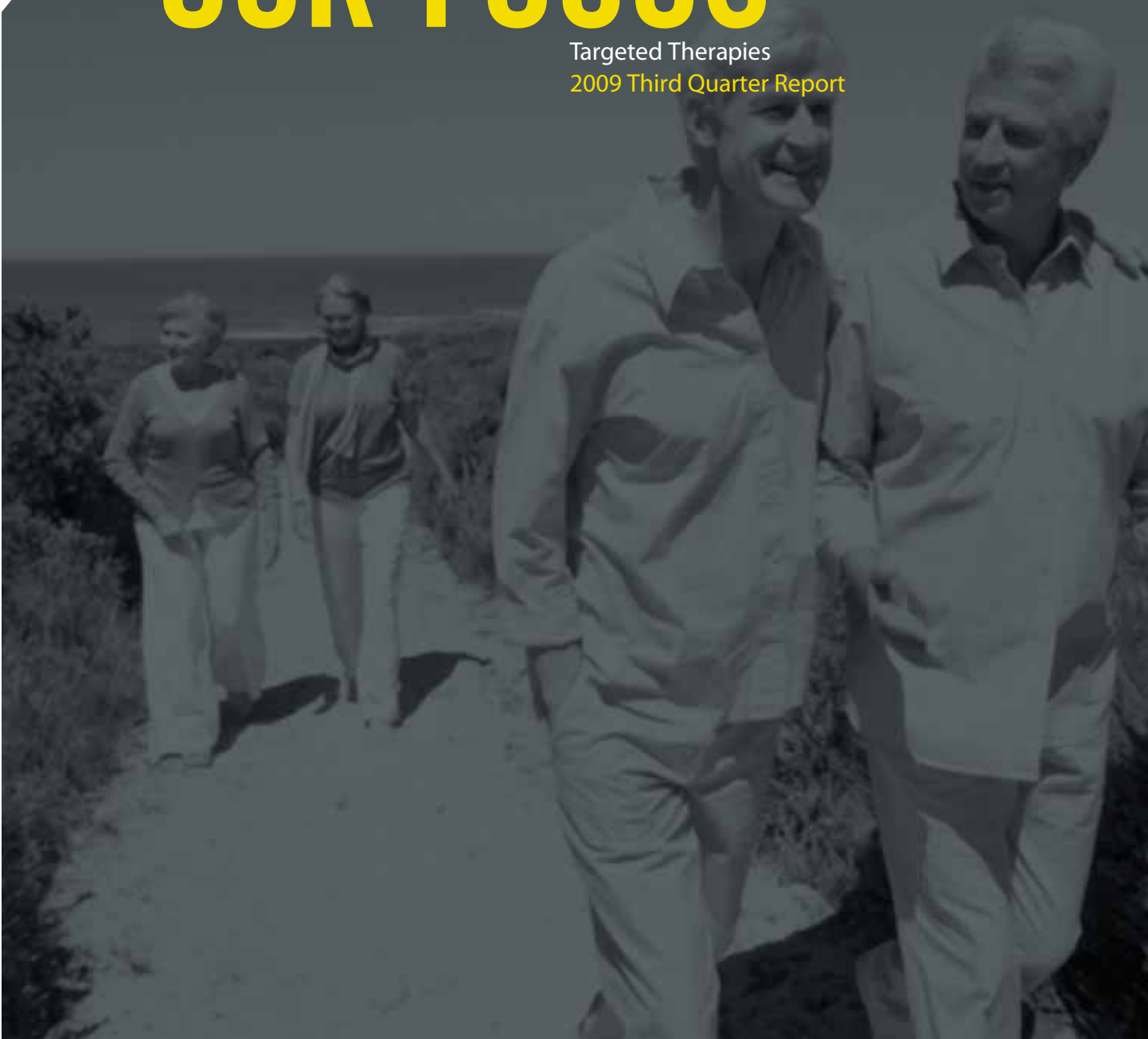


OUR FOCUS

Targeted Therapies
2009 Third Quarter Report



Proto**x**
THERAPEUTICS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") has been prepared as of November 13, 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 and on our website at www.protoxtherapeutics.com.

ABOUT FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements, which reflect our current expectations regarding future events. Forward-looking statements may include such words 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 statements 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 therapeutic fusion proteins. 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. Our current focus is on the PORxin platform and our lead 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 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. Advancement of the INxin program will occur once partners or collaborators have been secured to fund further development activities. The HUMxin platform is in pre-clinical development and will be advanced once 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 KOLs, in the field in order to guide the Company in the successful development of our lead candidates as well as strengthen our product pipeline.

