

OUR TARGET

2008 third quarter report

Protox
THERAPEUTICS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") has been prepared as of November 11, 2008 and should be read in conjunction with our audited financial statements for the year ended December 31, 2007 and the Company's Annual Information Form, dated April 14, 2008 (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, 2007. 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 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 family of proteins to target cancer and other diseased cells. Protox is advancing a pipeline of discovery and clinical-stage product candidates developed from three complementary technology platforms: PORxin™, INxin™ and HUMxin™. The Company's lead drugs in clinical development include the PORxin candidate, PRX302, for the treatment of localized prostate cancer and benign prostatic hyperplasia ("BPH"), commonly known as enlarged prostate, and the INxin candidate, PRX321, for primary brain cancer and other solid as well as haematological (blood) tumours. The Company currently has two active PRX302 Phase 2 clinical trials and anticipates initiating its planned PRX321 Phase 2b (pre-pivotal) study early in 2009 Q1.

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 prostate cancer and BPH. The Company's current U.S. Phase 2a clinical trial for the treatment of localized, recurrent prostate cancer with PRX302 was initiated earlier in the year and patient screening and enrollment has commenced and is ongoing. PRX302 is also being further evaluated as a treatment for BPH in a Canadian Phase 2 clinical trial that commenced during 2008 Q2 (April 2008). Patient enrolment for this study has completed ahead of schedule as announced on September 3, 2008. The release of top line results for the BPH Phase 2 study is expected before the end of the year.

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. A Phase 2a clinical trial has been completed with PRX321 for the treatment of primary brain cancer, specifically recurrent malignant glioblastoma multiforme ("GBM") and anaplastic astrocytoma ("AA"). A Phase 1 clinical trial has also been completed for peripheral solid tumours, specifically renal cell carcinoma and non-small cell lung cancer. PRX321 is also in pre-clinical development for other peripheral solid tumours and haematological tumours. The manufacture of a new GMP (Good Manufacturing Practices) batch of PRX321 has now been completed and planning continues in preparation for a Phase 2b (pre-pivotal) clinical trial for the treatment of recurrent glioblastoma multiforme ("GBM") - the most lethal form of brain cancer - with initiation now anticipated early in 2009 Q1. PRX321 has received both Fast Track Designation and Orphan Drug Designation from the U.S. Food and Drug Administration ("FDA") for primary brain tumours. In June 2008, the European Medicines Agency ("EMA") granted Orphan Drug Designation to PRX321 in Europe for the treatment of glioma.

COMPANY OVERVIEW (continued)

HUMxin, a next-generation platform technology acquired 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.

In addition to developing PRX302 and PRX321 in multiple active and currently planned clinical trials, the Company plans to work in partnership with the co-inventors of the PORxin, INxin and HUMxin technologies as well as other leading scientists to continue development of our lead candidates as well as strengthen our product pipeline through the discovery and development of additional novel drug candidates.

2008 Q3 ACHIEVEMENTS & HIGHLIGHTS

- Completed patient enrollment for the Phase 2 clinical trial of PRX302 for the treatment for BPH one quarter ahead of schedule.
- Presentation of poster entitled "Convection enhanced delivery (CED) of IL-4 pseudomonas exotoxin (PRX321): Increased distribution and MR monitoring" by Company collaborator Dr. Yael Mardor at the 8th Congress of the European Association of Neurooncology and receipt of the EANO 2008 Poster Award.
- Completed manufacture of PRX321 GMP batch in preparation for GBM Phase 2b study.
- A PRX321 study conducted by Company collaborator Dr. Raj Puri and colleagues entitled "Potent in vitro and in vivo antitumor activity of interleukin-4-conjugated Pseudomonas exotoxin against human biliary tract carcinoma" was published in the International Journal of Cancer, Volume 123(12), p. 2915.
- Appointed pharmaceutical industry veteran Dr. Jack Geltosky to the Board of Directors. Dr. Geltosky is currently Senior Vice President of Business Development at the Arizona Technology Enterprise and has previously held senior positions at Bristol Myers Squibb, Message Pharmaceuticals and SmithKline Beecham (now GlaxoSmithKline).

SUBSEQUENT HIGHLIGHTS

- On October 8, 2008, announced additional positive longer-term data from the Company's Phase 1 BPH study demonstrating that PRX302 provides durable and long term treatment effects for at least 12 months following a single treatment.
- Data from the PRX302 Phase 1 prostate cancer study was presented at the 15th Annual Scientific Retreat of the Prostate Cancer Foundation in Lake Tahoe, Nevada in October 2008. The poster presentation was entitled "A Phase 1 Trial of PSA-Activated Pore-Forming Protoxin (PRX302) as Therapy for Locally Recurrent Prostate Cancer".
- Toronto Stock Exchange approval received to amend the expiry date of up to 9,948,507 share purchase warrants from November 29, 2008 to December 22, 2008.

RESEARCH & DEVELOPMENT UPDATE

PORxin Platform

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. to examine 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.

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 tested in this trial 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 were 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.

