin candidate, PRX302 is in two separate Phase 2 clinical trials for the treatment of benign prostatic hyperplasia ("BPH", commonly known as enlarged prostate) as well as localized prostate cancer. The INxin candidate, PRX321, has previously been evaluated in 86 patients with primary brain cancer and other solid tumours. PRX321 has recently received approval from the U.S. Food and Drug Administration ("FDA") for a Phase 2b (pre-pivotal) clinical trial for the treatment of recurrent glioblastoma multiforme ("GBM") - the most lethal form of brain cancer. Future studies with PRX321 and the HUMxin platform will be actively pursued only after the Company has identified potential partners or collaborators to fund further development activities.

PORxin drugs are inactive pro-toxins that bind to cell surface receptors and are activated by specific proteases produced at elevated levels by target cells. Once activated, the toxin inserts into the cell membrane creating large pores on the cell surface. Leakage of cellular contents and loss of membrane integrity ultimately causes cell death. PRX302, our lead candidate from the PORxin platform, is activated on the surface of prostate cells by the protease, prostate specific antigen ("PSA"), which is over-produced in patients with BPH or prostate cancer. The Company's Phase 2 clinical trial, evaluating PRX302 as a treatment for BPH, was initiated and completed during 2008. Based on the encouraging top-line results from this open-label study, a double-blinded, placebo controlled, multi-centre BPH Phase 2 study was initiated in January 2009 and top-line results are expected before the end of 2009. A Phase 2a clinical trial for the treatment of localized, recurrent prostate cancer with PRX302 was initiated in 2008 and the results are expected to be reported in 2009.

INxin drugs target cancer cells that over-express specific tumour associated receptors on their cell surface. Once bound to the cancer cells, INxin drugs enter the cell and inhibit protein synthesis which ultimately leads to cell death. PRX321, a lead candidate from the INxin platform, has been engineered to target interleukin-4 receptors ("IL-4R"), which are over-expressed on the surface of several types of cancer. Phase 1 and 2a clinical trials in 72 patients have been completed with PRX321 for the treatment of primary brain cancer, specifically recurrent GBM and anaplastic astrocytoma ("AA"). A Phase 1 clinical trial in 14 patients with recurrent and progressive peripheral solid tumours, specifically renal cell carcinoma and non-small cell lung cancer, has also been completed. PRX321 has the potential for the treatment of other peripheral solid tumours and haematological tumours. PRX321 has received both Fast Track Designation and Orphan Drug Designation from the FDA for primary brain tumours. In June 2008, the European Medicines Agency ("EMA") granted Orphan Medicinal Product Designation to PRX321 in Europe for the treatment of glioma. The manufacture of a new GMP (Good Manufacturing Practices) compliant batch of PRX321 was also completed during 2008, securing sufficient drug product to meet the needs of the PRX321 program for the foreseeable future. The protocol for the Phase 2b GBM study has been approved by the FDA and patient enrolment will

COMPANY OVERVIEW (continued)

commence only after a suitable partner has been identified to fund further clinical development. This strategy will enable the Company to conserve cash and allocate adequate resources in order to execute on its lead PRX302 BPH clinical program.

HUMxin, a next-generation platform technology in-licensed in 2007, is a program being developed in collaboration with the U.S. National Institutes of Health. The objective of this discovery stage program is to develop novel receptor targeted fusion proteins, using the fully human Bcl-2 family of proteins as payloads, in order to accelerate or prevent apoptosis (programmed cell death). The program is in pre-clinical development and future research will be conducted if the Company is successful in securing non-dilutive research grants.

The Company continues to work in partnership with co-inventors of the PORxin, INxin and HUMxin platforms as well as experts and key opinion leaders, or KOL, in the field in order to guide the Company in the successful development of our lead candidates as well as strengthen our product pipeline.

2009 Q1 ACHIEVEMENTS & HIGHLIGHTS

- Commenced enrollment of our multi-centre, double-blinded, placebo controlled Phase 2 study of PRX302 (study name: TRIUMPH) in subjects with moderate to severe BPH. Study results from TRIUMPH are expected late in Q4 2009.
- Appointed Mr. John Parkinson as Chief Financial Officer. Mr. Parkinson is a seasoned finance executive with cross industry experience in the management of high growth dynamic global companies. Previously he was Vice President, Finance at Aspreva Pharmaceuticals and prior to that he worked with KPMG for 10 years in their financial services, high-tech and public company practices.
- Presentation of the long-term Phase 1 BPH data by Dr. Peter Pommerville at the 2009 Annual Congress of the European Association of Urology on March 19, 2009 in Stockholm, Sweden. The paper was entitled "A PSA-activated protoxin (PRX302) administered transperineally to men with symptomatic benign hyperplasia is well tolerated and exhibits signs of activity".
- Presentation on March 30, 2009 by the Chief Scientific Officer, Dr. Sam Denmeade at the Targeted Cancer Therapies Keystone Symposia in Whistler, British Columbia of a paper entitled: "PRX303 is an IL-2 Proaerolysin Fusion Protein Toxin that Selectively Targets and Kills FOXP3 Regulatory T Cells: Potential Role as a Vaccine Adjuvant".
- Allowance in China of our patent covering composition of PRX302 and its use in prostate cancer.

SUBSEQUENT HIGHLIGHTS

- Data from the Phase 2 clinical study of PRX302 in patients with moderate to severe benign prostatic hyperplasia (BPH) was presented at the 2009 Annual Meeting of the American Urological Association (AUA). The 2009 AUA Meeting is the world's largest gathering of urology professionals and took place April 25 – 30 at the McCormick Place Conference Centre in Chicago, Illinois.
- Allowance in Japan by the Japan Patent Office of our patent covering composition of PRX302 and its use in prostate cancer.
- On April 29, 2009, the Company announced it has retained an agent to raise gross proceeds of up to \$1.5 million pursuant to a brokered private placement offering of its common shares, with an over-allotment option to raise additional proceeds of up to \$1.0 million.

RESEARCH & DEVELOPMENT UPDATE

PORxin Platform

Benign Prostatic Hyperplasia

Phase 1 Clinical Trial

Final BPH Phase 1 study results were announced in January 2008 indicating that PRX302 was safe and well tolerated and showed promising signs of therapeutic activity for the treatment of BPH. This study was an open-label, multi-centre, dose escalation study where the primary endpoint was safety and tolerability following a single intra-prostatic administration of PRX302. The secondary endpoint was to determine therapeutic activity as measured by the change in International Prostate Symptom Score ("IPSS"), when compared to screening. In addition, changes in Quality of Life ("QoL") scores, prostate volume and urinary flow parameters were also monitored. Using a well-established, image-guided technique, PRX302 was administered directly into the prostate in a relatively simple procedure performed in the urologist's office.

