ALDA PHARMACEUTICALS CORP.

CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

FOR THE YEARS ENDED JUNE 30, 2006, 2005 AND 2004

AUDITORS' REPORT

To the Shareholders of ALDA Pharmaceuticals Corp.

We have audited the consolidated balance sheets of ALDA Pharmaceuticals Corp. ("the Company") as at June 30, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years ended June 30, 2006, 2005 and 2004. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion these consolidated financial statements present fairly, in all material respects, the financial position of the company as at June 30, 2006 and 2005 and the results of its operations and its cash flows for the years ended June 30, 2006, 2005 and 2004 in accordance with Canadian generally accepted accounting principles.

Berris Mangan

Vancouver, Canada
September 15, 2006

Chartered Accountants

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COMMENTS BY AUDITORS FOR U.S READERS ON CANADA-U.S. REPORTING DIFFERENCE

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in Note 1 to the financial statements. Our report to the shareholders dated September 15, 2006 is expressed in accordance with Canadian reporting standards which do not require a reference to such events and conditions in the auditors' report when these are adequately disclosed in the financial statements.

Berris Mangan

Vancouver, Canada
September 15, 2006

Chartered Accountants

BERRIS MANGAN ELLIOTT SHIKAZE GALBRAITH AXWORTHY INFANTI
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ALDA PHARMACEUTICALS CORP.

CONSOLIDATED BALANCE SHEETS

(EXPRESSED IN CANADIAN DOLLARS)

AS AT JUNE 30

	2006	2005
ASSETS		
Current Assets		
Cash and equivalents	$ 28,480	$ 71,663
Receivables	29,056	32,105
Inventory	31,280	43,668
Prepaids	3,857	12,989
Note receivable (Note 5)	-	7,988
	92,673	168,413
Property And Equipment (Note 6)	8,199	16,480
Intangible Assets (Note 7)	116,000	116,000
	$ 216,872	$ 300,893
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 59,504	$ 29,865
SHAREHOLDERS' EQUITY		
Share Subscriptions Received (Note 8a)	25,000	-
Share Capital (Note 8b)	2,094,770	1,856,285
Contributed Surplus (Note 8f)	79,299	78,143
Deficit	(2,041,701)	(1,663,400)
	157,368	271,028
	$ 216,872	$ 300,893

Commitments (Note 12)

Approved By The Directors

"Terrance Owen" Director

"Linda Allison" Director

See accompanying notes to the financial statements

ALDA PHARMACEUTICALS CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(EXPRESSED IN CANADIAN DOLLARS)

FOR THE YEARS ENDED JUNE 30

	2006	**2005**	**2004**
Sales	$ 223,586	$ 239,271	$ 111,363
Cost Of Sales	142,379	150,075	122,842
Gross Profit (Loss)	81,207	89,196	(11,479)
Expenses			
Advertising and promotion	12,169	27,685	26,456
Amortization	8,281	8,217	4,382
Conferences	666	12,035	11,437
Consulting (Notes 14(a) and (c))	183,218	210,561	224,622
Filing fees	22,834	21,544	20,262
Interest and bank charges (Note 14(d))	1,568	1,685	2,055
Investor relations	52,808	90,779	59,038
Legal and accounting	63,178	57,833	45,763
Office and miscellaneous	25,450	30,426	28,564
Product development	-	-	2,100
Product registration	18,377	54,293	38,280
Rent (Notes 14(b))	30,912	25,265	21,562
Travel	3,252	4,512	6,402
Wages and benefits	75,903	97,389	45,660
	498,616	642,224	536,583
Loss before other items	(417,409)	(553,028)	(548,062)
Impairment loss on intangible assets (Note 7)	-	(245,000)	(179,000)
Gain (loss) on legal settlements (Note 10a)	37,383	-	(10,000)
Loss from operations	(380,026)	(798,028)	(737,062)
Interest income	1,725	1,727	5,583
Loss For The Year	(378,301)	(796,301)	(731,479)
Deficit, Beginning Of Year	(1,663,400)	(867,099)	(135,620)
Deficit, End Of Year	$ (2,041,701)	$ (1,663,400)	$ (867,099)
Basic and diluted loss per share	$ 0.02	$ 0.06	$ 0.08
Weighted average number of shares outstanding	17,857,709	13,663,856	9,027,179

See accompanying notes to the financial statements

ALDA PHARMACEUTICALS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(EXPRESSED IN CANADIAN DOLLARS)

FOR THE YEARS ENDED JUNE 30

	2006	2005	2004
Cash Provided By (Used For)			
Operating Activities			
Net loss for the year	$ (378,301)	$ (796,301)	$ (731,479)
Items not involving cash:			
Amortization	8,281	8,217	4,382
Stock-based compensation (Note 8(d))	1,156	16,237	23,701
Impairment loss on intangible assets	-	245,000	179,000
	(368,864)	(526,847)	(524,396)
Changes in non-cash working capital items:			
Decrease (increase) in receivables	3,049	22,544	(39,729)
Decrease (increase) in inventory	12,388	101,248	(129,916)
Decrease (increase) in prepaids	9,132	(984)	(12,005)
Increase (decrease) in accounts payable and accrued liabilities	29,639	(677)	(49,414)
	(314,656)	(404,716)	(755,460)
Investing Activities			
Deferred acquisition costs	-	-	(45,555)
Purchase of property and equipment	-	(642)	(26,617)
Advances of note receivable	-	-	(44,520)
Repayments of note receivable	7,988	-	35,012
	7,988	(642)	(81,680)
Financing Activities			
Share subscriptions received (refunded)	25,000	-	(39,295)
Loan advances received (repaid)	-	-	(23,604)
Issuance of share capital (net of issue costs)	238,485	250,870	1,086,854
	263,485	250,870	1,023,955
Decrease In Cash And Equivalents	(43,183)	(154,488)	186,815
Cash And Equivalents, Beginning of Year	71,663	226,151	39,336
Cash And Equivalents, End of Year	$ 28,480	$ 71,663	$ 226,151

