



OSTA BIOTECHNOLOGIES INC.

Management's Discussion and Analysis

April 24, 2006

**For the three months & twelve months Ended
December 31, 2005**

INTRODUCTION

The following discussion is management's analysis of the consolidated operating and financial data for Osta Biotechnologies Inc. (formerly, Biopotential Capital Inc.) (the "Company") and its wholly owned subsidiary, Osta BioPharma Inc. ("Osta"), for the three months and twelve months ended December 31, 2005. It should be read in conjunction with the accompanying consolidated audited financial statements and related notes for the three months and twelve months ended December 31, 2005 prepared in accordance with Canadian generally accepted accounting principles taking into account material events up to April 24, 2006. All amounts are expressed in Canadian dollars.

Inherent Risk Factors

The Company's products and technologies are currently in the research and developmental stage. The Company does not and may never have commercially viable products approved for commercialization. To date, the Company has not generated any revenues from sales. The Company's financial condition will depend on its ability to obtain additional funding through the capital markets. The availability of such funding may not be under favorable terms or may not be available at all. The ability of the Company to successfully obtain additional financing in the future will depend on the condition of capital markets at the time and on the future performance of the Company.

Forward Looking Statements

The following discussion contains forward looking statements regarding the Company's financial condition and the results of operation that are based on its consolidated financial statements. The Company operates in a highly competitive environment that involves significant risks and uncertainties, some of which are outside the Company's control. The Company is subject to risks inherent in the biopharmaceutical industry, including risks associated with research, preclinical testing, manufacture of drug substance to support clinical studies, toxicology studies, uncertainty of regulatory agencies, enforcement and protection of the Company's patent portfolio, the need for future capital, potential competitors, the ability to attract and maintain collaborative partners, dependence on key personnel and the ability to successfully out license the Company's product candidates for regulatory approvals and commercialization. The Company's actual results could differ materially from those expressed or implied in these forward looking statements. For a more detailed discussion of related risks, please refer to the Company's public filings available on www.sedar.com.

Name Change

Pursuant to a Certificate of Amendment issued by Industry Canada on July 19, 2005, Biopotential Capital Inc. changed its name to Osta Biotechnologies Inc. and subsequently changed its ticker symbol on the TSX Venture Exchange from "BPI" to "OBI".

CHANGES IN ACCOUNTING POLICIES

There were no changes in the accounting policies during the period.

Consolidation of Financial Statements

For the three months and twelve months ended December 31, 2005, the financial statements of the Company and Osta are presented on a consolidated basis.

Outstanding Shares

At December 31, 2005, the Company had 28,305,219 common shares issued and outstanding. Options to acquire an aggregate of 3,024,500 common shares have been granted to directors, officers and consultants of the Company pursuant to the terms of the Company's incentive stock option plan. In addition, 258,929 Common Shares have been reserved for issuance pursuant to all outstanding common share purchase warrants.

Private Placement

In a press release dated November 11, 2005, the Company announced that it had completed a private placement in the amount of \$150,000 by issuing a total of 375,000 common shares at a price of \$0.40 per share. Each share was accompanied by one-half of a common share purchase warrant. Each full warrant entitles the holder thereof to acquire one additional common share of the Company at a price of \$0.70 per share for a period of one year from the closing of the private placement.

SELECTED ANNUAL INFORMATION

The following table summarizes selected financial information of the Company for its 2004 and 2005 fiscal years.

	2005	2004
Revenue	\$12,488	25,233
Research & development expenses	339,342	162,806
General & administrative expenses	245,788	27,649
Net Loss	(762,659)	(183,399)
Loss per share basic & diluted	(0.02973)	(0.00898)

Total assets	1,231,298	430,671
Total liabilities	96,444	398,381
Deficit	1,646,465	303,421
Total capital stock and contributed surplus	2,781,319	335,711

QUARTERLY FINANCIAL INFORMATION FOR 2005

The following table summarizes selected comparative quarterly financial information of the Company for the year ended December 31, 2005.

The progressive increase in the net loss each quarter reflects increased administration and research and development expenses as well as defraying costs associated with the completion of the qualifying transaction with Osta. See comment on fourth quarter below.

Summary of Quarterly Results for 2005

	Q4	Q3	Q2	Q1
Net Loss	280,616	328,824	141,735	11,484
Loss per share basic and diluted	0.0109	0.0118	0.0056	0.0019

FOURTH QUARTER

The decrease in the net loss in the fourth quarter of 2005 compared to the third quarter of 2005 is attributable to decreased administrative and research and development expenses.

