

Consolidated interim financial statements of

OSTA BIOTECHNOLOGIES INC.

September 30, 2006

(Unaudited)

OSTA BIOTECHNOLOGIES INC.

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OSTA BIOTECHNOLOGIES INC.

Consolidated Interim Balance Sheets

(Unaudited)

	As at September 30, 2006 <i>(Unaudited)</i> \$	As at December 31, 2005 <i>(Audited)</i> \$
Assets		
Current		
Cash	38,314	125,210
Term Deposit	330,866	700,000
Sundry receivables	9,943	6,611
Investment tax credits receivable	124,597	123,497
Prepaid Expenses	3,345	
	507,064	955,318
Property and equipment	14,378	16,100
Patents	271,080	227,080
Intangible assets	31,285	32,800
	823,807	1,231,298
Liabilities		
Current		
Accounts payables and accrued liabilities	65,736	96,444
	65,736	96,444
Contingencies and commitments		
Shareholders' equity		
Capital stock	2,392,532	2,392,532
Contributed surplus	581,405	388,787
Deficit	(2,215,867)	(1,646,465)
	758,071	1,134,854
	823,807	1,231,298

(see accompanying notes to consolidated interim financial statements)

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

	Three month		Nine month	
	Period ended		Period ended	
	September 30		September 30	
	2006	2005	2006	2005
Deficit – beginning of period	(2,062,633)	(1,061,032)	(1,646,465)	(303,421)
Net Loss	(153,234)	(328,824)	(569,401)	(506,051)
Share issue costs				(580,385)
Deficit – end of Period	(2,215,867)	(1,389,856)	(2,215,867)	(1,389,857)

(see accompanying notes to consolidated interim financial statements)

OSTA BIOTECHNOLOGIES INC.

Consolidated Interim Statement

of Loss

(Unaudited)

	Three month Period ended September 30		Nine month Period ended September 30	
	2006	2005	2006	2005
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	\$	\$	\$	\$
Revenues	3,709	4,763	14,547	8,096
Expenses				
Salaries and wage levies	52,239	92,329	205,278	163,645
Professional fees	39,933	76,783	146,990	134,808
Travel and automobile	2,746	5,765	13,149	14,487
Office and general	7,087	4,686	32,033	11,851
Tax and licenses	-	1,659	3,377	11,486
Stock option compensation	58,974	141,067	192,618	176,665
Interest on debentures				3,091
Amortization	1,916	796	5,583	1,189
Research and development expenses	10,084	23,191	39,334	27,238
Research and development (credits)	(16,036)	(12,690)	(54,413)	(30,314)
	156,943	333,586	583,948	514,146
Net loss	(153,234)	(328,823)	(569,401)	(506,050)
Loss per share basic and diluted	(0.0054)	(0.0118)	(0.0201)	(0.0204)
Weighted average number of common shares outstanding for the period	28,305,219	27,930,219	28,305,219	24,764,465

(see accompanying notes to consolidated interim financial statements)

OSTA BIOTECHNOLOGIES INC.
Consolidated Interim Statement of
Cash Flows
(Unaudited)

	Three month Period ended September 30		Nine month Period ended September 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	(153,234)	(328,823)	(569,401)	(506,050)
Amortization	1,916	796	5,583	1,189
Stock option compensation	58,974	141,067	192,618	176,665
	(92,344)	(186,960)	(371,201)	(328,196)
Changes in non-cash working capital	1,927	(116,252)	(38,485)	(196,174)
	(90,417)	(303,212)	(409,685)	(524,370)
Cash flows from (used in) investing activities				
Term Deposit		1,000,000		1,250,000
Redemption of term deposits	(18)	-	369,134	-
Property and equipment acquired		(2,921)	(2,346)	(6,788)
Patents	(25,738)	(21,204)	(44,000)	(38,801)
	(25,756)	975,875	322,789	1,204,411
Cash flows from (used in) financing activities				
Issuance of capital stock	-	-	-	236,250
Deferred business acquisition costs	-	-	-	283,868
Share issue costs	-	-	-	(580,385)
	-	-	-	(60,267)
Net increase (decrease) in cash	(116,172)	672,663	(86,897)	619,774
Cash – beginning of period	154,485	150,775	125,210	203,664
Cash – end of period	38,313	823,438	38,313	823,438

(see accompanying notes to consolidated interim financial statements)

OSTA BIOTECHNOLOGIES INC.
Notes to Consolidated Interim Financial Statements
September 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 osteoporosis, Alzheimer's disease and cancer.

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.

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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 technologies for which patent applications have been filed. 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:

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

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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
Granted during period		
Expired during the period	124,500	0.2898
Balance - end of period	3,310,000	0.3460

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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 September 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
385,000	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

6. Related party transactions

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

	3 month period ended September 30,	
	2006	2005
	\$	\$
Salary paid to a director	41,750	41,750
Consulting fees paid to officers and shareholders	12,250	39,750
	54,000	81,500

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.