See accompanying notes to the financial statements

1. Basis of Presentation

These consolidated financial statements include the accounts of ALDA Pharmaceuticals Corp. ("the Company") and its wholly-owned subsidiary, Sirona Therapeutics Corp. ("Sirona"). The name of the subsidiary was changed on January 10, 2006 from ALDA Institute For Preventative Health Care Inc. Sirona is an inactive company, the shares of which were acquired pursuant to the asset purchase agreement described in Note 9.

These financial statements have been prepared on a going concern basis, which assumes the realization of assets and settlement of liabilities in the normal course of business. At June 30, 2006, the Company has a history of operating losses, and a cumulative deficit of $2,041,701. The Company has yet to achieve a level of revenues adequate to achieve profitability. The Company has also not yet secured patents that it is seeking in respect to its proprietary product. The application of the going concern assumption is dependent on the ability of the Company to obtain necessary patents, to secure sufficient financing, and to develop profitable operations. Management of the Company believes that it will succeed in meeting those objectives, allowing the continued operation of the Company.

2. Description of Operations

The Company was incorporated under the Company Act of British Columbia on May 30, 2000 and was classified as a Capital Pool Company as defined by the policies of the TSX Venture Exchange ("the Exchange"). The Company completed its required Qualifying Transaction on November 13, 2003 (see Note 9). As a result of the Company completing the Qualifying Transaction, it ceased to be a Capital Pool Company, and its shares resumed trading on the Exchange effective November 19, 2003.

The Company's main business activity is the development, production and marketing of infection control agent products, principally a disinfectant product marketed as "$T^3$6" (formerly marketed as "Viralex").

Effective November 26, 2003, the name of the Company was changed from Duft Biotech Capital Ltd. to ALDA Pharmaceuticals Corp.

3. Significant Accounting Policies

a) Cash and equivalents

Cash and equivalents include cash and highly liquid market instruments with original terms to maturity of less than ninety days at the time of acquisition.

b) Accounts receivable

Accounts receivable is presented net of an allowance for doubtful accounts. The allowance for doubtful accounts reflects estimates of probable losses in accounts receivable. The allowance is determined based on balances outstanding for over 90 days at the period end date, historical experience and other current information. The Company extends credit to customers and distributors, and requires credit checks of all new distributors.

c) Inventory

Inventory of the Company's finished goods and related raw materials is reported at the lesser of cost and estimated net realizable value. Cost is determined using the first in, first out cost flow assumption.

3. Significant Accounting Policies (continued)

d) Property and equipment

Property and equipment is recorded at cost and amortized using the following annual rates:

Furniture and fixtures	20%	Straight line
Computer equipment	30%	Straight line

In the year of acquisition, amortization is calculated at one-half of the above-noted rates.

e) Impairment of long-lived assets

The Company reviews for the impairment of long-lived assets, including property and equipment, held for use, whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable from expected future cash flows. The assessment of recoverability is made based on projected undiscounted future net cash flows that are directly associated with the asset's use and eventual disposition. The amount of the impairment, if any, is measured as the difference between the carrying amount and the fair value of the impaired assets, and is presented as an impairment loss in the current period.

f) Intangible assets

The cost of intangible assets which are determined to have an indefinite life, is not amortized, but is tested for impairment on an annual basis, based on a comparison of the fair value of the intangible asset with its carrying amount. The carrying amount is adjusted for impairment as necessary and any excess of the carrying amount over the fair value of the intangible asset is charged to earnings in the current period.

Intangible assets which are determined to have a finite useful life are amortized on a systematic basis over the estimated remaining useful life.

g) Revenue recognition

The revenue of the Company is primarily derived from the sale of the Company's $T^3$6 products. Revenue is recognized at the time of shipment to the customer, and invoicing, provided that collection of the amount billed to the customer is considered reasonably assured. Revenue is recognized net of any expected sales returns. The Company accepts returns of damaged goods and unopened products.

h) Product development and registration costs

Product development costs include all expenditures attributable to efforts by the Company to develop, and bring to commercial production a new product. Such amounts are charged as an expense in the period incurred except in circumstances where the market and technical feasibility of the product have been established, and recovery of development costs can reasonably be regarded as assured, in which case such costs are capitalized.

Product registration costs related to efforts by the Company to acquire legal protections for its proprietary products, such as trademarks and patents, are expensed when incurred.

3. Significant Accounting Policies (continued)

i) Income taxes

Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. To the extent that the Company does not consider it more likely than not that a future tax asset or portion thereof will be recovered, it provides a valuation allowance.

j) Stock-based compensation

The Company accounts for stock options issued to employees and directors before July 1, 2003 by the settlement method, which results in no compensation expense. Consideration paid by employees and directors on the exercise of stock options is recorded as share capital. The Company discloses, on a supplemental basis, the pro forma effect of accounting for such stock options as if the fair value based method had been applied, using the Black-Scholes model.