PORxin Platform

Placebo controlled BPH Study:

During the three months ended September 30, 2009, we continued to advance our program for the treatment of benign prostatic hyperplasia. Rapid patient recruitment in our third clinical trial of PRX302 in BPH - a multi-centre, double blinded, placebo controlled Phase 2b study (study name: TRIUMPH) in males with moderate to severe BPH - resulted in patient enrollment being completed in September 2009. Consequently, we expect to announce top-line results from this key study in late December 2009 or early January 2010.

In this multi-centre, double-blinded placebo controlled Phase 2b study, approximately 90 patients with moderate to severe BPH were randomized 2:1 (treatment : placebo). Each patient received PRX302 (3(micro)g/mL) or placebo at a volume equivalent to 20 percent of prostate size. Dosing for each arm was delivered via a single ultrasound-guided injection into each lobe of the prostate. The primary objective of this study is to evaluate the efficacy of PRX302 compared to placebo as measured by the changes in IPSS (International Prostate Symptom Score) in subjects with moderate to severe BPH at 90 days post-treatment. IPSS is a validated and usually the primary clinical end-point used to assess the treatment benefit in BPH patients. In addition, the study will also compare efficacy of PRX302 with respect to changes from baseline in Quality of Life scores (QoL), as well as urodynamic parameters (Qmax, PVR).

The co-principal investigators of this trial are Dr Mostafa M. Elhilali, OC, M.D., Ph.D, Stephen Jarislowsky Chair in Urology at McGill University and Dr. Peter Pommerville, M.D., Director of

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Research at Can-Med Clinical Research Centre in Victoria, B.C. The study is being conducted at 9 sites across Canada.

Open label BPH study:

During the third quarter of 2009, the Company announced positive 12 month follow-up data from its open-label Phase 2 study of PRX302 in males with moderate to severe BPH. The study results indicate that those patients who received an optimal dose of PRX302 continued to demonstrate significant symptomatic relief even after one year following a single treatment. A 12 point improvement in IPSS was observed in this patient group after one year following a single treatment. This improvement in IPSS is almost double that seen with oral therapies and comparable to many surgical procedures. The results demonstrate the durable impact that this novel therapeutic has on potentially improving the quality of life of patients suffering with BPH and demonstrates the ability of PRX302 to improve urinary tract symptoms while maintaining a good safety profile.

In this Phase 2 open-label volume optimization study, 13 of the 18 patients received the optimum PRX302 dosing of (greater than)-1mL per deposit. A total of 11 of the 13 patients were evaluable at 12-months and continued to show a statistically significant and sustained improvement in IPSS of 12.1 points ($p=0.0003$) representing a 55% improvement when compared to screening.

In addition to IPSS, Quality of Life (QoL) scores improved significantly by an average of 3.18 points or 67% ($p<0.0001$) at 12 months post-treatment. Furthermore, prostate volume at 12 months post-treatment decreased significantly by 29% ($p=0.02$). Finally, the average maximum urine flow rate (Qmax) increased from 10.7mL/sec at screening to 15.2 mL/sec at 12 months for a 42% improvement in patients receiving the optimum dose.

No safety issues were identified in this study, as increasing volumes of PRX302 were seen to be well tolerated. No PRX302 related serious adverse events or Grade 3 or greater adverse events have been reported to date. The PRX302 related adverse events were mild to moderate, transient in nature (resolved within days) and localized to the urinary tract. In addition, no sexual dysfunction has been reported in any of the subjects dosed to date.

Detailed 12-month results from this Phase 2 open-label clinical trial were presented by Dr Pommerville at the 30th World Congress of the Societe Internationale d'Urologie held in Shanghai from November 1-5, 2009.

This was a single-arm, open-label, multi-centre, Phase 2 study in which increasing volumes of PRX302, at a fixed concentration (3 mg/mL), was administered into the prostates of men with moderate to severe BPH. Three cohorts of six subjects each received PRX302 at volumes equivalent to 10%, 20% or 30% of prostate volume. The intended volume for each subject was administered via a single injection consisting of three deposits into each lobe of the prostate under ultrasound guidance. Therapeutic activity was measured by the change in IPSS when compared to screening. In addition, changes in QoL scores and prostate volume, Qmax were also monitored. A total of 18 patients who were refractory, intolerant or unwilling to use alpha-blockers were enrolled in this study. Patient parameters at screening were as follows: age - 66.1 years (range: 49-80); prostate size - 49.2 cc (range: 30.0-74.0 cc); IPSS - 20.2 (range: 13-30); QoL - 4.5 (range: 3-6).

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INxin

Based on encouraging Phase 1 and 2a study results of PRX321, the Company had anticipated initiating a multi-centre Phase 2b (pre-pivotal) clinical trial in patients with recurrent malignant glioblastoma multiforme ("GBM"). Although the preparations for the study have been completed, including FDA approval to proceed, patient enrolment has been deferred until a suitable partner has been identified to fund further clinical development. The deferral of enrolment of this GBM study has enabled the Company to conserve cash and allocate resources to our lead PRX302 BPH clinical program.