Prottox has concluded that, despite a 100-fold escalation in dose, the maximum tolerated 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 multi-centre Phase 2a study evaluating PRX302 for the treatment of up to 24 patients with locally recurrent prostate cancer following primary radiation therapy. Patient screening and enrolment has commenced and is ongoing at the U.S. study sites. 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

RESEARCH & DEVELOPMENT UPDATE (continued)

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.

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") throughout the study, 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 trial 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 a 4-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 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 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 (10.6 ± 5.9).

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 at 12 months post treatment. These improvements were observed across

RESEARCH & DEVELOPMENT UPDATE (continued)

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 the initial encouraging data from the above Phase 1 clinical trial, a Clinical Trial Application ("CTA") was submitted to Health Canada to commence a Phase 2 clinical trial for the treatment of up to 30 subjects having moderate to severe BPH. On April 8, 2008, the Company announced the receipt of Health Canada and IRB approvals to commence the clinical trial. The objective of this multi-center study will be to optimize dosing volume and injection regimen in order to improve local distribution and further enhance therapeutic activity of PRX302 following a single intraprostatic injection. The assessment of treatment effect will be based on measurement of IPSS as compared to initial screening. Furthermore, changes in QoL scores, prostate volume and urinary flow parameters will also be monitored. In addition, the study will also evaluate the safety and tolerability of different dosing volumes and injection regimens. Patient enrolment and dosing for this trial commenced in early 2008 Q2 and was completed ahead of schedule as announced on September 3, 2008. Top line results from this Phase 2 study are expected to be released before the end of 2008.

INxin Platform

Primary Brain Cancer

Prior to the acquisition of the PRX321 / INxin platform from Neurocrine Biosciences Inc. ("Neurocrine") and the U.S. Public Health Service ("PHS") 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"). These trial results indicated PRX321 was well tolerated with minimal systemic toxicity. In these clinical trials, over 70% of non-resected patients had complete or partial necrosis (shrinkage) of their tumours after a single treatment. At the optimum dose, median survival time of patients with glioma at first relapse was 10.7 months, which is 80% longer than the 6 month median survival 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 Drug 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 Drug Designation to PRX321 for the treatment of glioma.

RESEARCH & DEVELOPMENT UPDATE (continued)

Based on the encouraging Phase 1 and 2a results, and subject to obtaining regulatory authorization to proceed, the Company now anticipates initiating a Phase 2b (pre-pivotal) clinical trial in patients with recurrent GBM in early 2009 Q1. The Phase 2b study will be based upon an optimized protocol developed in conjunction with PRX321 investigators and experts on CED and imaging technologies.

The Company entered into a manufacturing agreement with Dompé phar.ma S.P.A. ("Dompé") of Italy in July 2007 to manufacture GMP batches of PRX321 drug substance. CMC (chemistry, manufacturing and control) related technology transfer and process scale-up activities were conducted in 2007 in preparation for the 2008 manufacture of GMP compliant batches of PRX321 for the anticipated Phase 2b clinical trial. Process scale-up and manufacturing activities of bulk PRX321 drug substance and final manufacture of vialled PRX321 drug product at our contract manufacturer, AAI Pharma Inc., were completed by the end of 2008 Q3 as anticipated.

During 2007 Prottox also entered into a collaborative research and clinical development agreement with BrainLAB AG ("BrainLAB") of Germany for use of the BrainLAB proprietary drug delivery software iPlan® Flow in the anticipated Phase 2b clinical trial. BrainLAB will supply and install its iPlan Flow software at all clinical sites participating in the pre-pivotal trial. The software will incorporate patient-specific information to monitor and potentially predict drug distribution in and around the brain tumor being treated. Using the iPlan Flow software, neurosurgeons will be able to better plan treatments and optimize catheter placement for ideal delivery and distribution of PRX321.

Additional research in collaboration with Dr. Yael Mardor (Sheba Medical Centre) and neurosurgeon Dr. Zvi Ram (Tel Aviv Medical Centre) to further optimize the convection enhanced delivery of PRX321 was completed during 2008 Q1.

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. Eight of the 12 evaluable patients with RCC had stable disease. Additional Phase 1/2 studies may be pursued based on interest from various institutions and investigators for the treatment of non-CNS peripheral solid tumours and/or haematological cancers that are known to over-express IL-4R.

In 2007, Dr. Raj Puri of 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

RESEARCH & DEVELOPMENT UPDATE (continued)

demonstrates for the first time the potential of combining PRX321 with a chemotherapeutic agent for treating patients with pancreatic cancer.

On September 17, 2008, Company collaborator Dr. Raj Puri and colleagues 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 clinical unmet need.

Collaborative Research

As announced on April 30, 2008, the Company has entered into a collaboration with the FDA under the terms of a Cooperative Research and Development Agreement ("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, MD, PhD, Director, Division of Cellular and Gene Therapies, Center for Biologics Evaluation and Research at the FDA. Dr. Puri is a co-inventor of PRX321 and 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, 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 fully human members of the Bcl-2 family of apoptotic 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. Due to its central role in the regulation of apoptotic cell death, the Bcl-2 pathway has attracted a considerable amount of interest from pharmaceutical companies.

