

## MESSAGE TO SHAREHOLDERS

Significant progress was made during the first quarter and beyond in Ambrilia's programs, with the start of clinical trials for its improved formulation of Octreotide, the encouraging conclusions of the Phase I/II study with its prostate cancer drug PCK3145, and the proceeding of the formulation work on PPL-100 by Merck & Co.

Important changes took place in Ambrilia's leadership. At the beginning of the year I was elected as the new Chairman of the Board of Directors and more recently to the position of Executive Chairman and interim CEO as Hans J. Mader stepped down as President and CEO and as a member of the Board. I want to assure you of my commitment to managing, on a full-time basis, Ambrilia's day-to-day operations and moving forward its development program. At the same time, the Company announced a \$5.4 million private placement by certain investors, almost all of them being current shareholders of Ambrilia. I believe this represents a vote of confidence as the Company enters a new stage in its evolution.

## R&D UPDATE

Ambrilia is pleased to share a productive relationship with Merck regarding PPL-100. As the Company continues to follow-up with Merck in their advancement of the compound towards development in HIV/AIDS patients, it will inform its stakeholders on a timely basis of any material information pertaining to the partnership, in accordance with the terms of the agreement with Merck.

Ambrilia is now accelerating its HIV Integrase Inhibitor Program: this new class of drug to treat HIV/AIDS emerges as a significant market opportunity. Clinical data published to date from pharmaceutical companies who have integrase inhibitors show promise in terms of safety and efficacy. Ambrilia's R&D team is currently working on a portfolio of novel structures which are believed to potentially have a different mechanism of action. The Company has currently identified a number of lead compounds and aims to have a drug candidate within the next 12 months.

In February, Ambrilia initiated a pivotal Phase III clinical trial in Europe with its improved prolonged-release formulation of Octreotide in acromegaly patients. Furthermore, Ambrilia was pleased to announce that its U.S. licensing partner, Mallinckrodt, a division of Tyco Healthcare, filed an Investigational New Drug (IND) application with the U.S. Food and Drug Administration (FDA) to conduct a pivotal Phase III clinical trial with Octreotide. Mallinckrodt has the sales and marketing expertise to reach specialists who will prescribe Octreotide in the U.S. along with a track record of successful product launches. This will be key in the product adoption by physicians and patients. Ambrilia expects to complete the Phase III clinical efficacy study towards the end of 2007, and the safety studies around mid 2008. Filing for approval by its licensing partners is expected during the course of 2008, starting with Europe and followed by North America.

More recently, Ambrilia was pleased to announce the positive findings of a Phase I/II study conducted at the Memorial Sloan Kettering Cancer Center, New York City, which showed that its therapeutic peptide drug PCK3145 had clinical activity in metastatic prostate cancer patients. PCK3145 was found to be safe and well tolerated, and was shown to increase PSA (Prostate Specific Antigen) doubling time and down-regulate MMP-9 (a matrix metalloproteinase

enzyme involved in facilitating tumor metastasis). Disease stabilization as assessed by time to radiographic progression was also observed in several patients.

These data are encouraging and warrant further development of the drug in late-stage prostate cancer patients, who have very limited treatment options. Ambrilia is currently evaluating various partnering and product development strategies to move forward with PCK3145.

Ambrilia's therapeutic alternative to Astra Zeneca's Zoladex®, a new prolonged-release formulation of Goserelin developed with a patented technology, is now in the final stages of optimization. The Company expects to begin a Phase I/II study in hormone-sensitive prostate cancer patients in 2007.

As previously indicated, Ambrilia is also advancing its other technologies such as the tumor and Tumor Vasculature Targeting (TVT) technology, a drug delivery platform that selectively delivers drugs to the vasculature of tumors and surrounding tumor cells, and PSP94, its novel diagnostic/prognostic marker for prostate cancer.

Ambrilia's R&D know-how in HIV along with its expertise in delivery system technology have been recognized by its partners, top players in their respective fields. Leveraging these core competencies will drive our business strategy going forward. Accordingly, Ambrilia's HIV Integrase Inhibitor Program will be at the forefront of our R&D projects, as will be moving Octreotide and Goserelin closer to the market.

I look forward to updating you on the Company's future progress.

Sincerely,

A handwritten signature in black ink, appearing to read "S. Sudovar". The signature is fluid and cursive, with a large initial "S" and a stylized "Sudovar".

Stephen G. Sudovar  
Executive Chairman & Interim CEO

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following information should be read in conjunction with the unaudited interim consolidated financial statements of Ambrilia Biopharma Inc. ("Ambrilia" or the "Company") for the period ended March 31, 2007 and related notes included herein, together with the Company's audited consolidated financial statements for the year ended December 31, 2006 and the related notes, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts shown are stated in Canadian dollars. This review was prepared by management from information available to April 30, 2007. Additional information relating to the Company, including the Company's Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### **FORWARD LOOKING STATEMENTS**

Except for the historical information, matters discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations may constitute forward-looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially from any future results, performance or achievements expressed or implied by such statements. Statements that are not historical facts, including statements preceded by, followed by, or that include the words "believes", "anticipates", "intends", "plans", "expects", "estimates", "should" or similar statements are forward-looking statements. Such statements reflect management's current views and are based on certain assumptions. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of this day. Such risks and uncertainties include the risks disclosed in "Risk Factors" and the effect of misjudgments in the course of preparing forward-looking statements. Actual results could differ materially from those currently anticipated as a result of a number of factors, such as risks and uncertainties generally experienced in the biotechnology industry, including changing market conditions, successful and timely completion of clinical studies, uncertainties related to the regulatory approval process, establishment of corporate alliances and other risks and uncertainties discussed in the filings of Ambrilia Biopharma Inc. ("Ambrilia") with Canadian regulatory authorities. Such statements are also based on various assumptions, including the successful and timely completion of clinical studies on Ambrilia's products demonstrating efficacy and safety for human use, their successful commercialization within the forecasted timelines and the attainment of the forecasted milestone payments and other revenues. While Ambrilia anticipates that subsequent events and developments may cause Ambrilia's views to change, Ambrilia specifically disclaims any obligation to update these forward-looking statements.

