



EQUITECH
CORPORATION

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD
ENDED JUNE 30, 2002**

Equitech Corporation Second Quarter Results Management Discussion and Analysis

This management discussion and analysis of operations and financial position should be read in conjunction with the Corporation's audited financial statements and related notes for the previous fiscal year ended December 31, 2001 and the management information circular dated March 18, 2002.

OVERVIEW

On April 22, 2002, the Qualifying Transaction involving the previously documented share exchange between Zagros Pharma Limited and Equitech Corporation was approved by the Equitech shareholders at the Annual and Special Meeting of Shareholders. The issuance of share capital as part of the Qualifying Transaction, in addition to achieving the primary objective of acquiring the technology platform, lead compounds and scientific expertise of Zagros, also generated \$139,596. Zagros Pharma Limited is now a wholly owned subsidiary of Equitech Corporation. Follow-on rounds of financing and general operations of Zagros will be carried out under the name Equitech Corporation (Equitech). The financial reports and management discussion for the three month period ending June 30, 2002 are presented on a consolidated basis.

During this quarter Dr. Abraham Sunshine was appointed as Chairman of Equitech's Scientific Advisory Board. Dr. Sunshine, professor of clinical medicine at New York University School of Medicine, is a clinician and scientist recognized world-wide for his expertise in pain management and holds more than 15 patents in analgesics and clinical pharmacology. Dr. Sunshine has been involved in numerous analgesic clinical trials and has acted as an advisor to the FDA in matters related to analgesic products.

Also during this quarter Ms. Elizabeth Watts was retained on a consulting basis as Director of Regulatory Affairs and Clinical Operations. Ms.

Watts recently moved to Edmonton from the UK where she worked in the pharmaceutical industry for 20 years. Ms. Watts has extensive experience in designing, implementing and coordinating clinical trials, as well as obtaining approval to market new drugs from government health regulatory agencies.

The experience of both Dr. Sunshine and Ms. Watts will help ensure Equitech's lead compounds successfully complete clinical trials and comply with health regulatory organizations.

Company scientists continue formulation optimization and characterization of the ibuprofen lead compound (ZAG-1701) using the patent pending animal pain model. Optimization of the formulation for quicker dissolving and absorption has led to submitting an additional patent application on the Corporation's novel lead compound.

During this period Dr. Jamali submitted a scientific abstract which was approved for presentation at the American Association of Pharmaceutical Scientists annual meeting to be held in Toronto in November 2002. The title of the abstract is "Enhanced Rate of Ibuprofen Absorption by Gelucire".

The provisional patent application the company filed a year ago has been converted to full world wide and US patent applications. These applications cover and protect Equitech's novel analgesic formulations including ZAG-1701 as well as the animal model for evaluating analgesics. The Corporation now has 5 patent application pending.

In June the Corporation moved its head office to the University of Alberta Campus to be near the Research & Development labs of the company.

RESULTS OF OPERATIONS

The net loss from operations for the three month period ended June 30, 2002 (Q1 2002) was \$110,576. The net loss for the period is largely attributable to increased expenses to ramp up and accelerate operations of the company immediately before and after the Qualifying Transaction. Expenses related to Research & Development, regulatory filing and clinical trial preparation account for approximately 66% of operating expenses.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation had cash and short-term investments of \$434,910 at June 30, 2002 compared to cash and short term investments of \$482,722 at December 31, 2001. The issuance of share capital as part of the Qualifying Transaction generated \$139,596. Equitech invested \$17,839 in developing and broadening the Corporation's Intellectual Property portfolio.

CAPITAL EXPENDITURES

During this period the Corporation invested \$11,179 in capital assets including office furniture and computer equipment related to the move to new head offices.

FINANCING ACTIVITIES

In order to fund the manufacturing of ZAG-1701 for pre-clinical testing and as well as to conduct the initial stages of the clinical trial program, Equitech management has decided to raise \$2.0 million of equity. An Offering Memorandum has been prepared, it is anticipated that these funds will be raised on a private placement basis.