For stock options granted on or after July 1, 2003, the fair value-based method is applied, using the Black-Scholes model. Compensation cost is measured at fair value at the date of grant and is expensed on a systematic basis over the vesting period, taking into account expected forfeiture rates. The fair value of the option granted by the Company is initially reported as contributed surplus. If the option is exercised, the amount is transferred to share capital.

The Company accounts for all stock-based payments to non-employees granted on or after July 1, 2001 using the fair value based method.

k) Warrants

Proceeds from issuances by the Company of units consisting of shares and warrants are allocated based on the residual method, whereby the carrying amount of the warrants is determined based on any difference between gross proceeds and the fair market value of the shares. If the proceeds from the offering are less than or equal to the estimated fair market value of shares issued, a nil carrying amount is assigned to the warrants.

l) Earnings per share

Earnings per share is calculated based on the weighted average number of common shares outstanding during the reporting period. Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding in the year.

The Company uses the treasury stock method for calculating diluted earnings per share. Diluted earnings per share is computed similarly to basic earnings per share, except that the weighted average number of common shares outstanding is increased to include additional shares that are potentially issued, if the effect on earnings per share is dilutive. The number of additional shares potentially issued is calculated by assuming that the proceeds from the shares so issued are used to acquire shares of common stock at the average market price during the reported year.

(EXPRESSED IN CANADIAN DOLLARS)

3. Significant Accounting Policies (continued)

m) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting year. Actual results could differ from the estimates.

4. Adoption Of New Accounting Principles

a) Stock-based compensation

During the year ended June 30, 2004, the recommendations of the Canadian Institute of Chartered Accountants Accounting Handbook Section 3870 (Stock-based Compensation and other Stock-Based Payments) was amended to require the use of the fair value-based method to account for stock options granted to employees and directors. In accordance with the revised recommendations, the Company prospectively applied the fair value-based method to all stock options granted to employees and directors on or after July 1, 2003, whereby compensation cost is measured at fair value at the date of grant and is expensed over the vesting period.

b) Impairment of long-lived assets

Effective July 1, 2003, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants Handbook Section 3063 (Impairment of long-lived assets). The new recommendations were applied prospectively to all long-lived assets held for use by the Company after July 1, 2003.

5. Note Receivable

The balance at June 30, 2005 represents a loan to ALDA (see Note 9) which was fully repaid in the 2006 year, along with accrued interest in the amount of $1,012.

6. Property And Equipment

a) Property and equipment at June 30, 2006 consisted of the following:

	Cost	Accumulated Amortization	Net
Furniture and fixtures	$ 7,683	$ 5,013	$ 2,670
Computer equipment	22,482	16,953	5,529
	$ 30,165	$ 21,966	$ 8,199

(EXPRESSED IN CANADIAN DOLLARS)

6. Property And Equipment (continued)

b) Property and equipment at June 30, 2005 consisted of the following:

	Cost	Accumulated Amortization	Net
Furniture and fixtures	$ 7,683	$ 3,476	$ 4,207
Computer equipment	22,482	10,209	12,273
	$ 30,165	$ 13,685	$ 16,480

7. Intangible Assets

The intangible assets balance represents the carrying amount of certain intellectual property acquired by the Company as described in Note 9. These assets were determined to have an indefinite life. At June 30, 2006, the net recoverable amount estimated by management of the Company exceeds the carrying amount, so no impairment loss has been recognized for the 2006 year. At June 30, 2005, the carrying cost of the intangible assets was written down to the estimated net recoverable amount, and an impairment loss of $245,000 was charged against earnings for the 2005 year. An impairment loss of $179,000 was charged against earnings for the 2004 year.

The impairment losses are based on revised cash flow projections prepared by management of the Company and the Company's slower than anticipated progress towards securing of legal protections for its proprietary product and development of a market for its product.

The net recoverable amounts were estimated by management of the Company based on expected future cash flows that could be reasonably predicted.

The carrying amount of Intangible Assets was determined as follows:

Original purchase cost (Note 9)	$ 540,000
Impairment loss in 2004	(179,000)
Balance at June 30, 2004	$ 361,000
Impairment loss in 2005	(245,000)
Balance at June 30, 2005 and 2006	$ 116,000

(EXPRESSED IN CANADIAN DOLLARS)

8. Shareholders' Equity

(a) Share Subscriptions Received

At June 30, 2006, the Company had received amounts totalling $25,000 representing subscriptions by purchasers in respect to the private placement described in Note 18(a), to whom shares and warrants had not yet been issued.

Activity relating to share subscriptions is summarized as follows:

Balance at June 30, 2004 and 2005	$ -
Share subscriptions received during 2006 year	25,000
Balance at June 30, 2006	$ 25,000

(b) Share Capital

Authorized:

Unlimited common shares, without par value

Effective August 19, 2005, the authorized share capital of the Company was increased to an unlimited number of common shares without par value.