### **OVERVIEW AND OUTLOOK**

Ambrilia Biopharma Inc. ("Ambrilia" or "the Company") is a publicly-traded (TSX:AMB) biopharmaceutical company actively engaged in the discovery and development of innovative small molecules and peptides to treat infectious diseases and cancer. The company leverages its strengths in research and clinical development, bringing products through clinical trials and then evaluating the best options for further development, such as co-development and licensing.

Ambrilia's pipeline includes: octreotide, an improved formulation of an existing drug, developed with a patented technology, to treat acromegaly; a new formulation of goserelin to treat hormone sensitive prostate cancer; PCK3145, a therapeutic non-toxic peptide for the treatment of advanced hormone-independent prostate cancer; TVT, a tumor targeting delivery technology for the treatment of solid tumors; an integrase inhibitor program to treat HIV/AIDS; and several other early-stage anti-virals and immunomodulators. In October 2006, Ambrilia granted to an affiliate of Merck & Co., Inc., exclusive worldwide rights to its HIV protease inhibitor program, including lead compound PPL-100. Ambrilia also has a novel biomarker for the diagnostic and prognostic of prostate cancer, PSP94.

Octreotide is a therapeutic alternative to Novartis' Sandostatin® LAR ("Long-Acting Release") for which the results of the pivotal clinical trial in acromegaly patients are expected to be available early 2008. An additional study evaluating the safety of different doses of the product will be initiated in the next few months. Thereafter, it is planned that the Company's partners will complete the regulatory filing for Europe and work toward a U.S. filing in 2008. Ambrilia's licensing partners for the worldwide sales and marketing of octreotide are Mallinckrodt, a division of Tyco Healthcare, for the U.S., Teva Europe for France, Germany, Benelux, Spain and Scandinavia, and other specialized pharmaceutical and distribution companies for the rest of Europe, Canada and other countries.

Goserelin is a therapeutic alternative to Astra Zeneca's Zoladex® three months biodegradable implant, for which the phase 1/2 single-dose study in hormone-sensitive prostate cancer patients is expected to start in 2007. Ambrilia will seek a distribution partner for the commercialization of this product in Europe.

Results of the U.S. pilot safety study amendment (4 months exposure) with PCK3145 in hormone-resistant prostate cancer patients confirmed the favorable safety and tolerability of the drug, and suggested clinical activity in such patients. These findings justify the further development of PCK3145 and Ambrilia is currently evaluating the best strategy to move forward with this drug. Ambrilia pursues partnering discussions for PCK3145.

Ambrilia intends to continue exploring the possibilities of its TVT Technology and is currently setting up a preclinical program for anti-cancer agents to be integrated into the TVT delivery system.

Ambrilia will use its scientific expertise to make further progress in its HIV Integrase Inhibitor Program with the goal of having a potential drug candidate in the next 12 months. Ambrilia is also pursuing the evaluation of several other technologies generated in its own laboratories, principally in the field of viral diseases.

Finally, Ambrilia aims to license-out its PSP94 diagnostic/prognostic product for prostate cancer and obtain the CE mark, a mandatory mark for most products sold in the European market, for this product.

On March 1, 2007 the Company acquired an additional 2.82% of the outstanding shares of Ambrilia Biopharma France S.A. ("Ambrilia France"), in exchange for 448,294 common shares of Ambrilia with a fair value of \$1,434,541, based on the \$3.20 weighted-average closing price of the Company's common shares for the five trading days around January 19, 2006, the date on which the acquisition was first announced. This transaction increased the Company's ownership of Ambrilia France to 94.29%. In addition, the Company has the option under a share purchase agreement to acquire an additional 5.64% of the outstanding shares of Ambrilia France in two tranches by April 2008, which will bring its ownership to 99.93%.

On April 18, 2007 the Company announced the appointment of Stephen G. Sudovar, the Chairman of its Board of Directors, as Executive Chairman and interim Chief Executive Officer. Hans J. Mader left his position as President and Chief Executive Officer and as a member of the Board effective on the same date.

Also on April 18, 2007 Ambrilia announced that it had agreed to issue, by way of a private placement, 2,231,405 common shares at a price of \$2.42 per share, for an aggregate consideration of \$5.4 million, subject to certain conditions, including the approval of the TSX and applicable regulatory authorities. The transaction is scheduled to close no later than May 18, 2007.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. The reported amounts and note disclosures in the consolidated financial statements are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Actual results, however, may differ from the estimates used in the consolidated financial statements and such differences could be material. Details of our critical accounting estimates were reported in the Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2006 and these continue to apply for the three months ended March 31, 2007.

## **RESULTS OF OPERATIONS**

### **Quarter ended March 31, 2007 compared with the Quarter ended March 31, 2006**

The Company incurred a net loss of \$6,112,379 or \$0.21 per common share for the first quarter of 2007, compared with a net loss of \$2,962,830 or \$0.19 per common share for the same quarter last year. The acquisition of Ambrilia France on March 1, 2006, represented the merger of two companies of similar size and the results for the current quarter, which fully include those of Ambrilia France, thus reflect this growth.

### **Revenues**

Revenues for the first quarter of 2007 were \$208,007, compared with \$130,321 in the corresponding quarter last year. The higher revenues resulted primarily from an increase in interest income, due to higher average cash balances and an increase in interest rates in the current quarter compared to the first quarter of 2006.

Until the fourth quarter of 2006, when the Company received an up-front fee of \$19.1 million on the grant of exclusive worldwide rights to the Company's protease inhibitor program to an affiliate of Merck & Co., the Company's revenues were earned primarily from interest on available cash and short-term investments. We expect to continue to receive interest revenues during the next several years, as well as licensing revenues to be earned as our products advance through clinical development.

