

WELICHEM BIOTECH INC.

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

August 31, 2005

NOTE: These financial statements have not been reviewed or audited by the Company's auditor.

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

	August 31, 2005	May 31, 2005
ASSETS		
Current		
Cash	\$ 55,431	\$ 1,384,640
Short-term investments	1,430,891	875,141
Accounts receivable	24,296	16,586
Refundable tax credit	97,778	97,778
Prepaid expense	<u>12,715</u>	<u>12,715</u>
	1,621,111	2,386,860
Patent rights and applications (Note 4)	291,791	291,111
Property and equipment (Note 5)	48,154	50,524
Deposit (Note 6)	<u>13,879</u>	<u>13,879</u>
Total Assets	<u>\$ 1,974,935</u>	<u>\$ 2,742,374</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	<u>\$ 65,562</u>	<u>\$ 161,698</u>
Shareholders' equity		
Share Capital (Note 7)	5,238,644	5,238,644
Contributed surplus (Note 7)	27,493	11,243
Deficit	<u>(3,356,764)</u>	<u>(2,669,211)</u>
	<u>1,909,373</u>	<u>2,580,676</u>
Total Liabilities and Shareholder's Equity	<u>\$ 1,974,935</u>	<u>\$ 2,742,374</u>

Nature of operations (Note 2)

Commitments (Note 14)

Subsequent events (Note 15)

On behalf of the Board:

_____ Director _____ Director

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

	2005	2004
RESEARCH AND DEVELOPMENT EXPENSES - Schedule	<u>\$ 564,024</u>	<u>\$ 55,696</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Amortization – Property and equipment	3,227	4,122
Amortization – Patent rights and applications	3,655	0
Consulting	0	1,050
Director’s Fees	4,000	0
Insurance	0	3,500
Investor Relations	12,157	0
Legal and accounting fees	20,939	3,400
Office and miscellaneous	8,793	2,286
Regulatory expenses	10,688	0
Rent	21,282	16,013
Stock-based compensation	16,250	0
Telecommunications	822	1,652
Travel and related costs	6,311	15,689
Wages and benefits	<u>17,917</u>	<u>14,102</u>
	<u>126,041</u>	<u>61,814</u>
Loss before other items	<u>(690,065)</u>	<u>(117,510)</u>
OTHER ITEMS		
Foreign exchange gain	163	(6,016)
Other income	0	0
Interest income	<u>2,349</u>	<u>206</u>
	<u>2,512</u>	<u>(5,810)</u>
Loss for the period	(687,553)	(123,320)
Prior period adjustments	(6,532)	0
Deficit, beginning of period	<u>(2,662,679)</u>	<u>(1,470,280)</u>
Deficit, end of period	<u>\$ (3,356,764)</u>	<u>\$ (1,593,600)</u>
Basic and diluted loss per common share	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>
Weighted average number of common shares outstanding	<u>22,392,880</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 AUGUST 31

	2005	2004
Subcontractors, supplies and materials	462,759	2,297
Wages and benefits	<u>101,265</u>	<u>53,399</u>
	<u>564,024</u>	<u>55,696</u>

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 AUGUST 31

	2005	2004
CASH FROM (USED IN) OPERATING ACTIVITIES		
Loss for the period	\$ (687,553)	\$ (123,320)
Items not involving cash:		
Amortization of property and equipment	3,227	4,122
Amortization of patent rights and applications	3,655	0
Stock-based compensation	16,250	0
Changes in non-cash working capital items:		
Decrease (Increase) in receivables	(7,710)	46,756
Decrease in research and development tax credit receivable	0	0
Increase (Decrease) in accounts payable and accrued liabilities	<u>(96,136)</u>	<u>(7,445)</u>
Net cash used in operating activities	<u>(768,267)</u>	<u>(79,887)</u>
CASH FROM (USED IN) INVESTING ACTIVITIES		
Patent rights and applications	(4,336)	(1,483)
Short term investments	(555,750)	0
Purchase of property and equipment	<u>(856)</u>	<u>0</u>
Net cash used in investing activities	<u>(560,942)</u>	<u>(1,483)</u>
CASH FROM (USED IN) FINANCING ACTIVITIES		
Net proceeds from issuance of shares	0	-
Share subscriptions received in advance	<u>0</u>	<u>266,001</u>
Net cash provided by financing activities	<u>0</u>	<u>266,001</u>
Change in cash during the period	(1,329,209)	184,631
Cash, beginning of period	<u>1,384,640</u>	<u>216,165</u>
Cash, end of year	<u>\$ 55,431</u>	<u>\$ 400,796</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. BASIS OF PRESENTATION

These interim financial statements have been prepared by the Company 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.

