

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

Message to Shareholders

Atrium Biotechnologies had an excellent second quarter with revenues of US\$74.3 million, an increase of 47.5% when compared to the same quarter a year earlier. EBITDA increased to \$11.7 million, up 63.7% from last year. Net earnings reached US\$6.3 million for the quarter, an increase of 59.2% compared to the same quarter last year. We continue to generate significant operating cash flows with \$7.6 million generated this past quarter.

These increases are mainly due to the acquisitions of Douglas Laboratories in December 2005 and Amisol in May 2006 and to organic growth. The Company obtained excellent results and was able to continue its growth because of the better penetration of existing customers, the penetration of new markets and new product launches.

During the quarter, our main focus was on the continuation of the integration of the recently acquired Amisol and Douglas Laboratories and focusing on organic growth. The integration of Douglas Laboratories progressed as per the plan and it is anticipated that the synergies associated with the acquisition will continue to be materialized during the next quarters. In addition, Atrium completed the acquisition of Amisol in May 2006, who has been marketing personal care products in Canada since 1974. The integration of Amisol within MultiChem is progressing as per our plan. Also, the growth from both divisions is expected to continue. The efforts to increase profitability are reflected in the increased gross margin improvement of 4.1% in the second quarter of 2006 over the second quarter of 2005 and EBITDA margin increase of 1.5% for the same period.

Also, during the quarter, we continued our efforts to realize our strategic acquisition plan which will reinforce our leadership position and will enable us to support the organic growth with the implementation of commercial and operational synergies. Our revolving credit facility has an authorized amount to US\$112 million with the flexibility to increase it up to US\$179 million. This additional capacity will allow Atrium to pursue its acquisition strategy. As of June 30, 2006, only US\$88 million was drawn under the existing facility.

As a result, Atrium currently has sufficient flexibility to implement an important part of its growth strategy, which is the reinforcement of its leadership position in the North American and European markets.



Luc Dupont
President and Chief Executive Officer

The following analysis provides a review of Atrium Biotechnologies Inc.'s ("Atrium Biotechnologies") results of operations and cash flows for the quarter and the six-month period ended June 30, 2006 compared with the quarter and the six-month period ended June 30, 2005 and the financial condition as at June 30, 2006 compared to December 31, 2005. In this Management's Discussion and Analysis ("MD&A"), the "Company", "we", "us", and "our" mean Atrium Biotechnologies and its subsidiaries. This discussion should be read in conjunction with the unaudited interim consolidated financial statements for the quarter and the six-month period ended June 30, 2006 and with Atrium Biotechnologies's 2005 Annual Report. Additional information relating to Atrium Biotechnologies, including the latest Annual Information Form, is available on SEDAR at www.sedar.com.

The Company is reporting its financial results and financial position in US dollars since fiscal 2005. All amounts are in US dollars unless otherwise indicated.

Our consolidated financial statements are reported in thousands of US dollars and have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada, or Canadian GAAP. We occasionally refer to non-GAAP financial measures in this MD&A. These non-GAAP financial measures do not have any meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. These non-GAAP financial measures are presented in a consistent manner. These measures consist of earnings before interest and taxes ("EBIT" or "earnings from operations"), earnings before interest, taxes, depreciation and amortization ("EBITDA") and gross margin. EBIT means net earnings less (i) dividend income, interest income and foreign exchange gain; and add (ii) interest expense, income tax expense, foreign exchange loss and non-controlling interest. EBITDA means the addition of EBIT and depreciation and amortization. Gross margin means sales less cost of goods sold; cost of goods sold does not include depreciation of production equipment. They are disclosed to provide additional information and should not be considered as a substitute for measures of performance prepared in accordance with GAAP.

COMPANY OVERVIEW

Atrium Biotechnologies Inc. is a leading developer, manufacturer and marketer of science-based products for the cosmetics, pharmaceutical, chemical and nutrition industries. We focus primarily on growing segments of the health and personal care markets which are benefiting from the trends towards healthy living and the ageing of the population. Atrium Biotechnologies markets a broad portfolio of active ingredients, specialty chemicals and health and nutrition finished products through its highly specialized sales and marketing network in more than 40 countries, primarily in North America, Europe and Asia.

The Company is organized in two divisions which are: (i) Active Ingredients & Specialty Chemicals; and (ii) Health & Nutrition:

1. ACTIVE INGREDIENTS & SPECIALTY CHEMICALS

This division develops, manufactures and markets over 2,000 value-added active ingredients and specialty chemicals for the cosmetic, pharmaceutical, chemical and nutrition sectors. Our portfolio includes active ingredients, specialty lipids, chemical synthesis intermediates, functional chemicals, innovative additives, preservatives and excipients. Our proprietary active ingredients are commercialized through our own sales force in France and Canada and through a network of more than 40 specialized distributors in approximately 45 other countries.

2. HEALTH & NUTRITION FINISHED PRODUCTS

This division develops, manufactures and markets more than 1,300 proprietary health and nutrition finished products, vitamins, minerals and specialized products through a network of more than 40,000 healthcare professionals in the United States. In addition, some of our products are offered in more than 25 countries through a network of more than 45 distributors targeting niche markets.

