

## **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, 2008 and related notes included herein, together with the Company's audited consolidated financial statements for the year ended December 31, 2007 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 May 13, 2008. 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, unless obliged to do so by applicable securities legislation.

### **OVERVIEW AND OUTLOOK**

Ambrilia Biopharma Inc. ("Ambrilia" or "the Company") is a publicly-traded (TSX:AMB) biotechnology company actively engaged in the discovery and development of small molecules and peptides to treat infectious diseases and cancer. The Board of Directors has adopted in the latter part of 2007 a new strategic plan aimed at capitalizing on Ambrilia's broad portfolio and original expertise in virology. During the course of 2008, execution of the strategy aims to monetize the non-virology assets through third parties agreements, in turn strengthening the Company's financial position to continue building our novel pipeline of antivirals.

Ambrilia's pipeline includes: Octreotide ("C2L"), a proprietary improved and prolonged release formulation of an existing drug to treat acromegaly; a new 3-month release formulation of Goserelin to treat hormone-sensitive prostate cancer; PCK3145, a therapeutic non-toxic peptide for the treatment of hormone-resistant prostate cancer; NGR-Delivery platform (previously referred to as the TVT Technology), a targeted delivery technology for cancer; programs in HIV protease, integrase and entry inhibitor, and a HCV polymerase inhibitor program. 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 (now named MK-8122). Ambrilia also has a novel biomarker for the diagnostic and prognostic of prostate cancer, PSP94.

C2L is a therapeutic alternative to Novartis' Sandostatin® long-acting release ("SLAR") for which Ambrilia has completed a positive 24-week Phase III safety and efficacy study (301 Study) in acromegaly patients.

On May 13, 2008, the Company entered into an agreement for the termination of the U.S. licensing agreement with Covidien Ltd., therefore regaining all license and marketing rights for its C2L formulation in the U.S. The termination agreement also provides for a one time payment of US\$ 1.2 million to Ambrilia. The Company still expects the regulatory filings to be initiated during the second half of 2008. Pursuant to its termination agreement with Covidien, Ambrilia is exploring different options with third parties, aiming to extract the maximum value from this mature asset by year-end.

Goserelin is a therapeutic alternative to Astra Zeneca's 3-month release Zoladex®. The Company is currently completing reproducibility and validation of its Goserelin formulation. Pending successful completion of the formulation work, the clinical testing of the product in patients could be initiated during the first half of 2008. The Company aims at divesting Goserelin by the end of 2008.

Likewise for its other non-core assets such as its therapeutic peptide PCK3145 for hormone-resistant prostate cancer and its NGR-Delivery Platform for siRNA delivery in cancer, it is Ambrilia's intent to license-out or divest these technologies.

The Company will use its core scientific expertise to make further progress in its early-stage antiviral programs with the goal of having a potential preclinical drug candidate in at least one of these programs during the first half of 2009.

On March 3, 2008 the Company acquired an additional 2.82% of the outstanding shares of Ambrilia Biopharma France S.A. ("Ambrilia France"), in exchange for 448,318 common shares of Ambrilia with a fair value of \$1,434,618, 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 99.93%.

## **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, 2007 and these continue to apply for the three months ended March 31, 2008.

## **RESULTS OF OPERATIONS**

### **Quarter ended March 31, 2008 compared with the Quarter ended March 31, 2007**

The Company incurred a net loss of \$7,184,141 or \$0.15 per common share for the first quarter of 2008, compared with a net loss of \$6,112,381 or \$0.21 per common share for the same quarter last year.

### **Revenues**

Revenues for the first quarter of 2008 were \$260,490, compared with \$208,007 in the corresponding quarter last year. The higher revenues resulted primarily from an increase in interest income, due to higher average cash balances.

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 HIV 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 \$3,094,262 in the first quarter of 2008, compared with \$2,616,751 in the same quarter last year. The increase of \$477,511 resulted primarily from increased R&D expenditures on C2L, Goserelin, HIV integrase inhibitor and HCV polymerase inhibitor programs. Research and development tax credits increased to \$293,823 in the current quarter from \$273,954 in the corresponding quarter last year.