The Company continues to support a collaborative research program with the FDA under the terms of a clinical research and development agreement (CRADA) to further investigate IL-4R-directed agents such as PRX321 on various human tumours.

HUMxin

HUMxin, a next-generation platform technology in-licensed in 2007, is being developed in collaboration with the U.S. National Institutes of Health with an objective 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). Further advancement of this program will take place once the Company has secured research grants to fund the ongoing costs.

The Company continues to support collaborative research with the University of Alabama at Birmingham under the direction of Dr. Candace Floyd.

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.

2009-Q3 ACHIEVEMENTS & HIGHLIGHTS

- The Company announced positive 12 month data from our open-label Phase 2 study of PRX302 in males with moderate to severe benign prostatic hyperplasia. The study results indicated that those patients who received an optimal dose of PRX302 continued to demonstrate a 12 point improvement in IPSS at 1 year following a single treatment. The results from this study demonstrate the durable impact that this novel therapeutic has on potentially improving the quality of life of patients suffering with BPH.
- Dr. Peter Pommerville presented the detailed data from this open-label study at the 30th World Congress of the Société Internationale d'Urologie Conference on November 2.
- Rapid recruitment into the Company's TRIUMPH study resulted in patient enrollment for the 92 patient multi-centre, double blinded, placebo controlled study being completed in September 2009. Top-line results are expected to be released in late December 2009 or early January 2010.
- Our PRX321 CRADA collaboration with the USFDA has resulted in two posters being presented by Dr Raj Puri's group at the 24th Annual Meeting of the International Society for Biological Therapy of Cancer held in Washington, D.C. The posters presented results

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- on targeting of IL-4 receptors in models of bladder cancer and anaplastic thyroid cancer using PRX321.
- A paper entitled “Convection-enhanced drug delivery of interleukin-4 Pseudomonas exotoxin (PRX321): increased distribution and magnetic resonance monitoring”, resulting from our PRX321 collaborative research program was published in the Journal of Pharmacology and Experimental Therapeutics. The paper was authored Y.Mardor, D.Last, D.Daniels, R.Shneor, S.E.Maier, D.Nass and Z.Ram
 - A review paper on PRX321 was published in the journal, Current Molecular Medicine, entitled “A review of studies on targeting interleukin 4 receptor for central nervous system malignancy.” The paper was authored by S. Puri, A.K. Mahapatra, E.Hussain, C.Sarkar, S.Sinha, B.H.Joshi
 - A poster arising from our collaboration with the University of Alabama was presented at the Second Joint Symposium of the National and International Neurotrauma Societies held in Santa Barbara, California. The poster was entitled: “BCL Fusion Proteins: Therapeutic Implications After Spinal Cord Injury” and was authored by T.Niedzielko, T.D’Alessandro, C.Floyd.

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SELECTED FINANCIAL INFORMATION

Summary annual results for the three most recently completed years (audited):

Years ended December 31:	2008 (audited)	2007 (audited)	2006 (audited)
Net loss (in thousands)	\$ (8,919.0)	\$ (7,446.1)	\$ (5,012.6)
Loss per share	(0.12)	(0.13)	(0.13)
Total assets (in thousands)	8,458.1	12,913.7	11,514.7

Summary of quarterly results for the eight quarters to September 30, 2009 (unaudited, in thousands, except per share data):

Three months ended:	September 30 2009	June 30 2009	March 31 2009	December 31 2008
Interest income	\$ 3.3	\$ 10.4	\$ 32.5	\$ 63.9
Total expenses	2,191.7	1,814.7	2,296.0	2,555.6
Net loss	(2,189.9)	(1,812.2)	(2,263.5)	(2,491.7)
Loss per share	(.03)	(.02)	(0.03)	(0.03)
Three months ended:	September 30 2008	June 30 2008	March 31 2008	December 31 2007
Interest income	\$ 90.8	\$ 50.0	\$ 87.9	\$ 99.1
Total expenses	2,587.1	1,936.9	2,132.4	2,411.6
Net loss	(2,496.1)	(1,886.7)	(2,044.5)	(2,312.5)
Loss per share	(.03)	(0.03)	(0.03)	(0.04)

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 investment balances. We anticipate that this will continue into the foreseeable future.

Expenses, in particular R&D costs, are influenced by a number of factors including the scope of clinical development and research programs pursued; the type and size of clinical trials undertaken; the number of clinical trials that are active during a particular period of time; the rate of patient enrollment; and are ultimately 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 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 for the three months ended September 30, 2009 ("2009-Q3") increased over the preceding quarter due to the continuing level of activity in the Company's lead program, PRX302 for the treatment of BPH, with the 92 patient TRIUMPH study achieving full enrollment in September 2009.