FINANCIAL SUMMARY – SECOND QUARTER OF 2006:

- Revenues were \$74.3 million for the second quarter of 2006 in comparison with \$50.3 million in 2005, an increase of 47.5%;
- EBITDA increased by 63.7% to \$11.7 million in the second quarter of 2006 compared to \$7.1 million for the same quarter in 2005;
- Net earnings reached \$6.3 million for the second quarter of 2006 compared to \$4.0 million in 2005, an increase of 59.2%;
- Cash flows from operating activities before changes in non-cash operating working capital items were \$7.6 million for the second quarter of 2006 compared to \$4.8 million in 2005, an increase of 59.7%.

IMPORTANT EVENT DURING THE QUARTER

On May 1, 2006, the Company acquired, through its subsidiary MultiChem Import Export (2005) Inc. (“MultiChem”), the assets of Amisol Company Ltd. (“Amisol”) for a total consideration of \$7.2 million, including all acquisition-related costs, of which an amount of \$5.6 million was paid cash, \$0.3 million was accrued as acquisition-related costs and \$1.3 million as a balance of purchased price. Amisol has been marketing personal care products in Canada since 1974.

INTERIM CONSOLIDATED RESULTS OF OPERATIONS SUMMARY

(in thousands of US dollars) Unaudited

	Quarters ended June 30,		Six-month periods ended June 30,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Revenues	74,283	50,345	150,292	98,496
Earnings from operations (EBIT)	10,847	6,827	21,384	13,195
Depreciation and amortization	826	302	1,643	570
EBITDA	11,673	7,129	23,027	13,765
Net earnings	6,319	3,968	13,211	7,226
Cash flows from operating activities before changes in non-cash operating working capital items	7,594	4,755	15,645	9,903

INTERIM CONSOLIDATED BALANCE SHEET DATA

(in thousands of US dollars) Unaudited

	As at	
	June 30,	December 31,
	2006	2005
	\$	\$
Total assets	307,905	298,247
Long-term liabilities	120,156	124,514

Revenues for the quarter ended June 30, 2006 reached \$74.3 million compared to \$50.3 million for the same period in 2005, an increase of 47.5%. For the six-month period ended June 30, 2006, revenues reached \$150.3 million compared to \$98.5 million for the same period in 2005, an increase of 52.6%. The increase came primarily from the acquisition of Douglas Laboratories in December 2005 and Amisol in May 2006. We expect continued growth in revenues in 2006 due to the consolidation of the results of newly-acquired Douglas Laboratories and Amisol and organic growth.

Gross margin amounted to \$23.1 million for the quarter ended June 30, 2006, compared to \$13.5 million in the same period in 2005, an increase of \$9.6 million or 70.6%. For the six-month period ended June 30, 2006, gross margin was \$44.5 million compared to \$26.8 million for the same period in 2005 representing an increase of \$17.7 million or 65.9%. This variation is primarily attributable to: (i) the gross margin from the newly-acquired Douglas Laboratories and Amisol; and (ii) the synergies realized from the acquisitions of Douglas Laboratories and Amisol. The gross margin increased from 26.9% in the second quarter of 2005 to 31.0% for the same period in 2006. For the six-month period ended June 30, 2006, the gross margin was 29.6% compared to 27.2% for the same period in 2005. Also, the gross margin improved from 28.2% in the first quarter of 2006 to 31.0% for the second quarter of 2006. All these improvements came primarily from the higher margins products from the newly-acquired Douglas Laboratories.

Selling, general and administrative expenses were \$11.3 million for the quarter ended June 30, 2006, an increase of \$5.0 million over the \$6.3 million incurred during the same period in 2005. For the six-month period ended June 30, 2006, these expenses were \$21.3 million, an increase of \$8.4 million over the \$12.9 million incurred during the same period in 2005. The increase came primarily from the selling, general and administrative expenses of the newly-acquired Douglas Laboratories and Amisol.

EBITDA for the quarter ended June 30, 2006 was \$11.7 million compared to \$7.1 million in 2005, an increase of 63.7%. For the six-month period ended June 30, 2006, EBITDA was \$23.0 million compared to \$13.8 million in 2005. Most of the increase in 2006 came from the acquisition of Douglas Laboratories in December 2005. The EBITDA margin increased from 14.2% in the second quarter of 2005 to 15.7% for the same period in 2006. Also, the EBITDA margin increased from 14.0% in the first six-month period of 2005 to 15.3% for the same period in 2006. The EBITDA margin increase came essentially from the cost reduction in Douglas Laboratories and the addition of Amisol which has higher margins than the average margin of the division.

Depreciation and amortization expenses for the quarter ended June 30, 2006 were \$0.8 million, an increase of \$0.5 million compared to \$0.3 million in 2005. For the six-month period ended June 30, 2006, depreciation and amortization expenses were \$1.6 million compared to \$0.6 million in 2005. This increase is primarily due to the amortization of intangible assets resulting from the acquisitions of Douglas Laboratories in December 2005.

Dividend income and Interest income for the quarter ended June 30, 2006 totalled \$2.5 million compared to \$0.1 million in 2005. For the six-month period ended June 30, 2006, dividend income and interest income totalled \$5.0 million compared to \$0.1 million in 2005. This increase is almost entirely due to the dividend income totalling \$2.3 million per quarter in 2006 from the tax loss monetization program set up with Aeterna Zentaris (refer to Related Party Transactions section of our 2005 Annual Report). We expect to have an increase in dividend income in the third quarter since this tax loss monetization was set up in September 2005. The dividend income should be accounted for as long as the program remains in place.

