

Can life get any better?



EQUITECH
CORPORATION

2002 Annual Report

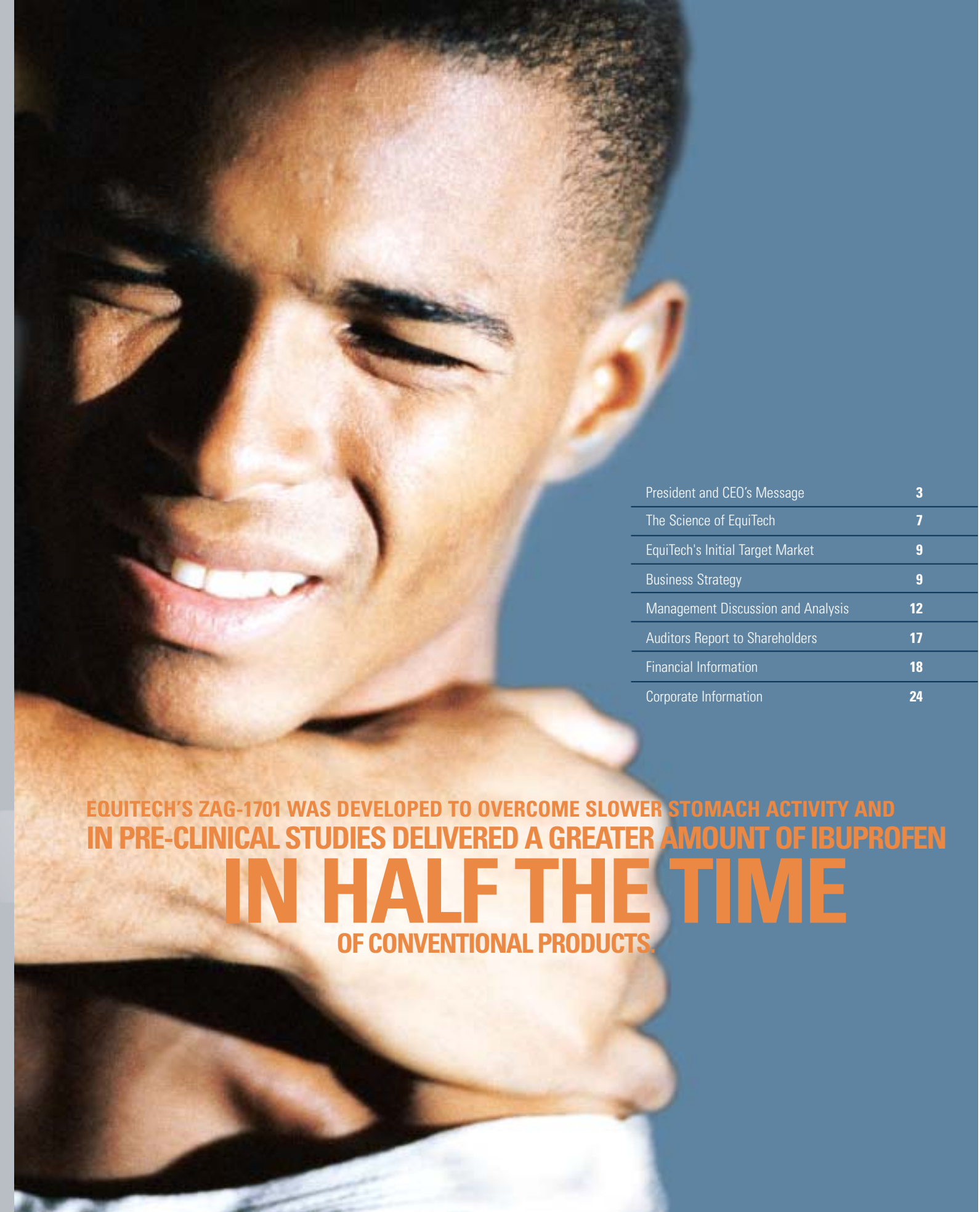
YES.

This afternoon Dan left work early because of a throbbing headache. On his way home, he stopped off at the drug store and picked up an improved painkiller that offered near instant relief. Dan took a single pill and in half the time of regular pain relief products his nagging headache disappeared, allowing him to get back on his feet and doing the things he loves. **That's the future according to the science of EquiTech.**



The EquiTech Story

EquiTech Corporation is a specialty pharmaceutical company focused on improving the effectiveness of existing medications. Our work is based on the groundbreaking scientific discovery that, during episodes of acute pain, stomach activity slows down and affects the way drugs are absorbed by the body. This can sharply impact the efficiency of pain relief medication. Building on this discovery, EquiTech has developed an Enhanced Absorption Technology Platform that is used to reformulate and improve the effectiveness of existing drugs. EquiTech's lead compound, a fast-acting ibuprofen called ZAG-1701, promises relief in a much shorter amount of time – **providing acute pain relief when it's needed most.**



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EQUITECH'S ZAG-1701 WAS DEVELOPED TO OVERCOME SLOWER STOMACH ACTIVITY AND
IN PRE-CLINICAL STUDIES DELIVERED A GREATER AMOUNT OF IBUPROFEN
IN HALF THE TIME
OF CONVENTIONAL PRODUCTS.

Dear Shareholders



James A. Chivers-Wilson, President and CEO

2002 was a year of tremendous change and growth for EquiTech Corporation. It began in April when our shareholders approved one of our major objectives – the purchase of Zagros Pharma Limited. Zagros is a specialty pharmaceutical company with the potential to become a world leader in developing better performing pharmaceuticals. What's most exciting and promising about this acquisition is the scientific expertise its founder brings to the EquiTech team. Several years ago, Dr. Fakhreddin Jamali made some key discoveries on the nature of pain and the effectiveness of pain relief medication. His work forms the basis for EquiTech's future, and we are proud to say that Dr. Jamali has brought his expertise to EquiTech's Board of Directors and is now our Chief Scientific Officer. We look forward with great optimism to more exciting discoveries and a continuation of his ground-breaking work in improving a number of existing medications.

Since the acquisition of Zagros, EquiTech's management and Board of Directors have worked diligently towards the vision of building a world class pharmaceutical company. As part of this journey, personnel and infrastructure have been put in place to help implement the business plan and begin the task of establishing EquiTech as a specialty pharmaceutical company. Many business and scientific milestones have been achieved this year, necessary steps in creating a growth-oriented business rooted in its leading edge scientific platform.