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. In the first quarter of 2008, fees paid to external service providers were primarily related to clinical development of C2L and 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 C2L, a long term safety study (Study 302), a continuation of Study 301, and an open-label multicenter study evaluating the safety and efficacy of the 10 and 20 mg doses in the same indication (Study 303) are both ongoing. For Goserelin, efforts are currently directed at completion of preclinical work. Pending successful completion of the formulation, the clinical testing of the product in patients could be initiated during the first half of 2008. The Company is also making further progress in its early-stage antivirals with the goal of having a potential preclinical drug candidate in at least one of its programs during the first half of 2009.

### **General and Administrative Expenses**

General and administrative expenses amounted to \$2,013,513 in the first quarter of 2008, a decrease of \$394,536 from the total of \$2,408,049 for the same quarter last year. The decrease was due primarily to a reduction in investor relations costs and miscellaneous expenses.

### **Other Expenses**

Amortization expense increased to \$2,335,748 in the current quarter from \$2,170,923 in the same quarter last year. The increase resulted 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. The final tranche was acquired on March 3, 2008.

Accretion expense on long-term debt amounted to \$113,607 in the first quarter of 2008 compared to \$107,730 in the same quarter of 2007. This ongoing non-cash accounting charge for imputed interest will increase the carrying value of long-term debt to its face value by the maturity date of each item.

Interest on long-term debt was \$257,362 in the first quarter of 2008, compared to \$259,366 in the same quarter last year. This includes the interest on the Biolevier loan facility, which is at bank prime plus 3%, and on the convertible debentures at a fixed rate of 7% on the face value of \$3,500,000.

Restructuring charges amounted to \$608,901 in the current quarter and resulted from a decision by the Company to streamline its activities. This resulted in the departure of the Executive Vice-President, Business Development, Licensing and IP and all related severance costs have been recorded in the current quarter.

The foreign exchange gain for the first quarter of 2008 amounted to \$58,490, compared to \$13,261 in the same quarter last year. The amounts reflect primarily the translation gain on the consolidation of Ambrilia France, due to the strengthening of the Euro against the Canadian dollar.

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 a total of \$1,401,026 as a result of the additional shares of Ambrilia France acquired in 2006 and 2007 and by \$299,453 due to the shares acquired on March 3, 2008. 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 \$439,292 for the first quarter of 2008, compared to a recovery of \$1,091,305 in the first quarter of 2007. The recovery in the current quarter was supplemented by a foreign exchange gain on the future income tax liability of \$189,851, whereas in the corresponding quarter last year the recovery was partially offset by a foreign exchange loss on the future income tax liability of \$106,989.

## **CASH FLOWS**

### **Quarter ended March 31, 2008 compared with the Quarter ended March 31, 2007**

Cash and cash equivalents increased by \$392,112 in the current quarter, compared with an increase of \$8,799,676 in the same quarter last year. Excluding net amounts realized from maturities and purchases of short-term investments, net cash utilized in the first quarter amounted to \$5,400,172, compared to \$6,966,069 in the first quarter of 2007, a decrease of \$1,565,897. Operating activities accounted for \$766,166 of the decrease, with \$5,131,310 having been utilized in the current quarter, compared to \$5,897,476 in the corresponding quarter last year. Within the operating activities, \$28,338 of cash was generated by a decrease in working capital, compared to a cash investment in working capital due to an increase of \$1,521,323 in the first quarter last year. Net purchases of intellectual property and property, plant and equipment amounted to \$268,862 in the current quarter, compared to \$313,334 in the first quarter last year. No financing activities occurred in the current quarter, whereas in the first quarter of 2007, a net amount of \$755,259 was utilized, primarily to repay an Ambrilia France 12% loan of \$766,391. Excluding changes in working capital, operating activities utilized \$5.2 million of cash in the current quarter including a restructuring charge of \$0.6 million. The average burn rate was \$1.5 million per month excluding restructuring charges, compared to an average of \$1.5 million per month in the same quarter last year.

## **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.

The Company's cash resources are invested in treasury bills, bankers' acceptances of major Canadian banks and discount notes of Federal Government agencies. Consequently, it has not been impacted by the liquidity crisis in financial markets.

Cash and cash equivalents and short-term investments totalled \$19,999,749 at March 31, 2008, compared with \$25,399,921 at December 31, 2007. The decrease of \$5,400,172 resulted from the utilization of \$5,131,310 to finance operating activities for the first quarter of 2008, net of a decrease of \$28,338 in non-cash working capital. In addition, a net amount of \$268,862 was used in the quarter for additional property, plant and equipment and intellectual property.

