

**WELICHEM BIOTECH INC.**

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

**NOVEMBER 30, 2004**

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

	November 30, 2004	May 31, 2004
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 328,337	\$ 216,165
Short-term investments	940,878	456,665
Receivables	15,877	49,189
Research and development tax credit receivable	119,728	119,728
Prepays	<u>13,060</u>	<u>12,715</u>
	1,417,880	854,462
<b>Patent rights and applications</b>	239,802	202,433
<b>Property and equipment</b>	48,824	48,197
<b>Deposit</b>	<u>13,879</u>	<u>13,879</u>
	<u>\$ 1,720,385</u>	<u>\$ 1,118,971</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>		
Accounts payable and accrued liabilities	<u>\$ 162,884</u>	<u>\$ 41,545</u>
<b>Shareholders' equity</b>		
Capital stock (Note 6)	3,360,027	1,967,389
Contributed surplus (Note 6)	11,243	2,950
Share subscriptions received in advance (Note 9)	186,500	577,367
Deficit	<u>(2,000,269)</u>	<u>(1,470,280)</u>
	<u>1,557,501</u>	<u>1,077,426</u>
	<u>\$ 1,720,385</u>	<u>\$ 1,118,971</u>

**Commitments** (Note 5)

**Subsequent event** (Note 9)

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 November 30, 2004	Three Month Period Ended November 30, 2003	Six Month Period Ended November 30, 2004	Six Month Period Ended November 30, 2003
<b>RESEARCH AND DEVELOPMENT</b>				
<b>EXPENSES - Schedule</b>	<u>\$ 242,724</u>	<u>\$ 70,179</u>	<u>\$ 310,953</u>	<u>\$ 136,882</u>
<b>GENERAL AND ADMINISTRATIVE</b>				
<b>EXPENSES</b>				
Amortization	12,745	-	16,866	-
Consulting	3,950	-	5,000	-
Insurance	14,000	-	17,500	8,019
Office and miscellaneous	5,387	1,388	8,592	1,943
Professional fees	40,039	1,380	43,439	2,280
Rent	3,480	3,480	6,960	6,960
Telecommunications	909	811	1,643	1,151
Travel and related costs	3,484	1,100	19,173	1,688
Wages and benefits	<u>22,394</u>	<u>7,051</u>	<u>36,496</u>	<u>14,102</u>
	<u>106,388</u>	<u>15,210</u>	<u>155,669</u>	<u>36,143</u>
<b>Loss before other items</b>	<u>(349,112)</u>	<u>(85,389)</u>	<u>(466,622)</u>	<u>(173,025)</u>
<b>OTHER ITEMS</b>				
Foreign exchange loss	(63,220)	(2,355)	(69,236)	(3,544)
Other income	5,273	40,796	5,273	47,032
Interest income	<u>390</u>	<u>178</u>	<u>596</u>	<u>564</u>
	<u>(57,557)</u>	<u>38,619</u>	<u>(63,367)</u>	<u>44,052</u>
<b>Loss for the period</b>	<u>(406,669)</u>	<u>(46,770)</u>	<u>(529,989)</u>	<u>(128,973)</u>
<b>Deficit, beginning of period</b>	<u>(1,593,600)</u>	<u>(1,326,470)</u>	<u>(1,470,280)</u>	<u>(1,244,267)</u>
<b>Deficit, end of period</b>	<u>\$ (2,000,269)</u>	<u>\$ (1,373,240)</u>	<u>\$ (2,000,269)</u>	<u>\$ (1,373,240)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (0.02)</u>	<u>\$ (0.00)</u>	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>
<b>Weighted average number of common shares outstanding</b>	19,221,107	11,527,590	15,858,385	11,527,590

