



**OSTA BIOTECHNOLOGIES INC.**

**Management's Discussion and Analysis**

**For the twelve months ended  
December 31, 2007**

**April 22, 2008**

## **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, 2007. It should be read in conjunction with the accompanying consolidated audited financial statements and related notes for the twelve months ended December 31, 2007 prepared in accordance with Canadian generally accepted accounting principles. This discussion and analysis takes into account material events up to April 22, 2008. 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 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](http://www.sedar.com).

## **CHANGES IN ACCOUNTING POLICIES**

On January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1506, Accounting Changes. This standard establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies and estimates, and correction of errors. The adoption of this standard did not have any impact on the Company.

## **Financial instruments**

Effective as of the beginning of our 2007 fiscal year, the Company adopted the new recommendations of the CICA under CICA Handbook Section 1530, Comprehensive Income, Section 3251, Equity, Section 3855, Financial Instruments - Recognition and Measurement, Section 3861 Financial Instruments - Disclosure and Presentation and Section 3865, Hedges. These new Handbook Sections provide comprehensive requirements for the recognition and measurement of financial instruments. Section 1530 establishes standards for reporting and displaying comprehensive income. Comprehensive income is defined as the changes in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles.

Under these new standards, all financial instruments are classified into one of the following five categories: held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are initially and subsequently measured at fair value with the exception of loans and receivables, investments held-to-maturity and other financial liabilities, which are subsequently measured at amortized cost. Subsequent recognition of changes in fair value of financial instruments remeasured each reporting date at fair value depend on their initial classification. Held for trading financial instruments are measured at fair value with all gains and losses included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with gains and losses included in other comprehensive income until the asset is removed from the balance sheet or until impaired.

The standards require derivative instruments to be recorded as either assets or liabilities measured at their value unless exempted from derivative treatment as a normal purchase or sale. Certain derivatives embedded in other contracts must also be separated from the main contract and measured at fair value. All changes in the fair value of derivatives are recognized in earnings unless specific hedge criteria are met, which requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. Any derivative instrument that does not qualify for hedge accounting is marked-to-market at each reporting date and the gains or losses are included in earnings.

As a result of the adoption of these new standards, the Company has classified its cash and short-term investments as held for trading, its receivables as loans and receivables and its accounts payable and accrued liabilities, as other liabilities.

## **Future Accounting changes**

The Canadian Institute of Chartered Accountants(" CICA") issued three new accounting standards which will be effective for fiscal years beginning on or after October 1, 2007, and which will be adopted by the Company on January 1, 2008. These new standards, described below are section 1535, Capital Disclosures, section 3862, Financial Instruments - Disclosures and section 3863, Financial Instruments - Presentation. The Company is in the process of evaluating the disclosure and presentation requirements of the new standards, however, it is not anticipated that the results of the Company will be affected.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace section 3861, Financial instruments - Disclosure and Presentation, revising and enhancing its disclosure and requirements, and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

In addition to those new standards indicated above, in January 2008, the CICA issued Section 3064 - Goodwill and Intangible Assets, which replaced Section 3062 - Goodwill and Other Intangible Assets, and will result in the withdrawal of Section 3450 - Research and Development Costs, as well as Emerging Issues Committee (EIC) 27 - Revenues and Expenditures During the Pre-Operating Period, and Accounting Guideline (AcG 11) - Enterprises in the Development Stage. This standard provides a guideline on the recognition of intangible assets according to the definition of an asset, application of the matching costs against revenues, whether these assets were acquired or developed internally. This section applies to annual financial statements for fiscal years beginning on or after October 1, 2008. The Company is currently evaluating the effects of this new standard on the financial statements..

## **Harmonizing of Canadian and International Standards**

In March 2006, the Accounting Standards Board of the CICA released its new strategic plan which proposes to abandon Canadian GAAP and effect a complete convergence to the International Financial Reporting Standards. At the end of a transitional period of approximately five years, Canadian GAAP will cease to exist as a separate, distinct basis of financial reporting for public companies. The Company will closely monitor changes arising from this convergence.

## **SELECTED ANNUAL INFORMATION**

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

	<b>2007</b>	<b>2006</b>	<b>2005</b>
Revenue	\$40,528	\$16,708	\$12,488
Research & development expenses	394,369	265,092	255,059
General & administrative expenses	416,601	304,257	329,901
Research and development tax credits	(117,691)	(81,496)	(88,645)
Stock option compensation	236,798	238,347	274,329
Amortization of plant and equipment	3,971	5,479	3,303
Amortization of patents	39,649	-	-
Amortization of licenses	2,083	2,020	1,200
Net Loss	(935,252)	(716,991)	(762,659)
Loss per share basic & diluted	(0.02754)	(0.02508)	(0.02973)
Liquid assets	1,201,861	1,256,103	825,210
Current assets	1,340,956	1,418,317	955,318
Other assets	355,104	345,236	275,980
Total assets	1,696,060	1,763,553	1,231,298
Current liabilities	154,467	122,194	96,444
Long-term liabilities	-	-	-
Total liabilities	154,467	122,194	96,444
Working capital	1,186,489	1,296,123	858,874
Deficit	3,626,345	2,497,305	1,646,465
Total capital stock and contributed surplus	5,167,938	4,138,664	2,781,319

### **Consolidation of Financial Statements**

For the twelve months ended December 31, 2007, the financial statements of the Company and Osta are presented on a consolidated basis.

