

WELICHEM BIOTECH INC.
FORM 51 — 102F1
MANAGEMENT DISCUSSION AND ANALYSIS
3-Month Period Ended November 30, 2005

The following discussion and analysis, prepared as of January 18, 2006, should be read together with the unaudited financial statements for six-month period ended November 30, 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 audited financial statements for the year ended May 31, 2005 and 2004.

This Management Discussion & Analysis summarizes the activities of the Company to date, and provides financial information for the quarter ended November 30, 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

Highlights of this quarter

- Welichem met with the regulatory agency, the Therapeutic Products Directorate (TPD) of Health Canada, to review the formal preclinical data and the clinical plan as a prelude to the final submission to the TPD;
- Many definitive rodent and non-rodent toxicity studies to support the regulatory filing of WBI-1001 were set in motion and some were completed;
- Evaluation of the WBI-2000 series of compounds yielded positive anti-cancer activities. The developing cancer chemotherapy profile of these compounds (WBI-2000) is increasing our understanding of this important group of compounds;
- Following Welichem's Board meeting in Yuxi, China in October 2005, the Company entered into a letter of intent with its Chinese partner to strengthen their collaboration and R&D activities in China.
- The Company implemented, later in the quarter, cost-saving measures and enhanced its managerial and technical strategies.

During this reporting quarter, the Company made significant progress in both of its major drug programs. The Company continued advancing its prime focus, the characterization of its lead drug candidate, WBI- 1001. This was manifest in the ongoing exacting and multifaceted, formal preclinical studies being completed, prior

to application to the Canadian regulatory authorities for approval to proceed with clinical trials of this compound for the treatment of psoriasis.

Welichem held a meeting with the regulatory agency in preparation for the upcoming regulatory filing on the use of WBI-1001 as a treatment for psoriasis. The most important activities for this quarter were the many rodent and non-rodent toxicology studies. These will constitute the key component of the regulatory filing that, if approved, would allow the initiation of Phase I clinical trial of WBI-1001 in up to 40 patients.

The GMP production was initiated at the end of the quarter. Companies are required to show that they can produce a compound repeatedly and at a consistently high level of quality that is commensurate with good manufacturing practice or cGMP. Management believes that production of WBI-1001 material will not be a limiting factor in the upcoming clinical trials. The completed tests done to-date in the formal preclinical evaluation of WBI-1001 have shown the drug candidate to be acting as expected.

Studies suggest that the therapeutic capacity of WBI- 1001 is not limited to psoriasis. When the compound's safety profile is tested during the Phase I trial in the coming months, management plans to continue to investigate the potential of WBI-1001 for targeting other types of auto-immune diseases such as eczema.

Meanwhile, the Company is searching for the next lead compound that could be added to its pipeline. Of the potential areas, the cancer chemotherapeutic properties of the WBI-2000 series of compounds have shown encouraging results. Consequently, Welichem has given increased attention to the WBI-2100 series. Exploratory and confirmatory tests on this anti-cancer series (WBI-2100) are being done in-house and also externally under contract research. This research program is designed not only to synthesize, screen, evaluate, and enhance the properties of the target compounds but also to determine the mechanism of action and safety.

The Company must now determine which one of the compounds in the WBI-2000 series is the most promising for the basis of another regulatory filing. This element in Welichem's operations is important because it spreads the risk of drug development beyond WBI-1001.

Finally, with a formal pre-clinical psoriasis program underway and an anti-cancer program initiated, management has decided to focus its current financial resources on downstream development as opposed to upstream discovery. As development matures in the future, discovery efforts will be re-instated at levels equal to or greater than those of the past few years.

The enhanced focus on the development schedule of the different proprietary compounds has been accompanied by changes in management and staff in the Company and in our scientific advisors. One of Welichem's founders and Vice-

president, Dr. Jianxiang (Jason) Li, resigned from the company. Dr. Moulay Alaou-Jamali of the Cancer Research Centre of McGill University joined the Company's Scientific Advisory Board. Dan London was appointed Managing Director & CEO, and Dr. John M. Webster relinquished the CEO office but continued as President. (Subsequently to this reporting period, Dan London resigned from Welichem and Dr. Webster assumed the duties of Managing Director & CEO in addition to his current title as President).

Welichem entered into a letter of intent with Chinese partners, Weihe Pharmaceutical Co. Ltd. ("Weihe") of Yuxi, Yunnan and Celestial Pharmaceuticals (Shenzhen) Ltd. ("Celestial") to facilitate the establishment of a research and development laboratory in Yunnan, China. This facility will focus on developing Welichem's unique technology and explore other technologies for pharmaceutical application. It will benefit from the Weihe and Celestial planned investment in these technologies in the coming years. This should enable expeditious testing as a prelude to the regulatory application process of an anti-cancer drug candidate in China through Welichem's strategic partner, Celestial, with the potential of filing for its clinical trial approval in mid-2006. Weihe, a major shareholder of Celestial, who is a major shareholder of Welichem, expressed interest in increasing its direct involvement in Welichem, following Welichem's Board Meeting held in China in October 2005. This partnership of Weihe and Celestial helps Welichem reduce operational and research and development costs while, at the same time, accelerating the path to commercialization of selected drug candidates.