Issued and outstanding:

	2006		2005		2004	
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning of year	15,784,404	$ 1,856,285	12,784,404	$ 1,607,620	2,451,475	$ 279,309
Private placement (i)	-	-	-	-	346,666	52,000
Asset purchase (ii)	-	-	-	-	3,711,263	262,457
Shares issued to sponsor (ii)	-	-	-	-	75,000	15,000
Public offering (iii)	-	-	-	-	6,000,000	1,200,000
Shares issued to agent (iii)	-	-	-	-	200,000	40,000
Private placement (iv)	-	-	3,000,000	300,000	-	-
Private placements (v)	5,016,000	250,800	-	-	-	-
Share issue costs	-	(12,315)	-	(51,335)	-	(241,146)
Balance at end of year	20,800,404	$ 2,094,770	15,784,404	$ 1,856,285	12,784,404	$ 1,607,620

i) During the 2004 year, the Company completed a private placement of 346,666 common shares of the Company at a price of $0.15 per share.

ii) Effective November 13, 2003, the Company completed a Qualifying Transaction as described in Note 9. As part of the consideration paid, the Company issued 3,711,263 common shares. The Company also issued 75,000 common shares at a deemed price of $0.20 per share in payment of fees to a sponsoring broker in connection with the Qualifying Transaction.

8. Shareholders' Equity (continued)

Issued and outstanding (continued):

iii) Effective November 13, 2003, the Company completed a brokered public offering of 6,000,000 units at a price of $0.20 per unit for gross proceeds of $1,200,000. Each unit consisted of one common share of the Company and one non-transferable share purchase warrant. Each share purchase warrant entitled the holder to acquire one common share of the Company at a price of $0.30 per share, for a period of 18 months following the closing date.

Under an agency agreement in respect to the offering, the Company paid to the agent a cash commission of $120,000 and an administration fee of $7,500, and granted agent warrants to purchase up to 900,000 common shares of the Company at an exercise price of $0.20 per share, for a period of 18 months following the closing date, which vested immediately. The agent was also issued 200,000 units consisting of one common share at a deemed price of $0.20 per share and one share purchase warrant. Each share purchase warrant entitled the agent to purchase one common share of the Company at a price of $0.30 per share for a period of 18 months following the closing date.

iv) On March 15, 2005, the Company completed a private placement of 3,000,000 units of the Company at a price of $0.10 per unit for gross proceeds of $300,000. Of the units issued, 795,000 units were placed on a non-brokered basis, and 2,205,000 units were placed on a brokered basis. Each unit consisted of one common share of the Company and one share purchase warrant, each warrant entitling the holder to purchase one common share at a price of $0.20 per share for a period of 18 months following the closing date. In connection with the brokered private placement, the Company paid a cash commission of 10% of the gross proceeds, a corporate finance fee of $10,000 and legal and other costs totaling $17,080. The Company also issued 220,500 agent warrants, each warrant entitling the agents to purchase one common share of the Company, at a price of $0.20 per share for a period of 18 months following the closing date.

v) On December 23, 2005, the Company completed a private placement of 3,916,000 units of the Company at a price of $0.05 per unit for gross proceeds of $195,800. Each unit consists of one common share of the Company and one share purchase warrant, each warrant entitling the holder to purchase one common share at a price of $0.10 per share for a period of 12 months following the closing date. Legal fees in the amount of $5,352 were incurred in connection with the private placement.

On June 22, 2006, the Company completed a private placement of 1,100,000 units of the Company at a price of $0.05 per unit for gross proceeds of $55,000. Each unit consists of one common share of the Company and one share purchase warrant, each warrant entitling the holder to purchase one common share at a price of $0.10 per share for a period of 12 months following the closing date. Legal fees in the amount of $6,963 were incurred in connection with the private placement.

c) Escrowed shares

Included in issued share capital at June 30, 2006 are 733,163 common shares held in escrow, which are released on a staged basis, with a release occuring every six months. During the 2006 year, 1,466,324 common shares were released from escrow (2005: 1,466,318).

(EXPRESSED IN CANADIAN DOLLARS)

8. Shareholders' Equity (continued)

d) Stock options

A summary of the Company's stock options, and changes during each year is presented below:

	Year Ended June 30, 2006		Year Ended June 30, 2005		Year Ended June 30, 2004	
	Number Of Shares	Weighted Average Exercise Price	Number Of Shares	Weighted Average Exercise Price	Number Of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	1,290,000	$ 0.19	990,000	$ 0.19	237,647	$ 0.17
Granted during year						
-consultants ((ii) / (iii))	-	-	-	-	390,000	0.20
-directors ((i) / (iv))	-	-	200,000	0.20	362,353	0.20
-employees (v)	-	-	100,000	0.20	-	-
Expired during the year	(752,353)	0.20	-	-	-	-
Outstanding, end of year	537,647	$ 0.19	1,290,000	$ 0.19	990,000	$ 0.19

The following table summarizes information about stock options outstanding at June 30, 2006:

Number of Shares	Exercise Price	Expiry Date	Number Exercisable
237,647	$ 0.17	July 31, 2006	237,647
100,000	$ 0.20	August 1, 2006	100,000
100,000	$ 0.20	December 22, 2006	100,000
20,000	$ 0.20	February 28, 2007	20,000
80,000	$ 0.20	April 4, 2007	80,000
537,647			537,647

(i) During the 2004 year, the Company granted options to acquire 362,353 common shares to directors of the Company. The options have an exercise price of $0.20 per share, and are exercisable for a period of two years from the date of grant. The options vested immediately. The estimated fair value of the options of $14,494 ($ 0.04 per share) was recognized for the 2004 year.