## **Outstanding Shares**

At December 31, 2007, the Company had 35,386,518 (2006 - 32,706,196) common shares issued and outstanding. Options to acquire an aggregate of 4,435,000 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, 7,768,855 Common Shares have been reserved for issuance pursuant to all outstanding common share purchase warrants.

## **Equity Financing by way of Private Placement**

In a press release dated December 17, 2007, the Company announced that it had completed a private placement in the amount of \$204,100 by issuing a total of 680,322 common shares at a price of \$0.30 per unit. Each unit consisted of one common share and one half of common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.50 per share until December 17, 2009.

## **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.

### **Investment Income**

During the twelve month period ended December 31, 2007, the Company had revenues of \$40,528 consisting of interest income as compared to \$16,708 for the year ended December 31, 2006 and \$12,488 for the year ended December 31, 2005. The increase in revenue is due to higher cash balances as compared to the same period of the previous year.

### **Expenses**

The Company had gross expenses during the fiscal year of \$975,780 (as compared to \$733,699 in 2006 and \$775,147 in 2005) resulting in a loss per share of \$0.028 (2006 - \$0.025, 2005 - \$0.030). The Company spent approximately \$394,369 (as compared to \$265,092 in 2006 and \$255,059 in 2005) on research and development (R&D). These expenses primarily consisted of R&D salaries, consulting fees, supplies and research contracts.

## General & Administrative

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

	2007	2006	2005
<b>General and Administrative Expenses</b>	416,601	\$304,257	\$329,901

The increase in general and administrative expenses in 2007 compared to 2006 is due mainly to increases in salaries and wage levies, professional fees and research and development expenses.

## 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.

### *Cancers Therapeutic Agent*

The Company is 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 2009 and file an IND application in 2010 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.

### *Diagnostic Test for Alzheimer's Disease*

The Company is currently focusing on the development of a novel blood test for Alzheimer's disease (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 2008 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's AD test is expected to be classified as a class III In-Vitro Diagnostic Device (IVDD) requiring a Pre-Market Approval ("PMA") filing with FDA anticipated in 2009. Given the low-risk assumed by patients, the Company anticipates that the test will not require an Investigational Device Exemption ("IDE") filing. As such, subject to

satisfactory completion of the currently on-going clinical development of its test, the Company intends to license it out to pharmaceutical/diagnostic companies world-wide with a view to initiating its commercialization. If it is successful in this regard, the Company could begin to generate up-front licensing fees in 2009. The Company expects that it will cost approximately \$500,000 to complete the additional clinical studies required for completing the clinical validation of its diagnostic test for AD. At present, the Company is looking to raise additional capital in order to conduct the remaining clinical studies required for the completion of the clinical development of its novel blood test for AD. The future development of this test is heavily dependent on the Company's ability to raise the additional capital in a timely fashion as well as to license out this test to commercial partner(s) for regulatory filing, approvals and commercialization.

#### ***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. Upon successful 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.

#### ***Therapeutic Agent for treatment of XLH***

X-Linked Hypophosphatemic rickets (XLH) is a familial form of rickets which results from defects in the PHEX gene. Most cases of XLH, which shows a prevalence of about 1 in 20,000 (Source: [www.athendiagnosics.com](http://www.athendiagnosics.com)), are believed to be associated with X-linked dominant loss-of-function mutations in the gene *PHEX* or autosomal dominant gain-of-function mutation in the gene *FGF23*. No cure exists for XLH, but early initiation of treatment significantly improves the outcome. XLH being a rare disease, the drug for treating XLH could potentially be eligible for an orphan drug status and, therefore, could potentially qualify for an expedited review process with significantly shorter regulatory development time. The Company is developing novel therapeutic agents that could be used to treat XLH. The Company plans to identify the lead molecule for the treatment of XLH by the end of 2008 and subject to the availability of funds, it 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.

