

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 September 30, 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 November 8, 2007. Additional information relating to the Company, including the Company's Annual Information Form, can be found on SEDAR at 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 misjudgements 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 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, unless obliged to do so by applicable securities legislation.

OVERVIEW AND OUTLOOK

Ambrilia Biopharma Inc. is a publicly-traded (TSX:AMB) biopharmaceutical company actively engaged in the discovery and development of innovative treatments for viral diseases and cancer. The Company leverages its R&D know-how, bringing drug candidates through early to mid-stage clinical trials and then evaluating various product development and licensing strategies for further advancement. At the same time, Ambrilia is developing and manufacturing new formulations of existing drugs.

Ambrilia's product portfolio includes an HIV protease inhibitor program (with lead compound PPL-100), an HIV integrase inhibitor program, two new formulations of existing peptides (Octreotide and Goserelin), other tumor targeted peptides such as Tigapotide (PCK3145) and the Tumor and tumor Vasculature Targeting (TVT) technology platform, as well as other anti-viral programs. 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. The Company also has a novel biomarker for the diagnosis and prognosis of prostate cancer, PSP94.

Octreotide is a therapeutic alternative to Novartis' Sandostatin® LAR (Long-Acting Release). Ambrilia has developed an improved prolonged release formulation which was found to have a longer bioavailability than the original product and should therefore present an advantage to the patients in terms of convenience.

On August 29, the Company reported results from the first clinical study of its Octreotide formulation in acromegalic patients. Data from a single-dose administration of Octreotide in 8 patients showed normalization of the major marker for acromegaly, the Insulin-like Growth Factor 1 ("IGF-1"), and suppression of high Growth Hormone ("GH") plasma levels, with no serious adverse events reported. Furthermore, efficacy and pharmacokinetic data suggested a 42-day dosing interval for Ambrilia's formulation of Octreotide in comparison to a 28-day dosing interval for Sandostatin® LAR. Also at the end of August, the Company announced the completion of patient enrolment for the Phase III clinical efficacy study which should be completed before year end. Data from the study are expected to be available during the first quarter of 2008. Additional 3 to 9-month open-label safety studies will follow the completion of the efficacy study. Regulatory filings by Ambrilia's licensing partners are then expected to start mid 2008, first in Europe followed by North America.

Ambrilia's licensing partners for the worldwide sales and marketing of Octreotide are Mallinckrodt, a Covidien Company, 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 I/II single-dose study in hormone-sensitive prostate cancer patients was expected to start towards the end of 2007. The Company is currently working on fine tuning its formulation in order to achieve the desired pharmacokinetic profile. Ambrilia expects to be in a position to initiate clinical testing in patients during the first half of 2008. A partner will then be selected for the commercialization of this product in Europe.

On September 18, Ambrilia presented further preclinical data on its novel HIV integrase inhibitors at the 47th Interscience Conference on Antimicrobial Agents and Chemotherapy ("ICAAC"), showing their synergies with some of the known integrase inhibitors (diketo acid inhibitors) currently approved by the U.S. Food and Drug Administration ("FDA") or in late-stage clinical development. Furthermore, Ambrilia's pyrazolopyridine inhibitors bind to a different site on the HIV integrase enzyme from that of the known competitive active site inhibitors such as the diketo acid derivatives, suggesting a different mechanism of strand transfer inhibition which could lead to a distinct resistance profile. The Company will continue to make further progress in its HIV integrase inhibitor program with the goal of having a potential preclinical drug candidate within the next 12 months.

Ambrilia co-presented with Merck & Co. the steps which lead to the licensing partnership for PPL-100 (HIV protease inhibitor program) at the 2007 Licensing Executives Society ("LES") Annual Meeting (October 14-17). The Company continues to follow-up periodically with Merck in their advancement of the development of PPL-100 for the treatment of HIV/AIDS.

Clinical data from the Memorial Sloan Kettering Cancer Center ("MSKCC") Phase I/II pilot study with Tigapotide in hormone-resistant prostate cancer patients were presented at the 2007 Annual Fall Conference on Antiangiogenesis (October 22-23) and at the AACR-NCI-EORT International Conference (October 22-26). Ambrilia expects to identify a co-development partner for Tigapotide who would finance planned Phase IIb studies and further clinical development.

The Company has generated several early-stage anti-viral programs. Some of these programs address early steps of the HIV replication cycle and others are designed for the discovery and development of new classes of molecules for the treatment of Hepatitis C and Influenza. Ambrilia intends to accelerate these programs now since that PPL-100's development is assumed by Merck & Co.

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%.

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. On June 13, 2007, Mr. Sudovar resigned from the above position and as a member of the Board of Directors for personal reasons. On the same date, Mr. Frederic Porte was appointed as Chairman of the Board of Directors.

On May 18 and May 22, 2007 Ambrilia issued, by way of a private placement, 2,417,353 common shares at a price of \$2.42 per share, for an aggregate consideration of \$5,849,995, before cash issue expenses of \$200,253.

On July 17, 2007, the Company completed a licensing and distribution partnership with Shin Poong Pharmaceutical for South Korea.

On September 4, 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 97.11%. In addition, the Company has the option under a share purchase agreement to acquire an additional 2.82% of the outstanding shares of Ambrilia France by April 2008, which will bring its ownership to 99.93%.

