

**WELICHEM BIOTECH INC.**  
FORM 51 – 102F1  
MANAGEMENT DISCUSSION AND ANALYSIS  
Period Ended February 28, 2007

The following discussion and analysis, prepared as of April 25, 2007, should be read together with the audited financial statements for year ended May 31, 2006 and unaudited financial statements for period ended February 28, 2007 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 February 28, 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 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.

Welichem attended the Annual BioPartnering North America (BPN) Conference in Vancouver on February 4 – 6, 2007. As well as it being an opportunity to show Welichem's lead drug candidate, WBI-1001, for the topical treatment of psoriasis, the Company highlighted its WBI-2100 compound as a putative dual activity drug candidate for the treatment of certain cancer tumours and for stimulating the immune system. Welichem met in face-to-face meetings with industry leaders of some of the major pharmaceutical and biotech companies as a prelude to follow-up meetings.

Due to discolouration occurring during early manufacture of the WBI-1001 drug product by a Contract Research Organization (CRO), Welichem's management decided to redesign and rebuild the mixing equipment in order to completely satisfy general manufacturing practices (GMP). These steps will help us to ensure that Welichem is able to proceed with CTM batch manufacture and thus maintain the necessary high quality of product. The design and manufacture of the new equipment was put on fast track and, through excellent collaboration of CROs, was completed. Therefore, the manufacturing process for this cream formulation has been mastered, and the CTM batch manufacture is expected to occur on schedule. The revised date for a Clinical Trial Approval (CTA) submission is June, 2007.

Welichem's anti-cancer drug compound, WBI-2100, continued to be a focus of the Company's attention. In particular, experimental evidence of its mode of action, at the

molecular and functional levels, is being pursued. Additional evidence of the influence of WBI-2100 on metastasis activity was obtained through comparative application of different oral doses of WBI-2100 or the cancer therapeutic, Dacarbazine, on a mouse xenograft model. The test compound resulted in 49% and 60% inhibition of lung metastases at doses of 30 and 45 mg/kg/day, respectively compared with 38% (at 55 mg/kg/day) of Dacarbazine. Moreover, a combination of the same doses of WBI-2100 with Dacarbazine resulted in 70% and 77% inhibition, respectively.

The Clinical Study Protocol for WBI-1001 and the associated documentation that is required for the CTA submission are largely completed, and the Principal Investigator and Services Management Group for the Phase 1 clinical trial have been identified.

Mr. Andrew Baren joined Welichem Biotech as Investment Relations Manager in early January 2007. He has over 16 years of experience in creating valued business relationships in high pressure environments.

Dr. Yangsheng Wanggui joined Welichem Biotech as Head of the Analytical Department following on from a very active role in a major BC biotech company that was recently acquired by an American pharmaceutical 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 its inception.

#### **3-Month Period Ended February 28, 2007**

The net loss for the 3-month period ended February 28, 2007 was \$812,781 (2006 - \$306,241) and 1 cent per share (2006 - 1 cent per share). The Research & Development Expenses for this period were \$579,288 (2006 - \$183,573). Major expenses included \$443,469 (2006 - \$960,794) in subcontractors, supplies and materials and \$174,971 (2006 - \$260,232) in wages and benefits, including stock-based compensation costs of \$63,954 (2006 - \$nil). The Company received \$39,152 (2006 - \$nil) in government assistance and other subsidies.

Administrative expenses for this period were \$243,491 (2006 - \$147,265). Major expenses included \$120,055 (2006 - \$71,216) in wages and benefits, including stock-based compensation costs of \$68,343 (2006 - \$53,625), \$31,159 (2006 - \$23,512) in rent, \$19,599 (2006 - \$13,610) in professional fees, \$10,481 (2006 - \$nil) in consulting fees, \$8,100 (2006 - \$5,660) in office and miscellaneous expenses, \$24,347 (2006 - \$11,026) in travel and related costs, and \$6,308 (2006 - \$1,225) in regulatory expenses.