The Company reported a net and comprehensive loss of \$2.2 million or \$0.03 per share in 2009-Q3 compared to \$2.5 million or \$0.03 per share for the three months ended September 30, 2008 ("2008-Q3"). The net loss for the nine months ended September 30, 2009 ("2009-YTD") totaled \$6.3

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million or \$0.08 per share compared to \$6.4 million or \$0.09 per share for the nine months ended September 30, 2008 ("2008-YTD"). The modest decrease in net loss over the comparative period in 2008 was primarily driven by a decrease in research and development costs as the effect of our clinical program consolidation takes effect, as well as the impact of our efforts to reduce costs across all areas of the Company, including general and administration. This was offset by an increase in stock based compensation during the quarter which resulted from the issuance of 2,155,000 options within 2009-Q3, the first issuance of 2009.

Research and Development Costs

Research and development ("R&D") costs of \$1.5 million were incurred during 2009-Q3: a decrease of \$459,000 (23%) from \$2.0 million incurred in the 2008-Q3 comparative period. The decrease for the period reflects the effect of the consolidation of our research and development programs to focus on our lead BPH program.

Direct costs incurred in 2009-Q3 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 \$1.3 million for Q3, 2008. The costs incurred in Q3-08 were spread evenly across our PRX321 and PRX 302 programs, whereas in Q3-2009 over 90% was focused on PRX302, specifically our BPH program. In addition, our efforts to concentrate our resources on our lead program resulted in a decrease in internal costs of \$100,000 from Q3-08.

For the nine months ended September 30, 2009, R&D costs totaled \$4.4 million representing a \$33,000 (5%) decrease from \$4.6 million incurred during the comparative 2008 period. The decrease reflects the focus of our efforts towards our TRIUMPH study as resources were allocated away from our other programs such as for the treatment of prostate cancer and GBM.

General and Administrative Costs

2009-Q3 general and administrative costs of \$469,000 decreased slightly from the previous quarter ended June 30, 2009 and also from \$480,000 incurred in the 2008-Q3 comparative period. General and administrative 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 general and administrative costs incurred in 2009-Q3 reflect the reduced costs from the efforts implemented in Q1 to consolidate and focus operations on our lead clinical BPH program, TRIUMPH.

2009-YTD G&A costs of \$1.6 million were comparable to \$1.6 million incurred during the 2008-YTD comparative period. The 2009-YTD G&A reflects efforts by the company to stabilize and reduce overhead costs in the future. This will result in lower future G&A costs while the Company focuses on completion of its clinical trials.

Stock Based Compensation

Stock based compensation increased significantly over the preceding quarters in 2009 as a result of the Company issuing 2,155,000 options in September 2009, the first grant of 2009. This resulted in 2009-Q3 stock based compensation expense increasing by \$167,000 over the previous quarter and \$102,000 over 2008-Q3. Stock based compensation expense of \$297,000 for 2009-YTD was \$63,000 lower than the comparative nine months in 2008 as the weighted number of options

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outstanding in the 2008 period was greater due to the 2008 option grant occurring earlier in the year compared to the timing of the 2009 grant.

Interest Income

During 2009-Q3 and 2009-YTD, the Company earned interest income of \$3,000 and \$46,000 respectively, compared to \$91,000 and \$229,000 for the corresponding 2008 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 declined as a result of lower balances available to earn investment income, and lower returns available in the market.

Foreign Exchange Gain

During 2009-Q3 and 2009-YTD, the Company recorded a foreign exchange loss of \$1,000 for both respective periods compared to a foreign exchange loss during 2008-Q3 and 2008-YTD of \$9,000 and \$18,000. This reflects the more stable currency markets in 2009, and the Company's efforts to match foreign currency expenditures and deposits.

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 \$36.7 million as of September 30, 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 September 30, 2009, the Company had cash and cash equivalents of \$4.1 million, representing a net decrease of \$2.6 million from December 31, 2008. The Company had working capital of \$2.4 million at September 30, 2009, a decrease of \$3.8 million from December 31, 2008.

The Company consumed cash of \$1.5 million during 2009-Q3 to finance continuing operations compared to \$1.6 million for 2008-Q3. These expenditures principally related to funding the continuing operations and license agreements, or collaborative research commitment payments by the Company. The Company's average monthly consumption of cash for operating and investing activities during 2009-Q3 was \$487,000 compared to \$640,000 during 2009 Q2.

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 into Q2-2010. 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 favorable terms, if at all.

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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.

CONTRACTUAL OBLIGATIONS

The Company has entered into long-term contractual arrangements for its facilities. As at September 30, 2009, minimum lease payments under these arrangements are as follows:

	Amount \$
Remainder of 2009	40,763
2010	152,576
2011	47,367
	<u>240,706</u>

In addition to the above facilities related obligations, the Company has commitments as follows:

PORxin License Agreement for Prostate Cancer

Pursuant to an exclusive license agreement with John Hopkins University and the University of Victoria, the Company has agreed to make cumulative milestone payments over the lifecycle of PRX302 of up to \$2.9 million contingent upon the achievement of certain clinical and regulatory milestones and to pay low single digit royalties on commercial sales of resulting products. During 2008, the first milestone payment of \$0.08 million became due and was paid.

