WEBTRONICS INC
Form 8-K
May 15, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): April 30, 2003

Webtronics, Inc.
(Exact name of registrant as specified in its charter)

Delaware	333-63474	65-110840
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	IRS Employer Identification No.)

420 Lexington Avenue, Suite 601
New York, New York 10170
(Address of principal executive offices)

Registrant's telephone number, including area code: (212) 672-9190

(Former name or former address, if changed since last report)

Item 1 Changes in Control of Registrant

On March 10, 2003, as amended on April 4, 2003, we entered into a merger agreement with Callisto Research Labs, LLC (formerly known as Callisto Pharmaceuticals, Inc.), or Callisto Research and Synergy Pharmaceuticals, Inc., or Synergy, an unaffiliated company under which Callisto Research and Synergy agreed to merge in a stock for stock transaction and each become our subsidiaries. On April 30, 2003 the merger closed. In addition it is anticipated that we will change our name from Webtronics, Inc. to Callisto Pharmaceuticals, Inc. and re-domesticate from Florida to Delaware by merging into a wholly-owned subsidiary (the "Webtronics Merger").

Pursuant to the merger agreement we issued 17,318,994 shares of our common stock to holders of Callisto Research common stock and 4,395,684 shares to holders of Synergy common stock in exchange for outstanding Callisto Research and Synergy common stock. As a result of the merger there is a total of approximately 23,217,578 of our shares outstanding.

Pursuant to the merger agreement, upon the closing of the Webtronics Merger, it is expected that four of our directors will be nominated to our Board by the former Callisto Research stockholders and three of our directors will be nominated to our Board by the former Synergy stockholders. It is anticipated that Gabriel M. Cerrone and Christoph Bruening will be two of the Callisto Research directors. It is anticipated that the Synergy directors will be Donald H. Picker, Ph.D., Edwin Snape and Albert J. Henry.

Pursuant to the merger agreement we assumed the obligations of Callisto Research with respect to Callisto Research's outstanding 3,510,560 stock options and the stock option plan under which Callisto Research had granted 2,563,055 of these stock options. The remaining stock options are non-plan options.

Exhibit 99.1 to this Report is a descriptive memorandum of Webtronics, Inc. and its business.

Item 2 Acquisition or Disposition of Assets.

See Item 1 above for a description of the material terms of the merger agreement under which Callisto Research and Synergy became our subsidiaries.

The terms of the merger agreement, including the relative number of our shares to be issued in the merger to the holders of Callisto Research and Synergy capital stock was determined by arms length negotiation between management of Callisto Research (which until the merger controlled Webtronics) and Synergy. We intend to continue utilizing the assets of Callisto Research and Synergy in their respective efforts to develop pharmaceutical products.

Pursuant to the merger agreement we also assumed the obligations of Callisto Research with respect to Callisto Research's outstanding 3,510,560 stock options and the stock option plan under which Callisto Research had granted 2,563,055 of these stock options. The remaining stock options are non-plan options.

Item 7 - Financial Statements, Pro Forma Financial Information and Exhibits.

(a) Financial Statements

(a)(1) Financial Statements of Callisto Research Labs, LLC (formerly known as Callisto Pharmaceuticals, Inc.)

Audited Financial Statements for the years ended December 31, 2001 and 2002.

(a)(2) Financial Statements of Synergy Pharmaceuticals Inc.

Audited Consolidated Financial Statements for the years ended March 31, 2001 and 2002

Unaudited Financial Statements for the nine months ended December 31, 2001 and 2002

(b) Pro Forma Financial Statements of Webtronics, Inc.

Pro Forma Balance Sheet as of December 31, 2002

Pro Forma Statement of Operations for the year ended December 31, 2002

(c) Exhibits

Exhibit No.	Description
2.1	Agreement and Plan of Merger dated March 10, 2003*
2.2	Amendment to Agreement and Plan of Merger dated April 4, 2003.
4.1	Stock Option Plan
99.1	Descriptive Memorandum of Webtronics, Inc.

* Incorporated by reference to Exhibit 2.1 of Form 8-K filed March 19, 2003.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, hereto duly authorized.

Dated: May 15, 2003

WEBTRONICS, INC.

By: /s/ Christoph Bruening

Christoph Bruening
President

Item 7. CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

DECEMBER 31, 2002 AND 2001

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
Callisto Pharmaceuticals, Inc.

We have audited the accompanying balance sheets of Callisto Pharmaceuticals, Inc. (a development stage company) as of December 31, 2002 and 2001, and the related statements of operations, shareholders' equity, and cash flows for the two years then ended, and for the period from June 5, 1996 (inception) to December 31, 2002. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Callisto Pharmaceuticals, Inc. as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the two years then ended, and from June 5, 1996 (inception) to December 31, 2002, in conformity with accounting principles generally accepted in the United States.

ARTHUR YORKES & COMPANY LLP
New York, New York
March 7, 2003

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

BALANCE SHEET

DECEMBER 31,

	2002
ASSETS	
Current assets:	
Cash	$ 2,223,462
Prepaid expenses	28,456
	2,251,918
Fixed assets (net of accumulated depreciation of $10,394 and $3,616 in 2002 and 2001, respectively)	19,781
Other assets:	
Patent costs (net of accumulated amortization of $226,273 and $157,933 in 2002 and 2001, respectively)	461,961
Investment in subsidiaries	400,000
	861,961
	$ 3,133,660
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Miscellaneous liabilities	$ 443,266
Shareholders' equity (deficit): (Note 7 & 8)	
Preferred stock $.0001 par value 10,000,000 shares authorized, 4,235,299 issued and outstanding (liquidation preference $6,061,050)	423
Common stock: $.0001 par value authorized 60,000,000 shares, 13,083,695 issued and outstanding	1,307
Additional paid-in-capital	9,753,631
Deficit accumulated during the development stage	(7,064,967)
	2,690,394
	$ 3,133,660

See notes to financial statements.

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31,

	2002	2001	June 5, (Incepti Decemb 20
Expenses:			
Officers' salary	$ 102,885	$ 200,000	$ 1,145,
Other salaries	236,604	217,074	752,
Payroll tax expense	21,685	25,810	114,
Accounting and legal expenses	332,852	224,563	834,
Amortization and depreciation	75,118	65,447	236,
Automobile expenses	-	-	27,
Consulting fees	12,566	57,559	721,
Donations	2,000	2,698	4,
Insurance	37,100	23,140	129,
Forgiveness of debt	-	--	91,
General and administrative expenses	3,147	5,129	12,
Interest expense	-	2,230	2,
License access fees	-	15,000	29,
Office expenses	11,819	12,387	64,
Outside services	-	-	908,
Meals and entertainment	6,982	18,365	25,
Public and investor relations	2,805	31,344	37,
Rent	51,856	30,659	119,
Reimbursed expenses	24,989	24,959	65,
Telephone and web hosting expense	18,981	38,940	78,
Travel expenses	34,316	103,431	251,
Research and development	388,545	362,897	1,707,
	(1,364,250)	(1,461,632)	(7,362,
Other income (loss):			
Interest and dividend income	34,496	182,404	456,
Unrealized loss on investment	-	-	(30,
Realized loss on investment	-	(91,624)	(91,
Local taxes	(13,487)	(11,863)	(36,
Net loss	(1,343,241)	(1,382,715)	$(7,064,
Retained earning (deficit), beginning	(5,721,727)	(4,339,012)	

Retained earnings (deficit), ending	$(7,064,968)	$(5,721,727)

See notes to financial statements.

