

**WELICHEM BIOTECH INC.**  
FORM 51 – 102F1  
MANAGEMENT DISCUSSION AND ANALYSIS  
9-Month Period Ended February 28, 2006

The following discussion and analysis, prepared as of April 26, 2006, should be read together with the unaudited financial statements for nine-month period ended February 28, 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. 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 February 28, 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**

**Highlights of this quarter**

- \* Several of the remaining few components of the formal preclinical trials were initiated as the Company moved its WBI-1001 drug candidate, for the treatment of psoriasis, forward towards regulatory filing;
- \* GMP production of the WBI-1001 compound was achieved, and the active substance is available for clinical trials.
- \* Positive data from the WBI-2100 compound in animal model tests gave encouraging directional signals for further tests of this compound as a putative treatment of certain types of cancer;
- \* Welichem concluded its reorganization of senior management by appointing Mr. York Guo as CEO of Welichem Biotech Inc.

The Company continued advancing its prime focus of characterization of its lead drug candidate, WBI-1001. In particular, several of the remaining few components of the formal preclinical trials were being undertaken in preparation for the application to the Canadian regulatory authorities for approval to proceed with clinical trials of this compound for the treatment of psoriasis.

GMP production of WBI-1001 was undertaken and the compound is now available for the clinical trials. Companies are required to show that they can produce the compound of interest at a consistently high level of quality that is commensurate with good manufacturing practice or cGMP.

Exploratory and confirmatory tests continue apace with the anti-cancer series of compounds (WBI-2000) in anticipation of another strong candidate for Welichem's pharmaceutical drug pipeline. Animal model trials and cell culture tests are providing particularly encouraging results for the WBI-2100 compound as a potential therapeutic drug for the treatment of certain types of cancer.

This quarter realized the culmination of recent planning initiatives for senior management of the Company with the appointment, in February, of Mr. York Guo as CEO of Welichem. He brings with him to this post the breadth of business experience and qualifications necessary to take the Company forward in its next stage of development. His senior management experience in both Canada and China, and his firsthand knowledge of biotech, will ensure that Welichem remains a sound and developing business operation that is true to its goals. Meanwhile, Dr. John M. Webster, one of Welichem's founders, assumes the title of Chief Scientific Officer of the Company.

## **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 3-month period ended February 28, 2006 was \$306,241 (2005 - \$243,878) and 1 cent per share (2005 - 1 cent per share). The R & D Expenses for this quarter were \$183,573 compared to \$164,922 for the same period in 2005. Administrative expenses, excluding stock-based compensation, for this quarter were \$93,640 (2005 - \$106,459). Major expenses included \$23,512 (2005 - \$17,220) in rent, \$17,591 (2005 - \$14,104) in wages and benefits, \$53,625 (2005 - nil) in stock-based compensation, \$13,610 (2005 - \$7,668) in legal and accounting fees, and \$11,026 (2005 - \$1,895) in travel and related costs.

The net loss for the 9-month period ended February 28, 2006 was \$1,623,947 (2005 - \$782,160) and 6 cents per share (2005 - 3 cents per share). The R & D Expenses for this period were \$1,215,491 compared to \$455,678 for the same period in 2005. Administrative expenses, excluding stock-based compensation, for this period were \$328,620 (2005 - \$282,325). Major expenses included \$67,631 (2005 - \$44,377) in rent, \$63,286 (2005 - \$50,598) in wages and benefits, \$122,425 (2005 - \$8,293) in stock-based compensation, \$32,618 (2005 - nil) in

investor relations, \$19,150 (2005 - \$21,650) in insurance, \$48,783 (2005 - \$51,107) in legal and accounting fees, \$21,113 (2005 - \$17,197) in office and miscellaneous expenses, \$25,649 (2005 - \$21,068) in travel and related costs, \$14,476 (2005 – nil) in regulatory expenses, \$12,250 (2005 – nil) in director's fees.

Factors that contributed to higher administrative expenses in 2006 included:

- i) higher 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.
- iii) increase in staff.
- iv) higher stock-based compensation costs.

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 has developed a plan to finance future operations.

On April 4, 2006, the Company announced that it has arranged a non-broker private placement of up to 60,000,000 units at a purchase price of \$0.075 per unit, for total gross proceeds of up to \$4,500,000. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant is exercisable into one common share at a price of \$0.20 for a period of 24 months from the date of issuance of the share purchase warrant. The Company has the option to increase the size of the private placement by up to 5,000,000 units anytime up to 48 hours prior to closing. A finder's fee equal to 10% of the gross proceeds is payable in connection with the private placement.

## **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.

As previously forecast, Welichem is now pursuing additional financing to take its drug candidate, WBI-1001, to Phase II and also to expedite the development and formal preclinical trials of its cancer therapeutic drug, WBI-2100. With its current funds on hand, together with interest income and the SRED refund tax credit, and the net proceeds from the planned financing, the Company anticipates that it has sufficient fund for operations to the summer of 2007.