Management believes that it has sufficient funds available to support its ongoing activities for at least the next 12 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, 2007 was disclosed in the Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2007. The amount of these contractual obligations did not change materially during the three months ended March 31, 2008.

The Company has not entered into any off-balance sheet arrangements during the quarter ended March 31, 2008 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, 2008 amounted to \$85,000.

## **RELATED PARTY TRANSACTIONS**

The holder of one of the two \$100,000 loans under the Company's Employee Share Purchase Loan Program, Dr. Chandra Panchal, the former Executive Vice-President, Business Development, Licensing and IP, left the Company effective February 29, 2008. By mutual agreement between the Company and Dr. Panchal, the settlement of this loan will be deferred until a date to be determined by the Company, which shall be not later than February 28, 2010. The Company has a pre-existing obligation, upon the sale of these 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 above former executive an amount sufficient to offset any negative income tax consequences stemming from the forgiveness of the loan balance.

The other \$100,000 loan is held by the former President and CEO.

As at March 31, 2008, both these loans totaling \$200,000 were outstanding and the underlying shares had a market value of approximately \$3,400.

## **PROPOSED TRANSACTIONS**

In late 2007, the Board of Directors approved a new corporate strategic plan according to which the Company will progressively refocus its research and development activities solely on anti-virals. To this end, the Company plans to divest or out-license its other assets by the end of 2008. 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.

## **SUBSEQUENT EVENT**

On May, 13, 2008, the Company, through its wholly-owned subsidiary Cellpep Pharma Inc., entered into an agreement with Mallinckrodt Inc., a Covidien company, whereby the Product Development and Licensing Agreement ("the Agreement") entered into effective June 1, 2004 by and between Mallinckrodt Inc. and Ambria Biopharma France S.A. for the development and marketing of an injectable octreotide acetate dosage pharmaceutical product was terminated, effective immediately, with Mallinckrodt Inc. relinquishing all license and marketing rights to the product and agreeing to pay Cellpep Pharma an amount of US\$1,200,000 within 15

days of termination of the Agreement. Termination of the agreement resulted from a change in business strategy by Mallinckrodt and will have the effect of increasing the Company's license revenues for the three months ended June 30, 2008 by approximately \$3.6 million, with a similar reduction in the net loss for the period. This increase in license revenues includes the transfer of approximately \$2.4 million from Deferred License Revenues on the Consolidated Balance Sheet to License Revenues in the Consolidated Statement of Operations, Deficit and Comprehensive Loss.

## **CHANGES IN ACCOUNTING POLICIES**

Effective January 1, 2008, the Company adopted the following recently-introduced Canadian Institute of Chartered Accountants ["CICA"] Handbook Sections, without restatement of prior periods.

Section 1535, Capital Disclosures. This section establishes standards for disclosing information about an entity's capital and how it is managed to enable users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital. The impact of these changes is reflected in note 8 to the interim consolidated financial statements.

Section 3862, Financial Instruments – Disclosures. This section describes the required disclosures related to the significance of financial instruments on the Company's financial position and performance and the nature and extent of risks arising for financial instruments to which the Company is exposed and how the Company manages those risks. This Section complements the principles of recognition, measurement, and presentation of financial instruments of Section 3855, Financial Instruments – Recognition and Measurement, Section 3863, Financial Instruments – Presentation and Section 3865, Hedges.

Section 3863, Financial Instruments – Presentation. This section establishes standards for presentation of financial instruments and non-financial derivatives. It replaces standards of Section 3861, Financial Instruments – Disclosure and Presentation.

The impact of the adoption of Sections 3862 and 3863 is reflected in note 9 to the interim consolidated financial statements.

The adoption of the above 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 May 13, 2008 the number of common shares outstanding is 47,963,634, an increase of 448,318 from December 31, 2007, resulting from the issue of 448,318 shares in connection with the acquisition of additional shares of Ambrilia France. The number of stock options outstanding at May 13, 2008 is 1,341,517, an increase of 318,250 from December 31, 2007. The increase resulted from a total of 326,250 new options having been granted during the period, partially offset by 8,000 options which were forfeited. In addition, 15,877,037 warrants are outstanding on May 13, 2008, a decrease of 1,188,604 from December 31, 2007, resulting from the expiry of broker compensation warrants and warrants attached thereto, and from the exercise of the remainder of the acquisition warrants associated with the acquisition of Ambrilia France.