INxin Technology License Agreement

Pursuant to an exclusive license agreement with the U.S. Public Health Service ("PHS"), the Company has agreed to make cumulative milestone payments of up to US\$4.0 million contingent upon the achievement of certain clinical and regulatory milestones (for at least three indications) and to pay low single digit royalties on commercial sales of resulting products. Minimum annual royalty payments shall be credited against any earned royalties as they become due and payable in that calendar year.

HUMxin Technology License Agreement

Pursuant to an exclusive license agreement with PHS, the Company has agreed to make cumulative milestone payments of up to US\$4.8 million contingent upon the achievement of certain clinical and regulatory milestones (for at least three indications) and to pay low single digit royalties on commercial sales of resulting products. Minimum annual royalty payments shall be credited against any earned royalties as they become due and payable in that calendar year.

Clinical Trial Agreements

The Company has agreements with clinical sites, contract research organizations and other service providers related to the conduct of active clinical trials and programs. These commitments are performance based with payment subject to the achievement of clinical trial milestones and generally may be cancelled with written notice. At September 30, 2009 the Company has commitments to these third parties amounting to approximately \$3 million.

TRANSACTIONS WITH RELATED PARTIES

During the three ended September 30, 2009, certain directors provided business advisory services to the Company amounting to \$64,000 and nil for the preceding six months of 2009 (\$41,580 and \$124,740 for Q3 2008 and 2008-YTD, respectively). These transactions were incurred during the normal course of business and recorded at their exchange amounts.

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.

In January 2009, the CICA issued Emerging Issues Committee ("EIC") Abstract 173 - Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC-173"). EIC-173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC-173 is applicable for the Company's interim and annual financial statements for its fiscal year ending December 31, 2009, with retroactive application. The adoption of EIC-173 did not result in a material impact on the Company's consolidated 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.

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Long-lived assets

Long-lived assets are amortized over the estimated useful life of the asset and evaluated periodically for impairment in accordance with Section 3063 Impairment of Long-lived Assets ("Section 3063"). Section 3063 requires that long-lived assets, excluding goodwill and assets with infinite useful lives, be evaluated for impairment when events or changes in facts and circumstances indicate that their carrying value may not be recoverable. Events or changes in facts or circumstances include but are not restricted to: a strategic change in business direction; significant decrease in stock price; discontinuance of a product line or development program; or a restructuring. If one of these events or circumstances indicates that the carrying value of an asset may not be recoverable, or that our estimated amortization period was not appropriate, we would record an impairment charge against of our long-lived assets. The amount of impairment would be measured as the difference between the carrying value and the fair value of the impaired asset as calculated using a net realizable value methodology. An impairment charge would be recorded as an operating expense in the period of the impairment and as a reduction in carrying value.

Given the global economic crisis, capital markets uncertainty and the decrease in our stock price, events in 2008 warranted an impairment test on definite lived intangible assets. Based on the assessment, no long-lived assets impairment provision has been recorded to date. However, given the continued economic and capital markets challenges, asset recoverability tests will continue to be performed in future periods.

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

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consolidated 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.

Implementing IFRS will have an impact on accounting, financial reporting and supporting IT systems and processes. It may also have an impact on actual commitments involving GAAP based clauses, long-term employee compensation plans and performance metrics. Accordingly, the Company is in the process of developing its IFRS changeover plan which will include considerations such as measures to provide extensive training to key finance personnel, to review contracts and agreements and to increase the level of awareness and knowledge amongst management, the Board of Directors and the Audit Committee. Additional resources may be engaged to ensure the timely conversion to IFRS.

At January 30, 2009, the Company completed the initial diagnostic between Canadian GAAP and IFRS. While the effects of IFRS have not yet been fully determined, the Company has identified a number of key areas where it is likely to be impacted by changes in accounting policy. These include:

- Property, plant and equipment
- Intangible assets
- Impairment of assets
- Provisions and contingent liabilities
- Share-based payments
- Related party disclosure
- Presentation of statement of cash flows

A detailed diagnostic is planned for Q4 2009, and no decisions have yet been made with regard to accounting policy choices.

As a first time adopter of IFRS, the Company is required to apply IFRS 1 "*First time adoption of International Financial Reporting Standards*". A number of exemptions are available under this Standard which the Company is currently evaluating including electing to use fair value at the transition date as deemed cost for capital assets in certain circumstances.

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

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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 March 23, 2009.

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 September 30, 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. The Chief Executive Officer and Chief Financial Officer 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 2009-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 84,448,048 common shares issued and outstanding.

