

August 10, 2006

MESSAGE TO SHAREHOLDERS

We are pleased to submit this report on the results for the second quarter ended June 30, 2006. This quarter was marked by significant milestones attained in our lead infectious diseases development program, HIV protease inhibitor PPL-100 and our late-stage oncology specialty generic development program, Octreotide.

More specifically, we reported positive Phase Ia results with PPL-100. Results confirmed its excellent safety and tolerability profile and predict PPL-100 to be an oral once-a-day, without ritonavir boosting, first-line treatment against HIV/AIDS. We are actively discussing with potential PPL-100 licensing partners and are on track to concluding an agreement in the near future. For Octreotide, we announced the receipt of a milestone payment from our U.S. licensing partner which was due upon our product candidate meeting important manufacturing requirements.

Also during this quarter, we were pleased to report the issuance of a U.S. patent on PCK3145, our lead therapeutic peptide for the treatment of advanced metastatic prostate cancer.

INFECTIOUS DISEASES UPDATE

PPL-100 protease inhibitor: a potential first-line, without ritonavir boosting, once-a-day treatment for a large spectrum of HIV/AIDS patients

On June 15th, Ambrilia reported positive Phase Ia results for PPL-100. Results confirmed PPL-100 to be safe and well tolerated up to 2400mg with only mild adverse events reported for all cohorts of the study. The pharmacokinetic profiles were also very encouraging and give us confidence that PPL-100 can be used as a first-line, without ritonavir boosting, oral once a day protease inhibitor (PI) for a large spectrum of HIV patients, including PI-experienced patients infected with drug resistant HIV strains. In addition, we were pleased to present a scientific poster reporting on the high genetic barrier and favorable cross-resistance profile of PPL-100 at the 15th International HIV Drug Resistance Workshop (June 13-18, Sitges, Spain), the premier meeting in HIV drug resistance and innovative approaches to antiretroviral therapies.

Most PIs are associated with severe side effects, a high pill burden, cross-resistance to other PIs and as it is the case with all anti-HIV drugs to some degree, virus resistance. Therefore, the latest developments on PPL-100 confirming its safety and tolerability, high genetic barrier, favorable cross-resistance profile as well as indication of a first-line, once-daily without ritonavir boosting, treatment for HIV, are truly significant. Today, there is a pressing need for safer, more convenient and effective protease inhibitors and we believe PPL-100 is favorably positioned to fulfill this need.

As planned, the Phase Ib study, investigating safety and pharmacokinetics after repeated oral dosing with PPL-100 was initiated on July 31st. The effect of both the 600mg and 1200mg doses given once daily with and without low-dose (100mg and 200mg, respectively) of ritonavir, are being evaluated. Results of this study are expected to be available in the second half of 2006.

Finally, we are currently in active discussions with potential licensing partners and are still on track to out license PPL-100 soon.

ONCOLOGY UPDATE

Octreotide: Important manufacturing milestone met and further advancement in the development program

Octreotide, Ambrilia's late-stage oncology specialty generic for the treatment of acromegaly is the equivalent of Novartis's Sandostatin® LAR (long-acting release). On August 1st, the Company reported the receipt of a milestone payment from our U.S. partner due upon the successful manufacturing of sterile batches of Octreotide meeting stability requirements and cGMP (Good Manufacturing Practices) compliance. To date Ambrilia has received US \$2.2 million in licensing fees and milestone payments from its partner. Further milestone payments are expected over the course of the next 20 - 24 months, as part of this multimillion dollar agreement between the two companies. Ambrilia will sell the finished product to its partner at an agreed schedule and transfer price inclusive of royalties.

As planned, the Company is currently conducting pivotal pharmacokinetic studies in order to evaluate the absorption, distribution and metabolism of Octreotide in comparison to Sandostatin® LAR in human subjects. These studies will be followed by a European and Canadian multi-center study in acromegaly patients expected to begin in the second half of 2006. European and U.S. regulatory filings should then be completed in the second half of 2007 for an expected launch in most countries in 2008 and/or early 2009.

Ambrilia will manufacture the product at its cGMP (Good Manufacturing Practices) facility in Montreal, Canada and supply the finished product to its commercial partners for sale in the U.S., E.U. and some other countries. The partnership agreements, already concluded, include milestone payments and royalties on sales of Octreotide.

Goserelin: Formulation optimization ongoing

Goserelin, Ambrilia's specialty generic for the treatment of hormone-sensitive prostate cancer, is the equivalent of Astra Zeneca's Zoladex®. Latest research and development activities allowed Ambrilia to manufacture four different formulations of the final product and complete the animal kinetic assays. Those assays confirmed the 3-month sustained release of the product. Optimization of the formulation is now ongoing in order to enhance medial reuptake and the resulting improved formulations will be tested starting this summer. The human pharmacokinetic study is expected to be initiated before the end of 2006, followed by a Canadian and European multi-center study in prostate cancer patients anticipated to begin in 2007. If there are no unexpected delays in this timeline, regulatory filing in Europe should be completed in the second half of 2007 for an expected launch in the second half of 2008 or in early 2009.

PCK3145 anti-cancer peptide: U.S. patent granted

On May 30th, Ambrilia was pleased to report that the U.S. Patent Office issued a patent covering the signal transduction inhibitor and 63 other related sequences of its oncology drug PCK3145, a synthetic peptide for the treatment of metastatic prostate cancer. This patent, covering PCK3145's mechanism of action until May 2023, enhances the Company's proprietary position on PCK3145 and greatly facilitates the ongoing discussions with potential co-development/licensing partners to move this drug further along the clinical path to regulatory approval for advanced prostate cancer and possibly other metastatic cancers.

