

Consolidated Financial Statements

Altachem Pharma Ltd.

Three months ended April 30, 2005
(Unaudited)

Altachem Pharma Ltd.

National Instrument 51 – 102
Continuous Disclosure Obligations

Notice

Pursuant to Part 4.3 (3) of National Instrument 51 – 102, these unaudited interim consolidated financial statements of Altachem Pharma Ltd. for the three month period ended April 30, 2005 have not been reviewed by the Company's auditors.

Altachem Pharma Ltd.**INTERIM CONSOLIDATED BALANCE SHEET**

As at April 30, 2005

	April 30, 2005 (Unaudited) \$	January 31, 2005 (Audited) \$
ASSETS		
Current		
Cash and cash equivalents <i>[note 9]</i>	1,919,913	1,931,293
Accounts receivable	72,222	81,238
Inventory	23,217	30,715
Prepaid expenses and other assets	76,086	74,661
	2,091,438	2,117,907
Intangible assets <i>[note 3]</i>	68,971	116,882
Property, plant and equipment <i>[notes 4 and 9]</i>	1,758,793	1,805,351
	3,919,202	4,040,140
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	507,169	1,056,458
Current portion of obligation under capital lease <i>[note 5]</i>	287,439	287,439
Demand notes <i>[note 10]</i>	689,248	932,683
Convertible debenture <i>[note 6]</i>	1,000,000	-
	2,483,856	2,276,580
Long-term portion of obligation under capital lease <i>[note 5]</i>	740,951	727,003
	3,224,807	3,003,583
Shareholders' equity		
Share capital <i>[note 7]</i>	20,062,415	19,635,240
Contributed surplus	959,853	914,520
Cumulative translation adjustment	(210,090)	(210,090)
Deficit	(20,117,783)	(19,303,113)
	694,395	1,036,557
	3,919,202	4,040,140

See accompanying notes

On behalf of the Board:

(signed)
Ragupathy ("Madi") Madiyalakan
Director(signed)
Ian McConnan
Director

Altachem Pharma Ltd.

**INTERIM CONSOLIDATED STATEMENT OF
OPERATIONS AND DEFICIT**

(Unaudited)

For the three months ended April 30

	2005	2004
	\$	\$
REVENUE		
Manufacturing revenue <i>[note 9]</i>	66,503	66,852
DIRECT COSTS		
Materials, supplies and subcontracts	25,594	25,573
Royalty payments	3,375	3,057
	28,969	28,630
Gross margin	37,534	38,222
EXPENSES		
General and administrative <i>[note 10]</i>	392,396	658,680
Research and development, net <i>[note 12]</i>	375,743	615,288
Amortization	96,849	374,850
Bank charges and interest <i>[notes 5, 6 and 10]</i>	31,164	19,597
	896,152	1,668,415
Loss before the undernoted	(858,618)	(1,630,193)
Other income (expenses):		
Interest income	2,167	1,974
Foreign exchange gain	41,781	557,723
Loss on disposal of property, plant and equipment	-	(7,603)
	43,948	552,094
Loss before income taxes and discontinued operations	(814,670)	(1,078,099)
Future income tax recovery	-	45,763
Loss before discontinued operations	(814,670)	(1,032,336)
Income (loss) from discontinued operations <i>[note 13]</i>	-	28,530
Net loss	(814,670)	(1,003,806)
Deficit, beginning of period	(19,303,113)	(14,921,160)
Deficit, end of period	(20,117,783)	(15,924,966)
Basic and diluted loss per share		
Continuing operations	(\$0.02)	(\$0.03)
Discontinued operations	(\$0.00)	(\$0.00)
	(\$0.02)	(\$0.03)

See accompanying notes

Altachem Pharma Ltd.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

For the three months ended April 30

	2005	2004
	\$	\$
CASH USED IN OPERATING ACTIVITIES		
Net loss	(814,670)	(1,003,806)
Items that do not involve cash:		
Amortization	96,849	374,850
Future income tax recovery	-	(45,763)
Loss on sale of assets	-	7,603
Stock based compensation [note 8]	45,333	96,500
Changes in non-cash working capital items relating to operating activities	(534,199)	292,336
	<u>(1,206,687)</u>	<u>(278,280)</u>
CASH PROVIDED BY FINANCING ACTIVITIES		
Decrease in bank indebtedness	-	(45,115)
Increase in demand notes	75,000	600,000
Repayment of demand notes	(323,112)	-
Issuance of share capital	427,175	-
Issuance of convertible debenture	1,000,000	-
	<u>1,179,063</u>	<u>554,885</u>
CASH USED IN INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(3,409)	(20,977)
Proceeds from sale of property, plant and equipment	-	1,598
	<u>(3,409)</u>	<u>(19,379)</u>
Effect of exchange rate changes on cash	19,653	13,814
(Decrease) increase in cash and cash equivalents	(11,380)	271,040
Cash and cash equivalents, beginning of period	1,931,293	3,520,069
Cash and cash equivalents, end of period	1,919,913	3,791,109
Cash and cash equivalents consist of:		
Cash	642,767	1,046,909
Cash equivalents	1,277,146	2,744,200
	<u>1,919,913</u>	<u>3,791,109</u>