Financial expenses for the quarter ended June 30, 2006 were \$4.3 million compared to \$0.5 million in 2005. For the six-month period ended June 30, 2006, financial expenses were \$8.5 million compared to \$1.5 million in 2005. The increase for the quarter ended June 30, 2006 is due directly from the increase in debt levels related to the acquisitions, particularly Douglas Laboratories in December 2005 as well as from the interest expense incurred with the implementation of the tax loss monetization program for which we accounted \$2.3 million of interest expense for the quarter. For the second quarter of 2005, the debt level was offset by the cash received from the IPO at the beginning of April 2005, explaining the interest expense decrease for that quarter. We expect to have an increase in financial expenses in 2006 due to the higher debt level since the acquisition of Douglas Laboratories in December 2005 and also due to the tax loss monetization program.

Foreign exchange loss amounted to \$0.2 million in the second quarter of 2006 and \$0.1 million in 2005. For the six-month period ended June 30, 2006 and 2005, the foreign exchange gains were close to nil.

Income tax expense amounted to \$2.6 million (or 28.9% of earnings before taxes) for the quarter ended June 30, 2006, compared to \$2.4 million (or 37.2% of earnings before taxes) during the same period last year. For the six-month period ended June 30, 2006, income tax expense amounted to \$4.6 million (or 26.0% of earnings before taxes) compared to \$4.3 million (or 36.8% of earnings before taxes) during the same period last year. This decrease in tax rate is primarily attributable to the tax loss monetization program set up with Aeterna Zentaris

(refer to Related Party Transactions section of our 2005 Annual Report) and from our new debt structure related to the acquisition of Douglas Laboratories. We expect to have an income tax rate in the next quarters similar to that of the six-month period assuming the continuity of these tax loss monetization program and new debt structure.

Non-controlling interest of \$0.2 million during the first quarter of 2005 was the non-controlling interest accounted for in our French subsidiary, Unipex Finance S.A.S., which was acquired at the same time as the completion of our IPO at the beginning of April 2005. We now control 100% of all of our subsidiaries and will not have to account for non-controlling interest in the statement of earnings in the future.

Net earnings for the quarter ended June 30, 2006 were \$6.3 million or \$0.21 per share (\$0.19 per share on a diluted basis) compared to \$4.0 million or \$0.14 per share (\$0.13 per share on a diluted basis) in 2005, an increase of \$2.3 million or 59.2%. For the six-month period ended June 30, 2006, net earnings were \$13.2 million or \$0.44 per share (\$0.41 per share on a diluted basis) compared to \$7.2 million or \$0.27 per share (\$0.26 per share on a diluted basis) in 2005, an increase of \$6.0 million or 82.8%. This increase in net earnings is primarily attributable to accretive acquisitions of Douglas Laboratories in December 2005 as well as our increased profitability.

The significant increase in the net earnings in 2006 allowed the Company to increase net earnings per share and diluted net earnings per share even though the weighted average number of shares outstanding increased to 30.1 million (32.5 million for the diluted) for the quarter ended June 30, 2006 compared to 28.9 million (31.2 million for the diluted) for the same period in 2005. The weighted average number of shares outstanding increased to 30.1 million (32.4 million for the diluted) for the six-month period ended June 30, 2006 compared to 26.4 million (28.1 million for the diluted) for the same period in 2005. The increase in shares outstanding is mainly due to the issuance of shares for the IPO completed on April 6, 2005, the acquisition of the minority interest in Unipex, the issuance of shares in relation to the Douglas Laboratories' acquisition and the exercise of options.

TOTAL CONSOLIDATED ASSETS AND LONG-TERM LIABILITIES

Total consolidated assets totalled \$307.9 million as of June 30, 2006 compared to \$298.2 million on December 31, 2005. Long-term liabilities totalled \$120.2 million as of June 30, 2006 compared to \$124.5 million as of December 31, 2005. This decrease in long-term liabilities came primarily from the net reimbursement of \$6.5 million of the long-term debt. Additional information on segment assets is provided in the interim consolidated financial statements.

ACTIVE INGREDIENTS & SPECIALTY CHEMICALS DIVISION ("AI&SC") RESULTS				
(in thousands of US dollars) Unaudited				
	Quarters ended		Six-month periods	
	June 30,		ended June 30,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Revenues	44,599	42,870	92,729	83,614
Earnings from operations (EBIT)	3,789	3,681	7,656	7,415
Depreciation and amortization	199	212	421	382
EBITDA	3,988	3,893	8,077	7,797

Revenues from the Active Ingredients & Specialty Chemicals Division were \$44.6 million for the quarter ended June 30, 2006, representing an increase of 4.0% over revenues of \$42.9 million for the same period in 2005. For the six-month period ended June 30, 2006, revenues were \$92.7 million compared to \$83.6 million for the same period in 2005, an increase of 10.9%. This increase is attributable essentially to the acquisition of MultiChem on January 24, 2005 and to the acquisition of Amisol during the second quarter of 2006.

