



Press Release

FOR IMMEDIATE RELEASE

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CHONDROGENE REPORTS SECOND QUARTER 2006 FINANCIAL RESULTS

TORONTO, CANADA (August 17, 2006): ChondroGene Limited (TSX Venture: CDG) today announced its financial results for the second quarter ended June 30, 2006. The Company reported revenues of \$873,020 for the period, compared to \$1,498,472 for the three months ended June 30, 2005. Revenues were attributable to fees for service and amortization of the one time payment under the research collaboration with Pfizer that was announced in December 2004. The net loss for the quarter was \$1,902,187 or \$0.04 per share, compared to a net loss of \$731,545 or \$0.02 per share for the three-month period ended June 30, 2005. Revenues for the first six months of 2006 were \$1,741,242 with a net loss of \$4,106,290 or \$0.10 per share, compared to revenues of \$2,376,723 with a net loss of \$1,858,140 or \$0.05 per share, for the corresponding period in 2005. At the end of the quarter, the Company had \$25,814,059 in cash and cash equivalents.

“In May, we completed our largest financing to date raising \$25 million by way of a private placement. This will allow us to focus on the development and commercialization of our lead product ColonSentry™,” stated K. Wayne Marshall, President and CEO of ChondroGene. “The financing was one of the largest biotech financings in Canada this year and is a major accomplishment for ChondroGene.”

Also during the quarter, the Company entered into a collaborative research study with Kaiser Permanente in Northern California to access clinical samples from an enriched population of patients with colon pathologies. These samples will be used to refine and evaluate ChondroGene’s ColonSentry test. Kaiser Permanente is America’s leading integrated health plan

with headquarters in Oakland, California. Kaiser Permanente serves the health care needs of 8.3 million members in 9 states and the District of Columbia.

The Company presented data on its work on colon cancer and prostate cancer at the American Society of Clinical Oncology (ASCO) Annual Meeting in June. ASCO is the world's leading professional organization representing physicians who treat people with cancer and the Annual Meeting provides a venue where many new discoveries and innovations for cancer diagnosis and treatment are first disclosed. The two ChondroGene presentations were entitled “**Novel blood biomarker panel detects human colorectal cancer**” and “**Blood-based biomarkers for detecting aggressive prostate cancer at time of biopsy**”.

A paper entitled “**Novel Blood Biomarkers of Human Urinary Bladder Cancer**” was also published in the June issue of *Clinical Cancer Research*, a journal that publishes original articles describing clinical research on the cellular and molecular characterization, prevention, diagnosis, and therapy of human cancer. The paper describes the use of ChondroGene's *Sentinel Principle*[™] in a study to identify blood-based biomarkers for use in differentiating between bladder cancer and other genitourinary cancers, and between bladder cancer and healthy controls.

About ChondroGene

ChondroGene is focussed on the application of functional genomics to enable early diagnosis and personalized therapeutic intervention based on disease-specific biomarkers. The Company has developed a novel approach, the *Sentinel Principle*[™], to detect and stage virtually any disease or medical condition from a simple blood sample. ChondroGene is currently applying the *Sentinel Principle* in major areas with unmet clinical needs such as cancer, arthritis, cardiovascular disease and neurological disorders. For more information on ChondroGene, visit www.chondrogene.com.

The TSX Venture Exchange has not reviewed and does not accept responsibility for the adequacy or accuracy of this news release.

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(Financial statements to follow.)

ChondroGene Limited

Consolidated Balance Sheets

Amounts in Canadian dollars

	June 30 2006	December 31 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 25,814,059	\$ 4,680,882
Accounts receivable	56,556	1,356,392
Investment tax credits recoverable	596,900	1,254,922
Prepaid expenses and deposits	394,885	365,715
	<u>26,862,400</u>	<u>7,657,911</u>
Capital assets	1,295,384	1,251,014
Intellectual property	1,063,601	1,284,675
	<u>\$ 29,221,385</u>	<u>\$ 10,193,600</u>
LIABILITIES and SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,161,549	\$ 929,837
Deferred revenue	782,830	2,134,361
Current portion of long term debt	147,924	139,427
	<u>2,092,303</u>	<u>3,203,625</u>
Long term debt	26,400	102,549
Shareholders' equity:		
Capital stock	44,201,000	20,138,831
Contributed surplus	1,786,384	1,527,007
Deficit	<u>(18,884,702)</u>	<u>(14,778,412)</u>
	<u>27,102,682</u>	<u>6,887,426</u>
	<u>\$ 29,221,385</u>	<u>\$ 10,193,600</u>