## **RISK FACTORS**

Ambrilia'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 to market is designed to be a substitute for the drug C2L in its long-acting formulation. Only the final 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 or changes in business strategies 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 Preclinical Studies and Clinical Trials**

The process of conducting preclinical 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 preclinical 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 preclinical 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 adversely affected.

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 in, or termination of, the research, development or commercialization of any products Ambrilia develops or result in time-consuming and costly litigation or arbitration.

### **Manufacturing Risks**

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 or will continue to be available to Ambrilia following the termination date of the lease on its premises. 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 are held with four Canadian chartered banks and one French bank and in a Government of Canada treasury bill. The short-term investments are held banker's acceptances and bearer deposit notes of three Canadian chartered banks and a government of Canada treasury bill. The Company's maximum credit risk exposure corresponds to the carrying values of its cash equivalents

and short-term investments, which are all held in securities with ratings of R-1 (high) by DBRS (“Dominion Bond Rating Service”).

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

### **Share Price Volatility**

The market price of Ambrilia’s Common Shares is subject to volatility. General market conditions as well as differences between Ambrilia’s financial, scientific and clinical results and the expectations of investors as well as securities analysts can have a significant impact on the trading price of the Common Shares. In recent years, the stocks of many biopharmaceutical companies have experienced extreme price fluctuations, 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. The occurrence of any of the risks and uncertainties described in this management discussion and analysis could have a material adverse effect on the price of the Common Shares.

### **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.

### **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.

## **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 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, 2008, 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 ICFRs during the three months ended March 31, 2008, 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

	<b>March 31,</b>	<b>December 31,</b>
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	11,187,409	10,795,297
Short-term investments	8,812,340	14,604,624
Accounts receivable	476,062	411,892
Investment tax credits recoverable	807,207	642,352
Prepaid expenses	157,360	175,738
	<b>21,440,378</b>	<b>26,629,903</b>
Long-term receivables	1,480,479	1,214,712
Property, plant and equipment	2,131,756	2,133,196
Intellectual property	48,326,205	48,657,580
	<b>73,378,818</b>	<b>78,635,391</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	4,262,062	3,743,044
Deferred license revenues	3,513,692	3,527,958
	<b>7,775,754</b>	<b>7,271,002</b>
Minority interest	1	1
Biolevier loan facility	8,234,350	8,205,038
Future income tax liability	4,018,072	4,347,762
Convertible debentures	2,652,329	2,568,034
	<b>22,680,506</b>	<b>22,391,837</b>
<b>Shareholders' equity [note 5]</b>		
Share capital	139,385,753	137,951,135
Warrants	8,610,715	8,610,715
Contributed surplus	8,706,825	8,502,544
Equity component of convertible debentures	1,920,914	1,920,914
Deficit	(107,925,895)	(100,741,754)
	<b>50,698,312</b>	<b>56,243,554</b>
	<b>73,378,818</b>	<b>78,635,391</b>

See accompanying notes

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

(unaudited)

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<hr/>		
<b>REVENUES</b>		
License revenue	10,946	7,364
Interest revenue on cash, cash equivalents and short-term investments	246,544	185,246
Other income	3,000	15,397
	<b>260,490</b>	<b>208,007</b>
<hr/>		
<b>EXPENSES</b>		
Research and development	3,094,262	2,616,751
Research and development tax credits	(293,823)	(273,954)
	<b>2,800,439</b>	<b>2,342,797</b>
Net research and development	2,800,439	2,342,797
General and administrative	2,013,513	2,408,049
Amortization of property, plant and equipment	137,886	123,960
Amortization of intellectual property	2,197,862	2,046,963
Accretion on Biolevier loan facility	29,312	28,817
Accretion on convertible debentures	84,295	78,913
Interest on Biolevier loan facility	196,112	198,116
Interest on convertible debentures	61,250	61,250
Financial charges	2,694	29,100
Restructuring charges <i>[note 6]</i>	608,901	-
Foreign exchange gains	(58,490)	(13,261)
	<b>8,073,774</b>	<b>7,304,704</b>
<b>Loss before income taxes</b>	<b>(7,813,284)</b>	<b>(7,096,697)</b>
Future income tax recovery	439,292	1,091,305
Foreign exchange gain (loss) on future income tax liability	189,851	(106,989)
	<b>629,143</b>	<b>984,316</b>
<b>Net loss and comprehensive loss for the period</b>	<b>(7,184,141)</b>	<b>(6,112,381)</b>
Deficit, beginning of period	<b>(100,741,754)</b>	<b>(75,463,895)</b>
<b>Deficit, end of period</b>	<b>(107,925,895)</b>	<b>(81,576,276)</b>
<b>Basic and diluted loss per share</b>	<b>(0.15)</b>	<b>(0.21)</b>
<b>Weighted average number of common shares outstanding</b>	<b>47,650,555</b>	<b>29,207,370</b>

