

WELICHEM BIOTECH INC.
FORM 51 – 102F1
MANAGEMENT DISCUSSION AND ANALYSIS
3-Month Period Ended August 31, 2005

The following discussion and analysis, prepared as of October 13, 2005, should be read together with the audited financial statements for the year ended May 31, 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.

This Management Discussion & Analysis summarizes the activities of the Company to date, and provides financial information for the quarter ended August 31, 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.

Overview

During the first quarter ended August 31, 2005, we continued to make progress in our R&D programs. Our lead compound, WBI-1001, is in formal preclinical study for treatment of psoriasis and is on track for review by the Canadian regulatory authorities for Clinical Trial Application as the next step of the regulatory approval process. WBI-1001 is being evaluated for potential application against other autoimmune diseases (e.g. eczema and inflammatory bowel disease). Concurrently, Welichem's 2000 series of compounds have received significant attention focus due to their potential for the treatment of cancer.

In July and August, we welcomed two new members to the Board of Directors, namely, John Dustan and Weihe Wang, bringing additional managerial and developmental talents to the Board.

Research and Development

In the fiscal quarter ended August 31, 2005, the R&D activities have increased the level of external contractor services for expertise in processing our development plan and regulatory/compliance issues for the lead compound WBI-1001. During the 3-month period ended August 31, 2005, R&D costs of \$564,024 (2004 - \$55,696) have been incurred. The Company expects to continue incurring substantial development expenditures through the remaining calendar months in 2005 and early 2006 due to its on going preclinical development and regulatory work.

These increased activities include extensive GLP safety evaluations and GMP manufacturing of the substance of WBI-1001. Full scale-up and manufacturing of

the drug substance was achieved and the cGMP material is in place. A cream formulation was developed that would satisfy the exacting demands of a carrier for the effective drug product and initial stability study indicated satisfactory stability of the formulation. Toxicity studies were carried out on animal models, using the drug product, to determine the acute toxicity by external contractors in Canada and the US. In view of its planned use as a dermal drug specific toxicity was also evaluated. The various tests done to date in the formal preclinical evaluation under GLP conditions have shown the WBI-1001 drug candidate to be acting as expected. In addition, the clinical trial plans and protocols have been developed jointly by experts of external contractors and our clinical advisory board in preparation for the upcoming clinical trials of WBI-1001. These increased activities through external contractors has resulted in an increase of our R&D costs from that of \$414,251 the previous quarter to \$564,024 of this quarter.

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 quarter ended August 31, 2005 was \$687,553 (2004 - \$123,320) and 2 cents per share (2004 - 2 cents per share). Administrative expenses for this quarter were \$126,041 (2004 - \$61,814). Major expenses included \$21,282 (2004 - \$16,013) in rent, \$20,939 (2004 - \$3,400) in legal and accounting fees, \$17,917 (2004 - \$14,102) in wages and benefits, \$16,250 (2004 - nil) in stock-based compensation, \$12,157 (2004 - nil) in investor relations, \$10,688 (2004 - nil) in regulatory fees, \$8,793 (2004 - \$2,286) in office and miscellaneous expenses, and \$6,311 (2004 - \$15,689) in travel and related costs.

Factors that contributed to higher administrative expenses in 2005 included:

- i) higher legal and accounting fees, regulatory fees, and investors relation costs due to its listing on the TSX Venture Exchange as a public company and
- ii) increase in rent due to expanded facility.

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

Financing

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. While the Company has no financing activities in this quarter, it is developing a plan to finance future operations.

Liquidity

The Company's business is in the development stage and does not generate cash flow from operations to adequately fund its activities and has thus relied principally on the issuance of securities for financing. There is no assurance that such financing will be available on a timely basis under terms acceptable to the Company.

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.

The Company anticipates that its current funds on hand, together with interest income and the SRED refund tax credit, will be sufficient to fund operations to spring 2006.

Related Party Transaction

There was no related party transaction in this quarter.

Subsequent Events

Subsequent to the quarter ended August 31, 2005, the Company granted 250,000 stock options to an officer. The options, being vested immediately, are exercisable at a price of \$0.23 for a period of five years from date of grant.

Outstanding Share Data

As of August 31, 2005, the Company had the following outstanding securities:

(1) Common Shares issued	28,730,323
(2) Stock Options	2,056,080
(3) Warrants	6,818,183

Additional Information

Additional Information relating to the Company is available on SEDAR (www.sedar.com).

Summary of Annual and Quarterly Information

	Year Ended May 31, 2003 (Audited)	Year Ended May 31, 2004 (Audited)	1 st Quarter Ended August 31, 2004 (Unaudited)	2 nd Quarter Ended Nov. 30, 2004 (Unaudited)	3 rd Quarter Ended Nov. Feb. 28, 2005 (Unaudited)	Year Ended May 31, 2005 (Audited)	1 st Quarter Ended August 31, 2005 (Unaudited)
Operation Data							
Government Assistance and Other Subsidies	235,491	30,590	0	0	0	10,073	0
SRED Tax Credit	174,044	119,728	0	0	0	97,778	0
Other Income	19,850	49,576	(5,810)	(57,557)	27,503	(23,827)	2,512
Research and Development	563,606	239,430	68,229	242,724	178,662	831,014	564,024
General and Administrative Expenses	178,013	194,784	49,281	106,388	92,719	458,473	126,041
Loss for the period	(312,234)	(226,013)	(123,320)	(406,669)	(243,878)	(1,198,931)	(687,553)
Balance Sheet							
Cash	49,549	216,165	400,796	328,337	296,160	1,384,640	55,431
Short Term Investments	252,769	456,665	456,665	940,878	959,559	875,141	1,430,891
Pre-Paid Expenses	12,715	12,715	12,715	13,060	12,715	12,715	12,715
Receivables	2,805	49,189	2,433	15,877	9,529	16,586	24,296
SRED Tax Credit Receivable	171,686	119,728	119,728	119,728	0	97,778	97,778
Capital Assets	66,987	48,197	44,075	48,824	48,769	50,524	48,154
Patent rights	182,102	202,433	203,916	239,802	240,382	291,111	291,791
Other Assets	13,879	13,879	13,879	13,879	13,879	13,879	13,879
Total Assets	752,492	1,118,971	1,254,207	1,720,385	1,580,989	2,742,374	1,974,935
Accounts Payable	29,370	41,545	34,100	162,884	14,611	161,698	65,562
Convertible Loan Payable	174,500	174,500	0	0	0	0	0
Total Liabilities	203,870	41,545	34,100	162,884	14,611	161,698	65,562
Share Capital	1,792,889	1,967,389	1,967,389	3,360,027	3,360,027	5,238,644	5,238,644
Contributed surplus	0	2,950	2,950	11,243	11,243	11,243	27,493
Share subscriptions received in advance	0	577,367	843,368	186,500	439,255	0	0
Deficit	(1,244,267)	(1,470,267)	(1,593,600)	(2,000,269)	(2,244,147)	(2,669,211)	(3,356,764)
Shareholders' Equity	548,622	1,077,426	1,220,107	1,557,501	1,566,378	2,580,676	1,909,373

Note: Quarterly financial information for prior years was not available as the Company was a private company until November 1, 2004.