(ii) During the 2004 year, the Company granted options to acquire 190,000 common shares to consultants of the Company. The options have an exercise price of $0.20 per share and are exercisable for a period of two years from the date of grant. Options to acquire 150,000 shares vested immediately, and options to acquire 40,000 shares vested over a one year period. Of the total expense related to the estimated fair value of the options ($0.04 per share), $925 was recognized for the 2005 year and $6,675 for the 2004 year.

(EXPRESSED IN CANADIAN DOLLARS)

8. Shareholders' Equity (continued)

d) Stock options (continued)

(iii) During the 2004 year, the Company granted options to acquire 200,000 common shares of the Company to consultants providing investor relations services to the Company. The options have an exercise price of $0.20 per share, and are exercisable for a period of two years from the date of grant. Options to acquire 100,000 shares vest over a two year period, and options to acquire another 100,000 shares vested over a one year period. The options have an estimated fair value of $8,000 ($0.04 per share). The related expense was charged to operations over the vesting periods ($1,156 for the 2006 year; $4,312 for the 2005 year; and $2,532 for the 2004 year).

(iv) During the 2005 year, the Company granted options to acquire 200,000 common shares of the Company to two directors. The options have an exercise price of $0.20 per share and are exercisable for a period of two years from the date of grant. The options vested immediately. The estimated fair value of the options of $6,000 ($0.03 per share) was recognized for the 2005 year.

(v) During the 2005 year, the Company granted options to acquire 100,000 common shares of the Company to an employee. The options have an exercise price of $0.20 per share and are exercisable for a period of two years from the date of grant. The options vested immediately. The estimated fair value of the options of $5,000 ($0.05 per share) was recognized for the 2005 year.

Stock-based compensation expense is presented in the Statement of Operations and Deficit as follows:

	2006	2005	2004
Consulting	$ -	$ 925	$ 6,675
Investor relations	1,156	4,312	2,532
Wages and benefits	-	11,000	14,494
Total stock-based compensation	$ 1,156	$ 16,237	$ 23,701

The fair value-based accounting method was applied to all stock options granted during the 2005 and 2004 years. No options were granted during the 2006 year.

The fair value of each option was estimated as at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2005	2004
Dividend yield	0%	0%
Expected volatility	81%	42%
Risk free interest rate	3.12%	2.25%
Expected average option term	2 years	2 years

Had compensation expense for the Company's stock-based employee compensation plan been determined for each year based on the fair value at the grant date for options granted before July 1, 2003, the Company's net loss and loss per share would have been as follows:

(EXPRESSED IN CANADIAN DOLLARS)

8. Shareholders' Equity (continued)

d) Stock options (continued)

	2006	2005	2004
Loss for the year - as reported	$ 378,301	$ 796,301	$ 731,479
Loss for the year - pro forma	378,301	796,301	731,479
Loss per share - as reported	0.02	0.06	0.08
Loss per share - pro forma	0.02	0.06	0.08

The Black-Scholes model, used by the Company to calculate option values was developed to estimate fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differs from the Company's stock option awards. This model also requires highly subjective assumptions, including future stock price, volatility, and expected time until exercise, which greatly affect the calculated values.

e) Warrants

The Company has issued warrants entitling the holders to acquire common shares of the Company. A summary of changes in unexercised warrants is presented below.

	Warrants @ $0.30 (1)	Warrants @ $0.235 (2)	Agent Warrants @ $0.20 (3)	Warrants @ $0.30 (4)	Warrants @ $0.20 (5)	Agent Warrants @ $0.20 (6)	Warrants @ $0.10 (7)	Warrants @ $0.10 (8)	Total
Outstanding, June 30, 2003	-	-	-	-	-	-	-	-	-
Granted during year	6,000,000	-	900,000	200,000	-	-	-	-	-
Outstanding, June 30, 2004	6,000,000	-	900,000	200,000	-	-	-	-	7,100,000
Granted during year	-	-	-	-	3,000,000	220,500	-	-	3,220,500
Cancelled on repricing	(6,000,000)	-	-	-	-	-	-	-	(6,000,000)
Granted on repricing	-	6,000,000	-	-	-	-	-	-	6,000,000
Expired during year	-	-	(900,000)	(200,000)	-	-	-	-	(1,100,000)
Outstanding, June 30, 2005	-	6,000,000	-	-	3,000,000	220,500	-	-	9,220,500
Granted during year	-	-	-	-	-	-	3,916,000	1,100,000	5,016,000
Expired during year	-	(6,000,000)	-	-	-	-	-	-	(6,000,000)
Outstanding, June 30, 2006	-	-	-	-	3,000,000	220,500	3,916,000	1,100,000	8,236,500

(1) Exercisable until May 14, 2005, granted pursuant to public offering (Note (b)(iii))
(2) The terms of the warrants in (1) were amended during the 2005 year to reduce the exercise price to $0.235 per share, exercisable until November 13, 2005.
(3) Exercisable until May 14, 2005, granted pursuant to public offering (Note (b)(iii))
(4) Exercisable until May 14, 2005, granted pursuant to public offering (Note (b)(iii))
(5) Exercisable until September 15, 2006, granted pursuant to private placement (Notes (b)(iv))
(6) Exercisable until September 15, 2006, granted pursuant to private placement (Note (b)(iv))
(7) Exercisable until December 22, 2006, granted pursuant to private placement (Note (b)(v))
(8) Exercisable until June 22, 2007, granted pursuant to private placement (Note (b)(v))

(EXPRESSED IN CANADIAN DOLLARS)

8. Shareholders' Equity (continued)

e) Warrants (continued)

The fair value of agent warrants to acquire 220,500 common shares of the Company at a price of $0.20 per share, as described in Note 8(b)(iv), was estimated to be approximately $0.01 per warrant (totaling $2,205), using the Black-Scholes option pricing model.

