



OSTA BIOTECHNOLOGIES INC.

Management's Discussion and Analysis

**For the twelve months ended
December 31, 2008**

April 23, 2009

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 twelve months ended December 31, 2008. It should be read in conjunction with the accompanying consolidated audited financial statements and related notes for the twelve months ended December 31, 2008 prepared in accordance with Canadian generally accepted accounting principles. This discussion and analysis takes into account material events up to April 23, 2009. 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 other than from ancillary investment income. 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 of 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 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.

CHANGES IN ACCOUNTING POLICIES

The Canadian Institute of Chartered Accountants ("CICA") issued new accounting standards which are effective for fiscal years beginning on or after October 1, 2007, and which have been adopted by the Company on January 1, 2008. These new standards, described below are section 1400, General Standards of Financial Statement Presentation, section 1535, Capital Disclosures, section 3862, Financial Instruments - Disclosures and

section 3863, Financial Instruments - Presentation. These new standards relate to disclosure and presentation only and do not have any impact on the financial results of the Company.

General standards of financial statement presentation

On January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") handbook section 1400, General Standards of Financial Statement Presentation, which provides revised guidance on management's responsibility to assess and disclose the Company's ability to continue as a going concern. The adoption of this standard did not have any impact on the financial statements.

Capital disclosures

On January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, Capital Disclosures which establishes disclosure requirements about an entity's capital and how it is managed. The purpose is to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing its capital. The adoption of this new standard did not have any effect on how the Company accounts for its transactions. The company's 1535 disclosures are presented in Note 14 of the audited financial statements.

Financial instruments - presentation and disclosure

On January 1, 2008, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") handbook sections 3862, Financial Instruments – Disclosures and 3863, Financial Instruments – Presentation. Sections 3862 and 3863 replace section 3861 – Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements in certain areas and carrying forward unchanged its presentation requirements. The objective of the standards is to enable users to evaluate the significance of financial instruments on the Company's financial position and performance. The new sections place increased emphasis on disclosures and the nature and extent of risks arising from financial instruments and how the Company manages those risks. Where the disclosure requirements of the new standards did not change from the previous standard and where there have been no significant updates from the disclosures in the prior years' financial statements, no additional disclosure has been provided.

Harmonizing of Canadian and International Standards

In February 2008, Canada's Accounting Standards Board (AcSB) confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be fully converged with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS-IASB"). The changeover date is effective for interim and annual financial reporting for fiscal year ends beginning on or after January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures which the Company must address. The Company is currently developing its IFRS conversion plan and

evaluating the effect of these new standards on its financial statements. Determination of the key differences between IFRS and the Company's accounting policies is in progress with an evaluation of the main potential impact on its business practices, systems and internal controls over financial reporting.

Further updates on implementation progress and potential reporting impact from the adoption of IFRS will be provided during the implementation period.

SELECTED ANNUAL INFORMATION

The following table summarizes selected financial information of the Company for its 2008, 2007 and 2006 fiscal years.

	2008	2007	2006
Revenue	\$22,971	\$40,528	\$16,708
Research & development expenses	284,809	420,562	265,092
General & administrative expenses	315,992	390,408	304,257
Research and development tax credits	(57,764)	(117,691)	(81,496)
Stock option compensation	40,923	236,798	238,347
Write-off of patents and licenses	45,296	33,317	-
Amortization of plant and equipment	3,880	3,971	5,479
Amortization of patents and licenses	15,075	8,415	-
Net Loss	(625,240)	(935,252)	(716,991)
Loss per share basic & diluted	(0.01767)	(0.02754)	(0.02508)
Liquid assets	912,352	1,201,861	1,256,103
Current assets	986,621	1,340,956	1,418,317
Other assets	315,556	355,104	345,236
Total assets	1,302,177	1,696,060	1,763,553
Current liabilities	162,202	154,468	122,194
Long-term liabilities	182,700	-	-
Total liabilities	344,901	154,468	122,194
Working capital	824,419	1,186,488	1,296,123
Deficit	4,251,585	3,626,345	2,497,305
Total capital stock and contributed surplus	5,208,860	5,167,937	4,138,664

Consolidation of Financial Statements

For the twelve months ended December 31, 2008, the financial statements of the Company and Osta are presented on a consolidated basis.

Outstanding Shares

At December 31, 2008, the Company had 35,386,528 (2007 - 35,386,528) common shares issued and outstanding. Options to acquire an aggregate of 3,175,000 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, 8,199,717 Common Shares have been reserved for issuance pursuant to all outstanding common share purchase warrants.