See accompanying notes

Altachem Pharma Ltd.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2005

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Altachem Pharma Ltd., (the “Company”) is incorporated under the Business Corporations Act (Alberta). The Company’s principal business activity is the research, development, manufacturing, and distribution of pharmaceutical products. The Company is publicly traded on the TSX Venture Exchange under the symbol “AAF”.

The Company’s financial statements have been prepared on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has experienced significant operating losses and cash outflows from operations since its inception.

The Company’s ability to continue as a going concern is dependent upon its ability to successfully complete its research and development programs, commercialize its technologies and is also dependent on obtaining the necessary financing to conduct clinical trials and receive regulatory approvals for its products. It is not possible at this time to predict with assurance the outcome of these activities. The Company’s financial statements do not reflect the adjustments to the carrying values of the assets and liabilities that may be required should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim consolidated financial statements have been prepared by management in accordance with the accounting policies described in the Company’s consolidated financial statements for the year ended January 31, 2005. These unaudited interim consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements for the year ended January 31, 2005.

Altachem Pharma Ltd.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

For the three months ended April 30, 2005

3. INTANGIBLE ASSETS

	<u>At April 30, 2005</u>		<u>At January 31, 2005</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Cost</u>	<u>Accumulated Amortization</u>
	\$	\$	\$	\$
Hypocrellin based technology and licenses	2,476,822	2,476,822	2,476,822	2,476,822
CDK technology	225,000	182,582	225,000	163,833
ACP-HIP patent rights	75,000	75,000	75,000	75,000
Bionex™ technology and license	369,600	369,600	369,600	353,335
Accu-MAb™ license	81,924	64,173	81,924	60,077
Anticort™ license	419,887	419,887	419,887	419,887
Business license - China	105,618	96,816	105,618	88,015
	3,753,851	3,684,880	3,983,851	3,636,969
Net book value		68,971		116,882

During the period ended April 30, 2005, amortization of intangibles amounted to \$47,911 (for the period ended April 30, 2004 - \$ 303,839).

Hypocrellin based technology and licenses (proprietary rights)

The Company's subsidiary, Sonolight, holds the exclusive worldwide license to develop, commercialize and exploit several proprietary inventions involving a class of sonosensitizers and their use in cancer and non-cancer therapies. Sonolight signed a licensing agreement dated March 6, 2001 with the University of Alberta. The license agreement is for a term of 25 years. The agreement requires royalty payments upon successful sales and marketing of products developed using the technology. The Company is amortizing this asset on a straight-line basis over a three-year period that commenced August 1, 2001. This intangible asset is fully amortized.

CDK technology (proprietary rights)

The Company owns the worldwide rights to develop, manufacture and sell the CDK technology, a novel immunomodulator with anti-cancer properties. As consideration for its acquisition of the technology, the Company must issue 400,000 common shares as certain milestones outlined in the technology purchase agreement are met. To date, the Company has issued 200,000 shares under the agreement: 100,000 shares issued in fiscal 2004 and 100,000 shares in fiscal 2003. These shares have been recorded at a value that represents the closing price of the common shares on the date the shares were issued. The Company is amortizing this asset on a straight-line basis over a three-year period, which commenced on August 1, 2002.

ACP-HIP (patent rights)

The Company has the worldwide patent rights over compounds with anti-Kaposi's Sarcoma ("KS") and HIV activity described as the ACP-HIP molecule, to make, have made, use, lease, sell, import and export technology products and processes, and practice the technology processes. The

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**NOTES TO INTERIM CONSOLIDATED FINANCIAL
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For the three months ended April 30, 2005

Company must issue 110,000 common shares as certain milestones outlined in the technology development agreement are met. The Company is amortizing this intangible asset on a straight-line basis over five years. This intangible asset is fully amortized.

