



EQUITECH
CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD
ENDED MARCH 31, 2003

EQUITECH
CORPORATION

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EquiTech Corporation First 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 December 31, 2002 audited financial statements, related financial notes and 2002 annual report.

DESCRIPTION OF BUSINESS

EquiTech Corporation ("EQT" on the TSX Venture Exchange) is a development stage specialty pharmaceutical company, based in Edmonton Alberta. EquiTech's Enhanced Absorption Technology and lead compounds are based on groundbreaking scientific discoveries made by the company's founder, Dr. Fakhreddin Jamali, a world-renowned expert in developing novel pain relief products and a Professor of Pharmacy and Pharmaceutical Sciences at the University of Alberta.

EquiTech is developing more effective versions of existing off-patent medications in large disease or therapeutic areas where consumer needs are not well met. The first lead compound is based on Dr. Jamali's discovery that people in pain absorb ibuprofen more slowly (as compared to healthy people). Building on this discovery, EquiTech has developed a new patent pending ibuprofen formulation that may provide faster pain relief to people actually experiencing pain. This new formulation developed using EquiTech's Enhanced Absorption Technology platform is the Company's lead compound, ZAG-1701.

OPERATIONS

As previously reported, Dr. Jamali has completed formulation development of ZAG-1701 in the lab. In this quarter, EquiTech retained the services of a contract manufacturer Patheon Inc. (Mississauga, ON) to manufacture ZAG-1701 in quantities sufficient for testing in human clinical trials. Manufacturing and stability tests and protocols are currently being developed by Patheon.

In this quarter, Dr. Jamali continued research work on an off-patent COX-2 inhibitor used for the treatment of the pain of osteoarthritis. The Company's Enhanced Absorption Technology is being used to develop a timed-release formulation. Dr. Jamali continues to be active in publishing non confidential Company research; he and Dr. Aghazadeh-Habashi submitted an abstract entitled "Pharmacokinetic Study of Meloxicam in the Rat" to be presented at the Canadian Society for Pharmaceutical Sciences conference to be held in May of this year in Quebec.

Company management met officials from the Analgesic and Inflammation and Neurologic divisions of the U.S. Food and Drug Administration (FDA) in December of 2002 to discuss the Company's clinical trial plans and Investigational New Drug (IND) submission for ZAG-1701 as an over-the-counter treatment of acute pain. As of March of this year, EquiTech is still waiting for official minutes of the meeting to be prepared by FDA personnel; however, based on discussions with the FDA the Company is planning to begin trials in humans experiencing the pain of wisdom tooth removal.

EquiTech has retained the expert services of CanReg Inc. (Dundas, ON) to prepare regulatory documents and help represent the Company in IND applications to the FDA. Submitting an IND for review by the FDA is necessary for approval to conduct clinical trials on our products.

The Company has retained the services of Analgesic Development Limited (New York, NY) to prepare a clinical trial plan outlining the scientific testing required in humans to demonstrate fast onset of pain relief of ZAG-1701 compared to other ibuprofen products on the market. The draft is currently under review by Company management and advisors. To implement and conduct the clinical trials, the Company intends on contracting the services of a third party Clinical Research Organization (CRO). Several confidentiality agreements have been signed with CRO's as Company management begins to qualify and select a suitable CRO to conduct the Company's clinical trials.

In this quarter EquiTech continued to meet development milestones set out in the Technology Commercialization (TC) grant awarded to EquiTech from the Alberta Heritage Foundation for Medical Research (AHFMR). The Company had previously received an initial grant of \$75,000 and expects to complete milestones to receive the remaining \$75,000 in the second quarter of this year. 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.

Company management continues to present the value-added potential of EquiTech's Enhanced Absorption Technology platform, ZAG-1701 and other product candidates to major pharmaceutical companies with branded pain relief products as well as to generic and private label manufacturers. Discussions are ongoing with several of these companies with indications suggesting that clinical trial data in humans may be important to expedite partnerships.

