

Consolidated interim financial statements of

OSTA BIOTECHNOLOGIES INC.

June 30, 2007

(Unaudited)

OSTA BIOTECHNOLOGIES INC.

JUNE 30, 2007

Table of Contents

Notice to Reader	1
Consolidated Interim Balance Sheet	2
Consolidated Interim Statement of Deficit	3
Consolidated Interim Statement of Loss	4
Consolidated Interim Statement of Cash Flows	5
Notes to the Consolidated Interim Financial Statements	6 – 13

NOTICE TO READER

Management of the Company has prepared these interim unaudited financial statements and notes and is responsible for the integrity and fairness of the financial information presented therein. These have been reviewed and approved by the Company's Audit Committee and the Board of Directors. The Company's auditors have not reviewed or audited these interim unaudited financial statements.

OSTA BIOTECHNOLOGIES INC.
(Incorporated under the Canada Business Corporations Act)
Consolidated Interim Balance Sheet
(Unaudited – see Notice to reader)

	As at June 30, 2007	As at December 31, 2006
	\$	\$
Assets		
Current		
Cash	293,397	118,015
Short-term investments	900,784	1,138,088
Sundry receivables	27,941	10,533
Investment tax credit receivable	211,208	151,680
Prepaid expenses	7,555	--
	1,440,885	1,418,316
Property and equipment	11,104	12,967
Patents	338,989	301,489
Licenses	34,771	30,780
	1,825,749	1,763,552
Liabilities		
Current		
Accounts payable and accrued liabilities	98,245	122,193
	98,245	122,193
Contingencies and commitments		
Shareholders' equity		
Capital stock	3,992,776	3,492,776
Contributed surplus	752,900	645,888
Deficit	(3,018,172)	(2,497,305)
	1,727,504	1,641,359
	1,825,749	1,763,552

See accompanying notes to consolidated interim financial statements

Approved On Behalf Of The Board:

.....Director
Ajay Gupta

.....Director
Leontis Teryazos

OSTA BIOTECHNOLOGIES INC.
Consolidated Interim Statement of Deficit
(Unaudited – see Notice to Reader)

	Three month Period ended June 30		Six month Period ended June 30	
	2007	2006	2007	2006
	\$	\$	\$	\$
Deficit – beginning of period	(2,690,141)	(1,853,783)	(2,497,305)	(1,646,465)
Net loss	(228,104)	(208,849)	(400,940)	(416,167)
Share issue costs	(99,927)	--	(119,927)	--
Deficit – end of period	(3,018,172)	(2,062,632)	(3,018,172)	(2,062,632)

See accompanying notes to consolidated interim financial statements

OSTA BIOTECHNOLOGIES INC.
Consolidated Interim Statement of Loss
(Unaudited – see Notice to Reader)

	Three month Period ended June 30		Six month Period ended June 30	
	2007	2006	2007	2006
	\$	\$	\$	\$
Revenues	15,594	4,813	16,950	10,838
Expenses				
Salaries and wages levies	124,990	76,328	193,752	153,039
Professional fees	49,700	52,691	110,900	107,056
Travel and automobile	4,380	5,777	8,012	10,403
Office and general	6,238	9,928	10,561	24,946
Interest and bank charges	107	--	202	--
Tax and insurance	6,563	1,718	12,347	3,377
Other research costs	38,185	21,250	65,560	29,250
Research and development tax credits	(35,816)	(18,161)	(59,528)	(38,377)
Stock option compensation	47,956	62,215	73,211	133,644
Amortization	1,395	1,916	2,873	3,667
	243,698	213,662	417,890	427,005
 Net loss	 (228,104)	 (208,849)	 (400,940)	 (416,167)
 Loss per share basic and diluted	 (0.0068)	 (0.0074)	 (0.0120)	 (0.01470)
 Weighted average number of common Shares outstanding for the period	 33,523,876	 28,305,219	 33,523,876	 28,305,219

See accompanying notes to consolidated interim financial statements

OSTA BIOTECHNOLOGIES INC.
Consolidated Interim Statement of Cash Flows
(Unaudited – see Notice to Reader)

