



2005 Annual Report

As a cost saving measure, this Annual Report has been printed in black and white.
A full colour version can be downloaded from our website at www.welichem.com

Corporate Profile

Welichem Biotech Inc. is a pioneering Canadian biopharmaceutical company developing proprietary small molecule drugs with high potential and significant competitive advantages.

Our first lead compound is in formal preclinical development for therapeutic application against psoriasis. Welichem's second drug candidate will be focused on cancer, another kind of cell proliferative disease.

Preliminary test results have shown that rather than addressing only the symptoms, Welichem's fully synthesized drugs have distinctive properties that target some of the causes of disease, potentially leading to better and safer therapeutics for patients.

The company is listed on the Canadian TSX Venture Exchange under the trading symbol "WBI" and is based in Burnaby, British Columbia.

Table of Contents

Corporate Profile	2
Scientific and Clinical Advisory Board.....	2
Letter to Shareholders.....	3
From Nature' Wonders to Smart Drugs	5
Management Discussion & Analysis	6
Financial Statements	10
Corporate Directory	27

Scientific and Clinical Advisory Boards

Welichem has established a Scientific Advisory Board comprised of scientific and clinical experts in the areas of autoimmune/ inflammatory diseases, cancer, infectious diseases and chemistry. The current members of the Scientific and Clinical Advisory Boards are:

Jan Dutz, M.D. Dr. Jan Dutz received his MD degree from Queen's University, Ontario. He is Associate Professor in the department of medicine of the University of British Columbia with appointments in the divisions of dermatology and rheumatology. He has a special clinical interest in the cutaneous manifestations of autoimmune connective tissue diseases. He is a staff research scientist at the British Columbia's Research Institute for Children's and Women's Health with a research focus on the skin 's role in modulating the immune system.

Robert E.W. Hancock, Ph.D. *Medical Research Council of Canada Distinguished Professor, Department of Microbiology and Immunology, University of British Columbia.* Dr. Hancock is an officer of the Order of Canada and a Fellow of the Royal Society of Canada. He was the founding Scientific Director of the Canadian Bacterial Diseases Network and became Head of the UBC Centre for Microbial Diseases and Immunity Research in 1997. Dr. Hancock received his Ph.D. from the University of Adelaide.

Julia Levy, Ph.D. *Past President and Chief Executive Officer, QLT Inc.* Dr. Levy was a founding scientist and business associate of QLT. Dr. Levy is an Officer of the Order of Canada, a Fellow of the Royal Society of Canada and a former President of the Canadian Federation of Biological Sciences. Dr. Levy received a Ph.D. in Immunology from the University of London.

Brian Leyland-Jones, M.D. *Professor of Medicine and Oncology, McGill University.* Dr. Leyland-Jones was the founding Chairman of the Department of Oncology at McGill University and is the Director of the McGill Comprehensive Cancer Centre. He is also a physician at Montreal General Hospital, Royal Victoria Hospital and St-Mary's Hospital in Montreal. Dr. Leyland-Jones obtained his medical training and degree from St. Mary's Hospital, University of London.

Daniel N. Sauder, M.D. *Professor and Chairman of Dermatology, Johns Hopkins University School of Medicine.* Dr. Sauder is a Fellow of the American Society for Clinical Investigation and the current and founding Editor of the *Journal of Cutaneous Medicine and Surgery*. He was previously Chief of the Division of Dermatology, University of Toronto, and Head of the Clinical Division of Dermatology at Sunnybrook Health Science Centre. Dr. Sauder is a past president of the Canadian Dermatology Association and a past and founding President of the Canadian Society for Investigative Dermatology. Dr. Sauder received his M.D. from McMaster University.

Keith N. Slessor, Ph.D. *Professor of Chemistry, Simon Fraser University.* Dr. Slessor is an internationally recognized organic chemist with research interests in the isolation, identification, synthesis and applications of insect semiochemicals. He has received many awards including the Gold Medal from the Science Council of British Columbia in 1992 and Ernest C. Manning Innovation Award of Distinction in 1997. Dr. Slessor received a PhD in Organic Chemistry from the University of British Columbia.

Letter to Shareholders

It is an honour to present our first annual report to shareholders. Over the past year, Welichem has made much progress, culminating in becoming a listed company.

On May 25, 2005, Welichem shares began trading on the TSX Venture Exchange under the symbol "WBI". The process seemed long and arduous at times, but through the hard work of Welichem's dedicated staff and with the support of our legal advisors at Clark Wilson, this dream is now a reality. This new phase that Welichem has entered will greatly accelerate the development of our drug discoveries.

Welichem's mission is to develop small molecule "Smart Drugs" with compounds that originate from symbiotic micro-organisms. The diagram and narrative on page 5 describes an amazing natural symbiosis that has existed for millions of years from which many distinctive products have been discovered by Welichem.

Now we have harnessed the potential of this wonder to yield better therapeutics for people with autoimmune/inflammatory diseases and with cancer.

Through more than 25 years of research, initially conducted at Simon Fraser University and then in our own laboratories, Welichem scientists have explored and then patented compounds that have exceptionally effective immunomodulating and anti-proliferative bioactivities. By synthesizing these compounds, Welichem is developing better therapeutics with high efficacy and low toxicity that can be targeted against autoimmune/inflammatory diseases such as psoriasis, eczema and inflammatory bowel disease – areas where there are still major unmet needs. Welichem's core product development is focused on WB-1001, now in pre-clinical development against psoriasis and scheduled soon to enter formal clinical testing in Canada.



Dr. Hugh Wynne-Edwards
Chairman



Dr. John M. Webster
President & Chief
Operating Officer

To that end, we are very encouraged that Welichem has been able to retain expert consultants for CMC, safety and regulatory affairs planning and monitoring. Reputable contract clinical research organizations (CROs) link with our own scientists to perform major studies in Canada and the United States. In addition, the company benefits from the input of highly-respected Clinical and Scientific Advisory Boards.