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 November 30, 2004	Three Month Period Ended November 30, 2003	Six Month Period Ended November 30, 2004	Six Month Period Ended November 30, 2003
Rent	\$ 7,663	\$ 12,403	\$ 20,196	\$ 27,527
Supplies and materials	168,491	10,439	170,788	4,528
Wages and benefits	<u>66,570</u>	<u>47,337</u>	<u>119,969</u>	<u>104,827</u>
	<u>\$ 242,724</u>	<u>\$ 70,179</u>	<u>\$ 310,953</u>	<u>\$ 136,882</u>

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

	Three Month Period Ended November 30, 2004	Three Month Period Ended November 30, 2003	Six Month Period Ended November 30, 2004	Six Month Period Ended November 30, 2003
<b>CASH FROM OPERATING ACTIVITIES</b>				
Loss for the period	\$ (406,669)	\$ (46,770)	\$ (529,989)	\$ (128,973)
Items not involving cash:				
Amortization	12,745	-	16,866	-
Stock-based compensation	8,293	-	8,293	-
Changes in non-cash working capital items:				
(Increase) decrease in receivables	(13,345)	(1,605)	33,411	(696)
Increase in accounts payable and accrued liabilities	<u>122,587</u>	<u>1,615</u>	<u>115,142</u>	<u>8,352</u>
Net cash used in operating activities	<u>(276,389)</u>	<u>(46,760)</u>	<u>(356,277)</u>	<u>(121,317)</u>
<b>CASH FROM INVESTING ACTIVITIES</b>				
Patent rights and applications	(42,298)	(4,388)	(43,780)	(26,603)
Equipment purchase	(11,082)	-	(11,082)	-
Short term investments	(484,213)	50,000	(484,213)	150,027
Net cash acquired from acquiring Belltech	<u>6,029</u>	<u>-</u>	<u>6,029</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>(531,564)</u>	<u>45,612</u>	<u>(533,046)</u>	<u>123,424</u>
<b>CASH FROM FINANCING ACTIVITIES</b>				
Increase in capital due to private placement financing	548,994	-	814,995	-
Share subscriptions received in advance	<u>186,500</u>	<u>-</u>	<u>186,500</u>	<u>-</u>
Net cash provided by financing activities	<u>735,494</u>	<u>-</u>	<u>1,001,495</u>	<u>-</u>
<b>Change in cash during the period</b>	(72,459)	(1,148)	112,172	2,107
<b>Cash, beginning of period</b>	<u>400,796</u>	<u>52,804</u>	<u>216,165</u>	<u>49,549</u>
<b>Cash, end of period</b>	<u>\$ 328,337</u>	<u>\$ 51,656</u>	<u>\$ 328,337</u>	<u>\$ 51,656</u>
<b>Cash paid during the period for interest</b>	\$ -	\$ -	\$ -	\$ -
<b>Cash paid during the period for income taxes</b>	-	-	-	-

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

**WELICHEM BIOTECH INC.**  
NOTES TO THE FINANCIAL STATEMENTS  
(Unaudited – Prepared by Management)  
NOVEMBER 30, 2004

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**1. BASIS OF PRESENTATION**

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial data is based on the same accounting policies and methods of their application as the most recent annual financial statements of Welichem Biotech Inc. (“Welichem”). The financial statements should be read in conjunction with Welichem’s audited financial statements for the year ended May 31, 2004. Interim results are not necessarily indicative of the results expected for the fiscal year.

**2. NATURE OF OPERATIONS**

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

On November 1, 2004, Welichem amalgamated with Belltech Ventures Ltd. (“Belltech”) (Note 3). Belltech was incorporated under the Company Act of British Columbia on February 16, 2000 and until December 12, 2003, was classified as a Capital Pool Company under the policies of the TSX Venture Exchange (“TSXV”). The amalgamated company is a reporting company in the Provinces of British Columbia and Alberta.

**3. AMALGAMATION**

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 the Company at a ratio of 1.5 to 1, Welichem’s preferred shares were exchanged for 909,090 common shares of the Company, and Belltech’s common shareholders exchanged their shares for common shares of the Company at a ratio of 1 to 1. As well, Welichem stock options were exchanged for options of the Company at a ratio of 1.5 to 1.