#### **9-Month Period Ended February 28, 2007**

The net loss for the 9-month period ended February 28, 2007 was \$2,511,360 (2006 - \$1,623,947) and 4 cents per share (2006 - 6 cents per share). The Research &

Development Expenses for this period were \$1,858,469 compared to \$1,221,026 for the same period in 2006. Major expenses included \$1,467,150 (2006 - \$960,794) in subcontractors, supplies and materials and \$391,319 (2006 - \$254,697) in wages and benefits, including \$121,490 (2006 - \$5,535) in Stock-based compensation. The Company received \$71,564 (2006 - \$nil) in government assistance and other subsidies.

Administrative expenses for this period were \$243,491 (2006 - \$147,265). Major expenses included \$347,777 (2006 - \$180,176) in wages and benefits, including stock-based compensation costs of \$207,691 (2006 - \$116,890), \$80,537 (2006 - \$67,631) in rent, \$46,433 (2006 - \$48,783) in professional fees, and \$29,375 (2006 - \$21,113) in office and miscellaneous expenses, \$49,862 (2006 - \$25,649) in travel and related costs, \$28,200 (2006 - \$14,476) in regulatory expenses, \$30,631 (2006 - \$nil) in consulting fees, \$24,848 (2006 - \$19,150) in insurance costs, and \$14,503 (2006 - \$12,250) in director's fees.

Factors that contributed to higher administrative expenses in 2007 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 travel and related costs.
- vii) 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. Subsequent to the quarter end, the Company has announced that it has arranged a non-broker private placement to raise up to \$1,000,000 funding for its R & D activities and operations in 2007-08.

### **Liquidity**

During the 9-month period ended February 28, 2007, the Company relied on the proceeds from the non-broker private placements completed in May 2005 and July 2006 to continue its operations and Research and Development activities.

At February 28, 2007, the Company had \$584,023 (May 31, 2006 - \$265,593) in cash and cash equivalents. The Company's net working capital position as at February 28, 2007 was \$514,805 (May 31, 2006 - \$142,696).

With its current funds on hand, together with interest income, anticipated proceeds from the most recently announced private placement, 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 late 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**

	3 <sup>rd</sup> Quarter Ended February 28, 2007 (Unaudited)	2 <sup>nd</sup> Quarter Ended November 30, 2006 (Unaudited)	1 <sup>st</sup> Quarter Ended August 31, 2006 (Unaudited)	4 <sup>th</sup> Quarter Ended May 31, 2006 (Unaudited)	3 <sup>rd</sup> Quarter Ended Nov. Feb. 28, 2006 (Unaudited)	2 <sup>nd</sup> Quarter Ended Nov. 30, 2005 (Unaudited)	1 <sup>st</sup> Quarter Ended August 31, 2005 (Unaudited)	4 <sup>th</sup> Quarter Ended May 31, 2005 (Unaudited)
Total Income	9,998	12,830	22,338	(68,376)	5,689	2,805	2,512	8,361
Loss for the period	(812,781)	(831,878)	(866,701)	(754,920)	(306,241)	(630,153)	(687,553)	(425,064)
Loss per Common Share – basic	(0.01)	(0.02)	(0.01)	(0.03)	(0.01)	(0.03)	(0.03)	(0.02)
Loss per Common Share – fully diluted	(0.01)	(0.01)	(0.01)	(0.02)	(0.01)	(0.03)	(0.02)	(0.02)
Total Assets	1,066,679	1,998,235	2,588,236	759,574	1,097,927	1,367,595	1,974,935	2,742,374
Total Liabilities	211,874	470,946	232,001	289,920	18,773	35,826	65,562	161,698
Shareholders' Equity	854,805	1,527,289	2,356,235	469,654	1,079,154	1,331,769	1,909,373	2,580,676

### **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 February 28, 2007, the Company paid \$52,795 (2006 - \$36,192) in wages, and \$4,253 (2006 - \$3,750) 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 February 28, 2007. 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 February 28, 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**

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**

Subsequent to this reporting period, the Company announced the arrangement of a non-broker private placement of up to 6,666,667 shares at a purchase price of \$0.15 per share, for total gross proceeds of up to \$1,000,000.

## **Outstanding Share Data**

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

(1) Common Shares issued	66,421,325
(Shares in escrow: 4,970,302)	
(2) Stock Options	6,454,600
(3) Warrants	18,768,000

**Additional Information**

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