

**Interim Report**  
**Third quarter ended September 30, 2008**

**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, 2008 and related notes included therein, 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 unless otherwise noted. This review was prepared by management from information available to November 3, 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 of Ambrilia Biopharma Inc. ("Ambrilia") 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 words such as "believes", "anticipates", "intends", "plans", "expects", "estimates", "should" or the negative of these words or variations of them or similar terminology may constitute forward-looking statements. There is a significant risk that predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on these forward-looking statements, as they involve risks and uncertainties, which could make actual results differ materially from those currently anticipated. Such risks and uncertainties include the risks disclosed in "Risk Factors" and the effect of misjudgments in the course of preparing forward-looking statements. 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 engaged in the discovery and development of small molecules and peptides to treat infectious diseases and cancer. As announced on September 29, 2008, the Company has elected to prioritize its divestment strategy of monetizing its oncology assets through third party agreements to strengthen its financial position and increase its cash on hand to delay any future financing. In parallel, the Company announced that it was placing a hold on its antiviral R&D activities, resulting in a 33% reduction in headcount and a significant reduction in cash consumption.

Ambrilia's active pipeline includes: C2L octreotide, a proprietary improved and prolonged release formulation of an existing drug to treat acromegaly; a new 3-month release formulation as well as a new 1-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 Technology (previously referred to as the TVT Technology), a targeted delivery technology for cancer. Ambrilia also has a novel biomarker for the diagnostic and prognostic of prostate cancer, PSP. 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

(renamed MK-8122). The antiviral pipeline was comprised of HIV protease, integrase and entry inhibitors, HCV inhibitors and anti-Influenza compounds at the time of pipeline freeze.

C2L octreotide is a therapeutic alternative to Novartis' Sandostatin<sup>®</sup> long-acting release ("SLAR"), for which Ambrilia has completed two Phase III safety and efficacy studies (301 and 302A Studies) in acromegaly patients, supporting its ability to replace SLAR with less frequent injections and comparable safety.

On May 13, 2008, the Company entered into an agreement for the termination of the U.S. licensing agreement with Covidien Ltd., thereby regaining all license and marketing rights for its C2L octreotide formulation in the U.S. The termination agreement also provides for a one time payment of US\$1.2 million to Ambrilia. The Company depends on its commercial partners to file for marketing authorization and, having reassessed its timelines, believes that regulatory filings will be initiated during the first half of 2009. 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 designed to be a generic of Astra Zeneca's 3-month release Zoladex<sup>®</sup>. The Company has completed reproducibility and validation of its goserelin formulation, and has initiated the Phase I/II clinical development program in prostate cancer patients. The Company has also announced that it has developed a 1-month release form of Zoladex<sup>®</sup>. The Company aims to license-out or divest goserelin by the end of 2008.

As for its other non-core assets such as its therapeutic peptide PCK3145 for hormone-resistant prostate cancer, its NGR-Delivery Technology for cancer and its novel immunoassay for diagnosis and prognosis of prostate 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 divestment strategy.

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%.

## **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 nine months ended September 30, 2008, except that the Company has determined that a write-down of \$3,695,717 of the carrying value was recorded in the third quarter of 2008 to reflect a reduction in the fair value of certain of the Company's non-core assets.

## **RESULTS OF OPERATIONS**

### **Quarter ended September 30, 2008 compared with the Quarter ended September 30, 2007**

The Company incurred a net loss of \$9,781,358 or \$0.20 per common share for the third quarter of 2008, compared with a net loss of \$6,145,067 or \$0.19 per common share for the same quarter last year.

#### **Revenues**

Revenues for the third quarter of 2008 were \$106,369, compared with \$183,268 in the corresponding quarter last year. The lower revenues resulted primarily from the reduced level of interest on available cash and short-term investments, due to a combination of lower cash and short-term investments on hand and lower interest rates.

#### **Research and Development Expenses**

Research and development expenses amounted to \$2,317,157 in the third quarter of 2008, compared with \$2,726,247 in the same quarter last year. The decrease of \$409,090 resulted primarily from reduced expenditures on the non-core technologies which the Company intends to out-license or divest, as well as on goserelin and peptide research. Goserelin expenses were higher in the third quarter last year due to higher purchases of pharmaceutical raw materials. Research and development tax credits increased to \$272,375 in the current quarter from \$226,112 in the corresponding quarter last year. The increase in the current quarter reflects the higher rate of tax credits available in France effective January 1, 2008.

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 third quarter of 2008, fees paid to external service providers were primarily related to clinical development of C2L octreotide and goserelin.

With the decisions announced on September 29, 2008, the Company has already significantly reduced its monthly burn rate. Research and development expenses continue to be focused upon C2L octreotide and goserelin, as we continue our clinical trials for both programs for the next 6 months, or until a partner is prepared to take over the programs. For C2L octreotide, a long term safety study in acromegaly (Study 302B) 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 ongoing. For goserelin, the Phase I/II clinical program in prostate cancer patients has been initiated. Business development efforts are aimed at achieving the divestments goal of year-end.

