



OSTA BIOTECHNOLOGIES INC.

Management's Discussion and Analysis

**For the third quarter ended
September 30, 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 third quarter ended September 30, 2008. It should be read in conjunction with the accompanying unaudited consolidated interim financial statements and related notes for the third quarter ended September 30, 2008 prepared in accordance with Canadian generally accepted accounting principles taking into account material events up to November 28, 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.

CHANGES IN ACCOUNTING POLICIES

The Canadian Institute of Chartered Accountants ("CICA") issued three 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 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.

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.

FUTURE ACCOUNTING CHANGES

In January 2008, the CICA issued a new standard, 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. Although the Company is in the process of evaluating the impact of these standards, we do not expect these standards to have a material impact on the consolidated 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 FINANCIAL INFORMATION

The selected financial information provided below is derived from our unaudited quarterly consolidated financial statements:

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	\$146,528	\$193,008	\$153,234	.0041	.0056	.0054
Q4		\$341,305	\$147,590		.0100	.0052

Consolidation of Financial Statements

For the nine month period ended September 30, 2008, the financial statements of the Company and Osta are presented on a consolidated basis. As well, management has reclassified certain expenses in order to more clearly disclose the total expenditures made on research and development. Accordingly, reclassifications of expenses of the 2007 amounts have been made in order to conform to the method of presentation adopted in the current year.

Outstanding Shares

At September 30, 2008, the Company had 35,386,518 common shares issued and outstanding. Options to acquire an aggregate of 3,625,000 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.

On October 21, 2008, the Company has 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 promisory 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 Osta 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.

Other than indicated above, as of November 28, 2008, 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.

Investment Income

During the nine month period ended September 30, 2008, the Company had revenues of \$19,016 consisting of interest income as compared to \$30,381 for the nine month period ended September 30, 2007. The decrease in revenue is due to significantly lower interest rates, a reduced cash reserve and management's efforts to maximize interest income while monitoring cash flow requirements and cash balances.

Research and Development Expenses

The Company had gross expenses during three month period ended September 30, 2008 of \$147,495 as compared to \$206,439 during three month period ended September 30, 2007. The decrease in the expenses is due primarily to the completion of certain research contracts, a recovery of research expenses of \$43,000 as compensation for the agreement to amend a "material transfer option & option to license" agreement, a decrease in salaries and a reduction of stock option compensation. During the nine month period ended September 30, 2008, gross expenses were \$535,157 as compared to \$624,329 for the nine month period ended September 30, 2007. The decrease in expenses for the nine months are due to the completion of research contracts and the recovery of research costs as well as a reduction of salaries and consulting fees, stock option compensation and travel costs during the period. The reduction in stock option compensation was as a result of no increase in stock options granted during the quarter and the expiry of certain options which were issued earlier in the year. Management has continued to ensure that costs are tightly controlled while the emphasis continues to move forward on lead research projects.

During three month period ended September 30, 2008, the Company spent \$106,892 on research and development expenses. In addition, the Company accepted an offer to amend a "material transfer option & option to license" agreement in exchange for the recovery of certain research costs incurred of \$43,000. As a result, the net research and development costs incurred during the three month period was \$63,892 as compared to \$106,058 for the three months ended September 30, 2007. During the nine month period ended September 30, 2008, research and development expenses totaled \$225,943 (net of the recovery indicated) as compared to \$307,518 for the nine month period ended September 30, 2007. The decrease in research and development expenses is due mainly to the completion of certain research contracts.

General & Administrative Expenses

During the three month period ended September 30, 2008, the Company incurred \$78,234 on general and administrative expenses as compared to \$75,634 for the three month period ended September 30, 2007. During the nine month period ended September 30, 2008, general and administrative expenditures totaled \$253,327 as compared to \$275,508 for the nine month period ended September 30, 2007. The decrease in general and administrative expenses is due mainly to the decrease in salaries, professional and consulting fees, travel expenses and taxes and insurance. Management has been successful in managing the administrative and overhead costs and is continuously monitoring those costs.

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 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.

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. Recently, 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 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.

Results

For the three month period ended September 30, 2008, the Company had a net loss of \$146,528 or \$0.0041 per diluted share as compared to a net loss of \$193,008 or \$0.0056 per diluted share for the same period of the previous year. The net loss for the nine months ended September 30, 2008 was \$516,141 or \$0.0146 per diluted share as compared to a net loss of \$593,948 or \$0.0175 for the nine months ended September 30, 2007. The Company expects to continue to incur losses as it continues its research and development programs.

Working Capital

As at September 30, 2008, the Company had current assets consisting of cash and short-term investments held for trading, sundry receivables, investment tax credit receivables and prepaid expenses in the aggregate amount of \$935,606 and current liabilities consisting of accounts payable and accrued liabilities of \$169,158, resulting in a working capital of \$766,448 compared to a working capital of \$1,186,489 as at December 31, 2007. The decrease in working capital is due to continued research activities and operations. The Company has not completed any private placements of securities and has not issued any new share capital during the nine months ended September 30, 2008.

Liquidity

As of September 30, 2008, liquid assets (cash and short-term investments held for trading) totalled \$694,847 or 53.5% of total Company assets; this compares to \$1,201,861 or 70.9% of total Company assets as at December 31, 2007. As a result, liquid assets have decreased by \$507,014, or 42.1% during the year.

The Company believes that the cash at hand at the end of September 30, 2008 is sufficient for conducting the business of the Company for the next 12 months.

The subsequent grant received from the Institute for the Study of Aging in October 2008, provides the Company with an additional source of funding which is specifically provided for the research to advance the pre-clinical development of the Company's Alzheimer's disease drug .

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 novel therapeutic agents for cancer and AD. The Company's research and development programs related to the development of a novel diagnostic for AD, a novel diagnostic & therapeutic product for osteoporosis and a novel therapeutic product for the treatment of rickets are currently on hold and will be revisited in future upon successfully securing the required financing for the development of these programs. 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't 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.

RELATED PARTY TRANSACTIONS

During the three month period ended September 30, 2008, the Company paid a total of \$55,750 to several officers and shareholders for their services. The amount paid during the nine month period ended September 30, 2008 was \$196,250.

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 drug for the treatment of metastatic and hormone refractory prostate cancer and Alzheimer's disease and expects to initiate preclinical toxicology and safety pharmacology studies required for IND filing as soon as further financing has been secured. 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 September 30, 2008.

Management has concluded that, as of September 30, 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.