RESULTS OF OPERATIONS

EquiTech has funded operations through an initial public offering in November of 2000, an additional equity offering related to the purchased of Zagros Pharma Limited in April of 2002 and a repayable grant from the AHFMR.

The net loss from operations for the three month period ended March 31, 2003 (Q1 2003) was \$178,042 (\$0.03 per share) compared to a net loss of \$9,398 (\$0.23 per share) for the same period in 2002 for EquiTech before the Qualifying Transaction on April 22, 2002. The net loss for the quarter is largely attributable to research and development expenses of \$106,610 which included late stage-development of the lead compound ZAG-1701, and preparation of documents for FDA regulatory filings. Over the three month period ended March 31, 2003, expenses related to research & development, regulatory filing and clinical trial preparation, account for approximately 60% of operating expenses.

For the first quarter ended March 31, 2003, \$23,524 was spent on business development activities. These activities include expenses related to financing activities, company promotion and investor relations. For fiscal 2002 the comparable figure was \$36,602. The increased spending in this quarter indicates managements increased efforts in implementing the Corporations business development and financing programs.

General and administrative expenses for the period totaled \$14,882, which is less than 8% of total operating expenses. Of this amount, \$3,774 is related to public company reporting and filing requirements, and \$2,805 is for rent. 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.

Professional Fees of \$4,631 was attributed to securities matters and various legal expenses on business related issues.

To date, EquiTech has not generated positive cash flow from operations. Until development

partnerships with suitable healthcare companies have been entered into leading to commercialization of the company's lead compounds, EquiTech expects losses to continue as it invests in product research and development, preclinical studies, clinical trials and regulatory compliance.

LIQUIDITY AND CAPITAL RESOURCES

EquiTech had cash, short-term investments and prepaid expenses of \$284,158 at March 31, 2003 compared to cash and short term investments of \$215,748 at December 31, 2002. The increase in cash during this quarter is due to a private placement financing of \$374,200 that closed in January 2003. The comparative number for cash and short term investment for the first quarter last year (2002) was \$426,134 for EquiTech prior to the Qualifying Transaction, excluding the operations of Zagros. EquiTech invested \$10,363 to continue to protect the Corporations Intellectual Property portfolio during this period.

Accounts payable for the quarter are \$108,848 and include a manufacturing milestone payment to Patheon of \$72,873 and \$24,456 payable for legal and intellectual property related activity.

Contracts to key third party suppliers such as CanReg Inc. (regulatory filings), Patheon Inc. (clinical trial manufacturing) and Analgesic Development Limited (clinical development) are milestone driven with specific deliverables identified.

FINANCING ACTIVITIES

In January of this year EquiTech successfully completed a private placement of equity, generating net proceeds of \$363,337 after issue costs. During this quarter and in addition to this financing, Northern Securities (Toronto, ON), Company management and members of the Board continued to pursue another round of private placement financing. Proceeds will be used to fund the manufacturing of ZAG-1701 for pre-clinical testing and regulatory filings. Company management also continues to explore financing alternatives that would raise sufficient equity to fund the Company's proposed clinical trial programs.

RISKS AND UNCERTAINTIES

Raising capital

EquiTech has a drug development strategy based on adding value to already marketed medicines 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, developing alliances with suitable partners and market conditions.

Demonstration of success in human patients

The lead compound ZAG-1701 demonstrates faster delivery and absorption into the blood stream of ibuprofen 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 U.S. 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.

Manufacturing

One risk in drug development is the full scale manufacturing of a drug that has been developed in small quantities in the research laboratory. EquiTech is using third party contract manufacturers to produce its novel products in larger quantities for further pre-clinical testing and for clinical trials in humans. Additional testing in our patent pending animal will help determine if there have been any significant changes to our products that may occur during larger scale manufacturing. 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 manufacturing process.

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

The Corporation continues development work on its second product candidate which is a COX-2 type of pain relief compound. Company scientists expect to start testing better absorbing formulations developed in the lab in the animal pain model.