#### **General and Administrative Expenses**

General and administrative expenses amounted to \$1,036,927 in the third quarter of 2008, a decrease of \$373,532 over the total of \$1,410,459 for the same quarter last year. The variation was primarily due to lower compensation costs and consulting fees, partially offset by higher legal fees.

#### **Business Development Expenses**

Business development expenses amounted to \$141,080 in the third quarter of 2008, compared to \$242,522 for the same quarter last year. The decrease of \$101,442 was primarily due to lower compensation costs in the current quarter. These amounts are segregated on the statement of operations for the first time in 2008 and were previously included with research and development and general and administrative expenses.

## **Other Expenses**

Amortization expense increased to \$2,400,303 in the current quarter from \$2,270,265 in the same quarter last year. The increase resulted primarily from the added amortization on intellectual property arising from the acquisition of additional shares of Ambrilia France in September 2007 and March 2008, under the terms of the original offer to Ambrilia France shareholders made in January 2006. The final tranche was acquired in March 2008.

Accretion expense on long-term debt amounted to \$119,556 in the third quarter of 2008 compared to \$108,026 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 face value by the maturity date of each item.

Interest on long-term debt was \$235,165 in the third quarter of 2008, compared to \$267,499 in the same quarter last year. The decrease was due to the reduction in interest expense on the Biolevier loan as a result of the lower Canadian prime rate in the current quarter compared to the third quarter of 2007.

Restructuring charges in the third quarter of 2008 amounted to \$302,374 and resulted from a decision by the Company to prioritize its divestment strategy of monetizing its clinical assets C2L and goserelin, along with cost-cutting actions which resulted in a hold being placed on its antiviral R&D activities, a significant reduction in cash consumption and a 33% reduction in headcount. All related severance costs have been recorded in the current period.

A write-down of the carrying value of intellectual property of \$3,695,717 was recorded in the third quarter of 2008. This resulted from a review carried out by management as at September 30, 2008, as a result of current financial market conditions and the status of its ongoing divesting activities, which indicated that the write-down was required to reflect a reduction in the fair value of certain of the Company's oncology assets determined on a discounted expected cash flow basis. No write-down was deemed necessary for C2L and goserelin.

The foreign exchange loss for the third quarter of 2008 amounted to \$80,739, compared to a gain of \$354 in the same quarter last year. The amount in the current quarter reflects primarily the translation loss on the consolidation of Ambrilia France arising from the change in the exchange rate for 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 \$460,906 for the third quarter of 2008, compared to a recovery of \$469,839 in the third quarter of 2007. The recovery in the current quarter was offset by a foreign exchange loss on the future income tax liability of \$249,424, whereas in the corresponding quarter last year the recovery was supplemented by a foreign exchange gain on the future income tax liability of \$259,601.

## **Nine months ended September 30, 2008 compared with the Nine months ended September 30, 2007**

The Company incurred a net loss during the nine months ended September 30, 2008 of \$20,091,745 or \$0.42 per common share, compared with a net loss of \$19,012,755 or \$0.62 per common share in the corresponding period last year.

## **Revenues**

Revenues amounted to \$4,081,222 in the first nine months of 2008, compared with \$594,030 in the corresponding period of last year. The higher revenues resulted primarily from the payment from Mallinckrodt Inc., a Covidien Company of \$1.2 million under the May 13, 2008 termination agreement whereby Mallinckrodt Inc. relinquished all license and marketing right to C2L octreotide. In addition, an amount of \$2.4 million relating to previous milestones received from Mallinckrodt Inc. which had been included in deferred revenue was recognized as license revenue in the current period.

## **Research and Development Expenses**

Research and development expenses for the first nine months of 2008 were \$8,484,614, an increase of \$1,091,997 over the total of \$7,392,617 for the same period last year. The increase resulted primarily from higher spending on the C2L octreotide, antivirals and goserelin programs, partially offset by lower spending on non-core technologies. Research and development tax credits increased to \$855,842 in the current period from \$596,366 in the corresponding period last year. The increase in the current period reflects the higher spending compared to the first nine months of 2007 and the higher rate of tax credits available in France effective January 1, 2008.

## **General and Administrative Expenses**

General and administrative expenses amounted to \$4,231,987 for the nine months ended September 30, 2008, a decrease of \$1,618,713 over the total of \$5,850,700 for the first nine months of 2007. The decrease was primarily due to lower compensation costs in the current period, mainly the result of a non-recurring amount paid to a former executive in the 2007 period. In addition, consulting fees and investor relations costs were lower than in the first nine months of 2007.