Bionex technology and license (proprietary rights)

The Company owns the exclusive worldwide rights to develop, manufacture and sell Bionex, a compound being designed to clean blood products from contamination from a number of viruses, including the HIV/AIDS virus. As consideration for its acquisition of the technology, the Company must issue 400,000 common shares as certain milestones outlined in the technology purchase agreement are met. To date, 160,000 common shares have been issued with an ascribed value of \$369,600 pursuant to this agreement, of which none were issued during 2005 and 2004. These shares were recorded at a value that represents the closing price of the common shares on the date the shares were issued. The agreement requires royalty payments upon successful sales and marketing of products developed using the technology. The Company is amortizing this asset on a straight-line basis over a three-year period that commenced March 20, 2002. This intangible asset is fully amortized.

Accu-MABTM license (proprietary rights)

On February 27, 2001 the Company acquired the inventory and associated rights to produce and distribute a diagnostic test kit (“Accu-MAB”) for the detection of whooping cough. The term of the license to produce and distribute the product is for a period of ten years with a ten-year renewal option. The Company is amortizing the license rights on a straight-line basis over five years.

AnticortTM license (proprietary rights)

The Company owns the exclusive renewable rights to market and distribute the product AnticortTM in Canada for a period of ten years commencing upon approval of the drug by Health Canada (“HC”). Anticort is a product designed to reduce blood cortisol levels and relieve symptoms associated with AIDS. The Company also has an option to acquire the exclusive rights for those countries in the British Commonwealth, except for England, New Zealand, Australia, and Brunei, for a period of one year from the date drug approval is received from HC. The Company is amortizing this asset on a straight-line basis over a three-year period that commenced on November 1, 2001. This intangible asset is fully amortized.

Business license – China

The Company holds a business license issued by State Administration for Industry and Commerce of the People’s Republic of China. The Company is amortizing this asset on a straight-line basis over a three-year period, which commenced on August 6, 2002.

Altachem Pharma Ltd.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2005

4. PROPERTY, PLANT & EQUIPMENT

	<u>at April 30, 2005</u>		<u>at January 31, 2005</u>	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	\$	\$	\$	\$
Computer hardware and software	96,355	67,772	96,355	65,430
Furniture and fixtures	12,114	6,743	12,114	6,307
Office equipment	42,336	26,178	42,336	24,991
Manufacturing and R&D equipment	702,577	374,398	699,167	354,316
Manufacturing equipment not in use	541,962	273,572	541,962	261,417
Buildings under capital lease	1,178,927	74,176	1,178,927	60,690
Leasehold improvements	7,856	495	7,856	215
	2,582,127	823,334	2,578,717	773,366
Net book value	1,758,793		1,805,351	

During the period ended April 30, 2005, amortization of property, plant and equipment amounted to \$48,938 (for the period ended April 30, 2004 - \$ 71,011).

5. OBLIGATIONS UNDER CAPITAL LEASE

On September 10, 2003, the Company entered into a capital lease to purchase the office and manufacturing buildings, less the land, in which Shanghai Hua Gao Pharmaceutical Pellet Core Ltd. operates. The aggregate purchase price for the office and manufacturing buildings is \$1,359,755 (US\$1,026,850) and is to be paid over a five year period of which \$159,963 was paid during the year ended January 31, 2005 (2004 – \$79,982). Lease payments are payable in either US or Chinese currency. The local Chinese government retains ownership of the land and has entered into a 48 year land lease agreement with the Company. There is no right of renewal at the end of the 48 year lease period. The remaining future minimum lease payments are summarized in the table below.

This purchase has been accounted for as a capital lease. Using a discount rate of 5.5 %, the present value calculation for the assets acquired is \$1,178,927. This represents the fair market value of the assets acquired.

Altachem Pharma Ltd.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL
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For the three months ended April 30, 2005

Future minimum lease payments are as follows:

	\$
2006	319,927
2007	319,927
2008	479,956
	<u>1,119,810</u>
Less: imputed interest at 5.5%	(91,420)
Net amount of unpaid obligation	<u>1,028,390</u>
Current portion	<u>(287,439)</u>
Long-term portion	<u>740,951</u>

The current period imputed interest expense related to this capital lease obligation is \$13,949.

6. CONVERTIBLE DEBENTURE

On March 23, 2005, the Company entered into an agreement to issue a \$1,000,000 principal amount 8% convertible debenture with a one year maturity to two arm's length parties. The debenture is collateralized by funds held in Shanghai Altachem Pharma Biotechnology Ltd. ("SACP"). The debenture is repayable in blended monthly installments of \$6,667 with the balance, including accrued interest, due on March 22, 2006. The Debenture may be converted into common shares of the Company at a price of \$0.45 per common share and may be redeemed at any time by the Company.

