



## **Management's Discussion and Analysis**

**For the Quarter Ended  
September 30, 2005**

The following discussion is management's analysis of the operating and financial data for Osta Biotechnologies Inc. (formerly, Biopotential Capital Inc.) (the "Company"), for the period ended September 30, 2005. It should be read in conjunction with the accompanying financial statements for the period ended September 30, 2005.

### **Forward Looking Statements**

The following discussion contains forward looking statements regarding 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 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).

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 Alzheimer's disease.

#### *Osteoporosis Mouse Model*

The Company recently published a paper in the Journal of Clinical Investigation on the results of a study on human PTH (1-34) using its osteoporosis mouse model (press release dated September 27, 2005). The Company is currently exploring the possibility of establishing a licensing agreement for the commercialization of its mouse model.

#### *Osteoporosis Prognostic Test*

The Company recently 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 (press release dated November 4, 2005). The Company currently has two studies underway in collaboration with academic and clinical institutions in Europe and North America and the results of these studies are expected by Q2, 2006. Once the Company has successfully completed its currently on-going clinical studies, it will explore the possibility of entering into co-development and/or licensing agreements with large diagnostic companies. Additional clinical studies may be required to obtain FDA approval for commercialization. The Company expects that it will cost approximately \$550,000 to complete the clinical studies prior to obtaining marketing approval from FDA.

#### *Alzheimer's Diagnostic Test*

Osta Biopharma Inc. (Osta), a fully owned subsidiary of the Company has already released data on 82 subjects from its initial clinical study conducted at a local hospital in Montreal (press release dated March 22, 2005). The Company has been continuing to enroll additional subjects. The Company also plans to obtain samples from other clinics in order to accelerate the completion of the clinical studies. The Company plans to complete its scale up studies by Q2, 2006 and if successful, 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 these clinical studies.

#### *Osteoporosis Therapeutic*

The Company is continuing to make progress on the development of 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 Company's proprietary transgenic mouse models to generate a drug candidate which will be taken into pre-clinical and clinical development. The Company plans to identify a novel small molecule oral drug candidate for treatment of osteoporosis by the end of 2006 and then 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.

#### *Osteoarthritis (OA) Therapeutic*

The Company is at the formulation optimization stage for the development of a novel OA therapeutic. The Company plans to optimize the formulation by the end of 2006 and then 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 \$3,000,000 to complete pre-clinical studies.

### **Consolidation of Financial Statements**

For the three month period ended September 30, 2005, the financial statements of the Company and Osta are presented on a consolidated basis.

### **Outstanding Shares**

At September 30, 2005, the Company had 27,930,219 common shares issued and outstanding. Options to acquire an aggregate of 2,624,500 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, an option to acquire an aggregate of 540,000 common shares has been granted to the Company's agent in conjunction with the

Company's initial public offering and 71,429 Common Shares have been reserved for issuance pursuant to all outstanding common share purchase warrants.

### **Working Capital**

As at September 30 2005, the Company had cash and cash equivalents, sundry receivables, investment tax credit receivables, prepaid expenses and deposits in the aggregate amount of \$1,039,238 and accounts payable and accrued liabilities of \$235,535, resulting in a working capital of \$803,703 compared to a working capital of \$1,119,349 as at June 30, 2005. The change in working capital is due to the Company's ongoing research and development programs and the defraying of some of the costs related to the completion of the qualifying transaction with Osta.

### **Revenues and Expenses**

During the three month period ended September 30, 2005, the Company had revenues of \$4,763 consisting of interest income. The Company had aggregate expenses during the quarter of \$252,612 resulting in a loss per share of nil. The company spent \$112,113 in research and development. \$36,775 was spent on the Company's diagnostic programs and \$75,338 was spent on the Company's therapeutic programs.

### **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".