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Preferred Stock		Common stock		Ad
	Shares Issued	Par Value	Shares Issued	Par Value	
Balance, December 31, 2000	4,235,299	$ 423	13,083,695	$ 1,307	$
Net loss for the year	-	-	-	-	
Balance, December 31, 2001	4,235,299	423	13,083,695	1,307	
Net loss for the year	-	-	-	-	
Balance, December 31, 2002	4,235,299	$ 423	13,083,695	$ 1,307	$

See notes to financial statements.

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,

	2002	2001
Cash flows from operating activities:		
Net loss	$(1,343,240)	$(1,382,715)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	75,118	65,447
Unrealized loss on investment	-	-
Common and preferred stock issued for services	-	-
Increase in prepaid and other receivable	(8,796)	(19,266)
Increase in miscellaneous liabilities	304,663	81,685
Total adjustments	370,985	127,866
Net cash used in operating activities	(972,255)	(1,254,849)
Cash flows from investing activities:		
Patent costs	(9,733)	(90,505)
Acquisition of furniture and fixtures	(22,029)	-
Investment in subsidiaries	(400,000)	24,900
Investment in marketable securities	-	729,752
Net cash provided by (used in) investing activities	(431,762)	664,147
Cash flows from financing activities:		
Issuance of common and preferred stock	-	-
Net (decrease) increase in cash and cash equivalents	(1,404,017)	(590,702)
Cash and cash equivalent at beginning of year	2,627,479	4,218,181
Cash and cash equivalent at end of year	$ 2,223,462	$ 3,627,479
Supplementary disclosure of cash flows information:		
Cash paid for taxes	$ 4,067	$ 24,324

See notes to financial statements.

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

1. Summary of significant accounting policies:

Business activity:

Callisto Pharmaceuticals, Inc. (the Company) is a market-driven biopharmaceutical company focused on the development of innovative products for the diagnosis and treatment of infectious disease and their immunological complications. The Company believes its multidisciplinary approach will lead to diagnostic and therapeutic products targeting markets with limited competition and unmet clinical needs. The Company is currently engaged primarily in research and development operations.

Patents and Research and Development Costs:

The Company capitalizes the cost of acquiring patents on its products and the cost of patents obtained through acquisition. Patents are being amortized on a straight-line basis over the estimated useful life of the patent, generally ten years. The Company charges all research and development costs to expense as incurred.

Cash and cash equivalents:

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

2. Investment in subsidiary:

In March 2002, the Company purchased 99.7% of the outstanding common shares (basically from a shareholder) of a public Company (Webtronics, Inc.) for $400,000. Webtronics, Inc. was organized on February 2, 2001 and was inactive at December 31, 2001. The following financial information has been abstracted from the audited financial statements of Webtronics filed with form 10KSB as of December 31, 2001.

Cash in bank	$2,385
	======
Stockholder equity:	
Common stock	105
Paid-in-capital	2,720
Accumulated deficit	(440)

	$2,385
	======

3. Income taxes:

The Company has available net operating loss carryforwards of approximately $6,000,000 for tax purposes to offset future taxable income. Estimated deferred tax assets relating to these net operating losses have been fully reserved by valuation allowances because of the uncertainty of realization through future income and the possibility of future changes in ownership which, under the Internal Revenue Service Code, could limit these carryforwards.

4. Commitment:

Commencing August 15, 2001, The Company is obligated under a month-to-month lease of $4,200 a month which includes utilities (inclusive of furniture, telephones) and other equipment.

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

5. Stock option agreement:

In 1996, the Company entered into an incentive and non-qualified stock option plan for employees, consultants and outside directors to purchase up to 2,000,000 shares of common stock. Options vest at the rate of one third on each of the first three anniversary dates. The option term is for ten years from date of granting.

The following represent options outstanding for the years ended December 31, 2002 and 2001 generally to non-employees:

	Total
Balance, January 1, 2001	$1,931,505
Year 2001:	
Granted	400,000
Exercised	-
Balance, December 31, 2001	2,331,505
Year 2002:	
Granted	-
Exercised	-
Balance, December 31, 2002	$2,331,505

Options are exercisable at various prices as follows at December 31, 2002:

Exercise Price	Vested	Not Vested	Total
$ 0.75	$ 615,839	$ -	$ 615,839
2.85	392,838	120,829	513,667
6.75	101,111	10,555	111,666
3.25	97,000	-	97,000
4.90	93,333	100,000	193,333
1.25	400,000	-	400,000
1.95	400,000	-	400,000
	$2,100,121	$ 231,384	$2,331,505

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

6. License and research support agreements:

In February 2000, the Company entered into a license and research support agreement with Rockefeller University (superceding an agreement dated August 20, 1996) for the exclusive rights to exploit certain core technology relating to the diagnosis, prevention and treatment of infectious diseases and related disorders. The agreement is for four years and provides for the Company to pay certain royalties and other license consideration. This agreement also provides for royalties to be paid on the net sales of products. These rates range from 1% to 3%. On any sublicense agreements the fees approximate .25% to 1%. The agreement also provides for the Company to fund costs in the future to file, prosecute and maintain all patent applications. The agreement also calls for certain milestone payments to be made.

The Company has entered into a Patent License Agreement with the Public Health Service ("PHS"), under which the Company has a exclusive license to make, use, sell, lease, import and export and to otherwise commercially exploit the licensed products. The Company has paid an initial license issue royalty fee in the amount of $50,000 and will pay minimum annual royalty fees of $10,000 until the first commercial sales of the product at which point the minimum annual royalty fee increases to $25,000. Royalty fees range from 0.5% to 0.75% on net sales of the licensed product and various others sublicensing fees. The Company will pay PHS $100,000 after FDA approval of each application for the licensed products.

In April of 2001, the Company entered into a license agreement with Dartmouth College to research, develop, manufacture and sell the Dartmouth patent rights technology. Under the license agreement the Company must make annual expenditures of at least $100,000 towards commercial use of the licensed products and adhere to certain milestone schedules for clinical trials and FDA approval. The company must also pay to Dartmouth fees ranging from $25,000 to $150,000 for each of these scheduled milestone dates. In addition, the Company is obligated to pay royalties to the college of 3% of net sales made by the Company and 1.5% of net sales made by company sublicensees. In any year commencing in 2002 that no royalties and no milestone payments are made the Company is obligated to pay to Dartmouth an annual license fee maintenance fee of $10,000 for 2002; $15,000 for 2003 and $25,000 per annum from 2004 and thereafter. Beginning 10 year after the affective date a minimum royalty of $50,000 is payable annually.

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

6. License and research support agreements: (continued)

The agreement will terminate 20 years after the market introduction of the last introduced licensed product. The Company has the right to terminate this agreement after 60 days written notice.