Some of these key milestones in a very busy year include:

Selecting ZAG-1701 as our lead compound for relief of acute pain

In ground-breaking pre-clinical research, a reformulated version of ibuprofen, ZAG-1701, delivered more ibuprofen in half the time of standard products already on the market. This exciting discovery opens the door to the \$25 billion pain relief industry by introducing an improved product that performs when it's needed most. Manufacturing details of ZAG-1701 have been completed and the product is now ready to be processed for clinical trials.

A fast and efficient regulatory and clinical trial plan is ready

In a meeting with officials from the U.S. Food and Drug Administration (FDA) in December, EquiTech was given the green light to apply for pivotal Phase II/III clinical trials. In essence, this approval means we can go straight to conducting clinical trials with volunteers experiencing acute pain, and demonstrate how fast ZAG-1701 can relieve pain compared to other ibuprofen products.

World renowned pain expert appointed as Chairman of the Scientific Advisory Board

Dr. Abraham 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. Dr. Sunshine holds more than 15 patents in analgesics and clinical pharmacology – his guidance has already helped EquiTech comply with health regulatory organization guidelines and design a cost effective clinical trial plan.

Expansion of EquiTech's product development pipeline

In addition to continuing his work on our lead compound, Dr. Jamali has used the **Enhanced Absorption Technology Platform** to reach late stage development on a variety of other analgesic products. By adding additional products to the pipeline and diversifying our expertise, Dr. Jamali's research increases EquiTech's opportunities of entering into strategic alliances with pharmaceutical partners.

Intellectual property created and protected through patent applications

Our intellectual property is based on a breakthrough in scientific knowledge on the nature of pain and the effectiveness of pain relief medication. From this platform, EquiTech has created an intellectual property portfolio of three U.S. and two world-wide patent applications that enable us to protect our improved ibuprofen products (including ZAG-1701) and related compounds, as well as the tools that help us do this important research.



Year in Review

Acquisition of Zagros Pharma Inc. approved by shareholders

Selected ZAG-1701 as our lead compound for relief of acute pain

Prepared a fast and efficient regulatory and clinical trial plan

Appointed world renowned pain expert as Chairman of the Scientific Advisory Board

Expanded EquiTech's product development pipeline

Created and protected intellectual property through patent applications

Raised additional equity capital

Received grant support from the Alberta Heritage Foundation for Medical Research



**THE U.S. PAIN MEDICATION MARKETPLACE WILL SURPASS
\$25 BILLION IN 2003**

AND IS FORECASTED TO DOUBLE IN REVENUE OVER THE NEXT SEVEN YEARS.

Additional equity capital raised

In a convincing show of support for the business opportunity represented by the acquisition of Zagros, Directors and Officers of the Company invested a further \$100,000 of equity capital and exercised \$128,000 in options. In addition to this, \$374,200 of equity capital financing was closed in January of 2003 through a private placement.

Grant support from the Alberta Heritage Foundation for Medical Research (AHFMR)

In July EquiTech was awarded a \$150,000 repayable grant through the Technology Commercialization program of the Alberta Heritage Foundation for Medical Research. This grant is contingent upon successful completion of several key milestones but nonetheless represents an important validation of the science and management of the EquiTech team.

You can see by the above highlights that we have much to be proud of. The growth and transformation of EquiTech this past year into a specialty pharmaceutical company points us towards the ultimate goal of becoming a world leader in the development of more efficient, effective pharmaceuticals. Next year holds even more promise as we strive to bring ZAG-1701 to market, expand our product pipeline and continue our financing efforts.

We believe strongly in the work we do at EquiTech, but our passion comes from more than the pursuit of good science. It is driven by the enormous potential our work represents in providing faster pain relief to millions of people throughout the world. Our plan for 2003 is to step even closer to that exciting vision.

On behalf of the Board, I would like to thank our shareholders and investors for allowing us to begin capitalizing on the enormous opportunity that stands before us. I look forward to your ongoing support and patience as we continue to build a world class specialty pharmaceutical company – and create value for the shareholders who are helping us get there.



James A. Chivers-Wilson
President and CEO

a year of tremendous change and growth

Our passion comes from more than the pursuit of good science. It is driven by the enormous potential of providing rapid relief to pain sufferers.

The Science of EquiTech

EquiTech's vision of improving existing medications is based on the ground-breaking discoveries of Dr. Fakhreddin Jamali on how the body absorbs and reacts to medication. In 1999 Dr. Jamali discovered that ibuprofen, an analgesic medication used to relieve acute pain, was not being absorbed into the bloodstream when a person needed it most. He found that during acute pain, stomach activity and digestion slow down, preventing the ibuprofen pill from breaking down quickly. This slowing down of stomach activity is a normal defense against pain as the body naturally and instinctively tries to heal or fix the root cause of discomfort.

This breakthrough in scientific knowledge led Dr. Jamali and his team of scientists to develop an **Enhanced Absorption Technology Platform** that overcomes the reduced activity of the stomach and allows the drug to be absorbed faster. In order to select drugs that potentially could be improved, Dr. Jamali developed a patent-pending animal model using laboratory rats in which the stomach activity is slowed down to mimic the decrease in stomach digestion seen in humans experiencing acute pain. It is important to note that the animal itself does not experience pain, but rather its stomach is just slower acting.

Dr. Jamali's 25 years of experience and understanding on how drugs are absorbed is being used to develop improved versions of existing drugs. ZAG-1701, a fast acting ibuprofen, is EquiTech's first lead compound.

There are many advantages to this approach of making existing drugs better:

- The therapeutic benefits of our improved products are potentially greater compared to the original product and the side effects may be less.
- There is less risk, development time and costs in enhancing the performance of existing products compared to creating completely new pharmaceutical entities.
- There is the potential for an extensive product development pipeline because it is still not known how effectively many existing pharmaceuticals absorb into the bloodstream, especially when stomach activity is decreased.
- Due to the competitive nature of the pharmaceutical industry, and the high cost of research and development, there is a steady source of co-development and marketing partners looking to extend the life cycles of their products. EquiTech's breakthrough platform can help them do this.
- Strong and broad patent protection can be gained for these improvements to existing drugs.