See accompanying notes

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

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(7,184,141)	(6,112,381)
Items not affecting cash		
Amortization of property, plant and equipment	137,886	123,960
Amortization of intellectual property	2,197,862	2,046,963
Accretion on Biolevier loan facility	29,312	28,817
Accretion on convertible debentures	84,295	78,913
Future income tax recovery and related exchange (gain) loss	(629,143)	(984,316)
Unrealized foreign exchange gain on loan payable	-	(2,442)
Services paid by issuance of stock options <i>[note 5]</i>	204,281	319,533
Compensation paid by issuance of common shares	-	124,800
	<b>(5,159,648)</b>	<b>(4,376,153)</b>
Net change in non-cash balances relating to operations	28,338	(1,521,323)
<b>Cash flows related to operating activities</b>	<b>(5,131,310)</b>	<b>(5,897,476)</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of intellectual property	(158,239)	(101,316)
Acquisition of property, plant and equipment	(110,893)	(212,018)
Proceeds from disposal of property, plant and equipment	270	-
Purchase of short-term investments	-	(989,280)
Maturities of short-term investments	5,792,284	16,755,025
<b>Cash flows related to investing activities</b>	<b>5,523,422</b>	<b>15,452,411</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of common shares	-	11,132
Repayment of loan payable	-	(766,391)
<b>Cash flows related to financing activities</b>	<b>-</b>	<b>(755,259)</b>
Net increase in cash and cash equivalents	392,112	8,799,676
Cash and cash equivalents, beginning of period	10,795,297	3,155,854
<b>Cash and cash equivalents, end of period</b>	<b>11,187,409</b>	<b>11,955,530</b>
<b>Supplemental cash flow information</b>		
Cash paid during the period for:		
Interest	200,466	276,407

See accompanying notes

## **Ambrilia Biopharma Inc.**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2008

(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.

### **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, 2007.

#### **Basis of consolidation**

The consolidated financial statements include the accounts of the Company, those of its 99.93%-owned French subsidiary, Ambrilia Biopharma France S.A. ["Ambrilia France"], those of its wholly-owned U.S. subsidiary, Oncologic Biopharmaceuticals Corporation ["Oncologic"], 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, 2008, the Company adopted the following recently introduced Canadian Institute of Chartered Accountants ["CICA"] Handbook Sections without restatement of prior periods.

Section 1535, Capital Disclosures. This section establishes standards for disclosing information about an entity's capital and how it is managed to enable users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital. The impact of these changes is reflected in note 8 to the interim consolidated financial statements.

Section 3862, Financial Instruments – Disclosures. This section describes the required disclosures related to the significance of financial instruments on the Company's financial position and performance and the nature and extent of risks arising for financial instruments to which the Company is exposed and how the Company manages those risks. This Section complements the principles of recognition, measurement, and presentation of financial instruments of Section 3855, Financial Instruments – Recognition and Measurement, Section 3863, Financial Instruments – Presentation and Section 3865, Hedges.

Section 3863, Financial Instruments – Presentation. This section establishes standards for presentation of financial instruments and non-financial derivatives. It replaces standards of Section 3861, Financial Instruments – Disclosure and Presentation.

The impact of the adoption of Sections 3862 and 3863 is reflected in note 9 to the interim consolidated financial statements.

## Ambrilia Biopharma Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(unaudited)

#### 4. Business acquisition

On March 3, 2008, the Company exercised its call option to acquire the final 30% tranche of the 9.39% of the outstanding Ambrilia France securities covered by the share exchange agreement, issuing 448,318 common shares of the Company in exchange, which increased the Company's ownership of Ambrilia France to 99.93%. The shares issued were valued at \$1,434,618, 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 \$1,708,248, \$25,823 and \$299,453 was assigned to intellectual property, property, plant and equipment and future income tax liability, respectively.