The fair value of agent warrants to acquire 900,000 common shares of the Company at a price of $0.20 per share, as described in Note 8(b)(iii), was estimated to be approximately $0.04 per warrant (totaling $36,000), using the Black-Scholes option pricing model.

f) Contributed surplus

Contributed surplus at June 30, 2006, 2005 and 2004, and activity during the 2006, 2005 and 2004 years, are summarized as follows:

	2006	2005	2004
Balance, beginning of year	$ 78,143	$ 59,701	-
Warrants issued to agent (Note 8(e))	-	2,205	36,000
Options issued to employees (Note 8(d)(v))	-	5,000	-
Options issued to directors (Note 8(d)(i) and (iv))	-	6,000	14,494
Options issued to consultants (Note 8(d)(ii) and (iii))	1,156	5,237	9,207
Balance, end of year	$ 79,299	$ 78,143	$ 59,701

9. Asset Purchase Agreement

Effective November 13, 2003 the Company completed a purchase of assets of ALDA Pharmaceutical Inc. (subsequently 513947 B.C. Ltd.) ("ALDA"). This acquisition represented the Company's "Qualifying Transaction" pursuant to the policies of the TSX Venture Exchange (the "Exchange") as they relate to Capital Pool Companies. The Asset Purchase Agreement provided for the Company to purchase substantially all of the assets and undertaking of ALDA, principally comprised of certain intellectual property rights of ALDA related to an infection control agent product developed by it (including certain drug identification numbers, and trademark and patent applications), as well as inventory, capital assets, the shares of ALDA Institute For Preventative Health Care Inc., a non-competition agreement, and certain contracts, for a deemed purchase price of $800,000. The deemed purchase price was paid by the Company by the issuance of 3,711,263 common shares (the "Payment Shares") to ALDA at a deemed price of $0.20 per share, and the set off of a loan and accrued interest totaling $57,747 owing by ALDA to the Company. The Payment Shares are subject to an escrow agreement under which ten percent of the shares subject to escrow were released on November 14, 2003. An additional fifteen percent of the shares are to be released after every six month period commencing November 14, 2003, the first release occurring May 14, 2004.

Under the Asset Purchase Agreement, the Company assumed responsibility for all obligations arising subsequent to November 13, 2003 pursuant to any leases, contracts and licenses of ALDA, which relate to the former business of ALDA.

Cash expenditures were incurred by the Company in respect to the asset purchase transaction totaling $219,796.

(EXPRESSED IN CANADIAN DOLLARS)

9. Asset Purchase Agreement (continued)

The purchase cost was determined based on estimated fair value of assets acquired, allocated as follows:

Intangible assets (intellectual property)	$ 540,000
Inventory	15,000
Total	$ 555,000

The corresponding amounts assigned to consideration given by the Company for the assets purchased were as follows:

Cash (transaction costs)	$ 219,796
Loan due from ALDA	57,747
Share capital - sponsor	15,000
Share capital - vendor	262,457
	$ 555,000

10. Legal Settlements

a) A company opposing a trademark application made in Canada by ALDA (see Note 9) commenced legal proceedings during the 2003 year claiming damages in respect to alleged infringement of trademark. ALDA had filed a Statement of Defence. The Statement of Claim was subsequently amended to add the Company as a defendant in the action.

Effective May 23, 2005, the Company entered into a settlement agreement with the claimant, whereby the Company agreed to terminate the use, and application for registration of, the trademark "Viralex". The Company was required to discontinue the use of the trademark in advertising and other promotional disclosures, liquidate its inventory of goods bearing the trademark "Viralex", and rename the Viralex product within twelve months from the date of the agreement, in consideration for payment of $30,000 (US). These funds were held in escrow by the Company's lawyer until the Company issued a press release regarding the settlement of the trademark dispute, and withdrew its application for the "Viralex" trademark, which occurred during the 2006 year.

On August 2, 2005, the Company received the proceeds from the settlement totalling $37,383 ($30,000 (US)). The proceeds are reported in the Statement of Operations and Deficit as a gain on legal settlement for the 2006 year.

b) During the 2004 year, the Company paid an amount of $10,000 in settlement of a legal claim made by a competitor relating to certain promotional disclosures made by the Company.

11. Major Customers

The revenue of the Company for the 2006 year from each of four customers exceeded 10% of total revenue (2005: five customers; 2004: three customers). Revenue from these customers totaled $149,544 (2005: $175,958; 2004: $47,007).

(EXPRESSED IN CANADIAN DOLLARS)

12. Commitments

a) Effective January 1, 2006, the Company entered into an agreement to lease its office premises with a term of one year. The Company's remaining minimum lease payment obligations under the agreement as at June 30, 2006 totalled $17,070, payable in the 2007 year.

b) During the 2006 year, the Company entered into an agreement with its product supplier. Under the agreement, the supplier assumes all the costs of manufacturing the Company's $T^3$6 products, and as consideration, receives a percentage, ranging from 40% to 65%, of the Company's selling price. The supplier also has a right of first refusal to manufacture other products for the Company. The agreement may be terminated by either party with 90 days written notice.

c) The Company has entered into agreements with third parties in other countries in respect to the manufacturing and distribution of the Company's products in those countries. Obligations of the Company in respect to these agreements will arise when necessary government approvals in those countries are obtained and sales commence.

d) The Company entered into an agreement effective July 21, 2005 with a third party which is to assist the the Company with registration of its $T^3$6 product with the United States Environmental Protection Agency. As consideration, the third party is to receive a declining percentage of net sales of the $T^3$6 products in the United States ranging from 1 to 7%, commencing 90 days after registration, for a period of seven years.