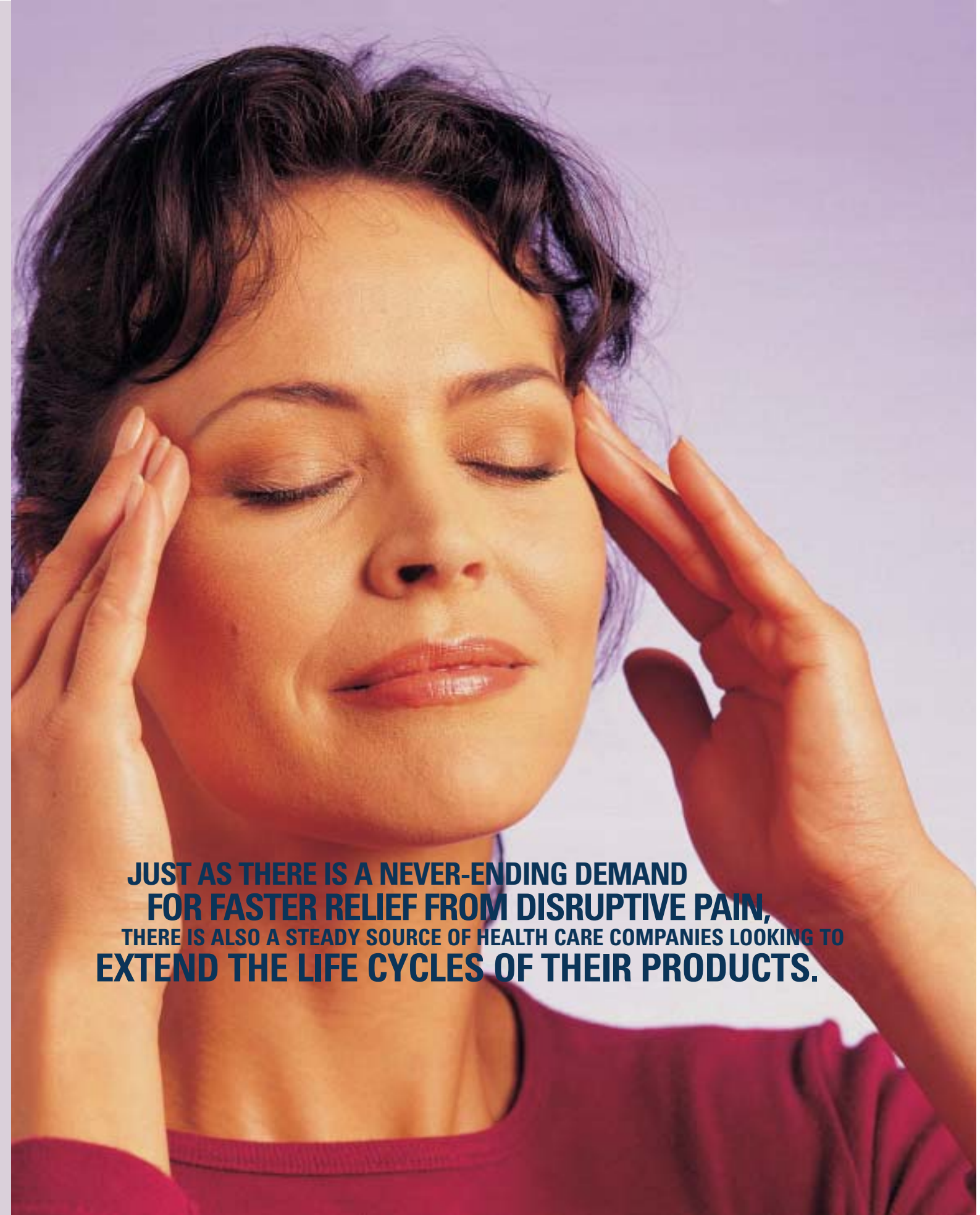
Dr. Fakhreddin Jamali, Chief Scientific Officer and Vice President, Research and Development



During acute pain stomach activity slows down, preventing the ibuprofen pill from breaking down quickly.

Dr. Jamali and his team of scientists developed an **Enhanced Absorption Technology Platform** that overcomes the reduced activity of the stomach and allows the drug to be absorbed faster.

EquiTech's ZAG-1701 was developed to overcome slower stomach activity and in pre-clinical studies delivered a greater amount of ibuprofen in **half the time of conventional ibuprofen products.**



JUST AS THERE IS A NEVER-ENDING DEMAND FOR FASTER RELIEF FROM DISRUPTIVE PAIN, THERE IS ALSO A STEADY SOURCE OF HEALTH CARE COMPANIES LOOKING TO EXTEND THE LIFE CYCLES OF THEIR PRODUCTS.

EquiTech's Initial Target Market

Acute pain and the need for better medication

The potential for EquiTech's products is a story easily told. A recent survey of pain sufferers found that 67% of them were not satisfied with the effectiveness of their medication. This despite the fact that consumers have access to a dizzying variety of over-the-counter pain relief products.

An improved version of ibuprofen, ZAG-1701, has been developed as EquiTech's first lead compound because of the large market potential for a faster acting pain relief product available without a prescription. Below is a brief summary of the marketplace ZAG-1701 could find itself in. We believe the potential for a vastly improved product speaks for itself given these facts:

67% not satisfied

- The U.S. pain medication marketplace will surpass \$25 billion in 2003 and is forecasted to double in revenue over the next seven years.
- Over-the-counter (OTC) analgesic medications represent 42% of the total analgesic market.
- In the U.S. alone the OTC pain remedies market is over \$3.0 billion.
- Oral pain relief products have had annual growth rates of at least 3.5% over the last decade.
- The two premier branded ibuprofen products have a combined market share of more than 20% and good market share growth.

To meet the needs of a dissatisfied marketplace, a number of new OTC pain relief products with different coatings and formulations have been launched in recent years by major pharmaceutical companies. These new product introductions, including a liquid gel version of ibuprofen, have been successfully promoted as faster acting and have enjoyed strong, sustained growth. This success in an already saturated marketplace confirms not only that pain sufferers are dissatisfied with current products, but that there is a significant demand for faster acting versions of proven pain relief products.

What's better about ZAG-1701

A consumer in search of a pain relief product doesn't necessarily care how pain relief comes, but they do care when it comes. Products currently on shelves around the world were not developed to overcome the reduced stomach activity that occurs during episodes of acute pain. By not zeroing in on this key detail, many of these products are essentially operating at half throttle.

