

VAXIL BIO LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
For the three and nine month periods ended September 30, 2023

The following Management's Discussion and Analysis ("MD&A") for Vaxil Bio Ltd. ("Vaxil") (with its subsidiaries, the "Company") has been prepared as of November 13, 2023 and relates to the financial condition and results of operations for the nine months ended September 30, 2023. Past performance may not be indicative of future performance. This MD&A should be read in conjunction with the condensed Interim consolidated financial statements of the Company the three and nine months ended September 30, 2023 and have been prepared using accounting policies consistent with International Financial Reporting Standards as issued by the International Accounting Standards Board.

All monetary amounts are reported in Canadian dollars and in accordance with IFRS unless otherwise noted.

Forward-Looking Statements

This MD&A (including, without limitation, the sections discussing the Company's Financial Conditions and Results of Operations) contains certain forward-looking statements. All statements other than statements of historical fact that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "contemplate", "target", "believe", "plan", "estimate", "expect" and "intend" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. These statements are based upon certain assumptions and analyses made by management in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. However, whether actual results and developments will conform with management's expectations is subject to a number of risks and uncertainties, including the considerations discussed herein and in other documents filed from time to time by the Company with Canadian security regulatory authorities and to general economic, market or business conditions, the opportunities (or lack thereof) that may be presented to and pursued by management, competitive actions by other companies, changes in laws or regulations and other factors, many of which are beyond the Company's control. These factors may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements and there can be no assurance that the actual results or developments anticipated by management will be realized or, even if substantially realized, that they will have the expected results on the Company. All of the forward-looking statements made herein are qualified by the foregoing cautionary statements. The Company expressly disclaims any obligation to update or revise any such forward-looking statements.

Business overview and Significant Developments during the period

Corporate Structure

Name and Incorporation

The Company is listed on the TSX Venture Exchange under the symbol "VXL". The Company's head office is located at 3400 One First Canadian Place, Toronto, Ontario, M5X 1A4, Canada. The Company's Israel office is within the Weizmann Science Park, an Israeli biotech hub and adjacent to the famed Weizmann Institute of Science, at Pinchas Sapir Street 3, P.O. Box 4058, Ness Ziona, 7403626, Israel.

Significant Developments during the period

Research Update

The Company, together with Prof. Ayelet David, from Ben-Gurion University of the Negev (“BGU”), demonstrated therapeutic success by prolonging the survival of mice treated with P-Esbp-DOX in a mouse model of aggressive liver metastasis of colorectal cancer (CRC). P-Esbp-DOX which combines HPMA (N-(2-hydroxypropyl methacrylamide) polymer, the high affinity E-selectin targeting peptide for diseases with inflammatory component, and the commonly used chemotherapeutic drug doxorubicin (DOX), together a promising targeted drug delivery system for the treatment of aggressive metastatic cancer.

A scale-up manufacturing contract was established with an experienced third-party vendor. The vendor has successfully scaled up the production of the drug product. However, significant additional investment will be required to complete the necessary CMC work to enable human clinical testing.

Given the need for additional investment, the Company is exploring new sources of capital and potential partners to support continued development of this asset. In parallel, the board is actively exploring strategic options for maximizing shareholder value from the Company’s assets which may not be a continuation of the business in its current form.

Management Changes

Effective July 31, 2023 Dr. Yuval Avnir, the Company’s CEO will be replaced by Mr. Gadi Levin, the Company’s current chairperson of the board and former CFO of the Company. The board of directors thank Dr. Avnir for his contribution to the Company during his tenure and wishes him success in his endeavors. Dr. Avnir will continue to provide consulting services to the Company, according to his availability, and as needed.

Effective July 31, 2023, the Company appointed Mr. Alan Rootenberg, as the Company’s CFO. Mr. Rootenberg replaced Mr. Gadi Levin, who transitioned from the CFO position to the CEO position.