On October 22, 2007 the Company filed a final short-form prospectus for the issuance of 12,450,000 Units at a price of \$1.25 per Unit, for total proceeds of \$15,562,500, before issue expenses. Each Unit consists of one common share of the Company and one-half of one warrant. Each whole warrant will enable the holder to purchase one additional common share at an exercise price of \$1.35 per share within the 36-month period following the closing of the transaction. The Company has granted to the underwriters an over-allotment option, which entitles the Underwriters to acquire an additional 1,867,500 Units at the issue price of \$1.25 per Unit. The over-allotment option may be exercised in whole or in part until the 30th day following the closing date. The underwriters have also been granted an option to acquire up to 622,500 additional Units at a price of \$1.25 per Unit. Closing of the transaction took place on October 30, 2007, with the underwriter option being fully exercised. Also, on November 8, 2007, the underwriters exercised in full the over-allotment option. Consequently, the financing generated total gross proceeds of \$18,675,000, with net proceeds, after underwriters' commission and expenses estimated at \$1.6 million, amounting to approximately \$17.1 million.

Ambrilia's Board of Directors recently approved a new corporate strategic plan according to which the Company will progressively refocus its research and development activities on anti-virals. During this process, Ambrilia will continue to evaluate the best possible alternatives to ensure continuity and enhance value for its other programs.

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 nine months ended September 30, 2007.

RESULTS OF OPERATIONS

Quarter ended September 30, 2007 compared with the Quarter ended September 30, 2006

The Company incurred a net loss of \$6,145,067 or \$0.19 per common share for the third quarter of 2007, compared with a net loss of \$6,174,436 or \$0.22 per common share for the same quarter last year.

Revenues

Revenues for the third quarter of 2007 were \$183,268, compared with \$134,611 in the corresponding quarter last year. The higher revenues resulted primarily from an increase in interest income, due to higher interest rates in the current quarter compared to the third quarter of 2006 and a higher average level of cash and cash equivalents and short-term investments.

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 \$2,850,151 in the third quarter of 2007, compared with \$3,025,841 in the same quarter last year. The decrease of \$175,690 resulted primarily from the decreased R&D expenditures for PPL-100 following its licensing to an affiliate of Merck & Co., Inc. in October 2006, partially offset by increased spending primarily on the Goserelin and integrase technologies. Research and development tax credits decreased to \$226,110 in the current quarter from \$389,042 in the corresponding quarter last year. The decrease of \$162,932 in the current quarter reflects the reduction in the current period due to 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 third 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. Most of the spending on research and development during the next 12 months is expected to be focussed in three areas. For Octreotide, a Phase III clinical efficacy study is ongoing, which is expected to be followed by open-label safety studies and regulatory filings by the Company's licensing partners for Europe and then for North America. For Goserelin efforts are currently directed at completion of pre-clinical work, with the intention of initiating clinical testing in patients in the first half of 2008. The Company is also working to identify a potential pre-clinical drug candidate for its HIV integrase inhibitor program, within the next 12 months.

General and Administrative Expenses

General and administrative expenses amounted to \$1,569,610 in the third quarter of 2007, a decrease of \$87,004 from the total of \$1,656,614 for the same quarter last year. Reduced professional fees were the principal reason for the lower expenses.

Other Expenses

Amortization expense increased to \$2,270,265 in the current quarter from \$2,177,128 in the same quarter last year. The amount in the third quarter of 2006 included amortization of deferred financing costs of \$40,288. The increase resulted primarily from the added amortization on intellectual property arising from the acquisition of additional shares of Ambrilia France progressively during the past twelve months by the exercise of acquisition warrants issued under the terms of the original offer made to Ambrilia France shareholders in January 2006.

Interest on long-term debt was \$267,499 in the third quarter of 2007, compared to \$302,191 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 third quarter of 2006.

Accretion expense on long-term debt amounted to \$108,026 in the third quarter of 2007 compared to \$63,745 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.

Restructuring charges amounted to \$208,341 in the current quarter, representing severance payments in connection with the Company's decision to progressively refocus its research and development activities on anti-virals. No restructuring charges were incurred in the same period last year.

The foreign exchange gain for the third quarter of 2007 amounted to \$356, compared to \$42,369 in the same quarter last year. The gain in the third quarter of 2006 was primarily a translation gain on the consolidation of Ambrilia France.

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 additional shares of Ambrilia France acquired in 2006 and by a total of \$604,356 due to the shares acquired on March 1 and September 4, 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.

For the third quarter of 2007, a future income tax recovery of \$469,839 was reported, compared to \$585,514 in the third quarter of 2006. The recovery in the current quarter was supplemented by a foreign exchange gain on the future income tax liability of \$259,601. In the corresponding quarter last year, a foreign exchange loss on the future income tax liability of \$56,615 was incurred.

Nine months ended September 30, 2007 compared with the Nine months ended September 30, 2006

The Company incurred a net loss during the nine months ended September 30, 2007 of \$19,012,755 or \$0.62 per common share, compared with a net loss of \$15,141,053 or \$0.64 per common share in the corresponding period last year.

Revenues

Revenues amounted to \$594,030 in the first nine months of 2007, compared with \$435,481 in the corresponding period of 2006. The increase was primarily due to higher interest rates in the current period than in the same period last year.

Research and Development Expenses

Research and development expenses for the first nine months of 2007 were \$7,750,382, a decrease of \$52,154 from the total of \$7,802,536 for the same period last year. The decrease resulted primarily from the lower R&D expenditures for PPL-100 following its licensing to an affiliate of Merck & Co., Inc. in October 2006, largely offset by higher compensation costs, in part due to the acquisition of Ambrilia France on March 1, 2006, and increased spending on Octreotide and Goserelin due to their inclusion for nine months in the current period compared to only seven months in the corresponding period last year. Research and development tax credits decreased to \$596,364 in the current period from \$978,106 in the corresponding period last year. The decrease of \$381,742 reflects the reduction in the current period due to 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.