EquiTech's ZAG-1701 was developed to overcome slower stomach activity and deliver a greater amount of ibuprofen in half the time of conventional ibuprofen products. EquiTech's management intends to capitalize on this enormous market potential by entering into a strategic partnership with an established pharmaceutical or health care company.

Business Strategy

As a specialty pharmaceutical company, EquiTech's competitive edge is rooted in excellent science and our **Enhanced Absorption Technology Platform**. We have the ability to cost-effectively apply our patent pending technology to improve the bioavailability of a wide range of products already on the market. Because we are applying our Enhanced Absorption Technology to existing products, our development time for new products is significantly shorter and our costs are much less.

Our partnership strategy envisions us connecting with companies that have significant marketing and distribution presence in the pain relief market place. Potential partners include major international pharmaceutical companies or private-label/generic manufacturers who wish to develop new products or extend the profitability of their existing brands through product life cycle management strategies.

This partnership strategy fits into our 2003 business objectives of focusing on our research and development capabilities and ensuring financial stability by:

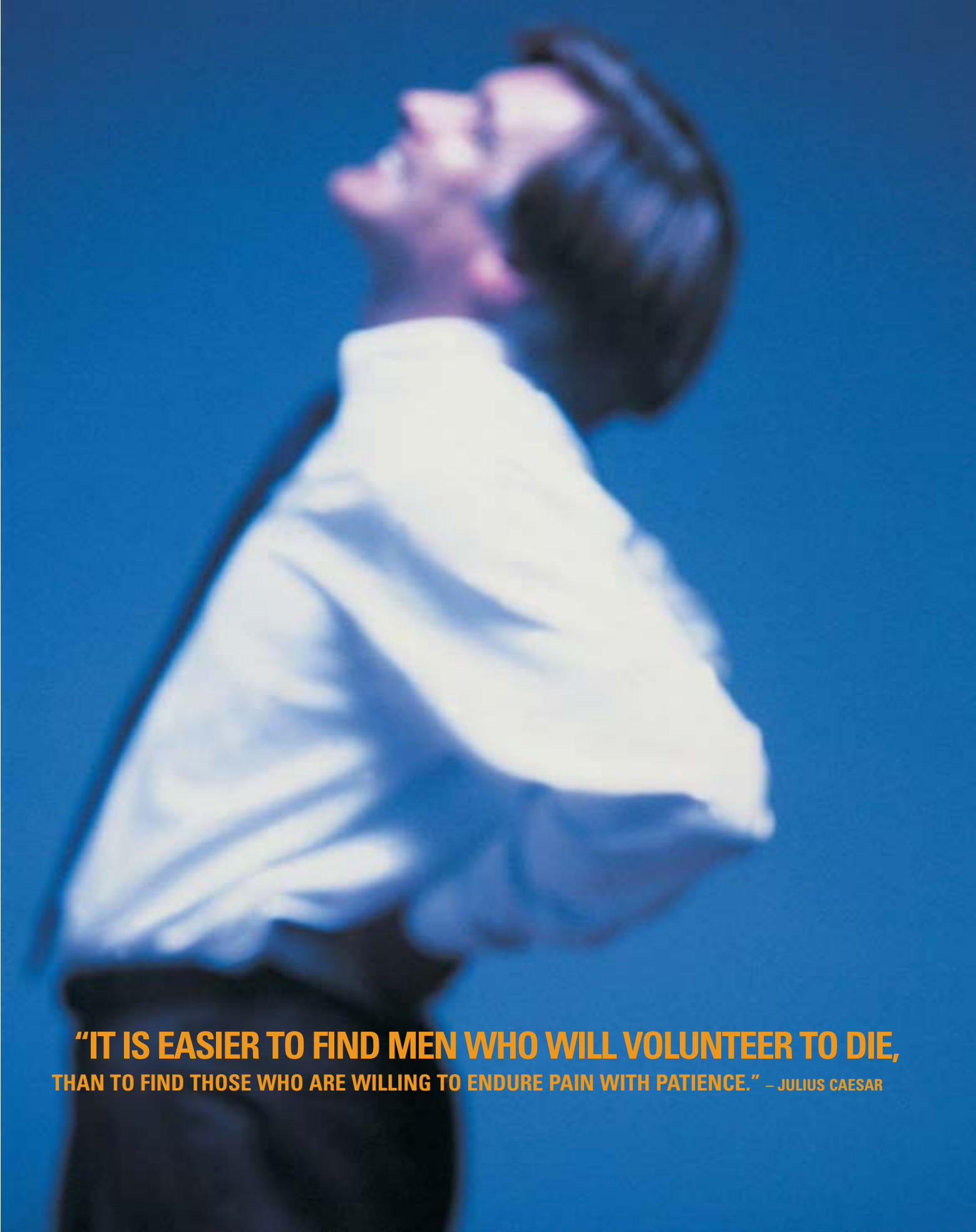
- Demonstrating the faster acting pain relief of ZAG-1701 in pivotal clinical trials;

- Developing a co-development and marketing alliance with a strategic partner on ZAG-1701;
- Quickly growing the product pipeline using our **Enhanced Absorption Technology Platform**; and
- Completing additional equity financings through the public or private markets depending on market conditions and company developments.

The infrastructure we employ will continue to be lean and flexible, using third party contractors for manufacturing, regulatory filings and executing clinical trials. EquiTech will continue to maintain the laboratory and office facilities provided by the University of Alberta.

By focusing on our **Enhanced Absorption Technology Platform** and executing our partnering and business strategy we will continue to build a world class specialty pharmaceutical company.





**“IT IS EASIER TO FIND MEN WHO WILL VOLUNTEER TO DIE,
THAN TO FIND THOSE WHO ARE WILLING TO ENDURE PAIN WITH PATIENCE.” – JULIUS CAESAR**

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

In April 22 of this year EquiTech Corporation (“EquiTech”) purchased Zagros Pharma Limited (“Zagros”) in a share exchange between Zagros and EquiTech. This transaction was approved by the EquiTech shareholders. The acquisition of Zagros was a major milestone for EquiTech and since the purchase, Company management has worked diligently to build a business around the Enhanced Absorption Technology Platform, lead compounds and scientific expertise of Zagros.

To date EquiTech has funded operations through the initial equity offering related to the qualifying transaction in April and a repayable grant from the Alberta Heritage Foundation for Medical Research. EquiTech has not generated positive cash flow from operations. Until commercialization of its drug candidates, EquiTech expects losses to continue as it invests in product research and development, pre-clinical studies, clinical trials and regulatory compliance.