In July 2001, the Company entered into a license agreement to research, develop and sell Rockefeller University licensed patented products. The Company will pay Rockefeller a $7,500 annual maintenance fee until the first commercial sale of the product. The Company will pay royalties of 2% and 0.75% of net sales of product as defined in the agreement and will pay Rockefeller 15% of any sublicense fee paid by sublicensee. The agreement will terminate upon the later of (a) expiration of the last to expire or become abandoned patent right or (b) 20 year after the effective date of the agreement (July 25, 2001). The Company can terminate this agreement upon 60 days written notice.

7. Shareholders' equity:

Common shares:

In February 2000, the Board of Directors approved an increase in the authorized common shares from 35,000,000 shares to 60,000,000 shares and a one-for-three reverse split of the common stock.

Preferred shares:

During the year 2000, the Board of Directors had authorized the private placement and sale of a Series A convertible preferred stock at $1.70 per share on February 17, 2000 and the private placement of a convertible Series B preferred stock at $1.75 per share on August 15, 2000. In addition, the Board of Directors authorized the issuance of 750,000 shares of a Series C convertible preferred stock $0.10 per share to an executive officer for services rendered in the amount of $75,000 on August 10, 2000.

The holders of all Series of Preferred Stock will have equal voting rights with the common shareholders. The preferred shareholders shall be entitled to dividends equal to the amount received by the common shareholders.

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

7. Shareholders' equity: (continued)

The shares of all Series of convertible Preferred Stock may, at the election of a holder, be convertible at any time into shares of Common Stock at a ratio of one share of Common Stock for each share of Convertible Preferred Stock.

Upon the occurrence of an Initial Public Offering, each share of all Series of Convertible Preferred Stock shall automatically be converted into one (1) share of Common Stock.

Upon liquidation:

I. the holders of Series A preferred stock shall have a preference over the holders of Series B and C preferred stock and common stock in the amount of 1.70 per share.

II. the holders of the Series B preferred stock shall have a preference over the holder of the Series C preferred stock and common stock in the amount of $1.75 per share.

III. the holder of the Series C preferred stock shall have a preference over the holders of common stock in the amount of $0.10 per share.

The Series A, B and C Convertible Preferred Stock will enjoy standard anti-dilution rights in the event of sales by the Company of shares of Common Stock at prices below $1.70, $1.75 and $0.10 per share of Common Stock, respectively.

Preferred stock issued in 2000:

	Shares Issued	Par Value	Included in Additional Paid-in-Capital
Series A - $1.70 per share	2,252,441	$225	$3,828,925
Series B - $1.75 per share	1,232,858	123	2,157,377
Series C - $0.10 per share	750,000	75	74,925
	4,235,299	$423	$6,061,227

8. Subsequent event:

In March 2003, the Company has entered into a merger agreement with Synergy Pharmaceuticals, Inc. and Webtronics, Inc. (a public company) in a stock-for-stock transaction. The shareholders of the Company will retain a 73.76% interest in the surviving entity.

Synergy Pharmaceuticals Inc.
(A Development Stage Company)

Consolidated financial statements

Contents

Report of independent accountants

To the Board of Directors and Stockholders of Synergy Pharmaceuticals Inc.

We have audited the accompanying consolidated balance sheets of Synergy Pharmaceuticals Inc. and subsidiaries (the "Company") (a development stage company) as of March 31, 2001 and 2002 and the related consolidated statements of operations, stockholders' equity and cash flows for the 15 month period ended March 31, 2000 and the years ended March 31, 2001 and 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company is a development stage enterprise and has suffered recurring losses and net cash outflows from operations since inception that raise substantial doubt about its ability to continue as a going concern. As such, the Company is dependent upon capital infusions from existing and/or new investors to fund operations. Management's plans with regard to these matters are also described in Note 2. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Synergy Pharmaceuticals Inc. and subsidiaries as of March 31, 2001 and 2002 and the consolidated results of their operations and their cash flows for the 15 month period ended March 31, 2000 and for the years ended March 31, 2001 and 2002 in conformity with generally accepted accounting principles in the United States.

KPMG
Chartered Accountants
Dublin, Ireland
2002

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Synergy Pharmaceuticals Inc.
(A Development Stage Company)

Consolidated balance sheets

	March 31, 2001 US$'000
Assets	
Current assets	
Cash	1,256
Prepaid and other current assets	789
Loan to director (Note 6)	368
Total current assets	2,413
Property and equipment, net (Note 4)	207
Total Assets	2,620

Liabilities and stockholders equity	
Current liabilities	
Notes payable to stockholders (Note 6)	400
Accounts payable and accrued expenses	630

Total liabilities	1,030

Stockholders' equity	
Series A preferred stock ($0.001 par value; 3,700,001 shares authorised, issued and outstanding at March 31, 2001 and 2002) (liquidation preference of $6,383,042 at March 31, 2001 and 2002)	4
Series B preferred stock ($0.001 par value; 1,874,999 shares authorised; 1,154,065 shares issued and outstanding at March 31, 2001 and 2002) (liquidation preference of $7,399,980 at March 31, 2001 and 2002)	1
Common stock ($0.001 par value; 20,000,000 shares authorised, 2,702,814 shares issued and outstanding at March 31, 2001; 2,929,064 shares issued and outstanding at March 31, 2002)	3
Series C preferred stock ($0.001 par value; 3,214,875 shares authorised, 1,453,550 shares issued and outstanding at March 31, 2001 and 2002) (liquidation preference of $10,174,829 at March 31, 2001 and 2002)	1
Series D preferred stock ($0.01 par value: 2,238,363 shares issued and outstanding at March 31, 2001 and 2002) (liquidation preference of $5,000,000 at March 31, 2001 and 2002)	2

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Synergy Pharmaceuticals Inc.
(A Development Stage Company)

Consolidated balance sheets (continued)

	March 31, 2001 $'000	March 31, 2002 $'000
Stockholders' equity (continued)		
Additional paid-in capital	29,515	29,561
Other comprehensive income	(459)	(466)
Deficit accumulated during development stage	(27,477)	(28,517)
	-------	-------

Total stockholders' equity	1,590	589
Total liabilities and stockholders' equity	2,620	1,053

The accompanying notes are an integral part of these financial statements.

Synergy Pharmaceuticals Inc.
(A Development Stage Company)

Consolidated statements of operations

	Period ended March 31, 2000 $'000	Year ended March 31, 2001 $'000	Year ended March 31, 2002 $'000
Operating expenses			
Research and development	(3,603)	(1,950)	(2,554)
General and administrative	(3,369)	(1,743)	(1,192)
Reimbursements from UT (Note 1)	-	3,245	2,694
Total operating expenses	(6,972)	(448)	(1,052)
Gain on sale of investments	-	30	-
Interest income	86	42	30
Interest expense	(134)	(10)	(18)
Extraordinary item	-	-	-
Loss before income tax	(7,020)	(386)	(1,040)
Income taxes	(11)	-	-
Net loss	(7,031)	(386)	(1,040)

The accompanying notes are an integral part of these financial statements.