### **Research and Development Expenses**

Research and development expenses amounted to \$2,616,751 in the first quarter of 2007, compared with \$1,393,782 in the same quarter last year. The increase of \$1,222,969 resulted primarily from the increased R&D expenditures on octreotide and goserelin added as a result of the acquisition of Ambrilia France and higher compensation costs, partially offset by reduced spending on PPL-100 following its licensing to an affiliate of Merck & Co., Inc. in October 2006. Research and development tax credits increased to \$273,954 in the current quarter from \$124,988 in the corresponding quarter last year. The current quarter reflects the inclusion of tax credits earned in France for the three months, compared with only one month in the first quarter last year, but this was partially offset by the fact that the Company no longer qualifies for the 20% additional tax credit on the first \$2 million of eligible research expenditures in Quebec, since its total assets at December 31, 2006 exceeded \$75 million.

Our research and development expenses consist primarily of salaries and related personnel costs, fees paid to external service providers, laboratory supplies and costs for leasing of facilities and equipment. In the first quarter of 2007, fees paid to external service providers were primarily related to material for clinical studies for octreotide and pre-clinical development of goserelin.

We expect our research and development expenses to continue to be significant during the next few years as we continue our clinical trials for our more advanced products, while continuing to advance our other research programs. However, we are unable to estimate the specific timing and future costs of our research programs.

### **General and Administrative Expenses**

General and administrative expenses amounted to \$2,408,049 in the first quarter of 2007, an increase of \$1,275,551 over the total of \$1,132,498 for the same quarter last year. Increased compensation costs and professional fees, together with expenses at our regional office in Paris for a full three months, compared to only one month in the first quarter last year, were the principal reason for the increased expenses. Non-cash compensation during the current quarter amounted to \$0.4 million, while an additional \$0.3 million of expenses were of a non-recurring nature.

### **Other Expenses**

Amortization expense increased to \$2,170,923 in the current quarter from \$871,722 in the same quarter last year. The increase resulted almost entirely from the added amortization on intellectual property arising from the acquisition of Ambrilia France on March 1, 2006.

Interest on long-term debt was \$259,366 in the first quarter of 2007, compared to \$266,616 in the same quarter last year. The decrease was mainly due to the reduced interest expense on the Biolevier loan as a result of the \$2 million loan repayment in December 2006, partially offset by interest capitalized to November 2006 and a higher interest rate in the current quarter compared to the first quarter of 2006.

Accretion expense on long-term debt amounted to \$107,730 in the first quarter of 2007 compared to \$60,250 in the same quarter of 2006. The increase in the current quarter results primarily from the change in accounting policy for deferred financing costs in accordance with CICA handbook section 3855, "Financial Instruments – Recognition and Measurement." This ongoing non-cash accounting charge for imputed interest will increase the carrying value of long-term debt to face value by the maturity date of each item.

The foreign exchange gain for the first quarter of 2007 amounted to \$13,263, compared to a loss of \$161,932 in the same quarter last year. The amount in the first quarter of 2006 reflected primarily the translation loss on the consolidation of Ambrilia France, due to the strengthening of the Euro against the Canadian dollar during the month of March 2006.

As a consequence of the intellectual property arising on the acquisition of Ambrilia France, a future income tax liability of \$8,990,856 was recorded in 2006 as part of the acquisition equation for accounting purposes, which was increased by \$796,670 as a result of the additional shares of Ambrilia France acquired in 2006 and by \$753,259 due to the shares acquired on March 1, 2007. This future income tax liability is being drawn down over a term of up to the 7-year period during which the intellectual property is being amortized. This resulted in a future income tax recovery on the consolidated statement of operations of \$1,091,305 for the first quarter of 2007, compared to a recovery of \$324,585 in the first quarter of 2006. The recovery in the current quarter was partially offset by a foreign exchange loss on the future income tax liability of \$106,989, whereas in the corresponding quarter last year the recovery was supplemented by a foreign exchange gain on the future income tax liability of \$358,047.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company has financed its operations and its acquisitions of technology and capital assets primarily through private placements and public issues of common shares and convertible debentures, scientific research investment tax credits and other government assistance, interest income and amounts received under licensing agreements for certain of its products.

Cash and cash equivalents and short-term investments totalled \$15,393,535 at March 31, 2007, compared with \$22,359,604 at December 31, 2006. The decrease of \$6,966,069 resulted from the utilization of \$5,897,476 to finance operating activities for the first quarter of 2007, including an increase of \$1,521,323 in non-cash working capital. In addition, an amount of \$313,334 was used in the period for additional property, plant and equipment and intellectual property. Also, an amount of \$766,391 was utilized to repay an Ambrilia France 12% loan payable on March 1, 2007. An amount of \$11,132 was obtained from the exercise of stock options.

Management believes that it will have sufficient funds available, including the net proceeds to be received from the \$5.4 million private placement of common shares announced on April 18, 2007, to support its ongoing activities for at least the next 15 months.

## **SIGNIFICANT PROJECTS**

Each of our product candidates, which were discussed in the Overview section, will have to complete the necessary phases of clinical trials and obtain regulatory approval before they can generate significant revenues. The costs to complete these clinical trials and to obtain regulatory approval are significant and the costs associated with this process are expected to continue to be significant over the next several years. Part of these costs could be borne by various corporate partners under research collaboration and licensing agreements.

## **CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS**

A summary of the Company's contractual obligations as at December 31, 2006 was disclosed in the Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2006. The amount of these contractual obligations did not change materially during the three months ended March 31, 2007.

The Company has not entered into any off-balance sheet arrangements during the quarter ended March 31, 2007 and does not expect to enter into any, other than in the normal course of business, in the near future.

Commitments for capital expenditures as at March 31, 2007 amounted to \$95,000.

## **RELATED PARTY TRANSACTIONS**

There has been no material change during the quarter ended March 31, 2007. However, the holder of one of the two \$100,000 loans under the Company's Employee Share Purchase Loan Program, Mr. Hans Mader, the former President and CEO, left the Company effective April 18, 2007. By mutual agreement between the Company and Mr. Mader, the settlement of this loan will be deferred until a date to be determined by the Company, which shall be not later than December 31, 2008.

## **PROPOSED TRANSACTIONS**

At the present time, we do not anticipate any significant transactions involving the acquisition or disposition by the Company of assets or businesses.

## **CHANGES IN ACCOUNTING POLICIES**

Section 3855, Financial Instruments – Recognition and Measurement; Section 1530, Comprehensive Income; and Section 3865, Hedges were all adopted effective January 1, 2007. Their adoption has no material impact on the Company's financial position or results of operations.