Mr. Rootenberg is a chartered professional accountant who has served as the Chief Financial Officer of a number of publicly traded companies listed on the NASDAQ, TSX, TSXV and CSE exchanges. These companies include biotechnology, mineral exploration, service technologies and cannabis research companies. He has also served as a director of a number of publicly traded companies. Mr. Rootenberg has a Bachelor of Commerce degree from the University of the Witwatersrand in Johannesburg, South Africa and received his CPA designation in Ontario, Canada.

On August 2, 2023, the Company granted 1,100,000 stock options to directors, officers and consultants, as follows: 400,000 stock options to Mr. Rootenberg, 200,000 stock options to Mr. Levin, 300,000 options to Mr. Daniel Bloch, a director of the Company and 200,000 options to a consultant to the Company. All the options were issued pursuant to the Company's stock option plan at an exercise price of CAD\$0.05 per common share (the "**Options**"). The Options vest in four equal installments with 25% vesting three months after the grant date (the "**Initial Grant**"), 25% on the 6-month anniversary of the Initial Grant 25% on the 9 month anniversary of the Initial Grant and the last 25% on the 12 month anniversary of the Initial Grant. All the Options shall expire on the 5th anniversary of the grant date.

Business of the Company

The Company is an Israeli biotechnology company that is focused on a novel drug discovery and development platform based on Signal Peptides (“**SPs**”) which the company deploys to fight infectious diseases and cancer.

Our most advanced product, ImMucin™ a MUC1 SP-derived vaccine, completed a Phase 1/2 clinical trial in multiple myeloma and received orphan drug status from the FDA and EMA. The Company has also, a SP-based COVID-19 vaccine candidate and a SP-based tuberculosis vaccine / treatment candidate. In

addition, The Company has mAb candidates for the treatment of oncology and infectious diseases to be used alone, and in combination with other treatments. The Company has also initiated a pre-clinical program for a drug delivery polymer that targets with high affinity E-selectin (P-Esbp), which The Company licensed for development and commercialization from BGN Technologies, the technology transfer company of Ben-Gurion University of the Negev, Israel.

The Company exploits the unique properties of SP domains on crucial proteins to develop targeted therapies against cancer targets and infectious disease pathogens. VaxHit™, The Company's proprietary bioinformatic approach, mines candidate SPs with predicted high immunogenicity and wide coverage over varied HLA subtypes. The SPs induce a robust T- and B-cell response. Under normal conditions SPs are not presented on the cell surface, thus acting as a neoantigen in tumor cells. Since these neoantigens are not a result of a mutation, but are naturally occurring sequences, these sequences will be identical among most patients providing a unique class of therapeutics – universal neoantigens. The peptide platform targets affected cells, either transformed (i.e., cancer) or infected, by “educating” or specifically activating the immune system to recognize and specifically attack these cells, and only these cells. In addition, The Company's mAb platform directly recognizes the target epitopes presented on malignant cells and recruits other elements of the immune system to kill those cells.

The Company's SP-based technology provides unique advantages due to the use of SPs as the basis for a prophylactic and therapeutic vaccine. Those advantages include:

1. Induction of a complete adaptive immune response – cellular (T cells) and humoral (antibodies).
2. Stimulation of a robust immune response elicited by multiple antigens within the SP.
3. Wide coverage of diverse populations due to epitopes spanning varied class I and class II HLAs.
4. Increased immune efficiency due to circumventing the viral and tumor immune evasions, such as TAP insufficiency and HLA downregulation.
5. Improved safety profile by specifically and only targeting affected cells.
6. Potential prevention of infectious disease resurgence and a novel universal class of neoantigen in oncology.
7. Greater susceptibility to adaptive immunity by targeting infected cells rather than the pathogen.

Tuberculosis (TB)

The Company's platform has potential as a treatment for various infectious diseases, including TB. Preclinical studies have confirmed the efficacy of SPs in reducing bacterial load in the lungs in a murine protection model. Further studies will evaluate tuberculosis SPs as a boost to standard of care, in order to (1) increase treatment efficacy, (2) prolong the protective immunity effect and/or (3) expand the treated population. Any further development of any potential treatment for TB is dependent on additional financing.

