

Consolidated Financial Statements

Altachem Pharma Ltd.
Six months ended July 31, 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 six month period ended July 31, 2005 have not been reviewed by the Company's auditors.

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

As at July 31, 2005

	July 31, 2005 (Unaudited) \$	January 31, 2005 (Audited) \$
ASSETS		
Current		
Cash and cash equivalents <i>[note 9]</i>	1,863,553	1,931,293
Accounts receivable	110,461	81,238
Inventory	28,455	30,715
Prepaid expenses and other assets	57,999	74,661
	2,060,468	2,117,907
Intangible assets <i>[note 3]</i>	37,321	116,882
Property, plant and equipment <i>[notes 4 and 9]</i>	1,713,397	1,805,351
	3,811,186	4,040,140
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	435,885	1,056,458
Current portion of obligation under capital lease <i>[note 5]</i>	287,439	287,439
Demand notes <i>[note 10]</i>	225,000	932,683
Convertible debenture <i>[note 6]</i>	1,000,000	—
	1,948,324	2,276,580
Long-term portion of obligation under capital lease <i>[note 5]</i>	755,092	727,003
	2,703,416	3,003,583
Shareholders' equity		
Share capital <i>[note 7]</i>	21,067,414	19,635,240
Contributed surplus	1,008,738	914,520
Cumulative translation adjustment	(210,090)	(210,090)
Deficit	(20,758,292)	(19,303,113)
	1,107,770	1,036,557
	3,811,186	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 quarter ended July 31		For the six months ended July 31	
	2005 \$	2004 \$	2005 \$	2004 \$
REVENUE				
Manufacturing revenue <i>[note 9]</i>	41,820	32,889	108,323	99,741
DIRECT COSTS				
Materials, supplies and subcontracts	(9,293)	(3,934)	(34,887)	(29,507)
Royalty payments	(2,272)	(1,668)	(5,647)	(4,725)
	11,565	5,602	40,534	34,232
Gross margin	30,255	27,287	67,789	65,509
EXPENSES				
General and administrative <i>[note 10]</i>	233,066	433,893	625,462	1,092,573
Research and development, net <i>[note 12]</i>	319,467	393,812	695,210	1,009,100
Amortization	81,079	353,327	177,928	728,177
Bank charges and interest <i>[notes 5,6 and 10]</i>	41,404	22,402	72,568	41,999
	675,016	1,203,434	1,571,168	2,871,849
Loss before the undernoted	(644,761)	(1,176,147)	(1,503,379)	(2,806,340)
Other income (expenses):				
Interest income	3,706	635	5,873	2,609
Foreign exchange gain / (loss)	546	(482,471)	42,327	75,252
Gain (loss) on disposal of property, plant and equipment	-	-	-	(7,603)
	4,252	(481,836)	48,200	70,258
Loss before income taxes and discontinued operations	(640,509)	(1,657,983)	(1,455,179)	(2,736,082)
Future income tax recovery	-	45,763	-	91,526
Loss before discontinued operations	(640,509)	(1,612,220)	(1,455,179)	(2,644,556)
Income from discontinued operations <i>[note 13]</i>	-	380,487	-	409,017
Net loss for the period	(640,509)	(1,231,733)	(1,455,179)	(2,235,539)
Deficit, beginning of period	(20,117,783)	(15,924,966)	(19,303,113)	(14,921,160)
Deficit, end of period	(20,758,292)	(17,156,699)	(20,758,292)	(17,156,699)
Basic and diluted loss per share				
Continuing operations	(\$0.02)	(\$0.05)	(\$0.04)	(\$0.08)
Discontinued operations	(\$0.00)	\$0.01	(\$0.00)	\$0.01
	(\$0.02)	(\$0.04)	(\$0.04)	(\$0.07)