Synergy Pharmaceuticals Inc.
(A Development Stage Company)

Consolidated statements of stockholders' equity

(in thousands)

	Series B Convertible Preferred Stock		Series A Convertible Preferred Stock		Series C Convertible Preferred Stock
	Share	Par value	Shares	Par value	Shares
Balance at December 31, 1998	1,154	1	3,700	4	1,149
Reverse non-cash compensation	-	-	-	-	-
Issuance of Series C convertible Preferred Stock	-	-	-	-	305
Issuance of Series D convertible Preferred Stock	-	-	-	-	-
Issuance of Common Stock	-	-	-	-	-
Cumulative translation adjustment	-	-	-	-	-
Unrealised loss on available for sale investments	-	-	-	-	-
Net loss	-	-	-	-	-
Balance at March 31, 2000	1,154	1	3,700	4	1,454
Issuance of Common Stock	-	-	-	-	-
Cumulative translation adjustment	-	-	-	-	-
Reversal of unrealised loss on available for sale investments	-	-	-	-	-
Net loss	-	-	-	-	-
Balance at March 31, 2001	1,154	1	3,700	4	1,454
Issuance of Common Stock	-	-	-	-	-
Cumulative translation adjustment	-	-	-	-	-
Net loss	-	-	-	-	-
Balance at March 31, 2002	1,154	1	3,700	4	1,454

(in thousands)

Common Stock Shares	Common Stock Par value	Additional Paid-in Capital	Deferred Stock Compensation	Othe Comprehensi Inco (Los

Balance at December 31, 1998	1,080	1	22,042	75	(3
Reverse non-cash compensation	-	-	75	(75)	
Issuance of Series C convertible Preferred Stock	-	-	2,132	-	
Issuance of Series D convertible Preferred Stock	-	-	4,998	-	
Issuance of Common Stock	744	1	105	-	
Cumulative translation adjustment	-	-	-	-	(
Unrealised loss on available for sale investments	-	-	-	-	(2
Net loss	-	-	-	-	
	-----	-----	-----	-----	---
Balance at March 31, 2000	1,824	2	29,352	-	(7
Issuance of Common Stock	879	1	163	-	
Cumulative translation adjustment	-	-	-	-	(
Reversal of unrealised loss on available for sale investments	-	-	-	-	2
Net loss	-	-	-	-	
	-----	-----	-----	-----	---
Balance at March 31, 2001	2,703	3	29,515	-	(4
Issuance of Common Stock	226	-	46	-	
Cumulative translation adjustment	-	-	-	-	
Net loss	-	-	-	-	
	-----	-----	-----	-----	---
Balance at March 31, 2002	2,929	3	29,561	-	(
	=====	=====	======	=====	==

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Synergy Pharmaceuticals Inc.
(A Development Stage Company)

Consolidated statements of cash flows

	Period ended March 31, 2000 $'000	Year ended March 31, 2001 $'000	Year Marc
Cash flows from operating activities:			
Net loss	(7,031)	(386)	(1
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	756	7	
Extraordinary loss	-	-	
Gain on disposal of property and equipment	-	(20)	
Gain on disposal of short-term investments	-	(30)	
Accrued interest on notes payable to			

stockholders	-	-	
Non cash compensation expense	104	-	
Non cash stock consideration	-	50	
Changes in assets and liabilities:			
Prepaid and other current assets	(6)	(776)	
Accounts payable and accrued expenses	249	(1,004)	
Income taxes payable	12	(12)	
Net cash used in operating activities	(5,916)	(2,171)	
Cash flows from investing activities:			
Proceeds from disposal of property and equipment	1	42	
Purchase of property and equipment	(120)	(29)	
Proceeds from disposal of short-term investments	-	2,030	
Net cash (used in)/provided by investing activities	(119)	2,043	
Cash flows from financing activities:			
Proceeds from issuance of notes payable to stockholders (see Note 6)	-	400	
Repay notes payable to stockholders	(243)	-	
Proceeds from bridge loans	1,550	-	
Repay bridge loans	(1,425)	(125)	
Proceeds from issuance of preferred stock	5,132	-	
Proceeds from issuance of common stock	1	114	
Collection of stock subscription receivable	-	-	
Loan to director	-	-	
Net cash (used in)/provided by financing activities	5,015	389	
Effect of exchange rates on cash	-	(2)	
Net increase (decrease)/increase in cash	(1,020)	259	
Cash at beginning of period	2,017	997	1
Cash at end of period	997	1,256	

The accompanying notes are an integral part of these financial statements.

Synergy Pharmaceuticals Inc.
(A Development Stage Company)

Notes
forming part of the financial statements

1 Organisation and Business

Synergy Pharmaceuticals Inc. (the "Company") was incorporated in the State of Delaware on February 11, 1992. The Company is a development stage enterprise developing drugs for the treatment of Hepatitis B and Hepatitis C, using an iminosuger technology, as well as various cancer treatments for myeloma, colon cancer, ulcerativecolitis and Crohn's Disease using proprietary compounds with novel peptide-based technologies. The Company's strategy is to develop products both independently and through strategic partnerships with large pharmaceutical or biotechnology companies, under which the Company will license its technology to such companies is return for payment of drug development expenses and clinical trial expenses, milestone payments and royalties on developed products.

The Company's primary activities since inception have consisted of research and development and raising capital. The Company relied primarily on a university to provide the personnel and other resources necessary to develop technologies through its sponsored research agreements with the university (see Note 5). The direction of research at such universities occurs through specific budgets managed by the Company's executive managers and board of directors.

In 1995, the Company became a wholly-owned subsidiary of a newly-formed corporation, IgX Limited, which is registered under the laws of the Republic of Ireland, as a result of a series of transactions in which the Company's stockholders exchanged their common and preferred stock for ordinary and preference shares of IgX Limited. In December 1997, as a condition to receiving an equity infusion from a U.S. investor, the aforementioned series of transactions was reversed such that IgX Limited became a wholly-owned subsidiary of the Company. The above transactions involved the same parties, affected the capital structure of the Company and IgX Limited in legal form only, and thus have no effect on reported amounts on a consolidated basis.

From late 1998 the Company has become primarily involved in developing human therapeutics based on iminosugers. In March 2000, the Company entered into a corporate collaboration with United Therapeutics Corporation (UT) whereby UT will cover all development expenses up to a maximum of $15.2 million for potential drugs to be used in the treatment of Hepatitis B and Hepatitis C. UT will also pay royalties to the Company of $44.4 million for successful development of drug candidates to treat Hepatitis B and Hepatitis C through successful filing of two new drug applications (NDAs) with the U.S. Food and Drug Administration (FDA). In November 2000 the Company and UT further agreed that UT would fund an analog program up to a maximum of $3.3 million in an effort to achieve related compounds of unproved therapeutic index. In April 2002, UT filed an Investigational New Drug Application ("IND") with the FDA to treat Hepatitis C using Synergy's proprietary compound SP231. In May 2002 the Company in-licensed Atiprimod from Anormed. Synergy plans to initiate a Phase II human clinical trial in myeloma shortly. Atiprimod was invented by the Company's CEO at a previous place of employment. The drug has an IND and was used to treat 500 patients for arthritis in a SmithKline clinical trial.