General and Administrative Expenses

General and administrative expenses amounted to \$6,339,490 for the nine months ended September 30, 2007, an increase of \$2,027,111 over the total of \$4,312,379 for the first nine months of 2006. The increase was primarily due to higher compensation costs due in part to inclusion of Ambrilia France for nine months in the current period compared to only seven months in the corresponding period last year. The compensation costs included amounts payable to a former executive in cash and shares totalling \$877,700. Higher directors' fees and increased professional fees also contributed to the increase.

Other Expenses

Amortization expense increased to \$6,657,004 in the first nine months of 2007 from \$5,150,496 in the same period last year. The amount in the 2006 period included amortization of deferred financing costs of \$114,734. The increase reflected the full effect of the added amortization on intellectual property arising from the acquisition of Ambrilia France.

Interest on long-term debt was \$788,433 in the first nine months of 2007, compared to \$854,784 in the same period last year. The decrease was mainly due to the lower 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 higher interest rates in the current period than in the same period of 2006.

Accretion expense on long-term debt amounted to \$305,808 in the first nine months of 2007 compared to \$185,968 in the same period of 2006. The increase results primarily from the change in accounting policy for deferred financing costs which came into effect for the Company on January 1, 2007.

Restructuring charges of \$208,341 were incurred in the current period, representing severance payments in connection with the Company's decision to progressively refocus its research and development activities on anti-virals. Restructuring charges in the first nine months of 2006 amounted to \$251,120 and were for severance and lease termination payments made following the acquisition of Ambrilia France.

The foreign exchange loss for the first nine months of 2007 amounted to \$54,468, compared to a loss of \$89,985 in the same period last year. The losses reflect changes in the relative value of the Canadian dollar against the Euro during the respective periods.

The future income tax recovery was \$1,380,824 for the first nine months of 2007, compared with \$1,832,390 in the same period last year. The recovery in the current period was lower as a result of the transfer of assets between different tax jurisdictions. In addition, a foreign exchange gain on the future income tax liability of \$568,759 was reported in the current period, compared with a foreign exchange gain of \$345,761 in the same period last year.

CASH FLOWS

Quarter ended September 30, 2007 compared with the Quarter ended September 30, 2006

Cash and cash equivalents decreased by \$2,235,544 in the current quarter, compared with a decrease of \$721,516 in the same quarter last year. Excluding amounts realized from maturities of short-term investments, net cash utilized in the third quarter amounted to \$3,224,744, compared to \$2,699,836 in the third quarter of 2006, an increase of \$524,908. Operating activities accounted for \$411,221 of the increase, with \$2,921,479 in the current quarter compared to \$2,510,258 in the corresponding quarter last year, with approximately half of the increase resulting from a less-favourable working capital change in the current quarter compared to the prior period. Net purchases of intellectual property and property, plant and equipment amounted to \$292,139 in the current quarter, increasing from the total of \$182,065 in the third quarter last year. Excluding changes in working capital, operating activities utilized \$4.4 million of cash in the current quarter, for an average burn rate of \$1.5 million per month, compared to an average of \$1.4 million per month in the same quarter last year.

Nine months ended September 30, 2007 compared with the Nine months ended September 30, 2006

Cash and cash equivalents increased by \$6,079,673 in the first nine months of 2007, compared with an increase of \$6,160,701 in the same period last year. These amounts include cash contributions of \$15,772,205 and \$2,984,565 from net maturities of short-term investments in the first nine months of 2007 and 2006, respectively, without which net cash of \$9,692,532 was utilized during the nine months ended September 30, 2007, while in the corresponding period last year net cash generated amounted to \$3,176,136, a period-over-period deficiency of \$12,868,668. The major factor contributing to this deficiency was the lower level of financing in the current period, with net proceeds of \$5,660,874 compared to \$16,864,781 in the same period last year, a reduction of \$11,203,907. In addition, cash of \$13,578,760 was utilized to finance operating activities, an increase of \$2,325,120 over the same period last year. Net purchases of intellectual property and property, plant and equipment amounted to \$1,008,255 in the current period, an increase of \$377,657 over the same period in 2006. Also, an Ambrilia France loan of \$766,391 was repaid in the current period. Partially offsetting these items were the business acquisition costs of \$1,979,031 incurred in the 2006 period in connection with the acquisition of Ambrilia France, less cash of \$174,625 obtained on the acquisition.

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.

On July 17, 2007, the Company completed a licensing and distribution partnership with Shin Poong Pharmaceutical Co., Ltd. for South Korea for which it received an upfront payment of approximately \$144,000 which has been included in deferred license revenues on the consolidated balance sheet.

The Company's cash resources are invested in treasury bills and bankers acceptances of major Canadian banks and therefore were not impacted by the recent liquidity crisis in the financial markets.

Cash and cash equivalents and short-term investments totalled \$12,667,072 at September 30, 2007, compared with \$22,359,604 at December 31, 2006. The decrease of \$9,692,532 resulted from the utilization of \$13,578,760 to finance operating activities for the first nine months of 2007, including an increase of \$299,870 in non-cash working capital. In addition, a net amount of \$1,008,255 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. Partially offsetting these cash outlays was a private placement of common shares in May 2007 that generated

\$5,649,742, net of expenses. In addition, an amount of \$11,132 was obtained from the exercise of stock options.

With the inclusion of the net proceeds of approximately \$17.1 million from the financing that closed on October 30, 2007 and the exercise of the related over-allotment option on November 8, 2007, management believes that it has sufficient funds available to support its ongoing activities for at least the next 20 months, based on the Company's current burn rate.

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 nine months ended September 30, 2007.

The Company has not entered into any off-balance sheet arrangements during the nine months ended September 30, 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 September 30, 2007 amounted to \$82,000 and were for the purchase of equipment. These expenditures will be paid from existing cash resources.