A total of 15 patients with moderate to severe BPH were treated in this trial at two sites in Canada. The dose was escalated 14-fold from cohort 1 to cohort 4, keeping the dosing volume constant, whereas one additional cohort received approximately 6-fold higher volume at the lowest dose. Most patients treated in this study were either refractory or intolerant to oral therapy. Despite a 14-fold escalation in dose, no safety issues were identified and maximum tolerated dose ("MTD") was not reached in this study. Results indicate that PRX302 was well tolerated with no serious adverse events observed. Treatment related adverse events were generally reported as being mild or moderate, local and transient in nature.

Treatment related symptomatic relief was rapid and substantial benefits were noticed by day 30 post treatment. Both symptom scores (IPSS and QoL) continued to show further improvements in all cohorts at the end of the active study period (day 90 post treatment) indicating a potential for sustained benefit following a single treatment with PRX302. Across all treatment groups, IPSS scores showed a statistically significant improvement from screening to day 30 ($p < 0.01$) and continued to day 90 post-treatment ($p < 0.001$). The mean IPSS values improved by an average of 4.8 points, or 25%, from 19.1 ± 4.3 at screening to 14.3 ± 5.7 at day 30 post treatment. By day 90, IPSS improved by an average of 8.5 points or 45% (10.6 ± 5.9).

RESEARCH & DEVELOPMENT UPDATE (continued)

Improvement in QoL scores were observed in all 5 cohorts. Independent of the treatment group, QoL scores improved from an average of 4.3 ± 1.1 at screening to 2.5 ± 1.6 by day 30 ($p < 0.01$) and continued to show a 50% improvement by day 90 (QoL = 2.1 ± 1.6 ; $p < 0.01$). Furthermore, prostate volume decreased in all cohorts. Irrespective of cohort assignment, the mean prostate volume decreased by over 26% at day 90 post-treatment ($p < 0.05$).

On October 8, 2008, the Company announced that the improvement in symptom scores observed at 6 and 9 months (as reported on April 16, 2008) continued to be sustained at 12 months following a single treatment of PRX302. More specifically, for the 14 patients (of the total 15 patients) continued to be followed at 12 months post treatment, the mean IPSS showed statistically significant improvement ($p < 0.01$) of an average of 6.5 points from 19.2 ± 4.5 at screening to 12.7 ± 4.6 . These improvements were observed across all seven symptom sub-scores. Improvement in QoL scores were observed in all five cohorts. Independent of the treatment group, QoL scores continue to show a statistically significant improvement from an average of 4.6 ± 1.0 at screening to 2.6 ± 1.6 at 12 months ($p < 0.01$), a 44% improvement. Furthermore, prostate volume decreased in all cohorts. Irrespective of cohort assignment, the mean prostate volume decreased by over 13%, 12 months post-treatment compared to initial screening.

Phase 2 Clinical Trial

Based on encouraging data from the Phase 1 study, the Company initiated an open label Phase 2 BPH clinical trial during 2008 Q2. The objective of this study was to optimize dosing volume in order to improve local distribution and further enhance therapeutic activity of PRX302 following a single intraprostatic injection, as well as to evaluate safety and tolerability. Enrolment was completed during mid-2008 Q3 and final study results were announced in November 2008 indicating that PRX302 provided significant symptomatic relief while maintaining an excellent safety and tolerability profile in men with moderate to severe BPH.

This study was a single-arm, open-label, multi-centre, Phase 2 study in which increasing volumes of PRX302, at a fixed concentration ($3 \mu\text{g/mL}$), were administered into the prostates of men with moderate to severe BPH. Three cohorts of 6 subjects each received PRX302 at volumes equivalent to 10%, 20% and 30% of prostate volume. The intended volume for each subject was administered through a single injection in 3 equal deposits into each lobe of the prostate under ultrasound guidance. Therapeutic activity was measured by the change in standardized symptom indices, namely IPSS and QoL, when compared to scores at screening. In addition, changes in prostate volume were also monitored. A total of 18 patients who were refractory, intolerant or unwilling to use alpha-blockers were enrolled in this study.

The mean pre-treatment IPSS of subjects in this study was 20.2. IPSS results at 90 days post treatment demonstrated symptomatic relief in all cohorts with an average improvement in IPSS of 2.8 points in Cohort 1 (15.6%), 10.9 points in Cohort 2 (54.0%) and 10.3 points in Cohort 3 (46.2%). IPSS data appear to indicate a dose response with Cohort 1 showing both a smaller point and a smaller percentage improvement than Cohorts 2 and 3 at the 90 day time point. Furthermore, this dose response is more evident when subjects are stratified by the volume of PRX302 administered per deposit. Subjects who received 1.0mL or greater per deposit ($n=13$) showed a statistically significant IPSS improvement of 11.2 points ($p < 0.0001$) at day 90 post treatment. These results are encouraging and are approximately double that reported for currently

RESEARCH & DEVELOPMENT UPDATE (continued)

approved BPH drugs and comparable to many of the successful minimally invasive surgical techniques that are published.

Compared to an average of 4.5 score at screening, QoL scores improved by an average of 1.5 points (35%) in Cohort 1, 1.7 points (43%) in Cohort 2 and 3.0 points (57.7%) in Cohort 3 at day 90 post treatment. Again, when stratified by volume of PRX302 administered per deposit, the same dose response seen with IPSS was observed with QoL scores. Subjects who received 1.0 mL or greater per deposit (n=13) showed a statistically significant QoL improvement of 2.5 points (p<0.0001) at day 90 post treatment.

Prostate measurements were conducted by ultrasound at screening and post treatment and showed a significant decrease in prostate volume in the majority of subjects treated.

No safety issues were identified in this study and increasing volumes of PRX302 were seen to be well tolerated. The MTD was not reached and no serious adverse events or Grade 3 or greater adverse events have been reported to date. The adverse events reported were mild to moderate, very transient in nature (resolved within days) and localized to the urinary tract. In addition, no sexual dysfunction and no clinically abnormal laboratory findings have been reported in any of the subjects dosed to date.

Phase 2 Placebo Controlled Clinical Trial

On January 12, 2009, the Company announced the initiation of a multi-centre, double-blinded placebo controlled Phase 2 study of PRX302 (study name: TRIUMPH) in subjects with moderate to severe BPH. The trial is designed to evaluate the efficacy of PRX302 versus placebo using the optimal treatment volume established in the open-label Phase 2 study recently completed.

The clinical trial's primary endpoint will be to determine efficacy of PRX302 as demonstrated by a statistically significant change in IPSS from baseline when compared to placebo. Secondary endpoints will be the measurement in change from baseline of the QoL score, Peak Urinary Flow Rate ("Qmax") and Post-Voiding Residual urine volume ("PVR") when compared to placebo. The trial will also continue to assess safety and tolerability of PRX302.

Patients are being randomized 2:1 (treatment:placebo) and each patient receives either PRX302 (3µg/ml) or placebo at a volume equivalent to 20 percent of the total prostate volume. Dosing for each arm is delivered via a single ultrasound-guided injection into each lobe of the prostate. Study results from TRIUMPH are expected late in Q4 2009.