In a press release dated October 21, 2008, the Company announced that it received funding from the Institute for Study of Aging (ISOA) in the form of a recoverable grant of up to \$247,106 US Dollars to develop a novel class of drugs for Alzheimer's disease. The recoverable grant bears interest at the rate of 5% per annum and is secured by promissory note payable. The note is convertible into common shares in certain circumstances upon the earlier of the fifth anniversary of the issuance thereof at conversion prices between \$0.18 and \$0.23598 per share and the Company raising an aggregate of at least \$1,000,000 Canadian dollars. The note is accompanied by a common share purchase warrant exercisable for a maximum of 710,772 additional common shares for 5 years from the date of issuance at a price tied to the conversion price.

During the year the Company extended the expiration date for 4,361,000 warrants with an exercise price of \$0.40 per share from December 8, 2008 to December 8, 2010.

During the year, the Company issued stock options to consultants of the company to acquire 350,000 common shares. Of these options issued, the Company subsequently cancelled the stock options to one of the consultants to acquire 250,000 shares (of which 50,000 was vested). The remaining the stock options were issued to one consultant to acquire 100,000 common shares at a price of \$0.23 per share expiring on February 13, 2013. These options will vest in four equal tranches over a period of 2 years from their date of issue.

Other than indicated above, as of April 23, 2009, there have been no other changes to the outstanding shares, and no other issuance of stock options or warrants.

RESULTS OF OPERATIONS

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.

Recoverable research grant

As indicated above, on October 21, 2008, the Company announced that it received funding from the Institute for Study of Aging (ISOA) in the form of a recoverable grant of up to \$247,106 US Dollars to develop a novel class of drugs for Alzheimer's disease. "ISOA" is a private foundation established by the Estee Lauder family in 1998.

Under the terms of the refundable grant, all funds granted, and any interest or earnings earned thereon, until expended for the purposes of the project, shall not be used for any other purpose and shall not be invested in any manner that would jeopardize or impair their availability either for the use by the Company for the purpose of the project or for the return to "ISOA". Such funds shall not serve as security for any indebtedness of the Company for any money borrowed, loaned or guaranteed. Any portion of the funds not used for the purposes of the project shall be repaid to "ISOA". As at December 31, 2008, the Company received \$177,375 CDN Dollars (\$150,000 US Dollars) of which the unexpended balance of the funds received was \$166,968 including interest earned of \$283.

Title to any discoveries, inventions, developments, data and substances made, conceived or reduced to practice by the Company, its employees, contractors or agents during the performance of the research project or as a result of the project, including any patents, patent applications, copyrights and applications and registrations thereof, and all other intellectual property rights, title and ownership interest relating thereto will vest in the Company.

Investment Income

During the twelve month period ended December 31, 2008, the Company had revenues of \$22,971 consisting of interest income as compared to \$40,528 for the year ended December 31, 2007 and \$16,708 for the year ended December 31, 2006. The decrease in revenue is due to lower cash balances and lower interest rates as compared to the same period of the previous year.

Expenses

The Company had gross expenses (including write-off of patents and licenses of \$45,296 and unrealized loss on foreign exchange of \$5,325) during the fiscal year of \$648,211 (as compared to \$975,780 (including the write-off of patents and licenses of \$33,317) in 2007 and \$733,699 in 2006) resulting in a loss per share of \$0.01767 (2007 - \$0.02754, 2006 - \$0.02508). The decrease in expenses is due primarily to the recovery of research costs, the completion of certain research projects, a reduction of general and administrative expenses and reduction of stock option compensation. Management has

continued to ensure that costs are tightly controlled while the emphasis continues to move forward on lead research projects.

Research and Development Expenses

The Company spent approximately \$284,809 (as compared to \$420,562 in 2007 and \$265,092 in 2006) on research and development (R&D). These expenses primarily consisted of R&D salaries, consulting fees, supplies and research contracts.

The amount of research expenses indicated above is net of a recovery \$62,920 of research expenditures as compensation for the agreement to amend a “material transfer option & option to license” agreement.

The reduction in research expenses is also due to the completion of certain research contracts as well as prioritization of R&D activities.