Intellectual Property

The Company has five patent families, including 40 granted patents with more work being done to expand the portfolio.

- The first patent family relates to the ImMucin™ product, a MUC1 SP-based vaccine. This patent family includes 15 patents in US, Europe, Australia, Canada, Israel and India, relating to the ImMucin™ vaccine and methods for using ImMucin™ such as for treating cancer and T-cell enrichment.
- The second patent family relates to immunogenic composition, specifically against a pathogen (e.g., tuberculosis, malaria, toxoplasma, EBV, HIV, herpes virus, and influenza). This patent family includes 14 patents in US, Europe and South Africa.
- The third patent family relates to the antibodies produced by MUC1 SPs, and diagnostic and therapeutic methods using these antibodies. This patent family includes 7 granted patents in the US, Europe and Israel.
- The fourth patents family relates to selective delivery of the drugs such as anticancer to endothelial cells using polymer-drug conjugates. This patent family includes 7 granted patents in the US, Europe, and Israel.
- The fifth patent family relates to COVID-19 immunogenic peptides, such as for use as vaccines. This patent family includes a US pending patent application.

Capital Expenditures and Divestitures

During the nine months ended September 30, 2023, the Company incurred \$nil (2022 - \$nil) of capital expenditures. The Company estimates capital expenditure for the next twelve months will be approximately \$10 thousand.

Additional Disclosure for Venture Issuers without Significant Revenues (in Thousands of Canadian Dollars):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Research and development costs	\$ 1	\$ 89	\$ 92	\$ 254
General and administration costs	24	40	179	145
	<u>\$ 25</u>	<u>\$ 129</u>	<u>\$ 271</u>	<u>\$ 399</u>

Discussion of Operations

The following is a discussion of the results of operations which have been derived from the condensed interim consolidated financial statements of the Company for the three and nine month periods ended September 30, 2023 (in Thousands of Canadian Dollars):

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Expenses:				
Research and development costs	\$ 1	\$ 89	\$ 92	\$ 254
General and administration costs	24	40	179	145
Share based compensation	8	10	14	12
Total Expenses	33	139	285	411
Operating Loss	(33)	(139)	(285)	(411)
Gain on sale of equipment	5	-	5	-
Net loss for the period	(28)	(139)	(280)	(411)
Other comprehensive loss				
Foreign currency translation adjustment	(7)	(3)	(10)	1
Comprehensive loss for the period	\$ (35)	\$ (142)	\$ (290)	\$ (410)

Nine-month period ended September 30, 2023, compared to the nine -month period ended September 30, 2022

Research and development costs, net

For the nine-month period ended September 30, 2023, research and development costs expenses amounted to \$92 thousand as compared to \$254 thousand for the nine-month period ended September 30, 2022. Research and development expenses have decreased as the Company completed its planned work with BGU.

General and administration expenses

For the nine-month period ended September 30, 2023, general and administrative expenses amounted to \$179 thousand as compared to \$145 thousand for the nine-month period ended September 30, 2022. General and administration expenses increased in 2023 due to an increase in legal fees.

Share based compensation expenses

For the nine-month period ended September 30, 2023, share-based compensation was \$14 thousand as compared to \$12 thousand for the nine -month period ended September 30, 2022. The charges in 2023 and 2022 relate to the fair value of the stock options issued and vested during these periods.

Net losses

The Company reported a net loss for the nine-month period ended September 30, 2023 of \$280 thousand as compared to a net loss of \$411 thousand for the nine-month period ended September 30, 2022. The decrease in net loss in 2023 is due to a reduction in research and development expenses during the period.

Three-month period ended September 30, 2023, compared to the Three-month period ended September 30, 2022

Research and development costs, net

For the three-month period ended September 30, 2023, research and development costs expenses amounted to \$1 thousand as compared to \$89 thousand for the three -month period ended September 30, 2022. Research and development expenses have decreased as the Company completed its planned work with BGU.