The HUMxin technology represents an opportunity to develop targeted therapeutics both for the treatment of various diseases, including solid tumors, metastases and hematological malignancies, and for the protection and/or regeneration of cells, tissues or organs after cancer treatment or stem cell transplantation. The HUMxin technology can also be potentially used to treat neurodegenerative diseases, including neuronal injury.

Effective January 20, 2008, the Company extended its Cooperative Research and Development Agreement with the U.S. National Institute of Neurological Disorders and Stroke ("NINDS CRADA") by two more years to conduct research related to the HUMxin platform technology.

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 four 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; and
- iv) Modified Protein Toxins and Use Thereof for Treating Disease

Four 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 four patent families:

- i) Fusion Proteins Comprising Circularly Permuted Ligands;
- ii) Circularly Permuted Ligands and Circularly Permuted Chimeric Molecules;
- iii) Convection-Enhanced Drug Delivery; and
- iv) Method for Convection-Enhanced Delivery of Therapeutic Agents

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 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.

PROTOX THERAPEUTICS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
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SELECTED ANNUAL INFORMATION

Year ended December 31	2007 (audited)	2006 (audited)	2005 (audited)
Net and comprehensive loss	\$ (7,446,052)	\$ (5,012,646)	\$ (5,549,332)
Basic and diluted loss per share	(0.13)	(0.13)	(0.22)
Total assets	12,913,664	11,514,697	5,853,003

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 September 30, 2008 ("2008 Q3"), the Company reported a net and comprehensive loss of \$2.5 million or \$0.03 per share compared to \$1.7 million or \$0.03 per share for the three months ended September 30, 2007 comparative period ("2007 Q3"). The net and comprehensive loss for the nine months ended September 30, 2008 ("2008 YTD") totaled \$6.4 million or \$0.09 per share compared to \$5.1 million or \$0.09 per share for the nine months ended September 30, 2007 ("2007 YTD").

Research and Development Costs

Research and development ("R&D") costs of nearly \$2.0 million were incurred during 2008 Q3 and approximately double the \$1.0 million incurred for the 2007 Q3 comparative period. For the 2008 YTD period, R&D costs totaled \$4.6 million representing a \$1.4 million (45%) increase from \$3.2 million incurred during the 2007 YTD comparative period. The increase for both the 2008 Q3 and 2008 YTD periods reflects the continuing effect of the expanded scope and advancement of Protox's drug development and clinical trial activities.

Since the beginning of the year, incremental costs have been incurred for: i) clinical and regulatory preparatory activities and PRX321 CMC activities / drug supply manufacturing for the anticipated GBM Phase 2b study and ii) running two new PRX302 Phase 2 clinical trials for BPH and prostate cancer. During the first three quarters of 2007, the scope and related cost of PRX321 CMC / drug supply manufacturing activities were significantly less while GBM Phase 2b clinical trial planning activities were nominal on a comparative basis. In addition, the early 2008 initiation of the PRX302 Phase 2a BPH study and enrolment completion during 2008 Q3 resulted in higher costs compared to 2007 YTD during which the predecessor Phase 1 study was initiated in mid 2007 Q2 and only partially enrolled by the end of 2007 Q3. A milestone payment relating to the PRX302 prostate cancer program also contributed to increased R&D costs earlier in 2008. Discovery research costs for 2008 Q3 were \$0.2 million compared to \$0.1 million for 2007 Q3, and increased roughly 50% from \$0.4 million for 2007 YTD to \$0.6 million for the 2008 YTD period. These increases reflect incremental spending associated with the CRADA and collaborative research activity discussed in the Research & Development Update section.

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RESULTS OF OPERATIONS (continued)

General and Administrative Costs

2008 Q3 general and administrative ("G&A") costs of \$0.48 million declined 13% from \$0.55 million in the preceding quarter, however, increased 12% from \$0.43 million incurred during the 2007 Q3 comparative period. 2008 YTD G&A costs have also increased at a similar rate to \$1.57 million from \$1.38 million for the 2007 YTD comparative period, although half of the increase is attributable to a one-time listing fees of \$0.1 million incurred during 2008 Q1 when the Company graduated from the TSX Venture Exchange to the Toronto Stock Exchange. 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 2008 Q3 and 2008 YTD G&A costs increase is commensurate with the growth of the Company and its operations and also reflects an increase in business development personnel and activities.

Interest Income

During 2008 Q3 and 2008 YTD, the Company earned interest income of \$0.09 million and \$0.23 million, respectively, compared to \$0.06 million and \$0.25 million for the corresponding 2007 comparative periods. 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 varied throughout the year and on a comparative basis are anticipated to continue to vary given the current and expected near term market environment.