RELATED PARTY TRANSACTIONS

There has been no material change during the nine months ended September 30, 2007. However, the holder of one of the two \$100,000 loans under the Company's Employee Share Purchase Loan Program, the former President and CEO, left the Company effective April 18, 2007. 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. The Company has a pre-existing obligation, upon the sale of these 3,816 common shares of the Company, to forgive any shortfall arising following the application of the proceeds of sale in repayment of the loan, and also to pay to the former President and CEO an amount sufficient to offset any negative income tax consequences stemming from the forgiveness of the loan balance.

The second loan is to the Executive Vice-President, Business Development, Licensing and IP and is due on April 11, 2013. These loans are presented as a reduction of shareholders' equity. Both loans are under similar terms and conditions.

PROPOSED TRANSACTIONS

The Board of Directors recently approved a new corporate strategic plan according to which the Company will progressively refocus its research and development activities on anti-virals. However, at the present time, the Company has not entered into any agreements 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; Section 3865, Hedges; and Section 1506, Accounting Changes were all adopted effective

January 1, 2007. Their adoption had 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 November 8, 2007 the number of common shares outstanding is 47,377,906, an increase of 18,353,467 shares from December 31, 2006. The increase results from the issue of 896,588 shares in connection with the acquisition of additional shares of Ambrilia France, 2,417,353 shares issued in May 2007 by way of a private placement, 4,123 shares issued upon the exercise of stock options, 33,898 shares issued to the former President and CEO on the cessation of his employment with the Company, 61,505 shares issued as payment of interest for the first half of 2007 on the convertible debentures and the issue of 14,940,000 shares on October 30 and November 8, 2007 by way of a public offering of Units.

The number of stock options outstanding at November 8, 2007 is 1,029,267, an increase of 409,886 from December 31, 2006. The increase resulted from a total of 572,659 new options having been granted during the period, partially offset by 127,900 options which expired, 30,750 options forfeited and 4,123 which were exercised. In addition, 17,065,641 warrants are outstanding on November 8, 2007, an increase of 6,305,831 from December 31, 2006 resulting from the issue of 7,470,000 warrants through the public offering of Units on October 30 and November 8, 2007, partially offset by the exercise of 896,588 acquisition warrants relating to the Ambrilia France acquisition, the expiry of 99,998 warrants issued in connection with the acquisition of Bioxalis Medica Inc. in 2005, of 9,999 warrants issued as compensation with the issue of convertible debentures in 2005 and of 157,584 warrants issued to the former shareholders of Oncologic Biopharmaceuticals Corporation in 1997.

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 raise sufficient funds, 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

Ambrilia cannot assure that its products will be developed successfully. 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 study 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 regulatory agencies.

Regarding its proprietary products, Ambrilia cannot assure that its research and development programs will result in commercially viable products. To achieve profitable operation, Ambrilia, alone or with others, must successfully develop 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 cannot assure that any future animal or human test will yield favourable results.

Regulatory Approvals and Clinical Studies

Ambrilia cannot assure that any of its ongoing or future clinical studies will be successful or that it will receive requisite regulatory approvals. Ambrilia's clinical trials could be delayed or suspended at any time if it is determined at any time that participants are being exposed to unacceptable health risks or that Ambrilia's products are not effective. Obtaining the requisite regulatory approvals will take

several years and requires the expenditure of substantial resources. Any failure or delay in obtaining regulatory approvals could adversely affect Ambrilia's ability to commercialize its products.

If regulatory approval of any of Ambrilia's products is obtained, their manufacture, marketing and sale will be subject to ongoing and extensive governmental regulation in the United States, Europe, Canada and other countries in which Ambrilia intends to market its products, which could result in the revocation of previously granted regulatory approvals. The manufacturing facilities for Ambrilia's drug candidates are also subject to continual review and periodic inspection and approval of manufacturing modifications by regulatory authorities. Manufacturing facilities are subject to inspections by the FDA and must comply with the FDA's current good manufacturing practices, or cGMP, regulations. In complying with these regulations, manufacturers must spend funds, time and effort in the areas of production, record keeping, personnel and quality control to ensure full compliance. Regulatory authorities in other countries have similar requirements. Failure to comply with any of these post-approval requirements may, among other things, result in warning letters, product seizures, recalls, fines, injunctions, suspensions or revocations of marketing licenses, operating restrictions and criminal prosecutions. Any of these enforcement actions or any unanticipated changes in existing regulatory requirements or the adoption of new requirements could adversely affect Ambrilia's ability to market products and generate revenues.

Ambrilia has limited experience with regulatory authorities in the United States and Europe and relies on third party licensees for the filing of applications for the approval of its products. The license agreements with such third parties provides for the obligation of Ambrilia to provide licensees with an application file within a prescribed period of time. Failure to provide licensees with a complete application file within the prescribed period of time generally triggers the right to terminate the license agreement, generally, without costs. There can be no assurance that Ambrilia will be able to meet its obligations to provide a complete file within the prescribed period of time and that third party licensees will accept an extension upon the failure by Ambrilia to meet the prescribed time-frame. The exercise of such right of termination by licensees could lead to the failure or delay in obtaining regulatory approvals, which would adversely affect Ambrilia's ability to commercialize its products.

Administration of Pre-Clinical Studies and Clinical Trials

The process of conducting pre-clinical studies, human clinical trial testing and obtaining required approvals for Ambrilia's products is likely to take a number of years and require the expenditure of substantial resources. The amount and timing of pre-clinical studies, including animal testing, to be conducted prior to the commencement of human clinical trials is at the discretion of regulators, and may involve significantly more time and money than anticipated.

In addition, human clinical trials may take longer to start and complete than anticipated. In particular, there is competition from various pharmaceutical products for access to a limited number of research clinics and patients in Canada and other countries that are qualified to participate in multi-centre human clinical trials. There can be no assurance that access to such clinics or patients will not be delayed longer than anticipated, or obtained at all.