EBITDA was \$4.0 million (or 8.9% of revenues) for the quarter ended June 30, 2006, representing an increase of \$0.1 million or 2.5% over 2005 EBITDA of \$3.9 million (or 9.1% of revenues). For the six-month period ended June 30, 2006, EBITDA was \$8.1 million (or 8.7% of revenues) compared to \$7.8 million (or 9.3% of revenues) in 2005, an increase of \$0.3 million or 3.6%. This EBITDA increase is attributable essentially to an increased contribution from proprietary products and to the acquisition of Amisol. The EBITDA margin increased from 8.5% in the first quarter of 2006 to 8.9% for the second quarter of 2006.

HEALTH & NUTRITION DIVISION (“H&N”) RESULTS

(in thousands of US dollars) Unaudited

	Quarters ended June 30,		Six-month periods ended June 30,	
	2006 \$	2005 \$	2006 \$	2005 \$
Revenues	29,684	7,475	57,563	14,882
Earnings from operations (EBIT)	7,058	3,146	13,728	5,780
Depreciation and amortization	627	90	1,222	188
EBITDA	7,685	3,236	14,950	5,968

Revenues from the Health & Nutrition Division were \$29.7 million for the quarter ended June 30, 2006 compared to \$7.5 million in 2005, an increase of \$22.2 million or 297.1%. For the six-month period ended June 30, 2006, revenues were \$57.6 million compared to \$14.9 million in 2005, an increase of \$42.7 million or 286.8%. This increase came primarily from the acquisition of Douglas Laboratories in December 2005 and from organic growth.

EBITDA was \$7.7 million (or 25.9% of revenues) for the quarter ended June 30, 2006 representing an increase of \$4.5 million or 137.4% over the same period last year where the EBITDA was \$3.2 million (or 43.3% of revenues). For the six-month period ended June 30, 2006, EBITDA was \$15.0 million (or 26.0% of revenues) compared to \$6.0 million (or 40.1% of revenues) in 2005, an increase of \$9.0 million or 150.5%. Most of the EBITDA increase came from the acquisition of Douglas Laboratories, synergies realized from this acquisition and organic growth.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

Our operations and our capital expenditures are mainly financed through cash flows from operating activities, the use of our liquidities, as well as the issuance of debt and common shares.

During the last quarter of 2005, the Company modified its revolving credit facility by increasing the authorized amount from \$67.2 million (CAN\$75 million) to \$112.0 million (CAN\$125 million) with the possibility to increase this amount up to \$179.2 million (CAN\$200 million) under certain conditions. This credit facility is a three-year term loan and is renewable annually. This facility is bearing interest at variable rates and is secured by a first hypothec on all assets of the Company and its North American subsidiaries. Moreover, all the shares held by the Company in its French subsidiaries have been pledged as collateral security.

As of June 30, 2006, our consolidated cash and cash equivalents and short-term investments position was \$19.6 million and our long-term debt amounted to \$100.0 million. This long-term debt includes \$87.9 million from our amended revolving credit facility, leaving approximately \$24.1 million available from the current authorized amount of \$112.0 million. The other portion of our long-term debt represents a subordinated debt of \$12.0 million which is bearing interest at a rate of 7%. Concurrent with the acquisition of Douglas Laboratories in December 2005, \$50.0 million of borrowings were swapped to a three-year fixed rate.

The Company believes that these liquidities, combined with our revolving credit facility and the cash flow from operations, will be adequate to meet operating cash requirements in a foreseeable future. However, possible additional acquisitions of complementary businesses or products may require additional financing.

OPERATING ACTIVITIES

Cash flows generated by our operations were \$15.3 million for the quarter ended June 30, 2006 compared to \$4.5 million in 2005. This cash flows increase is primarily due to the decrease of accounts receivable related to specific transactions timing. Cash flow from operating activities before changes in non-cash operating working capital items were \$7.6 million for the second quarter of 2006 compared to \$4.8 million in 2005, an increase of 59.7%. This cash flows increase comes from existing operations and from newly-acquired Douglas Laboratories. Cash flows generated by our operations in 2006 are expected to increase due to the Company's operations and the Douglas Laboratories acquisition.

FINANCING ACTIVITIES

For the quarter ended June 30, 2006, cash flows used for financing activities were used for a debt reimbursement of \$6.9 million offset by cash received by the exercise of options and from a debt increase for the acquisition of Amisol. During the same quarter of 2005, the decrease in cash flows from financing activities mainly came from the balance of purchased price paid for the acquisition of MultiChem and from the net amount of cash flows generated from the IPO and from the reimbursement of the long-term debt. For the six-month period ended June 30, 2006, cash flows used for financing activities were used for a debt reimbursement of \$8.2 million offset by cash received by the exercise of options and from a debt increase for the acquisition of Amisol. During the same period of 2005, net cash flows from financing came from the increase in the net long-term debt level which was used for the acquisition of MultiChem in January 2005.

INVESTING ACTIVITIES

The decrease of cash flows from investing activities were \$5.6 million for the quarter ended June 30, 2006 and were used principally for the acquisition of Amisol. During the six-month period ended June 30, 2006, this cash flows decrease was offset by the proceeds from the sales of short-term investments. During the same period in 2005, cash flows from investing activities were used to acquired MultiChem in January 2005.

There has been no significant change in Contractual obligations and commercial commitments facing Atrium Biotechnologies as described in the Company's 2005 annual MD&A.