Foreign Exchange Loss

During 2008 Q3 and 2008 YTD, the Company recorded nominal foreign exchange losses as the relative value of the U.S. and Canadian dollar changed marginally during the majority of these periods. The effect of a 4% decline in the Canadian dollar during August 2008 was mitigated due to the Company's modest amount of U.S. dollar reserves. However, during the 2007 Q3 and 2007 YTD comparative periods, \$0.13 and \$0.32 million of losses were recorded respectively primarily representing unrealized losses on the Company's then more significant U.S. dollar reserves due to an approximate 15% relative decline in the value of the U.S. dollar during the first three quarters of 2007. With our U.S. dollar reserves close to being fully utilized as at September 30, 2008 and considerably less than on hand a year ago, the unrealized losses previously provided for as of 2007 Q3 have been realized in the normal course of operations from the payment of ongoing U.S. dollar denominated expenses. The foreign exchange loss or gain recorded for a particular period and difference between comparative periods is a function of prevailing foreign exchange rates in effect at such time compared to the comparative period(s) as well as the amount of net financial assets or liabilities held or transacted during the subject periods.

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SEPTEMBER 30, 2008

SUMMARY OF QUARTERLY RESULTS

Unaudited quarterly results prepared by management for the eight quarters to September 30, 2008:

(unaudited)	2008 Q3	2008 Q2	2008 Q1	2007 Q4
Interest income	\$ 90,934	\$ 50,237	\$ 87,908	\$ 99,134
Total expenses	2,587,066	1,936,917	2,132,443	2,411,616
Net and comprehensive loss	(2,496,132)	(1,886,680)	(2,044,535)	(2,312,482)
Basic and diluted loss per share	(0.03)	(0.03)	(0.03)	(0.04)
(unaudited)	2007 Q3	2007 Q2	2007 Q1	2006 Q4
Interest income	\$ 63,692	\$ 95,995	\$ 93,039	\$ 42,854
Total expenses	1,773,141	1,913,014	1,700,141	1,370,812
Net and comprehensive loss	(1,709,449)	(1,817,019)	(1,607,102)	(1,327,959)
Basic and diluted loss per share	(0.03)	(0.03)	(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 during both 2008 Q3 and 2007 Q4 were higher than the other quarters presented above primarily due to incremental PRX321 CMC costs. More specifically, during 2007 Q4 initial costs relating to the commencement of the manufacture of a new GMP batch of PRX321 product and the associated technology transfer activities (\$0.6 million impact) were incurred and costs associated with the completion of PRX321 manufacturing (\$0.5M impact) were incurred during 2008 Q3.

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 \$28 million as of September 30, 2008. With current revenues only consisting of interest earned on excess cash, losses are expected to continue in the near term while the Company's R&D programs are further advanced, in particular active and planned clinical trials.

At September 30, 2008, the Company had cash and cash equivalents of \$9.8 million, representing a net decrease of \$1.7 million from December 31, 2007. The Company had working capital of \$8.5 million at September 30, 2008, a decrease of \$1.2 million from December 31, 2007.

PROTOX THERAPEUTICS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2008

LIQUIDITY AND CAPITAL RESOURCES (continued)

Excluding stock option exercise proceeds, the Company consumed cash of \$1.7 million during 2008 Q3 to finance continuing operations compared to \$2.4 million for 2007 Q3. These expenditures principally related to 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 Company's average monthly consumption of cash for operating and investing activities during 2008 Q3 was \$0.57 million compared to \$0.76 million last quarter and \$0.79 million during the 2007 Q3 comparative period. The \$0.7 million cash consumption decrease from 2007 Q3 to 2008 Q3 is primarily attributable to the 2007 Q3 payment of the Company's remaining INxin technology purchase obligation (\$0.6 million).

On May 23, 2008, the Company closed a previously announced brokered private placement of its common shares raising approximately \$4.8 million from the issuance of approximately 6.9 million common shares. Gross proceeds included approximately \$1.8 million from the exercise of an over-allotment option by the agent. The additional cash resources from the successful private placement will enable the Company to accelerate clinical programs and development activities.

With the recent turbulent and unprecedented financial and capital markets, all companies are facing the uncertainty of when these markets will improve and the future availability of capital, particularly for microcap companies. Consequently as a proactive action, we 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 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 2009. 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. 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.

The Company will continue to finance its operations through the sale of equity, as required, or pursue other funding sources available to the Company in the future. Proceeds of up to \$7.1 million from the exercise of the approximate 11.0 million 2006 financing round warrants currently outstanding - exercisable at \$0.65 - to purchase common shares could be received hereafter up to December 22, 2008, although the current stock price is significantly below the exercise price. The Company recently announced it has extended the expiry date for up to 9.9 million warrants due to expire on November 29, 2008 to December 22, 2008 to align with the expiry date of the second and final tranche of warrants issued as part of the same 2006 private placement unit financing. During 2007, 98.5% of the 11.8 million November 2005 financing round issued warrants were exercised resulting in proceeds of \$7.6 million. The exercise of any outstanding stock options could also provide additional cash resources. 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. The ability of the Company to continue as a going concern is dependent on its continuing ability to obtain the necessary financing to meet its obligations and pay its liabilities from normal operations when they become due and ultimately attaining profitable operations.