Synergy Pharmaceuticals Inc.
(A Development Stage Company)

Notes (continued)

2 Basis of preparation

Since inception, the Company has suffered recurring losses and net cash outflows from operations. The Company expects to continue to incur substantial additional losses to complete the development and testing of its drug candidates, and does not expect to complete the development stage and begin commercialization of its products for the foreseeable future. Management is actively pursuing various options, which include entering into strategic partnerships with large pharmaceutical companies. Certain such agreements for strategic partnerships have been executed (see Note 5). Since its inception, the Company has funded operations through issuing debt and equity securities to its principal investors. It is management's intention to continue to fund the operations of the Company through additional debt or preferred stock issuances in order to meet its strategic objectives. Management is also actively pursuing other financing options, and believes that sufficient funding will be available to meet its planned business objectives including anticipated cash needs for working capital, for a reasonable period of time.

However, there can be no assurance that the Company will be able to obtain sufficient funds to continue the development of, and if successful, to commence the manufacture and sale of its drug candidates, if and when approved by the applicable regulatory agencies. As a result of the foregoing, there exists substantial doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustments relating to the recoverability of the carrying amounts of recorded assets or the amount of liabilities that might result from the outcome of this uncertainty.

3 Summary of significant accounting policies

Use of significant estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Consolidation

These consolidated financial statements include the accounts of the Company and subsidiaries, IgX Limited, a wholly-owned subsidiary, which is registered under the laws of the Republic of Ireland and IgX Oxford Hepatitis Corporation. All intercompany transactions are eliminated on consolidation.

Property and equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the respective assets, as follows: buildings and improvements over 5 years; research equipment over 5 to 10 years; and office furniture and equipment over 5 years.

Synergy Pharmaceuticals Inc.
(A Development Stage Company)

Notes (continued)

3 Summary of significant accounting policies (continued)

Impairment of long-lived assets

The Company accounts for the impairment and disposition of long-lived assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, Accounting for the Impairment of long-lived Assets and for long-lived Assets to Be Disposed Of ("FAS 121"). In accordance with FAS 121, the Company periodically assesses whether any events or changes in circumstances have occurred that would indicate that the carrying amount of a long-lived asset may not be recoverable. If such an event or change in circumstances occurs, the Company evaluates whether the carrying amount of such assets is recoverable by comparing the net book value of the assets to estimated future un-discounted cash flows attributable to such assets. If it is determined that the carrying amount may not be recoverable, the Company recognizes an impairment loss equal to the excess of the net carrying amount of the asset over its fair value.

Research and development

Research and development costs are expensed as incurred and include, among other costs, those related to the production of experimental drugs, including payroll costs, sponsored third party research costs and costs incurred for conducting clinical trials.

Income taxes

Income taxes are accounted for under the asset and liability method prescribed by SFAS No. 109, "Accounting for Income Taxes." Deferred income taxes are recorded for temporary differences between financial statement carrying amounts and the tax bases of assets and liabilities. Deferred tax assets and liabilities reflect the tax rates expected to be in effect for the years in which the differences are expected to reverse. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax asset will not be realized.

Foreign currency translation

Assets and liabilities of subsidiaries are translated into U.S. dollars at the prevailing exchange rates in effect at the end of the reporting period. Income statement accounts are translated at a weighted average of exchange rates in effect during the period. Translation adjustments that arise from translating the foreign subsidiary's financial statements from local currency to U.S. dollars are recorded in the cumulative translation adjustment component of stockholders' equity.

Financial instruments

The carrying values of cash, prepayments and other current assets, accounts payable and accrued expenses approximate their fair values.

Accounting for stock based compensation

The company has elected to use the intrinsic value based method to account for all of its employee stock option plans. Details of compensation expense recognised under APB Opinion No. 25, Accounting for Stock Issued to Employees are disclosed in note 8 to the financial statements.

Synergy Pharmaceuticals Inc.
(A Development Stage Company)

Notes (continued)

3 Summary of significant accounting policies (continued)

Short term investments - available for sale

The Company has classified short term investments as available for sale in accordance with the terms of SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities". Realised gains and losses are determined using specific identification. The investments are reported at fair value, with unrealised gains and losses reported in a separate component of shareholders' equity. Unrealised losses recognised during the period to March 31, 2000 amounted to $291,000. All investments were disposed of during the year ended March 31, 2001 for proceeds of $2,030,000 resulting in a realised profit of $30,000.

4 Property and equipment

	2001 US$'000	2002 US$'000
Buildings and improvements	168	166
Research equipment	-	27
Office furniture and equipment	60	52
	228	245
Less: accumulated depreciation	(21)	(30)
Property and equipment, net	207	215

5 Sponsored research agreements and strategic partnerships

IgX Oxford Hepatitis Corporation

In August 1998, the Company obtained a majority in a corporation newly formed, IgX Oxford Hepatitis Corporation. (IgX Oxford) in collaboration with the Glycobiology Institute of the University of Oxford and Thomas Jefferson University and Monsanto Corp. (Monsanto) which has, in turn, obtained an exclusive worldwide license from Monsanto to certain intellectual property to be used in developing drug candidates for the treatment of Hepatitis B.

The Company agreed to fund the corporation with up to $2 million to complete animal studies to determine whether the preparation of an Investigational New Drug Application ("IND") application to conduct human clinical trials is appropriate. The Company actually invested approximately US$10 million in the development of its hepatitis drugs and UT has also invested substantial funds under the previously mentioned license.

5 Sponsored research agreements and strategic partnerships (continued)

Monsanto license agreement

In September 1998, the Company entered into a license agreement with Monsanto whereby Monsanto received the right of first refusal to a compound for treatment of Hepatitis B. Monsanto's initial right of first refusal is exercisable prior to the commencement of a Phase I clinical trial involving the compound as a treatment for Hepatitis B. If Monsanto exercises its right of first refusal, any such development and license agreement with Monsanto would cover the clinical development, registration and marketing of the drug candidate. Monsanto would then be obligated to reimburse the Company for all costs incurred in the development of the drug candidate, and pay a fee equal to the net present value on commercialisation, if any, of the drug candidate by Monsanto, together with royalties based upon a percentage of net sales of the drug candidate. In August 2000 an amendment was made to this license to eliminate Monsanto's two rights of first refusal for granting to Monsanto rights to Hepatitis C for 13 countries in the Far East, including China.

Anormed agreement

In May 2002 the Company agreed to in-license a drug Atiprimod which was invented by the Company's CEO, Dr. Picker at a place of previous employment. The Company's research insight into Atiprimod is consequently extensive based upon clinical data from treatment of 500 patients under a previous SmithKline arthritis clinical trial. The Company plans to treat myeloma in a Phase II human clinical trial within six months, which will be the most advanced clinical trial undertaken by the Company to date

6 Related party transactions

Transactions with director

In November 1998 the Company advanced $310,000 to Mr Donald H Picker, a director of the Company, evidenced by a secured promissory note. The loan provides for simple interest at 8% per annum, no instalment payments and is all due and payable on November 13, 2002. The loan is secured on certain personal assets of Mr Picker. Personal expenses totalling $13,000 were also paid by the Company on Mr. Picker's behalf in 2001. This amount is expected to be reimbursed by Mr. Picker during the coming year.

