



CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited - See Notice to Reader)

September 30, 2009

OSTA BIOTECHNOLOGIES INC.

SEPTEMBER 30, 2009

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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 September 30, 2009

CONSOLIDATED INTERIM BALANCE SHEET

	September 30 2009 \$	December 31 2008 \$
ASSETS		
Current		
Cash and cash equivalents (Note 5)	485,802	912,352
Receivables	3,472	4,041
Investment tax credits receivable	107,555	70,228
Prepaid expenses	4,185	-
	601,014	986,621
Property and equipment (Note 6)	5,317	7,516
Intangible assets (Note 7)	175,175	308,040
	781,506	1,302,177
LIABILITIES		
Current		
Accounts payable and accrued liabilities	173,365	162,202
Long-term		
Convertible debt (Note 8)	160,605	182,700
EQUITY		
Capital stock (Note 9)	4,196,876	4,196,876
Contributed surplus (Note 10)	1,137,852	1,011,984
Deficit	(4,887,192)	(4,251,585)
	447,536	957,275
	781,506	1,302,177

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 September 30, 2009

CONSOLIDATED INTERIM STATEMENT OF DEFICIT

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
BALANCE - BEGINNING OF PERIOD	(4,672,197)	(3,995,958)	(4,251,585)	(3,626,345)
Net loss	(214,995)	(146,528)	(635,607)	(516,141)
BALANCE - END OF PERIOD	(4,887,192)	(4,142,486)	(4,887,192)	(4,142,486)

See accompanying notes

OSTA BIOTECHNOLOGIES INC.

(Unaudited - See Notice to Reader)

For the period ended September 30, 2009

CONSOLIDATED INTERIM STATEMENT OF LOSS AND COMPREHENSIVE INCOME

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
EXPENSES				
Research and development costs	90,481	74,129	231,112	236,180
Salaries and wage levies	17,812	17,812	56,873	104,508
Professional and consulting fees	27,917	40,346	104,879	104,895
Royalties	-	-	5,833	-
Travel and automobile	1,150	2,396	5,800	6,261
Office and general	3,615	4,338	7,718	11,487
Interest and bank charges	-	102	153	315
Taxes and insurance	3,285	3,003	8,667	15,624
Research and development tax credits	(12,000)	(12,571)	(37,800)	(57,764)
Stock option compensation (Note 11)	8,582	14,338	125,868	103,225
Interest on convertible debt	2,037	-	6,539	-
Amortization of property and equipment	515	1,492	2,199	2,775
Amortization of patents and licenses	1,935	2,110	7,851	7,651
LOSS BEFORE UNDERNOTED ITEMS	(145,329)	(147,495)	(525,692)	(535,157)
Investment income	288	967	2,690	19,016
Write-off of patents and licenses (Note 7)	(83,799)	-	(134,700)	-
Unrealized gain on foreign exchange	13,845	-	22,095	-
NET LOSS AND COMPREHENSIVE INCOME	(214,995)	(146,528)	(635,607)	(516,141)
LOSS PER SHARE:				
Basic and fully diluted	(0.0061)	(0.0041)	(0.0180)	(0.0146)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING FOR THE PERIOD				
	35,386,528	35,386,528	35,386,528	35,386,528

See accompanying notes

OSTA BIOTECHNOLOGIES INC.

(Unaudited - See Notice to Reader)

For the period ended September 30, 2009

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES				
Net loss	(214,995)	(146,528)	(635,607)	(516,141)
Items not affecting cash:				
Amortization of property and equipment	515	1,492	2,199	2,775
Amortization of patents and licenses	1,935	2,110	7,851	7,651
Stock option compensation	8,582	14,338	125,868	103,225
Write-off of patents and licenses	83,799	-	134,700	-
Unrealized gain on foreign exchange	(13,845)	-	(22,095)	-
	(134,009)	(128,588)	(387,084)	(402,490)
Changes in non-cash working capital items	(21,027)	6,715	(29,780)	(86,973)
	(155,036)	(121,873)	(416,864)	(489,463)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES				
Proceeds on redemption of short-term investments	-	100,000	-	419,000
Acquisition of property and equipment	-	-	-	(2,400)
Acquisition of patents and licenses	(5,857)	(3,151)	(9,686)	(15,151)
	(5,857)	96,849	(9,686)	401,449
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(160,893)	(25,024)	(426,550)	(88,014)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	646,695	69,871	912,352	132,861
CASH AND CASH EQUIVALENTS - END OF PERIOD	485,802	44,847	485,802	44,847

See accompanying notes

OSTA BIOTECHNOLOGIES INC.