Welichem's potential is not limited to this program alone. Welichem's technology has already yielded many bioactive, small molecules in over 10 different classes of chemicals. These compounds exhibit a range of anti-inflammatory, anti-microbial and anti-proliferative (i.e. potentially anti-cancer and anti-psoriatic) bioactivities. Their therapeutic value has been fully patented and formal pre-clinical testing of selected compounds is in progress. Development of these new bioactive compounds will help to ensure that Welichem and its future strategic partners will have continued access to a pipeline of new, bioactive compounds of prime therapeutic value.

Welichem is very fortunate to have established a strategic relationship with Celestial Pharmaceuticals (Shenzen) Ltd. of China, a company founded on innovative pharmaceuticals, including Welichem's WBI-1001. Celestial was sufficiently impressed with Welichem's progress that, in the past year, they have re-invested in the company to become a major shareholder. Welichem granted Celestial the rights to developing and marketing Welichem's

technology in China. Reciprocally, Celestial will provide all of its research and clinical data to Welichem enabling us to accelerate our development program.

Our strategy for delivering substantial value to shareholders is to execute our clinical testing program for WBI-1001 effectively and efficiently so as to complete Clinical Phase II in 2007. Welichem will then license its technology to a major pharmaceutical concern for upfront & milestone payments followed by ongoing royalties.

Meanwhile, pipeline development will continue through in-house research and development which we believe will result in a number of substantial commercial opportunities for Welichem.

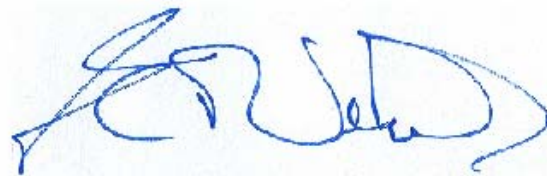
Along with preparing and executing the clinical trial process, we have another important task in the months ahead – to communicate the Welichem story to as broad an audience as possible. That is why we are committed to an effective investor relations strategy that we hope will expose the company’s potential to the biotech investment community and ensure that Welichem’s shares reflect their proper value.

We look forward to keeping our shareholders informed about Welichem’s progress and to advising you of developments that will enhance the value of your company.

Respectfully,



Dr. Hugh Wynne-Edwards
Chairman



Dr. John M. Webster
President & CEO

From Nature's Wonders to Smart Drugs

For millions of years, insect-parasitic nematodes (1) have mastered an amazing technique for ensuring their survival and for propagating their species.

Like a bad relative, the nematode seeks out his insect cousin and ends up literally moving in and eating the insect "out of house and home." After invading the insect host (2) through an orifice or through soft parts of the skin, the nematode releases unique bacteria that are stored in its gut (3). In this nutritious environment, these symbiotic bacteria begin to multiply, feeding off the insect's body tissues.

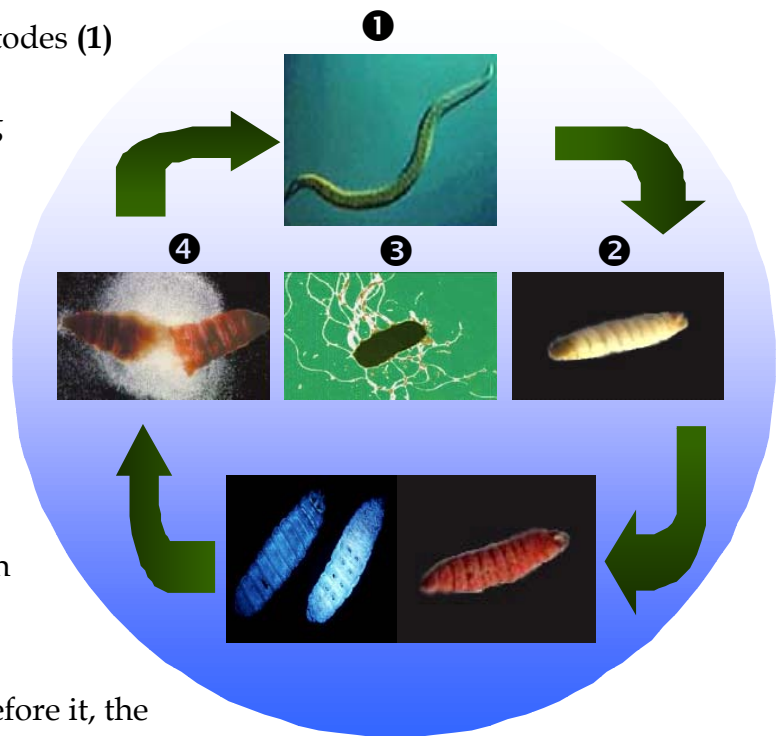
With an impressive bacterial buffet lying before it, the nematode is quite content. In contrast, the insect soon dies after its immune system is modulated, making it unable to defend itself against the rapidly growing number of bacteria.

But rather than simply putrefying and returning to the soil, its carcass remains intact providing an ideal home for the nematode to begin raising a family. Eggs hatch into new juveniles that are delighted to find a big bacterial breakfast laid out before them. After feeding, the juveniles head out to the world (4) to repeat this natural process all over again.

While this symbiosis has gone on through epochs, only now are we beginning to understand that it may hold important therapeutic benefits for human beings. Hidden within this complex cycle is bacteria that manipulates the insect's immune system and becomes toxic while remaining non-toxic for the nematodes.

Insects and human beings have many similarities with their immune systems. That is why Welichem scientists hypothesized that some of the bacterial metabolites inherent in this natural process could be used to diminish inflammatory diseases in humans without side effects.

After identifying the compounds involved and determining how to synthesize them chemically, Welichem scientists have made an important breakthrough. The result is that Welichem has a series of compounds with potential high value in pharmaceutical applications.



WELICHEM BIOTECH INC.
FORM 51 – 102F1
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED MAY 31, 2005

The following discussion and analysis, prepared as of August 12, 2005, should be read together with the audited financial statements for the year ended May 31, 2005 and related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated.

This Management Discussion & Analysis summarizes the activities of the Company to date, and provides financial information for the year ended May 31, 2005. The discussion contains forward-looking statements that involve risks and uncertainties. Such information is considered reasonable by the Company's management at the time of preparation.