TRANSACTIONS WITH RELATED PARTIES

During 2008 Q3, certain directors and a former officer, who remains a significant shareholder, have provided business advisory and scientific consulting services to the Company pursuant to consulting and other agreements. The Company incurred related expenses of \$0.04 million for 2008 Q3 (2007 Q3 - \$0.05 million) and \$0.12 million for the nine months ended September 30, 2008 (2007 YTD - \$0.2 million) under such agreements. These transactions were recorded at their exchange amounts. At September 30, 2008, \$16,170 was owed to these related parties and included in accounts payable (December 31, 2007 - \$nil).

CHANGES IN ACCOUNTING POLICIES

Capital Disclosures

On January 1, 2008, the Company prospectively adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535 *Capital Disclosures* ("Section 1535"). This new accounting standard establishes the requirements for disclosing information about an entity's capital and how it is managed. Section 1535 requires the disclosure of: i) an entity's objectives, policies and processes for managing capital; ii) quantitative data about what the entity regards as capital; iii) whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance. With Section 1535 relating to disclosure and presentation only, its adoption did not have an impact on our financial results.

Financial Instruments – Disclosure and Presentation

On January 1, 2008, the Company prospectively adopted CICA Handbook Section 3862 *Financial Instruments – Disclosure* ("Section 3862") and CICA Handbooks Section 3863 *Financial Instruments – Presentation* ("Section 3863"). These sections provide enhanced and expanded disclosure requirements to complement the changes in accounting policy adopted on January 1, 2007 in accordance with Section 3855 *Financial Instruments – Recognition and Measurement*. As Sections 3862 and 3863 relate to disclosure and presentation only, their adoption did not have an impact on our financial results.

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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES (continued)

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

Goodwill and intangible assets

In January 2008, the CICA issued Section 3064 "*Goodwill and Intangible Assets*". This new accounting standard, which is effective for fiscal periods beginning on or after January 1, 2009, replaces existing Section 3062 "*Goodwill and Other Intangible Assets*" and Section 3450 "*Research and Development Costs*" and establishes the standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company is currently assessing the future impact of this new standard on its financial statements.

International Financial Reporting Standards

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The Company 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 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 VP Finance and Operations have designed our disclosure controls and procedures, or caused them to be designed under their supervision, as of September 30, 2008 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 VP Finance and Operations 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. The Chief Executive Officer and VP Finance and Operations have evaluated the design of the Company's internal controls and procedures over financial reporting as of the end of the period covered by this filing, and believe the design to be sufficient to provide such reasonable assurance. There were no changes that occurred during 2008 Q3 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 5,032,500 options outstanding to purchase common shares of the Company. Of the options currently outstanding, approximately 3.2 million are exercisable into an equivalent number of common shares of the Company at exercise prices ranging from \$0.50 to \$1.00 and with an average exercise price of \$0.81. The Company also has warrants outstanding entitling warrant holders to purchase common shares as follows: i) 10,938,882 warrants with an exercise price of \$0.65 per common share and an expiry date of December 22, 2008 and ii) 584,413 warrants with an exercise 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, 2007, refer to Note 8(c) and (d) in the audited 2007 annual financial statements of the Company.

Protox Therapeutics Inc.

Unaudited Interim Financial Statements

For the three and nine months ended September 30, 2008 and 2007

The interim balance sheet of Protox Therapeutics Inc. as at September 30, 2008 and the statement of operations, comprehensive loss and deficit and cash flows for the period ended September 30, 2008 have not been reviewed by the Company's auditors, PricewaterhouseCoopers LLP. These financial statements are the responsibility of the Company's management and have been reviewed and approved by the Company's Audit Committee and Board of Directors.

Protox Therapeutics Inc.

Interim Balance Sheets

	September 30, 2008 \$ (Unaudited)	December 31, 2007 \$ (Audited)
Assets		
Current assets		
Cash and cash equivalents	9,754,936	11,410,018
Other receivables	132,316	166,793
Prepaid expenses	64,022	29,953
	9,951,274	11,606,764
Property and equipment	90,308	165,608
Intangible assets (Note 6)	969,323	1,141,292
	11,010,905	12,913,664
Liabilities		
Current liabilities		
Accounts payable	887,027	742,609
Accrued liabilities	519,806	951,797
Current portion of lease obligations	4,995	8,575
	1,411,828	1,702,981
Long-term portion of lease obligations	4,450	7,736
	1,416,278	1,710,717
Shareholders' equity		
Common shares (Note 7(a))	32,614,891	28,246,445
Common share purchase warrants (Note 7(c))	1,732,810	1,578,781
Other equity (Note 7(d))	3,154,348	2,857,797
Deficit accumulated during the development stage	(27,907,422)	(21,480,076)
	9,594,627	11,202,947
	11,010,905	12,913,664