## **Business Development Expenses**

Business development expenses amounted to \$789,049 for the nine months ended September 30, 2008, compared to \$773,659 for the first nine months of 2007. The increase of \$15,390 was primarily due to consulting fees incurred in implementing the Company's divesting strategy, which were mostly offset by lower compensation costs.

## **Other Expenses**

Amortization expense increased to \$7,133,494 in the first nine months of 2008 from \$6,657,004 in the same period last year. The increase resulted primarily from the added amortization on intellectual property arising from the acquisition of additional shares of Ambrilia France progressively since September 2006 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 \$349,695 in the first nine months of 2008 compared to \$305,808 in the same period of 2007. 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.

Interest on long-term debt was \$729,460 in the first nine months of 2008, compared to \$788,433 in the same period last year. The decrease was due to lower interest expense on the Biolevier loan as a result of the decrease in the Canadian prime rate in the current period compared to the same period last year.

Restructuring charges amounted to \$911,275 in the first nine months of 2008 and reflected two separate actions. The first was a decision by the Company to streamline its activities, which resulted in the departure of the former Executive Vice-President, Business Development, Licensing and IP in February 2008. This was followed in September 2008 by a decision to prioritize its divestment strategy of monetizing its clinical assets

C2L and goserelin, along with cost-cutting actions which resulted in a hold being placed on its antiviral R&D activities, a significant reduction in cash consumption and a 33% reduction in headcount. All related severance costs have been recorded in the current period.

A write-down of the carrying value of intellectual property of \$3,695,717 was recorded in the first nine months of 2008. This resulted from a review as at September 30, 2008, which indicated that the write-down was required to reflect a reduction in the fair value of certain of the Company's oncology assets determined on a discounted expected cash flow basis. No write-down was deemed necessary for C2L and goserelin.

The foreign exchange loss for the first nine months of 2008 amounted to \$48,454, compared to a loss of \$54,470 incurred in the same period last year. The amounts reflect primarily the translation loss in each period on the consolidation of Ambrilia France, due to the changes in value of the Euro against the Canadian dollar.

The future income tax recovery on the consolidated statement of operations was \$1,520,899 for the first nine months of 2008 compared with \$1,380,824 for the same period last year. The recovery was partially offset by a foreign exchange loss on the future income tax liability of \$71,755 in the current period, whereas in the first nine months of 2007 an exchange gain of \$568,759 supplemented the recovery.

## **CASH FLOWS**

### **Quarter ended September 30, 2008 compared with the Quarter ended September 30, 2007**

Cash and cash equivalents decreased by \$4,041,858 in the current quarter, compared with a decrease of \$2,235,544 in the same quarter last year. Excluding net amounts realized from maturities and purchases of short-term investments, net cash utilized in the current quarter amounted to \$4,830,571, compared to \$3,224,744 in the third quarter of 2007, an increased utilization of \$1,605,827. Operating activities utilized \$1,887,767 more cash in the quarter, with \$4,809,245 having been utilized in the current quarter, compared to \$2,921,478 in the corresponding quarter last year. Within the operating activities, \$1,064,448 of cash was required due to an increase in working capital, compared to a reduction in working capital of \$1,481,824 in the same quarter last year. Net purchases of intellectual property and property, plant and equipment amounted to \$21,326 in the current quarter, compared to \$292,140 in the same quarter last year. No financing activities occurred in the current quarter, whereas in the third quarter of 2007 share issue costs of \$11,126 were incurred relating to a private placement of common shares in May 2007.

Excluding changes in working capital, operating activities utilized \$3.7 million of cash in the current quarter. The average burn rate in the quarter was \$1.2 million per month, compared with \$1.5 million in the third quarter last year.

### **Nine months ended September 30, 2008 compared with the Nine months ended September 30, 2007**

Cash and cash equivalents decreased by \$5,045,354 in the current period, compared with an increase of \$6,079,673 in the same period last year. Excluding net amounts realized from maturities and purchases of short-term investments, net cash utilized in the period amounted to \$13,707,113, compared to \$9,692,532 in the first nine months of 2007, an increase of \$4,014,581. Operating activities utilized \$200,204 less cash, with \$13,378,556 having been utilized in the current period, compared to \$13,578,760 in the corresponding period last year. Within the operating activities, \$3,515,990 of cash supported an increase in working capital, compared to \$299,870 in the same period last year. Net purchases of intellectual property and property, plant and equipment amounted to \$328,557 in the current period, compared to \$1,008,255 in the same period last year, a decrease of \$679,698. No financing activities occurred in the current period, whereas during the same period in 2007, a net amount of \$4,894,483 was generated. Net proceeds from a private placement of common shares in May 2007 generated \$5,649,742 and the exercise of options contributed \$11,132. These were partially offset by repayment of an Ambrilia France 12% loan of \$766,391.

