



EQUITECH
CORPORATION

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD
ENDED SEPTEMBER 30, 2002**

EQUITECH
CORPORATION

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Equitech Corporation Third 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

EquiTech Corporation is a public pharmaceutical company, based in Edmonton Alberta. EquiTech's technology and lead compounds are based on groundbreaking scientific discoveries made by the company's scientific founder, Dr. Fakhreddin Jamali, a world-renowned Professor of Pharmacy and Pharmaceutical Sciences at the University of Alberta and Chief Scientific Officer of EquiTech.

Typically, people take analgesic products such as ibuprofen in order to relieve pain with the desired effect of relieving pain quickly. However, Dr. Jamali has found that people in pain absorb ibuprofen slower (as compared to healthy people). This means that ibuprofen is slower to take effect when people are in pain. Building on this discovery, Dr. Jamali has developed a new ibuprofen formulation that may provide faster pain relief in people actually experiencing pain. This new formulation is EquiTech's lead compound, ZAG-1701.

In this quarter Dr. Jamali continued formulation optimization of the lead compound ZAG-1701 in preparation for pilot scale manufacture at Ethypharm Inc. Ethypharm is a manufacturer of pharmaceutical products and an equity partner with EquiTech.

Documents and materials required by the FDA for an Investigational New Drug submission have been prepared and a meeting with the FDA is scheduled for

December 9. At this meeting the company will receive guidance and feedback on our plans to conduct clinical trials in humans on ZAG-1701.

In July of this year EquiTech was awarded a \$75,000 grant through the Technology Commercialization (TC) program of the Alberta Heritage Foundation for Medical Research (AHFMR). A further \$75,000 will be received pending successful completion of mutually agreed to milestones set out in the grant. The grant will be used to offset the costs of manufacturing and testing of the Corporation's lead compound. The Corporation views this TC grant from the AHFMR as important validation of the science and management of the company which will help EquiTech bring the lead compound to market.

During this quarter, EquiTech partnered with WestLink Innovation Network, a Western Canadian not-for-profit organization designed to accelerate successful commercialization. Through WestLink's Technology Commercialization Internship Program, EquiTech has contracted the services of a WestLink intern who is experienced in business development and commercialization. EquiTech's WestLink intern will be involved in identifying companies or products that may be potential candidates for strategic partnerships based on EquiTech's enhanced absorption technology platform.

RESULTS OF OPERATIONS

The net loss from operations for the three month period ended September 30, 2002 (Q3 2002) was \$115,395. The net loss for the period is largely attributable to continued late stage development of the lead compound ZAG-1701 and preparation of documents and material for FDA regulatory filings. Over the six month period ended September 30, 2002 expenses related to research & development, regulatory filing and clinical trial preparation, account for approximately 49% of operating expenses.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation had cash, short-term investments and prepaid expenses of \$384,864 at September 30, 2002 compared to cash and short term investments of \$482,722 at December 31, 2001. This amount includes a \$130,000 investment in term deposits. EquiTech invested \$51,089 in developing and broadening the Corporation's Intellectual Property portfolio.

FINANCING ACTIVITIES

During this quarter, company management and members of the Board have been actively pursuing a private placement of equity. Proceeds will be used to fund the manufacturing of ZAG-1701 for pre-clinical testing as well as to conduct the initial stages of the clinical trial program.

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

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.

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 Nine Month Period Ended September 30, 2002
(unaudited)

	Three Month Period Ended September 30		Cumulative Nine Month Period Ended Sept. 30	
	2002 \$	2001 \$	2002 \$	2001 \$
REVENUE	-	-	-	-
OPERATING EXPENSES				
Agency and filing fees	14,995	-	26,203	-
Management and office remuneration	23,495	22,470	47,162	22,470
Professional fees	26,751	-	36,140	-
General and administrative	5,944	2,334	12,142	10,235
Research and development	44,210	-	116,808	-
	115,395	24,805	238,455	32,705
LOSS FROM OPERATIONS	(115,395)	(24,804)	(238,455)	(32,705)
OTHER INCOME				
Interest income	1,761	7,130	4,811	17,223
NET INCOME (LOSS)	(113,634)	(17,674)	(233,644)	(15,482)
DEFICIT , beginning of period	(178,373)	2,323	(58,363)	131
DEFICIT , end of period	(292,007)	(15,351)	(292,007)	(15,351)

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

	September 30, 2002	December 31, 2001
	\$	\$
ASSETS		
CURRENT		
Cash and cash equivalents (Note 4)	243,334	482,722
Accounts receivable	2,680	-
Investment in term deposit	130,000	130,000
Prepaid expenses	8,850	-
	384,864	482,722
ADVANCES FROM RELATED PARTY	-	19,621
PATENT COSTS	51,089	-
CAPITAL ASSETS	13,326	-
GOODWILL	248,253	-
	697,532	502,343
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	23,985	22,160
AHFMR GRANT (Note 5)	75,00	
SHARE CAPITAL AND DEFICIT		
SHARE CAPITAL (Note 3)	890,554	538,546
DEFICIT	(292,007)	(58,363)
	697,532	502,343

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

	Three Month Period Ended September 30		Cumulative Nine Month Period Ended Sept. 30	
	2002 \$	2001 \$	2002 \$	2001 \$
CASH PROVIDED BY (USED IN):	-	-	-	-
OPERATIONS:				
Net income (loss)	(113,634)	(17,674)	(233,644)	(15,482)
Items which do not involve cash:				
Change in non-cash working capital	14,606	-	(9,705)	(24,868)
	(99,028)	(17,674)	(243,349)	(40,350)
FINANCING:				
Issuance of share capital for cash, net of issue cost	-	-	139,596	20,732
AHFMR Grant	75,000	-	75,000	-
	75,000	-	214,596	20,732
INVESTING:				
Goodwill	-	-	(248,253)	-
Purchase of fixed assets	(2,147)	-	(13,326)	-
Purchase of investments	130,000	-	-	-
Advances to related parties	-	-	19,621	-
Patent costs	(33,250)	-	(51,089)	-
	94,603	-	293,047	-
Decrease in cash and cash equivalents	70,575	(17,674)	(321,800)	(19,618)
Non-cash consideration on acquisition of subsidiary	-	-	212,412	-
Decrease in cash and cash equivalents	70,575	(17,674)	(109,388)	(19,618)
Cash and cash equivalents, beginning of period	302,759	549,723	482,722	551,667
Cash and cash equivalents, end of period	243,334	532,049	243,334	532,049

Equitech Corporation
Notes to the Interim Financial Statements
For the Nine Month Period Ended September 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 September 30, 2002 and the results of operations and cash flows for the nine months ended September 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>

4. CASH AND CASH EQUIVALENTS

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

5. AHFMR GRANT

Equitech Corporation has received a \$75,000 grant through the Technology Commercialization (TC) Program of the Alberta Heritage Foundation for Medical Research (AHFMR). A further \$75,000 will be received under this program some time during the first quarter of 2003. The grant is repayable at a rate of 5% of gross sales with provision for some reduction given the exercise of a prepayment option. If there are no gross sales of the specified products, there is no requirement for repayment.