7. SHARE CAPITAL

Authorized

Unlimited number of common shares without nominal
or par value

Unlimited number of First Preferred shares

Unlimited number of Second Preferred shares

The First and Second Preferred shares may be issued in

one or more series and the directors are authorized to fix
the number of shares in each series and to determine the

designation, rights, privileges, restrictions and conditions attached to the shares of each series.

Altachem Pharma Ltd.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

For the three months ended April 30, 2005

Issued:

	Number of common shares	Amount \$
At January 31, 2005	36,265,580	19,635,240
Shares issued pursuant to a private placement	1,772,000	427,175
At April 30, 2005	38,037,580	20,062,415

In addition to the issued common shares noted above, the Company's subsidiary, 790563 Alberta Ltd., holds 125,000 (2004 – 125,000) common shares of the Company.

Stock options

For the three months ended April 30, 2005, the Company granted 800,000 stock options, as per the Company's Stock Option Plan. All 800,000 were granted to an employee, with an exercise price of \$0.31 and with vesting provisions over three years.

The following options to purchase common shares were outstanding as at April 30, 2005.

Exercise Price	Options Outstanding	Weighted Average Remaining Life	Options Exercisable	Options Non-Exercisable
\$0.31	1,194,000	4.75 years	660,667	533,333
\$0.50	200,000	2.73 years	200,000	–
\$0.52	200,000	3.92 years	200,000	–
\$0.64	50,000	3.85 years	50,000	–
\$0.65	60,500	1.43 years	60,500	–
\$0.67	50,000	3.61 years	50,000	–
\$1.00	750,000	3.06 years	750,000	–
\$1.45	25,000	0.78 years	25,000	–
<u>\$2.25</u>	<u>653,000</u>	<u>1.98 years</u>	<u>645,875</u>	<u>7,125</u>
	3,182,500	3.10 years	2,642,042	540,458

Altachem Pharma Ltd.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

For the three months ended April 30, 2005

The following schedule details the warrants and stock options granted, exercised and expired:

	Shares issuable on exercise of			
	Warrants		Stock Options	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Balance January 31, 2005	–	–	2,682,500	\$1.13
Granted	886,000	\$0.45	800,000	\$0.31
Exercised	–	–	–	–
Expired	–	–	(300,000)	\$1.10
Balance April 30, 2005	886,000	\$0.45	3,182,500	\$0.93

The aggregate number of common shares reserved for issuance under the Company's Stock Option Plan shall not exceed 3,624,000. At April 30, 2005, 441,500 options are available for issue.

Escrowed shares

As at April 30, 2005, the Company's transfer agent held 2,565,205 common shares pursuant to a time based escrow agreement (prior to October 31, 2004, these shares were subject to a TSX Venture Exchange performance based escrow agreement). These shares will be automatically released over time through to October 30, 2009.

8. STOCK-BASED COMPENSATION

For the three month period ended April 30, 2005

During the three months ended April 30, 2005, the Company granted 800,000 stock options, as per the Company's Stock Option Plan. These stock options were granted to an employee, have an exercise price of \$0.31 per share and vest over three years. The fair value of the vested options of \$45,333 was recognized as an expense and credited to contributed surplus for the three month period ended April 30, 2005.

Altachem Pharma Ltd.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

For the three months ended April 30, 2005

The Company used the Black-Scholes option pricing model to estimate the fair value of these options. The following assumptions were used:

Period of issuance	Quarter 1
Dividend yield	0.00%
Volatility	92.6
Risk-free interest rate	3.90%
Expected life (years)	4.76
Number of options issued	800,000
Number of options vested	266,667

Based on these assumptions, the weighted average fair value of stock options granted to employees was \$0.17 for the first quarter ended April 30, 2005. The fair value of these stock options has been estimated to be \$45,333 for the first quarter ended April 30, 2005.

For the three month period ended April 30, 2004

During the three months ended April 30, 2004, the Company granted 250,000 stock options, as per the Company's Stock Option Plan. All of these stock options were granted to non-employees and the exercise prices range from \$0.52 to \$0.64. The fair value of the 250,000 options of \$96,500 was recognized as an expense and credited to contributed surplus for the three month period ended April 30, 2004.

The Company used the Black-Scholes option pricing model to estimate the fair value of these options. The following assumptions were used:

Period of issuance	Quarter 1
Dividend yield	0.00%
Volatility	88.5%
Risk-free interest rate	4.00%
Expected life (years)	4.91
Number of options issued	250,000

Based on these assumptions, the weighted average fair value of stock options granted to non-employees was \$0.39 for the first quarter ended April 30, 2004. The fair value of these stock options has been estimated to be \$96,500 for the first quarter ended April 30, 2004.