General and administration expenses

For the three -month period ended September 30, 2023, general and administrative expenses amounted to \$24 thousand as compared to \$40 thousand for the three -month period ended September 30, 2022. General and administration expenses decreased in 2023 due to the reduction in activities of the Company during the third quarter of 2023.

Share based compensation expenses

For the three -month period ended September 30, 2023, share-based compensation was \$8 thousand as compared to \$10 thousand for the three -month period ended September 30, 2022. The charges in 2023 and 2022 relate to the fair value of the stock options issued and vested during these periods.

Net losses

The Company reported a net loss for the three -month period ended September 30, 2023 of \$28 thousand as compared to a net loss of \$139 thousand for the three -month period ended September 30, 2022. The decrease in net loss in 2023 is due to a reduction in research and development expenses during the period.

Inflation

During the nine-month period ended September 30, 2023 and 2022, inflation has not had a material impact on our operations.

Summary of Quarterly Results

	Quarter ended			
	30-Sep-23	30-Jun-23	31-Mar-23	31-Dec-22
	Canadians dollars in thousands, except per share data			
Net loss	\$ (28)	\$ (127)	\$ (125)	\$ (173)
Net loss and comprehensive loss	\$ (35)	\$ (126)	\$ (129)	\$ (171)
Net loss per share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)

	Quarter ended			
	30-Sep-22	30-Jun-22	31-Mar-22	31-Dec-21
	Canadians dollars in thousands, except per share data			
Net loss	\$ (139)	\$ (146)	\$ (126)	\$ (280)
Net loss and comprehensive loss	\$ (142)	\$ (142)	\$ (126)	\$ (279)
Net loss per share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)

The loss per quarter and related net loss per share is a function of the level of research and development activity that took place during that quarter. In 2021 and 2022 and during 2023, the losses per quarter relates to work completed in respect of preclinical studies.

Liquidity

Liquidity is a measure of a company's ability to meet potential cash requirements. The Company has historically met its capital requirements through the issuance of common shares.

The Company had an accumulated deficit of \$19,383 thousand as of September 30, 2023 (\$19,103 thousand as of December 31, 2022), the Company had negative cash flows from operations of \$492 thousand for the nine-month period ended September 30, 2023 (negative cash flows of \$551 thousand during the nine-month period ended September 30, 2022). The Company is an early-stage biotech company and has not earned any revenues to date. The ability of the Company to continue as a going concern depends upon the ability of the Company to obtain financing to complete its research and development programs.

Nine-month period ended September 30, 2023 compared to the nine-month period September 30, 2022

During the nine-month period ended September 30, 2023, the Company's overall position of cash decreased by \$446 thousand. This decrease in cash can be attributed to the following activities:

The Company's net cash used in operating activities during the nine-month period ended September 30, 2023 was \$492 thousand as compared to \$551 thousand for the nine-month period ended September 30, 2022. This decrease is primarily due to decrease in activities during the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022.

Capital Resources

As of September 30, 2023, the Company's cash was \$1,009 thousand (December 31, 2022 - \$1,510 thousand). The majority of this balance is being held in Canadian Dollars. Our working capital at September 30, 2023 was \$860 thousand as compared to \$1,136 thousand at December 31, 2022.

Commitments

None.

Disclosure of Outstanding Share Data

As of the date of this report, the Company has 136,978,973 ordinary shares outstanding, 10,409,440 warrants outstanding, and 2,700,000 options granted. Each warrant and option entitles the right of the holder thereof to acquire one ordinary share.

Management of Capital

The Company is an early-stage biotechnology research and development company and currently does not generate significant cash flows from operations. The Company's primary source of funds comes from the issuance of share capital. The Company does not use other sources of financing that require fixed payments of interest and principal and is not subject to any externally imposed capital requirements.

The Company defines its capital as share capital plus warrants. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place to ensure that adequate funds are available to meet its strategic goals. The Company monitors actual expenses to budget to manage its costs and commitments.

