MATERIAL CHANGE REPORT

1. Name and Address of Company

   Altachem Pharma Ltd. (Altachem Pharma)
   9411 20 Avenue
   Edmonton, Alberta
   T6N 1E5

2. Date of Material Change

   May 5, 2004

3. News Release

   Altachem Pharma issued a news release via Canada NewsWire, the text of which is attached hereto as Schedule "A", on May 5, 2004.

4. Summary of Material Change

   AN OPEN LETTER TO ALL SHAREHOLDERS OF ALTACHEM PHARMA LTD.
   Prepared by Mr. Wayne Minion, Chairman of the Board

5. Full Description of Material Change

   Please see attached news release for full disclosure.

6. Reliance on Subsection 7.1(2) or (3) of National Instrument 51-102

   Not applicable

7. Omitted Information

   None

8. Executive Officer

   The name and business telephone number of an executive officer of Altachem Pharma who is knowledgeable about this material change and this report and who may be contacted in connection with this report is:

   Warren Cabral, B.Comm., C.A.
   Chief Financial Officer
   Altachem Pharma Ltd.
   9411 20 Avenue
   Edmonton, Alberta T6N 1E5
   Telephone: (780) 448-1400 Ext. 209

9. <u>Date of Report</u>

May 10, 2004.

SCHEDULE "A"

Altachem Pharma Ltd.

Trading Symbol: AAF:TSX Venture Exchange

FOR IMMEDIATE RELEASE
May 5, 2004

AN OPEN LETTER TO ALL SHAREHOLDERS OF ALTACHEM PHARMA LTD.
Prepared by Mr. Wayne Minion, Chairman of the Board

The Alberta *Business Corporations Act* provides holders of not less than five percent of the issued shares of a corporation with a right to requisition the directors of the corporation to call a meeting of the corporation's shareholders for the purposes stated in the requisition. On March 5, 2004 Altachem received a requisition from a dissident group of shareholders by which shareholders would vote on resolutions removing all of the existing directors of Altachem forthwith and electing a group of directors proposed by the dissident group. The March 5 requisition was replaced by a March 10 requisition which still contained the names of two existing board members who had not been approached by the dissident group and who, in fact, refused to let their names stand with the proposed dissident directors. On March 11, 2004 the directors of Altachem called an annual general and special meeting to be held on June 17, 2004 with a record date of May 6, 2004. The June 17, 2004 date had been determined by the directors as the earliest convenient date by which the annual audited financial statements for the fiscal year ended January 31, 2004 could be reasonably available to be mailed for June 17, 2004 annual meeting. The June 17, 2004 meeting date is approximately four and one-half months in advance of the usual meeting date for Altachem's annual general meeting which, for the previous 3 years has been held on October 30 in each year.

Notwithstanding that the directors had already called a meeting for June the 17, 2004, on April 16, 2004 Altachem received, among other documents from the dissident group, a notice of special meeting of shareholders proposed to be held on May 10, 2004. **The proposed special meeting called by the dissident group and proposed to be held on May 10, 2004 will not take place.**

By now, most of you may have read articles in the newspapers or otherwise have been informed, as noted above, that a group of shareholders (the dissidents) has circulated information that some of the current five Altachem directors were not elected, but rather appointed by the current board. One was appointed on December 22, 2003 when Warren Jackson was chairman/chief executive officer of Altachem and one on February 10, 2004 when Wayne Minion was chairman and Warren Jackson was still chief executive officer. Both of these appointments were in accordance with the bylaws of the company and corporate legislation and the process has been reviewed by the company's legal counsel.

An article in the *Edmonton Sun* newspaper, dated May 2, 2004 quoting from the dissident group's information circular for the now defunct May 10, 2004 proposed special meeting, states that the concern of the dissidents is that the board has "changed or is about to fundamentally change the direction of the corporation." What that allencompassing statement means, I do not know. It if means that the company is going to cease being a biotech and manufacturing company, then the answer is “no.” The current board has no plans to merge or sell the company or its intellectual property. It if means that the board is going to change Altachem’s management practices and style, then the answer is a profound “yes.”

Your board has already commenced this change by introducing a management system that is responsive to the board and that provides the board with timely and factual information and reports.

- We are conducting science and business audits on all projects.
- We are going to determine why the ERDOS joint venture of Altachem’s failed which we believe has had a negative impact on the current trading price of Altachem’s shares.
- We are going to determine why the ACP-HIP project stalled for more than two years over a contract dispute and why the company under its previous CEO pursued litigation which could have lasted at least another one- and one-half years and cost in excess of $100,000 in legal fees.
- We are going to determine why the previous management terminated the Chinese Pellet core project damaging a number of important relationships previously garnered in China. It also left many enraged scientists in its wake.
- We are going to determine why the Sonolight project was stalled for more than one- and one-half years.
- We are going to determine why the previous management did not respond to the advice of Altachem’s senior Vice-President of Drug Development about the efficacy of treating blood with Bionex, but proceeded to enter into a US$400,000 development contract without allowing Altachem’s scientific team to complete their due diligence and without obtaining approval from Altachem’s board of directors.
- We are going to have a management that ensures that news releases are provided in draft form to the board for review and input prior to release.
- We are going to give shareholders bad news, along with the good, and we will attempt to change everything that we find is not in the best long-term interests of all of the shareholders.