PCK3145 is currently undergoing clinical evaluation at the Memorial Sloan Kettering Institute in New York. Since the peptide has been found to be safe and non-toxic at all levels studied to date, and upon the recommendations of the members of the Prostate Cancer Clinical Trials Consortium who have expressed an interest in conducting further clinical trials with PCK3145, a further amendment to the pilot study protocol is being prepared to investigate a higher dose and an uninterrupted prolonged administration of four months in this study prior to initiating the Phase IIb clinical trial. It is anticipated that a higher dose may potentially give added clinical benefit to such patients with late stage disease as well as show a potential early indication of efficacy.

Furthermore, we continue to actively pursue discussion with potential co-development/licensing partners for PCK3145, and with potential licensees to market our PSP94 diagnostic test, a reliable predictor of the aggressivity of prostate cancer, to be used in the clinical market in combination with the standard PSA (Prostate Specific Antigen) test.

During the second quarter of 2006, we have made important progress in mainly our promising HIV protease inhibitor PPL-100 and our lead late-stage oncology specialty generic Octreotide development programs. Most specially, the Phase Ia data, indicating PPL-100 to be a oral first-line, without ritonavir boosting, once a day protease inhibitor to treat a broad spectrum of HIV/AIDS patients, represented the attainment of an important milestone for Ambrilia. This positions advantageously the Company in its current licensing discussions for PPL-100 and I feel confident at this point that Ambrilia will be able to conclude an agreement representative of PPL-100's major market potential in the near future.

Sincerely,



Hans J. Mäder
President & Chief Executive Officer

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with Ambrilia Biopharma Inc. ("Ambrilia" or the "Company") unaudited consolidated financial statements and related notes included herein, together with our audited consolidated financial statements for the year ended December 31, 2005 and the related notes, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts shown are stated in Canadian dollars. This review was prepared by management from information available to July 31, 2006. Additional information relating to the Company, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com.

On March 1, 2006 the Company acquired 87.117% of the outstanding shares of Cellpep S.A., a French private biotechnology company in exchange for 101,627,761 common shares of Ambrilia with a fair value of \$32,520,883. Acquisition expenses amounted to \$1,979,031. In a concurrent transaction, a total of \$18,095,904, before cash expenses of \$1,223,610, was obtained from a private placement of 78,677,841 common shares of Ambrilia at \$0.23 per share, with warrants to purchase an additional 78,677,841 common shares at \$0.35 per share to March 1, 2011. The underwriters also received broker compensation warrants to purchase up to 3,701,447 common shares at \$0.23, with warrants to purchase an additional 3,701,447 common shares at \$0.35 per share to March 1, 2011. On April 21, 2006, Cellpep S.A. changed its name to Ambrilia Biopharma France S.A. ("Ambrilia France").

FORWARD LOOKING STATEMENTS

Some of the statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements. These statements relate to future events or to Ambrilia's future financial performance and involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

OVERVIEW

Ambrilia Biopharma Inc. (TSX:AMB) is a biopharmaceutical company developing innovative therapeutics in the fields of oncology and infectious diseases. Ambrilia's strategy is to acquire and advance drug candidates through early to mid-stage clinical trials and then pursue co-development or out-licensing options with pharmaceutical companies. At the same time, with the acquisition of Ambrilia France, the Company has changed its business model to accelerate its access to cash by developing and manufacturing high-value specialty generics in order to provide the Company with an early and sustainable cash flow.

Ambrilia's product portfolio includes mid to early-stage products and two specialty generics, the first of which is late-stage and value-added. Ambrilia's first generic product is Octreotide, an easily reconstituted long-acting release equivalent to Novartis's Sandostatin®, used for the treatment of a rare disease called acromegaly caused by a tumor of the pituitary gland, and for certain rare digestive tumors. The second product is Goserelin, a potential first-to-market generic alternative to Astra Zeneca's Zoladex®, used primarily for the treatment of hormone-sensitive prostate cancer. Ambrilia's mid to early-stage products include: PPL-100, a promising protease inhibitor for the treatment of HIV/AIDS currently in Phase I clinical trials; PCK3145, a therapeutic anti-cancer peptide with signal transduction mediated effects on tumor metastasis and angiogenesis; TVT-Dox, a novel anti-cancer technology targeting tumor vasculature for which an IND filing for the treatment of solid tumors is expected in 2008; SPC3, a fusion inhibitor for the treatment of HIV/AIDS which is at the preclinical stage and an integrase inhibitor program for the treatment of HIV/AIDS. Ambrilia's diagnostic products include PSP94 (Prostate Secretory Protein of 94 amino acids) immunoassay for the diagnosis and prognosis of prostate cancer.

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, 2005 and these continue to apply for the six months ended June 30, 2006.

Revenue recognition

Revenues from license agreements are recognized when milestones are achieved, in accordance with the related agreements. License revenue, if the underlying deliverable has no stand-alone value to the customer, is deferred and recognized over the term for which substantive contractual obligations exist. This may involve estimates by management to determine the term of such obligations. Amounts received in advance of recognition of revenue are included in deferred revenue.

RESULTS OF OPERATIONS

Quarter ended June 30, 2006 compared with the Quarter ended June 30, 2005

The Company incurred a net loss of \$6,003,787 or \$0.02 per common share for the second quarter of 2006, compared with a net loss of \$3,218,901 or \$0.04 per common share for the same quarter last year. The acquisition of Ambrilia France on March 1, 2006, represented the merger of two companies of similar size and the results for the current quarter, which fully include those of Ambrilia France, thus reflect this growth.