The Company's capital management objective is to maximize investment returns to its equity-linked stakeholders within the context of relevant opportunities and risks associated with the Company's operations. Achieving this objective requires management to consider the underlying nature of research and development activities, the availability of capital, the cost of various capital alternatives and other factors. Establishing and adjusting capital requirements is a continuous management process.

In order to carry out the planned research and development and pay for administrative costs, the Company will need to raise additional as needed. Although the Company has been successful at raising funds in the past through the issuance of share capital, there can be no assurance that future financings will be successful.

Off-Balance Sheet arrangements

See “Commitments” above.

Transactions with Related Parties

The following are the expenses incurred with related parties for the nine-month ended September 30, 2023 and 2022 and the balances owing as of September 30, 2023 and 2022:

For the nine-month period ended September 30, 2023 (in thousands of CAD)

	Directors Fees	Consulting Fees	Share based awards	Total	Amounts owing at September 30, 2023
Gadi Levin, Director and CEO*	\$ -	\$ 42	\$ 1	\$ 43	\$ 3
Alan Rootenberg, CFO **	-	4	2	6	2
Yuval Avnir, former CEO ***	-	35	-	35	-
Daniel Bloch, Director	-	5	1	6	5
Ari Kellen, Director	-	-	-	-	-
Shawn Langer, Director	-	-	-	-	-
Total	\$ -	\$ 86	\$ 4	\$ 90	\$ 10

(*) Mr. Gadi Levin was appointed as the CEO effective July 31, 2023. He was previously the CFO.

(**) Mr. Alan Rootenberg was appointed as the CFO effective July 31, 2023.

(***) Through to July 31, 2023

For the nine-month period ended September 30, 2022 (in thousands of CAD)

	Directors Fees	Consulting Fees	Share based awards	Total	Amounts owing at September 30, 2022
Gadi Levin, Director and CFO	\$ -	\$ 36	\$ -	\$ 36	\$ 6
Yuval Avnir, CEO	-	33	-	33	6
Daniel Bloch, Director	-	-	-	-	-
Ari Kellen, Director	-	-	-	-	-
Shawn Langer, Director	-	-	-	-	-
Total	\$ -	\$ 69	\$ -	\$ 69	\$ 12

Critical Accounting Policies and Estimates

Our results of operation and financial condition are based on our consolidated financial statements, which are presented in accordance with IFRS. Certain accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at that time. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected.

The critical judgments and significant estimates in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are:

- The series of loans made to the subsidiary company are considered part of the parent Company's net investment in a foreign operation as the Company does not plan to settle these balances in the foreseeable future. As a result of this assessment, the unrealized foreign exchange gains and losses on the intercompany loans are recorded through other comprehensive loss. If the Company determined that settlement of these amounts was planned or likely in the foreseeable future, the resultant foreign exchange gains and losses would be recorded through profit or loss.
- Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.
- Management assesses the fair value of options and warrants granted in accordance with the accounting policy disclosed in share-based payments. The fair value of stock options granted is measured using the Black-Scholes option valuation model, which was created for use in estimating the fair value of freely tradable and fully transferable options. The same model is used by the Company in order to arrive at a fair value for the issuance of warrants.
- Management expenses the costs directly associated with research and development. Indirect costs are estimated using management's calculation of the amount of the activity that is deemed to be associated with research and development.

Litigation

The Company was named as a defendant in an action commenced by the Company's former CEO in 2018, alleging constructive dismissal and seeking damages. The Company denied any wrongdoing and refuted all claims alleged. On July 21, 2023, the Company and the former CEO settled the action by way of a payment to the former CEO.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

There were no changes to the Company's internal controls over financial reporting during the nine-month period ended September 30, 2023, which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

As of September 30, 2023, the Company evaluated its disclosure controls and procedures and internal control over financial reporting, as defined by the Canadian Securities Administrators. These evaluations were carried out under the supervision of and with the participation of management, including the Company's chief financial officer. Based on these evaluations, the chief financial officer concluded that the design of these disclosure controls and procedures and internal control over financial reporting were effective.

