



EQUITECH
CORPORATION

INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD
ENDED JUNE 30, 2003

EQUITECH
CORPORATION

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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 2002 audited annual financial statements and 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 scientist 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 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 slower (as compared to healthy people). This means that ibuprofen is slower to take effect when people are in pain. Building on this discovery, EquiTech has developed a new patent pending ibuprofen formulation that may provide faster pain relief in 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 the formulation of ZAG-1701 in the lab. In this quarter, EquiTech's contract manufacturer Patheon Inc. (Mississauga, ON) continued developing the processes and quality control procedures to manufacture ZAG-1701 in quantities sufficient for testing in human clinical trials. Manufacturing activities include preparing documents necessary for approval by government health regulatory agencies.

In this quarter, Dr. Jamali continued research and development of a COX-2 inhibitor for the treatment of the pain of osteoarthritis. The Company's Enhanced Absorption Technology is being used to develop a timed-release formulation of this compound. Dr. Jamali and Dr. Aghazadeh-Habashi presented an abstract on this research entitled "Pharmacokinetic Study of Meloxicam in the Rat" at the Canadian Society for Pharmaceutical Sciences conference held this May in Quebec.

EquiTech has retained the services of CanReg Inc. (Dundas, ON) to prepare regulatory and clinical trial documents and to represent the Company in our clinical trial applications to the Food and Drug Agency (FDA) in the U.S. and to the Therapeutics Product Directorate (TPD) in Canada.

Analgesic Development Limited (New York, NY) has prepared a draft 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 using the services of a third party Clinical Research Organization (CRO). Several confidentiality agreements have been signed with these organizations as Company management begins to qualify and select a suitable CRO.

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) and in this quarter the Company received the second installment of \$75,000 for a total grant of \$150,000. The grant will be used to offset the costs of manufacturing and testing of the Corporation's lead compound. The Corporation views this 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 branded and generic pharmaceutical companies with consumer pain relief products on the market. Discussions with several of these companies indicate that implementing a clinical trial in humans to prove that ZAG-1701 may provide faster onset of acute pain relief is an important component in a potential co-development and licensing partnership.

RESULTS OF OPERATIONS

EquiTech has funded operations through an initial public offering in November of 2000, an

additional equity offering related to the purchase of Zagros Pharma Limited in April of 2002 and the repayable grant from the AHFMR. In January of this year \$374,200 was raised through a subsequent equity offering.

The net loss from operations for the three-month period ended June 30, 2003 (Q2 2003) was \$277,142 (\$0.04 per share) compared to a net loss of \$110,576 (\$0.02 per share) for the same period in 2002. The net loss for the quarter is largely attributable to research and development expenses of \$177,315. Of this amount \$130,942, was a payment to the contract manufacturer for start up expenses to develop production specifications and quality control procedures for ZAG-1701. Development of the clinical trial protocol by Analgesic Development Limited accounted for \$11,436 of the research expenditure. Over the three month period ended June 30, 2003, expenses related to research & development, account for approximately 64% of operating expenses.

For the second quarter ended June 30, \$27,178 was spent on business development activities including \$10,550 for investor relations. This is an increase over the previous quarter (\$23,524) indicating managements increased efforts in business development and financing initiatives.

General and administrative expenses for the period totaled \$13,272, which is less than 5% of total operating expenses. Of this amount, \$2,660 is related to public company reporting and filing requirements. 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 \$34,892 included legal expenses related to securities matters as well as fees paid to a third party chartered accountant firm.

EquiTech is at the preclinical stage of pharmaceutical product development and therefore has not generated positive cash flow from operations. The Company continues to invest in product development, regulatory compliance and preparing for clinical trials. The Company's strategy is to enter into partnerships with suitable health care companies to help fund these activities leading to commercialization of the Company's lead compounds.

LIQUIDITY AND CAPITAL RESOURCES

EquiTech had cash and short-term investments of \$165,505 at June 30, 2003 compared to cash and short term investments of \$215,748 at December 31, 2002.

Accounts payable for the quarter are \$201,566 and include a manufacturing milestone payment to Patheon of \$128,188 in July. Non-critical expenses will be closely managed as contracts to third party suppliers such as CanReg Inc. (regulatory filings), Patheon Inc. (manufacturing) and Analgesic Development Limited (clinical trials) are milestone dependent.

FINANCING ACTIVITIES

To build on the successful private placement that was completed in the first quarter of this year, Company management will be replenishing working capital by pursuing other financing alternatives which may include a rights offering or another private placement.

Discussions are ongoing with potential health care industry partners. These discussions involve potential product licensing and collaboration on the proof-of-concept clinical trial to demonstrate the faster onset of pain relief of ZAG-1701 in humans and additional clinical trial co-development.