#### 5. Shareholders' equity

##### Share capital

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

	Number of common shares	Share capital \$
<b>Issued and outstanding</b>		
<b>Balance as at December 31, 2007</b>	<b>47,515,316</b>	<b>137,951,135</b>
Acquisition of Ambrilia France <i>[note 4]</i>		
Shares issued March 3, 2008	448,318	1,434,618
<b>Balance as at March 31, 2008</b>	<b>47,963,634</b>	<b>139,385,753</b>

##### Warrants

	Number of common shares reserved for issuance	\$
<b>Balance as at December 31, 2007</b>	<b>17,065,641</b>	<b>8,610,715</b>
Expired warrants	(740,286)	-
Exercise of acquisition warrants <i>[note 4]</i>	(448,318)	-
<b>Balance as at March 31, 2008</b>	<b>15,877,037</b>	<b>8,610,715</b>

On March 1, 2008, the 370,143 broker compensation warrants related to the March 1, 2006 private placement expired without value, together an equal number of warrants attached thereto.

Ambrilia Biopharma Inc.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2008

(unaudited)

**5. Shareholders' equity [cont'd]**

**Stock option plan**

As at March 31, 2008, there were 1,341,517 stock options outstanding, compared to 1,023,267 at December 31, 2007.

	Three months ended March 31, 2008		2007	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
<b>Options outstanding, beginning of period</b>	<b>1,023,267</b>	<b>3.28</b>	619,381	5.26
Granted	326,250	0.84	112,182	3.94
Exercised	-	-	(4,123)	2.70
Forfeited	(8,000)	4.26	-	-
Expired	-	-	(11,500)	10.13
<b>Options outstanding, end of period</b>	<b>1,341,517</b>	<b>2.68</b>	715,940	4.99
<b>Exercisable</b>	<b>726,256</b>	<b>3.47</b>	524,183	5.88

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 \$204,281 (2007 - \$319,533) has been recognized in the quarter for stock options granted to employees and directors. Based on the Black-Scholes option pricing models, the weighted average stock option fair value of the options granted during the first quarter ended March 31, 2008 was \$0.84 (2007 - \$2.70).

Black-Scholes option pricing model assumptions:

	Three months ended March 31,	
	2008	2007
Expected dividend	Nil	Nil
Expected volatility	68%	69% - 70%
Risk-free interest rate	3.7%	4% - 4.1%
Expected option life	7 years	5-7 years

**Contributed surplus**

	\$
<b>Balance as at December 31, 2007</b>	<b>8,502,544</b>
Options granted to employees and directors	204,281
<b>Balance as at March 31, 2008</b>	<b>8,706,825</b>

**Ambrilia Biopharma Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2008

(unaudited)

**6. Restructuring charges**

	<b>Three months ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Severance payments	<b>608,901</b>	-

During the period, the Company decided to streamline its activities and a restructuring plan was implemented which resulted in the departure of the Executive Vice-President, Business Development, Licensing and IP. The associated costs were all recorded in the quarter.

Under the terms of an agreement dated February 29, 2008 between the Company and its former Executive Vice-President, Business Development, Licensing and IP, the former employee will receive severance of \$510,601 in cash, benefits and immediate vesting of outstanding options. In addition, the Company has a pre-existing obligation upon settlement of the \$100,000 loan under the Company's Employee Share Purchase Loan Program to forgive any shortfall arising following the application of the proceeds of sale of the collateralized 3,816 common shares of the Company and also to pay to this former employee an amount sufficient to offset any negative income tax consequences stemming from the forgiveness of the loan balance. The settlement of this loan will be deferred until a date to be determined by the Company, but which shall be not later than February 28, 2010.

The provision for restructuring charges included in accounts payable and accrued liabilities as at March 31, 2008 amounted to \$550,000.

Under an agreement with the Company, the former employee will also render consulting services on a project basis until December 31, 2008.