## **FINANCIAL INSTRUMENTS**

The Company does not use currency or other hedging instruments.

## **OUTSTANDING SHARE DATA**

As of April 30, 2007 the number of common shares outstanding is 29,512,411, an increase of 487,972 from December 31, 2006, resulting from 448,294 shares issued in connection with the acquisition of additional shares of Ambrilia France, 35,555 shares issued as executive compensation and 4,123 shares issued upon the exercise of stock options. The number of stock options outstanding at April 30, 2007 is 695,940, an increase of 76,559 from December 31, 2006. The increase resulted from a total of 112,182 new options having been granted during the period, partially offset by 31,500 options which expired and 4,123 which were exercised. In addition, 10,211,518 warrants are outstanding on April 30, 2007, a decrease of 548,292 from December 31, 2006 resulting from the expiry of warrants issued in connection with the acquisition of Bioxalis Medica Inc. in 2005 and the exercise of acquisition warrants in March 2007.

## **RISK FACTORS**

The Company's activities involve a number of risks and uncertainties that are generally experienced by the biotechnology industry. The future viability of Ambrilia depends upon its ability to successfully develop its technologies and products, to enter into licensing agreements and to obtain the regulatory approvals necessary to allow the products to be marketed.

### **Product Development and Regulatory Approvals**

Ambrilia can make no assurances that its products will be developed successfully, receive regulatory approval or achieve market penetration. Ambrilia's most advanced products are currently in the development stages and its other products are at the research stage. Its first product is designed to be a substitute for the drug Octreotide in its long-acting formulation. Only the results from the Phase III studies now ongoing will tell whether the potential advantages of Ambrilia's proprietary formulation are confirmed and whether the product has a chance to receive formal approval from the regulatory agencies.

Regarding its proprietary products, Ambrilia can make no assurances that its research and development programs will result in commercially viable products. To achieve profitable operation, Ambrilia, alone or with others, must successfully develop and market its products. To obtain regulatory approvals for the products being developed, clinical trials must demonstrate efficacy and that the products are safe for human use. Unsatisfactory results obtained from a particular study relating to a program may cause Ambrilia or its collaborators to abandon its commitment to that program. Ambrilia can make no assurances that any future animal or human test will yield favourable results.

Ambrilia can make no assurances that products based on its technology, if approved for marketing, will achieve market acceptance. The degree of market acceptance will depend on the efficacy and safety of the product candidates, their potential advantage over alternative products and treatment method. The lack of market acceptance would have a material adverse effect on Ambrilia's business and financial condition.

## **Uncertainty Regarding the Outcome of Clinical Studies**

In order for Ambrilia's products to obtain the approval of regulatory organizations and to gain a certain degree of commercial success, pre-clinical and clinical trials must demonstrate their safety and effectiveness. There can be no assurance that any particular study pertaining to any product or research and development program of Ambrilia will achieve satisfactory results. If results are not satisfactory, Ambrilia may have to reduce its commitment to such product or research and development program.

## **Commercialization**

Once commercialized, Ambrilia's products may potentially compete with existing products on the market. Various intermediaries in the healthcare sector, such as those who may prescribe or dispense the new drugs commercialized by Ambrilia and the parties responsible for drug reimbursement, may select other treatments than those offered by Ambrilia. Furthermore, the prices of medical products are increasingly being regulated. Therefore, there can be no assurance that Ambrilia will be able to maintain price levels sufficient for the realization of an appropriate return on Ambrilia's investment in product development.

## **Price Controls**

In some countries, particularly the countries of the European Union, the pricing of prescription drugs is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time and delay the marketing of a product. In some countries, it may be necessary, in order to obtain reimbursement or pricing approval, to conduct clinical trials to compare the cost effectiveness of Ambrilia's product candidate to other available therapies. If reimbursement of Ambrilia's products is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, Ambrilia's business could be adversely affected.

## **Capital Requirements**

To develop its products, Ambrilia requires significant investment of financial resources. Consequently, the ability of Ambrilia to obtain the cash needed to finance its operations is fundamental to its future success and therefore constitutes a business risk. Ambrilia's planned cash requirements may vary materially in response to a number of factors, including continued scientific progress in its products discovery and development program, progress in its preclinical evaluation of products and product candidates, time and expenses associated with filing, prosecuting and enforcing its patent claims, and costs associated with obtaining regulatory approvals. In order to meet such capital requirements, Ambrilia will consider collaborative research and development arrangements, and additional public or private financing (including the issuance of additional equity securities) to fund all or a part of particular programs. Ambrilia's ability to arrange such financing in the future will depend in part upon prevailing capital-market conditions as well as its business performance. There can be no assurances that Ambrilia will be successful in its efforts to arrange additional financing, if needed, on terms satisfactory to it. Such financing, if available, may result in dilution to existing Ambrilia shareholders. If adequate funds are not available, Ambrilia may have to substantially reduce or eliminate expenditures for research and development, testing, production and marketing of its proposed products, or obtain funds through arrangements with corporate partners that require it to relinquish rights to certain of its technologies or products.

With regards to the concentration of credit risk, investment tax credits recoverable are due from the Québec and French governments. The cash and cash equivalents are held with six Canadian chartered banks and one French bank. The short-term investments are held in a high quality discount note of a government agency and a bankers' acceptance of a major Canadian bank.

Since the beginning of its operations, Ambrilia has incurred significant losses and expects to continue to incur losses in the near future.

## **Personnel**

Ambrilia requires sophisticated management, research and development, marketing and sales, regulatory and clinical development personnel to develop its products. Success depends on Ambrilia's ability to attract, train and retain such personnel. The market for the highly-trained personnel Ambrilia requires is very competitive due to the limited number of people available with the necessary technical skills and understanding of Ambrilia's products and technologies. If Ambrilia fails to attract and retain qualified personnel, its business operations and product development efforts could suffer.

## **Intellectual Property Matters**

Ambrilia relies on patent, copyright, trade secret and trade-mark laws to limit the ability of others to compete with Ambrilia using the same or similar technologies. However, these laws afford only limited protection and may not adequately protect Ambrilia's rights to the extent necessary to sustain any competitive advantage Ambrilia may have.