Revenues

Revenues for the second quarter of 2006 were \$170,549, compared with \$88,661 in the corresponding quarter last year. The higher revenues resulted primarily from an increase in interest income, due to an increase in interest rates in the current quarter compared to the second quarter of 2005 and the higher level of cash and short-term investments on hand.

The Company's revenues have been earned primarily from interest on available cash balances and short-term investments. We expect to continue to receive such revenues during the next several years, as well as licensing revenues to be earned as our products advance through clinical development and the revenues expected from Octreotide and Goserelin following their launch, which is projected to be in 2007 and 2008, respectively.

Research and Development Expenses

Research and development expenses amounted to \$3,382,913 in the second quarter of 2006, compared with \$2,164,532 in the same quarter last year. The increase of \$1,218,381 resulted primarily from the R&D expenditures on Octreotide added as a result of the acquisition of Ambrilia France, as well as expenditures on TVT-Dox and higher spending on PPL-100. These were only partially offset by reduced expenditures for PCK3145 and the government assistance of \$469,479 under the National Research Council Canada Industrial Research Assistance Program ("IRAP") to fund the technologies of a clinical program. Funding for up to \$980,000 of research expenditures is being provided by an IRAP contribution, of which \$114,201 had been received by June 30, 2006. Tax credits increased to \$464,076 in the current quarter from \$246,000 in the corresponding quarter last year, due to the higher level of expenses in the current quarter.

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 and equipment. In the second quarter of 2006, fees paid to external service providers were primarily related to pre-clinical costs for PPL-100 and material for clinical studies for Octreotide net of IRAP contribution.

We expect our research and development expenses to continue to be significant during the next few years as we continue our clinical trials for our more advanced products, while continuing to advance our other research programs. However, we are unable to estimate the specific timing and future costs of our research programs.

General and Administrative Expenses

General and administrative expenses amounted to \$1,523,267 in the second quarter of 2006, an increase of \$695,036 over the total of \$828,231 for the same quarter last year. Expenses at our regional office in Paris, together with higher occupancy costs and professional fees were the principal reasons for the increased expenses.

Other Expenses

Amortization expense increased to \$2,101,646 in the current quarter from \$211,369 in the same quarter last year. The increase resulted almost entirely from the added amortization on intellectual property arising from the acquisition of Ambrilia France on March 1, 2006.

Interest on long-term debt was \$285,977 in the second quarter of 2006, compared to \$174,330 in the same quarter last year and related to two loans. First, the interest expense on the Biolevier loan increased to \$224,727 from \$174,330 in the same quarter last year. This increase was due to the interest on the Biolevier loan being capitalized and added to the outstanding balance of the loan, as well as to the increase in interest rates compared to the second quarter of 2005. Also, interest on the convertible debentures issued on June 29, 2005 amounted to \$61,250 in the current quarter. This amount is payable semi-annually either in cash or common shares, at the Company's option, and the Company exercised its option to pay the interest for the first half of 2006 in common shares on June 29, 2006.

Accretion expense on the convertible debentures amounted to \$61,973 in the second quarter of 2006. This ongoing non-cash accounting charge for imputed interest will increase the carrying value of the convertible debentures to their face value of \$3,500,000 by their June 29, 2010 maturity date.

Restructuring charges in the current quarter amounted to \$251,120 and related to severance payments of \$160,933 incurred in achieving synergies associated with the acquisition of Ambrilia France and lease termination costs of \$90,187.

As a consequence of the intellectual property arising on the acquisition of Ambrilia France, a future income tax liability of \$9,694,945 was recorded on March 1, 2006 as part of the acquisition equation for accounting purposes. This amount 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 \$922,291 for the second quarter of 2006. In addition, a foreign exchange gain of \$44,329 relating to the future income tax liability was also recorded in the current period.

Six Months ended June 30, 2006 compared with the Six Months ended June 30, 2005

During the six months ended June 30, 2006, the Company incurred a net loss of \$8,966,617 or \$0.04 per common share, compared with a net loss of \$6,294,104 or \$0.07 per common share for the six months ended June 30, 2005.

Revenues

Revenues of \$300,870 were earned in the first half of 2006, compared with \$174,736 in the same period last year. The increase was primarily the result of higher interest income, due to improved interest rates compared to the first half of 2005, which more than offset the negative effect of reduced average levels of cash and short-term investments.

Research and Development Expenses

Research and development expenses for the six months ended June 30, 2006 were \$4,776,695, an increase of \$469,046 over the total of \$4,307,649 in the corresponding period last year. The spending on Octreotide accounted for approximately \$1.7 million in the current period, which together with increased spending on TVT-Dox and PPL-100 more than offset reduced research expenses in all other areas in addition to \$469,479 of government assistance under the IRAP agreement. Tax credits increased to \$589,064 in the first half of 2006, from \$576,000 in the same period last year, with the relatively minor increase compared to the increase in research expenses reflecting the higher level of research and development spending occurring outside Quebec.

General and Administrative Expenses

General and administrative expenses amounted to \$2,655,765 in the first half of 2006, an increase of \$1,033,704 over the total of \$1,622,061 for the corresponding period last year. The increase was primarily due to the added expenses at our regional office in Paris, together with higher professional fees, building occupancy costs and expenses relating to the integration of the new business, which were only partially offset by lower compensation and investor relations expenses.