The Company made consultancy payments totalling $152,000 (2001 : $107,000) to Cheryl Picker, wife of one of the directors, for services provided to the Company on an arms-length basis.

Notes payable to stockholders

On February 16, 2001, the Company obtained an unsecured loan of $400,000 in the form of a promissory note which bears interest at 9% per annum from Henry Venture II Limited. This loan was repaid on July 5, 2001.

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Synergy Pharmaceuticals Inc.
(A Development Stage Company)

Notes (continued)

7 Stockholders' equity

Series A Convertible Preferred Stock

In August 1992, the Company issued 370,000 shares of Series A Convertible Preferred Stock at $1.00 per share providing proceeds of $370,000. During September 1993, the Board of Directors of the Company effected a 10-for-1 stock split of the Series A Preferred. Further, in August 1996, in consideration for the cancellation of Series B Redeemable and Series C Redeemable, the Company issued one additional share of Series A Preferred to an existing holder of Series A Preferred. After giving effect to the stock split and the issuance of the additional share, there were a total of 3,700,001 shares of Series A Preferred issued and outstanding, Each Series A Preferred share can be converted into common stock, at the option of the holder, at an initial conversion rate of one to one, subject to adjustment from time to time based on the consideration paid for additional stock issued and options granted by the Company. The Series A Preferred are automatically converted into common stock upon the consummation of a public offering of the Company's common stock with a per share price as defined in the certificate of incorporation.

There is no established dividend rate on the Series A Preferred. However, the holders of Series A Preferred are entitled to receive preference to a declaration or payment of any dividend on the common stock of the Company in amounts equal to that paid to other outstanding shares of the Company. In the event of a voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company, the Series A Preferred stockholders are entitled to receive a liquidation preference equal to $1.23 for each outstanding share of the Series A Preferred plus a preferential amount equal to 10% of the original issue price for each twelve month period outstanding from the date of issuance to date of distribution.

The holders of Series A Preferred are entitled to vote on all matters in which holders of common stock have the right to vote.

Series B Convertible Preferred Stock

In December 1997, the Company issued 436,672 shares of Series B Preferred Stock at $6.41 per share providing proceeds of $2,799,984. In addition, the Company issued 311,910 shares of Series B Preferred to an existing common stockholder in exchange for the cancellation of a promissory note due to the common stockholder.

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Synergy Pharmaceuticals Inc.
(A Development Stage Company)

Notes (continued)

7 Stockholders' equity (continued)

In May 1998 the Company issued a further 405,483 shares of Series B Convertible Preferred Stock. Each Series B Preferred share can be converted into common stock, at the option of the holder, at an initial conversion rate of one to one, subject to adjustment from time to time based on the consideration paid for additional stock issued and options granted by the Company. The holders of Series B Preferred are also entitled to anti-dilution provisions in the event the Company were to issue additional shares of common stock for less than specified amounts and prior to certain dates, as defined in the applicable agreement. The Series B Preferred will automatically convert into common stock upon the consummation of a public offering of the Company's common stock with a per share price as defined in the certificate of incorporation. There is no established dividend rate on the Series B Preferred. However, the holders of Series B Preferred are entitled to receive preference to any declaration or payment of any dividend on the common stock of the Company in amounts equal to that paid to other outstanding shares of the Company. In the event of a voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company, the Series B Preferred stockholders are entitled to receive a liquidation preference equal to the original issue price of $6.41 for each outstanding share of the Series B Preferred.

The holders of Series B Preferred are entitled to vote on all matters which holders of common stock have the right to vote.

Series C Preferred Stock

During December 1998, the Board of Directors of the Company authorized the issuance of 1,453,550 shares of Series C Preferred Stock of the Company. The Series C Preferred Stock were to be sold in units consisting of 25 shares of Series C Preferred Stock and 14 warrants to purchase common stock of the Company (collectively "a Series C Unit") at a price per unit of $175.

Series C Preferred Stock

Each Series C Preferred share can be converted into common stock, at any time at the option of the holder, at an initial conversion rate of one to one. The Series C Preferred Stock will automatically convert into common stock upon the consummation of a public offering of the Company's common stock with a per share price as defined in the certificate of incorporation. There is no established dividend rate on the Series C Preferred Stock. However, the holders of Series C Preferred Stock are entitled to receive preference to any declaration or payment of any dividend on the common stock of the Company in amounts equal to that paid to other outstanding shares of the Company. The holders of Series C Preferred Stock are entitled to vote on all matters which holders of common stock have the right to vote.

The Company issued 16,655 units of Series C Preferred Stock, or 416,375 shares, providing gross proceeds of $2,913,000 during December 1998 and a further 12,185 units or 304,625 shares, providing gross proceeds of $2,132,025 in the 15 months to March 2000.

Synergy Pharmaceuticals Inc.
(A Development Stage Company)

Notes (continued)

7 Stockholders' equity (continued)

Series D Preferred Stock

During March 2000, as part of its agreement with United Therapeutics Corporation ("UT"), the Company issued 2,238,363 shares of Series D Preference Stock to UT at a price per share of $2.23 for gross proceeds of $5,000,000, $3,000,000 by way of cash and $2,000,000 by way of 21,978 shares of UT with a fair market value of $91 each at the date of the agreement. These shares were recorded in current assets as available for sale investments and the unrealised losses of $291,210 at March 31, 2000 were recorded in other comprehensive income. The shares were disposed of in September 2000 producing a realized gain of $29,568.

The rights attached to Series D Preferred shares are similar to those attached to the Series A, B, and C Preferred Shares.

Common Stock

During the period to March 31, 2000 the Company issued 69,500 shares to employees in lieu of cash compensation. The estimated fair value of the shares issued of $104,250 was recorded as a compensation expense in the period.

In October 1999 and February 2000 the Company issued an aggregate 605,000 shares at an estimated fair market value of $0.001 per share to acquire the remaining shares in IgX Oxford Hepatitis Corporation not already held by the Company.

In the year to March 31, 2001 the Company issued 878,284 shares which included 762,674 shares on the exercise of options and warrants. The fair value of the total consideration of $164,000 included $50,000 in respect of consultant services rendered. This has been recorded in general and administrative expenses in the consolidated statement of operations.

In the year to March 2002 the Company issued 226,250 shares, all on the exercise of options and warrants for aggregate consideration of $46,000.

8 Stock Options and Warrants

1993 Stock Option Plan

During 1993, the Company implemented its 1993 Stock Option Plan (the 1993 Plan), whereby incentive and nonqualified options to purchase shares of the Company common stock may be granted to key employees, officers, directors and consultants. The vesting and exercise periods for options granted under the 1993 Plan are determined by a committee of the Board of Directors.

The 1993 Plan stipulates that no option may be exercisable after ten years from the date of grant. The fair market value of the Company's common stock is determined by the Board of Directors from time to time. Options granted under the 1993 Plan generally vest in equal installments over a period of four years.