Approved by the Board of Directors

/s/ Frank Holler

/s/ Nitin Kaushal

Director

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		For the nine months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Expenses				
Research and development	1,970,017	1,045,269	4,619,416	3,185,453
General and administrative	479,742	427,477	1,565,786	1,384,939
Stock-based compensation (Note 7(b))	101,787	148,437	362,496	422,951
Amortization of property and equipment	25,905	25,819	90,133	74,099
	2,577,451	1,647,002	6,637,831	5,067,442
Other income (expense)				
Interest income	90,934	63,692	229,079	252,725
Interest expense	(139)	(600)	(484)	(2,460)
Foreign exchange loss	(9,476)	(125,540)	(18,109)	(316,394)
	81,319	(62,448)	210,486	(66,129)
Net and comprehensive loss for the period	(2,496,132)	(1,709,450)	(6,427,345)	(5,133,571)
Deficit accumulated during development stage, beginning of period	(25,411,289)	(17,458,145)	(21,480,076)	(14,034,024)
Deficit accumulated during development stage, end of period	(27,907,421)	(19,167,595)	(27,907,421)	(19,167,595)
Basic and diluted loss per share	(0.03)	(0.03)	(0.09)	(0.09)
Weighted average number of outstanding shares	75,837,087	58,350,448	71,948,889	57,367,836

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		For the nine months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash flows from operating activities				
Loss and comprehensive loss for the period	(2,496,132)	(1,709,450)	(6,427,345)	(5,133,571)
Items not affecting cash:				
Stock-based compensation (Note 7(b))	101,787	148,437	362,496	422,951
Amortization of property and equipment	25,905	25,819	90,133	74,099
Amortization of intangible assets	49,835	42,346	171,969	130,918
Change in non-cash working capital:				
Other receivables	87,164	(1,914)	34,478	59,188
Prepaid expenses	(56,908)	18,784	(34,069)	36,291
Accounts payable	406,267	(588,188)	144,382	(164,904)
Accrued liabilities	183,157	(271,533)	(431,993)	(357,531)
	(1,698,925)	(2,335,699)	(6,089,949)	(4,932,559)
Cash flows from investing activities				
Acquisition of intangible assets	-	-	-	(104,840)
Purchase of property and equipment	(2,525)	(29,547)	(14,832)	(44,337)
	(2,525)	(29,547)	(14,832)	(149,177)
Cash flows from financing activities				
Issuance of common shares from private placement				
- net of cash costs (Note 7(a))	-	-	4,368,564	-
Issuance of common shares on exercise of warrants	-	863,220	18,850	1,570,420
Issuance of common shares on exercise of stock options	66,000	61,326	69,150	69,992
Capital lease payments	(1,110)	(11,450)	(6,865)	(33,709)
	64,890	913,096	4,449,699	1,606,703
Decrease in cash and cash equivalents	(1,636,560)	(1,452,150)	(1,655,082)	(3,475,033)
Cash and cash equivalents - beginning of period	11,391,496	7,998,064	11,410,018	10,020,947
Cash and cash equivalents - end of period	9,754,936	6,545,914	9,754,936	6,545,914
Supplemental cash flow information				
Interest received	94,584	32,889	277,508	220,160
Interest paid	139	600	484	2,460
Non-cash financing activities				
Issuance of common shares for acquisition of intangible assets	-	-	-	104,840
Issuance of common shares for finance fee	-	-	67,600	-
Issuance of warrants as part of private placement commission	-	-	158,169	-

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

Protox Therapeutics Inc.

Notes to the Interim Financial Statements

For the three and nine months ended September 30, 2008 and 2007 (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.

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, 2007 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, 2007. 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.

(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* (Note 1).

(c) Comparative amounts

Comparative amounts have been reclassified, where necessary, to conform with the financial statement presentation adopted in the current year.

Protox Therapeutics Inc.

Notes to the Interim Financial Statements

For the three and nine months ended September 30, 2008 and 2007 (unaudited)

3. New accounting policies

(a) Adoption of new accounting standards

Capital Disclosures

On January 1, 2008, the Company prospectively adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1535 *Capital Disclosures* (“Section 1535”). This new accounting standard establishes the requirements for disclosing information about an entity’s capital and how it is managed. Section 1535 requires the disclosure of (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance.

Financial Instruments – Disclosure and Presentation

On January 1, 2008, the Company prospectively adopted CICA Handbook Section 3862 *Financial Instruments – Disclosure* (“Section 3862”) and CICA Handbooks Section 3863 *Financial Instruments – Presentation* (“Section 3863”). These sections provide enhanced and expanded disclosure requirements to complement the changes in accounting policy adopted on January 1, 2007 in accordance with Section 3855 *Financial Instruments – Recognition and Measurement*.

Section 1535, Section 3862 and Section 3863 relate to disclosure and presentation only and did not have an impact on our financial results (see Notes 4 and 5).

(b) Future accounting changes

Goodwill and Intangible Assets

In January 2008, the CICA issued Section 3064 “*Goodwill and Intangible Assets*”. This new accounting standard, which is effective for fiscal periods beginning on or after January 1, 2009, replaces existing Section 3062 “*Goodwill and Other Intangible Assets*” and Section 3450 “*Research and Development Costs*” and establishes the standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company is currently assessing the future impact of this new standard on its financial statements.

