



CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited - See Notice to Reader)

March 31, 2010

OSTA BIOTECHNOLOGIES INC.

MARCH 31, 2010

CONTENTS

	Page
NOTICE TO READER	2
FINANCIAL STATEMENTS	
Consolidated Interim Balance Sheet	3
Consolidated Interim Statement of Deficit	4
Consolidated Interim Statement of Loss and Comprehensive Income	5
Consolidated Interim Statement of Cash Flows	6
Notes to Consolidated Interim Financial Statements	7 - 20



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, 2010

CONSOLIDATED INTERIM BALANCE SHEET

	March 31 2010 \$	December 31 2009 \$
ASSETS		
Current		
Cash and cash equivalents (Note 5)	324,678	374,401
Receivables	6,109	3,301
Investment tax credits receivable	48,920	118,255
Prepaid expenses	36,979	911
	416,686	496,868
Property and equipment (Note 6)	5,862	6,337
	422,548	503,205
LIABILITIES		
Current		
Accounts payable and accrued liabilities	205,992	182,824
Long-term		
Convertible debt (Note 7)	87,591	87,480
EQUITY		
Capital stock (Note 8)	4,196,876	4,196,876
Contributed surplus (Note 9)	1,143,859	1,142,585
Deficit	(5,211,770)	(5,106,560)
	128,965	232,901
	422,548	503,205

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, 2010

CONSOLIDATED INTERIM STATEMENT OF DEFICIT

	Three months ended	
	March 31	
	2010	2009
	\$	\$
BALANCE - BEGINNING OF PERIOD	(5,106,560)	(4,559,624)
Net loss	(105,210)	(133,744)
BALANCE - END OF PERIOD	(5,211,770)	(4,693,368)

See accompanying notes

OSTA BIOTECHNOLOGIES INC.

(Unaudited - See Notice to Reader)

For the period ended March 31, 2010

CONSOLIDATED INTERIM STATEMENT OF LOSS AND COMPREHENSIVE INCOME

	Three months ended March 31	
	2010	2009
	\$	\$
EXPENSES		
Research and development costs	57,264	65,020
Salaries and wage levies	21,196	21,147
Professional and consulting fees	28,347	40,439
Travel and automobile	205	626
Office and general	1,520	2,020
Taxes and insurance	2,772	1,848
Research and development tax credits	(9,700)	(13,500)
Stock option compensation (Note 10)	1,274	8,422
Interest on convertible debt	1,952	2,335
Amortization of property and equipment	475	660
LOSS BEFORE UNDERNOTED ITEMS	(105,305)	(129,017)
Change in fair value of convertible debt	(111)	(6,593)
Investment income	206	1,866
NET LOSS AND COMPREHENSIVE INCOME	(105,210)	(133,744)
LOSS PER SHARE:		
Basic and fully diluted	(0.0030)	(0.0038)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING FOR THE PERIOD	35,386,528	35,386,528

See accompanying notes

OSTA BIOTECHNOLOGIES INC.

(Unaudited - See Notice to Reader)

For the period ended March 31, 2010

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Three months ended	
	March 31	
	2010	2009
	\$	\$
CASH USED IN OPERATING ACTIVITIES		
Net loss	(105,210)	(133,744)
Items not affecting cash:		
Amortization of property and equipment	475	660
Stock option compensation	1,274	8,422
Change in fair value of convertible debt	111	6,593
	(103,350)	(118,069)
Changes in non-cash working capital items	53,627	(19,643)
	(49,723)	(137,712)
DECREASE IN CASH AND CASH EQUIVALENTS	(49,723)	(137,712)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	374,401	912,352
CASH AND CASH EQUIVALENTS - END OF PERIOD	324,678	774,640

See accompanying notes

OSTA BIOTECHNOLOGIES INC.

(Unaudited - See Notice to Reader)

As at March 31, 2010

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 novel therapeutic products specific to cancer, Alzheimer's disease, XLH and osteoporosis.

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, 2009.

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

These unaudited consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiary Osta Biopharma Inc. All intercompany transactions and balances have been eliminated upon consolidation.