Animal testing and human clinical trials may result in adverse animal or patient reactions or statistically insignificant results, which may require a cessation or extension of the trials, or an increase in the number of patients enrolled in a given trial or the need to undertake ancillary testing and human trials.

This may result in additional delays and expenses and the termination of projects.

Reliance on Third Parties to Conduct Clinical Trials

Ambrilia has only limited experience with clinical trials. It also has limited internal resources and capacity to perform preclinical studies and clinical trials. As a result, Ambrilia hires contract research organizations, or CROs, to perform most of its pre-clinical and clinical trials for its products being developed without a partner. If the CROs that Ambrilia engages to perform its clinical trials or

Ambrilia's partners do not execute their obligations as expected, Ambrilia's clinical trials may be delayed or terminated. If Ambrilia is forced to find a replacement entity to perform clinical trials, it may not be able to find a suitable entity in a timely manner or on favourable terms. Events such as these may result in delays in Ambrilia obtaining regulatory approval for its products or its ability to commercialize its products and could result in increased expenditures.

Market Acceptance and Commercialization

Even if Ambrilia's products are successfully developed and receive regulatory approval, they may not gain market acceptance among physicians, patients, health care payers such as private insurers and other funding parties and the medical community. The degree of market acceptance for any of Ambrilia's products will depend on a number of factors including: demonstration of the clinical efficacy and safety of its products, cost-effectiveness, pricing, potential advantage over alternative treatment methods, superiority of alternative treatment or therapeutics, marketing and distribution support for the products, and reimbursement policies of government and third-party payers. If Ambrilia fails to commercialize products or if its future products do not achieve significant market acceptance, Ambrilia will not likely generate significant revenues or become profitable.

Dependence on Collaborative Agreements with Third Parties

Ambrilia's dependence on collaborative agreements with third parties may not result in marketable products. If any collaborative partner fails to develop or commercialize successfully any product to which it or Ambrilia has rights, Ambrilia may be adversely affected. In addition, while Ambrilia believes that its actual and eventual collaborative partners will have sufficient economic motivation to continue their funding, it cannot assure that any of these collaborations will be continued or result in successfully commercialized products. If one or more of Ambrilia's collaborative partners fails to continue funding any particular program, the development or commercialization of any products arising out of this program could be stopped or delayed.

If conflicts arise between Ambrilia and its collaborators or its scientific advisors, the other party may act in its self-interest and not in the interest of Ambrilia's shareholders. Additionally, Ambrilia cannot assure that its collaborative partners will not pursue alternative technologies or develop alternative products either on their own or in collaboration with others, including Ambrilia's competitors, as a means for developing treatments for the diseases targeted by Ambrilia's programs. Disputes may arise with respect to the payment of milestones or the ownership of intellectual property rights to any technology or products ultimately developed with any current or future collaborative partner. Lengthy negotiations with potential new collaborative partners or disagreements between Ambrilia and its current collaborative partners may lead to delays or termination in the research, development or commercialization of any products Ambrilia develops or result in time-consuming and costly litigation or arbitration.

Limited Manufacturing Experience

Ambrilia has not yet introduced any products and has limited manufacturing experience. To be successful, Ambrilia's products will have to be scaleable, stable and safely manufactured in clinical trial quantities and commercial quantities in compliance with current good manufacturing practices, or cGMPs, and other regulatory requirements and at acceptable costs. In order to manufacture its products in commercial quantities Ambrilia or its partners will need to develop or expand current manufacturing facilities or contract with third parties to manufacture its products. No assurance can be given that Ambrilia, or its partners or its third party contractors will be able to make the transition to commercial production or that current manufacturing facilities will be adequate or sufficient. Should any of its suppliers or its partners be unable or delayed in supplying Ambrilia with sufficient supplies, no assurance can be given that Ambrilia will be able to find alternative means of supply in a short period of time and key new raw materials could become scarce or unavailable. There may be a limited number of third parties who may manufacture Ambrilia's products. Should such parties' operations suffer a material adverse effect, the manufacturing of Ambrilia's products would also be adversely affected.

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 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 assurance 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 at September 30, 2007 are held with four Canadian chartered banks, one French bank and in treasury bills. The short-term investments are held in bankers' acceptances of a Canadian chartered 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 highly-trained personnel 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. In particular, Ambrilia has currently no President and Chief Executive Officer and has been looking for a permanent replacement since April 2007. There can be no assurance that Ambrilia will successfully attract, train and retain a highly qualified candidate for the position of President and Chief Executive Officer in the short-term or mid-term.

Intellectual Property Matters

Ambrilia relies on patent, copyright, trade secret and trade-mark laws to limit the ability of others to compete with it 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.

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 similar products or copy Ambrilia's products by circumventing its 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 that it could otherwise obtain or even lead to refusal of its patent applications.

Ambrilia may not 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. Moreover, Ambrilia could potentially incur substantial legal costs in defending legal actions that allege patent infringement or by instituting patent infringement suits against others.

Ambrilia cannot 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 Phases 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 and a product liability claim could potentially be greater than these coverages. Ambrilia would be adversely affected by a successful product liability claim in excess of its insurance coverage.

Fluctuations in Short-Term Revenues

The revenues of Ambrilia in the foreseeable future will be derived primarily from products licensed to pharmaceutical and biotechnology companies. Ambrilia expects fluctuation in such short-term revenues. Accordingly, these revenues will depend in large part upon the success of these companies and Ambrilia's operating results may fluctuate substantially due to reductions and delays in their research, development and marketing expenditures. These reductions and delays may result

from factors that are not within Ambrilia's control, including changes in economic conditions, changes in the regulatory environment, including governmental pricing controls affecting health care and health care providers, pricing pressures and other factors affecting research and development spending.