Results of Operations

Welichem remains dependent on the capital markets and on its existing resources, and 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 3-month period ended November 30, 2005 was \$630,153 (2004 - \$406,669) and 3 cents per share (2004 - 2 cents per share). The R & D Expenses for this quarter were \$467,894 compared to \$235,061 for the same period in 2004. Administrative expenses for this quarter were \$177,740 (2004 - \$114,050). Major expenses included \$22,837 (2004 - \$11,143) in rent, \$27,778 (2004 - \$14,101) in wages and benefits, \$52,550 (2004 - \$8,293) in stock-based compensation, \$15,108 (2004 - nil) in investor relations, \$15,000 (2004 - \$14,000) in insurance, \$14,234 (2004 - \$40,039) in legal and accounting fees, \$8,312 (2004 - \$3,484) in travel and related costs, and \$6,660 (2004 - \$5,387) in office and miscellaneous expenses.

The net loss for the 6-month period ended November 30, 2005 was \$1,317,706 (2004 - \$529,989) and 5 cents per share (2004 - 3 cents per share). The R & D Expenses for this quarter were \$1,031,918 compared to \$290,757 for the same period in 2004. Administrative expenses for this quarter were \$303,780 (2004 - \$175,865). Major expenses included \$44,119 (2004 - \$27,156) in rent, \$45,695 (2004 - \$28,203) in

wages and benefits, \$68,800 (2004 - \$8,293) in stock-based compensation, \$27,264 (2004 - nil) in investor relations, \$15,000 (2004 - \$17,500) in insurance, \$35,173 (2004 - \$43,439) in legal and accounting fees, \$15,453 (2004 - \$8,592) in office and miscellaneous expenses, \$14,623 (2004 - \$19,173) in travel and related costs, and \$13,251 (2004 - nil) in regulatory expenses.

Factors that contributed to higher administrative expenses in 2005 included:

- i) Higher regulatory fees, and investor relations costs due to its listing on the TSX Venture Exchange as a public company and
- ii) Increase in rent due to expanded facility.
- iii) Increase in staff

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.

Based on the current strategic plan, 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 into the next fiscal year, commencing June 2006.

Related Party Transaction

There was no related party transaction in this quarter.

Subsequent Events

Subsequent to this reporting period, Dan London resigned from the position of Managing Director & CEO and Director. Dr. John M. Webster assumed the role of Managing Director & CEO and Dr. Genhui Chen was appointed Chief Operating Officer.

Outstanding Share Data

As at November 30, 2005, the Company had the following outstanding securities:

(1)	Common Shares issued (Shares in Escrow: 8,449,503)	28,780,325
(2)	Stock Options	2,306,080
(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)	2 nd Quarter Ended Nov. 30, 2005 (Unaudited)
Operation Data								
Government Assistance and Other Subsidies	235,491	30,590	0	0	0	10,073	0	13,000
SRED Tax Credit	174,044	119,728	0	0	0	97,778	0	0
Other Income	19,850	49,576	(5,810)	(57,557)	27,503	(23,827)	2,512	2,805
Research and Development	563,606	239,430	68,229	242,724	178,662	831,014	564,024	467,894
General and Administrative Expenses	178,013	194,784	49,281	106,388	92,719	458,473	126,041	177,740
Loss for the period	(312,234)	(226,013)	(123,320)	(406,669)	(243,878)	(1,198,931)	(687,553)	(630,153)
Balance Sheet								
Cash	49,549	216,165	400,796	328,337	296,160	1,384,640	55,431	125,819
Short Term Investments	252,769	456,665	456,665	940,878	959,559	875,141	1,430,891	733,586
Pre-Paid Expenses	12,715	12,715	12,715	13,060	12,715	12,715	12,715	12,715
Receivables	2,805	49,189	2,433	15,877	9,529	16,586	24,296	29,488
SRED Tax Credit Receivable	171,686	119,728	119,728	119,728	0	97,778	97,778	97,778
Capital Assets	66,987	48,197	44,075	48,824	48,769	50,524	48,154	47,112
Patent rights	182,102	202,433	203,916	239,802	240,382	291,111	291,791	307,218
Other Assets	13,879	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	1,367,595
Accounts Payable	29,370	41,545	34,100	162,884	14,611	161,698	65,562	35,826
Convertible Loan Payable	174,500	174,500	0	0	0	0	0	0
Total Liabilities	203,870	41,545	34,100	162,884	14,611	161,698	65,562	35,826
Share Capital	1,792,889	1,967,389	1,967,389	3,360,027	3,360,027	5,238,644	5,238,644	5,238,644
Contributed surplus	0	2,950	2,950	11,243	11,243	11,243	27,493	80,043
Share subscriptions received in advance	0	577,367	843,368	186,500	439,255	0	0	0
Deficit	(1,244,267)	(1,470,267)	(1,593,600)	(2,000,269)	(2,244,147)	(2,669,211)	(3,356,764)	(3,986,918)
Shareholders' Equity	548,622	1,077,426	1,220,107	1,557,501	1,566,378	2,580,676	1,909,373	1,367,595
Loss per Common Share	(0.03)	(0.02)	(0.01)	(0.02)	(0.01)	(0.06)	(0.02)	(0.03)

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