

Consolidated interim financial statements of

OSTA BIOTECHNOLOGIES INC.

June 30, 2006

(Unaudited)

OSTA BIOTECHNOLOGIES INC.

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OSTA BIOTECHNOLOGIES INC.
Consolidated Interim Balance Sheet
(Unaudited)

	As at June 30, 2006 (Unaudited) \$	As at December 31, 2005 (Audited) \$
Assets		
Current		
Cash	154,485	125,210
Term Deposit	330,848	700,000
Sundry receivables	6,865	6,611
Investment tax credits receivable	146,448	123,497
Prepaid Expenses	7,000	
	645,647	955,318
Property and equipment	15,789	16,100
Patents	245,342	227,080
Intangible assets	31,790	32,800
	938,568	1,231,298
Liabilities		
Current		
Accounts payables and accrued liabilities	86,237	96,444
	86,237	96,444
Contingencies and commitments		
Shareholders' equity		
Capital stock	2,392,532	2,392,532
Contributed surplus	522,432	388,787
Deficit	(2,062,633)	(1,646,465)
	852,331	1,134,854
	938,568	1,231,298

(see accompanying notes to consolidated interim financial statements)

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

	Three month		Six month	
	Period ended		Period ended	
	June 30		June 30	
	2006	2005	2006	2005
Deficit – beginning of period	(1,853,783)	(338,912)	(1,646,465)	(303,421)
Net Loss	(208,850)	(141,735)	(416,168)	(177,226)
Excess purchase price		(437,971)		(437,971)
Share issue costs		(580,385)		(580,385)
Deficit – end of Period	(2,062,633)	(1,499,003)	(2,062,633)	(1,499,003)

(see accompanying notes to consolidated interim financial statements)

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

	Three month		Six month	
	Period ended		Period ended	
	June 30		June 30	
	2006	2005	2006	2005
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	\$	\$	\$	\$
Revenues	4,813	3,333	10,838	3,333
Expenses				
Salaries and wage levies	76,328	52,585	153,059	71,316
Professional fees	52,691	50,725	107,056	58,025
Travel and automobile	5,777	6,020	10,403	8,722
Office and general	9,928	6,506	24,946	7,165
Tax and licenses	1,718	9,827	3,377	9,827
Stock option compensation	62,215	32,013	133,644	35,597
Interest on debentures		773		3,091
Amortization	1,916	196	3,667	393
Research and development expenses	21,250		29,250	
Research and development (credits)	(18,161)	(13,577)	(38,377)	(13,577)
	213,662	145,068	427,005	180,559
Net loss	(208,850)	(141,735)	(416,168)	(177,226)
Loss per share basic and diluted	(0.0074)	(0.0056)	(0.0147)	(0.0076)
Weighted average number of common shares outstanding for the period	28,305,219	25,382,173	28,305,219	23,155,353

(see accompanying notes to consolidated interim financial statements)

OSTA BIOTECHNOLOGIES INC.
Consolidated Interim Statement of Cash Flows
Quarter Ended June 30, 2006
(Unaudited)

	Three month		Six month	
	Period ended		Period ended	
	June 30		June 30	
	2006	2005	2006	2005
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	\$	\$	\$	\$
Cash flows from (used in) operating activities				
Net loss	(208,850)	(141,735)	(416,168)	(177,226)
Amortization	1,916	196	3,667	393
Stock option compensation	62,215	32,013	133,644	35,597
Excess purchase price		(437,971)		(437,971)
	(144,719)	(547,497)	(278,857)	(579,207)
Changes in non-cash working capital	(8,169)	(153,349)	(40,413)	(111,484)
	(152,887)	(700,846)	(319,269)	(690,691)
Cash flows from (used in) investing activities				
Term deposit		(1,250,000)		(1,250,000)
Redemption of term deposits	194,174	250,000	396,152	250,000
Property and equipment acquired		(3,867)	(2,346)	(3,867)
Patents	(9,000)	(17,004)	(18,262)	(17,597)
	(185,174)	(1,020,871)	348,544	(1,021,464)
Cash flows from (used in) financing activities				
Issuance of capital stock		2,459,250		2,459,250
Issuance (conversion of) debentures		(130,000)		(130,000)
Deferred business acquisition costs		112,521		87,445
Share issue costs		(580,385)		(580,385)
	-	1,861,386	-	1,836,310
Net increase (decrease) in cash	32,287	139,669	29,275	124,155
Cash – beginning of period	122,198	11,106	125,210	26,620
Cash – end of period	154,485	150,775	154,485	150,775

(see accompanying notes to consolidated interim financial statements)

OSTA BIOTECHNOLOGIES INC.
Notes to Consolidated Interim Financial Statements
June 30, 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
June 30,, 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 3.70% and is due on August 05, 2007.

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:

June 30, 2006	December 31, 2005		June 30, 2006	December 31, 2005
#	#		\$	\$
28,305,219	28,305,219	Common Shares	2,392,532	2,392,532

OSTA BIOTECHNOLOGIES INC.
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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 \$133,644.

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	3,434,500	0.3423
Expired during period	-	-
Granted during the period	-	-
Balance - end of period	3,434,500	0.3423

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5. Capital stock (cont'd)

Common share purchase options outstanding, exercisable and granted to directors, officers and technical consultants of the Company as at June 30, 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 June 30,	
	2006	2005
	\$	\$
Salary paid to a director	41,750	33,250
Consulting fees paid to officers and shareholders	16,025	25,500
	57,775	58,750

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.