Other Expenses

Amortization expense increased to \$2,973,368 from \$421,596 in the same period last year. The increase resulted primarily from the inclusion of the amortization of intellectual property arising on the acquisition of Ambrilia France on March 1, 2006.

Interest on long-term debt increased to \$552,593 from \$343,686 in the first half of 2005. The increase resulted from the interest on the convertible debentures issued on June 29, 2005, together with the higher interest on the Biolevier loan due to the combined effect of higher interest rates and the increased loan balance as a result of the ongoing capitalization of interest on the loan.

Accretion expense on the convertible debentures amounted to \$122,223 in the current period. Since the debentures were issued only on June 29, 2005, there was no accretion in the first half of 2005. This ongoing non-cash accounting charge for imputed interest will increase the carrying value of the convertible debentures to their face value of \$3,500,000 by their June 29, 2010 maturity date.

The foreign exchange loss for the current period amounted to \$132,354, compared to a gain of \$6,221 in the corresponding period last year. The amount in the current period reflects primarily the translation loss on the consolidation of Ambrilia France due to a strengthening of the Euro against the Canadian dollar.

Restructuring charges in the first half of 2006 amounted to \$251,120, compared with \$172,279 in the same period last year. The current period amount followed the acquisition of Ambrilia France, while the charge in the prior period resulted from the corporate restructuring undertaken in January 2005.

The future income tax recovery in the current period relating to the future income tax liability arising on the acquisition of Ambrilia France amounted to \$1,246,876. In addition, a foreign exchange gain of \$402,376 relating to the future income tax liability was also recorded in the period.

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, other government assistance, interest income and amounts received under licensing agreements for certain of its products. A loan agreement entered into in December 2002 expanded the Company's financing base by providing it with a loan facility of \$10 million obtained under the Biolevier program of the Government of Québec, from which an amount of \$9 million has been drawn to-date, leaving an amount of \$1 million available for future use. On March 1, 2006, concurrent to the Ambrilia France acquisition, an amount of \$18,095,904 was obtained from a private placement of common shares and warrants, before cash expenses of \$1,223,610.

Cash and cash equivalents and short-term investments totaled \$11,236,130 at June 30, 2006, compared with \$5,360,158 at December 31, 2005. The increase of \$5,875,972 resulted from the net proceeds of \$16,872,294 obtained from the March 1, 2006 financing. This amount was partially offset by the utilization of \$8,743,383 to finance operating activities for the first half of 2006, including an increase of \$1,947,546 in non-cash working capital. In addition, a net amount of \$448,533 was used in the period for additional property, plant and equipment and intellectual property. In addition, cash expenses of \$1,979,031 were incurred in connection with the acquisition of Ambrilia France on March 1, 2006, which was carried out on a share exchange basis. Cash of \$174,625 was obtained with the acquisition.

The Biolevier loan does not adversely impact the Company's liquidity at this time, as no capital or interest is repayable prior to November 19, 2006. In addition, the semi-annual interest expense on the \$3,500,000 of convertible debentures issued in June 2005 is payable either in cash or common shares, at the option of the Company.

On July 28, 2006, Ambrilia received a milestone payment of \$564,900 (US\$500,000) under a US licensing agreement with a major US pharmaceutical company for Octreotide. The payment became due upon the Company manufacturing sterile batches of Octreotide which met stability and cGMP compliance, as per the FDA guidelines.

Within the next 12 months, management expects to have access to \$19.6 million of funds detailed as follow: cash, cash equivalents and short-term investments of \$11.2 million as at June 30, 2006, the balance of \$1 million still available from the Biolevier loan facility referred to above and other amounts of \$7.4 million consisting of investment tax credits recoverable and sales taxes receivable, IRAP contribution and milestones to be received from existing contracts with licensees for Octreotide. Accordingly, management expects these funds sufficient to support the Company's ongoing activities for at least the next 18 months.

SIGNIFICANT PROJECTS

Each of our product candidates, which were discussed in the Overview section, will have to complete the necessary phases of clinical trials and obtain regulatory approval before they can generate significant revenues. The costs to complete these clinical trials and to obtain regulatory approval are significant and the costs associated with this process are expected to continue to be significant over the next several years. These costs are expected to be borne to some extent 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, 2005 was disclosed in the Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2005. The amount of these contractual obligations increased during the six months ended June 30, 2006 as a result of the Ambrilia France acquisition and move by the Company in March 2006 to an integrated head office and laboratories facility in Montreal. The contractual obligations from these transactions are as follows:

(in thousands of dollars)	Payments due by period				Total
	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years	
Lease commitments	479	979	911	1,161	3,530

Other than in the normal course of business, the Company has not entered into any other off-balance sheet arrangements during the quarter ended June 30, 2006 and does not expect to enter into any in the near future.

There were no material commitments for capital expenditures as at June 30, 2006

RELATED PARTY TRANSACTIONS

There has been no material change during the quarter ended June 30, 2006.

PROPOSED TRANSACTIONS

The Company continually reviews opportunities for new technologies that could increase shareholder value. 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

Section 3831, Non-Monetary Transactions was adopted effective January 1, 2006. The adoption has no material impact on the Company's financial position or results of operations.

FINANCIAL INSTRUMENTS

The Company does not use currency or other hedging instruments.