OUTSTANDING SHARE DATA

As of August 10, 2006, there were 16,124,947 subordinate voting shares issued and outstanding and 14,000,000 multiple voting shares issued and outstanding. These multiple voting shares are 100% owned by Æterna Zentaris and will be converted into subordinate voting share on a one-for-one basis at the latest 5 years after April 6, 2005, date of the closing of our IPO. As of August 10, 2006, there were 3,067,000 stock options outstanding.

QUARTERLY SUMMARY FINANCIAL INFORMATION

(tabular amounts in thousands of US DOLLARS, except per share data)

Unaudited	Quarters ended,			
	June 30, 2006	March 31, 2006	December 31, 2005	September 30, 2005
	\$	\$	\$	\$
Revenues	74,283	76,009	58,358	44,009
AI&SC	44,599	48,130	47,385	37,007
H&N	29,684	27,879	10,973	7,002
EBITDA	11,673	11,354	5,836	5,626
AI&SC	3,988	4,089	2,649	2,833
H&N	7,685	7,265	3,187	2,793
Net Earnings	6,319	6,892	3,999	3,083
EPS basic	0.21	0.23	0.14	0.11
EPS diluted	0.19	0.21	0.13	0.10

QUARTERLY SUMMARY FINANCIAL INFORMATION (continued)

(tabular amounts in thousands of US DOLLARS, except per share data)

Unaudited	Quarters ended,			
	June 30, 2005	March 31, 2005	December 31, 2004	September 30, 2004
	\$	\$	\$	\$
Revenues	50,345	48,151	35,473	31,398
AI&SC	42,870	40,744	27,979	24,439
H&N	7,475	7,407	7,494	6,959
EBITDA	7,129	6,636	5,197	5,195
AI&SC	3,893	3,904	2,258	2,502
H&N	3,236	2,732	2,939	2,693
Net Earnings	3,968	3,258	2,251	2,122
EPS basic	0.14	0.14	0.10	0.09
EPS diluted	0.13	0.12	0.09	0.09

(1) Per share data is calculated independently for each of the quarters presented. Therefore, the sum of this quarterly information may not equal the corresponding annual information.

The significant items explaining the important variation of the above quarterly results were the important acquisitions made during the last 8 quarters: Douglas Laboratories in December 2005 in the H&N Division and MultiChem in January 2005 and Amisol in May 2006 in the AI&SC Division.

RELATED PARTY TRANSACTIONS

There were no other related party transactions than those presented and describe in note 18 of the 2005 annual consolidated financial statements and for which we present an update in note 6 of our unaudited interim consolidated financial statements for the second quarter of 2006.

OFF-BALANCE SHEET ARRANGEMENTS

There were no other off-balance sheet arrangements than the one presented and described in note 18 of the 2005 annual consolidated financial statements and related to the tax loss monetization program. As of June 30, 2006, we did not have interests in any variable interest entities.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There has been no significant change in Atrium Biotechnologies' accounting policies and estimates since December 31, 2005. Please refer to the corresponding section in our 2005 Annual Report for a complete description of our critical accounting policies and estimates.

New accounting standard

In January 2005, the CICA issued four new accounting standards in relation with financial instruments: section 3855 "Financial Instruments – Recognition and Measurement", section 3865 "Hedges", section 1530 "Comprehensive Income" and section 3251 "Equity".

Sections 3855, 3865 and 1530 apply to fiscal years beginning on or after October 1, 2006 and we will adopt them on January 1, 2007. The Company is currently assessing the effects of these new standards on its consolidated financial statements.

FINANCIAL AND OTHER INSTRUMENTS

Foreign Currency Risk

Since the Company operates on an international scale, it is exposed to currency risks as a result of potential exchange rate fluctuations. For the quarter ended June 30, 2006, there were no significant operations using forward exchange contracts and no significant forward exchange contract is outstanding as of today.

Credit Risk

Generally, the Company does not require collateral or other security from customers for trade accounts receivable; however, credit is extended following an evaluation of creditworthiness. In addition, the Company performs on-going credit reviews of all its customers and establishes an allowance for doubtful accounts when accounts are determined to be uncollectible.

Interest Rate Risk

We are exposed to market risk from changes in interest rates relating to our revolving credit facility. To manage this risk, the Company uses interest rate swaps. The Company formally documents and designates each derivative financial instrument as a hedge of its credit facility. The Company determines that derivative financial instruments are effective hedges.

The Company uses interest rate swaps as part of its program for managing the combination of fixed and variable interest rates of its debt and the corresponding aggregate cost of borrowing. Interest rate swaps involve an exchange of interest payments without an exchange of principal underlying the interest payments. They are accounted for as an adjustment of accrued interest expense on the debt instruments. The corresponding amount to be paid to counterparties or to be received from counterparties is accounted for as an adjustment of accrued interest.

In the case of an early termination of one of the interest swap agreements or if the hedge ceases to be effective prior to maturity, any realized and unrealized gains or losses would be recorded on the balance sheet and amortized to consolidated earnings over the remaining term of the related hedged debt. In the event of early extinguishment of the debt, any realized or unrealized gains or losses related to the swap would be recognized in the consolidated earnings at the time of the extinguishment of the debt.

In December 2005, \$50.0 million of borrowings were swapped to a three-year fixed rate. As at June 30, 2006, we have only \$37.9 million of long-term debt which bears interest at floating rates.