Third parties may claim that Ambrilia's products infringe upon their intellectual property rights. This risk is exacerbated by the fact that the validity and breadth of medical technology patents involve complex legal and factual questions for which important legal principles remain unresolved.

In addition, because patents are not published until 18 months post-filing and can take many years to issue, there may be currently pending applications of which Ambrilia is unaware or which issue with an unexpected scope, such applications may later result in issued patents that Ambrilia's products infringe upon. There could also be existing patents of which Ambrilia is not aware that its products may infringe upon.

Furthermore, competitors may independently develop products similar to Ambrilia's or copy Ambrilia's products by circumventing Ambrilia's patents.

Patent applications relating to or affecting Ambrilia's business have been filed by a number of healthcare and biopharmaceutical companies. Some of these applications have been received. A number of technologies, applications or patents may conflict with its technologies or patent applications and such conflict could reduce the scope of patent protection which it could otherwise obtain or even lead to refusal of its patent applications.

There is no assurance that Ambrilia could enter into licensing arrangements at a reasonable cost, or develop or obtain alternative technology in respect of patents issued to third parties that incidentally cover its products. Any liability to secure licenses or alternative technology could result in delays in the introduction of some of its products or even lead to prohibition of the development, manufacture or sale of certain products by Ambrilia. Moreover, Ambrilia could potentially incur substantial legal costs in defending legal actions which allege patent infringement or by instituting patent infringement suits against others.

It is not possible for Ambrilia to be certain that it is the creator of inventions covered by pending patent applications or that it was the first to file patent applications for any such inventions. No assurance can be given that its patents, once issued, would be declared by a court to be valid or enforceable, or that a competitor's technology or product would be found to infringe its patents.

Moreover, much of Ambrilia's know-how technology which is not patentable may constitute trade secrets. Therefore, Ambrilia requires its employees, consultants, advisors and collaborators to enter into confidentiality agreements. However, no assurance can be given that such agreements will provide for a meaningful protection of its trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure of information.

## **Product Liability Claims**

The testing and marketing of medical products, even after regulatory approval, has an inherent risk of product liability. Ambrilia obtains product liability insurance coverage in the total amount of \$5,000,000 relating to Phase I, II, and III clinical trials as required. It also maintains coverage for any claims arising from its previous clinical trials. However, these insurance coverages are limited guarantee and a product liability claim could potentially be greater than these coverages. Ambrilia's profitability would be adversely affected by a successful product liability claim in excess of its insurance coverage.

## **Rapid Technological Changes**

Ambrilia's industry is subject to rapid and substantial technological change. There can be no assurance that developments by others will not render Ambrilia's products or technologies non-competitive or that it will be able to keep pace with technological developments.

## **Competition**

Certain competitors of Ambrilia possess more financial resources than Ambrilia. Competitors have developed technologies that could be the basis for competitive products. Some of these products have an entirely different approach or means of accomplishing the desired therapeutic effect than products being developed by Ambrilia and may be more effective and less costly than the products developed by Ambrilia. In addition, other forms of medical treatment may compete with Ambrilia's products.

## **Unproven Market**

Ambrilia believes that there will be applications for products successfully derived from its core technologies and that the anticipated markets for products under development will continue to expand. However, no assurance can be given that these beliefs will prove to be correct owing, in particular, to competition from existing or new products and the yet to be established commercial validity of Ambrilia's products.

## **Government Regulation**

The procedure involved in obtaining regulatory approval from the government regulators in Canada, Europe and the United States to market therapeutic products is long and costly and may delay product development. The approval to market a product may be given to a limited extent only or it may be refused. Such limitations or refusals could be detrimental to Ambrilia's sales and profitability.

## **Hazardous Material and Environmental Matters**

Ambrilia's activities involve the controlled use of hazardous materials. Ambrilia is subject to federal, provincial and local laws and regulations governing the use, manufacturing, storage, handling and disposal of such materials and certain waste products. Although Ambrilia believes that its safety procedures for handling and disposing of such materials comply with the standards prescribed by such laws and regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. Should this occur, Ambrilia could be held liable for any damages that result, and any such liability could exceed its resources. Although Ambrilia believes that it is in compliance with environmental laws and regulations, and currently does not expect to make material capital expenditures for environmental control facilities in the near-term, there can be no assurance that it will not be required to incur significant costs to comply with environmental laws and regulations in the future, or that its operations, business or assets will not be materially adversely affected by current or future environmental laws or regulations.

## **Share Price Fluctuations**

The price of Ambrilia's common shares (the "Common Shares") is subject to fluctuation. Factors such as the conclusion of strategic alliances, research results and clinical studies, questions regarding patents, expectations of investors, securities, analysts, general market fluctuations and any number of other factors could considerably affect the price of the Common Shares.

Certain matters discussed in this annual information form are, by their nature, forward-looking and are subject to risks and other factors that are wholly or partially beyond the control of Ambrilia's management. Consequently, actual results could differ materially.

In recent years, the shares of many biopharmaceutical companies have experienced extreme price fluctuations, which have been unrelated to the operating performance of the affected companies. There can be no assurance that the market price of the Common Shares will not continue to experience significant fluctuations in the future, including fluctuations that are unrelated to Ambrilia's performance.

## **Payment of Dividends**

Ambrilia has never declared or paid any dividends on its Common Shares. Ambrilia currently intends to retain future earnings, if any, to finance further research and development and the expansion of its business. As a result, the return on an investment in the Common Shares will depend upon any future appreciation in value. There is no guarantee that the Common Shares will appreciate in value or even maintain the price at which they were purchased.

## **Foreign Currency Exchange**

Ambrilia operates and intends to generate revenue and expenses internationally, which are likely to be denominated in euros and other foreign currencies. Ambrilia's international business is subject to risks typical of an international business including, but not limited to, differing tax structures, myriad regulations and restrictions and general foreign exchange rate volatility. A decrease in the value of such foreign currencies relative to the Canadian dollar could result in downward price pressure for Ambrilia's products in such jurisdictions or losses from currency exchange rate fluctuations. Ambrilia cannot be sure that any hedging techniques will be successful or that its business, results of operations, financial condition and cash flows will not be materially adversely affected by exchange rate fluctuations.