General & Administrative

The following table summarizes changes in the general and administrative expenses of the Company for its last three fiscal years:

	2008	2007	2006
General and Administrative Expenses	315,992	\$390,408	\$304,257

The decrease in general and administrative expenses in 2008 is due mainly to the decrease in salaries, professional and consulting fees, travel expenses and taxes and insurance (as compared with the increase in general and administrative expenses in 2007 compared to 2006 is due mainly to increases in salaries and wage levies and professional fees). Management has been successful in managing the administrative and overhead costs and is continuously monitoring those costs.

Stock Option Compensation

Stock option compensation decreased from \$236,798 in 2007 to \$40,923 in 2008. This reduction was as a result of a limited issue of stock options granted during the year.

Summary of Research and Development Activities

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

Based on the availability of limited funds, the company has put priorities on the development of a novel drug for cancer chemotherapy and a novel drug for the treatment of Alzheimer's disease. As a result, the company has put all other research and development programs on hold till further financing has been secured.

Cancers Therapeutic Agent

Based on the availability of limited funds, the Company has prioritized the development of a novel anti-cancer drug and is currently focusing on developing novel therapeutic agents that could be used as adjuvant chemotherapeutic agents to treat aggressive metastatic, invasive and drug resistant tumors. The Company's lead compound has shown very promising results in pre-clinical animal models for the treatment of metastatic and hormone refractory prostate cancer. Subject to the completion of a round of financing in a timely fashion, the Company plans to complete the pre-clinical studies in 2010 and file an IND application in 2011 to initiate human clinical studies in North America. The Company expects that it will cost approximately \$2,000,000 to manufacture cGMP drug product and to complete the various pre-clinical studies.

Therapeutic Agent for treatment of Alzheimer's Disease

The Company is developing of a novel therapeutic for the treatment of Alzheimer's disease (AD) 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 agent. In October 2008, the company has secured a funding of \$247,106 US from the Institute for Study of Aging (ISOA) to advance the pre-clinical development of its AD drug. Upon successful demonstration of proof of principle in-vivo and the completion of financing in a timely fashion, it plans to complete GLP non-clinical toxicology and safety pharmacology studies in 2011 and plans to file an IND application in 2012 to initiate Phase-I trials in the US. The Company expects that it will cost approximately \$2,500,000 to demonstrate proof of validation in-vivo and to complete the various pre-clinical studies required for IND filing.

Working Capital

As at December 31 2008, the Company had cash and cash equivalents, receivables, investment tax credit receivables and prepaid expenses in the aggregate amount of \$986,621 (2007 - \$1,340,956; 2006 - \$1,418,317) and accounts payable and accrued liabilities of \$162,202 (2007 - \$154,468; 2006 - \$122,194), resulting in a working capital of \$824,419 compared to a working capital of \$1,186,488 as at December 31, 2007 and \$1,296,123 as at December 31, 2006. The decrease in working capital has been limited to \$362,069 due to the receipt of \$177,375 (\$150,000 USF) recoverable grant received from "ISOA" and the recovery of \$62,920 of research expenditures (in 2007 – due to the closing of two private placements totalling of \$704,100). In addition, the Company has prioritized its research projects based on the availability of limited funds.

Liquidity

As of December 31, 2008, liquid assets (cash and cash equivalents) totalled \$912,352, or 70.1% of total Company assets; this compares to \$1,201,861, or 70.9% of total assets as at December 31, 2007 and to \$1,256,103, or 71.3% of total assets as at December 31, 2006. As a result, liquid assets decreased by \$389,509, or 24.1% over 2006 and by \$343,751, or 27.4% over 2005.

Liquid assets for the quarter ended December 31, 2008 increased by \$217,505. This increase is attributable to cash flows provided by the recoverable grant receivable of \$177,375 (\$150,000 US dollars) in October 2008. Of this amount, \$166,968 is restricted for the funding of the research project for which the grant was issued. The Company's working capital (current assets less current liabilities) decreased by \$362,069 or 30.5% to \$824,419 as at December 31, 2008, from \$1,186,488 as at December 31, 2007 (December 31, 2006 - \$1,296,123. In addition, \$166,968 of the working capital is restricted for the use of the research project for which the "ISOA" grant was issued. The working capital ratio (current assets/current liabilities) dropped to 6.08 at the end of the quarter, compared to 8.68 at the same time last year and 11.67 at the same time in 2006.