RISK FACTORS AND UNCERTAINTIES

There has been no significant change in the risk factors and uncertainties facing Atrium Biotechnologies as described in the Company's 2005 annual MD&A.

CONTINUOUS DISCLOSURE

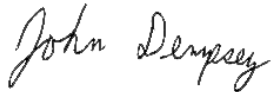
The Company is a reporting issuer under the securities legislation of all of the provinces of Canada and it is, therefore, required to file continuous disclosure documents such as interim and annual financial statements, a proxy circular, an annual information form, material change reports and press releases with such securities regulatory authorities. Copies of these documents may be obtained free of charge on request from the office of the Secretary of the Company or through the Internet at the following addresses: www.atrium-bio.com and www.sedar.com.

Forward-Looking Statements

This report contains certain forward-looking statements with respect to the Company. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. We consider the assumptions on which these forward-looking statements are based to be reasonable, but caution the reader that these assumptions regarding future events, many of which are beyond our control, may ultimately prove to be incorrect since they are subject to risks and uncertainties that affect us. The information contained herein is dated as of August 10, 2006, date of the Board's approval for the MD&A and the Consolidated Financial Statements. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law.

On behalf of management,

Vice President, Finance and Chief Financial Officer

A handwritten signature in cursive script that reads "John Dempsey".

John Dempsey

August 10, 2006

Atrium Biotechnologies Inc.

Interim Consolidated Financial Statements

(expressed in thousands of **US DOLLARS**)

For the periods ended June 30, 2006 and 2005

Atrium Biotechnologies Inc.

Interim Consolidated Balance Sheets

(expressed in thousands of US DOLLARS)

<i>Unaudited</i>	As at June 30, 2006	As at December 31, 2005
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	19,634	14,886
Short-term investments	-	2,958
Accounts receivable	53,793	55,831
Income taxes recoverable	4,358	1,952
Inventory	30,334	31,758
Prepaid expenses	1,343	1,313
Future income tax assets	608	555
	110,070	109,253
Long-term investment, at cost	1,187	1,139
Property, plant and equipment	5,477	5,809
Deferred charges	1,474	1,695
Intangible assets	72,186	68,027
Goodwill (note 4)	114,277	109,035
Future income tax assets	3,234	3,289
	307,905	298,247
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	38,932	48,142
Income taxes	3,561	936
Balance of purchase price payable (note 3)	1,292	-
Deferred revenues	378	174
Current portion of long-term debt	26	70
	44,189	49,322
Long-term debt	99,955	105,878
Employee future benefits	221	205
Future income tax liabilities	19,980	18,431
	164,345	173,836
Shareholders' Equity		
Share capital (note 5)	79,217	78,985
Contributed surplus	1,641	1,497
Retained earnings	51,807	38,596
Cumulative translation adjustment	10,895	5,333
	143,560	124,411
	307,905	298,247

The accompanying notes are an integral part of these interim consolidated financial statements.

Approved by the Board of Directors,

Luc Dupont, Director

G rard Limoges, Director

Atrium Biotechnologies Inc.

Interim Consolidated Statements of Retained Earnings

(expressed in thousands of US DOLLARS)

<i>Unaudited</i>	Six months ended June 30,	
	2006	2005
	\$	\$
Balance - Beginning of period	38,596	24,288
Net earnings for the period	13,211	7,226
Balance - End of period	51,807	31,514

Interim Consolidated Statements of Contributed Surplus

(expressed in thousands of US DOLLARS)

<i>Unaudited</i>	Six months ended June 30,	
	2006	2005
	\$	\$
Balance - Beginning of period	1,497	905
Stock-based compensation costs	144	314
Exercise of stock options	-	(24)
Balance - End of period	1,641	1,195

The accompanying notes are an integral part of these interim consolidated financial statements.

Atrium Biotechnologies Inc.

Interim Consolidated Statements of Earnings

(expressed in thousands of US DOLLARS, except share and per share data)

<i>Unaudited</i>	Quarters ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Revenues	74,283	50,345	150,292	98,496
Operating expenses				
Cost of sales	51,225	36,826	105,781	71,662
Selling and administrative	11,259	6,308	21,252	12,869
Research and development costs	126	138	258	285
Research and development tax credits, grants and other revenues	-	(56)	(26)	(85)
Depreciation and amortization				
Property, plant and equipment	383	119	762	248
Intangible assets	443	183	881	322
	63,436	43,518	128,908	85,301
Earnings from operations	10,847	6,827	21,384	13,195
Other revenues (expenses)				
Dividend income	2,350	-	4,608	-
Interest income	173	69	365	148
Financial expenses				
Interest on long term-debt	(4,278)	(391)	(8,219)	(1,144)
Other	(38)	(76)	(293)	(399)
Foreign exchange gain (loss)	(169)	(111)	2	5
	(1,962)	(509)	(3,537)	(1,390)
Earnings before the following items	8,885	6,318	17,847	11,805
Income tax expense				
Current	2,238	2,204	4,224	3,640
Future	328	146	412	699
	2,566	2,350	4,636	4,339
	6,319	3,968	13,211	7,466
Non-controlling interest	-	-	-	240
Net earnings for the period	6,319	3,968	13,211	7,226
Net earnings per share				
Basic	0.21	0.14	0.44	0.27
Diluted	0.19	0.13	0.41	0.26
Weighted average number of shares outstanding (000's)				
Basic	30,113	28,945	30,076	26,365
Diluted	32,487	31,153	32,449	28,084

The accompanying notes are an integral part of these interim consolidated financial statements.