The Company continues to give high priority to ensuring that there are sufficient resources to move forward its lead drug candidate, WBI-1001, a therapy against psoriasis. The revised target for a submission to TPD for CTA approval is the second half of 2006. Such approval would facilitate Phase I clinical trials for this drug candidate in Q1 of 2007.

Meanwhile, the development of WBI-2100 cancer drug candidate is, through collaboration with our partner Celestial Pharmaceuticals Inc., progressing well and trial results in animal models continue to be encouraging. The Company has scheduled Q1 2007 for entering formal preclinical trials for WBI-2100.

### **Related Party Transaction**

There was no related party transaction in this quarter.

### **Subsequent Events**

Subsequent to this reporting period, the Company announced that it has arranged a non-broker private placement of up to 60,000,000 units. See details in “Financing” section above.

### **Outstanding Share Data**

As at February 28, 2006, the Company had the following outstanding securities:

(1) Common Shares issued (Shares in Escrow: 8,449,503)	28,780,325
(2) Stock Options	1,819,600
(3) Warrants	6,818,183

### **Additional Information**

Additional Information relating to the Company is available on SEDAR  
([www.sedar.com](http://www.sedar.com)).

## Summary of Annual and Quarterly Information

	Year Ended May 31, 2003 (Audited)	Year Ended May 31, 2004 (Audited)	1 <sup>st</sup> Quarter Ended August 31, 2004 (Unaudited)	2 <sup>nd</sup> Quarter Ended Nov. 30, 2004 (Unaudited)	3 <sup>rd</sup> Quarter Ended Nov. Feb. 28, 2005 (Unaudited)	Year Ended May 31, 2005 (Audited)	1 <sup>st</sup> Quarter Ended August 31, 2005 (Unaudited)	2 <sup>st</sup> Quarter Ended Nov. 30, 2005 (Unaudited)	3 <sup>rd</sup> Quarter Ended Nov. Feb. 28, 2006 (Unaudited)
<b>Operation Data</b>									
Government Assistance and Other Subsidies	235,491	30,590	0	0	0	10,073	0	13,000	24,152
SRED Tax Credit	174,044	119,728	0	0	0	97,778	0	0	0
Other Income	19,850	49,576	(5,810)	(57,557)	27,503	(23,827)	2,512	2,805	5,689
Research and Development General and Administrative Expenses	563,606 178,013	239,430 194,784	68,229 49,281	242,724 106,388	178,662 92,719	831,014 458,473	564,024 126,041	467,894 177,740	183,573 147,265
<b>Loss for the period</b>	<b>(312,234)</b>	<b>(226,013)</b>	<b>(123,320)</b>	<b>(406,669)</b>	<b>(243,878)</b>	<b>(1,198,931)</b>	<b>(687,553)</b>	<b>(630,153)</b>	<b>(306,241)</b>
<b>Balance Sheet</b>									
Cash	49,549	216,165	400,796	328,337	296,160	1,384,640	55,431	125,819	27,167
Short Term Investments	252,769	456,665	456,665	940,878	959,559	875,141	1,430,891	733,586	583,732
Pre-Paid Expenses	12,715	12,715	12,715	13,060	12,715	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	14,257
SRED Tax Credit Receivable	171,686	119,728	119,728	119,728	0	97,778	97,778	97,778	97,778
Capital Assets	66,987	48,197	44,075	48,824	48,769	50,524	48,154	47,112	44,100
Patent rights	182,102	202,433	203,916	239,802	240,382	291,111	291,791	307,218	304,299
Other Assets	13,879	13,879	13,879	13,879	13,879	13,879	13,879	13,879	13,879
<b>Total Assets</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>	<b>2,742,374</b>	<b>1,974,935</b>	<b>1,367,595</b>	<b>1,097,927</b>
Accounts Payable	29,370	41,545	34,100	162,884	14,611	161,698	65,562	35,826	18,773
Convertible Loan Payable	174,500	174,500	0	0	0	0	0	0	0
<b>Total Liabilities</b>	<b>203,870</b>	<b>41,545</b>	<b>34,100</b>	<b>162,884</b>	<b>14,611</b>	<b>161,698</b>	<b>65,562</b>	<b>35,826</b>	<b>18,773</b>
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	5,238,644
Contributed surplus	0	2,950	2,950	11,243	11,243	11,243	27,493	80,043	133,688
Share subscriptions received in advance	0	577,367	843,368	186,500	439,255	0	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)	(4,293,178)
<b>Shareholders' Equity</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>	<b>2,580,676</b>	<b>1,909,373</b>	<b>1,367,595</b>	<b>1,079,154</b>
<b>Loss per Common Share</b>	<b>(0.03)</b>	<b>(0.02)</b>	<b>(0.01)</b>	<b>(0.02)</b>	<b>(0.01)</b>	<b>(0.06)</b>	<b>(0.02)</b>	<b>(0.03)</b>	<b>(0.01)</b>

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