

## **WELICHEM BIOTECH INC.**

FORM 51 – 102 F1

MANAGEMENT DISCUSSION AND ANALYSIS

SIX-MONTH PERIOD ENDED NOVEMBER 30, 2004

The following discussion and analysis, prepared as of January 31, 2005, should be read together with the unaudited financial statements for the six-month period ended November 30, 2004 and related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated. The reader should also refer to the audited financial statements for the years ended May 31, 2004 and 2003.

This Management Discussion & Analysis summarizes the activities of the Company to date, and provides financial information for the quarter ended November 30, 2004. The discussion contains forward-looking statements that involve risks and uncertainties. Such information is considered reasonable by the Company's management at the time of preparation.

### **Description of Business**

Welichem Biotech Inc. is a biotech company, engaged in the development and commercialization of small molecule therapeutics. From its incorporation in 1995, the Company has financed its operations through private sale of equity securities, and through interest income, refundable tax credits and government grants.

The Company has established drug development programs for autoimmune/inflammatory diseases and cancer based on promising classes of compounds discovered using its SymbioChem™ drug discovery platform. Welichem is dedicated to rapidly developing its drug candidates in association with appropriate and recognized partners.

The company's focus is on moving its proprietary drug candidate, WBI-1001, to market for the topical treatment of chronic dermatological autoimmune/inflammatory diseases, in particular, psoriasis and eczema. The Company's research and development is focused on the processing of this compound through Clinical Trial Application (CTA) filing in Canada, (or Investigational New Drug (IND) filing in the USA) (to be completed in later 2005 or early 2006) and phase I/II (or I/IIa) clinical trials (to be completed between 2006 and 2007).

The company's cancer program has realized proprietary compounds with strong activity against major types of solid tumours. Selected candidates are currently undergoing further laboratory and animal tests as potential novel anticancer agents.

## **Financing**

In September 2004, Welichem completed a private placement offering of a total number of units (4,545,455) to Celestial with the total subscription price of \$1.5 m at the per unit purchase price \$0.33. Each unit consists of one Welichem Common Share and one warrant to purchase a Welichem Common Share at the per share purchase price of \$0.35 before August 31, 2006. This new financing provides Welichem \$1.5 million for its operation. Welichem is currently pursuing a listing on the TSXV after it merged with Belltech Ventures Ltd., a capital pool company (CPC). The Company is in the process of a private placement to secure additional funds for its operation prior to or simultaneous with the listing for its planned research and development activities. The Company anticipates that its current funds on hand, the recent financing from Celestial, together with interest income, future grant income and funds received in connection with the closing of the current private placement will be sufficient to fund operations through 2005.

Welichem will use these funds to complete formal preclinical studies for the initiation of the clinical trials on its anti-psoriasis drug, WBI-1001. Welichem will then raise additional funds to take its drug candidate, WBI-1001, through Phase II. Parallel studies will investigate the potential of WBI-1001 as a treatment for Eczema and Inflammatory Bowel Disease (IBD), thus further enhancing the value of WBI-1001. However, it should be noted that the Company's funding needs may vary depending upon several factors, including the progress and nature of research and development initiatives, the ability to attract and maintain strategic alliances, the Company's decision to in-license technology, acquisition and unforeseen costs associated with undertaking pre-clinical/clinical studies.

## **Acquisition of Welichem**

On November 1, 2004, Belltech completed the acquisition of Welichem by Issuing 17,850,399 common shares in exchange for all the issued and outstanding shares of Welichem. This transaction resulted in the former shareholders of Welichem owning the majority of the issued and outstanding shares of the combined entity. Accounting principles applicable to reverse take-over have been applied to record this acquisition. Under this basis of accounting, Welichem has been identified as the acquirer, and, accordingly, the combined entity is considered to be a continuation of Welichem.

## Research and Development

Welichem is a development stage company that dedicates the majority of its resources to research and development activities. During the second quarter of fiscal 2005, the Company focused on completing formal preclinical tests of WBI-1001 for the treatment of psoriasis. The Company, together with its collaborators, has already successfully accumulated extensive data, following GLP guidelines, on the chemistry, manufacturing and quality control (CMC), and is making the required scale up of the production process of WBI-1001 to provide the quantities of compound necessary for the extensive, regulatory toxicity studies.