OUTSTANDING SHARE DATA

As of July 31, 2006 there are 4,000,000 First Preferred Shares, Series 1 outstanding, unchanged from December 31, 2005. The number of common shares outstanding as of July 31, 2006 is 275,483,096, an increase of 180,884,860 from December 31, 2005, resulting from 180,305,602 shares issued in connection with the acquisition of Ambrilia France and the concurrent financing, together with the 579,258 shares issued on June 29, 2006 in payment of interest on the convertible debentures. The number of stock options outstanding at July 31, 2006 is 5,627,537, an increase of 1,580,080 from December 31, 2005. The increase resulted from a total of 2,325,251 new options having been granted during the period, partially offset by 745,171 options which expired or were forfeited. In addition, 109,092,612 warrants are outstanding on July 31, 2006, compared to 18,654,743 at December 31, 2005. The increase resulted from the financing on March 1, 2006, which resulted in the issue of warrants to purchase 78,677,841 common shares of Ambrilia at \$0.35 per share and broker warrants to purchase 3,701,447 common shares at \$0.23 per share with warrants to purchase an additional 3,701,447 common shares at \$0.35, together with the issue of 14,943,384 acquisition warrants on March 1, 2006. These were partially offset by the expiry without value on April 7, 2006 of 10,436,250 warrants issued through a public offering on April 7, 2004 and on April 17, 2006 of 150,000 warrants issued in connection with a business acquisition in 2003.

RISKS AND UNCERTAINTIES

The Company'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 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.

The Company can make no assurance that its products will be developed successfully or receive regulatory approval. The new products of the Company are currently in the research and development stages. The Company can make no assurance that its research and development programs will result in commercially viable products. To achieve profitable operation, the Company, alone or with others, must successfully develop and market 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 may cause the Company or its collaborators to abandon its commitment to that program. The Company can make no assurance that any future animal or human test will yield favourable results. The Company also can make no assurance that products based on its technology, if approved for marketing, will achieve market acceptance. The degree of market acceptance will depend on the efficacy and safety of the product candidates, their potential advantage over alternative products and treatment method. The lack of such market acceptance would have a material adverse effect on the Company's business and financial condition.

To develop its technologies, the Company requires significant investment of financial resources. Consequently, the ability of the Company to obtain the cash needed to finance its operations is fundamental to its future success and therefore constitutes a business risk.

With regard to the concentration of credit risk, investment tax credits recoverable are due from the Québec and French governments. The cash and cash equivalents are comprised of cash held with three Canadian chartered banks and one French bank and bankers' acceptances of three major banks. The short-term investments are held in bankers' acceptances of two major banks.

Certain matters discussed in this report are, by their nature, forward-looking and are subject to risks and other factors that are wholly or partially beyond the control of the Company's management. Consequently, actual results could differ materially.

AMBRILIA BIOPHARMA INC.
CONSOLIDATED BALANCE SHEETS
(unaudited)

As at

	June 30,	December 31,
	2006	2005
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	7,300,170	417,953
Short-term investments	3,935,960	4,942,205
Accounts receivable <i>[note 4]</i>	1,311,319	1,707,890
Investment tax credits recoverable	1,437,889	2,202,487
Prepaid expenses	233,470	668,428
	14,218,808	9,938,963
Long-term receivables <i>[note 5]</i>	790,860	-
Property, plant and equipment	1,826,661	600,653
Intellectual property	55,380,037	8,165,089
Deferred financing fees	1,060,110	993,563
	73,276,476	19,698,268
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	2,383,250	1,798,126
Deferred revenues	2,857,031	-
Loan payable	712,291	-
	5,952,572	1,798,126
Minority interest <i>[note 3]</i>	1	-
Biolevier loan facility	10,553,062	10,122,969
Convertible debentures	2,279,245	2,157,022
Future income tax liability	8,045,693	-
Preferred shares	4,000,000	4,000,000
	30,830,573	18,078,117
Shareholders' equity <i>[note 6]</i>		
Share capital	108,768,631	65,004,736
Warrants	6,146,428	2,952,462
Contributed surplus	7,700,977	4,866,469
Equity component of convertible debentures	1,920,914	1,920,914
Deficit	(82,091,047)	(73,124,430)
	42,445,903	1,620,151
	73,276,476	19,698,268

Commitments and guarantees *[note 7]*

See accompanying notes

AMBRILIA BIOPHARMA INC.
CONSOLIDATED STATEMENTS OF
OPERATIONS AND DEFICIT
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
	\$	\$	\$	\$
REVENUES				
License revenue	6,762	-	8,988	-
Interest and other income	163,787	88,661	291,882	174,736
	170,549	88,661	300,870	174,736
EXPENSES				
Research and development <i>[note 9]</i>	3,382,913	2,164,532	4,776,695	4,307,649
Research and development tax credits	(464,076)	(246,000)	(589,064)	(576,000)
Net research and development	2,918,837	1,918,532	4,187,631	3,731,649
General and administrative	1,523,267	828,231	2,655,765	1,622,061
Amortization of property, plant and equipment	111,077	61,161	174,180	122,133
Amortization of intellectual property	1,951,814	124,575	2,724,742	248,196
Amortization of deferred financing fees	38,755	25,633	74,446	51,267
Accretion on convertible debentures	61,973	-	122,223	-
Interest on long-term debt	285,977	174,330	552,593	343,686
Restructuring charges <i>[note 8]</i>	251,120	-	251,120	172,279
Financial charges	27,714	2,662	41,685	4,092
Foreign exchange losses (gains)	(29,578)	(7,260)	132,354	(6,221)
	7,140,956	3,127,864	10,916,739	6,289,142
Loss before write-down of intellectual property and income taxes	(6,970,407)	(3,039,203)	(10,615,869)	(6,114,406)
Write-down of carrying value of intellectual property	-	179,698	-	179,698
Loss before income taxes	(6,970,407)	(3,218,901)	(10,615,869)	(6,294,104)
Future income tax recovery	922,291	-	1,246,876	-
Foreign exchange gain on future income tax liability	44,329	-	402,376	-
	966,620	-	1,649,252	-
Net loss	(6,003,787)	(3,218,901)	(8,966,617)	(6,294,104)
Deficit, beginning of period	(76,087,260)	(63,289,599)	(73,124,430)	(60,214,396)
Deficit, end of period	(82,091,047)	(66,508,500)	(82,091,047)	(66,508,500)
Basic and diluted loss per share	(0.02)	(0.04)	(0.04)	(0.07)
Weighted average number of common shares outstanding	274,840,233	85,275,365	216,060,253	85,126,878