## **Value of Intangible Assets**

Ambrilia is required to review the carrying value of its intangible assets for impairment annually or when events change. Intangible assets include net book value of product rights, trademarks and process know-how covered by certain patented and non-patented information. Management reviews the carrying value based on projected future results. If events such as generic competition or inability to manufacture or obtain supply of product occur that may cause sales of the related products to decline, Ambrilia adjusts the projected results accordingly. Any impairment in the carrying value results in a write-down of the intangible asset, which is charged to income during the period in which the impairment is determined. The write-down of intangible assets may have a material adverse effect on the results of operations in the period in which the write-down occurs.

## **DISCLOSURE CONTROLS AND PROCEDURES**

The President and Chief Executive Officer and the Executive Vice President, Finance and Chief Financial Officer are responsible for establishing and maintaining Ambrilia's disclosure controls and procedures. They are required to be fully apprised of any material information affecting the Company, so that they may review and evaluate this information in order to determine the appropriateness and timing of public releases.

The President and Chief Executive Officer and the Executive Vice President, Finance and Chief Financial Officer, having evaluated the effectiveness of the Company's disclosure controls and procedures as at March 31, 2007, have concluded that these disclosure controls and procedures are adequate and effective and thus would have ensured that material information relating to the Company would have been known to them.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Internal controls over financial reporting ("ICFRs") are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with GAAP in its consolidated financial statements. The President and Chief Executive Officer and the Executive Vice President, Finance and Chief Financial Officer, together with other members of management, have designed ICFRs in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with Canadian GAAP.

Management have concluded that no changes were made to ICFR during the three months ended March 31, 2007, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## **SUBSEQUENT EVENTS**

As discussed in the "Overview and Outlook" section, the former President and CEO, Hans J. Mader left the Company on April 18, 2007. However, in order to ensure a smooth transition, Mr. Mader will continue working with Ambrilia as a consultant for a period of one year. Under the terms of an agreement between the Company and Mr. Mader, he received a lump-sum payment of \$600,000, and will also receive 33,898 common shares of Ambrilia with a market value of \$100,000, based on the closing price of the Company's shares on April 17, 2007. These shares are to be held in escrow, with 50% thereof to be delivered to Mr. Mader on October 17, 2007 and the balance on April 17, 2008.

Also as discussed in the "Overview and Outlook" section, the Company announced on April 18, 2007 that it had agreed to a private placement of common shares for an aggregate consideration of \$5.4 million, subject to certain conditions.

**AMBRILIA BIOPHARMA INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(unaudited)

As at

	<b>March 31,</b>	<b>December 31,</b>
	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	11,955,530	3,155,854
Short-term investments	3,438,005	19,203,750
Accounts receivable <i>[note 5]</i>	482,962	847,688
Investment tax credits recoverable	961,621	1,902,212
Prepaid expenses	141,123	116,154
	<b>16,979,241</b>	<b>25,225,658</b>
Long-term receivables <i>[note 6]</i>	1,226,747	1,095,130
Property, plant and equipment	1,909,996	1,782,558
Intellectual property	53,581,795	53,379,022
Deferred financing costs <i>[note 3]</i>	-	979,534
	<b>73,697,779</b>	<b>82,461,902</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	3,067,904	5,762,426
Deferred license revenues	3,402,446	3,377,976
Loan payable	-	768,841
	<b>6,470,350</b>	<b>9,909,243</b>
Minority interest	1	1
Biolevier loan facility	8,118,959	8,927,466
Future income tax liability	6,064,044	6,295,095
Convertible debentures	2,345,262	2,408,559
	<b>22,998,616</b>	<b>27,540,364</b>
<b>Shareholders' equity <i>[note 7]</i></b>		
Share capital	115,978,300	114,401,167
Warrants	6,143,141	6,143,141
Contributed surplus	8,233,084	7,920,211
Equity component of convertible debentures	1,920,914	1,920,914
Deficit	<b>(81,576,276)</b>	<b>(75,463,895)</b>
	<b>50,699,163</b>	<b>54,921,538</b>
	<b>73,697,779</b>	<b>82,461,902</b>

See accompanying notes

**AMBRILIA BIOPHARMA INC.**  
**CONSOLIDATED STATEMENTS OF**  
**OPERATIONS, DEFICIT AND COMPREHENSIVE INCOME**  
(unaudited)

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
<b>REVENUES</b>		
License revenue	7,364	2,226
Interest and other income	200,643	128,095
	<b>208,007</b>	<b>130,321</b>
<b>EXPENSES</b>		
Research and development	2,616,751	1,393,782
Research and development tax credits	(273,954)	(124,988)
Net research and development	2,342,797	1,268,794
General and administrative	2,408,049	1,132,498
Amortization of property, plant and equipment	123,960	63,103
Amortization of intellectual property	2,046,963	772,928
Amortization of deferred financing fees	-	35,691
Accretion on long-term debt	107,730	60,250
Interest on long-term debt	259,366	266,616
Financial charges	29,100	13,971
Foreign exchange (gains) losses	(13,263)	161,932
	<b>7,304,702</b>	<b>3,775,783</b>
<b>Loss before income taxes</b>	<b>(7,096,695)</b>	<b>(3,645,462)</b>
Future income tax recovery	1,091,305	324,585
Foreign exchange (loss) gain on future income tax liability	(106,989)	358,047
	<b>984,316</b>	<b>682,632</b>
<b>Net loss &amp; comprehensive loss</b>	<b>(6,112,379)</b>	<b>(2,962,830)</b>
Deficit, beginning of period	(75,463,897)	(73,124,430)
<b>Deficit, end of period</b>	<b>(81,576,276)</b>	<b>(76,087,260)</b>
<b>Basic and diluted loss per share</b>	<b>(0.21)</b>	<b>(0.19)</b>
<b>Weighted average number of common shares outstanding</b>	<b>29,207,370</b>	<b>15,662,695</b>

