

# OSTA BIOTECHNOLOGIES INC.

## Consolidated Interim Balance sheet

	As at September 30, 2005 <i>(Unaudited)</i> \$	As at December 31, 2004 <i>(Audited)</i> \$
<b>Assets</b>		
Current assets		
Cash	823,437	26,620
Sundry receivables	60,787	3,986
Investment tax credits receivable	151,799	121,485
Prepaid expenses	1,615	
Deposits	1,600	
	<u>1,039,238</u>	<u>152,091</u>
Property and equipment	8,818	2,619
Deferred charges	7,532	7,532
Patents	195,785	156,984
Intangible assets	23,400	24,000
Deferred business acquisition costs		87,445
	<u>1,274,773</u>	<u>430,671</u>
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	130,975	268,381
Convertible debentures		130,000
	<u>130,975</u>	<u>398,381</u>
Contingencies and commitments		
<b>Shareholders' equity</b>		
Capital Stock	2,242,532	260,061
Contributed Surplus	291,123	75,650
Deficit	(1,389,857)	(303,421)
	<u>1,143,798</u>	<u>32,290</u>
	<u>1,274,773</u>	<u>430,671</u>

# OSTA BIOTECHNOLOGIES INC.

## Consolidated Interim Statement of Deficit

*(Unaudited)*

	Three month Period ended Sept 30,		Nine month Period ended Sept 30,	
	2005	2004	2005	2004
Deficit - beginning of period	(1,061,032)	(233,473)	(303,421)	(120,022)
Net loss	(328,824)	8,873	(506,051)	(104,582)
Share issue costs			(580,385)	
<b>Deficit - end of period</b>	<b>(1,389,856)</b>	<b>(224,600)</b>	<b>(1,389,857)</b>	<b>(224,604)</b>

# OSTA BIOTECHNOLOGIES INC.

## Consolidated Interim Statement of Operations

(Unaudited)

	Three month Period ended Sept 30,		Nine month Period ended Sept 30,	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Revenues</b>	<b>4,763</b>	<b>25,000</b>	<b>8,096</b>	<b>25,120</b>
<b>Expenses</b>				
Salaries and wage levies	92,329	26,830	163,645	79,645
Professional fees	76,783	26,150	134,808	42,691
Travel and automobile	5,765	2,902	14,487	8,763
Office and General Expenses	4,686	(434)	11,851	6,806
Tax and licences	1,659		11,486	
Stock option compensation	141,067	10,433	176,665	36,226
Interest on debentures			3,091	4,729
Amortization	796	246	1,189	842
Research and development expenses	23,191		27,238	
Research and development (credits)	(12,690)	(50,000)	(30,314)	(50,000)
	<b>333,587</b>	<b>16,127</b>	<b>514,147</b>	<b>129,702</b>
<b>Net loss</b>	<b>(328,824)</b>	<b>8,873</b>	<b>(506,051)</b>	<b>(104,582)</b>
<b>Loss per share basic and diluted</b>	<b>-0.01177</b>	<b>0.00042</b>	<b>-0.02043</b>	<b>-0.00501</b>
<b>Weighted average number of common shares outstanding for the period</b>	<b>27,930,219</b>	<b>20,903,790</b>	<b>24,764,465</b>	<b>20,854,395</b>
<b>EPS on a fully diluted basis</b>		<b>0.00040</b>		

# OSTA BIOTECHNOLOGIES INC.

## Consolidated Interim Statement of Cash flows

(Unaudited)

	Three month Period ended Sept 30,		Nine month Period ended Sept 30,	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Cash flows from (used in) operating activities</b>				
Net loss	(328,824)	8,873	(506,051)	(104,582)
Adjustments for:				
Amortization	796	246	1,189	842
Incorporation Costs		85		85
Stock option compensation	141,067	10,433	176,665	36,226
	(186,960)	19,637	(328,197)	(67,429)
Changes in non-cash working capital	(116,252)	10,104	(196,174)	14,911
	(303,212)	29,741	(524,371)	(52,518)
<b>Cash flows from (used in) investing activities</b>				
Redemption of term deposits	1,000,000		1,250,000	12,000
Property and equipment acquired	(2,921)		(6,788)	
Deferred charges	-	25	-	(510)
Patents	(21,204)	(8,752)	(38,801)	(22,218)
	975,875	(8,727)	1,204,411	(10,728)
<b>Cash flows from (used in) financing activities</b>				
Issuance of capital stock		26,125	236,250	26,125
Issuance (conversion of) debentures				135,000
Deferred business acquisition costs		(48,194)	283,868	(48,194)
Share issue costs			(580,385)	
	-	(22,069)	(60,267)	112,931
Net increase (decrease) in cash	672,662	(1,055)	619,773	49,685
Cash - beginning of the period	150,775	56,303	203,664	5,559
<b>Cash - end of the period</b>	<b>823,437</b>	<b>55,248</b>	<b>823,437</b>	<b>55,244</b>

