

WELICHEM BIOTECH INC.
FORM 51 – 102F1
MANAGEMENT DISCUSSION AND ANALYSIS
Period Ended November 30, 2006

The following discussion and analysis, prepared as of January 29, 2007, should be read together with the audited financial statements for year ended May 31, 2006 and unaudited financial statements for period ended November 30, 2006 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 period ended November 30, 2006. 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

Welichem Biotech is a pharmaceutical drug research and development company focused on the discovery and commercialization of small molecule drugs to treat unmet healthcare needs. The Company aims to bring better and safer drugs to market that have high efficacy and low side effects. Two groups of lead drug compounds are being developed: one to target autoimmune / inflammatory diseases and the other, cancerous tumors.

This quarter has been a particularly exciting, exacting and productive period for Welichem as it concluded the preclinical trials of its lead drug candidate, WBI-1001, against psoriasis, and commenced collation and preparation of documentation for submission to the regulatory authorities. This process, with the Company's first pharmaceutical drug candidate, is a significant step toward achieving the Company's overall goal of bringing to market drugs that are effective, safe and give improved quality of life. Concurrent with Welichem's focus on WBI-1001, the Company has obtained very encouraging data from recent preclinical testing of its putative cancer therapeutic, WBI-2100.

Welichem's drug candidate for the topical treatment of psoriasis (WBI-1001) had no adverse effect in a 28 day, repeat dose application on rats at a dose approximately 40 times higher than the dose scheduled for use in clinical trials. Subsequently, on completing a similar 28 day repeat dose application on minipigs, the skin of which is the most similar of all animals to that of human skin, no adverse effects were observed at any dose except for temporary, superficial reddening of the skin at the highest dose. The complete data from this trial, including examination and analysis of internal tissues, is undergoing final review. A cardiovascular toxicology test in a guinea pig model tested another safety dimension. This trial, carried out in Chicago, USA, showed no adverse response to WBI-1001. The satisfactory conclusion of such preclinical toxicological tests is required before entering clinical testing of WBI-1001. Welichem

has been collaborating with expert research teams across Canada and the United States to complete the preclinical trials, and these teams themselves are monitored by experienced consultants.

Welichem's novel anti-cancer drug compound, WBI-2100, continues to be the focus of a series of rigorous, exploratory tests of its potential for improved benefit to patients. The efficacy of WBI-2100 against cancer, its anti-metastasis (spreading of cancer cells within the body and invasion of other organs) activity and its ability to overcome myelosuppression (reduction of number of immune cells, a major component of the side effects associated with most of the established cancer drugs) are being further examined and confirmed.

More than 90% of human cancer deaths are caused by the spread of cancer cells and their invasion of organs within the body. WBI-2100 has demonstrated significant efficacy in inhibiting tumour spread and invasion in mouse models both by itself and in combination with commonly used cancer chemotherapeutics. An exceptionally encouraging aspect of this putative drug candidate is its relatively low side effect on animals in these trials. Most interestingly, WBI-2100 has been shown to stimulate production of white blood cells, especially neutrophils, which are the major immune cells defending the human body against infection. In contrast, most cancer drugs suppress the production of these immune cells thus limiting their efficacy in cancer treatments.

WBI-2100, in animal models, significantly suppressed tumor growth and invasion while maintaining the strength of the body's immune system to fight other diseases. This unique combination of anti-cancer activity and immune stimulation suggests that WBI-2100 has some of the properties of an ideal drug for cancer treatment with much reduced side effects, either as a monotherapy or combined therapy with other anti-cancer drugs to enhance and improve their anti-cancer efficacy and boost the patient's immune system.

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 its inception.

3-Month Period Ended November 30, 2006

The net loss for the 3-month period ended November 30, 2006 was \$831,878 (2005 - \$630,153) and 2 cents per share (2005 - 3 cents per share). The Research & Development Expenses for this period were \$664,059 (2005 - \$467,894). Major expenses included \$599,130 (2005 - \$362,432) in subcontractors, supplies and materials and \$87,334 (2005 - \$105,462) in wages and benefits. The Company received \$29,230 (2005 - \$nil) in government assistance and other subsidies.

Administrative expenses for this period were \$180,649 (2005 - \$177,740). Major expenses included \$46,499 (2005 - \$80,328) in wages and benefits, including stock-based compensation costs of \$2,932 (2005 - \$52,550), \$24,692 (2005 - \$22,837) in rent, \$21,878 (2005 - \$15,000) in insurance, \$20,122 (2005 - \$14,234) in professional fees, and \$15,993 (2005 - \$6,660) in office and miscellaneous expenses, \$17,061 (2005 - \$8,312) in travel and related costs, \$8,500 (2005 - \$nil) in consulting fees, and \$8,150 (2005 - \$4,500) in director's fees.