See accompanying notes

**AMBRILIA BIOPHARMA INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(unaudited)

	Three months ended March 31,	
	2007	2006
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss	(6,112,379)	(2,962,830)
Items not affecting cash		
Amortization of property, plant and equipment	123,960	63,103
Amortization of intellectual property	2,046,963	772,928
Amortization of deferred financing fees	-	35,691
Accretion on long-term debt	107,730	60,250
Loan interest capitalized	-	205,366
Future income tax recovery and related foreign exchange gain	(984,316)	(682,632)
Exchange loss (gain)	(2,444)	32,299
Services paid by issuance of stock options <i>[note 7]</i>	319,533	71,381
Executive compensation <i>[note 7]</i>	124,800	-
	(4,376,153)	(2,404,444)
Net change in non-cash balances relating to operations	(1,521,323)	(1,597,296)
<b>Cash flows related to operating activities</b>	<b>(5,897,476)</b>	<b>(4,001,740)</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of intellectual property	(101,316)	(7,879)
Acquisition of property, plant and equipment	(212,018)	(186,267)
Cash and cash equivalents obtained on acquisition of business	-	174,625
Business acquisition costs <i>[note 4]</i>	-	(1,979,031)
Purchase of short-term investments	(989,280)	-
Maturities of short-term investments	16,755,025	3,955,475
<b>Cash flows related to investing activities</b>	<b>15,452,411</b>	<b>1,956,923</b>
<b>FINANCING ACTIVITIES</b>		
Issue of common shares	11,132	18,095,904
Share issuance costs	-	(1,213,429)
Repayment of loan	(766,391)	-
<b>Cash flows related to financing activities</b>	<b>(755,259)</b>	<b>16,882,475</b>
Net increase in cash and cash equivalents	8,799,676	14,837,658
Cash and cash equivalents, beginning of period	3,155,854	417,953
<b>Cash and cash equivalents, end of period</b>	<b>11,955,530</b>	<b>15,255,611</b>
<b>Supplemental cash flow information</b>		
Cash paid during the period for:		
Interest	276,407	2,226

See accompanying notes

## **Ambrilia Biopharma Inc.**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2007

(unaudited)

### **1. Description of business**

Ambrilia Biopharma Inc. [the "Company"] is a biopharmaceutical company engaged in the development and commercialization of diagnostics and therapeutic drugs. It was incorporated under the laws of the province of Ontario in 1986 and was continued under the Canada Business Corporations Act in 2001.

To date, the Company has financed its cash requirements primarily from equity and debt issuances, investment tax credits, government grants and loans, license revenues and interest income. The Company has incurred significant operating losses and cash outflows from its operations. The success of the Company is dependent on bringing its technologies to market, obtaining the necessary regulatory approvals, obtaining sufficient financing and achieving future profitable operations.

### **2. Basis of presentation and significant accounting policies**

These interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for interim financial statements and, except for the changes reported in note 3 below, follow the same accounting policies and methods of application as the most recent annual consolidated financial statements. The interim consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the most recent annual consolidated financial statements as at and for the year ended December 31, 2006.

#### **Basis of consolidation**

The consolidated financial statements include the accounts of the Company, those of its 94.29%-owned French subsidiary, Ambrilia Biopharma France S.A. ["Ambrilia France"], those of its wholly-owned U.S. subsidiary, Oncologic Biopharmaceuticals Corporation ["Oncologic"], those of its wholly-owned Canadian subsidiaries, Bioxalis Medica Inc. ["Bioxalis"] and Opep Pharma Inc. ["Opep Pharma"], and those of its majority owned Canadian subsidiary, Cellpep Pharma Inc. ["Cellpep"]. All significant intercompany transactions and balances have been eliminated upon consolidation.

### **3. Changes in accounting policy**

Effective January 1, 2007, the Company adopted the following three recently introduced Canadian Institute of Chartered Accountants ["CICA"] Handbook Sections without restatement of prior periods.

Section 1530, "Comprehensive Income", requires the presentation of comprehensive income and its components in the financial statements. Comprehensive income is the change in the net assets of a company arising from transactions, events and circumstances not related to shareholders.

Section 3855, "Financial Instruments – Recognition and Measurement", sets out the standards for the recognition and measurement of financial assets, financial liabilities and derivatives. This standard prescribes when to recognize a financial instrument in the balance sheet and at what amount. Depending on their balance sheet classification, fair value or cost-based measures are used. This standard also prescribes the basis of presentation for gains and losses on financial instruments. Based on financial instrument classification, gains and losses on financial instruments are recognized either in net income or in other comprehensive income.

## Ambrilia Biopharma Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2007

(unaudited)

#### 3. Changes in accounting policy (continued)

The following table summarizes the Company's financial instruments, their assigned classification, the initial and subsequent method of measurement and the treatment of their respective gains and losses:

Financial Instrument	Classification	Initial Measurement	Subsequent Measurement	Gains and Losses	
Cash	Held for trading	Fair-value	Fair-value	Recognized immediately in net loss.	
Cash equivalents	Held to maturity		Amortized cost using the effective interest method	Recognized in net loss when the asset is derecognized. Impairment write-downs and foreign exchange translation adjustments recognized immediately in net loss.	
Short-term investments					
Accounts receivable <sup>(1)</sup>	Loans and receivables				
Long-term receivables <sup>(2)</sup>					
Accounts payable and accrued liabilities	Other financial liabilities				Recognized in net loss when the liability is derecognized. Foreign exchange translation adjustment recognized immediately in net loss.
Biolevier loan facility					
Convertible debentures					

(1) Excludes sales taxes receivable, as this amount is not a contractual right to receive cash.

(2) Excludes long-term investment tax credits, as this amount is not a contractual right to receive cash.

In addition, the Company now accounts for transaction costs related to the issuance of financial instruments as a reduction of the carrying value of the related financial instruments. As a result, the amounts previously reported as "Deferred financing costs" have been reflected at March 31, 2007 as a reduction of the "Biolevier loan facility" and the "Convertible debentures". The Company does not have any outstanding contracts with embedded derivatives.