Excluding changes in working capital and the \$3.6 million recognized in license revenue subsequent to the termination agreement, operating activities utilized \$13.5 million of cash in the current period, including a restructuring charge of \$0.9 million. The average burn rate excluding restructuring charges was \$1.4 million per month in the current period, compared with \$1.5 million in the corresponding period 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 Federal and provincial government treasury bills and bankers' acceptances and discount notes of major Canadian banks. Consequently, it has not been impacted by the liquidity crisis in financial markets.

Cash and cash equivalents and short-term investments totalled \$11,692,808 at September 30, 2008, compared with \$25,399,921 at December 31, 2007. The decrease of \$13,707,113 resulted from the utilization of \$13,378,556 to finance operating activities for the first nine months of 2008, including an increase of \$3,515,990 in non-cash working capital. In addition, a net amount of \$328,557 was used in the period for additional property, plant and equipment and intellectual property.

The Company is in the process of divesting its non-virology assets by sale or out-licensing and is aiming to do so by the end of 2008. As of September 29, 2008, the Company elected to prioritize this divestment strategy in order to strengthen its financial position and delay any future financing. It also decided to place a hold on its antiviral R&D activities, resulting in a 33% reduction in headcount and a significant reduction in cash consumption. Depending upon the success of the divestment strategy, the Company may not have sufficient cash to support its activities for the next 12 months and consequently may also require additional financial resources, which could be difficult to obtain in the short-term due to the ongoing crisis in financial markets. The Company may have to undertake significant reductions in its operations.

## **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. Since the Company intends to sell or out-license its non-virology assets, a significant portion 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 nine months ended September 30, 2008.

The Company has not entered into any off-balance sheet arrangements during the nine months ended September 30, 2008 and does not expect to enter into any, other than in the normal course of business, in the near future.

The Company does not have commitments for capital expenditures as at September 30, 2008.

## **CONTINGENT LIABILITIES**

A lawsuit has been initiated against a subsidiary of the Company by a former employee claiming wrongful dismissal. The amount claimed is 819,000 Euro (\$1,222,000) plus additional amounts including expenses. The Company intends to contest this claim on the basis that the employee was dismissed for cause. Since the outcome is uncertain at this time, no amount has been accrued in the interim consolidated financial statements in connection with this lawsuit.

## **RELATED PARTY TRANSACTIONS**

The holder of one of the two outstanding \$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 the underlying 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 and 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.

As at September 30, 2008, both these loans totalling \$200,000 were outstanding and the underlying shares had a market value of approximately \$800.

## **PROPOSED TRANSACTIONS**

In late 2007, the Board of Directors approved a new corporate strategic plan according to which the Company would 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.

## **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 11 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 12 to the interim consolidated financial statements.

Section 1400, General Standards of Financial Statement Presentation. This section has been amended to include requirements for management to assess and disclose an entity's ability to continue as a going concern. The main features of the changes are as follows:

- Management is required to make an assessment of an entity's ability to continue as a going concern;
- In making its assessment, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date;
- Financial statements must be prepared on a going concern basis unless management intends to liquidate the entity, to cease trading or cease operations, or has no realistic alternative but to do so;
- Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern; and
- When financial statements are not prepared on a going concern basis, that fact should be disclosed, together with the basis on which the financial statements are prepared and the reason the entity is not regarded as a going concern.

## **FINANCIAL INSTRUMENTS**

The Company does not use currency or other hedging instruments.

## **OUTSTANDING SHARE DATA**

As of November 3, 2008 the number of common shares outstanding is 48,580,612, an increase of 1,065,296 from December 31, 2007. The increase results from the issue of 448,318 shares in connection with the acquisition of additional shares of Ambrilia France and 616,978 shares issued as payment of interest for the first half of 2008 on the convertible debentures. The number of stock options outstanding at November 3, 2008 is 1,604,257, an increase of 580,990 from December 31, 2007. The increase resulted from a total of 699,199 new options having been granted during the period, partially offset by 118,209 options forfeited. In addition, 15,877,037 warrants are outstanding on November 3, 2008, a decrease of 1,188,604 from December 31, 2007 resulting from the exercise of 448,318 acquisition warrants relating to the Ambrilia France acquisition and the expiry of 370,143 broker compensation warrants related to the March 1, 2006 private placement together with an equal number of warrants attached thereto.