Prostate Cancer

Phase 1 Clinical Trial

Final data for this multi-center, open-label, dose-escalation Phase 1 clinical trial was released in November 2007 indicating that PRX302 was well tolerated and showed encouraging early signs of therapeutic activity following a single intra-prostatic administration. A total of 24 patients were treated in this study at five trial sites in the U.S. The objective of the study was to determine the safety and tolerability of PRX302 as a primary endpoint and therapeutic activity as a secondary endpoint in patients with biopsy proven localized recurrent prostate cancer following radiation therapy that showed signs of disease progression as evidenced by rising levels of PSA.

RESEARCH & DEVELOPMENT UPDATE (continued)

No significant safety issues relating to PRX302 treatment were encountered in this clinical trial. One patient in the study, who met inclusion criteria in spite of having borderline liver abnormalities, showed a transient rise in liver enzymes (Grade 3 on the National Cancer Institute's 5-stage grading scale) that quickly returned to screening levels. An expanded cohort was enrolled at this dose in order to collect additional safety data. No safety issues were observed in any patients within the expanded cohort or in further cohorts that received higher doses. In summary, no serious adverse events were reported relating to PRX302 and all other adverse events reported were mostly associated with the injection procedure, rating no higher than Grade 1 (mild).

Assessment of potential therapeutic activity was determined by measuring PSA levels throughout the study and conducting prostate biopsies at 30 days post-treatment. A comparison of prostate biopsies taken at baseline and day-30 post-treatment showed that 18 of the 24 patients had a decrease in the percentage of cancer-positive biopsies. Three patients showed no detectable adenocarcinoma in their day-30 biopsy. Results showed that in 21 of the 24 patients a decrease in PSA levels below screening levels was observed at 30 days or longer post treatment while in 15 of 24 patients PSA levels continued to be below screening levels or stable at 90 days or longer. Comparison of PSA levels pre- and post-treatment showed a desirable trend towards an increase in PSA doubling time ("PSADT") in 19 of 24 patients and a decrease or stable PSA velocity ("PSAV") in 17 of 24 patients, both of which are positive outcomes for the patient.

Protox has concluded that, despite a 100-fold escalation in dose, MTD was not reached in this study while evidence of therapeutic activity was observed.

Phase 2a Clinical Trial

Following the positive Phase 1 study results, the Company announced on January 15, 2008 that IRB approvals had been received to proceed with a Phase 2a study of PRX302 for the treatment of patients with locally recurrent prostate cancer following primary radiation therapy. The objective of this study is to optimize dosing volume and injection regimen in order to improve local distribution and further enhance therapeutic activity of PRX302. The assessment of therapeutic activity will be based on the level of decrease in both PSA levels and tumour burden and increase in PSADT following treatment. In addition, the study will also evaluate the safety and tolerability of different dosing volumes and injection regimens. The results from this study are expected to be available in late 2009.

INxin Platform

Primary Brain Cancer

Prior to the in-licensing of PRX321 from the U.S. Public Health Service ("PHS") and the acquisition of related program assets from Neurocrine Biosciences Inc. ("Neurocrine") in July 2006, a total of 72 patients with glioma (66 patients with GBM and 6 patients with AA) had been treated with PRX321 in Phase 1 and Phase 2 clinical trials in the U.S. and Europe. In these trials, all patients had recurrent and progressive forms of glioma and PRX321 was infused into the brain using a technique called Convection Enhanced Delivery ("CED"). The results showed that PRX321 was well tolerated with minimal systemic toxicity. In these clinical trials, over 70% of non-resected patients had extensive or partial necrosis (shrinkage) of their tumours after a single

RESEARCH & DEVELOPMENT UPDATE (continued)

treatment. In recurrent GBM patients with resectable tumours at first relapse, median survival was 11.6 months compared to a median survival of approximately 6 months normally expected in this patient population.

As noted above, PRX321 has received Orphan Drug Designation from the FDA for treatment of astrocytic glioma and Fast Track Designation for treatment of recurrent GBM. Fast Track Designation enables expedited review by the FDA of products that are in clinical development and Orphan Drug Designation provides a number of benefits including seven years of market exclusivity subsequent to marketing approval. In January 2008, an application was submitted to EMEA to obtain Orphan Medicinal Product Designation in Europe, which would afford ten years of market exclusivity following marketing approval. Following a positive opinion from its Committee for Orphan Medicinal Products, in June 2008 EMEA granted Orphan Medicinal Product Designation to PRX321 for the treatment of glioma.

During 2007 Prottox entered into a collaborative research and clinical development agreement with BrainLAB AG ("BrainLAB") of Germany for use of their proprietary drug delivery software, iPlan® Flow. The purpose of the software is to allow neurosurgeons to better plan treatments and catheter placement for optimal delivery and distribution of PRX321.

Additional research in collaboration with Dr. Yael Mardor (Sheba Medical Centre), Dr. Zvi Ram (Tel Aviv Medical Centre) and Dr. John Sampson (Duke University), to further optimize the delivery and distribution of PRX321 was completed in 2008. Some of the results from these studies were presented at the 8th Congress of the European Association of Neuro-Oncology (EANO) held in Barcelona during September 2008.

The Company also entered into an agreement with Dompé pha.r.ma S.P.A. ("Dompé") of Italy in July 2007 to manufacture GMP batches of PRX321 drug substance. CMC related technology transfer and process scale-up activities were conducted in 2007 in preparation for manufacture of GMP compliant batches of PRX321 in 2008. GMP production of PRX321 bulk drug substance at Dompé, as well as GMP manufacture of vialled PRX321 drug product at AAI Pharma Inc. (North Carolina, USA), were completed by the end of 2008 Q3 as anticipated. Accordingly, the Company has ready and sufficient drug product to meet its PRX321 program needs for the foreseeable future.

Based on the encouraging Phase 1 and 2a results, the Company had anticipated initiating a multi-centre Phase 2b (pre-pivotal) clinical trial in patients with recurrent GBM in 2009 Q1. Accordingly, the Company undertook the prerequisite CMC (chemistry, manufacturing and controls), drug delivery, regulatory and clinical planning and related preparatory activities. An open-label Phase 2b clinical study protocol for the treatment of patients with GBM at first recurrence (study name: CLARITY) was developed in conjunction with PRX321 investigators and experts on CED and imaging technologies. The protocol along with updated CMC information was submitted to the FDA. The Company has received the necessary approval from the FDA enabling it to proceed with the clinical trial. However, given the current economic climate, Management has decided to squarely focus its resources on the development of its lead program, PRX302, for the treatment of BPH. Accordingly, enrolment in the CLARITY study for recurrent GBM will not be initiated until sufficient additional financing or a strategic partner is secured.