Overview

Welichem Biotech Inc. ("Welichem") is a pioneering Canadian biopharmaceutical company developing proprietary, small molecule drugs with large potential and significant competitive advantages. Our strength lies in our drug discovery and medicinal chemistry capabilities, which involves the application of microbiology, chemistry and biochemistry to generate novel drug candidates with distinct pharmacological properties and therapeutic potential. Currently, we have several distinct drug candidates at various stages of research and development. These are divided into two categories: core product development, which is the focus of the company's major activities and expense and discovery research, which is the focus of our in-house activities.

Welichem's core product development focuses on WBI-1000 compounds, a series of small molecule immunomodulators that target cytokines and mediators in the immune/inflammatory process of animals. The lead candidate, WBI-1001, has been shown to have potential in the treatment of chronic dermatological autoimmune/inflammatory diseases, in particular, psoriasis and eczema. Welichem's discovery research focuses on WBI-2000 compounds, a new series of anticancer compounds that target solid tumors, such as those of the lung, prostate, breast, ovarian and melanoma that are known to be hard-to-treat.

Our lead compound, WBI-1001, is in formal preclinical study for treatment of psoriasis and is on track for review by the Canadian regulatory authorities for Clinical Trial Application (CTA) as the next step of the regulatory approval process. Other compounds for this WBI-1000 series are being evaluated for potential application against other autoimmune diseases (e.g. eczema and inflammatory bowel disease). Concurrently, Welichem's 2000 series of compounds have a strong research focus due to their potential in the treatment of cancer.

On November 1, 2004 Welichem amalgamated with Belltech Ventures Ltd. ("Belltech"), and following reverse takeover procedures this resulted in Welichem Biotech Inc. being the acquired company but having the larger number of shares.


Significantly, in September, 2004 Celestial Pharmaceuticals (Shenzen) Ltd. ("Celestial") invested approximately \$1.5 million in Welichem which was a strong endorsement of the Company's business.

2005 Achievements

- Established formal pre-clinical studies with our lead compound.
- Signed a technology transfer agreement with Celestial.
- Received a significant investment (\$1.5 million) from Celestial.
- Completed a reverse takeover with Belltech so that Welichem became a public company listed on the TSX Venture Exchange on May 25, 2005.
- Completed a private placement of \$1.9 million at the end of May 2005.

Vision and Strategy

Our long-term business strategy is to build upon our internal drug discovery and development capabilities to support the advancement of our most promising therapeutic candidates into clinical trials, and possibly up to clinical Phase II, contingent upon available resources. However, we will seek to partner our drug candidates at various stages of development when additional expertise or resources in clinical development are required and when reasonable terms can be secured.



The more advanced a drug candidate is before partnering, the better positioned the Company should be to negotiate terms. These could include up-front and milestone payments, funding from the partner to cover all or a portion of ongoing development costs, as well as a share of revenues based on net product sales. We may also utilize alliances and strategic partnerships to expand our research, clinical, regulatory and drug development capabilities.

In the short-term, we focus on moving our lead drug candidate, WBI-1001, through preclinical and clinical trials and seeking partnerships that could support and expand its development. WBI-1001 is a small molecule compound which, when formulated in a cream, will be evaluated as a topically applied therapeutic against psoriasis. WBI-1001 was selected as the lead drug candidate based on its bioavailability, stability and apparent potency *in vitro* and in animals without observed side effects. It is anticipated that chemical analogues of WBI-1001 will be explored for consideration against other indications (e.g. inflammatory bowel disease and eczema).

Concurrently, we are working toward identifying new potential indications for other members of the WBI-1000 series of compounds. The WBI-2000 series of compounds have anti-proliferative properties, and selected members of the group are showing encouraging results in animal studies as potential therapeutics against cancer. The objective is to move one of these compounds forward for testing as drug candidate as rapidly as financial resources will allow. In-house research using our Symbiochem™ technology continues to result in unique compounds with bioactivities of promising utility.

Partnering and Investment

In September 2004, the Company signed an agreement with Celestial Pharmaceuticals (Shenzhen) Ltd. (“Celestial”) of China, whereby Celestial invested a total of \$1.5 million Canadian dollars in exchange for 6,818,183 post-amalgamation shares in Welichem and 6,818,183 warrants to acquire additional shares at \$0.23 per share until August 31, 2006 and for patent rights in China of Welichem’s existing technologies.

In return, this agreement enables Welichem, on a priority basis and at no cost to Welichem, to receive and to use data from any clinical, animal or laboratory tests arising or resulting from work done in China using Welichem’s technologies. This agreement provided Welichem with cash and, importantly, quick access to safety and efficacy data which thus minimizes potential risks at the early stages of R&D on Welichem’s compounds.

Amalgamation

On November 1, 2004, Belltech Ventures Ltd. (“Belltech”) completed the acquisition of Welichem by issuing 17,850,399 common shares in exchange for all the issued and outstanding shares of Welichem. This transaction resulted in the former shareholders of Welichem owning the majority (88%) of the issued and outstanding shares of the combined entity. Accounting principles applicable to reverse take-over have been applied to record this acquisition. Under this basis of accounting, Welichem has been identified as the acquirer, and, accordingly, the combined entity is considered to be a continuation of Welichem.

The Company issued 2,430,000 common shares in exchange for Belltech Ventures Ltd.’s net assets on November 1, 2004.

Financing

From its incorporation in 1995, the Company has financed its operations through private sale of equity securities, and through interest income, refundable investment tax credit and government grants.

In fiscal year 2005, Welichem has closed two financings: on September 8, 2004, the Company issued 6,818,183 units (adjusted for the amalgamation) at a price of \$0.22 per unit to raise gross proceeds of \$1,500,000 in a relation with the Celestial investment. Each unit consisted of one common share and one warrant to purchase one common share at \$0.23 per share until August 31, 2006.

At the end of May 2005, the Company issued 8,449,924 common shares at a price of \$0.23 per share to raise gross proceeds of \$1,943,483 in a private placement.

The Company issued 909,090 common shares through conversion of \$200,000 preferred shares on November 1, 2004.