6-Month Period Ended November 30, 2006

The net loss for the 6-month period ended November 30, 2006 was \$1,698,579 (2005 - \$1,317,706) and 3 cents per share (2005 - 5 cents per share). The Research & Development Expenses for this period were \$1,279,181 compared to \$1,037,453 for the same period in 2005. Major expenses included \$1,023,682 (2005 - \$825,191) in subcontractors, supplies and materials and \$281,086 (2005 - \$212,262) in wages and benefits, including \$57,536 (2005 - \$5,535) in Stock-based compensation. The Company received \$32,412 (2005 - \$nil) in government assistance and other subsidies.

Administrative expenses for this period were \$454,566 (2005 - \$298,245). Major expenses included \$227,722 (2005 - \$108,960) in wages and benefits, including stock-based compensation costs of \$139,348 (2005 - \$52,550), \$49,378 (2005 - \$44,119) in rent, \$26,834 (2005 - \$35,173) in professional fees, and \$21,275 (2005 - \$15,453) in office and miscellaneous expenses, \$25,515 (2005 - \$14,623) in travel and related costs, \$21,892 (2005 - \$13,251) in regulatory expenses, \$20,150 (2005 - \$nil) in consulting fees, and \$10,250 (2005 - \$8,500) in director's fees.

Factors that contributed to higher administrative expenses in 2006 included:

- i) higher regulatory fees due to its financing activities in the first quarter.
- ii) increase in rent due to expanded facility.
- iii) higher insurance costs
- iv) higher office and miscellaneous expenses
- v) higher wages and benefits due to increase in staff and stock-based compensation costs.
- vi) Higher amortization expenses.

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. After the Company closed a non-broker private placement for total gross proceeds of \$2,815,200 in the first quarter of this year, the Company has adequate resources to fund its R & D activities and operations to mid-2007. The Company is currently exploring financing options to raise funding for its R & D activities and operations in 2007-08.

Liquidity

During the 6-month period ended November 30, 2006, the Company relied on the proceeds from the non-broker private placement completed in May 2005 and July 2006 to continue its operations and Research and Development activities.

At November 30, 2006, the Company had \$1,556,740 (May 31, 2006 - \$265,593) in cash and cash equivalents. The Company's net working capital position as at November 30, 2006 was \$1,201,008 (May 31, 2006 - \$142,696).

With its current funds on hand, together with interest income, and the funding from the Industrial Research Assistance Program ("IRAP") of the National Research Council of Canada, the Company anticipates that it has sufficient funds for operations to mid-2007.

Until the Company achieves the licensing or drug commercialization stages, it plans to fund its operations from a combination of the sale and issuance of equity securities and government subsidies.

Risks and Uncertainties

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.

If adequate funding is not available, the Company may be required to delay, reduce or eliminate one or more of its research and development programs or obtain funds through arrangements with corporate partners or others that may require the Company to relinquish greater or all rights to product candidates at an earlier stage of development or on less favourable terms than the Company would otherwise seek. Insufficient funding may also require the Company to relinquish rights to certain of its technologies that the Company would otherwise develop itself.

Summary of Annual Information

	Year Ended May 31, 2006 (Audited)	Year Ended May 31, 2005 (Audited)	Year Ended May 31, 2004 (Audited)
Total Income	(25,787)	(23,827)	49,576
Loss for the year	(2,378,867)	(1,198,931)	(226,013)
Loss per Common Share -basic and fully diluted	(0.08)	(0.06)	(0.02)
Total Assets	759,574	2,742,374	1,118,971
Total Current Liabilities	289,920	161,698	41,545
Total Long-term Liabilities	0	0	0
Shareholders' Equity	469,654	2,580,676	1,077,426