RESEARCH & DEVELOPMENT UPDATE (continued)

Peripheral Non-Central Nervous System (Non-CNS) Cancers

In addition to the Phase 1 and Phase 2a primary brain cancer studies described above, Neurocrine also previously completed a Phase 1 safety study in patients with recurrent or unresponsive solid peripheral tumours that express the IL-4 receptor. Fourteen patients with either renal cell carcinoma ("RCC") or non-small cell lung cancer ("NSCLC") received three escalating doses of intravenously ("IV") administered PRX321 and MTD was established. Seven of the 11 evaluable patients with RCC had stable disease. To date cancer tissue samples from over 400 patients have been analysed for IL-4R expression. Furthermore, based on *in vitro* and *in vivo* studies, at least a dozen different cancers have been shown to be suitable targets for PRX321. The Company may pursue fully funded or Investigator initiated Phase 1/2 studies depending on interest from various institutions and potential collaborators in order to treat cancers known to over-express IL-4R.

In 2007, Dr. Raj Puri, MD, PhD, Director, Division of Cellular and Gene Therapies, Center for Biologics Evaluation and Research at the FDA and co-inventor of PRX321, in collaboration with scientists at the National Cancer Institute, published new findings for PRX321 in the journal, *Cancer Research* (Volume 67(20), p. 9903-9912), showing that PRX321, when combined with gemcitabine, a chemotherapeutic agent currently used to treat advanced pancreatic cancer, was shown to have a synergistic anti-tumour effect both *in vitro* and in a clinically relevant mouse model of advanced pancreatic cancer. Specifically, those mice treated with a combination of PRX321 and gemcitabine showed a significant decrease in tumour burden and improved survival compared to treatment with either PRX321 or gemcitabine alone. The results showed that the combination approach was able to completely eradicate tumours in 40% of mice with established tumours and significantly prolonged survival of mice bearing advanced distant metastatic tumours. This study demonstrates for the first time the potential of combining PRX321 with a chemotherapeutic agent for treating patients with pancreatic cancer.

In 2008, FDA collaborator Dr. Raj Puri together with his colleagues in Japan published new data for PRX321 in the *International Journal of Cancer* (Volume 123(12), p. 2915). In this study, PRX321 was shown to specifically target IL-4R over expressed on biliary tract carcinoma ("BTC") cells. PRX321 was also shown to have potent antitumor activity both *in vitro* and in a mouse model of human BTC. BTC is an aggressive and frequently lethal disease with a high clinically unmet need. These results indicate that PRX321 is a potent agent and may provide a new therapeutic option for the treatment of BTC.

Collaborative Research

In April 2008, the Company has entered into a collaboration with the FDA under the terms of a CRADA ("FDA CRADA"). The collaborative research and development program will be conducted by the principal investigators Dr. Sam Denmeade, MD, Chief Scientific Officer of Protox and Dr. Raj Puri. PRX321 co-inventor Dr. Puri is a pioneer in the research of IL-4R as a potential drug target in cancer and has published extensively in this area. The collaboration will focus on characterizing IL-4R on various human tumours, determining the mechanism of up regulation of these receptors, developing assays and animal models to evaluate the safety and efficacy of IL-4R-directed therapeutic agents, such as PRX321, and using laboratory analyses to assess the clinical potential of PRX321, either as a monotherapy or in combination with other therapeutic agents. In addition, novel compounds targeting IL-4R will be engineered and tested. Over and above supporting our anticipated recurrent GBM Phase 2b (pre-pivotal) clinical trial,

RESEARCH & DEVELOPMENT UPDATE (continued)

this collaboration will serve to demonstrate the full potential of PRX321 as a selective and potent therapeutic targeting a large number of tumours that over express IL-4R.

HUMxin Platform

The HUMxin technology is based on novel fusion proteins that contain a targeting component for binding to receptors on specific human cell populations linked to a second component comprising a member of the fully human Bcl-2 family of proteins. The Bcl-2 family includes both pro-apoptotic and anti-apoptotic members. Pro-apoptotic proteins have been shown to induce tumor cell death whereas anti-apoptotic proteins can inhibit cell death.

The HUMxin technology represents an opportunity to potentially develop targeted therapeutics for the treatment of various diseases, including different types of cancers as well as, the protection and/or regeneration of stem cells, tissues or organs. Proof-of-principle studies in cell culture and animal models have demonstrated the ability of the HUMxin fusion proteins to bind cell surface receptors and deliver biologically active Bcl-2 proteins inside target cells. The HUMxin technology provides the following key advantages: targeting a well-established pathway regulating apoptosis; potential for product line-extension by developing next-generation targeted products; potential to treat multiple indications; potential for combination therapy; as well as simple and cost-effective manufacturing.

Effective January 2008, the Company extended its Cooperative Research and Development Agreement ("CRADA") with the U.S. National Institute of Neurological Disorders and Stroke ("NINDS") by two years to conduct research related to the HUMxin platform technology. Under the terms of the CRADA, the Company provides research funding to NINDS in exchange for an exclusive option to license inventions developed under the executed CRADA research plan.

Further bolstering the Company's HUMxin program, the Company entered into a license agreement with PHS during the year for an exclusive license to patents that cover fully human anti-apoptotic fusion proteins comprising GM-CSF and Bcl-xL.

INTELLECTUAL PROPERTY

We regard our patent and other proprietary technology rights as one of the foundation blocks upon which we continue to build a successful biopharmaceutical development company and, therefore, we file and prosecute patent applications to protect our proprietary discoveries.

Patents and patent applications covering the PORxin technology licensed or owned by the Company are currently being prosecuted under the following five patent families:

- i) Proaerolysin Containing Protease Activation Sequences and Methods of Use for Treatment of Prostate Cancer;
- ii) Method of Treating or Preventing Benign Prostatic Hyperplasia Using Modified Pore-Forming Proteins;
- iii) Modified Pore-Forming Protein Toxins and Use Thereof;
- iv) Modified Protein Toxins and Use Thereof for Treating Disease; and,
- v) Method and Composition for Treating Prostatitis

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INTELLECTUAL PROPERTY (continued)

Six issued patents in various jurisdictions, including the U.S., cover composition of matter and method of use for the PRX302 drug candidate and the PORxin technology. Several other patent applications are pending internationally.

The INxin technology licensed by the Company is covered by issued patents and patent applications under the following six patent families:

- i) Fusion Proteins Comprising Circularly Permuted Ligands;
- ii) Circularly Permuted Ligands and Circularly Permuted Chimeric Molecules;
- iii) Convection-Enhanced Drug Delivery;
- iv) Method for Convection-Enhanced Delivery of Therapeutic Agents;
- v) Targeted Cargo Protein Combination Therapy; and,
- vi) Treating Cancer Stem Cells Using Targeted Cargo Proteins

Seven issued patents in the U.S., Europe, Canada and Australia cover the composition of matter and method of use of the PRX321 drug candidate and the INxin technology. Several other patent applications have been filed by the Company and are pending. As PRX321 has been granted Orphan Drug Status by the U.S. FDA and Europe's EMEA, the market exclusivity of PRX321 will be extended by seven and ten years, respectively, if the drug candidate is successfully approved. Under the terms of the FDA CRADA, Protox has an exclusive option to license any future inventions developed under this INxin research program.