Section 3865, "Hedges" allows optional treatment providing that hedges be designated as either fair value hedges, cash flow hedges or hedges of a self-sustaining foreign operation. Since the Company does not currently have any hedging programs in place, the adoption of this section did not have any impact on the Company's consolidated financial statements.

## Ambrilia Biopharma Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2007

(unaudited)

#### 4. Business acquisition

On March 1, 2007, the Company exercised its call option to acquire the second 30% tranche of the 9.39% of the outstanding Ambrilia France securities covered by the share exchange agreement, issuing 448,294 common shares of the company in exchange, which increased the Company's ownership of Ambrilia France from 91.47% to 94.29%. The shares issued were valued at \$1,434,541, based on the \$3.20 weighted-average closing price of the Company's common shares for the five trading days around January 19, 2006, the date on which the acquisition was first announced. Accordingly, an amount of \$2,148,420, \$39,380 and \$753,259 was assigned to intellectual property, property, plant and equipment and future income tax liability, respectively.

#### 5. Accounts receivable

	March 31, 2007	December 31, 2006
	\$	\$
Commodity taxes recoverable	227,448	318,157
Government assistance receivable	98,652	183,534
Interest receivable on short-term investments	69,982	131,966
Other	86,880	214,031
	<b>482,962</b>	<b>847,688</b>

#### 6. Long-term receivables

	March 31, 2007	December 31, 2006
	\$	\$
Deposits on long-term leases	455,090	435,731
Investment tax credits recoverable in more than one year	771,657	659,399
	<b>1,226,747</b>	<b>1,095,130</b>

The deposits on long-term leases are interest-bearing, primarily at the rate payable on 30-day certificates of deposit of a Canadian chartered bank.

#### 7. Capital stock

##### Common shares

The Company is authorized to issue an unlimited number of common shares.

	Number of shares	Share capital
		\$
<b>Balance as at December 31, 2006</b>	<b>29,024,439</b>	<b>114,401,167</b>
<b>Acquisition of Ambrilia France [note 4]</b>		
Shares issued March 1, 2007	448,294	1,434,541
<b>Other</b>		
Executive compensation	35,555	124,800
Stock options exercised	4,123	11,132
Amount transferred from "Contributed surplus" relating to stock options exercised	-	6,660
<b>Balance as at March 31, 2007</b>	<b>29,512,411</b>	<b>115,978,300</b>

## Ambrilia Biopharma Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2007

(unaudited)

#### 7. Capital stock (continued)

The executive compensation represents an annual bonus paid partially in common shares.

#### Warrants

	Number of common shares reserved for issuance	\$
<b>Balance as at December 31, 2006</b>	<b>10,759,810</b>	<b>6,143,141</b>
Expired warrants	(99,998)	-
Exercise of acquisition warrants	(448,294)	-
<b>Balance as at March 31, 2007</b>	<b>10,211,518</b>	<b>6,143,141</b>

On March 15, 2007, the 99,998 warrants related to the Bioxalis acquisition expired without value. These warrants previously had no value attributed to them, since it was not determinable at the time of granting.

#### Stock option plan

As at March 31, 2007, there were 715,940 stock options outstanding, compared to 619,381 at December 31, 2006.

	Number	Three months ended March 31,	
		2007 Weighted average exercise price \$	2006 Weighted average exercise price \$
<b>Options outstanding, beginning of period</b>	<b>619,381</b>	<b>5.26</b>	404,744 7.61
Granted	112,182	3.94	124,482 2.73
Exercised	(4,123)	2.70	- -
Forfeited	-	-	(13,291) 5.06
Expired	(11,500)	10.13	(10,000) 11.14
<b>Options outstanding, end of period</b>	<b>715,940</b>	<b>4.99</b>	505,935 6.41
<b>Exercisable</b>	<b>524,183</b>	<b>5.88</b>	333,634 7.27

All options granted were with exercise prices equal to the market price of the Company's shares at the date of grant. Compensation expense of \$319,533 (2006 - \$71,381) has been recognized in the quarter for stock options granted to employees and directors. The fair value of stock options at the grant date was estimated using the Black-Scholes option pricing model with the following assumptions:

	2007	2006
Expected dividend	Nil	Nil
Expected volatility	69% - 70%	68% - 69%
Risk-free interest rate	4% - 4.1%	4%
Expected option life	5-7 years	5 years
Weighted average stock option fair value	\$2.70	\$1.64

## Ambrilia Biopharma Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2007

(unaudited)

#### 7. Capital stock (continued)

##### Contributed surplus

	\$
<b>Balance as at December 31, 2006</b>	<b>7,920,211</b>
Options granted to employees and directors	319,533
Amount transferred to "Share capital" relating to stock options exercised	(6,660)
<b>Balance as at March 31, 2007</b>	<b>8,233,084</b>

#### 8. Subsequent events

##### Appointment of Executive Chairman and interim CEO

On April 18, 2007, the Company announced the appointment of Stephen G. Sudovar, the Chairman of its Board of Directors, as Executive Chairman and interim Chief Executive Officer. The former President and Chief Executive Officer left his position and as a member of the Board effective on the same date, but will continue working with Ambrilia as a consultant for a period of one year. Under the terms of an agreement between the Company and the former President and CEO, he received a lump-sum payment of \$600,000, and will also receive 33,898 common shares of Ambrilia with a market value of \$100,000, based on the closing price of the Company's shares on April 17, 2007. These shares are to be held in escrow, with 50% thereof to be delivered to the former President and CEO on October 17, 2007 and the balance on April 17, 2008.

Under the Company's Employee Share Purchase Loan Program, the former President and CEO received a \$100,000 non-interest bearing loan in 2000 to purchase 3,816 special warrants of the Company at \$26.20 each. The loan is collateralized by the underlying common shares of Ambrilia. By mutual agreement between the Company and the former President and CEO, the settlement of this loan will be deferred until a date to be determined by the Company, which shall be not later than December 31, 2008.

##### Private placement

Also on April 18, 2007, Ambrilia announced that it had agreed to issue 2,231,405 common shares by way of a private placement at a price of \$2.42 per share, for an aggregate consideration of \$5.4 million, subject to certain conditions, including the approval of the TSX and applicable regulatory authorities. The transaction is scheduled to close no later than May 18, 2007.