## **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 octreotide 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 scalable, 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 two Canadian chartered banks and one French bank and in Government of Canada and Ontario provincial treasury bills and a Quebec government promissory note. The short-term investments are held in banker's acceptances and bearer deposit notes of two Canadian chartered banks and Government of Canada and Ontario provincial treasury bills. 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 (mid) or higher 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 September 30, 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 September 30, 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)  
(note 2)

As at

	<b>September 30,</b>	December 31,
	<b>2008</b>	2007
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	5,749,943	10,795,297
Short-term investments	5,942,865	14,604,624
Accounts receivable	238,101	411,892
Investment tax credits recoverable	1,042,766	642,352
Prepaid expenses	137,130	175,738
	<b>13,110,805</b>	26,629,903
Long-term receivables	1,685,044	1,214,712
Property, plant and equipment	1,873,438	2,133,196
Intellectual property <i>[note 8]</i>	40,150,755	48,657,580
	<b>56,820,042</b>	78,635,391
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	3,290,258	3,743,044
Deferred license revenues <i>[note 6]</i>	1,123,101	3,527,958
	<b>4,413,359</b>	7,271,002
Minority interest	1	1
Bioevier loan facility	8,293,287	8,205,038
Future income tax liability	3,198,071	4,347,762
Convertible debentures	2,829,480	2,568,034
	<b>18,734,198</b>	22,391,837
<b>Shareholders' equity <i>[note 5]</i></b>		
Share capital	139,508,253	137,951,135
Warrants	8,610,715	8,610,715
Contributed surplus	8,879,461	8,502,544
Equity component of convertible debentures	1,920,914	1,920,914
Deficit	(120,833,499)	(100,741,754)
	<b>38,085,844</b>	56,243,554
	<b>56,820,042</b>	78,635,391

Contingencies *[note 9]*

See accompanying notes

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

(unaudited)  
(note 2)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>REVENUES</b>				
License revenue [note 6]	5,927	10,615	3,586,615	25,080
Interest revenue on cash, cash equivalents and short-term investments	95,642	171,751	480,555	537,759
Other income	4,800	902	14,052	31,191
	<b>106,369</b>	<b>183,268</b>	<b>4,081,222</b>	<b>594,030</b>
<b>EXPENSES</b>				
Research and development	2,317,157	2,726,247	8,484,614	7,392,617
Research and development tax credits	(272,375)	(226,112)	(855,842)	(596,366)
Net research and development	2,044,782	2,500,135	7,628,772	6,796,251
General and administrative	1,036,927	1,410,459	4,231,987	5,850,700
Business development	141,080	242,522	789,049	773,659
Patent expenditures	34,288	40,533	84,885	72,896
Amortization of property, plant and equipment	141,834	154,304	420,603	410,770
Amortization of intellectual property	2,258,469	2,115,961	6,712,891	6,246,234
Accretion on Biolevier loan facility	29,522	29,206	88,249	87,102
Accretion on convertible debentures	90,034	78,820	261,446	218,706
Interest on Biolevier loan facility	173,915	206,249	545,710	604,683
Interest on convertible debentures	61,250	61,250	183,750	183,750
Financial charges	8,278	10,349	19,323	48,806
Restructuring charges [note 7]	302,374	208,341	911,275	208,341
Write-down of carrying value of intellectual property [note 8]	3,695,717	-	3,695,717	-
Foreign exchange (gain) loss	80,739	(354)	48,454	54,470
	<b>10,099,209</b>	<b>7,057,775</b>	<b>25,622,111</b>	<b>21,556,368</b>
<b>Loss before income taxes</b>	<b>(9,992,840)</b>	<b>(6,874,507)</b>	<b>(21,540,889)</b>	<b>(20,962,338)</b>
Future income tax recovery	460,906	469,839	1,520,899	1,380,824
Foreign exchange gain (loss) on future income tax liability	(249,424)	259,601	(71,755)	568,759
	<b>211,482</b>	<b>729,440</b>	<b>1,449,144</b>	<b>1,949,583</b>
<b>Net loss and comprehensive loss for the period</b>	<b>(9,781,358)</b>	<b>(6,145,067)</b>	<b>(20,091,745)</b>	<b>(19,012,755)</b>
Deficit, beginning of period	(111,052,141)	(88,331,583)	(100,741,754)	(75,463,895)
<b>Deficit, end of period</b>	<b>(120,833,499)</b>	<b>(94,476,650)</b>	<b>(120,833,499)</b>	<b>(94,476,650)</b>
<b>Basic and diluted loss per share</b>	<b>(0.20)</b>	<b>(0.19)</b>	<b>(0.42)</b>	<b>(0.62)</b>
<b>Weighted average number of common shares outstanding</b>	<b>48,572,980</b>	<b>32,113,545</b>	<b>48,066,222</b>	<b>30,656,308</b>