International Financial Reporting Standards

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards (“IFRS”) over a transition period expected to end in 2011. The Company 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 and nine months ended September 30, 2008 and 2007 (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 and cash and cash equivalents.

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.

The Company expects that its current capital resources will be sufficient to support its core research and development plans and operations up to the end of 2009. The Company is not subject to externally imposed capital requirements.

5. Financial instruments and financial risk management

(a) Financial instruments

The Company has classified its financial instruments as follows:

Financial Instrument	Classification	Measurement	September 30, 2008 \$
Cash and cash equivalents	Held-for-trading	Fair value	9,754,936
Other receivables	Loans and receivables	Amortized cost using the effective interest method	132,316
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost using the effective interest method	1,406,833
Lease obligations (current and long term)	Other financial liabilities	Amortized cost using the effective interest method	9,445

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 nine months ended September 30, 2008.

Protox Therapeutics Inc.

Notes to the Interim Financial Statements

For the three and nine months ended September 30, 2008 and 2007 (unaudited)

5. Financial instruments (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 and other receivables. The Company invests its excess cash principally in highly rated government and corporate debt securities. The Company has established 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.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. 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.

Market risk

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

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. 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 ("USD") and Euros. The Company believes that the results of operations, financial position and cash flows would be affected by a sudden change in foreign exchange rates, but would not impair or enhance its ability to pay its USD and Euro denominated obligations. To date, the Company has managed foreign exchange risk by maintaining USD cash on hand to fund its short term USD forecasted cash expenditures. However, with USD reserves recently fully utilized before the end of the quarter, the Company will be subject to spot rate fluctuations on its USD purchases in the near term. The Company does not currently view its exposure to the Euro as a significant currency risk due to the limited volume of transactions conducted by the Company in this currency. As at September 30, 2008, the Company was predominately exposed to currency risk through its accounts payable and accrued liabilities and prior thereto also cash and cash equivalents denominated in USD. As at September 30, 2008, USD denominated cash and cash equivalents totalled US \$nil (December 31, 2007 – US \$1,925,477) and USD denominated accounts payable and accrued liabilities totalled US \$350,208 (December 31, 2007 – US \$415,088). The Company was also exposed to currency risk through Euro denominated accounts payable and accrued liabilities of €297,500 (December 31, 2007 – €400,000).

Protox Therapeutics Inc.

Notes to the Interim Financial Statements

For the three and nine months ended September 30, 2008 and 2007 (unaudited)

5. Financial instruments (continued)

(b) Financial risk management (continued)

Market risk (continued)

The Company is subject to interest rate risk on its cash and cash equivalents and believes that the results of operations, financial position and cash flows would not be significantly affected by a sudden change in market interest rates relative to the investment interest rates due to the short term nature of the investments. Excess cash is invested in highly rated investment securities at fixed interest rates with varying terms to maturity where the maturity terms are generally a duration of three months or less from the date of purchase, but no longer than one year. As at September 30, 2008, cash and cash equivalents of \$9,754,936 (December 31, 2007 - \$11,410,018) consisted of money market fund units yielding approximately 3.2%, a redeemable GIC with a maturity date of September 28, 2009 and an interest rate of 3.15% and residual cash held in the Canadian dollar savings account bearing interest at a rate of 2.25%.

The Company does not invest in equity instruments of other corporations. However, changes in the Company's equity price could impact its ability to raise additional capital.

6. Intangible assets

Intangible assets consist of the following:

(unaudited)	September 30, 2008		
	Cost \$	Accumulated amortization \$	Net book value \$
HUMxin patents and technology rights	209,680	44,931	164,749
INxin patents and technology rights	1,185,688	381,114	804,574
	<u>1,395,368</u>	<u>426,045</u>	<u>969,323</u>

Protox Therapeutics Inc.

Notes to the Interim Financial Statements

For the three and nine months ended September 30, 2008 and 2007 (unaudited)

7. Shareholders' equity

(a) Common shares

Authorized: Unlimited common shares without par value

Issued: 75,894,044 common shares without par value

	Number of shares	Amount \$
Balance at December 31, 2007	68,473,933	28,246,445
Issuance of common shares on exercise of warrants	29,000	22,991
Issuance of common shares on exercise of stock options	31,500	6,615
Balance at March 31, 2008	68,534,433	28,276,051
Issuance of common shares from private placement at \$0.70 per share - net of share issuance cash costs of \$459,993	6,897,939	4,368,564
Issuance of common shares as finance fee on private placement - net of shares issuance costs of \$67,600	96,571	-
Fair value of common share purchase warrants issued	-	(158,169)
Balance at June 30, 2008	75,528,943	32,486,446
Issuance of common shares on exercise of stock options	365,101	128,445
Balance at September 30, 2008	75,894,044	32,614,891