3. GOING CONCERN

The accompanying financial statements have been prepared on the basis that the Company will continue as a going concern. Accordingly, they do not purport to give effect to adjustments, if any, that may be necessary should the Company be unable to continue its operations and therefore be required to realize its assets and discharge its liabilities and commitments in other than the ordinary course of business. The Company will periodically need to obtain new funds to continue to pursue its operations and in spite of the Company's success in obtaining new funds in the past, there is no guarantee of success for the future.

The Biotechnology industry is subject to rapid and substantial technological change which could negatively impact the marketability of the Company's technology. In consideration of the limited cash resources of the Company and as a result of the changes in technologies occurring in the industry, the Company decided to prioritize its research activities on cancer and Alzheimer's disease, and the Company has decided to discontinue the prosecution and maintenance of several non priority patent applications during the year.

The Company has no source of revenue and has significant cash requirements in order to meet its operational and research requirements.

Funding for the Alzheimer's research project is provided by the ISOA grant funds described in Note 7. These funds, which are restricted in accordance with the terms of the agreement with ISOA, provide the funding for the contract with PBRC described in Note 12 (E), and other related expenses. The contract with PBRC is scheduled to run into December 2010.

As described in Note 13, in April 2010, the Company has obtained additional financing, in the amount of \$504,000 through a private placement of 8,400,000 units consisting of 1 common share and one-half share purchase warrant per unit.

Cont'd...

OSTA BIOTECHNOLOGIES INC.

(Unaudited - See Notice to Reader)

As at March 31, 2010

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In management's opinion, other than as indicated in the above paragraph regarding the Alzheimer's research project provided by the ISOA, given the current level of funding, and past levels of expenditures, the Company has sufficient cash resources to continue its overall research and development plans and general operating activities into 2011.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Use of estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts 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.

Key areas of estimation, where management has made difficult, complex or subjective judgements, often as a result of matters that are inherently uncertain, include certain accrued liabilities, liabilities for potential litigation claims and settlements, the ability to use income tax loss carryforwards and other future income tax assets and liabilities, useful lives of depreciable assets and intangible assets with finite useful lives, estimates of volatility and forfeiture rates for stock based compensation and the determination of the debt and equity components for convertible debt instruments. For business combinations, key areas of estimation and judgement include the allocation of the purchase price.

(b) Financial instruments

The company has classified all of its financial assets as being either: (i) held for trading, (ii) loans and receivables or (iii) held-to-maturity and has classified its financial liabilities as being either (i) held for trading or (ii) other financial liabilities. All financial assets and liabilities are initially measured at fair value and are subsequently measured as follows:

Financial Asset / Liability	Classification	Subsequent Measurement
Cash and cash equivalents	Held for trading	Fair value
Short-term investments	Held for trading	Fair value
Receivables	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liability	Amortized cost
Convertible note payable	Held for trading	Fair value

For financial assets and liabilities which are subsequently measured at fair value, the Company determines the fair values using the fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has three levels as follows: Level 1 – quoted prices in active markets for identical items, Level 2 – significant other observable inputs and Level 3 – significant unobservable inputs.

(c) Cash and cash equivalents

Highly liquid investments with a maturity of three months or less from the date of purchase are classified as cash and cash equivalents. Highly liquid investments which the Company cannot use for current

Cont'd...

OSTA BIOTECHNOLOGIES INC.

(Unaudited - See Notice to Reader)

As at March 31, 2010

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Cont'd

operations because they are pledged as security or otherwise restricted are excluded from cash and cash equivalents.

(d) Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

(j) Convertible debt

The Company's convertible debt is considered to be a compound financial instrument that contains both a debt and equity component. On issuance, the fair value of the debt component is determined by discounting the expected future cash flows over the expected life using a market rate of interest for a non-convertible debt instrument with similar terms. The value is carried as debt on an amortized cost basis until extinguished on conversion or redemption. The remainder of the proceeds are allocated as a separate component of shareholders' equity. Transaction costs are apportioned between the debt and equity components based on their respective carrying amount when the instrument was issued.

On conversion, the carrying amount of the debt component and the equity component are transferred to share capital and no gain or loss is recognized. The interest cost recognized in respect of the debt component represents the accretion of the liability, over its expected life using the effective interest method, to the amount that would be payable if redeemed.

Where management is unable to determine an appropriate market interest rate in order to bifurcate the debt, the entire debt is treated as a financial liability held for trading.

(e) Loss per share

Basic loss per share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated by dividing the applicable net earnings (loss) by the sum of the weighted average number of shares outstanding during the year and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the year. The treasury stock method is used to compute the dilutive effect of stock options, warrants and similar instruments.