The Company expects to continue incurring substantial development expenditures through the remainder of Fiscal 2005 due to its on going preclinical development and regulatory work.

## Summary of Annual and Quarterly Information

	Year Ended May 25, 2001 (Audited)	Year Ended May 31, 2002 (Audited)	Year Ended May 31, 2003 (Audited)	Year Ended May 31, 2004 (Audited)	1 <sup>st</sup> Quarter (3 Months) Ended August 31, 2004 (Unaudited)	2 <sup>nd</sup> Quarter (3 Months) Ended Nov. 30, 2004 (Unaudited)
<b>Operation Data</b>						
Government Assistance and Other Subsidies	83,800	24,600	235,491	30,590	0	0
SRED Tax Credit	186,279	271,531	174,044	128,035	<u>0</u>	<u>0</u>
Other Income	100,757	15,109	19,850	36,629	(5,810)	(57,557)
Research and Development	497,729	582,892	563,606	290,074	68,229	242,724
General and Administrative Expenses	133,192	160,834	178,013	144,140	49,281	106,388
<b>Loss for the period</b>	<b>(260,085)</b>	<b>(432,486)</b>	<b>(312,234)</b>	<b>(226,013)</b>	<b>(123,320)</b>	<b>(406,669)</b>
<b>Balance Sheet</b>						
Cash	48,162	27,908	49,549	216,165	400,796	328,337
Short Term Investments	772,769	335,503	252,769	456,665	456,665	940,878
Pre-Paid		43,275	12,715	12,715	12,715	13,060

Expenses						
Receivables	10,177	23,104	2,805	49,189	2,433	15,877
SRED Tax	186,279	291,687	171,686	119,728	119,728	119,728
Credit						
Receivable						
Capital Assets	19,159	104,118	66,987	48,197	44,075	48,824
Patent rights	53,372	138,975	182,102	202,433	203,916	239,802
Other Assets	13,137	13,786	13,879	13,879	13,879	13,879
<b>Total Assets</b>	<b>1,103,055</b>	<b>978,356</b>	<b>752,492</b>	<b>1,118,971</b>	<b>1,254,207</b>	<b>1,720,385</b>
Accounts Payable	49,713	43,000	29,370	41,545	34,100	162,884
Convertible Loan Payable	0	174,500	174,500	0	0	0
<b>Total Liabilities</b>	<b>49,713</b>	<b>217,500</b>	<b>203,870</b>	<b>41,545</b>	<b>34,100</b>	<b>162,884</b>
Share Capital Contributed	1,552,889	1,552,889	1,792,889	1,967,389	1,967,389	3,360,027
surplus				2,950	2,950	11,243
Share subscriptions received in advance				577,367	843,368	186,500
Deficit	(499,547)	(932,033)	(1,244,267)	(1,470,280)	(1,593,600)	(2,000,269)
<b>Shareholders' Equity</b>	<b>\$1,053,342</b>	<b>760,856</b>	<b>548,622</b>	<b>1,077,426</b>	<b>1,220,107</b>	<b>1,557,501</b>

## Results of Operations

Presently, Welichem has no revenues and it is unlikely to be in a position to generate sufficient revenues to meet its ongoing operating and capital expenses for the foreseeable future. Welichem has incurred operating losses since inception. The net loss for the most recent financial year ended May 31, 2004 was \$226,013 compared to \$312,234 in the prior year, and the net loss for the most recent quarter ended November 30, 2004 was \$406,669. Welichem's consolidated financial statements do not include any adjustments to overcome any uncertainty.

## Related Party Transaction

In the most recent quarter, a payment of \$3,031 was made to Dr. John North, a director of the Company, for consulting services rendered. There was no other related party transaction.

## Outstanding Share Data

As of November 30, 2004, the Company had the following outstanding securities:

(1) Common Shares issued	20,280,399
(2) Stock Options	1,906,080
(3) Warrants	6,818,183