

WELICHEM BIOTECH INC.

FORM 51 – 102F1

MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended May 31, 2007

The following discussion and analysis, prepared as of September 25, 2007, should be read together with the Company's audited financial statements for years ended May 31, 2007 and 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 year ended May 31, 2007. 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 Inc. ("Welichem" or "the Company") is focused on the discovery and development of pharmaceutical drugs to treat unmet healthcare needs. Using our SYMBIOCHEM® technology platform, the Company develops smart drugs (fully synthesized, small molecules from natural origins) with high efficacy and low toxicity that are targeted primarily at autoimmune/inflammatory diseases and cancer. The Company continues to focus on the productivity and efficiency of our processes to ensure that drug candidates in our pipeline are developed as quickly as possible and meet the regulatory requirements.

Welichem has enhanced its in-house research and development by entering into specific arrangements and agreements with corporate and academic teams and individual professionals at locations across Canada and abroad. These alliances have brought valuable technologies and diverse experience to bear with due regulatory rigor on the development of our drug candidates and have enabled significant milestones to be achieved in the current financial year.

Here are some of the highlights for the year:

- * Clinical Trial Application for WBI-1001 was made ahead of schedule.
- * Phase I Clinical Trial of WBI-1001 commenced on August 2, 2007.
- * Novel anti-cancer, drug compound, WBI-2100, inhibited metastasis in animal model trial.
- * National Research Council awarded Welichem additional financing to help develop WBI-2100 as a pharmaceutical drug.

* WBI-2100 stimulated the mouse immune system, seen as increased blood neutrophils, during treatment with a cancer chemotherapeutic.

WBI-1001 Targets Psoriasis

The Clinical Phase I trial of this remarkable drug candidate, WBI-1001, targeted as a topical cream treatment for mild and moderate forms of psoriasis, which are experienced by 80% of psoriasis sufferers, is proceeding on schedule after the successful culmination of preclinical trials. Following the final auditing of the drug product the Clinical Trial Application for WBI-1001 was made ahead of schedule in early June, 2007, and regulatory approval enabled the Phase I Clinical Trial of WBI-1001 to commence in early August, 2007.

This drug candidate selectively modulates the cytokine cascade resulting in the rapid diminution of skin inflammation and inhibition of keratinocyte proliferation, both of which are fundamental to and characteristics of psoriasis. The Company's topical cream formulation of WBI-1001 is developed for treating the most common form of this disease, plaque psoriasis, for which there is, as yet, no effective cure.

WBI-2100 Targets Cancer

This novel, small molecule drug compound has an array of physical and chemical properties that together with demonstrated biological attributes support its development as a unique chemotherapeutic for the treatment of cancerous tumours. Completed *in vitro* tests have shown that it actively induces apoptosis and inhibits angiogenesis (vascular network formation). In animal tests, WBI-2100 not only inhibited tumour growth and tumour metastasis but also increased the number of neutrophils circulating in the blood. These cancer inhibiting properties and the associated ability to stimulate the body's immune system strongly suggest that WBI-2100 be developed as a chemotherapeutic treatment of cancer, probably as a companion drug with other chemotherapeutics in view of its demonstrated synergistic effect.

The number of neutrophils in the blood of mice was significantly increased following daily doses of WBI-2100 in the presence or absence of the chemotherapeutic, cyclophosphamide. This suggests a significant potential for this drug compound in the prevention of chemotherapy-induced neutropenia, a potentially life-threatening side-effect of chemotherapy.

Pipeline for Other Targets

Eczema, primarily a childhood disease of the skin, is an additional target for WBI-1001. Results from preliminary tests against eczema are leading to consideration of further trials of this drug candidate for its use as a topical treatment of eczema.

Inflammatory bowel disease (IBD), another autoimmune disease characterized by inflammation, is a potential target for treatment by WBI-1001. Initial animal tests have provided encouraging results and these are being followed by additional, focused trials.

Company's Profile

Welichem's success in identifying the dual activity of its WBI-2100 drug compound was further enhanced by an extension of the R & D financial contribution of the National Research Council of Canada Industrial Research Assistance Program (NRC-IRAP). This award supports the current focus of Welichem in developing the immune strengthening properties of this drug compound.