A larger financing is contemplated after the proof-of-concept clinical trial is completed providing preliminary data which may indicate that ZAG-1701 does provide faster pain relief in humans. This proof-of-concept will validate and demonstrate the potential of EquiTech's Enhanced Absorption Technology platform to develop improved versions of existing drugs.

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 and TPD. 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

In the third quarter EquiTech will be replenishing working capital with a rights offering or another private placement. Proceeds will be used to fund the manufacturing of prototype batches of ZAG-1701 and to conduct a small proof-of-concept trial in humans experiencing acute temporary pain. This trial will involve 24 to 36 patients undergoing wisdom tooth extraction and is planned to begin in the fourth quarter of this year. Successful results from this clinical trial will lead to larger financings and potential co-development and licensing partnerships with health care companies.

EquiTech plans to apply for a Phase III Technology Commercialization grant from the Alberta Heritage Foundation for Medical Research. The Company successfully applied for a Phase II grant and pending completion of all the milestones, a Phase III application will be submitted. The total funding available is \$500,000.

The Company 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 the third quarter. This timing is based upon the assumption that procedural and equipment modifications for handling ibuprofen or other unforeseen circumstances at Patheon will not impact this timeline.

EquiTech continues development work on its second product candidate which is a COX-2 type of pain relief compound. In the third quarter of this year, Company scientists expect to start testing better absorbing formulations developed in the lab of this compound in the animal pain model.

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 Six Month Period Ended June 30, 2003
(unaudited)

	Three Month Period Ended June 30		Cumulative Six Month Period Ended June 30	
	2003 \$	2002 \$	2003 \$	2002 \$
REVENUE	-	-	-	-
OPERATING EXPENSES				
Management and office remuneration	24,977	23,667	54,957	23,667
Professional fees	34,892	3,462	39,523	9,389
Business development	27,178	-	62,450	-
General and administrative	13,272	12,687	28,154	17,406
Research and development	177,315	72,598	272,177	72,598
	277,634	112,414	457,261	123,060
LOSS FROM OPERATIONS	(277,634)	(112,414)	(457,261)	(123,060)
OTHER INCOME				
Interest income	492	1,838	2,077	3,050
NET INCOME (LOSS)	(277,142)	(110,576)	(455,184)	(120,010)
DEFICIT, beginning of period	(662,015)	(67,797)	(483,973)	(58,363)
DEFICIT, end of period	(939,157)	(178,373)	(939,157)	(178,373)

EquiTech Corporation
Interim Balance Sheet
For the Six Month Period Ended June 30, 2003
(unaudited)

	June 30 2003 \$	Dec. 31 2002 \$
ASSETS		
CURRENT		
Cash and cash equivalents	45,670	84,474
Accounts receivable	420	-
Goods and services tax receivable	27,719	5,294
Prepaid expenses	1,873	6,455
Short term investments	119,634	131,274
	195,316	227,497
CAPITAL ASSETS	13,509	13,459
INTELLECTUAL PROPERTIES	78,844	70,991
MEDICAL TECHNOLOGY	35,190	35,190
GOODWILL	239,365	239,365
	562,224	586,502
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	201,566	208,997
AHFMR GRANT (Note 5)	150,000	75,000
SHARE CAPITAL AND DEFICIT		
SHARE CAPITAL (Note 3)	1,149,815	786,478
DEFICIT	(939,157)	(483,973)
	562,224	586,502

EquiTech Corporation
Interim Statement of Cash Flows
For the Six Month Period Ended June 30, 2003
(unaudited)

	Three Month Period Ended June 30		Cumulative Six Month Period Ended June 30	
	2003 \$	2002 \$	2003 \$	2002 \$
CASH PROVIDED BY (USED IN):				
OPERATIONS:				
Net income (loss)	(277,142)	(110,576)	(455,184)	(120,010)
Items which do not involve cash:				
Change in non-cash working capital	80,778	(7,737)	(25,744)	(24,311)
	(196,364)	(118,313)	(480,928)	(144,321)
FINANCING:				
Issuance of share capital for cash, net of issue cost	–	139,596	363,337	139,596
Advances – AHFMR Grant	75,000	–	75,000	–
	75,000	139,596	438,337	139,596
INVESTING:				
Decrease in short term investments	(119,634)	(144,658)	11,640	(175,238)
Patent costs	2,510	–	(7,853)	–
	(117,124)	(144,658)	3,787	(175,238)
Decrease in cash and cash equivalents	(238,488)	(123,375)	(38,804)	(179,963)
Cash and cash equivalents, beginning of period	284,158	426,134	84,474	482,722
Cash and cash equivalents, end of period	45,670	302,759	45,670	302,759

EquiTech Corporation
Notes to the Interim Financial Statements
For the Six Month Period Ended June 30, 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 June 30, 2003 and the results of operations and cash flows for the six months ended June 30, 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 fast-acting 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 \$150,000 grant through the Technology Commercialization (TC) Program of the Alberta Heritage Foundation for Medical Research (AHFMR). 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.