	Three month Period ended June 30		Six month Period ended June 30	
	2007	2006	2007	2006
	\$	\$	\$	\$
Cash flows from (used) in operating activities:				
Net loss	(228,104)	(208,850)	(400,940)	(416,167)
Amortization of property and equipment	890	1,411	1,863	2,657
Amortization of licenses	505	505	1,010	1,010
Stock option compensation	47,956	62,215	73,211	133,644
	(178,753)	(144,719)	(324,856)	(278,856)
Changes in non-cash working capital	(72,221)	(8,169)	(108,439)	(40,413)
	(250,974)	(152,888)	(433,295)	(319,269)
Cash flows from (used) in investing activities:				
Redemption of short-term investments	--	194,174	237,304	369,152
Acquisition of property and equipment	--	--	--	(2,346)
Patents	(18,750)	(9,000)	(37,500)	(18,262)
Acquisition of intangible assets	--	--	(5,000)	--
	(18,750)	185,174	194,804	348,544
Cash flows from (used) in financing activities:				
Issuance of capital stock	500,000	--	500,000	--
Share issue costs	(66,127)	--	(86,127)	--
	433,873	--	413,873	--
Net increase in cash	164,149	32,286	175,382	29,275
Cash – beginning of period	129,248	122,198	118,015	125,210
Cash – end of period	293,397	154,484	293,397	154,485

See accompanying notes to consolidated interim financial statements

OSTA BIOTECHNOLOGIES INC.
Notes to the Consolidated Interim Financial Statements
June 30, 2007
(Unaudited – see Notice to Reader)

1. Nature of business

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

2. Basis of presentation

These unaudited consolidated interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. These consolidated interim financial statements have, in management's opinion, been properly prepared using judgement within reasonable limits of materiality. All disclosure required for audited consolidated 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 consolidated financial statements of Osta Biotechnologies Inc. for the year ended December 31, 2006.

These consolidated interim financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements.

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

3. Significant accounting policies

Use of estimates

The preparation of the interim financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods may be significant.

Future accounting changes

In January 2005, the CICA issued Handbook Section 1530, "Comprehensive Income", Section 3251, "Equity", Section 3855, "Financial Instruments – Recognition and Measurement" and Section 3865, "Hedges". These new standards will require the following:

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3. Significant accounting policies (cont'd.)

- Financial assets will be classified as either held-to-maturity, held-for-trading, loans and receivables or available-for-sale. Held-to-maturity classification will be restricted to fixed maturity instruments that the Company intends and is able to hold to maturity and will be accounted for at the discounted amount, based on the effective interest method. Held-for-trading instruments will be recorded at fair value each period with realized and unrealized gains and losses reported in net income. Loans and receivables will be accounted for at the discounted amount, based on the effective interest method. The remaining financial assets will be classified as available-for-sale. These will be recorded at fair value each period with unrealized gains and losses reported in a new category of the Consolidated Balance Sheet under shareholders' equity called other comprehensive income ("OCI");
- Financial liabilities will be classified as either held-for-trading or other liabilities. Held-for-trading instruments will be recorded at fair value each period with realized and unrealized gains and losses reported in net income. Other instruments will be accounted for at amortized cost with gains and losses reported in net income in the period that the liability is derecognized;
- Derivatives will be classified as held-for-trading unless designated as hedging instruments. All derivatives, including embedded derivatives that must be separately accounted for, will be recorded at fair value each period on the Consolidated Balance Sheet; and
- A new financial statement, Consolidated Statement of Comprehensive Income, has been introduced. Comprehensive income is defined as all changes in equity other than those resulting from investments by owners and distributions to owners. Comprehensive income is comprised of two components, net income and OCI. OCI refers to amounts that are recorded as an element of shareholders' equity but are excluded from net income because these transactions or events were attributed to changes from non-owner sources.

The guidance will apply for interim and annual financial statements relating to fiscal years beginning on or after December 31, 2006. Although Osta Biotechnologies is in the process of evaluating the impact of these standards, the Company does not expect these standards to have a material impact on its consolidated financial statements.

4. Short-term investments

Short-term investments consist of a guaranteed investment certificate bearing interest at 3.80%, with maturity date of December, 2007. As this certificate has been acquired in December, 2006, it has been invested for a period in excess of 30 days and may therefore be redeemed at any time without penalty.

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OSTA BIOTECHNOLOGIES INC.
Notes to the Consolidated Interim Financial Statements
June 30, 2007
(Unaudited – see Notice to Reader)

5. Licenses

The licenses acquired allow the Company to perform research on patented technology. The licenses have a net carrying amount of \$34,771, net of accumulated amortization of \$4,229.

6. Capital stock

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

Authorized: An unlimited number of common shares and an unlimited number of preferred shares without nominal or par value.

Issued:

June 30 2007	December 31 2006	June 30 2007	December 31 2006
#	#	\$	\$
34,706,196	32,706,196	3,992,776	3,492,776

In April, 2007, the Company completed a private placement in the amount of \$500,000 by issuing a total of 2,000,000 units at a price of \$0.25 per unit. Each unit consists of one common share of Osta Biotechnologies Inc. and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of \$0.40 per share until April 17, 2009. As compensation, the Agents were paid a commission of \$50,000 and were granted 400,000 broker warrants allowing them to purchase common shares of the Company for a period up to 24 months from the date of closing of the private placement. The estimated fair value of the broker warrants of \$33,800 was calculated using the Black-Scholes option pricing method and is included as part of the share issue costs.