Intense Competition and Rapid Technological Changes

The biotechnology and pharmaceutical industries are highly competitive. There are a number of pharmaceutical companies, biopharmaceutical companies, universities and research organizations actively engaged in research and development and conducting clinical trials of products or medical treatment that may be similar to, or compete with, Ambrilia's products. Increased competition and technological advancement could diminish Ambrilia's ability to become profitable or affect its profitability in the future. Some of Ambrilia's competitors have substantially greater financial and technical resources, including more extensive research and development capabilities and greater marketing, distribution, production and human resources. A number of Ambrilia's largest competitors are pursuing the development or marketing of pharmaceuticals that target the same diseases or viral infections that Ambrilia is targeting, and it is possible that the number of companies seeking to develop such products and therapies will increase. In addition, many of these competitors have significantly greater experience in undertaking pre-clinical testing and human clinical trials of new pharmaceutical products and in obtaining regulatory approvals of human therapeutic products. Accordingly, Ambrilia's existing and potential competitors may develop products sooner, or obtain regulatory approval for their products more rapidly. They may also develop superior products or technology rendering Ambrilia's products or technology non-competitive or obsolete.

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 government regulators in Canada, Europe and the United States to market therapeutic products is long, costly, time-consuming and uncertain 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.

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 those 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 it 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 report 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 U.S. dollars, in euros and other foreign currencies. Ambrilia's international business is subject to risks typical of an international business including 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 or losses from currency exchange rate fluctuations. Ambrilia cannot assure that any hedging techniques will be successful or that it 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 that 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 Executive Vice-President, Finance and Chief Financial Officer, the Senior Executive Vice-President and Chief Scientific Officer and the Vice-President, Legal Affairs, Human Resources and Corporate Secretary jointly performing the functions of the Chief Executive Officer on an interim basis, and the Executive Vice-President, Finance and Chief Financial Officer, having evaluated the effectiveness of the Company's disclosure controls and procedures as at September 30, 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 above-mentioned executives who are jointly performing the functions of the Chief Executive Officer on an interim basis 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 ICFRs during the nine months ended September 30, 2007, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

AMBRILIA BIOPHARMA INC.
CONSOLIDATED BALANCE SHEETS

(unaudited)

As at

	September 30, 2007 \$	December 31, 2006 \$
ASSETS		
Current assets		
Cash and cash equivalents	9,235,527	3,155,854
Short-term investments	3,431,545	19,203,750
Accounts receivable <i>[note 5]</i>	324,168	847,688
Investment tax credits recoverable	69,075	1,902,212
Prepaid expenses	130,842	116,154
	13,191,157	25,225,658
Long-term receivables <i>[note 6]</i>	1,107,431	1,095,130
Property, plant and equipment	2,214,561	1,782,558
Intellectual property	50,770,764	53,379,022
Deferred financing costs <i>[note 3]</i>	-	979,534
	67,283,913	82,461,902
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	2,981,081	5,762,426
Deferred license revenues	3,529,783	3,377,976
Loan payable	-	768,841
	6,510,864	9,909,243
Minority interest	1	1
Biolevier loan facility	8,175,830	8,927,466
Future income tax liability	4,949,868	6,295,095
Convertible debentures	2,486,469	2,408,559
	22,123,032	27,540,364
Shareholders' equity <i>[note 7]</i>		
Share capital	123,159,947	114,401,167
Warrants	6,143,141	6,143,141
Contributed surplus	8,413,529	7,920,211
Equity component of convertible debentures	1,920,914	1,920,914
Deficit	(94,476,650)	(75,463,895)
	45,160,881	54,921,538
	67,283,913	82,461,902

See accompanying notes

AMBRILIA BIOPHARMA INC.
CONSOLIDATED STATEMENTS OF
OPERATIONS, DEFICIT AND COMPREHENSIVE LOSS

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
REVENUES				
License revenue	10,615	6,857	25,080	15,845
Interest and other income	172,653	127,754	568,950	419,636
	183,268	134,611	594,030	435,481
EXPENSES				
Research and development	2,850,151	3,025,841	7,750,382	7,802,536
Research and development tax credits	(226,110)	(389,042)	(596,364)	(978,106)
Net research and development	2,624,041	2,636,799	7,154,018	6,824,430
General and administrative [note 8]	1,569,610	1,656,614	6,339,490	4,312,379
Amortization of property, plant and equipment	154,304	122,623	410,770	296,803
Amortization of intellectual property	2,115,961	2,014,217	6,246,234	4,738,959
Amortization of deferred financing fees	-	40,288	-	114,734
Accretion on long-term debt	108,026	63,745	305,808	185,968
Interest on long-term debt	267,499	302,191	788,433	854,784
Restructuring charges [note 9]	208,341	-	208,341	251,120
Financial charges	10,349	43,838	48,806	85,523
Foreign exchange losses (gains)	(356)	(42,369)	54,468	89,985
	7,057,775	6,837,946	21,556,368	17,754,685
Loss before income taxes	(6,874,507)	(6,703,335)	(20,962,338)	(17,319,204)
Future income tax recovery	469,839	585,514	1,380,824	1,832,390
Foreign exchange gain (loss) on future income tax liability	259,601	(56,615)	568,759	345,761
	729,440	528,899	1,949,583	2,178,151
Net loss and comprehensive loss	(6,145,067)	(6,174,436)	(19,012,755)	(15,141,053)
Deficit, beginning of period	(88,331,583)	(82,091,047)	(75,463,895)	(73,124,430)
Deficit, end of period	(94,476,650)	(88,265,483)	(94,476,650)	(88,265,483)
Basic and diluted loss per share	(0.19)	(0.22)	(0.62)	(0.64)
Weighted average number of common shares outstanding	32,113,545	27,543,885	30,656,308	23,607,043