EquiTech is developing more effective versions of existing medications based on the ground breaking discoveries of Dr. Fakhreddin Jamali, a world-renowned scientist and Professor of Pharmacy and Pharmaceutical Sciences at the University of Alberta. The company selects products for further development which are in large markets where consumer needs are not well met and the products are off-patent. The first lead compound is a faster acting version of ibuprofen, an analgesic product used to treat episodes of acute pain.

The Board of Directors and company management have focused on obtaining additional financing, on research and product development and on advancing the lead compound ZAG-1701. The company’s business strategy relies on partnerships and collaborations to support the commercialization of its products. Company management is currently pursuing partnering initiatives on its lead compound ZAG-1701. Discussions with pharmaceutical companies indicate that successful completion of human clinical trials will be critical in finalizing partnerships.

The manufacturing specification of the prototype product, ZAG-1701, has been completely characterized. The product is now ready for preparation of the clinical batch. This batch will be used for clinical trials. In the third quarter it was reported that Ethypharm Inc. was selected to manufacture pilot-scale quantities of ZAG-1701. In the fourth quarter, a decision was made to postpone selection of the manufacturer until final product specifications have been determined. Ethypharm remains an equity partner with EquiTech.

A detailed report of the EquiTech Enhanced Absorption Technology Platform was presented at the annual meeting of the American Association of Pharmaceutical Scientists in Toronto. The presentation was entitled "Enhanced rate of ibuprofen absorption by gelucire" by A. Aghazadeh and F. Jamali. This has generated increased interest and awareness from the pharmaceutical sector and company management is following up with companies expressing an interest in our science and technology.

In addition to ibuprofen, two other drugs have been selected as suitable candidates to be developed using EquiTech's Enhanced Absorption Technology Platform. The efficacy of both these drugs is expected to be optimal if they are absorbed at the right time. Our formulations are intended for rapid release of the active ingredient for enhanced absorption into the blood stream. Pre-clinical studies are currently underway using our patent-pending animal model.

On December 9th senior management met with officials from the U.S. Food and Drug Administration (FDA) in Rockville, MD to discuss EquiTech's plans to conduct clinical trials on the company's lead compound, ZAG-1701. Based on these discussions, EquiTech plans to submit an Investigational New

Drug (IND) application to conduct a clinical trial to investigate the pain relief effectiveness of ZAG-1701. In anticipation of filing an IND in the second quarter of 2003, the company has identified a regulatory consulting firm to prepare the IND application.

In December, EquiTech retained The Equicom Group Inc., an investor relations firm with offices in Toronto, Montreal, and Vancouver for advisory services including broadening the awareness of EquiTech throughout the Canadian investment community. Equicom has a strong network of public companies, investors, and other relevant industry contacts within the Life Sciences community. EquiTech is leveraging these contacts to fund and support the Company's growth strategy.

Results of Operations Year Ended Dec. 30, 2002

On a consolidated basis, the net loss from operations for the 12-month period ended December 30, 2002 was \$425,610 (\$0.08 per share) compared to a net loss of \$58,363 (\$0.015 per share) for the same period in 2001 for EquiTech before the Qualifying Transaction on April 22 of 2002. The net loss for the year is largely attributable to continued late stage development of the lead compound ZAG-1701, preparations for FDA regulatory filings and ramp-up of general business operations. Over the 12-month period ended December 31, 2002 expenses related to research & development, regulatory filing and clinical trial preparation, accounted for approximately 55% of operating expenses.

General and administrative expenses for the year totaled \$30,109, which is less than 7% of total operating expenses. Negotiated lease rates and close management control of all office costs

contributed to low general and administrative expenses. Contract employees and consultants were used whenever feasible in order to minimize the expenses related to full-time employees and to remain flexible as an organization. As part of the strategy, EquiTech contracted the services of an intern from the WestLink Innovation Network, a Western Canadian not-for-profit organization.

Professional Fees of \$52,084 was attributed to securities matters and various legal opinions on business related issues.

For the 12-month period ended December 31, 2002, \$36,602 was spent on business development activities. These activities included expenses related to financing activities, company promotion and investor relations. As the qualifying transaction to vend Zagros technology into EquiTech Corporation occurred in April 2002, there are no comparable figures for business development for the period ending December 2001.

Liquidity and Capital Resources

The Corporation had cash and short-term investments of \$215,748 at December 31, 2002 compared to cash and short term investments of \$482,722 at December 31, 2001. This amount includes an \$130,000 investment in term deposits. Interest income totaled \$5,750 for the period, compared to \$20,598 for last fiscal year, which was largely attributable to reduced cash in the Corporation and a lower interest rate on investments. EquiTech invested \$70,991 in developing and broadening the Corporation's intellectual property portfolio.

In July 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.

Financing Activities

EquiTech continued to raise finances through a private placement of equity which was completed after the end of the year. This is a difficult capital market in which to raise funds. Northern Securities Inc. of Toronto was engaged to help in this financing. We continued to present the EquiTech story to brokerage houses, institutional and retail investors. Proceeds will be used to fund the manufacturing of ZAG-1701 for pre-clinical testing, initiate the clinical trial program and for ongoing operations.

Subsequent Events

On January 13, 2003 EquiTech closed a private placement of \$374,200 for 498,933 units. Each unit includes one common share and one common share purchase warrant. The common share purchase warrant expires six months after the date of issue of the units and has an exercise price of \$2.00. The proceeds from the private placement will be used for ongoing operations.

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.

The Company's abilities to access the capital markets or to enlist strategic partners is mainly dependent on the progress of its research and development programs and regulatory approval of products. There can be no assurance that additional financing will be available on acceptable terms, if at all.

In addition to development and operational considerations, market prices for securities of start-up pharmaceutical companies are volatile, and access to equity markets may not be available as needs arise.

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 ZAG-1701 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, U.S. and world-wide patent applications have been filed, based on the animal model and lead ibuprofen 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 absorption.

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 TPD (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.