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual financial statements. These interim financial 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, 2005. In the opinion of the Company, its unaudited financial statements contain all the 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" 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"), 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.

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

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

Intangible Assets (Cont'd)

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 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 the quarter ended August 31, 2005. 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

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

Research and development expenses (cont'd)

generally accepted criteria for deferral are capitalized and amortized against earnings over the estimated period of benefit. As at August 31, 2005, the Company had not deferred any development costs.

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 August 31, 2005.

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.

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THREE MONTH PERIOD ENDED AUGUST 31, 2005

4. PATENT RIGHTS AND APPLICATIONS

	August 31, 2005	May 31, 2005
Patent rights and applications	\$ 340,236	\$ 335,901
Less: accumulated amortization	<u>(48,445)</u>	<u>(44,790)</u>
	<u>\$ 291,791</u>	<u>\$ 291,111</u>

5. PROPERTY AND EQUIPMENT

	August 31, 2005			May 31, 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Lab equipment	\$ 65,608	\$ 50,035	\$ 15,573	\$ 65,608	\$ 47,658	\$ 17,950
Office equipment	33,686	20,134	13,552	32,830	19,121	13,709
Leasehold improvements	<u>44,891</u>	<u>25,862</u>	<u>19,029</u>	<u>44,891</u>	<u>26,026</u>	<u>18,865</u>
	<u>\$ 144,185</u>	<u>\$ 96,031</u>	<u>\$ 48,154</u>	<u>\$ 143,329</u>	<u>\$ 92,805</u>	<u>\$ 50,524</u>

6. DEPOSIT

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

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NOTES TO THE FINANCIAL STATEMENTS
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THREE MONTH PERIOD ENDED AUGUST 31, 2005

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>
Balance as at August 31, 2005	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.

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THREE MONTH PERIOD ENDED AUGUST 31, 2005

- e) The Company granted 150,000 stock options during this 3-month period, resulting in compensation costs under the Black-Scholes option pricing model of \$16,250 which was recorded as stock-based compensation expense and included in wages and benefits expense (Note 8).

8. STOCK OPTIONS

In the quarter ended August 31, 2005, the Company granted 150,000 stock options to 3 individuals (an officer, an employee, and a consultant).

At August 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
678,000	0.22	May 24, 2010
125,000	0.23	June 1, 2010
<u>25,000</u>	0.34	June 1, 2010
2,056,080		

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
Granted	125,000	0.23
Granted	<u>25,000</u>	0.34
Options outstanding and exercisable at August 31, 2005	2,056,080	\$ 0.22

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Stock-based compensation

The Company recorded stock-based compensation costs of \$16,250 (2004 - nil) by applying the fair value method of accounting for stock options granted during the quarter ended August 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	3.4%	2.34%
Expected life of options	5 years	6 months
Annualized volatility	80%	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 August 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. During the 3-month period ended August 31, 2005 and August 31, 2004, the Company did not receive any funding under IRAP.

In the 3-month period ended August 31, 2005 and August 31, 2004, the Company did not receive any grants from the Natural Sciences and Engineering Research Council of Canada ("NSERC") but the Company is eligible to receive up to \$4,500 per student employed.

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. SEGMENTED INFORMATION

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

14. COMMITMENTS

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

2005/06	\$ 69,840
2006/07	<u>31,450</u>
	<u>\$ 101,290</u>

Operating costs have not been included in the above figures.

15. SUBSEQUENT EVENTS

In the subsequent quarter, the Company granted 250,000 stock options to an officer. The options, being vested immediately, are exercisable at a price of \$0.23 per share for a period of five years from date of grant.

16. RELATED PARTY TRANSACTIONS

There was no related party transaction in this reporting period.