

Consolidated interim financial statements of

OSTA BIOTECHNOLOGIES INC.

March 31, 2006

(Unaudited)

OSTA BIOTECHNOLOGIES INC.

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OSTA BIOTECHNOLOGIES INC.

Consolidated Interim Balance Sheet

(Unaudited)

	As at March 31, 2006 <i>(Unaudited)</i> \$	As at December 31, 2005 <i>(Audited)</i> \$
Assets		
Current		
Cash	122,198	125,210
Term Deposit	525,022	700,000
Sundry receivables	7,625	6,611
Investment tax credits receivable	128,288	123,497
Prepaid Expenses	9,491	
	792,623	955,318
Property and equipment	17,200	16,100
Patents	236,342	227,080
Intangible assets	32,295	32,800
	1,078,460	1,231,298
Liabilities		
Current		
Accounts payables and accrued liabilities	79,495	96,444
	79,495	96,444
Contingencies and commitments		
Shareholders' equity		
Capital stock	2,392,532	2,392,532
Contributed surplus	460,216	388,787
Deficit	(1,853,783)	(1,646,465)
	998,965	1,134,854
	1,078,460	1,231,298

(see accompanying notes to consolidated interim financial statements)

OSTA BIOTECHNOLOGIES INC.
Consolidated Interim Statement of Deficit
(Unaudited)

Deficit – beginning of period	(1,646,465)	(303,421)
Net Loss	(207,318)	(35,492)
Deficit – end of Period	(1,853,783)	(338,913)

(see accompanying notes to consolidated interim financial statements)

OSTA BIOTECHNOLOGIES INC.
Consolidated Interim Statement of Loss
(Unaudited)

	March 31, 2006	March 31, 2005
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	\$	\$
Revenues	6,025	-
Expenses		
Salaries and wage levies	76,712	18,732
Professional fees	54,365	7,300
Travel and automobile	4,626	2,702
Office and general	15,018	659
Tax and licenses	1,659	
Stock option compensation	71,429	3,854
Interest on debentures		2,319
Amortization	1,751	196
Research and development expenses	8,000	
Research and development (credits)	(20,217)	
	213,343	35,492
Net loss	(207,318)	(35,492)
Loss per share basic and diluted	(0.00732)	(0.00170)
Weighted average number of common shares outstanding for the period	28,305,219	20,903,790

(see accompanying notes to consolidated interim financial statements)

OSTA BIOTECHNOLOGIES INC.
Consolidated Interim Statement of Cash
Flows

Quarter Ended March 31, 2006

(Unaudited)

	March 31, 2006	March 31, 2005
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	\$	\$
Cash flows from (used in) operating activities		
Net loss	(207,318)	(35,492)
Amortization	1,751	196
Stock option compensation	71,429	3,584
	(134,138)	(31,712)
Changes in non-cash working capital	(32,244)	41,866
	(166,382)	10,154
Cash flows from (used in) investing activities		
Redemption of term deposits	174,978	
Property and equipment acquired	(2,436)	
Deferred charges		
Patents	(9,262)	(593)
	163,370	(593)
Cash flows from (used in) financing activities		
Deferred business acquisition costs		(25,076)
	-	(25,076)
Net increase (decrease) in cash	(3,012)	(15,515)
Cash – beginning of period	125,210	26,620
Cash – end of period	122,198	11,105

(see accompanying notes to consolidated interim financial statements)

OSTA BIOTECHNOLOGIES INC.
Notes to Consolidated Interim Financial Statements
March 31, 2006
(Unaudited)

1. Nature of business

The Company is a development-stage biopharmaceutical Company whose principal business is to carry out research and development work for diagnostic and therapeutic products specific to Alzheimer's disease, osteoporosis, and osteoarthritis.

2. Summary of significant accounting policies

Basis of Presentation

These unaudited consolidated interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. These interim financial statements have, in management's opinion, been properly prepared using judgment within reasonable limits of materiality. All disclosure required for audited annual financial statements have not been included in these unaudited consolidated interim financial statements and therefore should be read in conjunction with the most recent audited annual financial statements of Osta Biotechnologies Inc., dated December 31, 2005.

These unaudited interim financial statements follow the same accounting policies and methods used in the preparation of Osta Biotechnologies Inc.'s most recent audited annual financial statements date December 31, 2005.

Basis of Consolidation

The consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiary Osta Biopharma Inc.

Share Issue Costs

Share issue costs are charged against the deficit in the year incurred.

OSTA BIOTECHNOLOGIES INC.
Notes to Consolidated Interim Financial Statements
March 31, 2006
(Unaudited)

2. Summary of significant accounting policies

Use of Estimates

The preparation of interim financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

3. Term Deposit

The term deposit is interest bearing at 2.95% and is due on November 3, 2006.

4. Intangible assets

Intangible assets represent Licenses acquired to perform research on Patented Technology. The Licenses are amortized on a straight line basis over the remaining life of the underlying Patents.

5. Capital stock

(a) The authorized, issued and fully paid capital stock consists of the following:

Authorized Unlimited number of common shares and an unlimited number of preferred shares without nominal or par value

Issued:

March 31, 2006	December 31, 2005		March 31, 2006	December 31, 2005
#	#		\$	\$
28,305,219	28,305,219	Common Shares	2,392,532	2,392,532

OSTA BIOTECHNOLOGIES INC.
Notes to Consolidated Interim Financial Statements
March 31, 2006
(Unaudited)

5. Capital stock (cont'd)

(b) Stock Options

The Company maintains a stock option plan described in detail in its December 31, 2005 audited annual financial statements.

The Company has accounted for options granted using the fair value method. Total stock option compensation costs for the period amounted to \$71,429.

The fair value of the options granted was estimated using the Black-Scholes option pricing model based on the following assumptions:

Risk-free interest rate	3.53% and 3.92%
Expected volatility	71%
Dividend yield	Nil
Expected average life	5 years

A summary of changes in the Company's common share purchase options is presented below:

	Number of Options #	Weighted Average Exercise Price \$
Balance - beginning of period	3,024,500	0.3435
Expired during the period	90,000	0.3028
Granted during the period	500,000	0.3350
Balance - end of period	3,434,500	0.3423

OSTA BIOTECHNOLOGIES INC.
Notes to Consolidated Interim Financial Statements
March 31, 2006
(Unaudited)

5. Capital stock (cont'd)

Common share purchase options outstanding, exercisable and granted to directors, officers and technical consultants of the Company as at March 31, 2006 are summarized as follows:

Number of Options	Exercise Price	Expiry Date
#	\$	
465,000	0.35	January 2007
235,000	0.30	November 2007
30,000	0.30	February 2008 to October 2008
20,000	0.35	June 2008
434,500	0.35	April 2009 to June 2009
1,750,000	0.35	March 2010 to December 2010
425,000	0.35	January 2011 to February 2011
75,000	0.25	February 2011

6. Related party transactions

The company entered into the following transactions with its directors, officers and shareholders:

	3 month period ended March 31	
	2006	2005
	\$	\$
Salary paid to a director	41,750	18,732
Consulting fees paid to officers and shareholders	16,575	-
	58,325	18,732

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.