Outlook

EquiTech will need to raise funds to continue its research and development programs and to start clinical trials necessary to obtain regulatory or marketing approval. Funding requirements will vary depending upon a number of factors including progress of R&D programs and the number and breadth of these programs, the costs associated with starting and completing clinical trials and the regulatory process, developing collaborative and license agreements with suitable partners and prosecuting our patent claims and intellectual property rights. There can be no assurance that such funds will be available on favorable terms or at all. We will need to raise additional capital either through new financing, a licensing agreement, or both in order to undertake the clinical trials we are planning during 2003.

The company intends to file an Investigational New Drug (IND) submission with the U.S. regulatory authorities for ZAG-1701 by the second quarter of 2003. Upon a successful review and approval of the IND by regulatory authorities, EquiTech will proceed to start a phase Phase II/III clinical trial. The clinical trial is expected to start in the beginning of the fourth quarter of 2003. Phase II/III trials are performed in volunteers who suffer from acute pain. The Company hopes to receive regulatory approval to not conduct Phase I clinical trials which are performed in healthy volunteers not experiencing acute pain. The rationale for going directly into Phase II/III clinical trials is ibuprofen is already on the market and is considered safe and effective. The objective of the Phase II/III clinical trial is to demonstrate that ZAG-1701 provides quicker onset of pain relief versus the market leading ibuprofen product.

The Corporation expects to continue development of its second and third product candidates which are other pain relief compounds. Company scientists expect to start testing the bioavailability and absorption of these improved versions of existing products in the pain mimicking (reduced stomach activity) animal model.

EquiTech expects to manufacture ZAG-1701 for further testing and clinical trials in the second quarter of 2003.

Additional rounds of equity financing will be pursued depending on corporate developments and market conditions.

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").

Skolney & Company

Chartered Accountants

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Professional Corporation
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AUDITORS' REPORT

To the Shareholders of
Equitech Corporation

We have audited the consolidated balance sheet of EquiTech Corporation (a development stage Corporation) as at December 31, 2002 and 2001 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



CHARTERED ACCOUNTANTS

Edmonton, Alberta
February 17, 2003

EQUITECH CORPORATION

(a development stage Corporation)

CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 2002

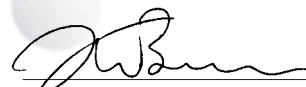
	2002 \$	2001 \$
REVENUE	-	-
OPERATING EXPENSES		
Research and development (Note 7)	237,352	-
Management remuneration	75,213	-
Professional fees (Note 7)	52,084	68,630
Business development	36,602	3,437
General and administrative	30,109	6,894
	431,360	78,961
(LOSS) FROM OPERATIONS	(431,360)	(78,961)
OTHER INCOME		
Interest income	5,750	20,598
NET LOSS	(425,610)	(58,363)
DEFICIT, beginning of year	(58,363)	-
DEFICIT, end of year	(483,973)	(58,363)
Net loss per common share		
Basic and diluted	(.08)	(0.15)
Weighted average number of shares	5,389,079	3,998,630


EQUITECH CORPORATION
(a development stage Corporation)

CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2002

	2002 \$	2001 \$
ASSETS		
CURRENT		
Cash and cash equivalents	84,474	482,722
Goods and services tax receivable	5,294	-
Prepaid expenses	6,455	-
Advances to Zagros Pharma Limited	-	19,621
Short term investments	131,274	-
	227,497	502,343
CAPITAL ASSETS (Notes 2 and 3)		
INTELLECTUAL PROPERTIES (Note 2)	13,459	-
MEDICAL TECHNOLOGY (Note 2)	70,991	-
GOODWILL (Notes 2 and 4)	35,190	-
	239,365	-
	586,502	502,343
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	208,997	22,160
AHFMR GRANT (Note 5)	75,000	-
SHARE CAPITAL AND DEFICIT		
SHARE CAPITAL (Note 6)	786,478	538,546
DEFICIT	(483,973)	(58,363)
	586,502	502,343

SIGNED ON BEHALF OF THE BOARD:


Kerry Brown, C.A. Chairman of the Board


Bruce Hirsche, O.C. Director

EQUITECH CORPORATION
(a development stage Corporation)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2002

	2002 \$	2001 \$
Increase (decrease) in cash and cash equivalents		
OPERATING ACTIVITIES		
Net loss for the year	(425,610)	(58,363)
Add (deduct) non-cash items:		
Amortization	1,730	-
Net change in non-cash working capital balances		
Goods and services tax	(4,173)	-
Prepaid expenses	(6,455)	-
Accounts payable and accrued liabilities	106,165	22,160
Cash flows from operating activities	(328,343)	(36,203)
INVESTMENT ACTIVITIES		
Cash acquired on business combination	1,335	-
Acquisition of short term investments	(131,274)	-
Acquisition of equipment	(11,003)	-
Intellectual properties	(63,163)	-
Cash flows from investing activities	(204,105)	-
FINANCING ACTIVITIES		
Proceeds from government grant	75,000	-
Issuance of common shares	203,000	-
Share issue expenses	(163,421)	(13,121)
Advances to Zagros Pharma Limited	19,621	(19,621)
Cash flows from financing activities	134,200	(32,742)
Net change in cash and cash equivalents	(398,248)	(68,945)
Cash and cash equivalents, beginning of year	482,722	551,667
Cash and cash equivalents, end of year	84,474	482,722
Cash and cash equivalents consists of:		
Cash	34,382	29,889
Government of Canada T-Bill	50,092	452,833
	84,474	482,722
Supplementary information:		
Non-cash transactions:		
Value assigned to shares issued as consideration for acquisition of Zagros Pharma Limited net of cash acquired of \$1,335	173,162	-
Value assigned to shares issued for medical technology	35,190	-

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2002

1. NATURE OF BUSINESS

EquiTech Corporation (the "Company") was incorporated under the Business Corporations Act (Alberta) on June 23, 2000 and its initial business purpose was to raise funds by prospectus sufficient to complete a major transaction. On April 22, 2002, EquiTech Corporation acquired all of the issued and outstanding common shares of Zagros Pharma Limited in consideration for the issuance of 1,102,941 common shares of EquiTech Corporation. Prior to completion of the major transaction, EquiTech did not have substantive business operations.

EquiTech Corporation is a specialty pharmaceutical company which has as its sole activity to create and develop better absorbing pharmaceutical products. To date, the corporation has no products currently in commercial production or use. Accordingly, the corporation is considered to be a development stage enterprise for accounting purposes.