7. Incentive stock options

The Company maintains an incentive stock option plan (the "Stock Option Plan") which provides that the Board of Directors of the Company may from time to time, in its discretion, grant to directors, officers, employees and technical consultants of the Company, non-transferable options to purchase common shares for a period of up to five (5) years, provided that the number of common shares reserved for issuance under the Stock Option Plan does not exceed 5 million shares. The Board of Directors determines the price per common share and the number of common shares that may be allotted to each director, officer, employee and consultant of the Company and all other terms and conditions of the options granted under the Stock Option Plan.

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OSTA BIOTECHNOLOGIES INC.
Notes to the Consolidated Interim Financial Statements
June 30, 2007
(Unaudited - see Notice to Reader)

7. Incentive stock options (cont'd)

The Company has accounted for options granted using the fair value method. The fair value of the options granted after December 31, 2006 was estimated using the Black-Scholes option pricing model based on the following assumptions:

Risk-free interest rate	Between 4.03% and 4.67%
Expected volatility	71%
Dividend yield	Nil
Average expected life	5 years
Fair value on grant date	Between \$0.154 - \$0.168

The fair value of options granted before January 1, 2007 and after May 3, 2005 was estimated using the Black-Scholes option pricing model based on the following assumptions:

Risk-free interest rate	Between 3.53% and 4.03%
Expected volatility	71%
Dividend yield	Nil
Average expected life	Between 3 months and 5 years
Fair value on grant date	Between \$0.154 - \$0.215

The fair value of options granted before May 3, 2005 was estimated using the Black-Scholes option pricing model based on the following assumptions:

Risk-free interest rate	Between 3.00% and 4.01%
Expected volatility	36%
Dividend yield	Nil
Average expected life	Between 3 months and 5 years
Fair value on grant date	Between \$0.066 - \$0.131

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

	June 2007	
	Number of Options #	Weighted Average Exercise Price \$
Balance - beginning of period	3,595,000	0.3373
Shares reserved for options granted under Osta option plan	--	--
Granted during the period	650,000	0.2700
Expired during the period	--	--
Balance - end of period	4,245,000	0.3270

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OSTA BIOTECHNOLOGIES INC.
Notes to the Consolidated Interim Financial Statements
June 30, 2007
(Unaudited – see Notice to Reader)

7. Incentive stock options (cont'd)

Common share purchase options outstanding, exercisable, granted to directors, officers and consultants of the Company as at June 30, 2007 are summarized as follows:

Number of Options #	Exercise Price \$	Expiry Date
235,000	0.30	November 2007
450,000	0.35	December 2007
20,000	0.35	June 2008
20,000	0.30	July 2008
10,000	0.35	October 2008
385,000	0.35	April 2009 to June 2009
1,750,000	0.35	March 2010 to December 2010
425,000	0.35	January 2011 to February 2011
300,000	0.25	February 2012
650,000	0.27	May 2012 to June 2012

8. Contingencies and commitments

A. The Company has entered into two licensing agreements with a licensor with the following terms and conditions.

(i) Royalties

- a) A minimum annual royalty of \$5,000 is due on each of the two licenses commencing in 2006.
- b) Royalties due to the licensor for each of the two licenses are calculated as follows:

The greater of \$5,000 or;

- on the first \$100 M. of net revenues; 2% and 2.5% respectively;
- on net revenues between \$100 M. and \$300 M.; 1.5% and 2% respectively;
- on net revenues greater than \$300 M.; 1% for both licenses.

Net revenues are specifically defined in both licensing agreements.

- (ii)* On one license, a milestone fee of \$25,000 is due upon acceptance of an "investigational new drug application" with the United States Food and Drug Administration (FDA) or its equivalent in another jurisdiction. A further milestone of \$100,000 is due on this license pursuant to the company realizing \$1 M. of gross revenue as specifically defined in the license agreement on sales of products related to this license.

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8. Contingencies and commitments (cont'd.)

- (iii) Marketing approval fees of \$200,000 and \$150,000 respectively are payable to the licensor on the licences upon approval by the FDA or other regulatory agencies for the manufacture and sale of licensed products.
- (iv) Under the terms of one of the license agreements, the Company has committed to allocating a minimum of \$40,000 per year for the further development of technology for two years commencing February 2004.