Altachem Pharma Ltd.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

For the three months ended April 30, 2005

9. SEGMENT DISCLOSURES

The Company is managed as one reportable business segment; therefore segmented information is not presented. Revenues and capital assets by geographic segment are presented below.

Revenues by geographic area

3 months ended April 30

	2005	2004
	\$	\$
Canada (continuing operations)	416	6,459
United States	45,560	35,804
Other	20,527	24,589
	66,503	66,852
Canada (discontinued operations)	—	179,948

Revenues are attributed to countries based on location of customers.

Cash and cash equivalents by geographic area

As at

	Apr 30/05	Jan 31/05
	\$	\$
Canada	328,145	292,734
People's Republic of China	1,591,768	1,638,559
	1,919,913	1,931,293

Long lived assets by geographic area

As at

	April 30/05	Jan 31/05
	\$	\$
Canada	279,659	342,367
People's Republic of China	1,548,105	1,579,866
	1,827,764	1,922,233

Altachem Pharma Ltd.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

For the three months ended April 30, 2005

10. RELATED PARTY TRANSACTIONS

- a) During the year ended January 31, 2005, the Company obtained bridge financing in the amount of \$650,000 from companies controlled by two of its former directors. The bridge financing was payable on demand, carried an interest rate of 4% and was originally collateralized by cash held in SACP. In August, 2004, a statement of claim was filed by the two companies alleging non-payment of the bridge financing plus accrued interest. In December, 2004, a Consent Judgment was granted in connection with the Statement of Claim which required the Company to pay the bridge financing plus accrued interest legal costs. The Consent Judgments constitute unsecured claims against the assets of the Company. During the three month period ended April 30, 2005, the Company paid a portion of this obligation such that, at April 30, 2005, \$365,908 was outstanding. Subsequent to April 30, 2005, the Company paid the remainder of this obligation.
- b) During the year ended January 31, 2005, the Company obtained additional bridge financing totaling \$134,000 from a former director and from a company controlled by a former director. This bridge financing is unsecured, has no fixed terms of repayment, and is non-interest bearing, except for an \$80,000 tranche which bears interest at 6.25% per annum. At April 30, 2005, \$98,340 was outstanding. Subsequent to April 30, 2005, the Company paid the remainder of this obligation.
- c) On February 8, 2005, the Company obtained additional bridge financing in the amount of \$75,000 from a director. At that time, the Company converted all of the director's outstanding loans and \$20,000 of legal expenses incurred by the director on behalf of the Company to interest bearing notes (totaling \$225,000) at 6% per annum. At April 30, 2005, all of this debt was outstanding.

11. SUBSEQUENT EVENTS

- a) On May 10, 2005, the Company announced that it had granted a total of 500,000 stock options to three Officers and two non-management Directors. The exercise price of the options is \$0.25. All allocations will be subject to approval by the TSXV. Subsequent to this announcement, the Company determined not to finalize the granting of stock options to two Officers and the grant was not made.
- b) On May 17, 2005, the Company closed the second and final tranche of a non-brokered private placement with the sale of 4,200,000 units for gross proceeds of \$1,050,000 (net proceeds of approximately \$1,005,000). Each unit consists of one common share and one half of one non-transferable share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of \$0.45 at any time within one year of issuance.
- c) The Company has been awarded a grant from Alberta Ingenuity Fund to cover salary

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**NOTES TO INTERIM CONSOLIDATED FINANCIAL
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For the three months ended April 30, 2005

expenditures related to the development of the Company's photodynamic therapy for prostate cancer. The \$110,000 grant is to be paid over a 24 month period commencing in May, 2005.

12. GOVERNMENT ASSISTANCE

The Company has obtained federal government assistance in the form of a National Research Council Industrial Research Assistance Program ("IRAP") grant to cover salaries and contractor fees related to the development of the Company's photodynamic therapy for prostate cancer, based on the Company's lead proprietary hypocrellin derivative. During the period ended April 30, 2005, the Company recognized approximately \$60,000 of the funding as a reduction of research and development expenses. This funding is part of a \$295,000 grant the Company is eligible to receive for the period to March 31, 2006.

13. DISCONTINUED OPERATIONS

On July 30, 2004, the Company sold the assets associated with its contract manufacturing operations in Edmonton, Alberta for the sum of \$460,000 to a third party. These assets were used primarily to manufacture breath test kits for a third party under an agreement that was to expire in November 2007. The activities related to these discontinued operations have been included on a separate line item of the Interim Statement of Operations and Deficit captioned "Income (loss) from discontinued operations" for the current and prior period. Included in discontinued operations for the three month period ended April 30, 2005 are revenues of nil (for the three month period ended April 30, 2004 – \$179,948).

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.