Relating to the HUMxin technology and intellectual property being developed under the NINDS CRADA, Protox has obtained an exclusive license from the PHS to a patent application entitled "Methods and Composition for Inhibiting Cell Death or Enhancing Cell Proliferation" and has an exclusive option to license inventions developed under this HUMxin research program.

As with the patent positions of other pharmaceutical, biopharmaceutical and biotechnology firms, we do not know whether any patent applications will result in the issuance of patents or, for patents that are issued, whether they will provide significant proprietary protection or will be circumvented or invalidated.

SELECTED ANNUAL INFORMATION

Year ended December 31	2008 (audited)	2007 (audited)	2006 (audited)
Net and comprehensive loss	\$ (8,919,060)	\$ (7,446,052)	\$ (5,012,646)
Basic and diluted loss per share	(0.12)	(0.13)	(0.13)
Total assets	8,458,104	12,913,664	11,514,697

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RESULTS OF OPERATIONS

The Company has not earned any revenue in any of its previous fiscal years, other than income from interest earned on the Company's cash balances.

For the three months ended March 31, 2009 ("2009 Q1"), the Company reported a net and comprehensive loss of \$2.3 million or \$0.03 per share compared to \$2.0 million or \$0.03 per share for the three months ended March 31, 2008 comparative period ("2008 Q1"). The \$300,000 (15%) increase in net loss over 2008 Q1 is driven by increases in research and development and general and administrative costs as our programs mature.

Research and Development Costs

Research and development ("R&D") costs of nearly \$1.6 million were incurred during 2009 Q1 – a modest increase of \$149,000 (10%) over the \$1.5 million incurred for the 2008 Q1 comparative period. The increase for the period reflects the effect of the continuing maturity of Protox's drug development and clinical trial activities.

Direct costs for our PRX302 clinical programs for the treatment of BPH and prostate cancer as well as activities associated with maintaining our PRX321 program totaled \$1.2 million compared to \$725,000 for 2008 Q1. This increase of \$425,000 (58%) is largely driven by the commencement of enrollment of our TRIUMPH study, a multi-centre, double blinded, placebo controlled Phase 2 study of PRX302 in subjects with moderate to severe BPH. This increase is offset by a reduction in internal costs as the Company concentrates its resources on its lead program, the PRX302 TRIUMPH study for the treatment of BPH.

General and Administrative Costs

2009 Q1 general and administrative ("G&A") costs of \$619,000 decreased by \$111,000 (18%) from \$730,000 in the preceding quarter, however, increased 15% from \$540,000 incurred during the 2008 Q1 comparative period. G&A costs will generally vary from period to period depending on the specific business development, market research and shareholder relations initiatives undertaken and related travel required at such time to support the Company's corporate objectives. The G&A costs incurred in 2009 Q1 reflect the impact of non-recurring costs of \$120,000 associated with the Company's efforts to consolidate and focus operations on our lead clinical BPH program.

Interest Income

During 2009 Q1, the Company earned interest income of \$32,000 compared to \$88,000 for 2008 Q1 comparative period. Interest income earned during a particular period or between periods is a function of investment products, interest rate and / or investment yields available when funds become available for reinvestment as well as average cash balances invested. Consequently, interest income and investment returns have declined as a result of lower balances available to earn investment income, and lower returns available in the market.

Foreign Exchange Gain

During 2009 Q1 the Company recorded a nominal foreign exchange gain of \$8,000 driven by the strengthening Canadian dollar relative to the Euro.

PROTOX THERAPEUTICS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2009

SUMMARY OF QUARTERLY RESULTS

Unaudited quarterly results prepared by management for the eight quarters to March 31, 2009:

(unaudited)	2009 Q1	2008 Q4	2008 Q3	2008 Q2
Interest income	\$ 32,466	\$ 63,891	\$ 90,934	\$ 50,237
Total expenses	2,295,990	2,555,604	2,587,066	1,936,917
Net and comprehensive loss	(2,263,524)	(2,491,713)	(2,496,132)	(1,886,680)
Basic and diluted loss per share	(0.03)	(0.03)	(0.03)	(0.03)
(unaudited)	2008 Q1	2007 Q4	2007 Q3	2007 Q2
Interest income	\$ 87,908	\$ 99,134	\$ 63,692	\$ 95,995
Total expenses	2,132,443	2,411,616	1,773,141	1,913,014
Net and comprehensive loss	(2,044,535)	(2,312,482)	(1,709,449)	(1,817,019)
Basic and diluted loss per share	(0.03)	(0.04)	(0.03)	(0.03)

The Company does not anticipate earning any revenue in the foreseeable future, other than interest revenue earned on its cash balances.

Expenses, in particular R&D costs, are influenced by a number of factors including the scope of clinical development and research programs pursued; the stage (i.e. Phase 1, 2 or 3) of clinical trials undertaken; the number of clinical trials that are active during a particular period of time; the rate of patient enrollment; and ultimately are a function of decisions made to continue the development and testing of a product candidate based on supporting safety and efficacy from clinical trial results. Consequently, expenses may vary from period to period. G&A expenses will be dependent on the personnel and infrastructure required to support the corporate, clinical and business development objectives and initiatives of the Company.

Total expenses in 2009 Q1 were lower than the preceding two quarters due to the Company's efforts to focus its resources on the development of its lead program, PRX302 for the treatment of BPH in response to the current economic climate.

LIQUIDITY AND CAPITAL RESOURCES

Since inception, the Company has devoted its resources to funding R&D programs, including discovery research, preclinical studies and clinical trial activities which has resulted in an accumulated deficit of \$32.7 million as of March 31, 2009. With current revenues only consisting of interest earned on excess cash, losses are expected to continue while the Company's R&D programs are further advanced, in particular active and planned clinical trials.

At March 31, 2009, the Company had cash and cash equivalents of \$5.5 million, representing a net decrease of \$1.2 million from December 31, 2008. The Company had working capital of \$4.0 million at March 31, 2009, a decrease of \$2.1 million from December 31, 2008.

The Company utilized working capital of \$2.1 million during 2009 Q1 to finance continuing operations compared to \$1.8 million for 2008 Q1. These expenditures principally related to

LIQUIDITY AND CAPITAL RESOURCES (continued)

funding the continuing operations and license agreement or collaborative research commitment payments of the Company and can be examined in more detail in the Interim Statement of Cash Flows. The increase in utilization of working capital of \$300,000 from 2008 Q1 to 2009 Q1 is primarily attributable to higher research and development and general and administration costs resulting from the further maturity of our clinical programs.