RESULTS OF OPERATIONS

Interest and Other Income

The Company is engaged in research and development and does not have any currently commercial products. The Company continues to incur expenses related to research and development and as such anticipates that losses will continue until such time as the company is able to successfully commercialize its products which may never occur. The following table summarizes changes in the interest & other income of the Company for its 2004 and 2005 fiscal years.

	2005	2004	Increase (Decrease)
Interest and other Income	12,488	25,233	(12,745)

Interest income was higher in 2005 compared to 2004 due to larger average cash balances throughout the year as compared to 2004. It is anticipated that interest income will continue to fluctuate due to the changes in the average cash balances and short term investment balances and the interest rate. Income was higher in 2004 due to a \$25,000 non refundable deposit received in relation to the Company's qualifying transaction.

Summary of Research & Development Activities

The Company is a development stage biopharmaceutical company whose principal business is to carry out research and development work for the development of novel diagnostic and therapeutic products for Alzheimer's disease, osteoporosis and osteoarthritis.

Research and development expenses include mainly salaries paid to research staff, contract research, consulting, supplies and consumables.

	2005	2004	Increase (Decrease)
Research and Development	\$339,342	\$162,806	\$176,536

Research expenditures increased significantly this year as compared to 2004 due primarily to increased head count and salaries paid to research staff, contract research, consulting, supplies and consumables.

Alzheimer's Diagnostic Test

In a press release dated March 22, 2005, the Company announced the signing of a license agreement for a novel blood test for Alzheimer's disease (AD) and announced the promising results on 82 subjects from a clinical study conducted at a local hospital in Montreal. The Company has been continuing to scale up its clinical study by procuring additional clinical samples at a local hospital in Montreal as well as from other institutions in order to accelerate the completion of the clinical studies. The Company plans to complete its scale up studies by the end of 2006 and pending a successful outcome, the company will explore the possibility of entering into a co-development and/or licensing agreement for commercialization. The Company expects that it will cost approximately \$500,000 to complete the additional clinical studies required for completing the clinical development of its diagnostic test for AD.

Alzheimer's Therapeutic Agent

The Company is developing a novel therapeutic agent for the treatment of Alzheimer's disease and is at the lead optimization stage. The efficacy of the lead molecule will be evaluated using the most suitable animal model and a promising drug candidate will be taken into pre-clinical and clinical development. The Company needs additional capital to pursue the development of its AD therapeutic. Upon successful completion of financing in a timely fashion, it plans to initiate GLP non-clinical toxicology and safety pharmacology studies required for filing an IND targeted for 2008. The Company expects that it will cost approximately \$2,000,000 to complete the various pre-clinical studies.

Mouse Models for Osteoporosis

The Company is currently exploring the possibility of establishing a licensing agreement for the commercialization of its transgenic mouse models for osteoporosis.

Osteoporosis Prognostic Test

In a press release dated November 8, 2005, the Company released interim results from its second clinical study conducted in Montreal on a total of 44 male and female subjects which confirm the findings of the first pilot study in 19 osteoporotic males. In a press release dated March 14, 2006, the Company announced promising results of its clinical study on 234 young Finnish males conducted in collaboration with Helsinki University, Finland. The observed genetic alterations were found to be predictive of who is at risk of developing low bone mass & osteoporosis and who might develop high bone mass in the male population in Finland. These findings make a very important contribution to the Company's plan to develop a novel blood test for assessing the risk of developing low bone mass and osteoporosis and provide an important advancement towards generating sufficient clinical data in order for the company to enter into co-development/commercialization agreements with pharmaceutical/diagnostic companies world-wide. Based on the clinical data obtained to date, the results in males look promising, however, at present, there is insufficient data on young pre menopausal females. The Company will require additional clinical studies, especially in young pre menopausal females as well as in multi-race multi-ethnic male & female cohorts prior to licensing out its prognostic test to potential commercial partners and obtaining marketing approval from the FDA. The Company expects that it will cost approximately \$550,000 to complete the clinical studies prior to licensing the test out to potential commercial partner(s).

Osteoporosis Therapeutic Agent

The Company is developing a novel oral bone forming agent for the treatment of osteoporosis and is at the lead generation stage. The lead molecule(s) will be tested on the Company's proprietary transgenic mouse models to generate a drug candidate which will be taken into pre-clinical and clinical development. The Company needs additional capital to pursue the development of its osteoporosis therapeutic and upon successful completion of financing in a timely fashion, it plans to identify a novel small molecule oral drug candidate for treatment of osteoporosis and initiate GLP non-clinical toxicology and safety pharmacology studies required for filing an IND targeted for 2009. The

Company expects that it will cost approximately \$2,000,000 to complete the various pre-clinical studies.