(b) 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 September 30, 2008, 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 and nine months ended September 30, 2008 and 2007 (unaudited)

7. Shareholders' equity (continued)

(b) Stock options (continued)

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

	Number of options	Weighted average exercise price \$
Balance outstanding at December 31, 2007	4,980,035	0.73
Options granted	680,000	0.84
Options forfeited	(57,500)	0.80
Options exercised	(31,500)	0.10
Balance outstanding at March 31, 2008	5,571,035	0.75
Options granted	205,000	0.75
Options forfeited	(20,000)	0.75
Balance outstanding at June 30, 2008	5,756,035	0.75
Options granted	50,000	0.60
Options exercised	(365,101)	0.18
Balance outstanding at September 30, 2008	5,440,934	0.79

The following table summarizes stock options outstanding and exercisable at September 30, 2008:

Exercise price \$	Number outstanding	Options outstanding		Options exercisable	
		Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable	Weighted average exercise price \$
0.50	458,434	0.1	0.50	458,434	0.50
0.51 - 0.54	670,000	2.5	0.52	603,332	0.52
0.60	50,000	5.0	0.60	-	-
0.64	225,000	3.4	0.64	175,000	0.64
0.75 - 0.80	1,798,500	3.6	0.77	678,666	0.77
0.87	520,000	4.4	0.87	37,500	0.87
0.90	150,000	3.9	0.90	75,000	0.90
1.00	1,569,000	1.3	1.00	1,568,580	1.00
	5,440,934	2.6	0.79	3,596,512	0.79

The Company granted 935,000 options to certain employees and non-employees during the nine months ended September 30, 2008 with an average exercise price of \$0.81.

Protox Therapeutics Inc.

Notes to the Interim Financial Statements

For the three and nine months ended September 30, 2008 and 2007 (unaudited)

7. Shareholders' equity (continued)

(b) Stock options (continued)

Stock-based compensation expense relating to stock options for the three months ended September 30, 2008 was \$83,040 (three months ended September 30, 2007 - \$144,250) for employees and \$18,747 (three months ended September 30, 2007 - \$4,187) for non-employees for a combined amount of \$101,787 (three months ended September 30, 2007 - \$148,437). Stock-based compensation expense relating to stock options for the nine months ended September 30, 2008 was \$303,892 (nine months ended September 30, 2007 - \$411,396) for employees and \$58,604 (nine months ended September 30, 2007 - \$11,555) for non-employees for a combined amount of \$362,496 (nine months ended September 30, 2007 - \$422,951).

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:

Nine months ended September 30,	2008	2007
Expected life of the options	3 years	3 years
Volatility	49 - 73%	77%
Dividend yield	0%	0%
Risk-free interest rate	2.74 - 3.75%	4.20%

(c) Warrants

At September 30, 2008, the Company had warrants to purchase common shares outstanding as follows:

Number of warrants	Expiry date	Exercise price \$
9,948,507	November 29, 2008	0.65
990,375	December 22, 2008	0.65
584,413	May 23, 2010	0.71
11,523,295		0.65

The following table summarizes the continuity of the Company's warrants:

	Number outstanding	Weighted average exercise price \$	Fair value at date of grant \$
Balance at December 31, 2007	10,967,882	0.65	1,578,781
Exercised	(29,000)	0.65	(4,140)
Balance at March 31, 2008	10,938,882	0.65	1,574,641
Issued as part of private placement commission	584,413	0.71	158,169
Balance at June 30 and September 30, 2008	11,523,295	0.65	1,732,810

Protox Therapeutics Inc.

Notes to the Interim Financial Statements

For the three and nine months ended September 30, 2008 and 2007 (unaudited)

7. Shareholders' equity (continued)

(d) Other equity

At September 30, 2008, the Company had other equity recorded as follows:

	Amount \$
Balance at December 31, 2007	2,857,797
Stock compensation expense	131,957
Issuance of common shares on exercise of stock options	(3,465)
Balance at March 31, 2008	2,986,289
Stock compensation expense	128,752
Balance at June 30, 2008	3,115,041
Stock compensation expense	101,787
Issuance of common shares on exercise of stock options	(62,480)
Balance at September 30, 2008	3,154,348

8. Related party transactions

During the three and nine months ended September 30, 2008, certain directors and a former officer, who remains a significant shareholder, provided business advisory and scientific consulting services to the Company pursuant to consulting and other agreements. The Company incurred related expenses of \$41,580 and \$124,740 for the three and nine months ended September 30, 2008 respectively (\$53,530 and \$204,845 for the three and nine months ended September 30, 2007 respectively) under such agreements. These transactions were incurred in the normal course of business and recorded at their exchange amounts. As at September 30, 2008, \$16,170 was owed to these related parties and included in accounts payable (December 31, 2007 - \$nil).

9. Subsequent event

On November 5, 2008, the Company received approval from the Toronto Stock Exchange to amend the expiry date of 9,948,507 warrants from November 29, 2008 to December 22, 2008 to coincide with the expiry date for a second tranche of warrants issued in conjunction with the same 2006 private placement.