The Corporation continues to make progress on its manufacturing, regulatory filing and clinical trial plans for ZAG-1701. Testing of ZAG-1701, manufactured by Patheon, in the animal pain model, is planned to begin in July. This timing is based upon the assumption that process and equipment modifications for handling ibuprofen or other unforeseen circumstances at Patheon will not impact this timeline.

Based on the Company's success in completing an equity financing or entering into potential research collaborations and product development partnerships, EquiTech will continue to evaluate its strategy options for corporate and business development. In addition, depending on financing and partnerships the Company will revise research and clinical trial plans as necessary.

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
Interim Statement of Loss and Deficit
For the Three Month Period Ended March 31, 2003
(unaudited)

	Three Month Period Ended March 31	
	2003 \$	2002 \$
REVENUE	-	-
OPERATING EXPENSES		
Management and office remuneration	29,980	-
Professional fees	4,631	5,926
Business development	23,524	-
General and administrative	14,882	4,684
Research and development	106,610	-
	179,627	10,610
LOSS FROM OPERATIONS	(179,627)	(10,610)
OTHER INCOME		
Interest income	1,585	1,212
NET INCOME (LOSS)	(178,042)	(9,398)
DEFICIT, beginning of period	(483,973)	(58,363)
DEFICIT, end of period	(662,015)	(67,761)

EquiTech Corporation
Interim Balance Sheet
For the Three Month Period Ended March 31, 2003
(unaudited)

	March 31 2003 \$	Dec. 31 2002 \$
ASSETS		
CURRENT		
Cash, cash equivalents and short term investments	284,158	215,748
Goods and services tax receivable	14,042	5,294
Prepaid expenses	4,080	6,455
	302,280	227,497
CAPITAL ASSETS	13,459	13,459
INTELLECTUAL PROPERTIES	81,354	70,991
MEDICAL TECHNOLOGY	35,190	35,190
GOODWILL	239,365	239,365
	671,648	586,502
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	108,848	208,997
AHFMR GRANT (Note 5)	75,000	75,000
SHARE CAPITAL AND DEFICIT		
SHARE CAPITAL (Note 3)	1,149,815	786,478
DEFICIT	(662,015)	(483,973)
	671,648	586,502

EquiTech Corporation
Interim Statement of Cash Flows
For the Three Month Period Ended March 31, 2003
(unaudited)

	Three Month Period Ended March 31	
	2003 \$	2002 \$
CASH PROVIDED BY (USED IN):		
OPERATIONS:		
Net income (loss)	(178,042)	(9,398)
Items which do not involve cash:		
Change in non-cash working capital	(106,522)	(16,610)
	(284,564)	(26,008)
FINANCING:		
Issuance of share capital for cash, net of issue cost	363,337	-
Advances to Zagros Pharma Limited	-	(30,580)
	363,337	(30,580)
INVESTING:		
Decrease in short term investments	131,274	-
Patent costs	(10,363)	-
	120,911	-
Decrease in cash and cash equivalents	199,684	(56,588)
Cash and cash equivalents, beginning of period	84,474	482,722
Cash and cash equivalents, end of period	284,158	426,134

EquiTech Corporation
Notes to the Interim Financial Statements
For the Three Month Period Ended March 31, 2003
(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, 2002 audited financial statements and include all material adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position of the Company at March 31, 2003 and the results of operations and cash flows for the three months ended March 31, 2003 in accordance with Canadian generally accepted accounting principles. These statements should be read in conjunction with the Company's December 31, 2002 audited financial statements.

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 enhanced absorbing analgesic drugs.

3. SHARE CAPITAL CONTINUITY SCHEDULE

	#	\$
Per December 31, 2002 audited financial statements	5,992,941	786,478
EquiTech shares issued pursuant to private placement	498,933	374,200
Issue costs incurred during the current period	-	(10,863)
	<u>6,491,874</u>	<u>1,149,815</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 second 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.

6. COMPARATIVE FIGURES

The comparative figures reflect the operations of EquiTech Corporation prior to its qualifying transaction. The prior year figures exclude the accounts of Zagros Pharma Limited.