8 Stock Options and Warrants (continued)

1998 Stock Option Plan

In September 1998, the Company adopted its 1998 Stock Incentive Plan (the "1998 Plan"), whereby incentive and nonqualified stock options to purchase shares of the Company's common stock may be granted to employees, outside directors and consultants. The vesting and exercise periods of options granted under the 1998 Plan are to be determined by a committee of the Board of Directors.

The 1998 Plan stipulates that the exercise price of incentive stock options will not be less than the fair market value at the date of grant or in the case of nonqualified stock options less than 85% of the fair market value at the date of grant. The exercise period of options granted shall not exceed 10 years (5 years in the case of incentive options granted to individuals owning 10% or more of the voting stock of the Company) from the date of grant and shall vest at a rate specified from time to time by the Board of Directors.

On a combined basis, the 1993 Plan and the 1998 Plan allow the Company to issue an aggregate of up to 3,125,857 shares of common stock of the Company.

The following table summarizes activity regarding stock options and warrants for the years ended March 31, 2001 and March 31, 2002:

	Options	Warrants
Outstanding at December 31, 1998	1,179,857	632,478
Granted	1,325,000	1,001,110
Rescinded	(220,183)	-
Exercised	-	(70,000)
Outstanding at March 31, 2000	2,284,674	1,563,588

Granted	187,250	2,810,400
Exercised	(560,674)	(206,200)
Outstanding at March 31, 2001	1,911,250	4,167,788
Granted	-	-
Exercised	(6,250)	(220,000)
Outstanding at March 31, 2002	1,905,000	3,947,788

Synergy Pharmaceuticals Inc.
(A Development Stage Company)

Notes (continued)

8 Stock Options and Warrants (continued)

With the exception of 40,000 options exercisable at $5 each granted in 1999 and 150,000 options exercisable at $0.23 each granted in 2000, all options have an exercise price of $0.01 each.

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its 1993 Plan. No compensation expense arose in the period to March 31, 2002.

Had compensation costs for option grants to employees been determined based upon the fair value at the date of grant for awards under the 1993 Plan consistent with the methodology prescribed under SFAS No. 123, "Accounting for Stock Based Compensation", the Company's net loss would not have been affected for any of the periods presented.

The fair value of the options granted to employees during the years ended March 31, 2002 has been determined on the date of the respective grant using the Black-Scholes option-pricing model based on the following weighted average assumptions of no dividend yield, expected life of 5 years and risk free interest rate of 6%.

9 Income Taxes

The Company has incurred losses since inception which have generated net losses on a consolidated basis of approximately $28 million at March 31, 2002 which are available to offset future taxable income. The net operating loss carryforwards will expire in 2007 through 2014. These loss carryforwards are subject to limitation on future years utilisation should certain ownership changes occur.

The net operating loss carryforwards and other temporary differences, arising primarily from depreciation, result in a deferred tax asset at March 31, 2001 and March 31, 2002 of $2,954,000 and $3,370,000 respectively. In consideration of the Company's accumulated losses and uncertainty of its ability to utilize this deferred asset in the future, the Company has recorded a valuation allowance of equal amounts on such dates to fully offset the net deferred tax asset and bring its carrying amount to zero for all periods presented.

For the period ended March 31, 2000 and the years ended March 31, 2001 and 2002, the Company's effective tax rate differs from the federal statutory rate principally due to net operating losses and other temporary differences for which no benefit was recorded.

The provision for income taxes of $10,986, $Nil and $Nil for the period ended March 31, 2000 and years ended March 31, 2001 and March 31, 2002 respectively, primarily relates to Irish tax on interest earned on bank deposits located in the Republic of Ireland.

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Synergy Pharmaceuticals Inc.
(A Development Stage Company)

Notes (continued)

10 Bridge Loans

Between August 1999 and February 2000 the Company raised $1.55m in bridge loans. These loans attracted interest of 20% and had a total of 620,000 warrants to purchase shares of common stock at $0.01 attached. The warrants are exercisable for a period of three years from the date of issue. The loans plus accrued interest were repaid in March 2001. 206,200 and 226,200 of the warrants were exercised prior to March 31, 2001 and March 31, 2002 respectively.

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Synergy Pharmaceuticals Inc.
(A Development Stage Company)

CONSOLIDATED BALANCE SHEET

	December 31, 2001
ASSETS	
Current assets:	
Cash	$ 585,488
Reimbursable from partner	318,155
Loan due from officer	386,914
Rent Deposit	39,146
Prepaid and other current assets	10,989
Total current assets	1,340,692
Property and equipment, net	218,738
Total assets	1,559,430
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable and accrued expenses	687,657

Income taxes payable	-
Bridge Loans	-
Total current liabilities	687,657
Long term liabilities	378
Total liabilities	688,035
Stockholders' equity	
Series B preferred stock ($0.001 par value; 1,154,065 shares issued and outstanding) (liquidation preference of $7,399,980)	1,154
Series A preferred stock ($0.001 par value; 3,700,001 shares authorized, issued and outstanding) (liquidation preference of $6,383,042)	3,700
Common Stock ($0.001 par value; 15,000,000 shares authorized; 2,909,064 shares issued and outstanding)	2,909
Series C preferred stock ($0.001 par value; 1,453,547 shares issued and outstanding) (liquidation preference of $10,180,799)	1,454
Series D 2,238,363 shares issued	2,238
Additional paid-in capital	29,510,588
Other Comprehensive Income	(458,997)
Deficit accumulated during development stage	(28,191,651)
Total stockholders' equity	871,395
Total liabilities and stockholders' equity	1,559,430

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Synergy Pharmaceuticals Inc.
(A Development Stage Company)

CONSOLIDATED BALANCE SHEET

	December 31, 2002
ASSETS	
Current assets:	
Cash	$ 187,884
Loan due from officer	411,715
Rent Deposit	39,146
Prepaid and other current assets	57,580
Total current assets	696,325
Property and equipment, net	233,475
Total assets	929,800
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable and accrued expenses	417,323
Income taxes payable	-

CBC Loan	450,000
Total current liabilities	867,323
Long term liabilities	-
Total liabilities	867,323
Stockholders' equity	
Series B preferred stock ($0.001 par value: 1,154,065 shares issued and outstanding) (liquidation preference of $7,399,980)	1,154
Series A preferred stock ($0.001 par value; 3,700,001 shares authorized, issued and outstanding) (liquidation preference of $6,383,042)	3,700
Common Stock ($0.001 par value; 15,000,000 shares authorized; 2,944,064 shares issued and outstanding)	2,944
Series C preferred stock ($0.001 par value: 1,453,547 shares issued and outstanding) (liquidation preference of $10,180,799)	1,454
Series D 2,238,363 shares issued	2,238
Additional paid-in capital	29,560,570
Other Comprehensive Income	(443,343)
Deficit accumulated during development stage	(29,066,240)
Total stockholders' equity	62,477
Total liabilities and stockholders' equity	929,800

Synergy Pharmaceuticals Inc.
(A Development Stage Company)

CONSOLIDATED STATEMENT OF OPERATIONS

	9 Months to December 31, 2001	9 Months to December 31, 2002
	(unaudited) $	(unaudited) $
Operating Expenses		
Research and development	(2,469,820)	(296,239)
General and administrative	(989,656)	(671,539)
Reimbursements from UT	2,737,994	200,000
Total operating expenses:	(721,482)	(767,778)

