



CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited - See Notice to Reader)

MARCH 31, 2008

OSTA BIOTECHNOLOGIES INC.

MARCH 31, 2008

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NOTICE TO READER

Management of the Company has prepared these consolidated interim unaudited financial statements and their accompanying 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 consolidated interim unaudited financial statements

OSTA BIOTECHNOLOGIES INC.

(Unaudited - See Notice to Reader)

As at March 31, 2008

CONSOLIDATED INTERIM BALANCE SHEET

	March 31 2008 \$	December 31 2007 \$
ASSETS		
Current		
Cash	126,775	132,861
Short-term investment held for trading (Note 5)	900,000	1,069,000
Sundry receivables	18,331	10,840
Investment tax credits receivable	140,379	117,120
Prepaid expenses	8,231	11,135
	1,193,716	1,340,956
Property and equipment (Note 6)	8,315	8,996
Patents (Note 7)	322,206	312,410
Licenses (Note 8)	33,131	33,698
	1,557,368	1,696,060
LIABILITIES		
Current		
Accounts payable and accrued liabilities	148,305	154,467
EQUITY		
Capital stock (Note 9)	4,196,876	4,196,876
Contributed surplus (Note 10)	1,025,096	971,062
Deficit	(3,812,909)	(3,626,345)
	1,409,063	1,541,593
	1,557,368	1,696,060

ON BEHALF OF THE BOARD:

Ajay Gupta, Director

Leontis Teryazos, Director

See accompanying notes

OSTA BIOTECHNOLOGIES INC.

(Unaudited - See Notice to Reader)

For the period ended March 31, 2008

CONSOLIDATED INTERIM STATEMENT OF DEFICIT

	Three months ended	
	March 31	
	2008	2007
	\$	\$
BALANCE - BEGINNING OF PERIOD	(3,626,345)	(2,497,306)
Net loss	(186,564)	(172,834)
Share issue costs	-	(20,000)
BALANCE - END OF PERIOD	(3,812,909)	(2,690,140)

See accompanying notes

OSTA BIOTECHNOLOGIES INC.

(Unaudited - See Notice to Reader)

For the period ended March 31, 2008

CONSOLIDATED INTERIM STATEMENT OF LOSS AND COMPREHENSIVE INCOME

	Three months ended March 31	
	2008	2007
	\$	\$
INVESTMENT INCOME	10,328	1,356
EXPENSES		
Salaries and wage levies	79,275	68,762
Professional and consulting fees	46,250	61,200
Travel and automobile	3,577	3,631
Office and general	4,646	4,324
Interest and bank charges	113	94
Taxes and insurance	4,583	5,784
Other research costs	24,220	27,375
Research and development tax credits	(23,259)	(23,712)
Stock option compensation	54,034	25,255
Amortization of property and equipment	1,905	1,062
Amortization of patents	980	-
Amortization of licenses	568	415
	196,892	174,190
NET LOSS AND COMPREHENSIVE INCOME	(186,564)	(172,834)
LOSS PER SHARE:		
Basic and fully diluted	(0.0053)	(0.0053)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING FOR THE PERIOD	35,386,528	32,706,196

See accompanying notes

OSTA BIOTECHNOLOGIES INC.

(Unaudited - See Notice to Reader)

For the period ended March 31, 2008

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Three months ended	
	March 31	
	2008	2007
	\$	\$
CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES		
Net loss	(186,564)	(172,834)
Items not requiring an outlay of cash:		
Amortization of property and equipment	1,905	1,062
Amortization of patents	980	-
Amortization of licenses	568	415
Stock option compensation	54,034	25,255
	(129,077)	(146,102)
Changes in non-cash working capital balances	(34,009)	(36,218)
	(163,086)	(182,320)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Proceeds on redemption of short-term investments held for trading	169,000	237,303
Investment in short-term investments held for trading	-	-
Acquisition of patents	(12,000)	(18,750)
Acquisition of licenses	-	(5,000)
	157,000	213,553
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Share issue costs	-	(20,000)
	-	(20,000)
INCREASE (DECREASE) IN CASH	(6,086)	11,233
CASH - BEGINNING OF PERIOD	132,861	118,015
CASH - END OF PERIOD	126,775	129,248

See accompanying notes

OSTA BIOTECHNOLOGIES INC.

(Unaudited - See Notice to Reader)

As at March 31, 2008

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

The Company, incorporated under the Canada Business Corporations Act, 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, osteoarthritis 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, 2007.

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

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

3. CAPITAL MANAGMENT

The company's objectives when managing capital are:

- To preserve the Company primary goal of becoming a biotechnology research company with a diversified product portfolio.
- To maintain a flexible capital structure which optimizes the cost of capital at acceptable risk.
- To sustain the Company's ability to continue as a going concern in order to provide returns for shareholders.

In the management of capital, the Company includes cash, short-term investments held for trading and equity in the definition of capital.