13. Income Taxes

a) As at June 30, 2006, the Company had approximately $1,800,000 of unutilised non-capital losses for tax purposes, which expire commencing in the 2008 year.

The potential future income tax benefit which may arise from claiming these losses has not been reflected in these financial statements, as the Company's ability to realize the benefit is uncertain.

b) Following is a reconciliation of the expected income tax benefit from the loss for each year based on the applicable statutory income tax rate, to the actual amount:

	2006		2005		2004	
Tax asset at statutory rate	$ 129,001	34.1%	$ 283,483	35.6%	$ 267,721	36.6%
Net effect of non-deductible expenses	2,935		97,303		(9,904)	
Expected increase in tax asset	131,936		380,786		257,817	
Effect of tax rate reduction	(28,640)		(8,397)		(2,706)	
Increase in allowance for uncertain realization	(103,296)		(372,389)		(255,111)	
Increase in tax asset per financial statements	$ -		$ -		$ -	

(EXPRESSED IN CANADIAN DOLLARS)

13. Income Taxes (continued)

The income tax effects of losses carried forward and of cumulative temporary differences that give rise to a future tax asset are summarized as follows:

	2006	2005	2004
Tax losses carried forward	$ 613,800	$ 475,972	$ 267,180
Temporary differences - intangible assets	122,169	140,851	55,138
Temporary differences - property and equipment	5,663	2,964	40
Temporary differences - financing costs	41,394	59,943	(15,017)
Tax asset before allowance for uncertain realization	783,026	679,730	307,341
Allowance for uncertain realization	(783,026)	(679,730)	(307,341)
Tax asset per financial statements	$ -	$ -	$ -

14. Related Party Transactions

a) During the 2006 year, the Company incurred consulting fees of $120,000 (2005: $134,000; 2004: $133,001) to companies controlled by directors of the Company.

b) During the 2006 year, the Company incurred premises rent of $30,912 (2005: $25,265; 2004: $21,562) to a company controlled by a director of the Company.

c) During the 2006 year, the Company incurred consulting fees of $60,000 (2005: $70,000; 2004: $75,000) to a major shareholder of ALDA, the vendor in the asset purchase agreement described in Note 9.

d) During the 2004 year, the Company incurred interest expense of $836 to a company controlled by a director in respect to a loan advanced by that company.

These transactions were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

15. Statements of Cash Flows - Supplementary Information

a) Cash paid in respect to interest and income taxes was as follows:

	2005	2004	2004
Income taxes paid	$ -	$ -	$ -
Interest paid	$ -	$ -	$ 836

b) Significant non-cash transactions occurring during the 2006 year were as follows:

(i) A portion of the estimated fair value of the options granted to consultants described in Note 8(d)(iii), totaling $1,156, was charged to operations for the 2006 year.

15. Statements of Cash Flows - Supplementary Information (continued)

c) Significant non-cash transactions occurring during the 2005 year were as follows:

(i) The Company issued warrants with an estimated fair value of $2,205, as described in Note 8(e).

(ii) The Company issued options to directors and employees to acquire 300,000 common shares of the Company, as described in Notes 8(d)(iv) and (v). The estimated fair value of the options, totaling $11,000, was charged to operations for the 2005 year.

(iii) A portion of the estimated fair value of the options granted to consultants as described in Notes 8(d)(ii) and (iii), totaling $5,237, was charged to operations for the 2005 year.

d) Significant non-cash transactions occurring during the 2004 year were as follows:

(i) The Company issued 3,711,263 common shares at an assigned amount of $262,457, and set off a loan receivable from ALDA in the amount of $57,747, in exchange for certain inventory and intangible assets, pursuant to the Asset Purchase Agreement described in Note 9. The Company also issued 75,000 common shares to the sponsor at a deemed value of $15,000.

(ii) The Company issued 200,000 units at a deemed value of $40,000 to the agent in connection with the public offering described in Note 8(b)(iii).

(iii) The Company issued warrants with an estimated fair value of $36,000, as described in Note 8(e).

(iv) The Company issued options to directors and consultants to acquire 752,353 common shares of the Company, as described in Notes 8(d)(i), (ii), and (iii). A portion of the estimated fair value of the options, totaling $23,701, was charged to operations for the 2004 year.

16. Financial Instruments

The Company's financial instruments consist of cash and equivalents, receivables, accounts payable and accrued liabilities, and share subscriptions received. The fair value of these instruments approximates carrying amounts except where otherwise noted.

It is management's opinion that the Company is not exposed to significant interest, currency, or credit risk arising from these financial instruments except where otherwise noted.

17. License and Option Agreement

Effective January 11, 2006, the Company entered into an agreement with its wholly owned subsidiary, Sirona, whereby it granted to Sirona an exclusive license in respect to therapeutic applications of the Company's $T^3$6 technology including an option to develop and commercialize such applications. The agreement is to expire at the later of 20 years from the date of the agreement and the last expiry of any patent obtained related to the technology. Management of the Company has indicated that the purpose of the agreement is to allow Sirona to pursue independent financing arrangements.