Interest income	23,992	18,603
Interest expense	(17,478)	(22,950)
Loss before income taxes	(714,968)	(772,125)
Income Taxes	-	223,366
Net Loss	(714,968)	(548,759)

Synergy Pharmaceuticals Inc.
(A Development Stage Company)

Consolidated statements of cash flows

	9 months Ended December 31, 2001	9 months Ended December 31, 2002
Cash flows from operating activities:		
Net loss	$(714,968)	$(548,759
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	11,521	14,106
Changes in assets and liabilities:		
Prepaid and other current assets	402,172	(40,950
Accounts payable and accrued expenses	57,211	(47,109
Net cash used in operating activities	(244,064)	(622,712
Cash flows from investing activities:		
Purchase of property and equipment	(25,260)	-
Net cash (used in)/provided by investing activities	(25,260)	-
Cash flows from financing activities:		
Repay notes payable to stockholders	(399,622)	-
Proceeds from bridge loans	-	450,000
Adjustments re issuance of common stock	(3,605)	150
Net cash (used in)/provided by financing activities	(403,227)	450,150
Effect of exchange rates on cash	1,823	(10,885
Net increase (decrease)/increase in cash	(670,728)	(183,447
Cash at beginning of period	1,256,216	371,331
Cash at end of period	585,488	187,884

WEBTRONICS, INC.

PRO FORMA UNAUDITED CONDENSED FINANCIAL STATEMENTS

The following entities, which are included in these pro forma unaudited financial statements, are defined below:

Webtronics, Inc.	"Webtronics"
Callisto Pharmaceuticals, Inc.	"Callisto"
Synergy Pharmaceuticals, Inc.	"Synergy"

All the pro forma unaudited financial statements are as of December 31, 2002 and for the year then ended and reflect the following transactions all of which occurred after December 31, 2002.

a) The merger of Callisto and Synergy into Webtronics

b) The conversion of Callisto preferred shares into Callisto common shares.

c) The 475 to 1 common stock split of the pre-merger Webtronics common stock.

d) The conversion of Synergy preferred shares Series A, B and C into Webtronics common shares.

e) The cancellation of Synergy preferred shares Series D and receipt of $750,000 for in-process research and development.

f) The exercise of Synergy options and warrants.

g) The conversion of Callisto common shares and Synergy common shares into Webtronics common shares.

The unaudited pro forma condensed balance sheet assumes all of the above transactions occurred as of December 31, 2002. The unaudited pro forma condensed statement of operations assumes all of the above transactions had occurred January 1, 2002.

These pro forma condensed financial statements should be read in conjunction with the Notes to Pro Forma Unaudited Condensed Financial Statements, and the financial statements of the separate companies and the related notes thereto.

The pro forma condensed financial statements are not necessarily indicative of what the actual financial position and results of operations would have been had the transactions occurred on January 2002 nor do they purport to represent the future financial condition or future operations of the Company.

WEBTRONICS, INC.
(A Development Stage Company)
PRO FORMA UNAUDITED CONDENSED BALANCE SHEETS

DECEMBER 31, 2002
ASSETS

	Webtronics Inc.	Callisto Pharmaceuticals Inc.	Synergy Pharmaceuticals Inc.
Current assets:			
Cash and cash equivalents	$ 232	$2,223,462	$ 187,884
Loan- officer		-	411,715
Prepaid expenses and other current assets		28,456	96,726
Total current assets	232	2,251,918	696,325
Property and equipment - net	-	19,781	233,475
Patent cost - net	-	461,961	-
Investment in subsidiary	-	400,000	-
	$ 232	$3,133,660	$ 929,800
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued expenses	$ -	$ 443,266	$ 417,323
Bank loan payable			450,000
Total current liabilities		443,266	867,323
Shareholders' equity:			
Preferred stock		423	8,546
Common stock	105	1,307	2,944
Additional paid-in-capital	2,720	9,753,631	29,560,570

Accumulated deficit accumulated during the development stage	(2,593)	(7,064,967)	(29,509,583)
	232	2,690,394	62,477
	$ 232	$3,133,660	$ 929,800

See notes to pro forma unaudited condensed financial statements.

WEBTRONICS, INC.
(A Development Stage Company)

PRO FORMA UNAUDITED CONDENSED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2002

	Webtronics Inc.	Callisto Pharmaceuticals Inc.	Synergy Pharmaceuticals Inc.
Revenue	$ -	$ -	$ 967,408
Operating expenses	2,153	1,364,249	1,843,854
Net loss before other income (net)	(2,153)	(1,364,249)	(876,446)
Other income (net)	-	21,009	1,857
Net loss	$ (2,153)	$(1,343,240)	$ (874,589)
Net loss per share	0.00		
Weighted average shares outstanding	1,054,500		

See notes to pro forma unaudited condensed financial statements.

WEBTRONICS, INC.
(A Development Stage Company)

NOTES TO PRO FORMA UNAUDITED CONDENSED FINANCIAL STATEMENTS

DECEMBER 31, 2002

The following transactions are reflected in the pro forma adjustment column of the balance sheet:

A. To record the conversion of a total of 4,235,299 of Callisto preferred shares Series A, B, C into Callisto common shares at a ratio of one common share for one share of convertible preferred stock.

B. To record payment by Synergy of $350,000 of the bridge loan of $450,000.

C. To record the cancellation of Synergy's 2,238,363 preferred shares .001 par value Series D and the receipt of $750,000 for in process research and development.

D. To record the initial investment of $400,000 by Callisto for 99.7% of Webtronics stock as a reduction in paid-in-capital as a result of the merger.

E. To record the estimated exercise of 1,340,000 Synergy options and 1,305,238 warrants at $.01 per share into common shares of Synergy and the resulting receipt of $26,452 by Synergy.

F. To record the conversion of Synergys' preferred shares Series A, B and C and common shares into common shares of Webtronics.

G. To record the conversion of Callisto 17,318,994 common shares into 17,318,994 shares of Webtronics.

H. To record the forgiveness of amount due Synergy from an officer.

I. To record brokerage fee paid by the issuance of 263,741 shares of common stock of Webtronics and valued at $30,000.

J. To cancel par value of Callisto's shares of Webtronics common stock purchased in March 2002.

K. To record the 475 to one split of shares held by original Webtronics common shareholders.

L. To record the conversion of $100,000 of Synergy bridge loan into common stock.

WEBTRONICS, INC.
(A Development Stage Company)

NOTES TO PRO FORMA UNAUDITED CONDENSED FINANCIAL STATEMENTS

DECEMBER 31, 2002

The following transactions are reflected in the pro forma adjustment column of the statement of operations:

M. To eliminate officers' compensation recorded in 2002 by Callisto for officers who have resigned.

N. To record annual officers' compensation agreements entered into in 2003.

O. To eliminate interest expense on $450,000 bridge loan paid in 2003.

P. To record $411,715 forgiveness of debt of officers loan in 2003.

Q. To record $30,000 brokerage fee regarding Synergy merger.