Welichem will use these funds to complete formal preclinical studies for the initiation of the clinical trials on its anti-psoriasis drug, WBI-1001. Welichem will then raise additional funds to take its drug candidate, WBI-1001, through Phase II.

Parallel studies will investigate the potential of WBI-1001 as a treatment for Eczema and Inflammatory Bowel Disease (IBD), thus further enhancing the value of WBI-1001.

Liquidity, Risks Factors and Uncertainties

The Company's business is in the development stage and does not generate cash flow from operations to adequately fund its activities and has thus relied principally on the issuance of securities for financing. There is no assurance that such financing will be available on a timely basis under terms acceptable to the Company.

It should be noted that the Company's funding needs may vary depending upon several factors, including the progress and nature of research and development initiatives, the ability to attract and maintain strategic alliances, the Company's decision to in-license technology, acquisition and unforeseen costs associated with undertaking pre-clinical/clinical studies.

The Company anticipates that its current funds on hand, the most recent financing from Celestial and others, together with interest income, will be sufficient to fund operations through 2005.

Research and Development

Welichem is a development stage company that dedicates the majority of its resources to research and development activities. During 2005, substantial costs have been incurred as the Company is focused on completing formal preclinical tests of WBI-1001 for the treatment of psoriasis. These formal tests, including major CMC and safety evaluations as required by government regulations, were done under contract by highly reputable research organizations and under strict Canadian and US GLP and GMP guidelines.

The Company expects to continue incurring substantial development expenditures through the remaining calendar months in 2005 and 2006 due to its on going preclinical development and regulatory work.

Results of Operations

As at May 31, 2005, Welichem has not generated any revenue other than interest income, and it is unlikely to be in a position to generate sufficient revenue to meet its ongoing operating and capital expenses for the foreseeable future. Welichem has incurred operating losses since inception.

The net loss for the most recent financial year ended May 31, 2005 was \$1,198,931 (2004-\$226,013) and 6 cents per share (2004- 2 cents per share). This increase in net loss was due to an increase of \$263,789 in administrative expenses and \$591,584 in R&D expenses. The substantial increase in R & D expenses in fiscal year 2005 was due to the increased research and development activities by the Company as it moved forward to completing formal preclinical tests of WBI-1001 for treatment of psoriasis. In addition, substantial contract work was done by contract organizations as required by government regulations.

Administrative expenses for the year were \$458,473 (2004 - \$194,784). Major expenses included: \$135,324 (2004 - \$32,468) in legal and accounting fees due to the reverse take-over transaction; \$56,407 (2004 - \$32,904) in wages and benefits due to an increase in the number of research staff; \$64,551 (2004 - \$4,612) in consulting fees due to hiring of a public relations agent and an increase in financing activities; \$36,674 (2004 - \$7,247) in office and miscellaneous expenses due to an increase in company R & D and financing activities; and \$24,901 (2004 - \$3,805) in travel and related costs due to negotiations with Celestial on the technology transfer agreement and financing terms.

Welichem's financial statements do not include any adjustments to overcome any uncertainty.

Related Party Transaction

A payment of \$3,031 was made to Dr. John North, a director of the Company, for consulting services rendered in the year. There was no other related party transaction.

Subsequent Events

Subsequent to the fiscal year 2005, the Company granted an aggregate of 100,000 stock options to an officer and a consultant. The options, being vested immediately, are exercisable at a price of \$0.23 and \$0.34 per share for a period of five years from the date of granting the options.

Outstanding Share Data

As of May 31, 2005, the Company had the following outstanding securities:

(1) Common Shares issued	28,730,323
(2) Stock Options	1,906,080
(3) Warrants	6,818,183

	Year Ended May 31, 2002 (Audited)	Year Ended May 31, 2003 (Audited)	Year Ended May 31, 2004 (Audited)	Year Ended May 31, 2005 (Audited)	1 st Quarter Ended August 31, 2004 (Unaudited)	2 nd Quarter (3 Months) Ended Nov. 30, 2004 (Unaudited)	3 rd Quarter (3 Months) Ended Feb. 28, 2005 (Unaudited)
Operation Data							
Government Assistance and Other Subsidies	24,600	235,491	30,590	10,073	0	0	0
SRED Tax Credit	271,531	174,044	119,728	97,778	0	0	0
Other Income	15,109	19,850	49,576	(23,827)	(5,810)	(57,557)	27,503
Research and Development	582,892	563,606	239,430	831,014	68,229	242,724	178,662
General and Administrative Expenses	160,834	178,013	194,784	458,473	49,281	106,388	92,719
Loss for the period	(432,486)	(312,234)	(226,013)	(1,198,931)	(123,320)	(406,669)	(243,878)
Balance Sheet							
Cash	27,908	49,549	216,165	1,384,640	400,796	328,337	296,160
Short Term Investments	335,503	252,769	456,665	875,141	456,665	940,878	959,559
Pre-Paid Expenses	43,275	12,715	12,715	12,715	12,715	13,060	12,715
Receivables	23,104	2,805	49,189	16,586	2,433	15,877	9,529
SRED Tax Credit Receivable	291,687	171,686	119,728	97,778	119,728	119,728	0
Capital Assets	104,118	66,987	48,197	50,524	44,075	48,824	48,769
Patent rights	138,975	182,102	202,433	291,111	203,916	239,802	240,382
Other Assets	13,786	13,879	13,879	13,879	13,879	13,879	13,879
Total Assets	978,356	752,492	1,118,971	2,742,374	1,254,207	1,720,385	1,580,989
Accounts Payable	43,000	29,370	41,545	161,698	34,100	162,884	14,611
Convertible Loan Payable	174,500	174,500	174,500	0	0	0	0
Total Liabilities	217,500	203,870	41,545	161,698	34,100	162,884	14,611
Share Capital	1,552,889	1,792,889	1,967,389	5,238,644	1,967,389	3,360,027	3,360,027
Contributed surplus	0	0	2,950	11,243	2,950	11,243	11,243
Share subscriptions received in advance	0	0	577,367	0	843,368	186,500	439,255
Deficit	(932,033)	(1,244,267)	(1,470,267)	(2,669,211)	(1,593,600)	(2,000,269)	(2,244,147)
Shareholders' Equity	\$760,856	548,622	1,077,426	2,580,676	1,220,107	1,557,501	1,566,378

Note: Quarterly financial information for prior years was not available as the Company was a private company until November 1, 2004.