Atrium Biotechnologies Inc.

Interim Consolidated Statements of Cash Flows

(expressed in thousands of US DOLLARS)

<i>Unaudited</i>	Quarters ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Cash flows from operating activities				
Net earnings for the period	6,319	3,968	13,211	7,226
Items not affecting cash and cash equivalents				
Depreciation and amortization	826	302	1,643	570
Deferred charges	149	61	289	370
Deferred revenues	(154)	(7)	190	362
Stock-based compensation costs	79	156	144	314
Foreign exchange loss (gain) on long-term items denominated in foreign currency	47	129	(244)	122
Future income taxes	328	146	412	699
Non-controlling interest	-	-	-	240
Change in non-cash operating working capital items				
Accounts receivable	10,886	251	7,008	(2,766)
Inventory	(254)	(89)	3,098	(636)
Prepaid expenses	510	248	36	(70)
Accounts payable and accrued liabilities	(3,603)	(903)	(10,574)	1,942
Income taxes	184	276	326	43
	15,317	4,538	15,539	8,416
Cash flows from financing activities				
Increase in long-term debt	1,755	124	1,771	51,389
Payments on long-term debt	(6,920)	(38,295)	(8,247)	(72,206)
Payments on balances of purchase price	-	(2,187)	-	(3,123)
Issuance of shares, net of share issue expenses	87	38,416	232	37,850
	(5,078)	(1,942)	(6,244)	13,910
Cash flows from investing activities				
Proceeds from the sale of short-term investments	1,457	-	3,193	2,072
Purchase of a long-term investment	-	(401)	-	(401)
Business acquisitions, net of cash and cash equivalents acquired	(6,884)	(95)	(8,009)	(18,360)
Purchase of property, plant and equipment	(127)	(232)	(303)	(284)
Acquisition of amortizable intangible assets	(9)	(13)	(22)	(61)
	(5,563)	(741)	(5,141)	(17,034)
Increase in cash and cash equivalent	4,676	1,855	4,154	5,292
Effect of exchange rate changes on cash and cash equivalents	493	(815)	594	(1,344)
Cash and cash equivalents - Beginning of period	14,465	13,078	14,886	10,170
Cash and cash equivalents - End of period	19,634	14,118	19,634	14,118
Additional information				
Interest paid	4,143	433	10,349	1,257
Income taxes paid	2,095	1,877	3,905	3,516

The accompanying notes are an integral part of these interim consolidated financial statements.

Atrium Biotechnologies Inc.

Notes to Interim Consolidated Financial Statements

For the periods ended June 30, 2006 and 2005

(tabular amounts in thousands of US DOLLARS, except share and per share data and as otherwise noted)

Unaudited

1 Basis of presentation

These interim financial statements as at June 30, 2006 and for the periods ended June 30, 2006 and 2005, are unaudited. They have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial information. In the opinion of management, all adjustments necessary to present fairly the financial position, results of operations and cash flows for these periods have been included.

The accounting policies and methods of computation adopted in these financial statements are the same as those used in the preparation of the Company's most recent annual consolidated financial statements. All disclosures required for annual financial statements have not been included in these financial statements. These consolidated financial statements should be read in conjunction with the Company's most recent annual consolidated financial statements. These interim results of operations are not necessarily indicative of the results for the full year.

2 New accounting standards

In January 2005, the CICA issued four new accounting standards in relation with financial instruments: section 3855 "Financial Instruments - Recognition and Measurement", section 3865 "Hedges", section 1530 "Comprehensive Income" and section 3251 "Equity". Sections 3855, 3865 and 1530 apply to fiscal years beginning on or after October 1, 2006 and we will adopt them on January 1, 2007. The Company is currently assessing the effects of these new standards on its consolidated financial statements.

3 Business acquisition

On May 1, 2006, the Company acquired, through its subsidiary MultiChem Import Export (2005) Inc. ("MultiChem"), the assets of Amisol Company Ltd. ("Amisol") for a total consideration of \$7,169,000 (CAN\$7,935,000), including all acquisition-related costs, of which an amount of \$5,562,000 (CAN\$6,156,000) was paid cash, \$304,000 (CAN\$336,000) was accrued as acquisition-related costs and \$1,303,000 (CAN\$1,442,000) as a balance of purchase price. Amisol has been marketing personal care products in Canada since 1974.

This acquisition has been accounted for using the purchase method and the results of operations have been included in the statement of earnings from the date of acquisition. The total consideration was allocated based on management's preliminary assesment as to the estimated fair value at the acquisition date. This preliminary assesment is subject to change upon receipt of an independant valuation report and the final determination of the fair value of the assets acquired and liabilities assumed.

The allocated values of the net assets acquired are as follows:

	\$
Assets	
Current assets	2,947
Property, plant and equipment	71
Intangible assets	1,000
	<hr/> 4,018
Liabilities	
Current liabilities	1,093
	<hr/>
Net identifiable assets acquired	2,925
Goodwill	4,244
	<hr/>
Purchase price	7,169
Less : Balance of purchase price	1,303
Acquisition costs unpaid	304
	<hr/> 5,562

Goodwill and intangible assets are included in the Active Ingredients & Specialty Chemicals segment and are deductible for income tax purposes.