The computation of diluted loss per share is equal to the basic loss per share due to the anti-dilutive effect of the stock options and warrants.

(f) Future Accounting changes

- **Consolidated financial statements and non-controlling interest**

In January 2008, the Canada's Accounting Standard's Board (AcSB) released Section 1601 - Consolidated Financial Statements and Section 1602 - Non-Controlling Interest, which replace Section 1600 - Consolidated Financial statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the consolidated financial statements

Cont'd...

OSTA BIOTECHNOLOGIES INC.

(Unaudited - See Notice to Reader)

As at March 31, 2010

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Cont'd

of the parent, subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of International Accounting Standards (IAS 27) - Consolidated and Separate Financial Statements.

These sections apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. These sections must be applied together with section 1582 "Business Combinations" if they are implemented for a fiscal year beginning before January 1, 2011.

- **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.

5. CASH AND CASH EQUIVALENTS

	March 31, 2010	December 31, 2009
	\$	\$
Cash	124,678	24,401
Short-term investment, interest bearing at 0.25%, due within 30 days	200,000	350,000
	324,678	374,401

Included in cash and cash equivalents is an amount of approximately \$43,440 remaining from funds received under the terms of the recoverable grant from the Institute for the Study of Aging, Inc, a New York non-profit corporation, as described in Note 7. These funds must be used to fund a research project related to drug development for Alzheimer's disease.

Cont'd...

OSTA BIOTECHNOLOGIES INC.

(Unaudited - See Notice to Reader)

As at March 31, 2010

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6. PROPERTY AND EQUIPMENT

	Cost	Accumulated	Net
	\$	Amortization	Carrying
	\$	\$	Amount
March 31, 2010			
Office equipment	11,534	8,979	2,555
Lab equipment	11,532	8,225	3,307
	23,066	17,204	5,862
	Cost	Accumulated	Net
	\$	Amortization	Carrying
	\$	\$	Amount

December 31, 2009			
Office equipment	20,678	17,916	2,762
Lab equipment	11,532	7,957	3,575
	32,210	25,873	6,337

7. CONVERTIBLE DEBT

The Company has received a recoverable grant in the form of a convertible note payable of up to \$247,106 US funds of which the amount received as at March 31, 2010, was \$150,000 USF. These funds are provided by the Institute for the Study of Aging, Inc., a New York non-profit corporation ("ISOA") to fund a specific research project relating to drug development for Alzheimer's disease. The balance of \$97,106 US is to be issued upon ISOA's receipt of a report indicating that the original funds have been expended.

The note payable bears interest at the rate of 5% per annum and matures in 2013. The balance of the note payable, converted into Canadian dollars, together with any accrued and unpaid interest, is automatically convertible into shares of the Company upon the earlier of the following:

- Upon the fifth anniversary of the issue of the note payable at a conversion price of \$0.23958 per share;
- Upon the closing of an equity financing, or series thereof, yielding aggregate proceeds to the Company of \$1,000,000 ("Qualified Financing") on or before the second anniversary of the issue of the Note payable, at a price of \$0.18 per share, providing that the price shall be increased to \$0.198 per share should the Qualified Financing take place between the second anniversary and the third anniversary, \$0.2178 per share should the Qualified Financing take place between the third anniversary and the fourth anniversary, and to \$0.23958 per share between the fourth and fifth anniversary.
- Upon a change in control of the Company, unless payment is demanded by ISOA, at the conversion price of \$0.18 per share, providing that the price shall be increased to \$0.198 per share should the change in control take place between the second anniversary and the third anniversary, \$0.2178 per share should the change in control take place between the third anniversary and the fourth anniversary, and to \$0.23958 per share between the fourth and fifth anniversary.

Cont'd...

OSTA BIOTECHNOLOGIES INC.

(Unaudited - See Notice to Reader)

As at March 31, 2010

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

7. CONVERTIBLE DEBT - Cont'd

The company has determined that the convertible debt contains multiple embedded derivatives. The first embedded derivative is a foreign exchange contract which management has determined is not closely related to the host contract, and as such, must be treated separately. The second embedded derivative is the embedded conversion option which requires management to make certain assumptions concerning the market interest rate for a non-convertible debt with similar terms and features. Management has determined that it is unable to measure both the fair value of the embedded foreign exchange contract, as well as determine an appropriate market interest rate in order to bifurcate the debt. As such the entire contract is therefore being treated as a financial liability held for trading. Management has determined that due to the nature of this instrument, the Company's inability to obtain any other source of financing and the current financial position of the Company, it would not be possible to make any meaningful determination of a market interest rate for a non-convertible debt instrument.