In fact, the changes have already started:

- On December 22, 2003, the offices of the Chairman and Chief Executive Office were separated to ensure that the board can function independently of management and thus provide a greater measure of independence to the board’s oversight role. This was initiated by the corporate governance committee which consists of three incumbent directors.
- On February 27, 2004, the board received the resignations of Warren Jackson, the Chief Executive Officer, and Doug Jewell, the Executive Vice-President, providing them with an agreed upon settlement that required them to support Altachem through the current year.
- On February 27, 2004, the board established a Task Force consisting of Dr. Bill Mackay, Professor Emeritus of Biological Sciences at the University of Alberta, Mr. Andrew Boddy, a successful businessman with an engineering background and under the guidance of the Chairman, Wayne Minion, to conduct science and

business audits of all projects within the company and to report its findings together with its recommendations to the board in a timely manner.

- On March 24, 2004, the Task Force produced its first report to the board regarding the ACP-HIP molecule. On its recommendation, the board agreed to settle the contractual dispute and kick-start the project into high gear through a detailed program and for less money than it would have cost to fight a lawsuit which would have delayed the project another one- and one-half years.
- A task force consisting of two independent directors, Dr. Mackay and Mr. Andrew Boddy, and the company's Chief Financial Officer, visited Beijing and Shanghai in April, 2004 with a view to conducting business and science audits on Altachem's Chinese projects. Based on the reports of this task force and having regard to other information that we have been able to obtain, we have determined the following with respect to Altachem's Chinese operations:
    1. There is no reason why the Zanchetta P600 machine cannot be the cornerstone of a profitable operation in Shanghai despite a three-year hiatus in bringing it into production. This delay was not the fault of the machine, but the previous management. The machine is used world-wide for making pharmaceuticals.
    2. It appears that the Chinese subsidiary was being managed by Altachem's Chairman and Chief Executive Officer, Warren Jackson, as his own private company, with his son as Assistant President, through whom all information flowed and instructions passed. To close the day-to-day operating loop, information passed through the Corporate Secretary in the Edmonton office. There is no room in a public company for nepotism. On April 16, 2004 the Task Force, asked the Assistant President to see all documents for all the Chinese operations. His reply was we should ask his father—in spite of the fact that his father had resigned as President and Chief Executive Officer of Altachem more than six weeks earlier.
    3. The basic reason why the ERDOS joint venture failed and that Altachem never received a "capital verification certificate" for its technology was that the ERDOS group, a member of the joint venture, was not satisfied with the Altachem technology and would not accept what was presented to it in spite of two extensions in time. No evidence was found or provided to the Task Force that the ERDOS group had sought to retrade the deal or acted other than in good faith to finalize this deal.
    4. Altachem's representatives on the board of the ERDOS joint venture were Warren Jackson, Robert Sydenham and Lindsay Smith (now Lindsay Maloney), and were also the directors of Altachem's Chinese subsidiaries. No records or evidence have been found to show that their appointments were ever submitted to or approved by the board of Altachem. All were appointed by Warren Jackson, chairman/chief executive officer and president of the Chinese subsidiaries, through a letter of appointment dated April 22, 2002 and signed only by Mr. Warren Jackson.
    5. On May 11, 2002, a Technology License Contribution Contract was signed between Altachem Pharma Ltd. and Beijing ERDOS Altachem Pharma Ltd. and ERDOS Cashmere Group Corporation, in which exclusive licenses for Altachem's ACP-HIP Technology for the territory of Asia, less Japan, Altachem's Bionex Technology and Sonolight Technology for the treatment of blood outside of the

body were ceded to the joint venture for exclusive use "in the territory of the world." The Task Force has found no records or evidence that this contract was ever submitted to the board of Altachem for review and approval, yet the rights being transferred belonged exclusively to Altachem Pharma Ltd.

6. The Task Force also reported that, in its discussions with Dr. Fengming Liu, CEO Elion Biopharma Institute, the preliminary tests for Bionex Blood Safety showed that Bionex was not effective in treating blood. This information had been conveyed to the assistant president of the Chinese subsidiary some weeks earlier, but was never transmitted to the Board of Directors of Altachem in Canada. This was one of the exclusive licenses that was to be ceded to the joint venture.

Shareholders should realize that Altachem's current management and the group of dissident shareholders are involved in a proxy fight, the ultimate outcome of which will be either the election of management's proposed nominees to the board or, the nominees of the dissident group. At the annual general meeting called for June 17, 2004 there will be no useful opportunity for the proposed dissident group of directors or the current group of directors to debate their positions as proxies would have already been mailed in by that date and in all probability, the election of directors already decided by the proxy vote. Later this month, management and the dissident group, will each be mailing to you information circulars and forms of proxy. Your board of directors intends to provide you with updated information by way of additional letters such as this, from the Chairman and to communicate with you through phone calls, and, additional press releases.

The actions of the dissident group, who have never presented any evidence to back their claim that the changes in the direction of the company are being or will be made, and indeed no evidence is available as no fundamental changes are being made, have already cost the company a substantial sum in legal fees and diverted the efforts of the directors and management from moving the company forward.

I believe that the current board of directors is acting in a proactive way, with the best long-term and short-term interests of all of Altachem's shareholders in mind, in overseeing management and the company's future growth which we believe will strengthen confidence in the company.

We will be seeking your proxy for management's slate of directors.

We urge you not to sign any proxy which will, in due course, be mailed to you by the dissident group of shareholders. We will attempt to update matters through timely press releases and urge shareholders to visit our website on which all press releases will be posted or to visit Altachem's SEDAR website.

For additional information, contact:

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"TSX Venture Exchange has neither approved nor disapproved of the information contained herein."

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