In addition, the Company has 6,397,500 options outstanding to purchase common shares of the Company. Of the options currently outstanding, approximately 3.8 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 \$0.71.

The Company also has 503,653 warrants outstanding which expire on May 20, 2011 entitling warrant holders to purchase common shares at a price of \$0.27 and has 584,413 warrants which expire on May 23, 2010 entitling the holder to purchase common shares at an exercise price of \$0.71.

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

	September 30, 2009 \$ (Unaudited)	December 31, 2008 \$ (Audited)
Assets		
Current assets		
Cash and cash equivalents	4,091,566	6,652,810
Short-term investments	-	612,412
Other receivables	152,488	152,855
Prepaid expenses	89,664	41,225
	4,333,718	7,459,302
Property and equipment	41,510	79,224
Intangible assets (Note 6)	769,985	919,488
	5,145,213	8,458,014
Liabilities		
Current liabilities		
Accounts payable	1,769,902	514,906
Accrued liabilities	173,290	766,778
Current portion of lease obligations	4,851	4,995
	1,948,043	1,286,679
Long-term portion of lease obligations	-	3,325
	1,948,043	1,290,004
Shareholders' equity		
Common shares (Note 7(a))	34,552,933	32,628,223
Common share purchase warrants (Note 7(b))	231,087	158,169
Other equity (Note 7(c))	5,077,905	4,780,754
Deficit accumulated during the development stage	(36,664,755)	(30,399,136)
	3,197,170	7,168,010
	5,145,213	8,458,014

Approved by the Board of Directors

/s/ Frank Holler

Director

/s/ James Miller

Director

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

Protox Therapeutics Inc.

Statements of Operations, Comprehensive Loss and Deficit (unaudited)

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Expenses				
Research and development	1,511,294	1,970,017	4,386,057	4,619,416
General and administrative	468,542	479,742	1,586,592	1,565,786
Stock-based compensation (Note 7(d))	203,445	101,787	297,151	362,496
Amortization of property and equipment	8,394	25,905	40,798	90,133
	2,191,675	2,577,451	6,310,598	6,637,831
Other income (expense)				
Interest income	3,271	90,795	46,021	228,595
Foreign exchange loss	(1,450)	(9,476)	(1,042)	(18,109)
	1,821	81,319	44,979	210,486
Net and comprehensive loss for the period	(2,189,854)	(2,496,132)	(6,265,619)	(6,427,345)
Deficit accumulated during development stage, beginning of period	(34,474,901)	25,411,289	(30,399,136)	21,480,076
Deficit accumulated during development stage, end of period	(36,664,755)	27,907,421	(36,664,755)	27,907,421
Basic and diluted loss per share	(0.03)	(0.03)	(0.08)	(0.09)
Weighted average number of outstanding shares	84,448,048	75,837,087	80,046,170	71,948,889

Protox Therapeutics Inc.

Interim Statements of Cash Flows (unaudited)

	For the three months ended		For the nine months ended	
	2009	September 30, 2008	2009	September 30, 2008
	\$	\$	\$	\$
Cash flows from operating activities				
Loss and comprehensive loss for the period	(2,189,854)	(2,496,132)	(6,265,619)	(6,427,345)
Items not affecting cash:				
Stock-based compensation (Note 7(d))	203,445	101,787	297,151	362,496
Amortization of property and equipment	8,394	25,905	40,798	90,133
Amortization of intangible assets	49,834	49,835	149,503	171,969
Change in non-cash working capital:				
Other receivables	(42,924)	87,164	367	34,478
Prepaid expenses	(60,928)	(56,908)	(48,439)	(34,069)
Accounts payable	622,216	406,267	1,254,996	144,382
Accrued liabilities	(50,413)	183,157	(593,488)	(431,993)
	(1,460,230)	(1,698,925)	(5,164,731)	(6,089,949)
Cash flows from investing activities				
Proceeds on sale of short-term investments	-	-	612,412	-
Purchase of property and equipment	-	(2,525)	(3,084)	(14,832)
	-	(2,525)	609,328	(14,832)
Cash flows from financing activities				
Issuance of common shares from private placement				
- net of cash costs (Note 7)	-	-	1,997,628	4,368,564
Issuance of common shares on exercise of warrants	-	-	-	18,850
Issuance of common shares on exercise of stock options	-	66,000	-	69,150
Capital lease payments	(1,172)	(1,110)	(3,469)	(6,865)
	(1,172)	64,890	1,994,159	4,449,699
Decrease in cash and cash equivalents	(1,461,402)	(1,636,560)	(2,561,244)	(1,655,082)
Cash and cash equivalents - beginning of period	5,552,968	11,391,496	6,652,810	11,410,018
Cash and cash equivalents - end of period	4,091,566	9,754,936	4,091,566	9,754,936
Supplemental cash flow information				
Interest received	3,271	90,795	46,021	228,595

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 September 30, 2009 and 2008 (unaudited)

1. Nature of operations and going concern

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.

These financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future, and, accordingly, will be able to realize its assets and discharge its liabilities in the normal course of operations. For the nine months ended September 30, 2009, the Company reported negative cash flows from operations of \$5,145,213 and an accumulated deficit of \$36,664,755 at that date.

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 priority initiatives and execute its core business plan. Although management believes that working capital resources as at the balance sheet date should enable the Company to meet its projected cash requirements into the second quarter of 2010, the Company will require additional financing to continue operations beyond that point. Management plans to secure the necessary financing through the sale of equity, from non-dilutive funding sources that may be available to the Company in the future as well as funds through collaborative research contracts or product licensing agreements with pharmaceutical or biotechnology companies in relation to products and technologies under development by the Company.

It is not possible at this time to predict the outcome of these matters and thus the Company’s working capital may not be sufficient to meet its stated long term business objectives. When 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 outcome of the above efforts is dependent upon factors outside the Company’s control. As a result, there is significant uncertainty as to whether the Company will have the ability to continue as a going concern.

These financial statements do not include any adjustments to the carrying values and classification of assets and liabilities and reported revenues and expenses that may be necessary should the Company not be successful in its efforts to obtain additional financing, to receive significant funds on signing collaborative research and development contracts or by out licensing its products.

Protox Therapeutics Inc.

Notes to the Interim Financial Statements

For the three months ended September 30, 2009 and 2008 (unaudited)

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.

(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.

In January 2009, the CICA issued Emerging Issues Committee ("EIC") Abstract 173 - Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC-173"). EIC-173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The Company adopted EIC-173 on January 1, 2009, and such adoption didn't have any impact on the Company's interim 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

Protox Therapeutics Inc.

Notes to the Interim Financial Statements

For the three months ended September 30, 2009 and 2008 (unaudited)

3. New accounting policies (continued)

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.

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	
			September 30, 2009	December 31, 2008
			\$	\$
Cash and cash equivalents	Held-for-trading	Fair value	4,091,566	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	152,488	152,855
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost using the effective interest method	1,943,192	1,281,684

The carrying amount of the other receivables, accounts payable and accrued liabilities is a reasonable approximation of their fair values due to the short term nature of these instruments.

Protox Therapeutics Inc.

Notes to the Interim Financial Statements

For the three months ended September 30, 2009 and 2008 (unaudited)

5. Financial instruments and risk management (continued)

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 or nine months ended September 30, 2009.

(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 \$3.8 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 \$1,943,192 as at September 30, 2009, \$1,429,221 is payable within ninety days and the balance 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 September 30, 2009 US dollar denominated cash and cash equivalents totalled US \$171,322 (December 31, 2008 – US\$375,798) and foreign denominated accounts payable and accrued liabilities included US \$456,485 (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 September 30, 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.

Protox Therapeutics Inc.

Notes to the Interim Financial Statements

For the three months ended September 30, 2009 and 2008 (unaudited)

5. Financial instruments and risk management (continued)

Interest rate risk

Interest rate risk relates primarily to cash balances invested in money market funds. At September 30, 2009, with other variables unchanged, a 1% absolute change in interest rates would not have a significant impact on net and comprehensive loss.

6. Intangible assets

Intangible assets consist of patents and technology rights

	Cost \$	Accumulated amortization \$	Net book value \$
Balance at December 31, 2008	1,395,368	475,880	919,488
Balance at September 30, 2009	1,395,368	625,384	769,984

7. Shareholders' equity

(a) Common shares

Authorized: Unlimited (December 31, 2008 – unlimited) common shares without par value
Issued: 84,448,048 (December 31, 2008 – 75,894,044) common shares without par value

	Number of shares	Amount \$
Balance at December 31, 2008	75,894,044	32,628,223
Issuance of common shares from private placement at \$0.27 per share - net of share issuance cash costs of \$311,953	8,554,004	1,997,628
Issuance of broker common share warrants	-	(72,918)
Balance at September 30, 2008	84,448,048	34,552,933

On May 20, 2009, the Company closed a brokered private placement raising net proceeds of \$1,997,628 from the issuance of 8,554,004 common shares at \$0.27 per common share. In addition, the Company issued 503,653 broker warrants to purchase common shares at \$0.27 per common share with an expiry date of May 20, 2011 as part of the broker's commissions.

Protox Therapeutics Inc.