**OSTA BIOTECHNOLOGIES INC.**  
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**September 30, 2005**  
*(Unaudited)*

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**1. Nature of business and Corporate name change**

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 osteoporosis, osteoarthritis and Alzheimers' disease.

Pursuant to a Certificate of Amendment issued by Industry Canada on July 19, 2005, the Company changed its name from Biopotential Capital Inc. to Osta Biotechnologies Inc.

**2. Summary of significant accounting policies**

***Basis of Presentation***

These unaudited consolidated interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. These interim financial statements have, in management's opinion, been properly prepared using judgment within reasonable limits of materiality. All disclosure required for audited annual financial statements have not been included in these unaudited consolidated interim financial statements and therefore should be read in conjunction with the most recent audited annual financial statements of Osta Biopharma Inc., dated December 31, 2004 which are included on pages 70 to 84 of the Company's filing statement dated April 20, 2005 and filed on April 21, 2005.

These unaudited interim financial statements follow the same accounting policies and methods used in the preparation of Osta Biopharma Inc.'s most recent audited annual financial statements.

***Basis of Consolidation***

The consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiary.

***Share Issue Costs***

Share issue costs are charged against the deficit in the year incurred.

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**2. Summary of significant accounting policies (cont'd)**

*Use of Estimates*

The preparation of interim financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

**3. Term deposit**

The term deposits bear interest at 2.00% in the first year, 2.15% in the second year and 2.75% in the third year and mature August 13, 2007.

**4. Intangible assets**

Intangible assets represent Licences acquired to perform research on Patented Technology. The Licences are amortized on a straight line basis over the remaining life of the underlying Patents.

**5 Capital stock**

(a) The authorized, issued and fully paid capital stock consists of the following:

*Authorized*      Unlimited number of common shares and an unlimited number of preferred shares without nominal or par value

*Issued:*

<b>September 30, 2005</b>	December 31, 2004		<b>September 30, 2005</b>	December 31, 2004
#	#		\$	\$
<b>27,930,219</b>	5,980,000	Common Shares	<b>2,242,532</b>	260,061

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**5. Capital stock (cont'd)**

The 21,950,219 shares issued by the Company are subject to a hold period, expiring September 4, 2005. A total of 18,045,000 common shares issued by Biopotential to five principal shareholders of the Company are subject to a three-year escrow in accordance with policies of the TSX Venture Exchange. One-sixth of these shares will be released from escrow every six months.

On May 3, 2005, the following capital stock transactions took place as a result of the Reverse Takeover ("RTO") as described in Note 5:

- Issuance of 20,903,790 shares for all the issued and outstanding shares of Osta Biopharma Inc. having a value of \$260,061.
- Issuance of 371,429 shares pursuant to the exercise of the conversion feature attached to the convertible debentures issued by Osta Biopharma Inc. having a value of \$130,000.
- Increase in the value of the Company's capital stock by \$1,616,221 representing the value of the net assets of the Company, acquired pursuant to the Reverse Takeover described in note 6, by Osta Biopharma Inc
- Issuance of 675,000 shares as a finder's fee to an arm's length company having a value of \$236,250.

*(b) Stock Options*

The Company maintains a stock option plan described in detail in its December 31, 2004 audited annual financial statements dated March 22, 2005. Options granted subsequent to the Reverse Takeover transaction (note 5) will be issued under the Company's plan. All options previously granted and outstanding under the Osta Biopharma Inc. plan, upon exercise, will be immediately converted into shares of the Company.