See accompanying notes

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss	(6,145,067)	(6,174,436)	(19,012,755)	(15,141,053)
Items not affecting cash				
Amortization of property, plant and equipment	154,304	122,623	410,770	296,803
Amortization of intellectual property	2,115,961	2,014,217	6,246,234	4,738,959
Amortization of deferred financing fees	-	40,288	-	114,734
Loss on disposal of property, plant and equipment	944	-	944	-
Accretion on long-term debt	108,026	63,745	305,808	185,968
Loan interest capitalized	-	240,941	-	671,034
Interest paid by issuance of common shares <i>[note 7]</i>	-	-	122,164	122,164
Future income tax recovery and related foreign exchange gain	(729,440)	(528,899)	(1,949,583)	(2,178,151)
Foreign exchange loss (gain)	1	(8,086)	(2,450)	28,063
Services paid by issuance of stock options <i>[note 7]</i>	91,969	36,820	499,978	172,855
Compensation paid in shares <i>[notes 7 and 8]</i>	-	-	100,000	-
	(4,403,302)	(4,192,787)	(13,278,890)	(10,988,624)
Net change in non-cash balances relating to operations	1,481,824	1,682,529	(299,870)	(265,017)
Cash flows related to operating activities	(2,921,478)	(2,510,258)	(13,578,760)	(11,253,641)
INVESTING ACTIVITIES				
Acquisition of intellectual property	(78,513)	(42,712)	(221,670)	(189,873)
Acquisition of property, plant and equipment	(213,877)	(139,353)	(787,335)	(441,040)
Proceeds on disposal of property, plant and equipment	250	-	750	315
Cash and cash equivalents obtained on acquisition of business	-	-	-	174,625
Business acquisition costs	-	-	-	(1,979,031)
Purchase of short-term investments	-	-	(5,410,025)	(3,935,960)
Maturities of short-term investments	989,200	1,978,320	21,182,230	6,920,525
Cash flows related to investing activities	697,060	1,796,255	14,763,950	549,561
FINANCING ACTIVITIES				
Issuance of common shares <i>[note 7]</i>	-	-	5,861,127	18,095,904
Share issuance costs <i>[note 7]</i>	(11,126)	(7,513)	(200,253)	(1,231,123)
Repayment of loan	-	-	(766,391)	-
Cash flows related to financing activities	(11,126)	(7,513)	4,894,483	16,864,781
Net increase (decrease) in cash and cash equivalents	(2,235,544)	(721,516)	6,079,673	6,160,701
Cash and cash equivalents, beginning of period	11,471,071	7,300,170	3,155,854	417,953
Cash and cash equivalents, end of period	9,235,527	6,578,654	9,235,527	6,578,654
Supplemental cash flow information				
Cash paid during the period for interest	209,120	8,068	692,871	17,963

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 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 upon bringing its technologies to market, obtaining the necessary regulatory approvals, obtaining additional 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 97.11%-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 four recently introduced Canadian Institute of Chartered Accountants ["CICA"] Handbook Sections without restatement of prior periods.

Section 1506, "Accounting Changes". The changes to this section particularly affect the following items: an entity would be permitted to change an accounting policy only when it is required by a primary source of GAAP, or when the change results in a more reliable and relevant presentation in the financial statements; changes in accounting policy should be applied retroactively, except in cases where specific transitional provisions in a primary source of GAAP permit otherwise or where application to comparative information is impractical [the standard provides specific guidance as to what is considered impractical]; expanded disclosures about the effects of changes in accounting policies, estimates and errors to the financial statements, and disclosure of new primary sources of GAAP that have been issued but have not yet come into effect and have not yet been adopted by the entity. The adoption of this standard did not have a significant impact on our consolidated results of operations or financial position.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

(unaudited)

3. Changes in accounting policy (continued)

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.

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 ⁽¹⁾	Loans and receivables				
Long-term receivables ⁽²⁾					
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 commodity taxes recoverable, as this amount is not a contractual right to receive cash.

(2) Excludes long-term investment tax credits, as this 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 September 30, 2007 as a reduction of the “Biolevier loan facility” and the “Convertible debentures”. For more complete information, refer to notes 9 and 11 in the Company’s annual consolidated financial statements as at and for the year ended December 31, 2006. 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

September 30, 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 \$1,708,150, \$31,310 and \$304,919 was assigned to intellectual property, property, plant and equipment and future income tax liability, respectively.

On September 4, 2007, the Company exercised its call option to acquire the third 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 94.29% to 97.11%. 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 \$1,708,156, \$25,822 and \$299,437 was assigned to intellectual property, property, plant and equipment and future income tax liability, respectively.

5. Accounts receivable

	September 30, 2007	December 31, 2006
	\$	\$
Commodity taxes recoverable	126,291	318,157
Government assistance receivable	-	183,534
Interest receivable on short-term investments	82,299	131,966
Other	115,578	214,031
	324,168	847,688

6. Long-term receivables

	September 30, 2007	December 31, 2006
	\$	\$
Deposits on long-term leases	400,000	435,731
Investment tax credits recoverable in more than one year	707,431	659,399
	1,107,431	1,095,130

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.