The note payable was issued together with the issue of a warrant agreement to purchase shares of the Company as follows:

- a) Within five years of the issuance of the Note payable and at the earliest of the occurrence of a Qualified Financing (as defined above), a change in control, a public offering or the maturity date of the Note payable, ISOA may exercise the warrants issued to acquire that number of Common shares of the Company computed by the formula of 50% of the amount advanced divided by the exercise price as the lowest per share price of the securities issued in a Qualified Financing, or in the event that the triggering event is other than a Qualified Financing, the fair market value of the share of the Company's common shares providing for a minimum exercise price of \$0.18 per share.
- b) In lieu of exercising the warrant as indicated above, ISOA may elect to exercise the warrant or a portion thereof in exchange for Common shares of the Company computed using the formula of the number of shares purchaseable under (a) times the difference in the fair market value of a Common share at the date of the calculation and the exercise price as determined in (a) divided by the fair market value of a Common share at the date of the calculation.

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 March 31, 2010, the remaining balance of the funds received was \$43,440 including interest earned.

The Company is required to provide interim reports on the progress and the use of the grant funds by June 1, 2010 and the final reports by March 1, 2011. In the event that the Company violates any of the terms and conditions of the recoverable grant, ISOA reserves the right, in its sole discretion, to withhold payment of any funds not yet advanced and to terminate the grant. Should ISOA, in its sole discretion, determine that continuation of the project is not reasonably in the interest of the general public, that the project is not being executed in substantial compliance with the proposal, or that the Company is incapable of satisfactorily completing the work of the project, ISOA reserves the right, in its sole discretion, to withhold the payment of grant until, in its opinion, the situation has been corrected or declare that the grant has been terminated. In the event of the termination of the grant, ISOA may request the prompt refund of any unexpended balances remaining.

Cont'd...

OSTA BIOTECHNOLOGIES INC.

(Unaudited - See Notice to Reader)

As at March 31, 2010

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

7. CONVERTIBLE DEBT - Cont'd

As at March 31, 2010 the Company has complied with all of the requirements of the grant.

8. CAPITAL STOCK

Authorized -

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

Issued -

March 31 2010	December 31 2009		March 31 2010 \$	December 31 2009 \$
35,386,528	35,386,528	Common shares	4,196,876	4,196,876

Share purchase warrants

Share purchase warrants outstanding and exercisable as at March 31, 2010 are summarized as follows:

Three months ended
March 31, 2010

	Number of Warrants	Weighted Average Exercise Price \$
Balance - beginning of period	5,071,772	0.3691
Granted during the period	-	-
Expired	-	-
Balance - end of period	5,071,772	(0.3691)
Exercisable	4,361,000	0.4000

Each warrant entitles the holder to purchase one common share of the Company. The warrants are summarized as follows:

Number of warrants	Exercise price \$	Expiry Date
4,361,000	0.40	December 2010
710,772 ^(a)	0.18	October 2013

^(a) These share purchase warrants were issued as described in Note 7 above. The exercise price as indicated is based on the minimum exercise price according to the conditions described in Note 7 above, which as at March 31, 2010, was \$0.18.

Cont'd...

OSTA BIOTECHNOLOGIES INC.

(Unaudited - See Notice to Reader)

As at March 31, 2010

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

9. CONTRIBUTED SURPLUS

Contributed surplus consists of the following:

	March 31 2010	December 31 2009
	\$	\$
Balance - beginning of period	1,142,585	1,011,984
Stock based compensation	1,274	130,601
	1,143,859	1,142,585

10. 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 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 accounts for options granted using the fair value method.

During the three months ended March 31, 2010, there were no options granted to directors, officers, or consultants of the Company.

Stock option compensation costs are summarized as follows:

	Three months ended March 31, 2010
	\$
Options granted to directors, officers and employees	-
Options granted to consultants	1,274
	1,274

Cont'd...