(Unaudited - See Notice to Reader)

As at September 30, 2009

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, 2008.

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 need to obtain new funds in the very near term to continue to pursue its operations. The Company is seeking different strategic alternatives to fund 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. These financial statements do not include any adjustments to the carrying values and classification of assets and liabilities that may be necessary should the Company be unable to continue its operations and the going concern basis was not appropriate for these financial statements.

The Biotechnology industry is subject to rapid and substantial technological change which could negatively impact the marketability of the Company's technology. 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 8. 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 14, and other related expenses. The contract with PBRC is scheduled to run into September 2010.

In management's opinion, other than as indicated in the above paragraph, 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 the first quarter of 2010. Should the Company be unsuccessful in obtaining additional working capital, there is significant doubt as to whether the Company will be able to continue as a going concern beyond March 2010.

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) New Accounting Standards

In January 2008, the Canadian Institute of Chartered Accountants ("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. The adoption of this new standard did not have any impact on the financial statements.

(b) 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.

(c) 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

(d) 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

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OSTA BIOTECHNOLOGIES INC.

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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.

(e) 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.

(f) 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.

(g) 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 years 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

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Cont'd

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

	September 30, 2009 \$	December 31, 2008 \$
Cash	35,802	787,352
Short-term investment, interest bearing at 0.25%, due within 30 days	450,000	125,000
	485,802	912,352

Included in cash and cash equivalents is approximately \$81,000 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 8. These funds must be used to fund a research project related to drug development for cognitive aging and Alzheimer's disease.

6. PROPERTY AND EQUIPMENT

	Cost \$	Accumulated Amortization \$	Net Carrying Amount \$
September 30, 2009			
Office equipment	20,678	17,620	3,058
Lab equipment	9,997	7,738	2,259
	30,675	25,358	5,317
December 31, 2008			
Office equipment	20,678	16,077	4,601
Lab equipment	9,997	7,082	2,915
	30,675	23,159	7,516

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OSTA BIOTECHNOLOGIES INC.

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

7. INTANGIBLE ASSETS

	Cost	Accumulated	Net
	\$	Amortization	Carrying
September 30, 2009	\$	\$	Amount
Patents	202,626	44,800	157,826
Licenses	22,000	4,651	17,349
	224,626	49,451	175,175

	Cost	Accumulated	Net
	\$	Amortization	Carrying
December 31, 2008	\$	\$	Amount
Patents	324,027	43,418	280,609
Licenses	34,000	6,569	27,431
	358,027	49,987	308,040

8. 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 September 30, 2009, was \$150,000 US\$. 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 cognitive aging and Alzheimer's disease. The balance of \$97,106 US funds, which was to have been issued upon ISOA's receipt of a satisfactory initial report of the research, is now receivable once the original balance has 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

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

8. CONVERTIBLE DEBT - Cont'd

share between the fourth and fifth anniversary.

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 September 30, 2009, the remaining balance of the funds received was \$81,000 including interest earned of \$800.

The Company is required to provide a summary report on the use of the grant funds and the progress made toward the project every six months until the funds are expended in full or until the grant is otherwise terminated. The report is due within 30 days of each six month period. 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 funds until in its opinion the situation has been corrected or declare that the grant has been

Cont'd...

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

8. CONVERTIBLE DEBT - Cont'd

terminated. In the event of the termination of the grant, ISOA may request the prompt refund of any unexpended balances remaining.

As at September 30, 2009 the Company has complied with all of the requirements of the grant.

9. CAPITAL STOCK

Authorized -

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

Issued -

September 30 2009	December 31 2008		September 30 2009 \$	December 31 2008 \$
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 September 30, 2009 are summarized as follows:

	Three months ended September 30, 2009		Nine months ended September 30, 2009	
	Number of Warrants	Weighted Average Exercise Price \$	Number of Warrants	Weighted Average Exercise Price \$
Balance - beginning of period	5,799,717	0.3855	8,199,717	0.3861
Granted during the period	-	-	-	-
Expired	-	-	(2,400,000)	0.3875
Balance - end of period	5,799,717	(0.3855)	5,799,717	(0.3855)
Exercisable	5,088,945	0.4143	5,088,945	0.4143

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
727,945	0.50	December 2009
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 8 above. The exercise price as indicated is based on the minimum exercise price according to the conditions described in Note 8 above, which as at

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OSTA BIOTECHNOLOGIES INC.