ChondroGene Limited

Consolidated Statements of Operations and Deficit

Amounts in Canadian dollars

	"Unaudited"			
	Three months ended June 30 2006	Three months ended June 30 2005	Six months ended June 30 2006	Six months ended June 30 2005
Revenue				
Milestones	\$ -	\$ 612,600	\$ -	\$ 612,600
Fees for service	193,792	206,644	390,251	413,132
One-time payment	679,228	679,228	1,350,991	1,350,991
	873,020	1,498,472	1,741,242	2,376,723
Expenses				
Research and development	2,101,928	1,592,652	4,468,129	2,927,746
General and administrative	490,070	420,788	1,002,752	842,491
Stock compensation	182,975	145,604	296,407	319,489
Amortization of intellectual property	110,537	110,538	221,074	221,073
Interest on long term debt	5,470	9,300	11,940	19,489
	2,890,980	2,278,882	6,000,302	4,330,288
Interest income	115,773	48,865	152,770	95,425
Net loss for the period	(1,902,187)	(731,545)	(4,106,290)	(1,858,140)
Deficit, beginning of period	(16,982,515)	(12,829,900)	(14,778,412)	(11,703,305)
Deficit, end of period	\$ (18,884,702)	\$ (13,561,445)	\$ (18,884,702)	\$ (13,561,445)
Net loss per common share				
Basic and fully diluted	\$ (0.04)	\$ (0.02)	\$ (0.10)	\$ (0.05)
Weighted average number of common shares outstanding				
Basic and fully diluted	45,748,373	39,386,286	42,711,255	39,324,289

ChondroGene Limited

Consolidated Statements of Cash Flows

Amounts in Canadian dollars

"Unaudited"

	Three months ended June 30 2006	Three months ended June 30 2005	Six months ended June 30 2006	Six months ended June 30 2005
Cash flows provided by (used in):				
Operations:				
Net loss for the period	\$ (1,902,187)	\$ (731,545)	\$ (4,106,290)	\$ (1,858,140)
Items therein not requiring cash				
Stock based compensation	182,975	145,604	296,407	319,489
Amortization of capital assets	99,054	90,201	191,528	166,523
Amortization of intellectual property	110,537	110,538	221,074	221,073
	(1,509,621)	(385,202)	(3,397,281)	(1,151,055)
Changes in non-cash working capital:				
Accounts receivable	122,410	(10,919)	1,299,836	5,479,387
Investment tax credit recoverable	-	-	658,022	-
Prepaid expenses and deposits	(51,328)	(170,993)	(29,170)	(49,955)
Accounts payable and accrued liabilities	(314,774)	208,792	231,712	(598,104)
Deferred revenue	(679,532)	(679,118)	(1,351,531)	(1,351,596)
	(2,432,845)	(1,037,440)	(2,588,412)	2,328,677
Financing:				
Net proceeds from issue of capital stock	23,940,120	112,542	24,025,139	117,042
Payments on long term debt	(34,326)	(30,496)	(67,652)	(60,103)
	23,905,794	82,046	23,957,487	56,939
Investments:				
Additions to capital assets	(100,154)	(218,322)	(235,898)	(311,638)
Increase (decrease) in cash and cash equivalents	21,372,795	(1,173,716)	21,133,177	2,073,978
Cash and cash equivalents, beginning of period	4,441,264	9,629,564	4,680,882	6,381,870
Cash and cash equivalents, end of period	\$ 25,814,059	\$ 8,455,848	\$ 25,814,059	\$ 8,455,848