Welichem's progress in the development of its pipeline of drugs from the research bench to clinical trials has been reported in scientific publications and in presentations to a range of national and international scientific and pharmaceutical meetings.

Welichem will continue to develop lead compounds for its pipeline through its SYMBIOCHEM® technology platform where the screening for disease targets in the area of cancer, auto-immune diseases and infectious diseases occurs.

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.

Year ended May 31, 2007 compared to year ended May 31, 2006

The net loss for the year ended May 31, 2007 was \$3,201,151 (2006 - \$2,378,867) and 5 cents per share (2006 - 8 cents per share). The Research & Development Expenses, including stock-based compensation, for this year were \$2,271,012 (2006 - \$1,719,533). Major expenses included \$1,858,069 (2006 - \$1,304,790) in subcontractors, supplies and materials and \$570,539 (2006 - \$465,561) in wages and benefits, including stock-based compensation. The Company received \$157,596 (2006 - \$50,818) in government assistance and other subsidies. The main reason for the increase in Research & Development Expenses is the increase in research & development activities leading to Clinical Trial Phase I for psoriasis and expenses incurred for developing anti-cancer drug compound, WBI-2100.

Administrative expenses, including stock-based compensation, for this year were \$976,176 (2006 - \$633,547). Major expenses included \$96,197 (2006 - \$93,610) in rent, \$485,896 (2006 - \$229,823) in wages and benefits, \$26,293 (2006 -

\$10,825) in insurance, \$90,963 (2006 - \$90,950) in legal and accounting fees, \$46,751 (2006 - \$32,462) in office and miscellaneous expenses, \$80,352 (2006 - \$30,730) in travel and related costs, \$29,624 (2006 - \$23,201) in regulatory expenses, \$18,003 (2006 - \$17,490) in director's fees, and \$42,652 (2006 - \$3,750) in consulting fees.

Factors that contributed to higher administrative expenses in 2007 included:

- i) increase in wages and benefits due to addition of staff and higher stock-based compensation costs allocated to wages & benefits.
- ii) increase in insurance due to additional R & D activities.
- iii) increase in office expenses due to more staff and business activities.
- iv) higher travel costs due to attendance of several conferences by R & D staff and meetings with researchers related to Clinical Trial Phase I.
- v) increase in consulting fees due to hiring of consultants for investor relations and corporate development.

Quarter ended May 31, 2007 (Q4 2007) compared to quarter ended May 31, 2006 (Q4 2006)

The net loss for the three months ended May 31, 2007 was \$689,791 (2006 - \$754,920) and 1 cent per share (2006 - 3 cents per share). The Research & Development Expenses, including stock-based compensation, for this three-month period ended May 31, 2006 were \$412,543 (2006 - \$504,042). Administrative expenses, including stock-based compensation, for this three-month period were \$278,119 (2006 - \$182,502). Major expenses included \$15,660 (2006 - \$25,979) in rent, \$138,119 (2006 - \$166,537) in wages and benefits, \$44,530 (2006 - \$42,167) in legal and accounting fees, \$17,376 (2006 - \$11,349) in office and miscellaneous expenses, \$30,490 (2006 - \$5,081) in travel and related costs, and \$12,021 (2006 - \$3,750) in consulting fees.

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.

The Company closed a non-brokered private placement of 37,536,000 units at a purchase price of \$0.075 per unit, for total gross proceeds of \$2,815,200 in the first quarter of this fiscal year. Each unit consisted 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. A finder's fee of \$255,870 was paid in connection with the private placement.

Subsequent to May 31, 2007, the Company closed a non-brokered private placement of 6,666,667 shares at a purchase price of \$0.15 per share, for a total of \$1,000,000, which was received prior to May 31, 2007. A finder's fee of \$66,842 was paid in connection with this private placement.

Liquidity and Capital Resources

During the year ended May 31, 2007, the Company relied on the proceeds from the non-brokered private placements completed in the prior years to continue its operations and Research and Development activities.