The Company expects that its current capital resources will be sufficient to carry its operations for at least twelve months. To ensure that sufficient capital is available, the Company may attempt to issue new equity securities or pursue various other funding alternatives. If sufficient capital is not available, the Company may delay, reduce the scope of, eliminate or divest of research projects.

As of March 31, 2008, the Company is not required to meet any externally imposed capital requirements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) New Accounting Standards

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

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Cont'd

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.

(b) Use of estimates

The preparation of the consolidated 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 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.

(c) 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 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.

(d) Financial instruments

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.

(e) Cash and cash equivalents

Highly liquid investments with a maturity date of three months or less from the date of purchase are classified as cash and cash equivalents.

(f) 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

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Cont'd

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.

5. SHORT-TERM INVESTMENT HELD FOR TRADING

The short-term investment is a cashable variable rate investment certificate with the Company's bank maturing within one year and whose market value approximates cost.

6. PROPERTY AND EQUIPMENT

	March 31, 2008			December 31, 2007
	Cost \$	Amortization \$	Net \$	Net \$
Office equipment	18,278	13,814	4,464	4,832
Lab equipment	9,997	6,146	3,851	4,164
	28,275	19,960	8,315	8,996

7. PATENTS

The patents have a net carrying value of \$322,206 (December 31, 2007 - \$312,410), net of accumulated amortization of \$41,853 (December 31, 2007 - \$39,649).

8. LICENSES

The licenses acquired allow the Company to perform research on patented technology. The licenses have a net carrying value of \$33,131 (December 31, 2007 - \$33,698), net of accumulated amortization of \$5,869 (December 31, 2007 - \$5,302).

9. CAPITAL STOCK

Authorized -

An unlimited number of common shares and an unlimited number of preferred shares without nominal or par values

Issued -

March 31 2008	December 31 2007		March 31 2008 \$	December 31 2007 \$
35,386,528	35,386,528	Common shares	4,196,876	4,196,876

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OSTA BIOTECHNOLOGIES INC.

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

10. CONTRIBUTED SURPLUS

Contributed surplus consists of the following:

	Three months ended March 31 2008 \$	Year ended December 31 2007 \$
Balance - beginning of period	971,062	645,888
Stock based compensation	54,034	236,798
Broker warrants issued upon private placement	-	88,376
	1,025,098	971,062

11. STOCK OPTION COMPENSATION PLAN

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.

The Company has accounted for options granted using the fair value method. The fair value of the options granted after December 31, 2007 was estimated using the Black-Scholes option pricing model based on the following assumptions:

Risk free interest rate	Between 3.45% and 3.64%
Expected volatility	Between 129.50% and 129.72%
Dividend yield	Nil
Average expected life	5 years
Fair value on grant date	Between \$0.184 - \$0.194

The fair value of the options granted during 2007 was estimated using the Black-Scholes option pricing model based on the following assumptions:

Risk free interest rate	Between 4.08% and 4.54%
Expected volatility	Between 131.72% and 143.45%
Dividend yield	Nil
Average expected life	5 years
Fair value on grant date	Between \$0.225 - \$0.248

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%

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11. STOCK OPTION COMPENSATION PLAN - Cont'd

Dividend yield	Nil
Average expected life	Between 3 months and 5 years
Fair value on grant date	Between \$0.154 - \$0.168

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:

	Three months ended March 31, 2008	
	Number of Options	Weighted Average Exercise Price \$
Balance - beginning of period	4,435,000	0.3231
Granted during the period	350,000	0.2014
Balance - end of period	4,785,000	0.3142

Common share purchase options outstanding, exercisable, granted to directors, officers and consultants of the Company as at March 31, 2008 are summarized as follows:

Number of Options	Exercise Price	Expiry Date
20,000	0.35	June 2008
20,000	0.30	July 2008
10,000	0.35	October 2008
450,000	0.35	December 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
425,000	0.27	November 2012
100,000	0.23	February 2013
250,000	0.19	March 2013

12. COMMITMENTS AND CONTINGENCIES

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

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

12. COMMITMENTS AND CONTINGENCIES - Cont'd

- (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 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.
 - (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 licence 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.
 - (ii) 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 \$1 M of gross revenue as specifically defined in the license agreement on sales of products related to the specific licenses
 - (iii) 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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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

12. COMMITMENTS AND CONTINGENCIES - 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 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.
- D. The Company has entered into a licensing agreement with a fourth licensor having 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.

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12. COMMITMENTS AND CONTINGENCIES - Cont'd

- 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 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.

13. FINANCIAL INSTRUMENTS

Fair Value

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

Credit risk

The Company is exposed to credit risk through its cash and its short-term investment held for trading. Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Cash and short-term investment held for trading is maintained with a high quality financial institution. The carrying amount of cash and short-term investment held for trading represents the Company's maximum credit exposure.

Interest rate risk

The Company manages its short-term investment held for trading based on its cash flow needs and with a view to optimizing its interest income.

Currency risk

The Company realizes its revenues and its expenses in Canadian currency, consequently it is not exposed to foreign exchange fluctuations.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by continuously monitoring cash flows and through the regular distribution of this information to the Board of Directors and the Audit Committee.