WELICHEM BIOTECH INC.

FINANCIAL STATEMENTS

MAY 31, 2005 and 2004

AUDITORS' REPORT

To the Shareholders of

WELICHEM BIOTECH INC.

We have audited the balance sheet of **Welichem Biotech Inc.** as at May 31, 2005 and the statements of operations and deficit and cash flows for the year then ended. 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. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. 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 financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2005, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at May 31, 2004 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated August 31, 2004.

Vancouver, Canada
August 5, 2005

\s\Ernst & Young LLP
Chartered Accountants

WELICHEM BIOTECH INC.
BALANCE SHEETS
AS AT MAY 31

	2005	2004
ASSETS		
Current		
Cash	\$ 1,384,640	\$ 216,165
Short-term investments	875,141	456,665
Accounts receivable	16,586	49,189
Refundable tax credit	97,778	119,728
Prepaid expense	<u>12,715</u>	<u>12,715</u>
	2,386,860	854,462
Patent rights and applications (Note 4)	291,111	202,433
Property and equipment (Note 5)	50,524	48,197
Deposit (Note 6)	<u>13,879</u>	<u>13,879</u>
Total Assets	<u>\$ 2,742,374</u>	<u>\$ 1,118,971</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	<u>\$ 161,698</u>	<u>\$ 41,545</u>
Shareholders' equity		
Share Capital (Note 7)	5,238,644	1,967,389
Contributed surplus (Note 7)	11,243	2,950
Share subscriptions received in advance	0	577,367
Deficit	<u>(2,669,211)</u>	<u>(1,470,280)</u>
	<u>2,580,676</u>	<u>1,077,426</u>
Total Liabilities and Shareholder's Equity	<u>\$ 2,742,374</u>	<u>\$ 1,118,971</u>

Nature and continuance of operations (Note 1)

Commitments (Note 15)

Subsequent events (Note 16)

On behalf of the Board:



Genhui Chen

Director



Jianxiong Li

Director

The accompanying notes are an integral part of these financial statements.

WELICHEM BIOTECH INC.
STATEMENTS OF OPERATIONS AND DEFICIT
YEARS ENDED MAY 31

	2005	2004
RESEARCH AND DEVELOPMENT EXPENSES - Schedule	<u>\$ 716,631</u>	<u>\$ 80,805</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Amortization – Property and equipment	14,773	19,820
Amortization – Patent rights and applications	12,666	11,728
Consulting	64,551	4,612
Insurance	21,650	12,169
Legal and accounting fees	135,324	32,468
Office and miscellaneous	36,674	7,247
Regulatory expenses	9,500	0
Rent	67,235	64,564
Stock-based compensation	8,293	2,950
Telecommunications	6,499	2,517
Travel and related costs	24,901	3,805
Wages and benefits	<u>56,407</u>	<u>32,904</u>
	<u>458,473</u>	<u>194,784</u>
Loss before other items	<u>(1,175,103)</u>	<u>(275,589)</u>
OTHER ITEMS		
Foreign exchange gain	(37,322)	12,947
Other income	0	31,347
Interest income	<u>13,495</u>	<u>5,282</u>
	<u>(23,827)</u>	<u>49,576</u>
Loss for the year	(1,198,931)	(226,013)
Deficit, beginning of year	<u>(1,470,280)</u>	<u>(1,244,267)</u>
Deficit, end of year	<u>\$ (2,669,211)</u>	<u>\$ (1,470,280)</u>
Basic and diluted loss per common share	<u>\$ (0.06)</u>	<u>\$ (0.02)</u>
Weighted average number of common shares outstanding	<u>18,431,083</u>	<u>9,801,095</u>

The accompanying notes are an integral part of these financial statements.

WELICHEM BIOTECH INC.
SCHEDULES OF RESEARCH AND DEVELOPMENT EXPENSES
YEARS ENDED MAY 31

	2005	2004
Subcontractors, supplies and materials (Note 10)	497,518	38,863
Wages and benefits	<u>333,496</u>	<u>200,567</u>
	<u>831,014</u>	<u>239,430</u>
Less:		
Government assistance and other subsidies (Note 11)	(10,073)	(30,590)
Research and development tax refund	<u>(104,310)</u>	<u>(128,035)</u>
	<u>(114,383)</u>	<u>(158,625)</u>
	<u>\$ 716,631</u>	<u>\$ 80,805</u>

The accompanying notes are an integral part of these financial statements.

WELICHEM BIOTECH INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED MAY 31

	2005	2004
CASH FROM (USED IN) OPERATING ACTIVITIES		
Loss for the year	\$ (1,198,931)	\$ (226,013)
Items not involving cash:		
Amortization of property and equipment	14,773	19,820
Amortization of patent rights and applications	12,666	11,728
Stock-based compensation	8,293	2,950
Changes in non-cash working capital items:		
Decrease in receivables	32,603	(46,384)
Decrease in research and development tax credit receivable	21,950	51,958
Increase in accounts payable and accrued liabilities	<u>120,153</u>	<u>12,175</u>
Net cash used in operating activities	<u>(988,493)</u>	<u>(173,766)</u>
CASH FROM (USED IN) INVESTING ACTIVITIES		
Patent rights and applications	(101,344)	(32,059)
Short term investments	(418,476)	(203,896)
Purchase of property and equipment	<u>(17,100)</u>	<u>(1,030)</u>
Net cash used in investing activities	<u>(536,920)</u>	<u>(236,985)</u>
CASH FROM (USED IN) FINANCING ACTIVITIES		
Net proceeds from issuance of shares	3,271,255	-
Share subscriptions received in advance	<u>(577,367)</u>	<u>577,367</u>
Net cash provided by financing activities	<u>2,693,888</u>	<u>577,367</u>
Change in cash during the year	1,168,475	166,616
Cash, beginning of year	<u>216,165</u>	<u>49,549</u>
Cash, end of year	<u>\$ 1,384,640</u>	<u>\$ 216,165</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for income taxes	-	-