See accompanying notes

Altachem Pharma Ltd.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	For the quarter ended July 31		For the six months ended July 31	
	2005 \$	2004 \$	2005 \$	2004 \$
CASH USED IN OPERATING ACTIVITIES				
Net loss	(640,509)	(1,231,733)	(1,455,179)	(2,235,539)
Items that do not involve cash:				
Amortization	81,079	353,327	177,928	728,177
Future income tax recovery	–	(45,763)	–	(91,526)
(Gain) / loss on disposal of assets	–	(400,207)	–	(392,604)
Options issued as consideration for services	48,885	70,000	94,218	166,500
Shares issued as consideration for services	–	45,000	–	45,000
Changes in non-cash working capital items relating to operating activities	(96,675)	(11,262)	(630,874)	281,076
	(607,220)	(1,220,638)	(1,813,907)	(1,498,916)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase in long term receivable	–	(200,000)	–	(200,000)
Increase in demand notes	–	184,000	75,000	784,000
Repayment of demand notes	(459,571)	–	(782,683)	–
Issuance of share capital	1,005,000	–	1,432,175	–
Issuance of convertible debentures	–	–	1,000,000	–
	545,429	(16,000)	1,724,492	584,000
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(4,865)	–	(8,274)	(20,977)
Proceeds from sale of property, plant and equipment	–	500,000	–	501,598
	(4,865)	500,000	(8,274)	480,621
Effect of exchange rate changes on cash	10,296	1,335	29,949	15,147
Decrease in cash and cash equivalents	(56,360)	(735,303)	(67,740)	(419,148)
Cash and cash equivalents, beginning of period	1,919,913	3,791,109	1,931,293	3,474,954
Cash and cash equivalents, end of period	1,863,553	3,055,806	1,863,553	3,055,806
Cash consists of:				
Cash	592,489	447,315	592,489	447,315
Cash equivalents	1,271,064	2,653,774	1,271,064	2,653,774
	1,863,553	3,101,089	1,863,553	3,101,089
Bank overdraft	–	(45,283)	–	(45,283)
	1,863,553	3,055,806	1,863,553	3,055,806

See accompanying notes

Altachem Pharma Ltd.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 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 six months ended July 31, 2005

3. INTANGIBLE ASSETS

	<u>At July 31, 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	201,333	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	68,270	81,924	60,077
Anticort™ license	419,887	419,887	419,887	419,887
Business license - China	105,618	105,618	105,618	88,015
	3,753,851	3,716,530	3,983,851	3,636,969
Net book value		37,321		116,882

During the three and six month periods ended July 31, 2005, amortization of intangibles amounted to \$31,647 and \$79,560, respectively (for the three and six month periods ended July 31, 2004 - \$253,306 and \$513,354, respectively).

CORE TECHNOLOGIES:

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 has amortized 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.

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**NOTES TO INTERIM CONSOLIDATED FINANCIAL
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For the six months ended July 31, 2005

NON-CORE TECHNOLOGIES:

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 Company has amortized 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 family of novel disinfectants used for multiple applications. 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 has amortized 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 has amortized 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 has amortized this asset on a straight-line basis over a three-year period, which commenced on August 6, 2002. This intangible asset is fully amortized

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**NOTES TO INTERIM CONSOLIDATED FINANCIAL
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For the six months ended July 31, 2005

4. PROPERTY, PLANT & EQUIPMENT

	<u>at July 31, 2005</u>		<u>at January 31, 2005</u>	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	\$	\$	\$	\$
Computer hardware and software	96,355	70,113	96,355	65,430
Furniture and fixtures	12,114	7,178	12,114	6,307
Office equipment	43,468	27,080	42,336	24,991
Manufacturing and R&D equipment	706,309	395,055	699,167	354,316
Manufacturing equipment not in use	541,962	285,727	541,962	261,417
Buildings under capital lease	1,178,927	87,663	1,178,927	60,690
Leasehold improvements	7,856	778	7,856	215
	2,586,991	873,594	2,578,717	773,366
Net book value	1,713,397		1,805,351	

During the three and six month periods ended July 31, 2005, amortization of property, plant and equipment amounted to \$49,432 and \$98,368, respectively (for the three and six month periods ended July 31, 2004 - \$ 56,229 and \$214,823, respectively).

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.

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**NOTES TO INTERIM CONSOLIDATED FINANCIAL
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For the six months ended July 31, 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%	(77,279)
Net amount of unpaid obligation	1,042,531
Current portion	(287,439)
Long-term portion	<u>755,092</u>

The current period imputed interest expense related to this capital lease obligation is \$14,140.

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. The Company is currently negotiating with the debenture holders to substitute the collateral.

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 six months ended July 31, 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
Shares issued pursuant to a private placement	4,200,000	1,005,000
At July 31, 2005	42,237,580	21,067,415

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 July 31, 2005, the Company granted 410,000 stock options, as per the Company's Stock Option Plan. 300,000 were granted to two directors, 25,000 to an officer and 85,000 to consultants, all with an exercise price of \$0.25. 385,000 of the options vest immediately and 25,000 options vest over three years.

The following options to purchase common shares were outstanding as at July 31, 2005.

Exercise Price	Options Outstanding	Weighted Average Remaining Life	Options Exercisable	Options Non-Exercisable
\$0.25	410,000	4.80 years	393,333	16,667
\$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	55,500	1.43 years	55,500	–
\$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	–
\$2.25	653,000	1.98 years	647,750	5,250
	3,587,500	3.09 years	3,032,250	555,250

Altachem Pharma Ltd.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 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
Granted	2,100,000	\$0.45	410,000	\$0.25
Exercised	–	–	–	–
Expired	–	–	(5,000)	\$0.65
Balance July 31, 2005	2,986,000	\$0.45	3,587,500	\$0.85

The aggregate number of common shares reserved for issuance under the Company's Stock Option Plan shall not exceed 3,624,000. At July 31, 2005, 36,500 options are available for issue.