Financial Instruments and Other Instruments

The following table shows the classification of financial instruments under IFRS 9:

Financial asset/liability	Classification under IFRS 9
Cash	Amortized cost
Amounts receivable	Amortized cost
Other accounts payable and accrued liabilities	Amortized cost

The Company determines the classification of financial assets at initial recognition. The classification of its instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading (including all equity derivative instruments) are classified as fair value through profit and loss ("FVTPL"). For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them at fair value through other comprehensive income ("FVTOCI"). Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

Risks and Uncertainties

Credit risk

The Company manages credit risk, in respect of cash and cash equivalents and restricted deposits, by holding them at major Canadian and Israeli financial institutions in accordance with the Company's investment policy. The Company places its cash and cash equivalents with high credit quality Israeli and Canadian financial institutions. Concentration of credit risk exists with respect to the Company's cash and cash equivalents and other receivables. The Company's exposure as of September 30, 2023 and December 31, 2022 was \$1,050 thousand and \$1,541 thousand respectively, which consisted of \$1,009 thousand (December 31, 2022 - \$1,510 thousand) in cash held in bank accounts, and \$41 thousand (December 31, 2022 - \$31 thousand) in amounts receivable and prepaid expenses. None of the Company's amounts receivable are overdue as of September 30, 2023.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in obtaining funds to meet current obligations and future commitments. The Company's approach to managing liquidity risk is to forecast cash requirements to provide reasonable assurance that it will have sufficient funds to meet its liabilities when due. As of September 30, 2023, the Company had cash of \$1,009 thousand (December 31, 2022 - \$1,510 thousand) and amounts receivable and prepaid expenses of \$41 thousand (December 2022 - \$31 thousand) to settle current liabilities in the amount of \$190 thousand (December 31, 2022 - \$405 thousand).

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of two types of risk: interest rate risk, and foreign currency risk.

(i) Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its cash equivalents.

(ii) Foreign currency risk

The Company is exposed to financial risk related to the fluctuation of foreign exchange rates. The Company operates in Israel and most of the Company's expenditures are currently incurred in NIS. However, the Company also has expenditures in US Dollars and Canadian Dollars. The Company has not hedged its exposure to currency fluctuations. An increase or decrease of 5% of the NIS or the US Dollar relative to the Canadian dollar would not have a significant effect on the Company.

Development Stage Company

The Company has only a limited history upon which one can evaluate its business and prospects as its technologies are still at an early stage of development and thus The Company has limited experience and has not yet demonstrated an ability to successfully overcome many of the risks and uncertainties frequently encountered by companies in new and rapidly evolving fields, particularly in the biopharmaceutical area. The Company has not begun to market or generate revenues from the commercialization of any products related to human health. The likelihood of the success of the Company must be considered in light of the risks inherent in, and the difficulties, costs and complications associated with the early growth stages of a business enterprise, as well as with the development and marketing of new products.

Future Capital Needs

The Company may not be able to fully implement and execute its business strategy without additional financing. There can be no assurance that such additional financing will be available, and if available, there can be no assurance that the cost of obtaining such financing will be on favorable or reasonable commercial terms or that it will not result in substantial dilution to its shareholders. If additional funds are raised through the issuance of equity or equity-linked debt securities, the percentage ownership in The Company of the shareholders will be reduced, and such securities may have rights, preferences, or privileges senior to or equal to those of the Company's shares held by the current shareholders, or any other securities outstanding on the date hereof.

If adequate funds are not available to satisfy ongoing capital requirements, the Company may be required to curtail its operations significantly or to obtain funds, if available, through arrangements with strategic partners or others that may require the Company to relinquish material rights to certain technologies or potential markets. There is no certainty that financing will be available in amounts or on acceptable terms, if at all.

The Company is actively exploring strategic options for maximizing shareholder value from the Company's assets which may not be a continuation of the business in its current form.

Any failure to raise additional funds on favorable terms is likely to have a material adverse effect on the Company's liquidity and financial condition.

