



**OSTA BIOTECHNOLOGIES INC.**

**Management's Discussion and Analysis**

**For the Quarter ended  
June 30, 2006**

## **INTRODUCTION**

The following discussion is management's analysis of the consolidated operating and financial data for Osta Biotechnologies Inc. (the "Company") and its wholly owned subsidiary, Osta BioPharma Inc. ("Osta"), for the three months ended June 30, 2006. It should be read in conjunction with the accompanying consolidated unaudited financial statements and related notes for the three months ended June 30, 2006 prepared in accordance with Canadian generally accepted accounting principles taking into account material events up to August 28, 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 partly on the condition of capital markets at the time and partly 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, clinical trials, 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 market the Company's product candidates. 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](http://www.sedar.com).

## **CHANGES IN ACCOUNTING POLICIES**

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

## SELECTED FINANCIAL INFORMATION

The selected financial information provided below is derived from our unaudited quarterly financial statements for each of the last six quarters:

<b>Summary of Quarterly Results (unaudited)</b>						
	<b>Q2 2006</b>	<b>Q1 2006</b>	<b>Q4 2005</b>	<b>Q3 2005</b>	<b>Q2 2005</b>	<b>Q1 2005</b>
Net Loss	208,850	207,318	280,616	328,824	141,735	11,484
Loss per share basic and diluted	0.0074	0.0073	0.01	0.0118	0.0056	0.0019

There is no significant change in the net loss in this quarter as compared to the last quarter.

### Consolidation of Financial Statements

For the three months ended June 30, 2006, the financial statements of the Company and Osta are presented on a consolidated basis.

### Outstanding Shares

At June 30, 2006, the Company had 28,305,219 common shares issued and outstanding. Options to acquire an aggregate of 3,434,500 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, 187,500 Common Shares have been reserved for issuance pursuant to all outstanding common share purchase warrants.

## RESULTS OF OPERATIONS

### Interest and Other Income

The Company is engaged in research and development and does not have any products that are presently at commercialization stage. 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 one of its products which may never occur.

During the three month period ended June 30, 2006, the Company had revenues of \$4,813 consisting of interest income as compared to \$3,333 for the three month period ended June 30, 2005. The increase in revenue of \$1,480 is due to higher cash balances as compared to the same period of the previous year. It is anticipated that interest income will continue to fluctuate due to the changes in the average cash balances, short term investment balances and the interest rate.

### **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 diagnostic and therapeutic products specific to Alzheimer's disease, osteoporosis and osteoarthritis.

The Company is currently focusing on the development of a novel blood test for Alzheimer's disease (AD) and a novel therapeutic agent for AD. At present, the Company is continuing to advance the clinical studies for the development of its AD blood test and plans to complete these studies in 2007 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.

The company is also advancing the preclinical development of a novel therapeutic agent for the treatment of AD and expects to file an IND application in 2009 to initiate Phase-I human clinical trials in North America. The Company expects that it will cost approximately \$2,000,000 to complete the various pre-clinical studies.

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

During the three month period ended June 30, 2006, the Company spent \$96,508 on research and development as compared to \$59,797 for the quarter ended June 30, 2005. The increase in research and development expenses of 36,711 is due primarily to an increase in head count, increased salaries paid to research staff & fees paid to consultants, contract research, supplies and consumables as compared to the same period of the previous year.

### **General & Administrative**

During the three month period ended June 30, 2006, the Company spent \$73,100 on general and administrative expenses as compared to \$66,835 for the three month period ended June 30, 2005. The increase in general and administrative expenses of \$6,265 is due primarily to an increased in general and administrative salaries and consulting fees and professional fees such as legal and audit compensated by an increase in Stock Option compensation as compared to the same period of the previous year.

## **Results**

For the three month period ended June 30, 2006, the Company had a net loss of \$208,850 or \$0.0074 per diluted share as compared to a net loss of \$141,735 or \$0.0056 per diluted share for the same period of the previous year. The loss mainly resulted from an 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.

## **Working Capital**

As at June 30, 2006, the Company had cash and cash equivalents, sundry receivables, investment tax credit receivables, prepaid expenses and deposits in the aggregate amount of \$645,647 and accounts payable and accrued liabilities of \$86,237, resulting in a working capital of \$559,410 compared to a working capital of \$858,874 as at December 31, 2005. The decrease in working capital is due to the Company's ongoing research and development programs.

## **Liquidity**

The Company believes that the cash at hand at the end of June 30, 2006 is sufficient for conducting the business of the company for the next 7 months. The Company is planning to raise additional capital through the sale of shares during this fiscal year. There is no guarantee that the Company will be successful in attracting necessary capital and if capital is found, there is no guarantee that it will be on favourable terms to the Company.

## **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 our capital requirements will also increase in future. In order to manage 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 various products described above. 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-license outside patents as potentially needed, favourable outcome of regulatory review processes in a timely fashion and other factors that may be beyond the control of Management.

## **RELATED PARTY TRANSACTIONS**

For the three month period ended June 30, 2006, the Company paid its Chairman & CEO a total salary of \$41,750. In addition, the Company paid a total of \$16,025 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 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.