As at April 23, 2009, the Company believes that the cash at hand currently is sufficient for conducting the business of the Company for the next 13 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 proportionately. At present, the Company is looking to raise additional capital through the issuance of equity. 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 therapeutic agent for Alzheimer's disease (AD) as well as a novel therapeutic agent for cancer. The Company's research and development programs related to the development of novel a diagnostic test for Alzheimer's disease, a novel diagnostic & therapeutic product for osteoporosis and a novel therapeutic product for the treatment of rickets are currently a lower priority at present till further financing is secured. The Company has halted the development of novel therapeutics for osteoarthritis and aging, which may be reactivated at a later stage once further financing has been secured and the products specifically related to Alzheimer's disease and cancer have been advanced significantly. It is estimated that the Company will require approximately \$5 million in additional capital over the next two 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, market conditions, obtaining satisfactory pre-clinical and clinical data, successfully entering into collaborations and 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.

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders;
- to maintain sufficient cash resources to support its ongoing research activities;
- to maintain a flexible capital structure which optimizes the cost of capital at an acceptable level of risk.

In the management of capital, the Company includes, convertible debt and shareholders' equity comprised of share capital, warrants in the equity portion of the convertible debentures, stock options, warrants, contributed surplus and deficit in the definition of capital.

The Company manages its capital structure and makes adjustments to it in light of economic conditions and the risk characteristics of the underlying assets. The Company, upon the approval of the Board of Directors, will balance its overall capital structure through the issue of new shares, the issue of new debt, acquiring or disposing of assets, or by undertaking other activities as deemed appropriate under specific circumstances.

The Company has an externally imposed capital requirement related to their issue of the convertible note payable as disclosed in Note 7 to the audited financial statements. The Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2007.

As at April 23, 2009, the Company expects that its current capital resources will be sufficient to carry on its research and development plans and operations for the next 13 months. There is no assurance that the Company will continue their past success in obtaining new funding.

QUARTERLY FINANCIAL INFORMATION FOR 2008

The following table summarizes selected comparative quarterly financial information of the Company for the year ended December 31, 2008.

Summary of Quarterly results						
	Net Loss			Loss per share		
Quarter	2008	2007	2006	2008	2007	2006
Q1	\$186,564	\$172,835	\$207,318	.0053	.0073	.0073
Q2	\$183,048	\$228,104	\$208,850	.0052	.0068	.0074
Q3	\$146,529	\$193,008	\$153,234	.0041	.0056	.0054
Q4	\$109,099	\$341,305	\$147,590	.0031	.0100	.0052

FOURTH QUARTER

The net loss for the three months ended December 31, 2008 was \$109,099 as compared to \$341,305 for the three months ended December 31, 2007 and \$147,590 for the three months ended December 31, 2006, representing a decrease in net loss \$232,206 or 68.0%. \$84,490 of the decrease from 2007 is due to a one time correction to the calculation of the stock option compensation for the year. The balance of the decrease was \$147,716 or 43.3%. While there was a substantial decrease in interest income resulting from lower interest rates and a lower cash balance, this decrease in loss was due primarily to a decrease in stock option compensation (resulting from a limited issue of stock options during the year), salaries and professional consulting fees and research and development costs.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2008, the Company paid a total of \$34,000 (2007 - \$32,000; 2006 - \$58,350) to several officers and shareholders for consulting fees.

SUBSEQUENT EVENTS

On March 16, 2009, following a decision to terminate the patent prosecution and maintenance of HOS group, a notice of termination of license agreement was filed with the licensor of a March 4, 2005 license agreement. The decision was made pursuant to an evaluation of the technology at a board of directors meeting.

OUTLOOK

At present the Company 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 pre-clinical studies for the development of a novel therapeutic agent for Alzheimer's disease (AD) and pending successful completion of these studies and a successful completion of financing, the

Company plans to complete the required pre-clinical toxicology and safety pharmacology studies to support the filing of an IND application to initiate human clinical trials. In addition, the Company is continuing the development of a novel therapeutic agent for prostate cancer and expects to initiate pre-clinical toxicology and safety pharmacology studies required for IND filing as soon as it has successfully raised funds required for these studies. The Company is looking to raise additional capital by way of equity financings in order to continue the development of its products and it is anticipated that the total expenses will increase during fiscal 2009 should the Company successfully complete such additional financings.

MANAGEMENTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management, including the President, Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators) as of December 31, 2008.

Management has concluded that, as of December 31, 2008, the Company's disclosure controls and procedures were effective to provide reasonable assurance that material information relating to the Company would be made known to them by others within the Company and its subsidiaries, particularly during the period in which this report was being prepared.

Management is responsible for and has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. There were no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.