Dependence on Key Personnel

The Company's future success depends on its ability to retain key employees and attract, train, retain and successfully integrate new talent into its management team. The Company is dependent on the services of its senior management team. The loss of any of the members of the Company's senior management team could have a material adverse effect on the Company's results of operations, business and prospects. The Company's future success also depends, to a significant extent, on its ability to attract and retain talented personnel. Recruiting and retaining talented personnel, particularly those with the expertise required for the Company's business is vital to the Company's success and may prove difficult.

Changes in Technology and Industry Standards

The pharmaceutical and biotechnology drug development industry is susceptible to technological advances and the introduction of new technologies. Further, this industry is also subject to changing industry standards, market trends and customer preferences and to competitive pressures, which can, among other things, necessitate revisions in pricing strategies, price reductions and reduced profit margins. The success of the Company will depend, in part, on its ability to secure technological superiority in its products and operations and maintain such superiority in the face of new technologies. No assurance can be given that further modification of product offerings of The Company will not be required in order to meet demands or to make changes necessitated by developments made by competitors that might render services and operations of the Company less competitive. The future success of the Company will be influenced by its ability to continue to adapt its products. Although The Company has committed resources to research and develop its products, there can be no assurance that these efforts will be successful.

Applicability of Patents and Proprietary Technology

Competitors may have filed patent applications, or hold issued patents, relating to products or processes competitive with those The Company has developed or will in future develop. The Company's patent applications for a product may not be approved or approved as desired. The patents of the Company's competitors may impair its ability to do business in a particular area. Others may independently develop similar products or duplicate any of the Company's unpatented products or technologies. The Company's success will depend, in part, on its ability in the future to obtain patents, protect trade secrets and other proprietary information and operate without infringing the proprietary rights of others. Patent protection is uncertain and involves many complex legal, scientific and technical questions. The degree of legal protection afforded under patents is unclear. As a result, the scope of patents issued to The Company or their partners may not successfully prevent third parties from developing similar or competitive products.

The Company has and will continue to enter into confidentiality agreements with its employees, suppliers and vendors. However, these confidentiality agreements may be breached, and the Company may not have adequate remedies for such breaches. Others may independently develop substantially equivalent proprietary information without infringing upon any proprietary technology belonging to the Company. Third parties may otherwise gain access to the Company's proprietary information and adopt it in a competitive manner.

In addition, the coverage claimed in a patent application can be significantly reduced before a patent is issued. Also, The Company faces the following intellectual property risks: (i) some or all patent applications may not result in the issuance of a patent; (ii) patents issued may not provide the holder with any competitive advantages; (iii) patents could be challenged by third parties; (iv) the patents of others could impede our ability to do business; (v) competitors may find ways to design around our patented products; and (vi) competitors could independently develop products which duplicate our products.

Patent Litigation

A number of industry competitors and institutions have developed technologies, filed patent applications or received patents on various technologies that may be related to or affect our business. Claims by these companies that The Company infringes their proprietary technology may result in liability for damages or may delay the development and commercialization efforts for the Company's products. Such conflict could limit the scope of the patents, if any, that the Company may be able to obtain or result in the denial of its patent applications. In addition, if patents that cover the Company's activities are issued to other companies, there can be no assurance that The Company would be able to obtain licenses to these patents at a reasonable cost or be able to develop or obtain alternative technology. If the Company does not obtain such licenses, it could encounter delays in the introduction of products, or could find that the development, manufacture or sale of products requiring such licenses could be prohibited. In the pharmaceutical industry, it is not uncommon for competitors to advance such claims for strategic purposes. Furthermore, there can be no assurance that patent or other litigation will not arise in connection with any of the Company's or future products or product candidates. Patent litigation, with or without merit, is time-consuming and costly and may significantly impact the Company's financial condition and results of operations, even if the Company prevails. In addition, the Company could incur substantial costs in defending suits brought against it on patents it might infringe or in filing suits against others to have such patents declared invalid.

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