

## **Pheromone Sciences Corp.**

October 31, 2004

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### **Management's Discussion and Analysis of Results of Operations and Financial condition**

The financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada.

#### **Overview**

Pheromone Sciences is a biotechnology and medical diagnostics device research and development Company that focused on commercializing technologies in the field of fertility and sexuality. The Company's lead product, the PSC Fertility Monitor, was designed to provide women with a reliable, non-invasive predictive approach in identifying their fertility window when planning pregnancy. The product, which is housed in a modern styled wristwatch-like device with a LCD readout, is now approved for sale in the US, Europe and Canada.

On May 6, 2004 the company announced the signing of a definitive agreement for the sale of its proprietary technology, the Fertilité-OV™ fertility monitor and accompanying technology and patents, to HEALTHWATCHSYSTEMS, INC. This transaction has closed and further details of the transaction are contained in the Financial Statement Foot Notes, Note Number 12.

#### **Results of Operations**

The Company has been in its research and development phase and, as such, has incurred losses since its inception. For the year ending October 31, 2004, the Company recorded a loss of \$368,374 or \$0.02 per common share vs a loss of \$709,856 or \$0.04 per common share for the year ended October 31, 2003.

Research and development expenses for the year were severely curtailed. The focus of the effort has been involved in discussions with several companies located in North America and Europe, who are showing interest in our company. As noted above, at the bottom of the Overview section, the company signed on May 6, 2004, a definitive agreement for the sale of its proprietary technology to HEALTHWATCHSYSTEMS, INC. There is additional information on this important transaction in Note 12 of the Financial Statements.

General and administrative expenses for the year were \$402,612 vs \$487,220 in the prior comparable period. These include administrative costs and fees relating to legal, audit, strategic planning, and other costs not directly related to research and development as well as the overhead costs for the office.

Marketing expenses for the year were significantly reduced at \$112,411 compared to last year's comparable period of \$172,883.

#### **Liquidity and Capital Resources**

As at October 31, 2004, the Company had cash and short-term investments of \$278,194, compared to \$128,996 at the end of the October 2003. Short-term investments consist of Money Market funds. Cash used for operations in the year were \$648,092 compared to \$701,684 for the year ended October 31, 2003. As at October 31, 2004, the Company had no long-term obligations.

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**Directors and Officers as of time of signing**

William A. Cochrane, Chairman of the Board

Christopher Neuman, President & CEO

William Milligan, Director

Andrew E. Saxton, Director

Eldon Smith, Director

Douglas Marett, Chief Science Officer

Florian Meyer, Chief Financial Officer