As a result of the challenging global economic and capital market conditions, the Company undertook a comprehensive review of current development and discovery programs, operations and anticipated expenditures with the view to reduce or defer costs where possible in order to maximize available funds for priority initiatives. Management believes that current cash resources should enable the Company to execute its core business plan / priority initiatives and meet its projected cash requirements up to the end of Q1 2010. However, the Company's working capital may not be sufficient to meet its stated business objectives in the event unforeseen circumstances or a change in the strategic direction of the Company. When, or if, the Company requires additional capital, there can be no assurance that the Company will be able to obtain further financing on favourable terms, if at all.

As required, the Company will continue to finance its operations through the sale of equity or pursue non-dilutive funding sources available to the Company in the future. Additional funding could also be provided from collaborative arrangements established in the future with pharmaceutical or biotechnology companies in relation to products and technologies under development by the Company.

TRANSACTIONS WITH RELATED PARTIES

There were no transactions with related parties during 2009 Q1.

CHANGES IN ACCOUNTING POLICIES

Goodwill and Intangible Assets

On January 1, 2009, the Company prospectively adopted CICA Handbook Section 3064 *Goodwill and Intangible Assets* ("Section 3064"). This new accounting standard replaces Section 3062 *Goodwill and Other Intangible Assets* and Section 3450 *Research and Development Costs*. This new accounting standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition as well as clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. The adoption of this new section did not have a significant impact on the Company's financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could significantly differ from those estimates.

Intangible assets

Intangible assets include proprietary rights, intellectual property, patent rights and technology rights which have been acquired from third parties. Intangible assets are recorded at cost less accumulated amortization. Following acquisition, the Company evaluates the prospective commercialization of the acquired intangible asset. Depending upon the results of the evaluation, the Company commences amortization of the assets over their expected useful lives, which is generally less than ten years.

Research and development costs

R&D costs are charged as an expense in the period in which they are incurred. Development costs are charged as an expense in the period in which they are incurred unless they meet generally accepted criteria under Canadian GAAP for deferral and amortization. No development costs have been capitalized to date.

Patent costs

The costs incurred in establishing and maintaining patents for intellectual property developed are expensed in the period incurred.

Stock-based compensation

The Company grants discretionary stock options for the purchase of common shares.

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.

ACCOUNTING PRONUCEMENTS FOR FUTURE ADOPTION

International Financial Reporting Standards

In February 2008, the Accounting Standards Board of Canada confirmed that Canadian GAAP for publicly accountable enterprises will be converged with International Financial Reporting Standards ("IFRS") effective for fiscal years beginning on or after January 1, 2011. The Company will therefore be required to report using IFRS commencing with its unaudited interim financial statements for the three months ended March 31, 2011, which must include the interim results for the three months ended March 31, 2010 prepared on the same basis. IFRS uses a conceptual framework similar to Canadian GAAP, but there are some significant differences on recognition, measurement and disclosures. The Company will convert to these new standards according to the timetable set within these new rules and is currently assessing the future impact of the transition to IFRS on its financial statements.

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 funding through to commercialization, 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 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 and management; risks associated with claims of infringement of intellectual property and of

RISKS AND UNCERTAINTIES (continued)

proprietary rights, which may not be foreseeable or preventable; risks inherent in manufacturing, including scale-up, and the need to manufacture to regulatory standards; product 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 or maintain relationships with key customers, suppliers and service providers, 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. For additional information, refer to the section entitled "Liquidity and Capital Resources" set out above and the Company's Annual Information Form dated April 14, 2008.

DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators' rules and forms. Our Chief Executive Officer and Chief Financial Officer have designed our disclosure controls and procedures, or caused them to be designed under their supervision, as of March 31, 2009 to provide reasonable assurance that material information relating to the Company was made known to them and reported as required.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our Chief Executive Officer and Chief Financial Officer are responsible for the design of internal controls over financial reporting, or for causing them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of external financial statements in accordance with Canadian GAAP. Regardless of how well an internal control system is designed and operated, it can provide only reasonable, not absolute, assurance that it will prevent or detect all misstatements resulting from error or fraud due to the inherent limitations of any internal control system. There were no changes that occurred during 2009 Q1 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

OTHER MD&A REQUIREMENTS

Outstanding Share Data

As at the date of this report, the Company has 75,894,044 common shares issued and outstanding.

In addition, the Company has 4,857,500 options outstanding to purchase common shares of the Company. Of the options currently outstanding, approximately 3.6 million are exercisable into an equivalent number of common shares of the Company at exercise prices ranging from \$0.52 to \$1.00 and with an average exercise price of \$0.81. The Company also has 584,413 warrants outstanding entitling warrant holders to purchase common shares at a price of \$0.71 and expiry date of May 23, 2010.

For a detailed summary of the outstanding securities convertible into, exercisable or exchangeable for voting or equity securities as at December 31, 2008, refer to Note 8(b) and (d) in the audited 2008 annual financial statements of the Company.

Protox Therapeutics Inc.

Interim Balance Sheets

	March 31, 2009 \$ (Unaudited)	December 31, 2008 \$ (Audited)
Assets		
Current assets		
Cash and cash equivalents	5,475,812	6,652,810
Short-term investments	-	612,412
Other receivables	59,584	152,855
Prepaid expenses	38,276	41,225
	5,573,672	7,459,302
Property and equipment	59,939	79,224
Intangible assets (Note 6)	869,654	919,488
	6,503,265	8,458,014
Liabilities		
Current liabilities		
Accounts payable	1,231,737	514,906
Accrued liabilities	302,801	766,778
Current portion of lease obligations	4,995	4,995
	1,539,533	1,286,679
Long-term portion of lease obligations	2,184	3,325
	1,541,717	1,290,004
Shareholders' equity		
Common shares (Note 7(a))	32,628,223	32,628,223
Common share purchase warrants (Note 7(b))	158,169	158,169
Other equity (Note 7(c))	4,837,816	4,780,754
Deficit accumulated during the development stage	(32,662,660)	(30,399,136)
	4,961,548	7,168,010
	6,503,265	8,458,014

Approved by the Board of Directors

/s/ Frank Holler

Director

/s/ Nitin Kaushal

Director

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

Protox Therapeutics Inc.

Interim Statements of Operations, Comprehensive Loss and Deficit (unaudited)

	For the three months ended March 31,	
	2009	2008
	\$	\$
Expenses		
Research and development	1,605,559	1,456,345
General and administrative	619,242	539,762
Stock-based compensation (Note 7(d))	57,062	131,957
Amortization of property and equipment	22,368	38,533
	2,304,231	2,166,597
Other income (expense)		
Interest income	32,466	87,716
Foreign exchange gain	8,241	34,346
	40,707	122,062
Net and comprehensive loss for the period	(2,263,524)	(2,044,535)
Deficit accumulated during development stage, beginning of period	(30,399,136)	(21,480,076)
Deficit accumulated during development stage, end of period	(32,662,660)	(23,524,611)
Basic and diluted loss per share	(0.03)	(0.03)
Weighted average number of outstanding shares	75,894,044	68,511,636

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

Protox Therapeutics Inc.