**7. Segmented information**

	<b>2008</b>		<b>2007</b>	
	<b>Three months ended March 31,</b>	<b>As at March 31,</b>	<b>Three months ended March 31,</b>	<b>As at December 31,</b>
	<b>Revenues</b>	<b>Property, plant and equipment and intellectual property</b>	<b>Revenues</b>	<b>Property, plant and equipment and intellectual property</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Canada	248,850	33,535,228	185,246	33,945,569
France	11,640	16,922,733	22,761	16,845,207
<b>Total</b>	<b>260,490</b>	<b>50,457,961</b>	<b>208,007</b>	<b>50,790,776</b>

## Ambrilia Biopharma Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(unaudited)

#### 8. Management of capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to fund its operations.

In the management of capital, the Company includes shareholders' equity, Biolevier loan facility and convertible debentures in the definition of capital as follow:

	March 31, 2008 \$	December 31, 2007 \$
Biolevier loan facility	8,234,350	8,205,038
Convertible debentures	2,652,329	2,568,034
Shareholders' equity	50,698,312	56,243,554
	<b>61,584,991</b>	67,016,626

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and short-term investments on hand.

The Company is subject to an externally-imposed capital requirement of maintaining a working capital ratio of 1.2 that was respected for the period ended March 31, 2008.

#### 9. Financial instruments

##### Fair values

Fair value is subjective in nature, requiring valuation techniques and assumptions. Fair value amounts disclosed in these interim consolidated financial statements represent the Company's estimate of the price at which a financial instrument could be exchanged in a market in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. They are point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors.

##### *[i] Short-term financial assets and liabilities*

The carrying values of accounts receivable and accounts payable and accrued liabilities are a reasonable estimate of their fair values, because of the short maturity of these instruments. The fair values of cash equivalents and short-term investments are derived from their market values.

##### *[ii] Long-term financial assets*

The deposit on the long-term lease bears interest at variable rates and therefore its fair value approximates its carrying value.

##### *[iii] Long-term financial liabilities*

The Biolevier loan facility bears interest at variable rates and therefore its fair value approximates its carrying value. The fair values of the debt component of the convertible debentures are estimated using discount rates of 10.25% and 11% at March 31, 2008 and December 31, 2007 respectively.

## Ambrilia Biopharma Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(unaudited)

#### 9. Financial instruments [cont'd]

##### Classification

The classification of financial instruments and their respective carrying values and fair values are as follows:

	March 31, 2008		December 31, 2007	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
<b>Financial assets</b>				
<b>Held for trading:</b>				
Cash	425,929	425,929	245,685	245,685
<b>Held to maturity:</b>				
Cash equivalents	10,761,480	10,761,551	10,549,612	10,572,847
Short-term investments	8,812,340	8,827,489	14,604,624	14,698,241
	19,573,820	19,589,040	25,154,236	25,271,088
<b>Loans and receivables:</b>				
Accounts receivable <sup>(1)</sup>	280,605	280,605	216,709	216,709
Long-term receivables <sup>(2)</sup>	400,000	400,000	400,000	400,000
	680,605	680,605	616,709	616,709
<b>Total financial assets</b>	<b>20,680,354</b>	<b>20,695,574</b>	<b>26,016,630</b>	<b>26,133,482</b>
<b>Financial liabilities</b>				
<b>Other financial liabilities:</b>				
Accounts payable and accrued liabilities	4,262,062	4,262,062	3,743,044	3,743,044
Bioevier loan facility	8,234,350	8,234,350	8,205,038	8,205,038
Convertible debentures	2,652,329	2,829,366	2,568,034	2,718,890
<b>Total financial liabilities</b>	<b>15,148,741</b>	<b>15,325,778</b>	<b>14,516,116</b>	<b>14,666,972</b>

(1) Excludes commodity taxes recoverable of \$195,457 and \$195,183 at March 31, 2008 and December 31, 2007 respectively, as these amounts are not a contractual right to receive cash.

(2) Excludes long-term investment tax credits recoverable of \$1,080,479 and \$814,712 at March 31, 2008 and December 31, 2007 respectively, as these amounts are not a contractual right to receive cash.

##### Credit risk

Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligations.

This risk may affect cash, cash equivalents and short-term investments and it is mitigated by the Company's compliance with its investment policy objectives. These objectives are focussed on return, safety of capital and liquidity. At March 31, 2008, the cash and cash equivalents are held with five Canadian chartered banks, one French chartered bank and in Government of Canada treasury bills. The short-term investments are held in discount notes of two Canadian government agencies and a banker's acceptance with a Canadian chartered bank. Cash equivalents and short-term investments are all held in securities with ratings of R-1 (high) by DBRS ("Dominion Bond Rating Service").

## Ambrilia Biopharma Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(unaudited)

#### 9. Financial instruments [cont'd]

This risk may also affect interest receivable included in the accounts receivable and the lease deposit that is part of long-term receivables. The credit risk on the interest receivables is monitored in conjunction with the related cash equivalents and short-term investments, while the lease deposit credit risk is negligible, since the amount will be applied against the lease payments for the last 8 months of the lease.