See accompanying notes

**AMBRILIA BIOPHARMA INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited)  
(note 2)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	(9,781,358)	(6,145,067)	(20,091,745)	(19,012,755)
Items not affecting cash				
Amortization of property, plant and equipment	141,834	154,304	420,603	410,770
Amortization of intellectual property	2,258,469	2,115,961	6,712,891	6,246,234
Write-down of carrying value of intellectual property [note 8]	3,695,717	-	3,695,717	-
Loss on disposal of property, plant and equipment	-	944	-	944
Accretion on Biolevier loan facility	29,522	29,206	88,249	87,102
Accretion on convertible debentures	90,034	78,820	261,446	218,706
Interest paid by issuance of common shares	-	-	122,500	122,164
Future income tax recovery and related exchange (gain) loss	(211,482)	(729,440)	(1,449,144)	(1,949,583)
Unrealized foreign exchange gain on loan payable	-	1	-	(2,450)
Services paid by issuance of stock options [note 5]	32,467	91,969	376,917	499,978
Compensation paid by issuance of common shares	-	-	-	100,000
	(3,744,797)	(4,403,302)	(9,862,566)	(13,278,890)
Net change in non-cash balances relating to operations	(1,064,448)	1,481,824	(3,515,990)	(299,870)
<b>Cash flows related to operating activities</b>	<b>(4,809,245)</b>	<b>(2,921,478)</b>	<b>(13,378,556)</b>	<b>(13,578,760)</b>
<b>INVESTING ACTIVITIES</b>				
Acquisition of intellectual property	(10,641)	(78,513)	(193,535)	(221,670)
Acquisition of property, plant and equipment	(10,968)	(213,877)	(135,982)	(787,335)
Proceeds from disposal of property, plant and equipment	283	250	960	750
Purchase of short-term investments	(3,974,085)	-	(10,705,663)	(5,410,025)
Maturities of short-term investments	4,762,798	989,200	19,367,422	21,182,230
<b>Cash flows related to investing activities</b>	<b>767,387</b>	<b>697,060</b>	<b>8,333,202</b>	<b>14,763,950</b>
<b>FINANCING ACTIVITIES</b>				
Issuance of common shares	-	-	-	5,861,127
Share issuance costs	-	(11,126)	-	(200,253)
Repayment of loan payable	-	-	-	(766,391)
<b>Cash flows related to financing activities</b>	<b>-</b>	<b>(11,126)</b>	<b>-</b>	<b>4,894,483</b>
Net increase (decrease) in cash and cash equivalents	(4,041,858)	(2,235,544)	(5,045,354)	6,079,673
Cash and cash equivalents, beginning of period	9,791,801	11,471,071	10,795,297	3,155,854
<b>Cash and cash equivalents, end of period</b>	<b>5,749,943</b>	<b>9,235,527</b>	<b>5,749,943</b>	<b>9,235,527</b>
<b>Supplemental cash flow information</b>				
Cash paid during the period for:				
Interest	178,627	209,120	559,651	692,871

See accompanying notes

## Ambrilia Biopharma Inc.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 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 going concern uncertainty

These unaudited interim consolidated financial statements have been prepared by management on a going concern basis, which assumes that the Company will continue to operate and be able to realize its assets and discharge its liabilities and commitments in the ordinary course of business for the foreseeable future. The use of these principles may not be appropriate because, as at September 30, 2008, there was substantial doubt as to the Company's ability to continue as a going concern without having access to additional financial resources.

The Company has incurred significant operating losses since its inception and has accumulated a deficit of \$120,833,499 as at September 30, 2008. Its anticipated level of future net annual expenditures exceeds its cash, cash equivalents and short-term investments as at September 30, 2008. To-date the Company has financed its cash requirements primarily by issuing common shares and debt instruments, by licensing arrangements and investment tax credits. It is currently in the process of monetizing its non-virology assets through the sale or licensing of these assets to third parties and its ability to continue as a going concern will be dependent upon its success in accomplishing this goal on a timely basis. There can be no assurance that such transactions will materialize on a timely basis or on satisfactory terms. If the Company is unable to obtain additional financing, management may be required to further curtail the Company's operations.

These interim consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary if the Company is unable to continue as a going concern. Such adjustments could be material.

#### Basis of presentation

The interim 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.

The interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles applicable to 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.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2008

(unaudited)

### **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 11 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 12 to the interim consolidated financial statements.

Section 1400, General Standards of Financial Statement Presentation. This section has been amended to include requirements for management to assess and disclose an entity's ability to continue as a going concern. The main features of the changes are as follows:

- Management is required to make an assessment of an entity's ability to continue as a going concern;
- In making its assessment, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date;
- Financial statements must be prepared on a going concern basis unless management intends to liquidate the entity, to cease trading or cease operations, or has no realistic alternative but to do so;
- Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern; and
- When financial statements are not prepared on a going concern basis, that fact should be disclosed, together with the basis on which the financial statements are prepared and the reason the entity is not regarded as a going concern.

## Ambrilia Biopharma Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 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 [note 4]	448,318	1,434,618
Issued in payment of interest on convertible debentures	616,978	122,500
<b>Balance as at September 30, 2008</b>	<b>48,580,612</b>	<b>139,508,253</b>

On June 29, 2008, the Company elected to issue 616,978 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	\$
<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 [note 4]	(448,318)	-
<b>Balance as at September 30, 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 with an equal number of warrants attached thereto.

Ambrilia Biopharma Inc.

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

**Stock option plan**

As at September 30, 2008, there were 1,914,642 stock options outstanding, compared to 1,023,267 at December 31, 2007.