Ambrilia Biopharma Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

(unaudited)

7. Shareholders' equity

Share capital

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

	Number of common shares	Share capital \$
Balance as at December 31, 2006	29,024,439	114,401,167
Acquisition of Ambrilia France [note 4]		
Shares issued March 1, 2007	448,294	1,434,541
Shares issued September 4, 2007	448,294	1,434,541
Other		
Stock options exercised	4,123	11,132
Amount transferred from "Contributed surplus" relating to stock options exercised	-	6,660
Private placement ⁽¹⁾	2,417,353	5,649,742
Issued as compensation ⁽²⁾	33,898	100,000
Issued in payment of interest on convertible debentures ⁽³⁾	61,505	122,164
Balance as at September 30, 2007	32,437,906	123,159,947

(1) On May 18 and 22, 2007, Ambrilia issued a total of 2,417,353 common shares by way of a private placement at a price of \$2.42 per share, for an aggregate consideration of \$5,849,995, before cash issue expenses of \$200,253.

(2) On May 24, 2007, Ambrilia issued 33,898 common shares to its former President and CEO as part of a settlement on the cessation of his employment with the Company. These shares are being held in escrow, with 50% having been released on October 18, 2007 and the balance to be released on April 18, 2008.

(3) On June 29, 2007, the Company elected to issue 61,505 common shares as payment for the cumulative interest for the six months ended on that date on the \$3,500,000 convertible debentures maturing June 29, 2010.

Warrants

	Number of common shares reserved for issuance	\$
Balance as at December 31, 2006	10,759,810	6,143,141
Expired warrants	(267,581)	-
Exercise of acquisition warrants	(896,588)	-
Balance as at September 30, 2007	9,595,641	6,143,141

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.

On June 29, 2007, a total of 9,999 compensation warrants for convertible debentures expired without value.

On September 30, 2007, a total of 157,584 warrants issued to the former shareholders of Oncologic expired without value. These warrants previously had no value attributed to them, since it was not determinable at the time of granting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

(unaudited)

7. Shareholders' equity (continued)

Stock option plan

As at September 30, 2007, there were 1,030,792 stock options outstanding, compared to 619,381 at December 31, 2006.

	Nine months ended September 30, 2007		2006	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Options outstanding, beginning of period	619,381	5.26	404,744	7.61
Granted	572,659	2.53	232,523	2.49
Exercised	(4,123)	2.70	-	-
Forfeited	(30,750)	3.54	(28,998)	6.10
Expired	(126,375)	9.47	(61,350)	7.51
Options outstanding, end of period	1,030,792	3.30	546,919	5.48
Exercisable	527,823	4.13	330,496	7.48

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 \$499,978 (2006 - \$172,855) has been recognized in the first nine months of 2007 for stock options granted to employees, directors and consultants. 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	66% - 70%	56% - 69%
Risk-free interest rate	4% - 4.6%	3.9% - 4.3%
Expected option life	5 - 7 years	3 - 5 years
Weighted average stock option fair value	\$1.71	\$1.64

Contributed surplus

	\$
Balance as at December 31, 2006	7,920,211
Options granted to employees, directors and consultants	499,978
Amount transferred to "Share capital" relating to stock options exercised	(6,660)
Balance as at September 30, 2007	8,413,529

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

(unaudited)

8. Payments to former President and CEO

Under the terms of an agreement dated April 18, 2007 between the Company and its former President and CEO, who left the Company on that date, he received a lump-sum payment of \$600,000 and 33,898 common shares of the Company with a market value at that date of \$100,000. In addition, under a consulting agreement entered into on the same date, the Company will pay an additional amount of up to \$100,000 over a 12-month period commencing on the above date.

Under the Company's Employee Share Purchase Loan Program, the former President and CEO received in 2000 a \$100,000 non-interest bearing loan to purchase 3,816 special warrants of the Company at \$26.20 each. The loan is collateralized by the underlying common shares of Ambrilia. The loan receivable was deducted from shareholders' equity. Any proceeds to be received as settlement of the loan receivable will be recorded as a capital transaction. 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, but which shall be not later than December 31, 2008. The Company has a pre-existing obligation, upon the sale of these 3,816 common shares of the Company, to forgive any shortfall arising following the application of the proceeds of sale in repayment of the loan, and also to pay to the former President and CEO an amount sufficient to offset any negative income tax consequences stemming from the forgiveness of the loan balance.

In the consolidated statements of operations, deficit and comprehensive loss for the three months and nine months periods ended September 30, 2007, the general and administrative expenses include a total amount of nil and \$877,700 respectively for the above items.

9. Restructuring Charges

During the third quarter of 2007, the Company decided to progressively refocus its research and development activities on anti-virals. Accordingly, a restructuring plan was implemented and resulted in the termination of four employees, mainly in the oncology research and administrative support functions. The costs associated with the restructuring amounted to \$208,341, which was expensed in the current period. Management does not anticipate further costs and deems the restructuring process completed.

10. Subsequent event

Public offering

On October 22, 2007 the Company filed a final short-form prospectus for the issuance of 12,450,000 units [the "Units"] at a price of \$1.25 per Unit, for total proceeds of \$15,562,500, before issue expenses. Each Unit consists of one common share of the Company and one-half of one warrant. Each whole warrant will enable the holder to purchase one additional common share at an exercise price of \$1.35 per share within the 36-month period following the closing of the transaction. The Company has granted to the underwriters an over-allotment option [the "Over-allotment option"], which entitles the underwriters to acquire up to a number of additional Units equal to 15% of the Units sold under this offering at the issue price of \$1.25 per Unit. The over-allotment option may be exercised in whole or in part until the 30th day following the closing date. The underwriters have also been granted an option [the "Underwriters' option"] to acquire up to 622,500 additional Units at a price of \$1.25 per Unit.

Closing of the transaction took place on October 30, 2007, with the Underwriters' option being fully exercised. On November 8, 2007, the underwriters' exercised in full the Over-allotment option. Consequently, the financing generated gross proceeds of \$18,675,000, with net proceeds, after underwriters' commission and expenses estimated at \$1.6 million, amounting to approximately \$17.1 million.