The accompanying notes are an integral part of these financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

Welichem Biotech Inc. (the "Company" or "Welichem") was initially incorporated on May 26, 1995 pursuant to the Company Act of British Columbia under the name "Welichem Technology Corporation". On July 26, 2000, Welichem changed its name to "Welichem Biotech Inc." On November 1, 2004, Welichem amalgamated with Beltech Ventures Ltd. ("Belltech") (Note 2). Belltech was classified as a Capital Pool Company under the policies of the TSX Venture Exchange ("TSXV"). The amalgamated company ("Amalco") continuing under the name Welichem Biotech Inc. is a reporting company under the Province of British Columbia and Alberta. The former shareholders of Welichem, having received approximately 88% of the shares of the Amalco, have control, and therefore this amalgamation is accounted for as an acquisition of Belltech's net assets by Welichem.

The Company is a biopharmaceutical company focused on the development and commercialization of new therapeutics for autoimmune / inflammatory diseases and cancer.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the on-going assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The operations of the Company have been funded primarily by the issuance of share capital. Continued operations of the Company are dependent on the Company's ability to complete financing or generate profitable operations in the future. These financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

	2005	2004
Deficit	\$ (2,669,211)	\$ (1,470,280)
Working capital	2,225,162	812,917

2. AMALGAMATION AND BASIS OF PRESENTATION

Effective November 1, 2004, Belltech and Welichem amalgamated, continuing under the name Welichem Biotech Inc. ("the Company"). To effect this amalgamation, the common shareholders of Welichem exchanged their shares for common shares of Amalco at a ratio of 1.5 to 1, Welichem's preferred shares were exchanged for 909,090 common shares of Amalco, and Belltech's common shareholders exchanged their shares for common shares of Amalco at a ratio of 1 to 1. As well, Welichem stock options were exchanged for options of Amalco at a ratio of 1.5 to 1. As a result of the amalgamation, the former shareholders of Welichem, having received approximately 88% of Amalco's shares of the Company, have effected control of Amalco.

For accounting purposes, the amalgamation has been recorded, in accordance with generally accepted accounting principles in Canada, as a reverse takeover of Belltech by Welichem. Accordingly, the financial statements of Amalco reflect the continuation of Welichem and the control of Belltech is deemed to be acquired in consideration for the issue of common shares to shareholders of Belltech. As well, the comparative amounts presented in the financial statements are those of Welichem. The assets and liabilities of Belltech on the date of amalgamation of November 1, 2004, and the consideration recorded for such acquisition is summarized as follows:

2. AMALGAMATION AND BASIS OF PRESENTATION (cont'd...)

Net assets acquired:	
Cash	\$ 6,029
Receivables	99
Prepaid expenses	345
Accounts payable and accrued liabilities	<u>(6,197)</u>
	<u>\$ 276</u>
Consideration:	
Issuance of 2,430,000 common shares of Amalco	<u>\$ 276</u>

The operating results of Belltech for the period January 1, 2004 to November 1, 2004 (date of amalgamation) are summarized as follows:

Amortization	\$ 1,083
Office and miscellaneous expenses	8,763
Professional Fees	23,115
Rent	4,303
Transfer agent and regulatory fees	9,638
Travel	<u>1,019</u>
Net loss for the period	<u>\$ 47,921</u>

3. SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

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

Short-term investments

Short-term investments consist of highly rated and liquid government treasury bills with original maturities in excess of three months and current maturities of less than twelve months from the balance sheet date. These investments are recorded at cost which approximates market value.

Intangible Assets

Intangible assets consist of patent rights and applications costs incurred for the filing of patents. Intangible assets are amortized on a straight-line basis over the maximum period of twenty years from the time of acquisition. Intangible assets with finite lives are reviewed for impairment when events or circumstances indicate that costs may not be recoverable. Management evaluates the recoverability of the cost of such rights annually, based on the expected utilization of the underlying technology. Impairment exists when the carrying value of the assets is greater than the future net cash flows expected to be provided by the asset. The amount of impairment loss, if any, is the excess of

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Intangible Assets (Cont'd)

the carrying value over the future net cash flows. Finite-lived intangible assets are written down for any permanent impairment in value of the unamortized portion. There were no impairment adjustments for the years ended May 31, 2005 and 2004. The Company does not have indefinite-lived intangible assets.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization and are amortized over their expected useful lives on the following basis:

Lab equipment	30% declining balance
Office equipment	30% declining balance
Leasehold improvements	5 years straight-line

The Company uses the half year rule in the year of acquisition.

Impairment of Long-Lived Assets

Long-term assets of the Company are reviewed when changes in circumstances suggest their carrying value has become impaired. Management considers assets to be impaired if the carrying value exceeds the estimated undiscounted future projected cash flows to result from the use of the asset and its eventual disposition. If impairment is deemed to exist, the assets will be written down to fair value. Fair value is generally determined using a discounted cash flow analysis.

Stock-based Compensation

The Company uses the fair value method for stock-based compensation granted to employees and non-employees of the Company and all direct awards of stock, in accordance with the CICA Handbook Section 3870 "*Stock-Based Compensation and Other Stock-Based Payments*". The fair value of stock options is determined by the *Black-Scholes Option Pricing Model* with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares and an expected life of the options. The fair value of direct awards of stocks is determined by the quoted market price of the Company's stock.

Foreign Currency Translation

The Company maintains its accounting records in Canadian dollars.

At the transaction date, transactions completed in foreign currencies are translated into Canadian dollars by the use of the exchange rate in effect at that date. Revenues and expenses are translated at the average exchange rate for the year. At the period end, monetary assets and liabilities denominated in foreign currencies are translated into included in operations.

Research and development expenses

Research and development costs are expensed as incurred unless such development costs meet the criteria under Canadian generally accepted accounting principles for deferral and amortization. Development costs which meet generally accepted criteria for deferral are capitalized and amortized against earnings over the estimated period of benefit. As at May 31, 2005 and 2004, the Company had not deferred any development costs.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Government assistance and other subsidies

Government assistance and other subsidies are recorded as either a reduction of the cost of the applicable assets or credited in the statement of operations as determined by the terms and conditions of the agreement under which the assistance is provided to the Company.