Notes to the Interim Financial Statements

For the three months ended September 30, 2009 and 2008 (unaudited)

7. Shareholders' equity (continued)

(b) Warrants

At September 30, 2009, the Company had warrants to purchase common shares outstanding as follows:

	Number outstanding	Weighted average exercise price \$	Expiry date	Fair value at date of grant \$
Balance at December 31, 2008	503,653	0.27	May 20, 2011	158,169
Issued as part of private placement commission	584,413	0.71	May 23, 2010	72,918
Balance at September 30, 2009	1,088,066	0.51		231,087

The broker warrants associated with the May 20, 2009 financing were valued using the Black-Scholes pricing model using the following fair value assumptions: dividend yield 0%; volatility 88.75%; expected life 2 years, and risk-free interest rate of 1.1%. The fair value of each warrant was \$0.14 per share. The fair value of these warrants was recorded as a cost of raising capital and amounted to \$72,918.

(c) Other equity

At September 30, 2009, the Company had other equity recorded as follows:

	Amount \$
Balance at December 31, 2008	4,780,754
Stock compensation expense	297,151
Balance at September 30, 2009	5,077,905

(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.

Protox Therapeutics Inc.

Notes to the Interim Financial Statements

For the three months ended September 30, 2009 and 2008 (unaudited)

7. Shareholders' equity (continued)

As of September 30, 2009, the Company had 84,448,048 common shares issued and outstanding resulting in current authorization to have a maximum of 8,444,804 options issuable under the Plan.

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 granted	2,155,000	0.50
Options forfeited	(640,000)	1.00
Balance outstanding at September 30, 2009	6,397,500	0.69

The following table summarizes stock options outstanding and exercisable at September 30, 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 \$
0.50	2,155,000	5.0	0.50	798,307	0.50
0.51 - 0.54	645,000	1.8	0.52	643,333	0.52
0.60	50,000	4.3	0.60	8,333	0.60
0.64	225,000	2.7	0.64	200,000	0.64
0.75 - 0.80	1,803,500	2.9	0.77	1,119,832	0.77
0.87	520,000	3.7	0.87	223,334	0.87
0.90	150,000	3.2	0.90	75,000	0.90
1.00	849,000	0.6	1.00	699,000	1.00
	6,397,500	3.2	0.69	3,767,139	0.71

The stock options were valued using the Black-Scholes pricing model using the following fair value assumptions: dividend yield 0%; volatility 67.76%; expected life of 5 years, and risk-free interest rate of 2.57%. The fair value of each option was \$0.29 per share.

Protox Therapeutics Inc.

Notes to the Interim Financial Statements

For the three months ended September 30, 2009 and 2008 (unaudited)

8. Research agreements and Commitments

(a) Operating Commitments

The Company has operating lease agreements for the rental of office and laboratory facilities until November 1, 2010. At September 30, 2009, minimum lease payments under these agreements are as follows:

	Amount
	\$
Remainder of 2009	40,763
2010	152,576
2011	47,367
	<u>240,706</u>

(b) PORxin license agreement for prostate cancer

In 2004, the Company signed an exclusive license agreement with John Hopkins University and the University of Victoria (“UVIC”) (collectively the “Universities”); Which requires the Company to make future payments to the Universities of up to \$2.9 million on the achievement of certain clinical and regulatory milestones and to pay low single digit royalties on commercial sales of resulting products. As of September 30, 2009 no payments have been made.

(c) INxin license and acquisition

On July 20, 2006, the Company acquired a Phase 2 clinical stage program for the treatment of cancer from Neurocrine Biosciences, Inc. (“Neurocrine”) and US Public Health Services (“PHS”). Whereby, the Company will pay PHS up to US\$4.0 million in future milestone payments - based on the compound receiving US Food and Drug Administration (“FDA”) approval for at least three indications - as well as low single digit royalties on commercial sales of resulting products.

(d) HUMxin license agreement

The Company entered into a license agreement with PHS for an exclusive license related to the HUMxin technology. The patents licensed under this agreement cover fully human anti-apoptotic fusion proteins comprising GM-CSF and Bcl-xL. The Company will make payments to PHS of up to US\$4.8 million based on the achievement of specific certain successful clinical and regulatory milestones and the compound receiving FDA approval for at least three indications, as well as pay low single digit royalties on commercial sales of resulting products.

(e) Clinical Trial Commitment

The Company has agreements with clinical sites, contract research organizations and other service providers related to the conduct of active clinical trials and programs. These commitments are performance based with payment subject to the achievement of clinical trial milestones and generally may be cancelled with written notice. At September 30, 2009 the Company has commitments to these third parties amounting to approximately \$3 million.

Protox Therapeutics Inc.

Notes to the Interim Financial Statements

For the three months ended September 30, 2009 and 2008 (unaudited)

9. Related party transactions

During the three months ended September 30, 2009, certain directors provided business advisory services to the Company pursuant to consulting agreements. The Company incurred related expenses of \$63,794 and nil for the preceding six months of 2009 (\$41,580 and \$124,740 for the three and nine months ended September 30, 2008 respectively) under such agreements. These transactions were incurred during the normal course of business and recorded at their exact exchange amounts.

Passion to care. *Power to cure.*