The accompanying consolidated financial statements are prepared on a going concern basis, which assumes the realization of assets and liabilities in the normal course of business. The Corporation's ability to realize the carrying value of its assets is dependent on its ability to obtain sufficient funds to conduct its research and development, and to successfully commercialize its products. The outcome of these matters cannot be predicted at this time. These financial statements do not include any adjustments, which may result from the outcome of these uncertainties.

The Company is listed on the TSX Venture Exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are summarized below:

A. Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary, Zagros Pharma Limited, from the date of acquisition, April 22, 2002. All intercompany transactions and balances have been eliminated on consolidation.

B. Measurement Uncertainty

The financial statements have been prepared by management in accordance with generally accepted accounting principles and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

C. Cash and Cash Equivalents

The Corporation considers all highly liquid financial instruments purchases with an original maturity of three months or less to be cash equivalents.

D. Short-term Investments

The Corporation considers all highly liquid financial instruments with an original maturity greater than three months and less than one year to be short-term investments. Short-term investments are recorded at the lower of accrued cost and market.

E. Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided using the declining balance method at the rates set out in Note 3.

F. Medical Technology

The costs of acquiring medical technologies are capitalized and amortized on a straight-line basis over the remaining estimated useful life of the technologies of approximately five years.

If management subsequently determines that successful development of products to which medical technology costs relate is not reasonably certain, or that deferred medical technology costs exceed recoverable value based on estimated future undiscounted net cash flows, such costs are included in the determination of the loss for the year.

G. Intellectual properties

Intellectual properties represent legal costs incurred in connection with securing patents and trademarks. Three U.S. and two international patent applications have been filed on the corporation's lead compounds and innovative research tools. Patent and trademark costs will be amortized on a straight-line basis up to five years, with amortization to begin in the next fiscal period.

H. Research and Development Costs

Research costs, including research performed under contract by third parties are expensed as incurred. Development costs are also generally expensed as incurred unless such costs meet the criteria under generally accepted accounting principles for deferral and amortization. To qualify for deferral, the costs must relate to a technically feasible, identifiable product which the Corporation intends to produce and market, there must be a clearly defined market for the product and the Company must have the resources, or access to resources, necessary to complete the development.

I. Investment tax credits

Investment tax credits relating to scientific research and experimental development are recorded as reduction of the applicable capital assets or credited in the statement of operations depending on the nature of the expenditures that gave rise to the credits. The investment tax credit is recorded in the period that the credit has been approved by Canada Customs and Revenue Agency.

J. Goodwill

The Canadian Institute of Chartered Accountants issued a new Handbook Section 3062 entitled Goodwill and Other Intangible Assets to be applied for fiscal years beginning on or before January 1, 2002. Goodwill and indefinite life intangible assets will not be subject to amortization but instead will be assessed for impairment annually.

K. Future Income Taxes

Income taxes are accounted for using the liability method. Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in rates is included in earnings in the period that includes the enactment date. Future income tax assets are recorded in the financial statements if realization is considered more likely than not. When realization of future income tax asset does not meet the more like than not criterion then a valuation allowance is provided for the difference.

L. Share Issuance Costs

Costs directly identifiable with the raising of capital are charged against the related share capital.

M. Loss per Share

Loss per common share is calculated using the weighted average number of common shares outstanding during the year, excluding contingently issuable shares, if any. Diluted loss per common share is equivalent to basic loss per share as the outstanding options and warrants are anti-dilutive.

3. CAPITAL ASSETS

	2002			2001	
	Rate	Cost	Accumulated Amortization	Net Book Value	Net Book Value
		\$	\$	\$	\$
Furniture and fixtures	20%	1,724	166	1,558	-
Office equipment	20%	11,930	1,449	10,481	-
Computer	30%	1,535	115	1,420	-
		15,189	1,730	13,459	-

4. BUSINESS ACQUISITION

On April 22, 2002 the Corporation successfully completed its qualifying transaction by acquiring all of the issued and outstanding shares of Zagros Pharma Limited in exchange for 1,102,941 shares of EquiTech Corporation.

The value assigned to the common shares issued on share for share exchange has been calculated using the amount of EquiTech Corporation's asset value given up during the transaction. The allocation of the purchase price was recorded as follows:

	\$
Cash	1,335
Other current assets	1,121
Patent costs	7,828
Capital assets	4,185
Goodwill	239,365
Liabilities assumed	(80,672)
	173,162

The operating results relating to this acquisition have been included in the consolidated financial statements from the acquisition date.

5. AHFMR GRANT

The Corporation has received a \$75,000 grant from the Alberta Heritage Foundation for Medical Research (AHFMR). A further instalment of \$75,000 is anticipated to be received during fiscal 2003. If the Corporation makes a repayment to AHFMR within one year of receipt of the funds, then the corporation will pay AHFMR the "specified share value" times the equivalent number of foundation's shares (100,000). Specified share value is defined as the lesser of the value of a common share of EquiTech on the first anniversary of the date of the first advances (July 2002) or \$2.25.

If EquiTech does not make a prepayment then the corporation will pay the greater of the actual amount of funding (\$150,000) or the amount equal to the specified share value times the equivalent number of foundation shares. This payment is done in annual instalments equal to 5% of gross sales. If there are no gross sales then there is no payment due.

6. SHARE CAPITAL

	Common Shares	
	Number	\$
a) Authorized:		
Unlimited number of voting common shares		
b) Issued and fully paid:		
Issuance of common shares (Note 7)	1,400,000	140,000
Initial public offering - net of issue costs	2,500,000	373,546
Issued upon exercise of stock options	125,000	25,000
Balance as at December 31, 2001	4,025,000	538,546
Common shares issued pursuant to Qualifying transaction	1,102,941	173,162
Issued for acquisition of medical technology	250,000	35,190
Issued for cash	615,000	203,000
Share issue costs		(163,420)
Balance as at December 31, 2002	5,992,941	786,478

c) Stock options

The changes in stock options are as follows:

	2002	2001
Outstanding, beginning of year	515,000	515,000
Granted	434,620	-
Exercised	(515,000)	-
Expired	-	-
Forfeited	-	-
Outstanding, end of year	434,620	515,000

At December 31, 2002, stock options outstanding are as follows:

Number of Stock Options Outstanding	Exercise Price	Expiry Date
334,620	.68	August 31, 2006
20,000	1.50	April 22, 2007
25,000	1.57	June 1, 2007
55,000	To be determined	

7. RELATED PARTY TRANSACTIONS

a) The Corporation completed its qualifying transaction, a transaction in which the Corporation issued common shares in exchange for all the issued and outstanding shares of Zagros Pharma Limited. The acquisition of Zagros Pharma Limited was an arm's length transaction except for one of the Directors for whom it was a non-arms length transaction.