Escrowed shares

As at July 31, 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 period ended July 31, 2005

During the three months ended July 31, 2005, the Company granted 410,000 stock options, as per the Company's Stock Option Plan. These stock options were granted to directors, an employee, and Company consultants and have an exercise price of \$0.25 per share. 385,000 of the options vest immediately and 25,000 vest over three years. The fair value of the vested options of \$48,885 was recognized as an expense and credited to contributed surplus for the three month period ended July 31, 2005.

Altachem Pharma Ltd.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 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 2
Dividend yield	0.00%
Volatility	89.8
Risk-free interest rate	2.48%
Expected life (years)	4.80
Number of options issued	410,000
Number of options vested	393,333

Based on these assumptions, the weighted average fair value of stock options granted was \$0.12 for the second quarter ended July 31, 2005. The fair value of these stock options has been estimated to be \$48,885 for the quarter ended July 31, 2005.

For the six month period ended July 31, 2005, the Company granted a total of 1,210,000 options to directors, employees and consultants with an estimated fair value of \$94,218. 800,000 of these options were granted in the first quarter and 410,000 options (noted above) were granted in the second quarter.

For the period ended July 31, 2004

During the three months ended July 31, 2004, the Company granted 500,000 stock options, as per the Company's Stock Option Plan. All of these stock options were granted to non-employees with an exercise price of \$1.00. The fair value of the 500,000 options of \$70,000 was recognized as an expense and credited to contributed surplus for the three month period ended July 31, 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 2
Dividend yield	0.00%
Volatility	91.6
Risk-free interest rate	2.50%
Expected life (years)	2.93
Number of options issued	500,000
Number of options vested	500,000

Based on these assumptions, the weighted average fair value of stock options granted to non-employees was \$0.14 for the second quarter ended July 31, 2004. The fair value of these stock options has been estimated to be \$70,000 for the quarter ended July 31, 2004.

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**NOTES TO INTERIM CONSOLIDATED FINANCIAL
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For the six months ended July 31, 2005

For the six month period ended July 31, 2004, the Company granted a total of 750,000 options to consultants with an estimated fair value of 166,500. 250,000 of these options were granted in the first quarter and 500,000 options (noted above) were granted in the second quarter.

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

6 months ended July 31

	2005	2004
	\$	\$
Canada (continuing operations)	1,154	7,237
United States	75,078	55,062
Other	32,091	37,442
	108,323	99,741
<u>Canada (discontinued operations)</u>	<u>—</u>	<u>216,903</u>

Revenues are attributed to countries based on location of customers.

Cash and cash equivalents by geographic area

As at

	Jul 31/05	Jan 31/05
	\$	\$
Canada	307,107	292,734
People's Republic of China	1,556,446	1,638,559
	1,863,553	1,931,293

Altachem Pharma Ltd.

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For the six months ended July 31, 2005

Long lived assets by geographic area

As at

	July 30/05	Jan 31/05
	\$	\$
Canada	232,412	342,367
People's Republic of China	1,518,308	1,579,866
	1,750,720	1,922,233

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. During the six month period ended July 31, 2005, the Company paid this obligation in full.
- 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 was unsecured, had no fixed terms of repayment, and was non-interest bearing, except for an \$80,000 tranche which bore interest at 6.25% per annum. During the six month period ended July 31, 2005, the Company paid this obligation in full.
- 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 July 31, 2005, all of this debt was outstanding.

11. SUBSEQUENT EVENTS

On August 8, 2005, the Company entered into an agreement with a company controlled by a director of the Company to provide consulting services. The consulting agreement requires the Company to make monthly payments of \$7,500 and is for a term of 12 months.

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 six month period ended July 31, 2005, the Company recognized approximately \$120,000 of the funding as a reduction of

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For the six months ended July 31, 2005

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.

The Company has been awarded a grant from Alberta Ingenuity Fund to cover salary expenditures related to the development of the Company's photodynamic therapy for prostate cancer. The \$110,000 grant is being paid over a 24 month period commencing in May, 2005.

During the three months ended July 31, 2005, the Company received approximately \$40,000 in funding from Revenue Quebec related to scientific research and experimental development claims made for R&D expenditures incurred in Danamedix Inc. in fiscal 2002 and 2003.

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 from discontinued operations" for the current and prior period. Included in discontinued operations for the three month period ended July 31, 2005 are revenues of nil (for the three month period ended July 31, 2004 – \$216,903) and a gain on disposal of \$400,207 .

14. COMPARATIVE FIGURES

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