The former shareholders of Welichem, having received approximately 88% of the shares of the Company, have control, and therefore this amalgamation is accounted for as an acquisition of Belltech’s net assets by Welichem.

The net assets of Belltech acquired are summarized below:

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Cash	\$	6,029
Receivables		99
Prepaid expenses		345
Accounts payable and accrued liabilities		<u>(6,197)</u>
	\$	<u>276</u>

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**WELICHEM BIOTECH INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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November 30, 2004

**3. AMALGAMATION (cont'd...)**

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

Amortization	\$	913
Office and miscellaneous expenses		799
Transfer agent & regulatory fees		<u>1,221</u>
Net loss for the period	\$	<u>2,933</u>

**4. SEGMENTED INFORMATION**

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

**5. COMMITMENTS**

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>

**6. CAPITAL STOCK**

	Number of Shares	Amount
Authorized Unlimited number of common shares without par value		
Common shares issued:		
Capital stock 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	2,430,000	\$ 238,643
Contributed surplus of Belltech at November 1, 2004	-	150,000
Deficit of Belltech at November 1, 2004	-	(388,367)

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**WELICHEM BIOTECH INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**6. CAPITAL STOCK (cont'd...)**

	Number of Shares	Amount
<i>Continued...</i>		
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 common shares issued pursuant to a private placement as adjusted for the share exchange ratio of 1.5 common shares of the Company for each common share of Welichem	6,818,183	1,500,000
Welichem preferred shares issued and outstanding at November 1, 2004, as converted into common shares of the Company	909,090	200,000
Share issuance costs for private placement	-	(107,638)
	20,280,399	\$ 3,360,027

On September 8, 2004, Welichem and Celestial Pharmaceuticals (Shenzhen) Ltd. (“CPL”) completed a private placement whereby the Company issued to CPL or its assignees 6,818,183 units (adjusted for the amalgamation) of the Company at a price of \$0.22 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 \$0.23 per share until August 31, 2006. A finder’s fee of \$90,000 was paid in connection with this financing.

**7. STOCK OPTIONS**

During the period ended November 30, 2004, the Company adopted a stock option plan whereby the Company can grant stock options to directors, officers, employees and consultants to acquire up to 20% of the issued and outstanding share capital of the Company.

At November 30, 2004, 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
341,580	0.22	December 3, 2009
49,500	0.22	September 1, 2010
150,000	0.22	October 25, 2010
555,000	0.22	March 4, 2012
495,000	0.22	September 15, 2012

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**7. STOCK OPTIONS (cont'd...)**

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

	Number of Options		Weighted Average Exercise Price
Balance at May 31, 2004	940,720	\$	0.58
Granted	<u>330,000</u>		0.33
	1,270,720		0.51
Exchanged on amalgamation (Note 3)	(1,270,720)		0.51
Exchanged on amalgamation	<u>1,906,080</u>		0.22
Balance at November 30, 2004	1,906,080	\$	0.22
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Number of options exercisable at November 30, 2004	1,906,080	\$	0.22

**Stock-based compensation**

Welichem granted 330,000 (November 30, 2003 – Nil) stock options during the current period prior to amalgamation, resulting in compensation costs under the Black-Scholes option pricing model of \$8,293 (November 30, 2003 - \$Nil) which was recorded as stock-based compensation expense and included in wages and benefits expense. This amount was also recorded as contributed surplus on the balance sheet.

The following assumptions were used for the Black-Scholes valuation of stock options granted during the period:

Risk-free interest rate	4.00%
Expected life of options	2 years
Annualized volatility	0.01%
Dividend rate	Nil

**8. WARRANTS**

As at November 30, 2004, 6,818,183 warrants are outstanding. Each warrant entitles the holder to buy one common share at \$0.23 until August 31, 2006.

**9. SUBSEQUENT EVENT**

Subsequent to November 30, 2004, the Company is in the process of raising up to \$2,000,000 in a private placement at \$0.23 per share to shore up its capital base for R & D and operations in the future.