Interim Statements of Cash Flows (unaudited)

	For the three months ended March 31,	
	2009	2008
	\$	\$
Cash flows from operating activities		
Loss and comprehensive loss for the period	(2,263,524)	(2,044,535)
Items not affecting cash:		
Stock-based compensation (Note 7(d))	57,062	131,957
Amortization of property and equipment	22,368	38,533
Amortization of intangible assets	49,835	72,300
Change in non-cash working capital:		
Other receivables	93,271	(25,270)
Prepaid expenses	2,949	14,130
Accounts payable	716,831	310,095
Accrued liabilities	(463,977)	(597,801)
	(1,785,185)	(2,100,591)
Cash flows from investing activities		
Decrease in short-term investments	612,412	-
Purchase of property and equipment	(3,084)	(12,307)
	609,328	(12,307)
Cash flows from financing activities		
Issuance of common shares on exercise of warrants	-	18,850
Issuance of common shares on exercise of stock options	-	3,150
Capital lease payments	(1,141)	(4,661)
	(1,141)	17,339
Decrease in cash and cash equivalents	(1,176,998)	(2,095,559)
Cash and cash equivalents - beginning of period	6,652,810	11,410,018
Cash and cash equivalents - end of period	5,475,812	9,314,459
Supplemental cash flow information		
Interest received	37,540	116,896

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

Protox Therapeutics Inc.

Notes to the Interim Financial Statements

For the three months ended March 31, 2009 and 2008 (unaudited)

1. Nature of operations

Protox Therapeutics Inc. (“Protox” or the “Company”) is amalgamated under the British Columbia Company Act and commenced operations on January 11, 2002.

Protox is a development stage biopharmaceutical company that focuses on the research, development and commercialization of receptor targeted fusion proteins for the treatment of disease. These fusion proteins specifically deliver potent payloads derived from engineered bacterial toxins or fully human Bcl-2 derived proteins to target cancer and other diseased cells. The Company is considered to be in the development stage as most of its efforts have been devoted to basic research and development activities to date. The eventual profitability of the company and its ability to continue operating as a going concern is dependent upon obtaining additional financing as required, successful development and commercialization of its products, receiving regulatory approvals and generating cash from operations.

As a result of the challenging global economic and capital market conditions, the Company undertook a comprehensive review of current development and discovery programs, operations and anticipated expenditures with the view to reduce or defer costs where possible to maximize available funds for prior initiatives. Management believes that current cash resources should enable the Company to execute its core business plan / priority initiatives and meet its projected cash requirements up to the end of Q1 2010. However, the Company’s working capital may not be sufficient to meet its stated business objectives in the event unforeseen circumstances or a change in the strategic direction of the Company. When, or if, the Company requires additional capital, there can be no assurance that the Company will be able to obtain further financing on favourable terms, if at all.

As required, the Company will continue to finance its operations through the sale of equity or pursue non-dilutive funding sources available to the Company in the future. Additional funding could also be provided from collaborative arrangements established in the future with pharmaceutical or biotechnology companies in relation to products and technologies under development by the Company.

2. Basis of presentation and significant accounting policies

(a) Interim Statements

The accompanying unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in Canada (“Canadian GAAP”) 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, 2008 except as described in Note 3 below. 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, 2008. When necessary, the financial statements include amounts based on informed estimates and best judgments of management. The results of operations and comprehensive loss for the interim periods reported are not necessarily indicative of results for the full year.

Protox Therapeutics Inc.

Notes to the Interim Financial Statements

For the three months ended March 31, 2009 and 2008 (unaudited)

2. Basis of presentation and significant accounting policies (continued)

(b) Development stage company

The accompanying interim financial statements have been prepared in accordance with the provisions of Accounting Guideline No. 11 *Enterprises in the Development Stage*.

3. New accounting policies

(a) Adoption of new accounting standards

Goodwill and Intangible Assets

On January 1, 2009, the Company prospectively adopted CICA Handbook Section 3064 *Goodwill and Intangible Assets* ("Section 3064"). This new accounting standard replaces Section 3062 *Goodwill and Other Intangible Assets* and Section 3450 *Research and Development Costs*. This new accounting standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition as well as clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. The adoption of this new section did not have a significant impact on the Company's financial statements.

(b) Future accounting changes

International Financial Reporting Standards

In February 2008, the Accounting Standards Board of Canada confirmed that Canadian GAAP for publicly accountable enterprises will be converged with International Financial Reporting Standards ("IFRS") effective for fiscal years beginning on or after January 1, 2011. The Company will therefore be required to report using IFRS commencing with its unaudited interim financial statements for the three months ended March 31, 2011, which must include the interim results for the three months ended March 31, 2010 prepared on the same basis. IFRS uses a conceptual framework similar to Canadian GAAP, but there are some significant differences on recognition, measurement and disclosures. The Company will convert to these new standards according to the timetable set within these new rules and is currently assessing the future impact of the transition to IFRS on its financial statements.

Protox Therapeutics Inc.

Notes to the Interim Financial Statements

For the three months ended March 31, 2009 and 2008 (unaudited)

4. Capital disclosures

The Company's objectives when managing capital are to safeguard its accumulated capital in order to maintain its ability to continue as a going concern and to advance its research, development and commercialization activities. The capital structure of the Company consists of shareholders' equity.

Since inception, the Company has primarily financed its liquidity needs through a public offering and several private placements of common shares. When possible, the Company tries to optimize its liquidity position through non-dilutive sources, including grants, interest income and strategic partnership arrangements.

The Company manages its capital structure and makes adjustments to it based on economic conditions and the risk characteristics of the underlying assets. The Company, upon approval from its board of directors, will balance its overall capital structure through new share or debt issuances or by undertaking other activities as deemed appropriate under specific circumstances.

5. Financial instruments and financial risk management

(a) Financial instruments

The Company has classified its financial instruments as follows:

Financial Instrument	Classification	Measurement	Carrying Value at	
			March 31, 2009 \$	December 31, 2008 \$
Cash and cash equivalents	Held-for-trading	Fair value	5,475,812	6,652,810
Short-term investments	Held-for-trading	Fair value	-	612,412
Other receivables	Loans and receivables	Amortized cost using the effective interest method	59,584	152,855
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost using the effective interest method	1,534,538	1,281,684

Section 3855 requires that the carrying values of other receivables, accounts payable, accrued liabilities and lease obligations be amortized over their expected life using the effective interest method ("EIM"). Application of the EIM did not result in any significant differences in the Company's amortization and as such the carrying amount is a reasonable approximation of their fair values due to the short term nature of these instruments. The Company did not have any held-to-maturity or available-for-sale financial instruments, nor did it acquire or hold any derivative products during the three months ended March 31, 2009 (December 31, 2008 – nil).