Refundable tax credits

Refundable tax credits are recorded as either a reduction of the cost of applicable assets or credited in the statement of operations depending on the nature of the expenditures which gave rise to the credits. Claims for tax credits are accrued upon the Company attaining reasonable assurance of collection from the Canada Revenue Agency.

Investment tax credits are accrued on qualifying expenditures when there is reasonable assurance the credits will be recovered. Refundable tax credits were only available to the Company up to October 31, 2004, prior to amalgamation and becoming a publicly listed entity.

Earnings (loss) per share

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury method. The treasury method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate. Diluted loss per share is equal to the basic loss per share as inclusion of common share equivalents securities are anti-dilutives as at May 31, 2005 and 2004.

Income taxes

Future income taxes are recorded using the asset and liability method whereby 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 the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

4. PATENT RIGHTS AND APPLICATIONS

	2005	2004
Patent rights and applications	\$ 335,901	\$ 234,557
Less: accumulated amortization	(44,790)	(32,124)
	\$ 291,111	\$ 202,433

WELICHEM BIOTECH INC.
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2005 and 2004

5. PROPERTY AND EQUIPMENT

	2005			2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Lab equipment	\$ 65,608	\$ 47,658	\$ 17,950	\$ 64,363	\$ 41,872	\$ 22,491
Office equipment	32,830	19,121	13,709	20,975	15,786	5,189
Leasehold improvements	<u>44,891</u>	<u>26,026</u>	<u>18,865</u>	<u>40,892</u>	<u>20,375</u>	<u>20,517</u>
	\$ 143,329	\$ 92,805	\$ 50,524	\$ 126,230	\$ 78,033	\$ 48,197

6. DEPOSIT

Deposit consists of a term deposit held as collateral for the Company's credit card.

WELICHEM BIOTECH INC.
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2005 and 2004

7. SHARE CAPITAL

	Number of Shares	Amount
Authorized		
Unlimited number of common shares without par value		
Common shares issued and outstanding:		
Welichem common shares issued and outstanding at May 31, 2004, as adjusted for the share exchange ratio of 1.5 common shares of the Company for each common share of Welichem	10,123,126	\$ 1,767,389
Welichem preferred shares issued and outstanding at November 1, 2004, as converted into common shares of the Company. (Note a)	<u>909,090</u>	<u>200,000</u>
Sub-total	11,032,216	\$ 1,967,389
Share capital of Belltech at November 1, 2004 as adjusted for the share exchange ratio of 1 common share of the Company for each common share of Belltech (Note b)	2,430,000	\$ 238,643
Contributed surplus of Belltech at November 1, 2004	-	150,000
Deficit of Belltech at November 1, 2004	-	(388,367)
Welichem common shares issued pursuant to a private placement of units as adjusted for the share exchange ratio of 1.5 common shares of the Company for one common share of Welichem (Note c)	6,818,183	1,500,000
Share issuance costs for private placement	-	(107,638)
Welichem common shares issued in the private placement closed in May 2005 (Note d)	8,499,924	1,943,483
Share issuance costs for private placement	<u>-</u>	<u>(64,866)</u>
	28,780,323	\$ 5,238,644

- a) The Company issued 909,090 common shares through conversion of \$200,000 preferred shares on November 1, 2004.
- b) The Company issued 2,430,000 common shares to exchange for Belltech Ventures Ltd.'s net assets on November 1, 2004 (Note 2).
- c) The Company issued 6,818,183 units (adjusted for the amalgamation) at a price of \$0.22 per unit to raise gross proceeds of \$1,500,000 in a private placement on September 8, 2004. Each unit consisted of one common share and one warrant to purchase one common share at \$0.23 per share until August 31, 2006.

- d) The Company issued 8,499,924 common shares at a price of \$0.23 per share to raise gross proceeds of \$1,954,983 in a private placement at the end of May 2005.
- e) The Company granted 465,000 stock options (adjusted for the amalgamation) during the period, resulting in compensation costs under the Black-Scholes option pricing model of \$11,243 which was recorded as stock-based compensation expense and included in wages and benefits expense (Note 8).

8. STOCK OPTIONS

In the quarter ended November 30, 2004, the Company adopted the Stock Option Plan ("Plan") whereby the Company can grant stock options to directors, officers, employees and consultants to acquire up to 4,056,080 post-amalgamation common shares of the Company.

In September 2004, prior to the Company being a publicly listed entity, the Board granted 330,000 pre-amalgamation stock options, exercisable into one common share of the Company at \$0.33 per share until 2010. As a result of the amalgamation, all outstanding stock options were exchanged in the corresponding ratio as the common shares (See Note 7).

At May 31, 2005, stock options were outstanding enabling the holders to acquire the following number of common shares:

Number of Shares	Exercise Price	Expiry Date
315,000	\$ 0.20	July 31, 2008
18,000	0.22	September 15, 2008
340,080	0.22	December 3, 2009
555,000	0.22	March 15, 2010
<u>678,000</u>	0.22	May 24, 2010
1,906,080		

The following table summarizes the stock option activity under this Plan:

	Number of Options	Weighted Average Exercise Price
Options outstanding and exercisable at May 31, 2003	437,720	\$ 0.66
Granted	<u>503,000</u>	0.51
Options outstanding and exercisable at May 31, 2004	940,720	\$ 0.58
Granted	<u>330,000</u>	0.33
	1,270,720	0.51
Exchanged on amalgamation (Note 2)	(1,270,720)	0.51
Exchanged on amalgamation	<u>1,906,080</u>	0.22
Options outstanding and exercisable at May 31, 2005	1,906,080	\$ 0.22

8. STOCK OPTIONS (cont'd)

Stock-based compensation

The Company recorded stock-based compensation costs of \$8,293 (2004 - \$2,950) by applying the fair value method of accounting for stock options granted during the year ended May 31, 2005. The offsetting amount was recorded as contributed surplus on the balance sheet.

