

**WELICHEM BIOTECH INC.**

**FINANCIAL STATEMENTS**  
**(Unaudited – Prepared by Management)**

**AUGUST 31, 2004**

**WELICHEM BIOTECH INC.**  
**BALANCE SHEETS**  
(Unaudited – Prepared by Management)

	August 31, 2004	May 31, 2004
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 400,796	\$ 216,165
Short-term investments	456,665	456,665
Receivables	2,433	49,189
Research and development tax credit receivable	119,728	119,728
Prepays	<u>12,715</u>	<u>12,715</u>
	992,337	854,462
<b>Patent rights and applications</b>	203,916	202,433
<b>Property and equipment</b>	44,075	48,197
<b>Deposit</b>	<u>13,879</u>	<u>13,879</u>
	<u>\$ 1,254,207</u>	<u>\$ 1,118,971</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 34,100	\$ 41,545
<b>Shareholders' equity</b>		
Capital stock (Note 3)	1,967,389	1,967,389
Contributed surplus (Note 3)	2,950	2,950
Share subscriptions received in advance (Note 6 (b))	843,368	577,367
Deficit	<u>(1,593,600)</u>	<u>(1,470,280)</u>
	<u>1,220,107</u>	<u>1,077,426</u>
	<u>\$ 1,254,207</u>	<u>\$ 1,118,971</u>

**Commitments** (Note 5)

**Subsequent events** (Note 6)

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

**WELICHEM BIOTECH INC.**  
**STATEMENTS OF OPERATIONS AND DEFICIT**  
(Unaudited – Prepared by Management)  
**THREE MONTH PERIOD ENDED**

	August 31, 2004	August 31, 2003
<b>RESEARCH AND DEVELOPMENT EXPENSES - Schedule</b>	<u>\$ 68,229</u>	<u>\$ 66,703</u>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Amortization	4,122	-
Consulting	1,050	-
Insurance	3,500	8,019
Office and miscellaneous	2,286	555
Professional fees	3,400	900
Rent	3,480	3,480
Telecommunications	1,652	340
Travel and related costs	15,689	588
Wages and benefits	<u>14,102</u>	<u>7,051</u>
	<u>49,281</u>	<u>20,933</u>
<b>Loss before other items</b>	<u>(117,510)</u>	<u>(87,636)</u>
<b>OTHER ITEMS</b>		
Foreign exchange loss	(6,016)	(1,189)
Other income	-	6,236
Interest income	<u>206</u>	<u>386</u>
	<u>(5,810)</u>	<u>5,433</u>
<b>Loss for the period</b>	(123,320)	(82,203)
<b>Deficit, beginning of period</b>	<u>(1,470,280)</u>	<u>(1,244,267)</u>
<b>Deficit, end of period</b>	<u>\$ (1,593,600)</u>	<u>\$ (1,326,470)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>
<b>Weighted average number of common shares outstanding</b>	<u>6,079,000</u>	<u>6,079,000</u>

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

**WELICHEM BIOTECH INC.**  
**SCHEDULES OF RESEARCH AND DEVELOPMENT EXPENSES**  
(Unaudited – Prepared by Management)  
THREE MONTH PERIOD ENDED

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	August 31, 2004	August 31, 2003
Rent	\$ 12,533	\$ 15,124
Supplies and materials	2,297	(5,911)
Wages and benefits	<u>53,399</u>	<u>57,490</u>
	<u>\$ 68,229</u>	<u>\$ 66,703</u>

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**WELICHEM BIOTECH INC.**  
**STATEMENTS OF CASH FLOWS**  
(Unaudited – Prepared by Management)  
**THREE MONTH PERIOD ENDED**

	August 31, 2004	August 31, 2003
<b>CASH FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (123,320)	\$ (82,203)
Item not involving cash:		
Amortization	4,122	-
Changes in non-cash working capital items:		
Decrease in receivables	46,756	909
Increase (decrease) in accounts payable and accrued liabilities	<u>(7,445)</u>	<u>6,737</u>
Net cash used in operating activities	<u>(79,887)</u>	<u>(74,557)</u>
<b>CASH FROM INVESTING ACTIVITIES</b>		
Patent rights and applications	(1,483)	(22,215)
Short term investments	<u>-</u>	<u>100,027</u>
Net cash provided by (used in) investing activities	<u>(1,483)</u>	<u>77,812</u>
<b>CASH FROM FINANCING ACTIVITIES</b>		
Share subscriptions received in advance	<u>266,001</u>	<u>-</u>
Net cash provided by financing activities	<u>266,001</u>	<u>-</u>
<b>Increase in cash during the period</b>	184,631	3,255
<b>Cash, beginning of period</b>	<u>216,165</u>	<u>49,549</u>
<b>Cash, end of period</b>	<u>\$ 400,796</u>	<u>\$ 52,804</u>
<b>Cash paid during the period for interest</b>	\$ -	\$ -
<b>Cash paid during the period for income taxes</b>	-	-