OSTA BIOTECHNOLOGIES INC.

(Unaudited - See Notice to Reader)

As at March 31, 2010

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

10. STOCK OPTION COMPENSATION PLAN - Cont'd

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

	Number of Options	Weighted Average Exercise Price \$
Balance - beginning of period	3,750,000	0.2858
Expired during the period	(100,000)	0.3500
Balance - end of period	3,650,000	0.2840
Balance exercisable - end of period	3,637,500	0.2847

Common share purchase options outstanding, exercisable, granted to directors, officers and consultants of the Company as at March 31, 2010 are summarized as follows:

Number of Options Outstanding	Number of Options Exercisable	Exercise Price	Range of Expiry Date	Weighted Average Remaining Contractual Life
1,575,000	1,575,000	0.35	May 2010 to December 2010	5 months
300,000	300,000	0.25	February 2012	23 months
1,050,000	1,050,000	0.27	May 2012 to November 2012	28 months
100,000	100,000	0.23	February 2013	35 months
75,000	62,500	0.10	April 2014	49 months
550,000	550,000	0.18	June 2014	51 months

11. CAPITAL DISCLOSURES

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.

Cont'd...

OSTA BIOTECHNOLOGIES INC.

(Unaudited - See Notice to Reader)

As at March 31, 2010

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 expects that its current capital resources, after the recent private placement which took place in April 2010 as described in Note 13, will be sufficient to carry on its research and development plans and operations for the next 15 months. There is no assurance that the Company will continue their past success in obtaining new funding.

The Company has an externally imposed capital requirement related to their issue of the convertible note payable as disclosed in Note 7. The Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 30, 2009.

12. COMMITMENTS AND CONTINGENCIES

A. The Company has a licensing agreement with a licensor with the following terms and conditions.

(i) Royalties

a) A minimum annual royalty of \$5,000.

b) Royalty due to the licensor is calculated as follows:

The greater of \$5,000 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% .

Net revenues are specifically defined in the licensing agreement.

(ii) Milestone fee of \$50,000 is due upon acceptance of an "investigational new drug application" with the United States Food and Drug Administration (FDA) or its equivalent in another jurisdiction.

(iii) Marketing approval fees of \$150,000 respectively is payable to the licensor upon approval by the FDA or other regulatory agencies for the manufacture and sale of licensed products.

B. The Company has a licensing agreement with a second licensor having the following terms and conditions:

(i) Royalties

a) A minimum annual royalty of \$5,000 commencing in 2009.

b) Royalties due to the licensor 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 fee of \$25,000 per product is 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

Cont'd...

OSTA BIOTECHNOLOGIES INC.

(Unaudited - See Notice to Reader)

As at March 31, 2010

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

12. COMMITMENTS AND CONTINGENCIES - Cont'd

licenses.

- (iii) A marketing approval fee 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.

C. The Company has a licensing agreement with a third licensor having the following terms and conditions:

- (i) In consideration for the license granted in this Agreement, Licensee shall pay to Licensor an annual earned royalty on Net Sales of Licensed Products sold by Licensee and its Sublicensee(s) in the following manner:
 - 2.25% of Net Sales for up to and including \$100 M. per annum;
 - 1.75% of Net Sales greater than \$100 M. per annum and up to and including \$500 M. per annum; and
 - 1.5% of Net Sales greater than \$500 M. per annum.
- (ii) In consideration for the license granted herein, Licensee shall pay to Licensor the following amounts within 30 days of achievement of the following milestones:
 - \$10,000 upon submission of an Investigational New Drug (“IND”) Application to the United States Food & Drug Administration (“FDA”) or European Union equivalent for a License Product;
 - \$25,000 upon the initiation of the first Phase II clinical trial for a Licensed Product;
 - \$50,000 upon initiation of the first Phase III clinical trial for a Licensed Product;
 - 100,000 upon the first approval action letter issued by the FDA or European Union equivalent with respect to a New Drug Application for a Licensed Product (“FDA” Approval); and
 - \$500,000 upon Licensee and/or its Sublicensee(s) reaching Net Sales of Licensed Product of \$100 M.
- (iii) As a condition to maintain the license granted herein, subject to the terms and conditions of this Agreement, Licensee shall pay to Licensor minimum annual royalties of:
 - \$10,000 payable on each 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 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.
 - b) Royalties due to the licensor for the license are calculated as follows:

Cont'd...