The fair value of all options granted has been estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	<u>2005</u>	<u>2004</u>
Risk-free interest rate	4%	2.34%
Expected life of options	2 years	6 months
Annualized volatility	0.1%	0.1%
Dividend rate	Nil	Nil

Option pricing models require the use of highly subjective estimate and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, in management's opinion existing models do not necessarily provide reliable measure of the fair value of the Company's stock options.

9. WARRANTS

As at May 31, 2005, 6,818,183 warrants are outstanding. Each warrant entitles the holder to buy one common share at \$0.23 until August 31, 2006.

10. RESEARCH AGREEMENT

During the fiscal year May 31, 2004, the Company paid \$30,000 to enter into a research agreement with a Canadian university (the "University"), whereby the Company and the University intend to collaborate in the performance of certain biotechnology research. The results, if any, of the research, will be the property of the University however the Company will have an option to negotiate the terms of a royalty-bearing, commercial license to any intellectual property resulting from the research. The agreement expires in May 2007.

11. GOVERNMENT ASSISTANCE AND OTHER SUBSIDIES

Under an agreement through the Industrial Research Assistance Program ("IRAP"), the National Research Council of Canada ("NRC") agreed to reimburse certain of the Company's allowable direct expenditures on the evaluation of anti-cancer agents on a cost matching basis. The total amounts received for the fiscal year 2005 under IRAP was nil (year ended May 31, 2004 - \$21,290).

In fiscal year, 2005, the Company also received grants from the Natural Sciences and Engineering Research Council of Canada ("NSERC") totalling \$10,073 (2004 - \$9,300) for up to \$4,500 per student employed by the Company.

12. FINANCIAL INSTRUMENTS

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of cash, short term investments, receivables, refundable tax credits, deposit and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments. The Company is subject to currency risk due to the fluctuation of exchange rates between the Canadian dollar and the foreign currency denominated financial instruments. The Company is not subject to significant interest, or credit risks arising from these financial instruments.

13. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2005	2004
Loss before income taxes	\$ (1,198,931)	\$ (226,013)
Expected income tax recovery	\$ (431,615)	\$ (84,981)
Research and development costs	257,987	24,916
Other	25,916	12,332
Unrecognized benefits of non-capital losses	<u>147,712</u>	<u>47,733</u>
	\$ -	\$ -

The significant components of the Company's future income tax assets are as follows:

	2005	2004
Future income tax assets		
Non-capital loss carry forwards	\$ 373,000	\$ 223,000
Capital assets	17,000	12,000
Patent rights and applications	16,000	11,000
Research and development costs	<u>229,000</u>	<u>194,000</u>
Expected income tax recovery in future years	\$ 639,000	\$ 440,000
Less: valuation allowance	<u>(639,000)</u>	<u>(440,000)</u>
Net future income tax assets	\$ -	\$ -

13. INCOME TAXES (cont'd)

As at May 31, 2005, the Company has approximately, non-capital losses of \$1,036,000 (2004 - \$626,000). These losses, if not utilized, will expire commencing 2006 through to 2015. Future tax benefits which may arise as a result of these non-capital losses have not been recognized in these financial statements as there is no assurance that such amounts are more likely than not to be realized.

14. SEGMENTED INFORMATION

The Company primarily operates in one reportable operating segment, being the research and development of pharmaceutical products, in Canada.

15. COMMITMENTS

The Company leases lab and office space and is committed to future minimum lease payments as follows:

2006	\$ 46,646
2007	<u>17,023</u>
	<u>\$ 63,669</u>

Operating costs have not been included in the above figures.

16. SUBSEQUENT EVENTS

Subsequent to the fiscal year 2005, the Company granted an aggregate of 100,000 stock options to an officer and a consultant. The options, being vested immediately, are exercisable at a price of \$0.23 and \$0.34 per share for a period of five years from date of grant.

17. RELATED PARTY TRANSACTIONS

A payment of \$3,031 was made to Dr. John North, a director of the Company, for consulting services rendered in the year. There was no other related party transaction.



Board of Directors

Hugh Wynne-Edwards, O.C., Ph.D., D.Sc., FRSC. *Chairman of the Board*

Genhui Chen, Ph.D.

John Dustan, MBA

Jianxiong (Jason) Li, Ph.D.

Brian Underdown, Ph.D.

John M. Webster, Ph.D., D.Sc .

Wang Weihe

Officers

Hugh Wynne-Edwards, O.C., Ph.D., D.Sc., FRSC. *Chairman of the Board and Director.*

John M. Webster, Ph.D., D.Sc . *President and Chief Executive Officer and Director.*

Jianxiong (Jason) Li, Ph.D. *Vice President and Director.*

Genhui Chen, Ph.D. *Vice President and Director.*

Samson C.W. Mui, MBA, P.Eng., CMA. *Chief Financial Officer*

Corporate Office

Welichem Biotech Inc.
316-4475 Wayburne Drive
Burnaby, British Columbia
Canada V5G 3L1
Telephone: (604) 432-1703
Fax: (604) 432-1704
E-mail: info@welichem.com

Annual General Meeting

Tuesday, September 20, 2005
1:30 PM
Segal Centre Conference Rooms 1420/1430
Simon Fraser University at Harbour Centre
515 W. Hastings Street
Vancouver, BC

Registered and Records Office

Clark Wilson LLP
1500-1055 W. Georgia Street
Vancouver, BC V6E 4N7

Stock Listing

The Company's common shares are traded in Canada on the TSX Venture Exchange under the stock symbol WBI.

Auditors

Ernst & Young LLP
Chartered Accountants
Pacific Centre - P.O. Box 10101
700 W. Georgia Street
Vancouver, BC V7Y 1C7
Phone: (604) 891-8200
Fax: (604) 643-5422

Investor Contact:

Allan H. McGirr 604-317-2981
E: amcgirr@welichem.com

Share Registrar and Transfer Agents

Pacific Corporate Trust
625 Howe Street - 10th Floor
Vancouver, BC V6C 3B8
Phone: (604) 689-9853
Fax: (604) 689-8144
pacific@pctc.com