The Company's maximum credit risk exposure corresponds to the carrying values of its cash, cash equivalents, short-term investments, accounts receivable and long-term receivables.

#### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Company's objective in managing this risk is to minimize the net impact of potential increases or decreases in fair value and future cash flows.

This potential risk affects the Biolevier loan facility contracted at a variable interest rate, which risk is offset by the cash equivalents and short-term investments which, due to their short-term maturities, have interest rates that reflect approximate market interest rates.

Based on the carrying value of the cash, cash equivalents, short-term investments and of the Biolevier loan facility, all of which are affected by this risk, for the three months ended March 31, 2008, an assumed 0.5% increase or decrease in interest rates during this period would have decreased or increased the net loss and comprehensive loss by approximately \$15,000.

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective is to provide for expected cash requirements and accommodate for changes in liquidity needs.

The Company manages this risk by managing its capital structure, through continuous monitoring of its actual and projected cash flows and by abiding by its investment policy.

The following are the contractual maturities of financial liabilities at March 31, 2008:

	Carrying values	Maturities		
		Less than 1 year	1 to 5 years	Greater than 5 years
Accounts payable and accrued liabilities	4,262,062	4,262,062	-	-
Biolevier loan facility (a)	8,234,350	-	-	8,234,350
Convertible debentures (b)	2,652,329	-	2,602,329	50,000
	<b>15,148,741</b>	<b>4,262,062</b>	<b>2,602,329</b>	<b>8,284,350</b>

(a) Timing of repayments cannot be determined, but loan is due on November 13, 2013 at the latest.

(b) The maturities of the \$2,602,329 and \$50,000 convertible debentures are due on June 29, 2010 and December 31, 2049 respectively.

## Ambrilia Biopharma Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(unaudited)

#### 9. Financial instruments [cont'd]

##### Currency risk

Currency risk is the risk that the future cash flows of foreign currency financial instruments will fluctuate due to changes in the foreign exchange rate of the Canadian dollar against the foreign currencies. At March 31, 2008, the Company has not entered into any currency hedging contracts to manage this risk.

The Company's main objective in managing its foreign exchange risk is to minimize the risk by acquiring foreign currency only when required to discharge its obligations.

The Company is exposed to currency risk denominated either in U.S. dollars or in Euro, as shown in the following table:

Exposures	U.S. Dollars		Euro	
	Mar. 31, 2008	Dec. 31, 2007	Mar. 31, 2008	Dec. 31, 2007
Cash	11,852	36,662	88,662	60,571
Accounts receivable	—	—	75,424	68,592
Accounts payable and accrued liabilities	439,094	222,529	577,088	707,346

Based on the above exposures at March 31, 2008, and assuming that all other variables remain constant, a 5% depreciation or appreciation of the Canadian dollar against the U.S. dollar and Euro would result in an increase or decrease in the Company's net loss and comprehensive loss of approximately \$22,000 applicable to the U.S. dollar exposure and approximately \$34,000 applicable to the Euro exposure

#### 10. Comparative figures

Certain comparative figures have been reclassified in order to conform to the presentation adopted in the current period.

#### 11. Subsequent event

On May, 13, 2008, the Company, through its wholly-owned subsidiary Cellpep Pharma Inc., entered into an agreement with Mallinckrodt Inc., a Covidien Company, whereby the Product Development and Licensing Agreement ("the Agreement") entered into effective June 1, 2004 by and between Mallinckrodt Inc. and Ambrilia Biopharma France S.A. for the development and marketing of an injectable octreotide acetate dosage pharmaceutical product was terminated, effective immediately, with Mallinckrodt Inc. relinquishing all license and marketing rights to the product and agreeing to pay Cellpep Pharma an amount of US\$1,200,000 within 15 days of termination of the Agreement. Termination of the agreement resulted from a change in business strategy by Mallinckrodt and will have the effect of increasing the Company's license revenues for the three months ended June 30, 2008 by approximately \$3.6 million, with a similar reduction in the net loss for the period. This increase in license revenues includes the transfer of approximately \$2.4 million from Deferred License Revenues on the Consolidated Balance Sheet to License Revenues in the Consolidated Statement of Operations, Deficit and Comprehensive Loss.