#### ***Osteoporosis Prognostic Test***

The Company is developing a novel prognostic test for assessing the risk of developing low bone mass and osteoporosis. To date, the Company has generated promising results in 264 males and 33 pre-menopausal females. The Company will require additional clinical studies, especially in young males and pre-menopausal females, as well as in

multi-race multi-ethnic male and female cohorts prior to licensing out its prognostic test to potential commercial partners and obtaining marketing approval from the FDA. Pending successful completion of additional clinical studies, the Company intends to license out its test to pharmaceutical/diagnostic companies world-wide in 2010. The Company expects that it will cost approximately \$550,000 to complete the clinical studies prior to licensing the test out to potential commercial partners. At present, the Company is looking to raise additional capital in order to conduct the remaining clinical studies required for the completion of the clinical development of its novel prognostic blood test for osteoporosis. The future development of this test is heavily dependent on the Company's ability to raise the additional capital in a timely fashion as well as to license out this test to commercial partner(s) for regulatory filing, approvals and commercialization.

### ***Osteoporosis Therapeutic Agent***

The Company is developing 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 the Company's proprietary transgenic mouse models to generate a drug candidate which will be taken into pre-clinical and clinical development. The Company needs additional capital to pursue the development of its osteoporosis therapeutic and upon successful completion of financings in a timely fashion, it plans to initiate pre-clinical studies in 2010, with the goal of submitting an IND filing in 2012. The Company expects that it will cost approximately \$2,000,000 to complete the various pre-clinical studies.

### **Working Capital**

As at December 31 2007, the Company had cash and cash equivalents, sundry receivables, investment tax credit receivables and prepaid expenses in the aggregate amount of \$1,340,956 (2006 - \$1,418,317) and accounts payable and accrued liabilities of \$154,467 (2006 - \$122,194), resulting in a working capital of \$1,186,489 compared to a working capital of \$1,296,123 as at December 31, 2006 and \$858,874 as at December 31, 2005. The decrease in working capital has been limited to \$109,634 due to the closing of two private placements totalling of \$704,100.

### **Liquidity**

As of December 31, 2007, liquid assets (cash and short-term investments held for trading) totalled \$1,201,861, or 70.9% of total Company assets; this compares to \$1,256,103, or 71.3% of total assets as at December 31, 2006 and \$825,210, or 60.7% of total Company assets as at December 31, 2005. As a result, liquid assets decreased by \$54,242, or 4.3% over 2006 and increased by \$376,651, or 45.6% over 2005.

Liquid assets for the quarter ended December 31, 2007 increased by \$90,804. This increase is attributable to cash flows provided by the private placement of \$204,100 in December 2007. The Company's working capital (current assets less current liabilities) decreased by \$13,212 or 1.0% to \$1,186,489 as at December 31, 2007, from \$1,296,123 as at December 31, 2006 (December 31, 2005 - \$858,874 an increase of \$327,615 or

38.1%) The working capital ratio (current assets/current liabilities) reached 8.68 at the end of the quarter, compared to 11.67 at the same time last year and 9.91 at the same time in 2005.

The Company believes that the cash at hand at the end of December 31, 2007 is sufficient for conducting the business of the Company for the next 12 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 blood test 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 therapeutic product 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, 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.

### **QUARTERLY FINANCIAL INFORMATION FOR 2007**

The following table summarizes selected comparative quarterly financial information of the Company for the year ended December 31, 2007.

<b>Summary of Quarterly results</b>				
	Net Loss		Loss per share	
Quarter	2007	2006	2007	2006
Q1	\$172,835	\$207,318	.0053	.0073
Q2	\$228,104	\$208,850	.0068	.0074
Q3	\$193,008	\$153,234	.0056	.0054
Q4	\$341,305	\$147,590	.0100	.0052

## **FOURTH QUARTER**

The net loss for the three months ended December 31, 2007 was \$341,305 as compared to \$147,590 for the three months ended December 31, 2006, representing an increase in net loss \$193,715 or 131.25%. This increase in loss was due to an increase in research and development activities.

## **RELATED PARTY TRANSACTIONS**

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

## **SUBSEQUENT EVENTS**

The following stock options were issued to consultants of the company providing for the purchase of shares of common stock for a period of up to five years:

On February 14, 2008, - option to purchase 100,000 shares of common for \$0.225 per share; and

On March 19, 2008, - option to purchase 250,000 shares of common stock of the company for \$0.19 per share.

## **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 clinical studies for the development of a novel blood test for Alzheimer's disease (AD) and pending successful completion of these studies, the Company anticipates that it would be in a position to potentially establish partnerships with pharmaceutical and/or diagnostic companies for the regulatory approvals and commercialization of the blood test at which stage, the Company is expected to start generating revenues by way of obtaining upfront licensing

fees, milestone payments and royalties resulting from the sale of the blood test. In addition, the Company is continuing the development of a novel therapeutic agent for prostate cancer and expects to initiate preclinical toxicology and safety pharmacology studies required for IND filing. The Company will require substantial additional capital resources to complete the pre-clinical development of its lead anti-cancer molecule and initiate Phase-I clinical studies in North America. 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 2008 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, 2007.

Management has concluded that, as of December 31, 2007, 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.