Protox Therapeutics Inc.

Notes to the Interim Financial Statements

For the three months ended March 31, 2009 and 2008 (unaudited)

5. Financial instruments and risk management (continued)

(b) Financial risk management

The Company is exposed to certain financial risks, including credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents, short-term investments and other receivables. Being in the development stage, the Company does not have any customers. The Company has established investment guidelines relative to diversification, credit ratings and maturities that maintain safety and liquidity. These guidelines are periodically reviewed by the Company's audit committee and modified to reflect changes in market conditions. The Company has \$5,138,915 million invested in highly rated money market funds which are subject to credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company's financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. To the extent that the Company does not believe it has sufficient liquidity to meet its current obligations, the board of directors considers securing additional funds through equity, debt or partnering transactions. The board of directors approves the Company's annual operating and capital budgets as well as any material transactions outside the ordinary course of business. Of the aggregate accounts payable outstanding and accrued liabilities totalling \$1,534,538 as at March 31, 2009 (December 31, 2008 - \$1,281,684), \$1,019,872 (December 31, 2008 - \$759,888) is payable within ninety days and the balance \$514,666 (December 31, 2008 - \$521,796) is payable within one year.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or valuation of its financial instruments.

Foreign currency risk is limited to the portion of the Company's business transactions denominated in currencies other than the Canadian dollar, primarily expenses for research and development incurred in US dollars and Euros. As at March 31, 2009, US dollar denominated cash and cash equivalents totalled US\$38,769 (December 31, 2008 - US\$375,798) and foreign denominated accounts payable and accrued liabilities included US\$290,758 (December 31, 2008 - US\$272,667) and €297,500 (December 31, 2008 - €318,281). Based on the US dollar and Euro balance sheet exposure at March 31, 2009, with other variables unchanged, a 10% change in the US dollar and Euro relative to the Canadian dollar would not have a significant impact on net and comprehensive loss.

Interest rate risk relates primarily to cash. At March 31, 2009 with other variables unchanged, a 1% absolute change in interest rates would not have a significant impact on net and comprehensive loss.

Protox Therapeutics Inc.

Notes to the Interim Financial Statements

For the three months ended March 31, 2009 and 2008 (unaudited)

6. Intangible assets

Intangible assets consist of the following:

	March 31, 2009		
(unaudited)	Cost \$	Accumulated amortization \$	Net book value \$
HUMxin patents and technology rights	209,680	59,908	149,772
INxin patents and technology rights	1,185,688	465,806	719,882
	<u>1,395,368</u>	<u>525,714</u>	<u>869,654</u>

	December 31, 2008		
(audited)	Cost \$	Accumulated amortization \$	Net book value \$
HUMxin patents and technology rights	209,680	52,420	157,260
INxin patents and technology rights	1,185,688	423,460	762,228
	<u>1,395,368</u>	<u>475,880</u>	<u>919,488</u>

Protox Therapeutics Inc.

Notes to the Interim Financial Statements

For the three months ended March 31, 2009 and 2008 (unaudited)

7. Shareholders' equity

(a) Common shares

Authorized: Unlimited (December 31, 2008 – unlimited) common shares without par value
Issued: 75,894,044 (December 31, 2008 – 75,894,044) common shares without par value

	Number of shares	Amount \$
Balance at December 31, 2008 and March 31, 2009	75,894,044	32,628,223

(b) Warrants

At March 31, 2009, the Company had warrants outstanding to purchase 584,413 common shares (December 31, 2008 – 584,413) at an exercise price of \$0.71 per share (December 31, 2008 - \$0.71) with a fair value of \$158,169 (December 31, 2008 - \$158,169) and an expiry date of May 23, 2010.

No warrants were issued, exercised or expired during the three months ended March 31, 2009.

(c) Other equity

At March 31, 2009, the Company had other equity recorded as follows:

	Amount \$
Balance at December 31, 2008	4,780,754
Stock compensation expense	57,062
Balance at March 31, 2009	4,837,816

(d) Stock options

The Company's stock option plan (the "Plan") provides for the granting of options for the purchase of common shares of the Company at the fair market value of the Company's common shares on the date of the option grant. Options are granted to employees and non-employees. The board of directors or a committee appointed by the board administers the plan and has discretion as to the number, vesting period and expiry date of each option award. The Plan is based on a rolling percentage of options issuable up to 10% of the Company's outstanding common shares. As of March 31, 2009, the Company had 75,894,044 common shares issued and outstanding resulting in current authorization to have a maximum of 7,589,404 options outstanding under the Plan.

Protox Therapeutics Inc.

Notes to the Interim Financial Statements

For the three months ended March 31, 2009 and 2008 (unaudited)

7. Shareholders' equity (continued)

(d) Stock options (continued)

The following table summarizes the continuity of the Company's stock options:

	Number of options	Weighted average exercise price \$
Balance outstanding at December 31, 2008	4,882,500	0.81
Options forfeited	(25,000)	0.54
Balance outstanding at March 31, 2009	4,857,500	0.81

The following table summarizes stock options outstanding and exercisable at March 31, 2009:

Exercise price \$	Number outstanding	Options outstanding		Options exercisable	
		Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable	Weighted average exercise price \$
0.51 - 0.54	645,000	2.0	0.52	643,333	0.52
0.60	50,000	4.5	0.60	8,333	0.60
0.64	225,000	2.9	0.64	200,000	0.64
0.75 - 0.80	1,803,500	3.1	0.77	1,119,832	0.77
0.87	520,000	3.9	0.87	223,334	0.87
0.90	150,000	3.4	0.90	75,000	0.90
1.00	1,464,000	0.8	1.00	1,314,000	1.00
	4,857,500	2.4	0.81	3,583,832	0.81

No options were granted by the Company during the three months ended March 31, 2009.

Stock-based compensation expense relating to stock options for the three months ended March 31, 2009 was \$53,024 (March 31, 2008 - \$119,262) for employees and \$4,038 (March 31, 2008 - \$12,695) for non-employees for a combined amount of \$57,062 (March 31, 2008 - \$131,957).

The fair value of each stock option granted to employees and non-employees was estimated using the Black-Scholes option pricing model with the following assumptions:

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Notes to the Interim Financial Statements

For the three months ended March 31, 2009 and 2008 (unaudited)

7. Shareholders' equity (continued)

(d) Stock options (continued)

<u>Three months ended March 31</u>	<u>2009</u>	<u>2008</u>
Expected life of the options	-	3 years
Volatility	-	60% - 73%
Dividend yield	-	0%
Risk-free interest rate	-	3.19% - 3.75%

8. Subsequent event

On April 28, 2009, the Company announced it has retained an agent to raise gross proceeds of up to \$1.5 million pursuant to a brokered private placement offering of its common shares, with an over-allotment option to raise additional proceeds of up to \$1.0 million.

Passion to care. *Power to cure.*