RISKS AND UNCERTAINTIES

Raising capital

Equitech has a drug development strategy based on adding value to already marketed drugs that minimizes the amount of capital and time required to bring a new product to market. The Corporation plans to fund future operations through equity offerings as markets permit, or through collaborative arrangements but there is no assurance that funds will be available as needed. Market prices for securities in biotechnology companies are volatile and the Corporation's ability to raise funds will depend on the progress of research and development, clinical trial results and developing alliances with suitable partners.

Demonstration of success in human patients

The lead compound ZAG-1701 demonstrates faster delivery of medication in the company's patent pending animal pain model. ZAG-1701 will be tested in human volunteers in a clinical trial. Until the compound is tested in humans, there is a level of uncertainty surrounding the ability of the Equitech product to produce its intended quicker onset of pain relief. The model that Dr. Jamali has developed to screen Equitech formulations significantly minimizes the risk of the product not working in humans as anticipated because the model simulates the reduced gastric function and absorption found in humans when they are experiencing acute pain. In addition, risk is further reduced as ibuprofen (the active ingredient in ZAG-1701) is already a compound that has received regulatory approval for marketing.

Receiving full patent protection for proprietary technologies

At this time US and world-wide patents have been filed, based on the animal model and lead ibuprofen based compounds. As with all patent

applications, there is a degree of uncertainty surrounding the eventual granting of the claims in the patent application by the examiners at the patent office. The company has retained experienced patent agents to help with the granting process. Equitech will continue to collect experimental data to further support the claim of enhanced absorbance.

Receiving approval from regulatory authorities

One of the greatest risk variables in the drug development process is the eventual receipt of regulatory approval to market a pharmaceutical product. Equitech products will be subject to the approval processes of regulatory agencies such as the FDA (U.S.) and HPB (Canada). The Equitech strategy of using established active compounds and formulation ingredients, in previously approved dosages, is intended to expedite and enhance the chance for success in the regulatory process. Equitech products will enter the approvals process with some of the regulators' concerns already addressed because commonly used pharmaceutical ingredients that have been demonstrated to be safe are being incorporated into the Equitech formulations.

Strategic partners

Equitech's partner Ethypharm will provide pilot scale manufacturing of Equitech's novel formulations. These products will be used for pre-clinical and clinical testing. It is also planned that Ethypharm will also be involved in full-scale production once regulatory approval is obtained. Any significant changes to the programs in which Equitech's partners participate, or any deterioration in Equitech's relationship with any of its strategic partners, could negatively impact the company's business and financial position.

OUTLOOK

Dr. Jamali, the Corporation's Chief Scientific Officer continues formulation optimization and detailed pharmacokinetic characterization of the lead compound ZAG-1701 in preparation for pilot scale manufacture at Ethypharm. The Corporation continues development work on its second product candidate which is another pain relief compound. Company scientists expect to start testing better absorbing formulations developed in the lab of this compound in the animal pain model

The Corporation continues to make progress on its regulatory filing and clinical trial plans for ZAG-1701. Product formulation and process method details for manufacture of pilot scale quantities of ZAG-1701 are being transferred to Ethypharm Inc. This manufacturing batch will be used for final pre-clinical assessment in the animal pain model and clinical trials. All regulatory documents are being finalized in preparation for a pre-IND meeting with the FDA. At this meeting guidance will be given to Equitech on its clinical development plans.

Equitech will continue to evaluate its strategy options for corporate and business development. This evaluation could include potential research collaborations and corporate partnerships based on new product development opportunities.

Readers are cautioned that the actual results may differ materially from the results projected in any forward looking statements included in this report, which involve a number of risks and uncertainties (See "Risks and Uncertainties").



James A Chivers-Wilson,
President and CEO

Equitech Corporation
Consolidated Interim Statement of Loss and Deficit
For the Six Month Period Ended June 30, 2002
(unaudited)

	Three Month Period Ended June 30		Cumulative Six Month Period Ended June 30	
	2002 \$	2001 \$	2002 \$	2001 \$
REVENUE	-	-	-	-
OPERATING EXPENSES				
Agency and filing fees	6,848	-	11,208	-
Management and office remuneration	23,667	-	23,667	-
Professional fees	3,462	-	9,389	-
General and administrative	5,839	6,308	6,198	7,901
Research and development	72,598	-	72,598	-
	112,414	6,308	123,060	7,901
LOSS FROM OPERATIONS	(112,414)	(6,308)	(123,060)	(7,901)
OTHER INCOME				
Interest income	1,838	3,357	3,050	10,093
NET INCOME (LOSS)	(110,576)	(2,951)	(120,010)	2,192
DEFICIT , beginning of period	(67,797)	5,274	(58,363)	131
DEFICIT , end of period	(178,373)	2,323	(178,373)	2,323