	Nine months ended September 30, 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	699,199	0.58	572,659	2.53
Exercised	-	-	(4,123)	2.70
Forfeited	(118,209)	2.47	(30,750)	3.54
Expired	-	-	(126,375)	9.47
<b>Options outstanding, end of period</b>	<b>1,604,257</b>	<b>2.14</b>	1,030,792	3.30
<b>Exercisable</b>	<b>1,242,640</b>	<b>2.38</b>	527,823	4.13

All options granted were with exercise prices equal to or higher than the market price of the Company's shares at the date of grant. Compensation expense of \$376,917 (2007 - \$499,978) has been recognized in the first nine months of 2008 for stock options granted to employees and directors. Based on the Black-Scholes option pricing model, the weighted average stock option fair value of the options granted during the nine months ended September 30, 2008 was \$0.30 (2007 - \$1.71). In addition to the options shown above, a grant of 424,219 options to employees on August 11, 2008 is conditional upon obtaining shareholders' approval.

Black-Scholes option pricing model assumptions:

	Nine months ended September 30,	
	2008	2007
Expected dividend	Nil	Nil
Expected volatility	68% - 71%	66% - 70%
Risk-free interest rate	3.3% - 3.7%	4% - 4.6%
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	376,917
<b>Balance as at September 30, 2008</b>	<b>8,879,461</b>

## Ambrilia Biopharma Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 6. Termination payment

On May, 13, 2008, the Company, through its majority-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 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 an amount of \$1,185,815 (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.

Such amount, together with the reversal of approximately \$2.4 million of deferred license revenues related to the Agreement, was accounted for as License revenue in the consolidated statement of operations, deficit and comprehensive loss.

#### 7. Restructuring charges

	Three months ended September 30, 2008		Nine months ended September 30, 2008	
	2008	2007	2008	2007
	\$	\$	\$	\$
Severance payments	<b>302,374</b>	208,341	<b>911,275</b>	208,341

On September 29, 2008, the Company announced that it had elected to prioritize its divestment strategy of monetizing its clinical assets C2L and goserelin, along with cost-cutting actions which resulted in a hold on its antiviral research and development activities and a 33% reduction in headcount. Accordingly, a restructuring plan was implemented which resulted in the termination of fourteen employees in the basic research and preclinical team and administrative support functions. The costs associated with this restructuring amounted to \$302,374, which was expensed in the current period. Management does not anticipate further costs and deems that this restructuring process is complete.

During the first quarter of 2008, 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 of \$608,901 were recorded in the first quarter of 2008.

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. Under an agreement with the Company, the former employee also rendered consulting services on a project basis until September 30, 2008.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 7. Restructuring charges [cont'd]

The provision for restructuring charges included in accounts payable and accrued liabilities as at September 30, 2008 amounted to \$408,000.

During the third quarter of 2007, the Company implemented a restructuring plan that 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 that period. Management does not anticipate further costs and deems this restructuring process completed.

### 8. Write-down of carrying value of intellectual property

The Company reviewed the carrying values of its intellectual property as at September 30, 2008 as a result of current financial market conditions and the status of its ongoing divesting activities and determined that a write-down of \$3,695,717 was required to reflect the fair value of certain of its oncology assets determined on a discounted expected cash flow basis. No write-down was deemed necessary for C2L and goserelin.

### 9. Contingencies

A lawsuit has been initiated against a subsidiary of the Company by a former employee claiming wrongful dismissal. The amount claimed is 819,000 Euro (\$1,222,000) plus additional amounts including expenses. The Company intends to contest this claim on the basis that the employee was dismissed for cause. Since the outcome is uncertain at this time, no amount has been accrued in these interim consolidated financial statements in connection with this lawsuit.

### 10. Segmented information

	Nine months ended September 30, 2008	Three months ended September 30, 2008	As at September 30, 2008
	Revenues \$	Revenues \$	Property, plant and equipment and intellectual property \$
Canada	4,060,568	99,476	26,827,313
France	20,654	6,893	15,196,880
<b>Total</b>	<b>4,081,222</b>	<b>106,369</b>	<b>42,024,193</b>
	Nine months ended September 30, 2007	Three months ended September 30, 2007	As at December 31, 2007
	Revenues \$	Revenues \$	Property, plant and equipment and intellectual property \$
Canada	541,477	175,469	33,945,569
France	52,553	7,799	16,845,207
<b>Total</b>	<b>594,030</b>	<b>183,268</b>	<b>50,790,776</b>

## Ambrilia Biopharma Inc.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 11. 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:

	September 30, 2008	December 31, 2007
	\$	\$
Biolevier loan facility	8,293,287	8,205,038
Convertible debentures	2,829,480	2,568,034
Shareholders' equity	38,085,844	56,243,554
	<b>49,208,611</b>	<b>67,016,626</b>

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.

