

## **WELICHEM BIOTECH INC.**

FORM 51 – 102 F1

MANAGEMENT DISCUSSION AND ANALYSIS

NINE-MONTH PERIOD ENDED FEBRUARY 28, 2005

The following discussion and analysis, prepared as of April 29, 2005, should be read together with the unaudited financial statements for the nine-month period ended February 28, 2005 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 February 28, 2005. 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. (formerly Welichem Technology Corporation) is a Canadian biotech company focused on the development and commercialization of small molecule therapeutic drugs for the treatment of autoimmune/inflammatory diseases and cancer. The business attracted investment by Celestial Pharmaceuticals (Shenzhen) Ltd and other parties in fiscal 2004-2005.

Welichem's core technology is based on a unique series of compounds discovered using its Symbiochem™ drug discovery platform. This discovery platform permits the efficient production and identification of distinctive bioactive metabolites from symbiotic bacteria. The synthesis of drug candidates with significant bioactivity from some of these chemical entities and their derivatives provides the core of the drug development programs.

Our proprietary lead candidate, WBI-1001, originates from one of these classes of bioactive compounds, and is being developed as a topical treatment of chronic dermatological autoimmune/inflammatory diseases, in particular, psoriasis and eczema. WBI-1001 is being evaluated in formal preclinical trials, and is on track to file a Clinical Trial Application (CTA) in Canada (or an Investigational New Drug, IND, filing in the USA).

Welichem's discovery of the proprietary WBI-2000 series of small molecules has led to the demonstration of broad efficacy in cell-based studies and animal models against solid tumors. Selected candidates are currently undergoing laboratory tests as potential novel anticancer agents.

## **Financing**

Subsequent to the quarter ended February 28, 2005, Welichem has been granted conditional listing on the TSXV subject to closing of a private placement financing up to \$1.5M 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, 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 the research and development initiatives, the ability to attract and maintain strategic alliances, Company decisions to in-license technology, make acquisitions and meet unforeseen costs associated with undertaking pre-clinical/clinical studies.

## **Research and Development**

Welichem dedicates the majority of its resources to research and development activities, in particular, moving its lead drug candidate, WBI-1001, through the regulatory process and preparing research support for the emerging anticancer compounds in the pipeline.

Welichem's WBI-1001, the focus of the Company's development, has shown potency, bioavailability and stability and can penetrate the skin from a cream formulation. Its large scale manufacture protocol has been established. During the Q3 of fiscal 2004-2005 the Company has focused on the formal preclinical tests of WBI-1001, following GLP guidelines.

The Company expects to continue to incur substantial development expenditures through the remainder of fiscal 2004-2005 due to the on going preclinical and regulatory activities.

## 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)	3 <sup>rd</sup> Quarter (3 Months) Ended Nov. Feb. 28, 2005 (Unaudited)
<b>Operation Data</b>							
Government Assistance and Other Subsidies	83,800	24,600	235,491	30,590	0	0	0
SRED Tax Credit	186,279	271,531	174,044	128,035	0	0	0
Other Income	100,757	15,109	19,850	36,629	(5,810)	(57,557)	27,503
Research and Development	497,729	582,892	563,606	290,074	68,229	242,724	178,662
General and Administrative Expenses	133,192	160,834	178,013	144,140	49,281	106,388	92,719
<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>(243,878)</b>
<b>Balance Sheet</b>							
Cash	48,162	27,908	49,549	216,165	400,796	328,337	296,160
Short Term Investments	772,769	335,503	252,769	456,665	456,665	940,878	959,559
Pre-Paid Expenses		43,275	12,715	12,715	12,715	13,060	12,715
Receivables	10,177	23,104	2,805	49,189	2,433	15,877	9,529
SRED Tax Credit Receivable	186,279	291,687	171,686	119,728	119,728	119,728	0
Capital Assets	19,159	104,118	66,987	48,197	44,075	48,824	48,769
Patent rights	53,372	138,975	182,102	202,433	203,916	239,802	240,382
Other Assets	13,137	13,786	13,879	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>	<b>1,580,989</b>
Accounts Payable	49,713	43,000	29,370	41,545	34,100	162,884	14,611
Convertible Loan Payable	0	174,500	174,500	0	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>	<b>14,611</b>
Share Capital	1,552,889	1,552,889	1,792,889	1,967,389	1,967,389	3,360,027	3,360,027
Contributed surplus				2,950	2,950	11,243	11,243
Share subscriptions received in advance				577,367	843,368	186,500	439,255
Deficit	(499,547)	(932,033)	(1,244,267)	(1,470,280)	(1,593,600)	(2,000,269)	(2,244,147)
<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>	<b>1,566,378</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 February 28, 2005 was \$243,878. Welichem's

consolidated financial statements do not include any adjustments to overcome any uncertainty.

**Related Party Transaction**

In the most recent quarter, there was no related party transaction.

**Outstanding Share Data**

As of February 28, 2005, 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