See accompanying notes

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

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss	(6,003,787)	(3,218,901)	(8,966,617)	(6,294,104)
Items not affecting cash				
Amortization of property, plant and equipment	111,077	61,161	174,180	122,133
Amortization of intellectual property	1,951,814	124,575	2,724,742	248,196
Amortization of deferred financing fees	38,755	25,633	74,446	51,267
Write-down of carrying value of intellectual property	-	179,698	-	179,698
Accretion on convertible debentures	61,973	-	122,223	-
Loan interest capitalized	224,727	174,330	430,093	343,686
Interest paid by issuance of common shares <i>[note 6]</i>	122,164	-	122,164	-
Future income tax recovery and related foreign exchange gain	(966,620)	-	(1,649,252)	-
Unrealized exchange loss	3,850	-	36,149	-
Services paid by issuance of stock options <i>[note 6]</i>	64,654	142,666	136,035	254,057
	(4,391,393)	(2,510,838)	(6,795,837)	(5,095,067)
Net change in non-cash balances relating to operations	(350,250)	(146,964)	(1,947,546)	(923,848)
Cash flows related to operating activities	(4,741,643)	(2,657,802)	(8,743,383)	(6,018,915)
INVESTING ACTIVITIES				
Acquisition of intellectual property	(139,282)	(41,697)	(147,161)	(123,541)
Acquisition of property, plant and equipment	(115,420)	(5,960)	(301,687)	(10,633)
Proceeds on disposal of property, plant and equipment	315	11,153	315	11,153
Cash and cash equivalents obtained on acquisition of business <i>[note 3]</i>	-	253,311	174,625	253,311
Business acquisition costs <i>[note 3]</i>	-	(20,000)	(1,979,031)	(20,000)
Purchase of short-term investments	(3,935,960)	(3,470,005)	(3,935,960)	(3,470,005)
Maturities of short-term investments	986,730	9,657,568	4,942,205	15,401,042
Cash flows related to investing activities	(3,203,617)	6,384,370	(1,246,694)	12,041,327
FINANCING ACTIVITIES				
Issuance of common shares <i>[note 6]</i>	-	-	18,095,904	-
Share issuance costs <i>[note 6]</i>	(10,181)	-	(1,223,610)	-
Debt issuance costs	-	(38,481)	-	(44,056)
Repayment of long term debt assumed in an acquisition	-	(137,500)	-	(137,500)
Issuance of convertible debentures	-	3,500,000	-	3,500,000
Cash flows related to financing activities	(10,181)	3,324,019	16,872,294	3,318,444
Net increase (decrease) in cash and cash equivalents	(7,955,441)	7,050,587	6,882,217	9,340,856
Cash and cash equivalents, beginning of period	15,255,611	2,609,651	417,953	319,382
Cash and cash equivalents, end of period	7,300,170	9,660,238	7,300,170	9,660,238
Supplemental cash flow information				
Cash paid during the period for interest	7,669	56	9,895	347

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

(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. On March 1, 2006, the Company changed its name from Procyon Biopharma Inc. to Ambrilia Biopharma Inc.

To date, the Company has financed its cash requirements primarily from equity and debt issuances, investment tax credits, government grants and loans, license revenues and interest income. The Company has incurred significant operating losses and cash outflows from its operations. The success of the Company is dependent on bringing its technologies to market, obtaining the necessary regulatory approvals and achieving future profitable operations.

2. Basis of presentation and significant accounting policies

These interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for interim financial statements and follow the same accounting policies and methods of application as the most recent annual consolidated financial statements, except as noted below. 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, 2005.

Basis of consolidation

The consolidated financial statements include the accounts of the Company, those of its 87.16%-owned French subsidiary, Ambrilia Biopharma France S.A. (formerly Cellpep S.A.) ("Ambrilia France"), which was purchased on March 1, 2006 and which is considered to be an integrated subsidiary, those of its wholly-owned U.S. subsidiary, Oncologic Biopharmaceuticals Corporation, and those of its wholly-owned Canadian subsidiary, Bioxalis Medica Inc., which was purchased on June 29, 2005.

Revenue recognition

The Company recognizes revenue from licensing arrangements, which may include multiple elements. Revenue arrangements with multiple elements are reviewed to determine whether the multiple elements can be divided into separate units of accounting, if certain criteria are met. If separable, the consideration received is allocated among the separate units of accounting based on their respective fair values and the applicable revenue recognition criteria are applied to each of the separate units. Otherwise, the applicable revenue recognition criteria are applied to combined elements as a single unit of accounting.