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

9. CAPITAL STOCK - Cont'd

September 30, 2009, was \$0.18.

10. CONTRIBUTED SURPLUS

Contributed surplus consists of the following:

	September 30 2009 \$	December 31 2008 \$
Balance - beginning of period	1,011,984	971,061
Stock based compensation	125,868	40,923
	1,137,852	1,011,984

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 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.

There were no stock options granted to directors, officers and employees of the Company during the three months ended September 30, 2009. The Company has accounted for options granted using the fair value method. The fair value of the options granted to directors, officers and employees was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions:

	Three months ended September 30, 2009	Nine months ended September 30, 2009
Risk free interest rate	-	2.13%
Expected volatility	-	167.79%
Dividend yield	-	NIL
Expected life	-	5 years
Grant date fair value	-	.1517

There were no stock options granted to the consultants of the Company during the three months ended September 30, 2009. The fair value of the options granted to consultants of the Company in the previous periods were estimated using the Black-Scholes option pricing model based on the following weighted average

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

11. STOCK OPTION COMPENSATION PLAN - Cont'd

assumptions:

	Three months ended September 30, 2009	Nine months ended September 30, 2009
Risk free interest rate	-	1.69%
Expected volatility	-	168.91%
Dividend yield	-	NIL
Expected life	-	5 years
Grant date fair value	-	.06

Stock option compensation costs are summarized as follows:

	Three months ended September 30, 2009 \$	Nine months ended September 30, 2009 \$
Options granted to directors, officers and employees	-	94,164
Options granted to consultants	8,582	31,704
	8,582	125,868

The outstanding common share purchase options are as follows:

	Three months ended September 30, 2009		Nine months ended September 30, 2009	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Balance - beginning of period	3,750,000	0.2931	3,175,000	0.3226
Granted during the period	-	-	625,000	0.1480
Expired during the period	-	-	(50,000)	0.3500
Balance - end of period	3,750,000	0.2931	3,750,000	0.2931
Balance exercisable - end of period	3,500,000	0.2891	3,500,000	0.2891

Common share purchase options outstanding, exercisable, granted to directors, officers and consultants of the Company as at September 30, 2009 are summarized as follows:

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

11. STOCK OPTION COMPENSATION PLAN - Cont'd

Number of Options Outstanding	Number of Options Exercisable	Exercise Price	Range of Expiry Date	Weighted Average Remaining Contractual Life
1,675,000	1,675,000	0.35	March 2010 to December 2010	10 months
300,000	300,000	0.25	February 2012	30 months
1,050,000	850,000	0.27	May 2012 to November 2012	35 months
100,000	75,000	0.23	February 2013	42 months
75,000	50,000	0.10	April 2014	55 months
550,000	550,000	0.18	June 2014	57 months

12. 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.

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 will be sufficient to carry on its research and development plans and operations for the next 7 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 8. The Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 30, 2008.

13. 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:

Cont'd...

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13. COMMITMENTS AND CONTINGENCIES - Cont'd

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 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:

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13. COMMITMENTS AND CONTINGENCIES - Cont'd

- \$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:
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 \$156,744 USF is to be paid to PBRC based on the

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13. COMMITMENTS AND CONTINGENCIES - Cont'd

achievement of milestones and a set timeline. Funds are expected to be disbursed as follows:

	\$USF
October - December 2009	30,000
January 2010 - March 2010	45,000
April 2010 - June 2010	45,000
July 2010 - September 2010	36,744
	<hr/> 156,744

The research project is funded primarily by the funds provided by the convertible debt described in note 8.

14. FINANCIAL INSTRUMENTS

Fair Value

Cash and cash equivalents, receivables and 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 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.

Currency risk

During the previous fiscal year, the company entered into an agreement whereby in exchange for funding, as described in Note 8, 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 September 30, 2009, assets and liabilities in foreign currencies are approximately as follows:

	US dollars
	\$
Accrued interest payable	8,500
Convertible note payable	150,000

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14. FINANCIAL INSTRUMENTS - Cont'd

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 2008 amounts have been made in order to conform to the method of presentation adopted in the current year.