As at May 31, 2007, the Company had a net working capital of \$965,834 (2006 - \$142,696) with \$1,081,378 (2006 - \$265,593) in cash and cash equivalents and \$133,077 (2006 - \$nil) in short-term investments. The increase of \$823,138 in net working capital from May 31, 2006 was attributable to the advanced subscription payments from subscribers for the private placement closed on June 7, 2007.

As stated in Financing Section above, the Company closed a private placement for total gross proceeds of \$2,815,200 in July 2006 and another private placement for total gross proceeds of \$1,000,000 in early June 2007. The Company has financed its operations to date primarily through the sale of equity securities. The Company will continue to fund its operations from a combination of the sale and issuance of equity securities and government grants until the Company achieves the licensing or drug commercialization stages.

With its current funds on hand, together with interest income and the funding from the National Research Council of Canada Industrial Research Assistance Program (NRC-IRAP), the Company anticipates that it has sufficient funds for operations to the end of December 2007. In addition, the Company is trying to arrange financing to raise additional funds to complete its planned Research and Development programs and to fund its operations.

Material Commitments and Contractual Obligations

The Company leases lab and office space and is committed to future minimum lease payments as follows:

2007/08	\$64,460
2008/09	70,228
2009/10	73,848
2010/11	<u>24,616</u>
	<u>\$233,152</u>

The Company is also committed to paying its share of operating costs in connection with its lab and office space. In addition, the Company has signed agreements and contracts with various contract research organizations (CROs) related to its different research and development projects and will be obliged to pay \$420,744 to the CROs in the fiscal year 2007-08 when all the work is completed. The Company has not yet signed any agreement or contract with its CROs to provide services beyond fiscal year ending May 31, 2008. Thus there is no CRO obligation shown beyond the fiscal year ending May 31, 2008.

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, 2007	Year Ended May 31, 2006	Year Ended May 31, 2005
Loss for the year	(3,201,151)	(2,378,867)	(1,198,931)
Loss per Common Share -basic and fully diluted	(0.05)	(0.08)	(0.06)
Total Assets	1,763,595	759,574	2,742,374
Total Current Liabilities	463,591	289,920	161,698
Total Long-term Liabilities	0	0	0
Shareholders' Equity	1,300,004	469,654	2,580,676

Summary of Unaudited Quarterly Information

	4 th Quarter Ended May 31, 2007	3 rd Quarter Ended February 28, 2007	2 nd Quarter Ended November 30, 2006	1 st Quarter Ended August 31, 2006	4 th Quarter Ended May 31, 2006	3 rd Quarter Ended Nov. Feb. 28, 2006	2 nd Quarter Ended Nov. 30, 2005	1 st Quarter Ended August 31, 2005
Loss for the period	(689,791)	(812,781)	(831,878)	(866,701)	(754,920)	(306,241)	(630,153)	(687,553)
Loss per Common Share – basic and fully diluted	(0.01)	(0.01)	(0.02)	(0.03)	(0.03)	(0.01)	(0.03)	(0.02)
Total Assets	1,763,595	1,066,679	1,998,235	2,588,236	759,574	1,097,927	1,367,595	1,974,935
Total Liabilities	463,591	211,874	470,946	232,001	289,920	18,773	35,826	65,562
Shareholders' Equity	1,300,004	854,805	1,527,289	2,356,235	469,654	1,079,154	1,331,769	1,909,373

The major change in shareholders' equity at year end 2007 (compared to year-end 2006) is due to the receipt of subscription advance for the private placement, which was closed in June 2007.

Off Balance Sheet Arrangements

The Company does not have any off balance sheet arrangements requiring disclosure.

Related Party Transactions

During the year ended May 31, 2007, the Company paid \$267,118 (2006 - \$269,734) in wages, \$nil (2006 - \$3,750) in consulting services, and \$18,003 (2006 - \$17,490) in directors' fees to its former and current directors and officers.

As at May 31, 2007, the Company has a non-interest bearing payable of \$25,000 (2006 - \$nil) owed to a director of the Company.