Atrium Biotechnologies Inc.

Notes to Interim Consolidated Financial Statements

For the periods ended June 30, 2006 and 2005

(tabular amounts in thousands of US DOLLARS, except share and per share data and as otherwise noted)

Unaudited

4 Goodwill

The change in the carrying value is as follows :

	Active Ingredients & Specialty Chemicals	Health & Nutrition	Total
	\$	\$	\$
Balance as at December 31, 2004	40,393	21,285	61,678
Acquisitions	10,074	42,155	52,229
Adjustments (a)	(49)	48	(1)
Impact of foreign exchange rate	(4,915)	44	(4,871)
Balance as at December 31, 2005	45,503	63,532	109,035
Acquisitions	4,244	-	4,244
Adjustments (a)	1,214	(3,430)	(2,216)
Impact of foreign exchange rate	3,158	56	3,214
Balance as at June 30, 2006	54,119	60,158	114,277

(a) Adjustments consist of changes to the estimated fair value of assets acquired and liabilities assumed, contingent payments, additional acquisition-related costs and reversal of accounts payable and accrued liabilities related to acquisitions. In the Health & Nutrition Division, an adjustment was recorded for \$3,549,000 in 2006 according to the final determination of the fair value of the assets acquired and liabilities assumed of HVL Parent Incorporated ("Douglas Laboratories"). This adjustment has been essentially applied against intangible assets and future income tax liabilities. In the Active Ingredients & Specialty Chemicals Division, a contingent payment in the amount of \$1,132,000 (CAN\$1,322,000) for the acquisition of MultiChem was recorded and paid in 2006.

5 Share capital

Authorized

Unlimited number of shares of the following classes :

Multiple voting shares, voting and participating, bearing two votes per share, convertible at the option of the holder into subordinate voting shares on a one-for-one basis

Subordinate voting shares, voting and participating, one vote per share

Issued

	As at June 30, 2006		As at December 31, 2005	
	Number	Amount \$	Number	Amount \$
Multiple voting shares				
Balance - Beginning and end of period	14,000,000	7,656	14,000,000	7,656
Subordinate voting shares				
Balance - Beginning of period	15,997,447	71,329	9,784,664	16,187
Issued pursuant to the initial public offering	-	-	4,166,667	40,920
Issued for the acquisition of non-controlling interest	-	-	741,584	7,283
Issued as part of the acquisition of Douglas Laboratories	-	-	917,532	8,632
Issued pursuant to the stock option plan	119,500	232	387,000	884
Share issue expenses, net of related income taxes	-	-	-	(2,640)
Stock-based compensation costs	-	-	-	63
Balance - End of period	16,116,947	71,561	15,997,447	71,329
Total share capital	30,116,947	79,217	29,997,447	78,985

Atrium Biotechnologies Inc.

Notes to Interim Consolidated Financial Statements

For the periods ended June 30, 2006 and 2005

(tabular amounts in thousands of US DOLLARS, except share and per share data and as otherwise noted)

Unaudited

6 Related party transactions (refer to note 18 of 2005 annual financial statements)

	Quarters ended		Six months ended	
	June 30,		June 30,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Purchases of raw materials and subcontracting	82	35	128	134
Administration fees	38	27	75	62
Dividend income	2,350	-	4,608	-
Interest expenses	2,335	-	4,577	26
Expenses reimbursed related to a technology acquired	256	120	527	200
Subcontracting revenues	11	174	25	200

7 Segment information

The following tables present information by segment :

	Quarters ended June 30,					
	2006			2005		
	Active Ingredients & Specialty Chemicals	Health & Nutrition	Total	Active Ingredients & Specialty Chemicals	Health & Nutrition	Total
	\$	\$	\$	\$	\$	\$
Revenues	44,599	29,684	74,283	42,870	7,475	50,345
Earnings from operations	3,789	7,058	10,847	3,681	3,146	6,827
Depreciation and amortization	199	627	826	212	90	302
Capital expenditures	30	106	136	66	179	245

Atrium Biotechnologies Inc.

Notes to Interim Consolidated Financial Statements

For the periods ended June 30, 2006 and 2005

(tabular amounts in thousands of US DOLLARS, except share and per share data and as otherwise noted)

Unaudited

	Six months ended June 30,					
	2006			2005		
	Active Ingredients & Specialty Chemicals \$	Health & Nutrition \$	Total \$	Active Ingredients & Specialty Chemicals \$	Health & Nutrition \$	Total \$
Revenues	92,729	57,563	150,292	83,614	14,882	98,496
Earnings from operations	7,656	13,728	21,384	7,415	5,780	13,195
Depreciation and amortization	421	1,222	1,643	382	188	570
Capital expenditures	70	255	325	152	193	345
	As at June 30, 2006			As at December 31, 2005		
Segment assets	133,590	163,859	297,449	120,789	164,097	284,886

Unallocated assets amount to \$10,456,000 as at June 30, 2006 and \$13,361,000 as at December 31, 2005 and consist mainly of cash and cash equivalents, accounts receivables, income taxes recoverable, investment, at cost and future income tax assets.