B. The Company entered into two licensing agreements with a second licensor having the following terms and conditions

- (i) In consideration of the licenses granted herein and the costs incurred therefore, Licensee shall pay to Licensor a license issue fee of \$5,000 for one of the licenses, payable 30 days upon the Effective Date of the Agreement. As at June 30, 2007, the fee has been accrued in the Company's records.
 - (a) A minimum annual royalty of \$5,000 is due on each license commencing in 2009.
 - (b) Royalties due to the licensor for each of the two licenses are to be calculated as follows:
 - 2.5% of the first \$100 M. of net revenues;
 - 2.0% of net revenues between \$100 M. and \$300 M.
 - 1% of net revenues in excess of \$300 M.

Net revenues are specifically defined in the licensing agreement.

- (iii) Milestone fees for both licenses of \$25,000 per product are due to the licensor upon acceptance of an "investigational new drug application" with the United States Food and Drug Administration (FDA). A further milestone of \$100,000 is due to the licensor pursuant to the Company realizing \$1M of gross revenue as specifically defined in the license agreement on sales of products related to the specific licenses.
- (iv) A marketing approval fee for both licenses of \$100,000 per product is to be paid to the licensor pursuant to FDA approval for the manufacture and sale of products based on the license patents defined in each of the agreements.

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8. Contingencies and commitments (cont'd.)

- C. The Company has entered into a licensing agreement with a third licensor having the following terms and conditions:
- (i) In consideration for the license granted in this Agreement, Licensee shall pay to Licensor an annual earned royalty on Net Sales of Licensed Products sold by Licensee and its Sublicensee(s) in the following manner:
- 2.25% of Net Sales for up to and including \$100 M. per annum;
 - 1.75% of Net Sales greater than \$100 M. per annum and up to and including \$500 M. per annum; and
 - 1.5% of Net Sales greater than \$500 M. per annum.
- (ii) In consideration for the license granted herein, Licensee shall pay to Licensor the following amounts within 30 days of achievement of the following milestones:
- \$10,000 upon submission of an Investigational New Drug (“IND”) Application to the United States Food & Drug Administration (“FDA”) or European Union equivalent for a License Product,
 - \$25,000 upon the initiation of the first Phase II clinical trial for a Licensed Product,
 - \$50,000 upon initiation of the first Phase III clinical trial for a Licensed Product,
 - 100,000 upon the first approval action letter issued by the FDA or European Union equivalent with respect to a New Drug Application for a Licensed Product (“FDA” Approval), and
 - \$500,000 upon Licensee and/or its Sublicensee(s) reaching Net Sales of Licensed Product of \$100 M.
- (iii) As a condition to maintain the license granted herein, subject to the terms and conditions of this Agreement, Licensee shall pay to Licensor minimum annual royalties of:
- \$2,500 payable on the first anniversary of the Effective Date,
 - \$5,000 payable on the second anniversary of the Effective Date, and
 - \$10,000 payable on the third anniversary of the Effective Date and through each subsequent anniversary.
 - Licensee shall pay to Licensor a minimum royalty of \$25,000 on each anniversary of the Effective Date upon the first Commercial Sale of Licensed Product.
- (iv) As a minimum, Licensee must invest in aggregate \$40,000 per year into the laboratories of the Principal Investigators for research and development of the Licensed Technology for the first two years of this Agreement via a separate research and development agreement with Queens University and in addition Licensee must invest in aggregate at least \$40,000 for each year thereafter toward patent protection, development and commercialization of a Licensed Product.

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OSTA BIOTECHNOLOGIES INC.
Notes to the Consolidated Interim Financial Statements
June 30, 2007
(Unaudited – see Notice to Reader)

9. Subsequent Events

On July 16, 2007, the Company entered into a licensing agreement with a licensor with the following terms and conditions.

(i) Royalties

- a) A minimum annual royalty of \$2,500 is due on the license to the licensor commencing in 2011.
- b) Royalties due to the licensor for the license are calculated as follows:

The greater of \$2,500 or;

- on the first \$100 M. of net revenues; 2%;
- on net revenues between \$100 M and \$300 M.; 1.5%;
- on net revenues greater than \$300 M.; 1% for both licenses.

Net revenues are specifically defined in both licensing agreements.

- (ii)* A milestone fee of \$12,500 is due upon acceptance of an "investigational new drug application" with the United States Food and Drug Administration (FDA) or its equivalent in another jurisdiction. A further milestone of \$50,000 is due on this license pursuant to the company realizing \$1 M of gross revenue as specifically defined in the license agreement on sales of products related to this license.

- (iii)* A marketing approval fee of \$50,000 is payable to the licensor on the licence upon approval by the FDA or other regulatory agencies for the manufacture and sale of licensed products.

10. Financial Instruments

Fair value

Cash, short-term investments, receivables, accounts payable and accrued liabilities are all short-term in nature and as such, their carrying values approximate fair values.

11. Comparative Figures

Certain reclassifications of 2006 amounts have been made in order to conform to the method of presentation adopted in the current year.