The Corporation also issued 250,000 common shares for a transfer of technology to a previous director of Zagros Pharma Limited who subsequently became a new director, shareholder and scientific consultant for EquiTech Corporation.

b) During the year, the Corporation paid legal expenses to a law firm in which one of the director's holds a partnership interest. The amount invoiced totalled \$197,703 (2001 - \$4,853). These costs have been allocated as follows: \$5,389 capitalized as intellectual property; \$158,420 classified against share capital and \$33,894 classified as professional fees. Accounts payable and accrued liabilities includes \$103,351 at December 31, 2002 due to this related party.

c) 1,050,000 shares owned by the directors of the Company and 31,500 shares held by various related parties are subject to escrow conditions and are scheduled to be released as follows:

Year	Number of Shares	Share Type
2003	432,600	Common shares
2004	432,600	Common shares
2005	216,300	Common shares
	1,081,500	

d) Research and development costs include \$42,000 paid to a company owned by one of the directors.

8. INCOME TAXES

The Canadian statutory income tax rate of 39.24% is comprised of 26.12% and provincial income tax at 13.12%.

Future income tax assets of approximately \$235,265 as at December 31, 2002 have not been reflected in these financial statements.

	\$
Future income tax assets resulting from the following:	
Tax losses	235,265
Valuation allowance	(235,265)
Future net income tax assets recognized	-

The corporation has non-capital loss carry-forwards of \$599,556 available to reduce taxable income of future years, expiring as follows:

Year	Amount
2009	493,131
2008	93,038
2007	7,576
2006	1,340
2005	4,471

9. FINANCIAL INSTRUMENTS

The Corporation's financial instruments include cash and cash equivalents, investments, accounts payable, accrued liabilities and refundable grants. Unless otherwise noted it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

10. COMMITMENTS & CONTINGENCIES**a) Qualifying Transaction**

1,102,941 common shares in EquiTech Corporation were issued upon the completion of the Qualifying transaction to previous shareholders of Zagros Pharma Limited (vendors). EquiTech has provided that, later, provided a patent is issued for the Zagros technology, Corporation shares valued at \$250,000 will be transferred to the vendors.

b) Investor Relations services

The Corporation has retained The Equicom Group Inc. to provide the Corporation with strategic investor relations and financial communication services. The Corporation will pay Equicom a monthly retainer fee of \$4,000. The initial contract term is for six months, effective December 2002.

c) Directors and Stock Option Agreement

The Corporation has adopted the incentive stock option program of the Exchange (the "Stock Option Program") for the benefit of directors, officers, employees and other key personnel of the Corporation whereby a maximum of 10% of the issued and outstanding common shares of the Corporation are reserved for issuance pursuant to the exercise of stock options to be granted to directors, officers, employees and other key personnel of the Corporation. The Stock Option Program provides that the terms of the options and the option price shall be fixed by the directors subject to the price restrictions and other requirements imposed by the Exchange.

d) General Security Agreement

As at December 31, 2002, EquiTech Corporation has advanced \$425,755 to Zagros Pharma Limited, its wholly-owned subsidiary. EquiTech has obtained a general security agreement and promissory note covering all present and after-acquired property as collateral provided for these advances.

e) Agreement between employee and consultant and Zagros Pharma Limited

The Corporation has signed a consulting agreement effective September 1, 2002 with a consulting firm continuing until December 31, 2007, unless earlier terminated or renewed. During the first year of the Agreement, a sum not less than \$48,000 is to be paid by way of a monthly payment of not less than \$4,000. The parties have agreed to a review of the compensation of in the second and fourth year of the Agreement, such compensation to be fixed by mutual agreement.

f) Employment agreement

The Corporation has signed an employment contract effective September 10, 2001 renewable annually providing for remuneration to be paid at \$80,000 per annum.

g) Lease with the University of Alberta

The Corporation is committed under the terms of a lease commitment commencing June 1, 2002 for a term of twelve months. The basic rent is set at \$3,848 plus operating expenses.

11. SIGNIFICANT AND SUBSEQUENT EVENTS**Financings**

Subsequent to year end, the Corporation closed a private placement of \$374,200 for 498,933 units. Each unit includes one common share and one common share purchase warrant. The one common share purchase warrant expires six months after the date of issue of the units and has an exercise price of \$2.00.

12. EARNINGS PER SHARE

The outstanding number and type of securities that could potentially dilute basis earnings per share in the future but that were not included in the computation of diluted earnings per share because to do so would have reduce the loss per share (anti-dilutive) is as follows:

Stock options to directors, officers	
Employees and other	434,620

13. SEGMENT INFORMATION

The Corporation operates in one business segment, being the development of analgesic products, with all of its assets and operations located in Canada.

14. COMPARATIVE FIGURES

Certain of the prior year comparatives have been reclassified to conform with current year's presentation.

Board of Directors

Kerry Brown,
Chairman of the Board

Richard Edgar

Dr. Fakhreddin Jamali

Bruce Hirsche, Secretary

Marcus Little

Yves Lussier

Dr. Antoine Noujaim,
Past Chairman

Stock Exchange Listing

EquiTech Corporation is listed on the TSX Venture Exchange under the symbol EQT

Investor Relations

For further information about EquiTech Corporation please visit our website at equitechcorporation.com

or contact:

James A. Chivers-Wilson

Senior Company Management

James A. Chivers-Wilson
President and CEO

Dr. Fakhreddin Jamali
Board Member,
Chief Scientific Officer
and Vice President Research
and Development

Colleen Ozee
Chief Financial Officer

Chairman of Scientific Advisory Board

Dr. Abraham Sunshine

Annual General Meeting

The Annual General Meeting of the Company will be held on May 21, 2003 at 3:00 p.m. MST at the Telus Centre for Professional Development at 87 Avenue & 111 Street, Edmonton, Alberta. Shareholders are invited to attend this meeting.

Legal Counsel

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1500 Manulife Place
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Edmonton, AB

Auditors

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1420 Webber Centre
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Edmonton, AB T6H 5P9

Transfer Agent

Computershare Trust
Company of Canada
970 Canadian Western
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