Osteoarthritis (OA) Therapeutic Agent

The Company is at the formulation optimization stage for the development of a novel OA therapeutic agent. The Company needs additional capital to pursue the development of its OA therapeutic and upon successful completion of financing in a timely fashion, it plans to optimize the formulation and initiate GLP non-clinical toxicology and safety pharmacology studies required for filing an IND application targeted for 2009. The Company expects that it will cost approximately \$3,000,000 to complete pre-clinical studies.

General & Administrative Expenses

The following table summarizes changes in the general and administrative expenses of the Company for its 2004 and 2005 fiscal years.

	2005	2004	Increase (Decrease)
General and Administrative Expenses	\$239,415	27,649	211,766

The increase in general and administrative expenses in 2005 compared to 2004 is due mostly to the increases associated with increased general and administrative head count, increased salaries, consulting fees and professional fees including legal and accounting fees.

Results

For the fiscal year ended December 31, 2005, the Company had revenues of \$12,488 consisting of interest income. The Company had aggregate expenses during the fiscal year of \$775,147 resulting in a loss per share of \$0.02973. The increase in expenses for 2005 as compared to 2004 is due primarily to the increase in stock option compensation, salaries, professional and consulting fees. The Company expects to continue to incur losses as it continues its research and development programs.

	2005	2004	Increase (Decrease)
Loss	\$762,659	\$183,399	\$579,260
Loss per shares basic and diluted	0.02973	0.00898	0.02075

Working Capital

As at December 31 2005, the Company had cash and cash equivalents, sundry receivables, investment tax credit receivables, prepaid expenses and deposits in the aggregate amount of \$955,318 and accounts payable and accrued liabilities of \$96,444, resulting in a working capital of \$858,874 compared to a working capital of -\$116,290 as at December 31, 2004. The increase in working capital is due to the Company's completion of the qualifying transaction and the closing of a \$150,000 private placement.

Liquidity

The Company believes that the cash at hand at the end of December 31, 2005 is sufficient for conducting the business of the company for the next 14 months.

Capital Resources

The Company will need to raise additional capital in the near term. As the research and development activities increase, it is anticipated that the Company's capital requirements will also increase in future. At present, the Company is looking to raise additional capital. In order to adjust the developmental activities with the current cash at hand, the Company has prioritized its research and development activities on the development of a novel blood test for Alzheimer's disease (AD) as well as a novel therapeutic for AD. Other research and development programs in the Company are on hold at present till further financing is secured. It is estimated that the Company will require approximately \$3.5 million in additional capital over the next 2 years to continue the development of the diagnostic test for AD, prognostic test for osteoporosis and therapeutic agent for AD. However, there can not be any guarantee that the Company will be able to successfully raise the required capital to continue its operations or to be able to complete the various research & development milestones in a timely fashion. The Company's working capital requirements and its ability to raise additional capital are dependent on various factors, including, but not limited to, obtaining satisfactory pre-clinical and clinical data, successfully entering into collaborations & partnerships for product development, regulatory approvals and commercialization, successfully filing patent applications and obtaining issued patents, maintaining, enforcing and defending patent claims, in-licensing outside patents as potentially needed, obtaining favourable outcome of regulatory review processes in a timely fashion and other factors that may be beyond the control of Management.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2005, the Company paid its Chairman & CEO a total salary of \$133,000. In addition, the Company paid a total of \$112,000 to several officers and shareholders for consulting fees.

OUTLOOK

The Company at present is a research and development company that has yet to generate any revenues. The Company is expected to continue to incur operating losses as it continues with the research and development of various products. The Company is currently focusing on the completion of currently on-going clinical studies for the development of a novel blood test for Alzheimer's disease (AD) and pending successful completion of these studies, the Company anticipates that it would be in a position to establish partnerships with pharmaceutical and/or diagnostic companies for the clinical development, regulatory approvals and commercialization of the blood test at which stage, the Company is expected to start generating revenues by way of obtaining upfront licensing fees, milestone payments and eventually royalties resulting from the sale of the blood test. In addition, the Company is continuing the development of a novel therapeutic for AD and expects to establish the proof of principle in vivo of the efficacy of its lead molecule in about one year, at which stage, the Company will require substantial additional capital resources to complete the pre-clinical development of its lead molecule, filing the Investigational New Drug (IND) application with US FDA and Canadian TPD and initiating Phase-I clinical studies in North America. The Company is looking to raise additional capital by way of a round of financing to continue the development of its products and it is anticipated that the total expenses will increase during the fiscal 2006 after the successful completion of a round of financing.