Summary of Quarterly Information

	2 nd Quarter Ended November 30, 2006 (Unaudited)	1 st Quarter Ended August 31, 2006 (Unaudited)	4 th Quarter Ended May 31, 2006 (Unaudited)	3 rd Quarter Ended Nov. Feb. 28, 2006 (Unaudited)	2 st Quarter Ended Nov. 30, 2005 (Unaudited)	1 st Quarter Ended August 31, 2005 (Unaudited)	4 th Quarter Ended May 31, 2005 (Unaudited)	3 rd Quarter Ended Nov. Feb. 28, 2005 (Unaudited)
Total Income	12,830	22,338	(68,376)	5,689	2,805	2,512	8,361	27,503
Loss for the period	(831,878)	(866,701)	(754,920)	(306,241)	(630,153)	(687,553)	(425,064)	(243,878)
Loss per Common Share – basic	(0.02)	(0.01)	(0.03)	(0.01)	(0.03)	(0.03)	(0.02)	(0.01)
Loss per Common Share – fully diluted	(0.01)	(0.01)	(0.02)	(0.01)	(0.03)	(0.02)	(0.02)	(0.01)
Total Assets	1,998,235	2,588,236	759,574	1,097,927	1,367,595	1,974,935	2,742,374	1,580,989
Total Liabilities	470,946	232,001	289,920	18,773	35,826	65,562	161,698	14,611
Shareholders' Equity	1,527,289	2,356,235	469,654	1,079,154	1,331,769	1,909,373	2,580,676	1,566,378

Off Balance Sheet Arrangements

The Company is not aware of any material off balance sheet arrangements requiring disclosure.

Related Party Transactions

During the 3-month period ended November 30, 2006, the Company paid \$52,000 (2005 - \$60,354) in wages, and \$8,150 (2005 – \$4,500) in directors' fees to its former and current officers and directors.

Critical Accounting Policies and Estimates

The Company's significant accounting policies are disclosed in Note 3 to the audited financial statements as at November 30, 2006. Critical accounting policies and estimates include:

Cash equivalents

The Company considers all highly liquid financial instruments with an original maturity of 90 days or less to be cash equivalents. Cash equivalents are recorded at the lower of cost plus accrued interest and market value.

Short-term investments

The Company considers all highly liquid financial instruments with an original maturity greater than 90 days to be short-term investments. Short-term investments are recorded at the lower of amortized cost or market value.

Intangible assets

Intangible assets consist of patent rights and applications costs incurred for the filing of patents. Intangible assets are amortized on a straight-line basis over the maximum period of ten years from the time of acquisition.

Stock-based compensation

The Company uses the fair value method for stock-based compensation granted to employees and non-employees of the Company and all direct awards of stock, in accordance with the CICA Handbook Section 3870 "*Stock-Based Compensation and Other Stock-Based Payments*". The fair value of stock options is determined by the *Black-Scholes Option Pricing Model* with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares and an expected life of the options. The fair value of direct awards of stocks is determined by the quoted market price of the Company's stock.

Warrants

The Company also uses the fair value method for warrants issued to investors in the closing of private placement, in accordance with the CICA Handbook Section 3870 "*Stock-Based Compensation and Other Stock-Based Payments*". The fair value of warrants is to be determined by the *Black-Scholes Option Pricing Model* with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares and an expected life of the warrants. The fair value of warrants will be determined by the quoted market price of the Company's stock.

The net proceeds of the private placement are to be allocated between the common shares and the warrants. The allocation is calculated by valuing the common shares and the warrants separately and adjusting the resulting amounts on a pro-rata basis so that the sum of the components equal to the amount of cash received.

Research and development expenses

Research and development costs are expensed as incurred unless such development costs meet the criteria under Canadian generally accepted accounting principles for deferral and amortization. Development costs which meet generally accepted criteria for deferral are capitalized and amortized against earnings over the estimated period of benefit. As at November 30, 2006 and 2005, the Company had not deferred any development costs.

Government assistance and other subsidies

Government assistance and other subsidies are recorded as either a reduction of the cost of the applicable assets or credited in the statement of operations as determined by the terms and conditions of the agreement under which the assistance is provided to the Company.

Research and development tax credits

Refundable tax credits are recorded as either a reduction of the cost of applicable assets or credited in the statement of operations depending on the nature of the expenditures which gave rise to the credits. Claims for tax credits are accrued upon the Company attaining reasonable assurance of collection from the Canada Revenue Agency.

Investment tax credits are accrued on qualifying expenditures when there is reasonable assurance that the credits will be recovered. Research and development tax credits were only available to the Company up to October 31, 2004, prior to amalgamation and becoming a publicly listed entity.

Income taxes

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Subsequent Events

There was no subsequent event in this reporting period.

Outstanding Share Data

As at January 29, 2007, the Company had the following outstanding securities:

(1) Common Shares issued	66,316,325
(Shares in escrow: 4,970,302)	
(2) Stock Options	5,629,600
(3) Warrants	18,768,000

Additional Information

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