

WELICHEM BIOTECH INC.

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

FEBRUARY 28, 2005

These interim financial statements have not been reviewed or audited by an auditor.

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

	February 28, 2005	May 31, 2004
ASSETS		
Current		
Cash	\$ 296,160	\$ 216,165
Short-term investments	959,559	456,665
Receivables	9,525	49,189
Research and development tax credit receivable	0	119,728
Prepays	<u>12,715</u>	<u>12,715</u>
	1,277,959	854,462
Patent rights and applications	240,382	202,433
Property and equipment	48,769	48,197
Deposit	<u>13,879</u>	<u>13,879</u>
	<u>\$ 1,580,989</u>	<u>\$ 1,118,971</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	<u>\$ 14,611</u>	<u>\$ 41,545</u>
Shareholders' equity		
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)	439,255	577,367
Deficit	<u>(2,244,147)</u>	<u>(1,470,280)</u>
	<u>1,566,378</u>	<u>1,077,426</u>
	<u>\$ 1,580,989</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 February 28, 2005	Three Month Period Ended February 29, 2004	Nine Month Period Ended February 28, 2005	Nine Month Period Ended February 29, 2004
RESEARCH AND DEVELOPMENT				
EXPENSES – See Attached Schedule	\$ 178,662	\$ 44,354	\$ 489,615	\$ 181,235
GENERAL AND ADMINISTRATIVE				
EXPENSES				
Amortization	7,478	-	24,344	-
Consulting	41,091	-	46,091	-
Insurance	4150	4,150	21,650	12,170
Office and miscellaneous	8,605	603	17,197	2,546
Professional fees	7,668	3,860	51,107	6,141
Rent	3,480	3,480	10,440	10,440
Telecommunications	4,250	1,233	5,893	2,385
Travel and related costs	1,895	275	21,068	1,963
Wages and benefits	14,102	7,051	50,598	21,153
	<u>92,719</u>	<u>20,652</u>	<u>248,388</u>	<u>56,796</u>
Loss before other items	<u>(271,381)</u>	<u>(65,006)</u>	<u>(738,003)</u>	<u>(238,031)</u>
OTHER ITEMS				
Foreign exchange gain/(loss)	15,228	(6,250)	(54,008)	(9,794)
Other income	4,800	5,086	10,073	52,118
Interest income	7,475	3,621	8,071	4,185
	<u>27,503</u>	<u>2,457</u>	<u>(35,864)</u>	<u>46,509</u>
Loss for the period	(243,878)	(62,549)	(773,867)	(191,522)
Deficit, beginning of period	<u>(2,000,269)</u>	<u>(1,373,240)</u>	<u>(1,470,280)</u>	<u>(1,244,267)</u>
Deficit, end of period	\$ (2,244,147)	\$ (1,435,789)	\$ (2,244,147)	\$ (1,435,789)
Basic and diluted loss per common share	\$ (0.01)	\$ (0.00)	\$ (0.03)	\$ (0.02)
Weighted average number of common shares outstanding	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 February 28, 2005	Three Month Period Ended February 29, 2004	Nine Month Period Ended February 28, 2005	Nine Month Period Ended February 29, 2004
Rent	\$ 13,740	\$ 12,469	\$ 33,937	\$ 39,995
Supplies and materials	62,674	1,999	233,462	6,547
Wages and benefits	<u>102,248</u>	<u>29,886</u>	<u>222,216</u>	<u>134,693</u>
	\$ 178,662	\$ 44,354	\$ 489,615	\$ 181,235

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

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

	Three Month Period Ended February 28, 2005	Three Month Period Ended February 29, 2004	Nine Month Period Ended February 28, 2005	Nine Month Period Ended February 29, 2004
CASH FROM OPERATING ACTIVITIES				
Loss for the period	\$ (243,878)	\$ (62,549)	\$ (773,867)	\$ (191,522)
Items not involving cash:				
Amortization	7,478	-	24,344	-
Stock-based compensation	0	-	8,293	-
Changes in non-cash working capital items:				
(Increase) decrease in receivables	6,352	(47,308)	39,664	(47,307)
(Increase) decrease in R&D tax credit	119,728	171,686	119,728	171,686
(Increase) decrease in Prepaid	285	0	0	0
Increase in accounts payable and accrued liabilities	<u>(148,273)</u>	<u>(165,271)</u>	<u>(26,934)</u>	<u>(91,092)</u>
Net cash used in operating activities	<u>(258,308)</u>	<u>(103,442)</u>	<u>(608,772)</u>	<u>(224,809)</u>
CASH FROM INVESTING ACTIVITIES				
Patent rights and applications	(3,738)	(4,536)	(47,088)	(31,089)
Equipment purchase	(4,205)	-	(15,777)	-
Short term investments	<u>(18,681)</u>	<u>(3,202)</u>	<u>(502,894)</u>	<u>146,825</u>
Net cash provided by (used in) investing activities	<u>(26,624)</u>	<u>(7,738)</u>	<u>(565,759)</u>	<u>115,736</u>
CASH FROM FINANCING ACTIVITIES				
Increase in capital due to private placement financing	0	0	1,392,638	174,500
Share subscriptions received in advance	<u>252,755</u>	<u>174,500</u>	<u>(138,112)</u>	<u>-</u>
Net cash provided by financing activities	<u>252,755</u>	<u>174,500</u>	<u>1,254,526</u>	<u>174,500</u>
Change in cash during the period	(32,177)	63,320	79,995	65,427
Cash, beginning of period	<u>328,337</u>	<u>51,656</u>	<u>216,165</u>	<u>49,549</u>
Cash, end of period	<u>\$ 296,160</u>	<u>\$ 114,976</u>	<u>\$ 296,160</u>	<u>\$ 114,976</u>
Cash paid during the period for interest	\$ -	\$ -	\$ -	\$ -
Cash paid during the period for income taxes	-	-	-	-

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

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.

1 a. 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.

Patent rights and applications

Patent rights and applications are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over a maximum period of twenty years from the time of acquisition. The Company's management evaluates the recoverability of the cost of such rights annually, based on the expected utilization of the underlying technology and an assessment as to whether or not estimated future net cash flows exceed the carrying value of the patent rights and applications. If the rights and applications are not considered to be fully recoverable, a provision is recognized for the unrecoverable amount.

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.

Foreign currency translation

The monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the balance sheet date and non-monetary items are translated at historical rates. Revenues and expenses are translated at the average exchange rate for the year. Exchange gains and losses arising on translation are included in the statement of operations.

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.

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>

WELICHEM BIOTECH INC.
NOTES TO THE FINANCIAL STATEMENTS
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FEBRUARY 28, 2005

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)
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.

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7. STOCK OPTIONS

In the previous quarter 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 February 28, 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
323,580	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

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 February 28, 2005	1,906,080	\$ 0.22
Number of options exercisable at February 28, 2005	1,906,080	\$ 0.22

The weighted average exercise price for the options granted before May 31, 2004 was at \$0.58. Then, in September 2004, the Board approved the granting of additional 330,000 options, exercisable as one common share of the Company at \$0.33 per share until 2012. After taking into account the 2-for-3 split in the amalgamation with Belltech Ventures Ltd. and repricing of the exercise price, the total number of options is now 1,906,080 with a weighted average exercise price of \$0.22.

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7. STOCK OPTIONS (cont'd)

Stock-based compensation

Welichem did not grant any stock option in this reporting period.

8. WARRANTS

As at February 28, 2005, 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 February 28, 2005, the Company is in the process of raising up to \$1,500,000 in a private placement at \$0.23 per share to shore up its capital base for R & D and operations in the future.