Up-front non-refundable licensing revenue is deferred and recognized on a straight-line basis over the term during which the Company maintains substantive contractual obligations. Licensing revenue received upon the achievement of milestones is recognized when the underlying condition is met if it has stand-alone value to the customer, the Company has no further obligations in relation to that milestone and collectibility is reasonably assured. Otherwise, it is recognized over the remaining term of the underlying agreement. Amounts received in advance of recognition are included in deferred revenue, as are amounts that are refundable if underlying conditions are not met.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

(unaudited)

3. Business acquisition

Effective March 1, 2006, the Company acquired 87.117% of the outstanding shares of Cellpep S.A., a French private biotechnology company developing therapeutics in oncology and infectious diseases, in exchange for 101,627,761 common shares of Ambrilia valued at \$32,520,883, based on the \$0.32 weighted-average closing price of the Company's common shares for the five trading days around January 19, 2006, the date on which the proposed transaction was announced. The acquisition has been accounted for using the purchase method at fair value. The consolidated results of operations of Cellpep S.A. and its wholly-owned Canadian subsidiary, Cellpep Pharma Inc. and its 50%-owned Canadian subsidiary, Opep Pharma Inc. ("Opep") have been consolidated with the accounts of the Company since the date of acquisition. At the same date, the Company completed the acquisition of the remaining 50% of Opep for a cash consideration of \$1.

The allocation of the purchase price is as follows:

	\$
Cash and cash equivalents	174,625
Accounts receivable	323,178
Investment tax credits recoverable	305,153
Inventory	281,293
Prepaid expenses	51,617
Long-term receivables	321,723
Property, plant and equipment	1,098,816
Intellectual property	49,792,529
Total assets acquired	52,348,934
Accounts payable and accrued liabilities	4,612,254
Loan payable	676,142
Deferred revenues	2,865,678
Future income tax liability	9,694,945
Minority interest	1
Total liabilities assumed	17,849,020
Net assets acquired	34,499,914
Consideration paid represented by:	
Share capital <i>[note 6]</i>	32,520,883
Acquisition costs	1,979,031
	34,499,914

Since Cellpep S.A. was in a negative equity position at the transaction date and since the minority shareholders have no responsibility to contribute to this deficiency, the minority interest has been assigned a nominal value of \$1 in this purchase price equation.

Of the assets acquired, an amount of \$49,792,529 was assigned to intellectual property, which is being amortized on a straight-line basis over a 7-year period.

The loan payable bears interest at 12% payable annually and relates to convertible debentures issued by Cellpep S.A. on May 31, 2005. The holder elected on December 7, 2005 to request repayment of the loan by March 1, 2007, being 12 months following a liquidity event as defined under the terms of the loan, in this case the acquisition of Cellpep S.A. As a result, the right to convert no longer exists and the loan has been classified as a short-term liability.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

(unaudited)

Under a Share Exchange Agreement between the Company and the majority of the remaining Cellpep S.A. shareholders, an additional 9.39% of the outstanding securities of Cellpep S.A. will be acquired in exchange for 14,943,384 common shares of the Company in four tranches during the period ending March 1, 2008. The Company holds a call option on these Cellpep securities, which it intends to exercise according to the following schedule: 10% from September 1 to October 1, 2006, a further 30% from March 1 to April 1, 2007, 30% from September 1 to October 1, 2007 and the final 30% from March 1 to April 1, 2008. The Cellpep S.A. shareholders hold Acquisition Warrants issued by the Company entitling them to receive the Company's shares according to the same schedule. The fair value of the call option and Acquisition Warrants are assumed to be nil on the date they were issued.

On April 21, 2006, to comply with French legal requirements, the Company invested an additional Euros 105,050 (\$147,932) in exchange for 2,500 shares of Cellpep S.A. As a result, the Company's ownership of Cellpep S.A. increased from 87.117% to 87.16%.

4. Accounts receivable

	June 30, 2006	December 31, 2005
	\$	\$
Collateralized advance to Opep Pharma Inc.	-	1,500,000
Commodity taxes recoverable	836,627	152,595
Government assistance receivable [note 9]	355,278	-
Interest receivable on short-term investments	31,886	26,272
Other	87,528	29,023
	1,311,319	1,707,890

Effective March 1, 2006 Opep became a wholly-owned subsidiary of the Company. Consequently, the advance to Opep is now an inter-company balance which is eliminated on consolidation.

5. Long-term receivables

The long-term receivables at June 30, 2006 are composed of the following:

	\$
Deposits on long-term leases	450,902
Investment tax credits recoverable in more than one year	339,958
	790,860

The deposits on long-term leases are interest-bearing, primarily at the rate payable on 30-day certificates of deposit of a Canadian chartered bank.

6. Capital stock**Common shares**

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

	Number of shares	Share capital
		\$
Balance as at December 31, 2005	94,598,236	65,004,736
Acquisition of Cellpep S.A. on March 1, 2006	101,627,761	32,520,883
Private placement March 1, 2006	78,677,841	12,588,455
Share issuance costs - cash	-	(851,207)
Share issuance costs – broker compensation warrants	-	(616,400)
Issued in payment of interest on convertible debentures	579,258	122,164
Balance as at June 30, 2006	275,483,096	108,768,631

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

(unaudited)

On June 29, 2006, the Company elected to issue 579,258 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.