The Company has accounted for options granted using the fair value method. Total stock option compensation costs for the period amounted to \$176,665, as summarized below (see next page)

The fair value of the options granted prior to the RTO was estimated using the Black-Scholes option pricing model based on the following assumptions:

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**5. Capital stock (cont'd)**

Risk-free interest rate	Between 3.00% and 4.01%
Expected volatility	36%
Dividend yield	Nil
Average expected life	Between 3 and 5 years

The fair value of the options granted after the RTO was estimated using the Black-Scholes option pricing model based on the following assumptions:

Risk-free interest rate	3.53%
Expected volatility	71%
Dividend yield	Nil
Expected average life	5 years

A summary of changes in the Company's common share purchase options is presented below:

	<b>Number of Options #</b>	<b>Weighted Average Exercise Price \$</b>
Balance - beginning of period	<b>198,000</b>	<b>0.3500</b>
Shares reserved for options granted under the Osta Biopharma Inc. option plan	<b>1,176,500</b>	<b>0.3334</b>
Granted during the period	<b>1,250,000</b>	<b>0.3500</b>
<b>Balance - end of period</b>	<b>2,624,500</b>	<b>0.3426</b>

Common share purchase options outstanding, exercisable and granted to directors, officers and technical consultants of the Company as at September 30, 2005 are summarized as follows:

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**5. Capital stock (cont'd)**

<b>Number of Options</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
<b>#</b>	<b>\$</b>	
15,000	0.30	March 2006
465,000	0.35	January 2007
285,000	0.30	November 2007
20,000	0.30	February 2008
20,000	0.35	June 2008
20,000	0.30	July 2008
15,000	0.35	October 2008
186,500	0.35	April 2009
50,000	0.35	May 2009
198,000	0.35	June 2009
100,000	0.35	March 2010
1,250,000	0.35	May 2010

Persuant to the RTO resulting in a modification to the terms and conditions of previously issued stock options, additional stock option compensation of \$78,782 has been recognized, which represents the increase in the fair value of these options.

Total stock option compensation costs are summarized as follows:

Stock option compensation in options issued prior to the RTO:	10,752
Stock option compensation on options issued post RTO:	87,131
Additional stock option compensation as above:	78,782

**6. Business combination**

On May 3, 2005, the Company completed an arms length Reverse Takeover ("RTO") transaction with Osta Biopharma Inc. ("Osta"), whereby the Company issued 21,275,219 shares to the former shareholders and convertible debt holders of Osta. As a result of this transaction the former shareholders and debt holders of Osta now control 76.17% of the Company, 21.41% is controlled by the former shareholders of the Company and 2.42% by an arms length third party.

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Under RTO accounting, Osta has been identified as the acquirer and the Company as the target corporation, resulting in the comparative figures presented being those of Osta and not of the Company. However, the capital structure presented in Note 4 is that of the Company.

Under RTO accounting, where a non-operating public enterprise in this case the Company acquires a private enterprise in this case Osta via an RTO transaction, Osta is said to have acquired control of the assets of the Company in consideration for the issue of capital at a purchase price deemed to be the value of the net assets of the Company.

Assets	
Cash	\$ 177,044
Term deposits	\$ 1,250,000
Sundry receivables	\$ 43,562
Deferred business acquisition costs	\$ 196,423
<b>Total Assets</b>	<b>\$ 1,667,029</b>
Liabilities	
Accounts payable and accrued liabilities	\$ (12,000)
Fair value of stock options acquired	(38,808)
<b>Net assets acquired</b>	<b>\$ 1,616,221</b>

The fair value of the stock options acquired has been recorded as an increase in the consolidated contributed surplus.

As of the date of the RTO, accumulated business acquisition costs in the amount of \$580,385 have been recognized as share issue costs and recorded as an increase in the deficit.

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**6. Business combination (cont'd)**

The number of shares used to calculate the weighted average number of shares outstanding to determine the earnings per share presented in the consolidated interim statement of operations, is the number of shares issued by the Company in exchange for those of Osta, adjusted for the capital transactions which Osta entered into during that same period. This results in a different amount of shares and earnings per share from figures presented in prior periods.

**7. Related party transactions**

The company entered into the following transactions with its directors, officers and shareholders:

	<b>9 month period ended September 30,</b>	
	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
Salary paid to a director	<b>91,250</b>	48,750
Consulting fees paid to officers and shareholders	<b>65,250</b>	-
	<b>156,500</b>	48,750

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.