The Company responded to the ongoing turmoil in financial markets and the resulting difficulties in obtaining financing, in managing its capital during the period. On September 29, 2008, the Company elected to favour its divestment strategy of monetizing its oncology assets through third party agreements to strengthen its financial position and increase its cash on hand to delay any future financing. In parallel, the Company announced that it was placing a hold on its antiviral research and development activities, resulting in a 33% reduction in headcount and a significant reduction in cash consumption. Also, the Company has taken steps to ensure the safety of its existing cash equivalents and short-term investments by moving most of these investments into treasury bills.

The Company is subject to an externally-imposed capital requirement of maintaining a working capital ratio of 1.2 which was respected for the period ended September 30, 2008.

### 12. 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 quoted values.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(unaudited)

**12. Financial instruments [cont'd]***[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 12.75% and 11% at September 30, 2008 and December 31, 2007 respectively.

**Classification**

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

	September 30, 2008		December 31, 2007	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
<b>Financial assets</b>				
<b>Held for trading:</b>				
Cash	359,803	359,803	245,685	245,685
<b>Held to maturity:</b>				
Cash equivalents	5,390,140	5,390,728	10,549,612	10,572,847
Short-term investments	5,942,865	5,943,805	14,604,624	14,698,241
	<b>11,333,005</b>	<b>11,334,533</b>	25,154,236	25,271,088
<b>Loans and receivables:</b>				
Accounts receivable <sup>(1)</sup>	102,760	102,760	216,709	216,709
	<b>102,760</b>	<b>102,760</b>	216,709	216,709
<b>Total financial assets</b>	<b>11,795,568</b>	<b>11,797,096</b>	25,616,630	25,733,482
<b>Financial liabilities</b>				
<b>Other financial liabilities:</b>				
Accounts payable and accrued liabilities <sup>(2)</sup>	2,496,629	2,496,629	3,053,304	3,053,304
Biolevier loan facility	8,293,287	8,293,287	8,205,038	8,205,038
Convertible debentures	2,829,480	2,927,747	2,568,034	2,718,890
<b>Total financial liabilities</b>	<b>13,619,396</b>	<b>13,717,663</b>	13,826,376	13,977,232

(1) Excludes commodity taxes recoverable of \$135,341 and \$195,183 at September 30, 2008 and December 31, 2007 respectively, as these amounts are not a contractual right to receive cash.

(2) Excludes a provision for investment tax credits recoverable of \$555,513 at September 30, 2008 and \$689,740 at December 31, 2007, in addition to a leasehold inducement accrual of \$238,116 and nil at September 30, 2008 and December 31, 2007, respectively, as these amounts are not contractual obligations to pay cash.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **12. Financial instruments [cont'd]**

#### **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 September 30, 2008, the cash and cash equivalents are held with two Canadian chartered banks, one French bank, in Government of Canada and Province of Ontario treasury bills and a Government of Quebec promissory note. The short-term investments are held in a discount note and a bankers' acceptance from two Canadian chartered banks and in Government of Canada and Province of Ontario treasury bills. Cash equivalents and short-term investments are all held in securities with ratings of R-1 (mid) or higher by DBRS ("Dominion Bond Rating Service").

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 receivable is monitored in conjunction with the related cash equivalents and short-term investments.

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 and of the Biolevier loan facility, both of which are affected by this risk, for the three months and nine months periods ended September 30, 2008, an assumed 2.0% increase or decrease in interest rates during this period would have increased or decreased the net loss and comprehensive loss by approximately \$45,000 and \$134,000 respectively.

#### **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.

## Ambrilia Biopharma Inc.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The following are the contractual maturities of financial liabilities at September 30, 2008:

	Carrying values	Maturities		
		Less than 1 year	1 to 5 years	Greater than 5 years
Accounts payable and accrued liabilities	2,496,629	2,496,629	-	-
Biolevier loan facility <sup>(1)</sup>	8,293,287	-	-	8,927,466
Convertible debentures <sup>(2)</sup>	2,829,480	-	3,500,000	1,055,000
	<b>13,619,396</b>	<b>2,496,629</b>	<b>3,500,000</b>	<b>9,982,466</b>

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

(2) The maturities of the \$3,500,000 and \$1,055,000 convertible debentures are on June 29, 2010 and December 31, 2049, respectively.

### 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 September 30, 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	
	Sept. 30, 2008	Dec. 31, 2007	Sept. 30, 2008	Dec. 31, 2007
Cash	(41)	36,662	43,777	60,571
Accounts receivable	—	—	37,800	38,736
Accounts payable and accrued liabilities	282,010	222,529	403,364	707,346

Based on the above exposures at September 30, 2008, and assuming that all other variables remain constant, a 10% 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 \$30,000 applicable to the U.S. dollar exposure and approximately \$48,000 applicable to the Euro exposure.

### 13. Comparative figures

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