**There were no significant non-cash transactions for the period ended August 31, 2004 and 2003.**

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

**WELICHEM BIOTECH INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Unaudited – Prepared by Management)

**1. BASIS OF PRESENTATION**

The interim period financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. All financial summaries included are presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding year. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual financial statements. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted. These interim period statements should be read together with the audited financial statements and the accompanying notes included in the Company's latest annual report for the year ended May 31, 2004. In the opinion of the Company, its unaudited interim financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

**2. NATURE OF OPERATIONS**

Welichem Biotech Inc. (the "Company") was incorporated on May 26, 1995 under the Company Act of British Columbia.

The Company is an early stage drug development company that exploits symbiotic systems to identify novel, small molecule drugs with exceptional pharmaceutical characteristics.

Subsequent to August 31, 2004, the Company amalgamated with Belltech Venture Ltd. ("Belltech") (Note 6).

**3. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
100,000,000 voting common shares, without par value			
100,000,000 non-voting Class A preference shares, without par value			
Common shares issued			
Balance as at May 31, 2003 and 2002	6,079,000	\$ 1,352,889	\$ -
Conversion of convertible loan	261,750	174,500	-
Shares for debt	408,000	240,000	-
Stock-based compensation	-	-	2,950
Balance as at May 31, 2004 and August 31, 2004	<u>6,748,750</u>	<u>1,767,389</u>	<u>2,950</u>
Preferred shares issued			
Balance as at May 31, 2004 and 2003	<u>100,000</u>	<u>200,000</u>	<u>-</u>
Total capital stock as at May 31, 2004 and August 31, 2004		\$ 1,967,389	\$ 2,950
Total capital stock as at August 31, 2004, May 31, 2003 and 2002		\$ 1,552,889	\$ -

**WELICHEM BIOTECH INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**4. SEGMENTED INFORMATION**

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

**5. COMMITMENTS**

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

2005	\$	28,350
2006		<u>12,600</u>
	\$	<u>40,950</u>

b) In July 2004, the Company signed an amalgamation agreement (the “Agreement”) with Belltech.

Pursuant to the terms of the Agreement, all shares of the Company and Belltech shall be converted into common shares of the amalgamated entity (“Amalco”) as follows:

- i) Each common share of Belltech will be exchanged for one common share of Amalco;
- ii) Each common share of the Company will be exchanged for 1.5 common shares of Amalco; and
- iii) Each preferred share of the Company will be exchanged for approximately 9.09 common shares of Amalco.

Each stock option of the Company will also be exchanged for 1.5 stock options of Amalco, with the equivalent expiry date and the exercise price to be adjusted for the share exchange ratio.

The proposed amalgamation is subject to a number of conditions including shareholder and regulatory approval.

**6. SUBSEQUENT EVENTS**

a) Effective November 1, 2004, the Company amalgamated with Belltech under the British Columbia Business Corporations Act, to form Welichem Biotech Inc.

b) In September 2004, the Company entered into a Technology Transfer Agreement (the “Agreement”) with Celestial Pharmaceuticals (Shenzen) Ltd. (“CPL”), a company located in the People’s Republic of China (the “PRC”). Pursuant to the Agreement, the Company has agreed to transfer and assign its rights to certain of its proprietary technologies (“Transferred Technologies”) to CPL on a royalty-free basis to use, develop, improve and upgrade the Transferred Technologies, and to distribute, market and sell products derived or manufactured from the Transferred Technologies in the PRC, Hong Kong, Macao and Taiwan.

In addition, in September 2004, the Company and CPL completed a private placement whereby the Company issued to CPL or its assignees 4,545,455 units of the Company at a price of \$0.33 per unit to raise gross proceeds of \$1,500,000. Each unit consisted of one common share and one warrant to purchase one common share at \$0.35 per share until August 31, 2006. A finder’s fee of \$90,000 was paid in connection with this financing.

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**6. SUBSEQUENT EVENTS** (cont'd...)

- c) In September 2004, the Company's board of directors approved the granting of an additional 330,000 stock options, with each option exercisable into one common share of the Company at \$0.33 per share until August 31, 2012. In addition, the Company's board of directors approved a reduction of the exercise price of 360,720 stock options, from \$1.00 per share to \$0.33 per share.