Equitech Corporation
Consolidated Interim Balance Sheet
For the Six Month Period Ended June 30, 2002
(unaudited)

	June 30, 2002	December 31, 2001
	\$	\$
ASSETS		
CURRENT		
Cash and equivalents	302,759	482,722
Accounts receivable	2,151	-
Investment in term deposit	130,000	-
	434,910	482,722
ADVANCES FROM RELATED PARTY	-	19,621
PATENT COSTS	17,839	-
CAPITAL ASSETS	11,179	-
GOODWILL	248,253	-
	712,181	502,343
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	-	22,160
SHARE CAPITAL AND DEFICIT		
SHARE CAPITAL (Note 3)	890,554	538,546
DEFICIT	(178,373)	(58,363)
	712,181	502,343

Equitech Corporation
Consolidated Interim Statement of Cash Flows
For the Six Month Period Ended June 30, 2002
(unaudited)

	Three Month Period Ended June 30		Cumulative Six Month Period Ended June 30	
	2002 \$	2001 \$	2002 \$	2001 \$
CASH PROVIDED BY (USED IN):				
OPERATIONS:				
Net income (loss)	(110,576)	(2,951)	(120,010)	2,192
Items which do not involve cash:				
Change in non-cash working capital	(7,737)	-	(24,311)	(24,868)
	(118,313)	(2,951)	(144,321)	(22,676)
FINANCING:				
Issuance of share capital for cash, net of issue cost	139,596	-	139,596	20,732
	139,596	-	139,596	20,732
INVESTING:				
Goodwill	(248,253)	-	(248,253)	-
Purchase of fixed assets	(11,179)	-	(11,179)	-
Purchase of investments	(130,000)	-	(130,000)	-
Advances to related parties	50,201	-	19,621	-
Patent costs	(17,839)	-	(17,839)	-
	(357,070)	-	(387,650)	-
Decrease in cash and cash equivalents	(335,787)	(2,951)	(392,375)	(1,944)
Non-cash consideration on acquisition of subsidiary	212,412	-	212,412	-
Decrease in cash and cash equivalents	(123,375)	(2,951)	(179,963)	(1,944)
Cash and cash equivalents, beginning of period	426,134	552,674	482,722	551,667
Cash and cash equivalents, end of period	302,759	549,723	302,759	549,723

The company considers cash and cash equivalents to be highly liquid investments with original maturities of three months or less.

Equitech Corporation
Notes to the Interim Financial Statements
For the Six Month Period Ended June 30, 2002
(unaudited)

1. BASIS OF PRESENTATION

In the opinion of management, the unaudited financial statements of the Company have been prepared on a consistent basis with the December 31, 2001 audited financial statements and include all material adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position of the Company at June 30, 2002 and the results of operations and cash flows for the six months ended June 30, 2002 in accordance with Canadian generally accepted accounting principles. These statements should be read in conjunction with the Company's December 31, 2001 audited financial statements and the management information circular dated March 18, 2002.

2. NATURE OF OPERATIONS

Equitech Corporation was incorporated under the provisions of the Business Corporations Act (Alberta) on June 23, 2000.

The company's primary activity is research and development of fast-acting analgesic drugs.

3. SHARE CAPITAL CONTINUITY SCHEDULE

	#	\$
Per December 31, 2001 audited financial statements	4,025,000	538,546
Equitech shares issued pursuant to qualifying transaction	1,102,941	173,162
Equitech shares issued for cash	515,000	103,000
Equitech shares issued pursuant to private placement	100,000	100,000
Equitech shares issued pursuant to the acquisition of technology from Dr. Jamali	250,000	39,250
Issue costs incurred during the current period	-	(63,404)
	<u>5,992,941</u>	<u>890,554</u>

EQUITECH
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