18. Subsequent Events

a) On September 13, 2006, the Company completed a non-brokered private placement of 1,430,000 units of the Company at a price of $0.05 per unit, for gross proceeds of $71,500. Each unit consists of one common share of the Company and one non-transferable share purchase warrant entitling the holder to acquire one additional common share of the Company at a price of $0.10 per share for a period of 12 months from the date of issuance of the warrants.

b) Subsequent to June 30, 2006, options to acquire 237,647 common shares of the Company at a price of $0.17 per share and options to acquire 100,000 common shares of the Company at a price of $0.20 per share expired unexercised.

c) Subsequent to June 30, 2006, options to acquire 1,580,000 common shares of the Company at a price of $0.10 per share, exercisable for a period of two years, were granted to certain directors, employees and consultants of the Company, subject to regulatory approval. Options to acquire 300,000 common shares of the Company at a price of $0.10 per share, exercisable for a period of five years subject to certain vesting provisions, were granted to a consultant of the Company, subject to regulatory approval.

d) During the 2005 year, the Company commenced legal action against the competitor described in Note 10(a), unrelated to the settlement, with respect to certain alleged defamatory statements made by the competitor after the settlement was completed. The claim was settled effective July 12, 2006, by an agreement under which the Company is to receive an amount of $15,000 from the competitor. The proceeds of the settlement, net of associated costs, will be recognized in the Statement of Operations for the 2007 year.

19. Comparative Figures

Certain of the comparative figures for the 2005 and 2004 years have been reclassified to conform to the presentation adopted for the 2006 year.

20. United States Generally Accepted Accounting Principles

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP") which are substantially the same as principles applicable in the United States ("US GAAP") and practices prescribed by the United States Securities and Exchange Commission ("SEC"), except for the following:

a) Stock-based compensation:

Under Canadian GAAP, the Company accounts for stock options issued to employees and directors by the settlement method and discloses, on a supplemental basis, the pro forma effect of accounting for stock options awarded to employees as if the fair value based method had been applied, using the Black-Scholes model, for stock options granted before July 1, 2003. For stock options granted on or after July 1, 2003, the fair value-based method is applied, using the Black-Scholes model. The Company accounts for all stock-based payments to non-employees granted on or after July 1, 2001 using the fair value method.

20. United States Generally Accepted Accounting Principles (continued)

a) Stock-based compensation (continued):

Under US GAAP, Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123") encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value for options granted prior to December 15, 2005. The Company has chosen the permissable alternative method under SFAS 123 to account for stock-based payments to employees before July 1, 2003 using Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." ("APB 25"). Under APB 25, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee is required to pay for the stock. There was no such excess amount for stock options granted to employees of the Company prior to July 1, 2003. SFAS 123 requires pro forma disclosure of the fair value of stock-based employee compensation in the financial statements where fair value is not recorded.

Management of the Company has adopted the fair value expense method alternative under SFAS 123 for options granted to employees on or after July 1, 2003, resulting in no difference in the accounting for such options between Canadian and US GAAP.

b) Comprehensive income:

Statement of Financial Accounting Standards No. 130 requires the reporting of Comprehensive Income. Comprehensive income includes net income plus other comprehensive income. Other comprehensive income includes all changes in equity of a company during the period arising from non-owner sources. The Company did not have any other comprehensive income during the 2006, 2005 and 2004 years.

c) Product development costs:

Under Canadian GAAP, product development costs are charged as an expense in the period incurred except in circumstances where the market and technical feasibility of the product have been established, and recovery of development costs can reasonably be regarded as assured, in which case such costs are capitalized. US GAAP requires that these expenditures be expensed in the year incurred. The Company has not capitalized any product development costs during the 2006, 2005 and 2004 years.

d) Reconciliation of Canadian GAAP and US GAAP:

For the years ended June 30, 2006, 2005, and 2004 there were no differences in assets, liabilities and shareholders' equity, loss for the period or cash provided by (used in) operating, investing and financing activities under US GAAP, with the amounts reported in these financial statements.

20. United States Generally Accepted Accounting Principles (continued)

e) Recent United States Accounting Pronouncements:

Selected recent pronouncements issued by the Financial Accounting Standards Board ("FASB") are summarized below. None of these changes are expected to have a material impact on the financial statements of the Company.

(i) In December of 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004) (Share-Based Payments) ("SFAS 123R"). SFAS 123R is a revision of SFAS 123, and supersedes APB 25. SFAS 123R requires that the fair value of employees awards of share-based payments which are issued, modified, repurchased or cancelled after the implementation date, is to be measured as of the date the award is issued, modified, repurchased or cancelled and the resulting cost recognized in the statement of earnings over the service period. SFAS 123R will be effective for fiscal periods of the Company commencing after June 30, 2006.

(ii) In December of 2004, the FASB issued Statement of Financial Accounting Standards No. 153 (Exchanges of Nonmonetary Assets - An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions) ("SFAS 153"). SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchange of similar productive assets in paragraph 21(b) of Accounting Principles Board ("APB") Opinion No. 29 and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for fiscal periods beginning after June 15, 2005, and must be applied prospectively.

(iii) In May of 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," which replaced APB Opinion No. 20, "Accounting Changes," and superseded FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements – an amendment of APB Opinion No. 28." SFAS 154 requires retrospective application of changes in accounting principle to prior period financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.