Subsequent Events

Subsequent to May 31, 2007, the Company closed a non-broker private placement of 6,666,667 shares at a purchase price of \$0.15 per share, for total gross proceeds of \$1,000,000, which was received prior to May 31, 2007. A finder's fee of \$66,842 was paid in connection with this private placement.

Outstanding Share Data

As at September 25, 2007, the Company had the following outstanding securities:

(1) Common shares issued:	73,362,992
(Shares in escrow:	3,313,537)
(2) Stock options:	6,234,600
(3) Warrants:	18,768,000

Critical Accounting Policies and Estimates

The Company's audited financial statements and unaudited interim financial statements are prepared in accordance with Canadian generally accepted accounting principles (Canadian "GAAP") and the reporting currency is Canadian dollar. These accounting principles require the Company to make certain estimates and assumptions. The Company believes that the estimates and assumptions upon which it relies are reasonable based on information available at the time that these estimates and assumptions are made. Actual results could differ from these estimates. Areas of significant estimates include: amortization of intangible assets, assessment of the carrying value of intangible assets, and stock-based compensation. The significant accounting policies that the Company believes are the most critical in fully understanding and evaluating the reported financial results include the following:

Intangible assets

Intangible assets consist of patent rights and applications costs incurred for the filing of patents. Patent rights and applications are amortized on a straight-line

basis over the maximum period of ten years from the time of acquisition.

Stock-based Compensation

The Company grants stock options to its executive officers, directors, employees and consultants pursuant to a stock option plan described in Note 10 to the audited financial statements as at May 31, 2007. The Company uses the fair value method of accounting for all stock-based awards for 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*, which requires certain assumptions, including risk-free interest rates, dividend yields, future stock price, and an expected life of the options. Changes to any of these assumptions could produce different fair values for stock-based compensation.

Financial Instruments

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of cash, short term investments, accounts receivable, Goods & Services tax receivable, and accounts payable approximate their fair value because of the short-term nature of these instruments. The Company is subject to currency risk due to the fluctuation of exchange rates between the Canadian dollar and the foreign currency denominated financial instruments. The Company is not subject to significant interest or credit risks arising from these financial instruments.

Research and development expenses

Research costs are expensed as incurred 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 May 31, 2007 and 2006, 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

Research and development 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. Refundable 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 liability method. 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 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.

Disclosure Controls

The Company's Chief Financial Officer and Chief Executive Officer (the "Certifying Officers" are responsible for establishing and maintaining disclosure controls and procedures ("the procedures") which provide reasonable assurance that information required to be disclosed by the Company under provincial securities legislation (the "Required Filings") is reported within the time periods specified. Without limitation, the Procedures are designed to ensure that material information relating to the Company is accumulated and communicated to management, including its Certifying Officers, as appropriate to allow for timely decisions regarding the Required Filings.

The Certifying Officers evaluate the effectiveness of the Company's Procedures on a regular basis throughout the year and have concluded that the Procedures in place as of the end of the period covered by the Required Filings are effective in providing reasonable assurance that material information relating to the Company is accumulated and communicated to management and reported within the time periods specified.

Internal Controls over Financial Reporting

The Company's Certifying Officers are responsible for establishing and maintaining internal controls over financial reporting ("Internal Controls") and have designed such Internal Controls, or caused them to be designed under their supervision, which provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Canadian GAAP.

Due to the size of the Company, it is not feasible to achieve complete segregation of duties to provide effective controls over financial reporting. In addition, the Company may not have the necessary in-house knowledge to address complex accounting, taxation and legal issues that may arise. These weaknesses and their related risks are not uncommon for a company of the size of Welichem because of limitations in size and number of staff. The Company has implemented internal control policies for over 2 years.

Both the Audit Committee and management review its financial reporting procedures and incorporate further enhancements, when required, to mitigate the risk of any material misstatement in financial reporting.

It should be noted that while the Officers of the Company, as certified in the Company's Annual Filings and as required under Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, have evaluated the effectiveness of these disclosure controls and procedures for the year ended May 31, 2007 and have concluded that they are being maintained as designed, they do not expect that the disclosure controls and procedures or internal controls over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

Additional Information

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