OSTA BIOTECHNOLOGIES INC.

(Unaudited - See Notice to Reader)

As at March 31, 2010

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

12. COMMITMENTS AND CONTINGENCIES - Cont'd

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 the licensing agreement.

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

- E. On July 20, 2009, the Company entered into an agreement to sponsor a research project with Louisiana State University and Agricultural and Mechanical College represented by Pennington Biomedical Research Centre (PBRC). The remaining project cost of \$96,744 USF is to be paid to PBRC based on the achievement of milestones and a set timeline. Funds are expected to be disbursed by December 2010. The research project is funded primarily by the funds provided by the convertible debt described in note 7.

13. SUBSEQUENT EVENT

On April 1, 2010, the Company completed a private placement of gross proceeds of \$504,000 by issuing a total of 8,400,000 units at a price of \$0.06 per unit. Each unit consists of one common share and one-half common share purchase warrant. Each whole common share warrant entitles the holder to purchase one additional common share at a price of \$0.10 per share until April 1, 2012. As compensation, the Underwriter was paid a commission of \$35,280 and was granted a non-transferable broker warrant allowing them to purchase 588,000 common shares of the Company at a price of \$0.10 per share until April 1, 2012. The estimated fair value of the broker warrants of \$30,278 was calculated using the Black-Scholes option pricing model with the following assumptions and will be recorded as part of share issue costs in 2010.

Risk free interest rate	1.63%
Expected volatility	224.32%
Dividend yield	-
Expected life	2 years
Grant date fair value	0.051

14. FINANCIAL INSTRUMENTS

Fair Value

The carrying values of cash and cash equivalents, receivables and accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturity of these financial instruments.

Cont'd...

OSTA BIOTECHNOLOGIES INC.

(Unaudited - See Notice to Reader)

As at March 31, 2010

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

14. FINANCIAL INSTRUMENTS - Cont'd

The determination of the fair value of the convertible debt was calculated using level 3 of the fair value hierarchy, as management has determined that there are significant unobservable inputs which factor into the determination of the fair value. In order to determine the fair value management used a discounted cash flow analysis using the following inputs:

Face value of the convertible debt	\$150,000 USF
Coupon Rate	5% per annum based on a 365 day year
Number of periods to maturity	41 months
Applied discount rate	23%
Applicable period end conversion rate	1.0158:1

In determining the number of periods to maturity, management has determined that the most likely scenario is that the convertible debt will automatically convert into shares at the end of the initial 5 year term. Management does not feel it is appropriate at this time to use a shorter maturity period based on the likelihood of raising the required amount of capital which would trigger an early conversion option. The discount rate of 23% was determined taking into account the Company's own liquidity risk as well as the expected return that a most subordinated debt holder would expect to achieve given the risk involved in the industry.

The changes in the fair value of the convertible debt are summarized as follows:

	Three months ended March 31, 2010 \$
Fair - value beginning of period	87,480
Change in fair value reported in net income	111
Fair value - end of period	87,591

Credit risk

The Company is exposed to credit risk through its cash and its cash equivalents. 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 cash equivalents are maintained with a high quality financial institution. The carrying amount of cash and cash equivalents represents the Company's maximum credit exposure.

Interest rate risk

The Company manages its portfolio investments based on its cash flow needs and with a view to optimizing its interest income. A change in the interest rates of 1% will not have a significant impact on the operations and cash flows of the Company.

Cont'd...

OSTA BIOTECHNOLOGIES INC.

(Unaudited - See Notice to Reader)

As at March 31, 2010

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

14. FINANCIAL INSTRUMENTS - Cont'd

Currency risk

During a previous fiscal year, the company entered into an agreement whereby in exchange for funding, as described in Note 7, the Company issued a convertible note payable in US currency. Consequently, some assets, liabilities, and expenses are exposed to foreign exchange fluctuations. Carrying amounts in the Company's financial statements are based upon best estimates of amounts ultimately realizeable after conversion to Canadian funds. As at March 31, 2010, assets and liabilities in foreign currencies are approximately as follows:

	US dollars
	\$
Accrued interest payable	10,400
Convertible note payable	150,000

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.

15. COMPARATIVE FIGURES

Certain reclassifications of 2009 amounts have been made in order to conform to the method of presentation adopted in the current year.