On March 1, 2006, concurrent to the acquisition of Cellpep, the Company completed a financing of \$18,095,904, before issue expenses, by way of a private placement of 78,677,841 common shares at \$0.23 per share, with warrants to purchase an equal number of additional common shares at \$0.35 per share to March 1, 2011. Cash expenses of the financing amounted to \$1,223,610, which has been allocated to share capital (\$851,207) and warrants (\$372,403), while broker compensation warrants were granted to the underwriters to purchase up to 3,701,447 common shares at \$0.23 per share, with warrants to purchase an equal number of common shares at \$0.35 per share to March 1, 2011. The fair value of the broker warrants is estimated at \$886,075, determined using the Black-Scholes option pricing model with a volatility of 57%, a risk-free interest rate of 4%, a dividend yield of nil and an expected life of two years. The net proceeds of \$15,986,219 have been allocated to share capital (\$11,120,848) and warrants (\$4,865,371), using the Black-Scholes option pricing model with a volatility of 68%, a risk-free interest rate of 4.1%, a dividend yield of nil and an expected life of five years. The fair value of the broker warrants of \$886,075 is allocated to share capital (\$616,400) and warrants (\$269,675) and is included in the expenses deducted in determining the above net proceeds, with a corresponding increase of \$886,075 to Contributed Surplus.

Stock option plan

As at June 30, 2006, there were 5,627,537 stock options outstanding, compared to 4,047,457 at December 31, 2005.

	Number	Six months ended June 30,	
		2006 Weighted average exercise price \$	2005 Weighted average exercise price \$
Options outstanding, beginning of period	4,047,457	0.76	4,929,361
Granted	2,325,251	0.25	345,000
Forfeited	(181,671)	0.53	(478,154)
Expired	(563,500)	0.78	(390,000)
Options outstanding, end of period	5,627,537	0.55	4,406,207
Exercisable	3,404,983	0.74	2,951,193

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

(unaudited)

All options granted were with exercise prices equal to the market price of the Company's shares at the date of grant. Compensation expense of \$136,035 (2005 - \$190,123) has been recognized in the first half of 2006 for stock options granted to employees and directors and an additional amount of nil (2005 - \$63,934) has been expensed for options granted to consultants. The fair value of options granted during the period was determined using the Black-Scholes option pricing model with a volatility factor of from 68% to 69%, a risk-free interest rate of approximately 4%, a dividend yield of nil and an expected life of the options of 5 years.

Warrants

	Number of common shares reserved for issuance	\$
Balance as at December 31, 2005	18,654,743	2,952,462
Issued in connection with March 1, 2006 private placement	78,677,841	5,507,449
Issuance costs related to private placement	-	(642,078)
Broker compensation warrants for private placement	3,701,447	-
Warrants from broker compensation warrants	3,701,447	-
Acquisition warrants	14,943,384	-
Expired warrants	(10,586,250)	(1,812,398)
Extension to expiry date of Investissement Quebec warrants	-	140,993
Balance as at June 30, 2006	109,092,612	6,146,428

On April 24, 2006, having received the approval of the Toronto Stock Exchange and in accordance with the terms of the Biolevier loan facility, the expiry date of the warrants to purchase 1,503,759 common shares held by Investissement Quebec was extended by five years to February 6, 2013. The fair value of this extension, determined using the Black-Scholes option pricing model with a volatility factor of 68%, a risk-free interest rate of 4.3% and a dividend yield of nil amounts to \$140,993 and is recorded as deferred financing costs and amortized to expense, together with the unamortized balance of the fair value of the warrants previously recorded, over the remaining term of the facility.

On March 1, 2006 the Company issued warrants to purchase 78,677,841 common shares at an exercise price of \$0.35 per share in a private placement of common shares concurrent to the acquisition of Cellpep S.A. (see 'Common Shares' above).

Contributed surplus

	\$
Balance as at December 31, 2005	4,866,469
Compensation warrants issued to underwriters	886,075
Options granted to employees and directors	136,035
Warrants expired in period	1,812,398
Balance as at June 30, 2006	7,700,977

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

(unaudited)

7. Commitments and guarantees

Effective March 1, 2006 the Company entered into an operating lease for office and laboratory premises located in Verdun, Quebec. Also, as a result of the acquisition of Cellpep S.A. on March 1, 2006, the Company is committed until June 2008 under an operating lease for offices in Paris. The additional minimum annual payments from these leases are as follows:

	\$
2006 (6 months)	235,000
2007	487,000
2008	522,000
2009	428,000
2010 and thereafter	1,858,000
	<hr/> 3,530,000

8. Restructuring charges

Following the acquisition of Cellpep S.A., the Company incurred restructuring charges relating to severance payments and lease termination costs, as follows:

	\$
Severance payments	160,933
Lease termination costs	90,187
	<hr/> 251,120

9. Government assistance

Under an agreement with the National Research Council Canada Industrial Research Assistance Program to provide a contribution of up to \$980,000 to help fund the clinical development of one of the Company's technologies, the Company recorded, for the 3 months period ended June 30, 2006, \$469,479 of government assistance as a reduction of research and development expenses. The balance of the contribution is expected to be advanced prior to March 31, 2007 and represents reimbursement of 38% of the cost of fees paid to contractors for the project.

Repayment of the contribution is subject to certain terms and conditions based on gross revenues as defined by the agreement, but will not commence before January 1, 2009 and will continue up to January 1, 2019, or until a maximum of 150% of the total amount advanced under the agreement is repaid, if earlier.

10. Subsequent event

On July 28, 2006, Ambrilia received a milestone payment of \$564,900 (US\$500,000) under a US licensing agreement with a major US pharmaceutical company for Octreotide. The payment became due upon the Company manufacturing sterile batches of Octreotide which met stability and cGMP compliance, as per the FDA guidelines.