

WELICHEM BIOTECH INC.

FORM 51 – 102F2

MANAGEMENT DISCUSSION AND ANALYSIS

Period Ended August 31, 2007

The following discussion and analysis, prepared as of October 26, 2007, should be read together with the Company's audited financial statements for year ended May 31, 2007 and unaudited financial statements for the 3-month period ended August 31, 2007 and related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). 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 3-month period ended August 31, 2007. The discussion contains forward-looking statements made by management that involve risks and uncertainties. Such information is considered reasonable by the Company's management at the time of preparation. The actual results may differ materially from those contained in any forward-looking statements.

Additional Information relating to the Company is available by accessing the SEDAR website at www.sedar.com.

OVERVIEW

Welichem Biotech Inc. ("Welichem" or "the Company") is focused on the discovery, research and development of pharmaceutical drugs to treat unmet healthcare needs. The Company has recorded excellent progress in the Phase I Clinical Trial of its lead drug candidate, WBI-1001, against psoriasis. These Phase I clinical trials for a topical cream application of WBI-1001 are half-way through the scheduled treatment period. Welichem is satisfied with the apparent safety profile reflected by the unconfirmed initial results of this double blinded trial, the data from which is a pre-requisite for advancing this drug candidate to Phase II next year.

The Company's R&D focus has been concentrated on optimizing the manufacture and formulation of WBI-2100, Welichem's lead drug candidate for the dual treatment of cancer and chemotherapy-induced neutropenia. This small molecule drug candidate is not only unique in its dual activities, but it is unusual in having the potential for oral administration. A greatly improved, seven-step synthesis has overcome earlier manufacturing challenges, and a formulation for the oral administration of this drug candidate is being tested. An oral formulation of WBI-2100 that satisfies solubility and stability criteria, within an effective dose regimen, is being tested for its bioavailability in animal models. The satisfactory conclusion of these tests should increase the potential of this drug candidate as a

chemotherapeutic for treating these twin life-threatening diseases. The unique facet of this small molecule drug candidate, its stimulatory effect on neutrophils, and its potential for development as a treatment for neutropenia, has recently led to a world-wide patent application being filed jointly by Welichem and its partner, Celestial Pharmaceuticals (Shenzhen) Ltd.

Welichem enters the new financial year with the clinical trial of its lead drug candidate, WBI-1001, progressing favourably, and its R & D fostering great optimism for continuing development of treatments for eczema and inflammatory bowel disease (IBD), and for the clinical utility of WBI-2100. The Company is also optimistic about the potential discovery of new medical applications from drugs candidates in its proprietary pipeline.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's audited financial statements and unaudited interim financial statements are prepared in accordance with Canadian GAAP") and the reporting currency is the Canadian dollar. These accounting principles require the Company to make certain estimates and assumptions. Management 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:

Changes in Significant Accounting Policies

Effective June 1, 2007, we adopted the new recommendations of the CICA Handbook Section 1530, "*Comprehensive Income*", Section 3251, "*Equity*", Section 3855, "*Financial Instruments – Recognition and Measurement*", and Section 3861, "*Financial Instruments – Disclosure and Presentation*". These new accounting standards, which apply to fiscal years beginning on or after October 31, 2006, provide comprehensive requirements for the recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and, therefore, the comparative figures have not been restated. The adoption of these Handbook Sections had no impact on opening deficit.

- Section 1530 provides standards for reporting and display of comprehensive income, which is the change in equity, from transactions and other events and circumstances from non-owner

sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian GAAP.

- Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in Section 3251 are in addition to Section 1530.
- Section 3855 requires financial instruments be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income. Transaction costs are included in the initial carrying amount of financial instruments except for held-for-trading items in which case they are expensed as incurred. Section 3855 also requires that the embedded derivatives be identified and separated from the related host contract and be measured at fair value. Subsequent changes in fair value of embedded derivatives are recognized in the consolidated statement of operations in the period the change occurs.
- Section 3861 establishes the requirements for presentation and disclosure of financial instruments and non-financial derivatives.

The adoption of these new Handbook sections had no impact on the financial statements for the period ended August 31, 2007.

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 unaudited financial statements as at August 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 August 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.

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.

3-Month Period Ended August 31, 2007 compared to the 3-Month Period Ended August 31, 2006

The net loss for the 3-month period ended August 31, 2007 was \$593,104 (2006 - \$866,701) and 1 cent per share (2006 - 3 cents per share). The Research & Development Expenses for this period were \$418,287 (2006 - \$615,122). Major expenses included \$331,944 (2006 - \$424,552) in subcontractors, supplies and materials and \$108,556 (2006 - \$193,752) in wages and benefits, including stock-based compensation. The Company received \$22,213 (2006 - \$3,182) in government assistance and other subsidies.

Administrative expenses, including stock-based compensation, for this period were \$182,297 (2006 - \$273,917). Major expenses included \$25,882 (2006 - \$24,686) in rent, \$78,699 (2006 - \$181,223) in wages and benefits, \$20,753 (2006 - \$nil) in insurance, \$8,460 (2006 - \$5,282) in office and miscellaneous expenses, \$7,268 (2006 - \$8,454) in travel and related costs, and \$12,157 (2006 - \$12,000) in consulting fees.

Factors that contributed to increases for certain administrative expense items for the three-month period ended August 31, 2007 included:

- i) increase in insurance cost due to commencement of Phase I Clinical Trials for WBI-1001.
- ii) increase in office expenses due to more staff and business activities.
- iii) increase in consulting fees due to hiring of consultants for corporate development.

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 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 period ended August 31, 2007, the Company relied on the proceeds from the non-brokered private placements completed in this period to continue its operations and Research and Development activities.

As at August 31, 2007, the Company had a net working capital of \$350,662 (2006 - \$2,025,893) with \$576,242 (2006 - \$2,084,412) in cash and cash equivalents and \$133,359 (2006 - \$nil) in short-term investments.

As stated in Financing Section above, the Company closed a 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 November 2007. In addition, the Company is in the process of arranging 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	\$50,738
2008/09	70,228
2009/10	73,848
2010/11	<u>24,616</u>
	<u>\$219,430</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 \$433,035 to the CROs in the remaining 9 months of fiscal year 2007-08 when all the work is completed.

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 some 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

	1 st Quarter Ended August 31, 2007	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
Loss for the period	(593,104)	(689,791)	(812,781)	(831,878)	(866,701)	(754,920)	(306,241)	(630,153)
Loss per Common Share – basic and fully diluted	(0.01)	(0.01)	(0.01)	(0.02)	(0.03)	(0.03)	(0.01)	(0.03)
Total Assets	1,094,739	1,763,595	1,066,679	1,998,235	2,588,236	759,574	1,097,927	1,367,595
Total Liabilities	404,856	463,591	211,874	470,946	232,001	289,920	18,773	35,826
Shareholders' Equity	689,883	1,300,004	854,805	1,527,289	2,356,235	469,654	1,079,154	1,331,769

OFF BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

During the period ended August 31, 2007, the Company paid \$62,190 (2006 - \$95,250) in wages and \$nil (2006 – \$2,100) in directors' fees to its former and current directors and officers.

SUBSEQUENT EVENTS

There is no subsequent event for this reporting period.

OUTSTANDING SHARE DATA

As at October 24, 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 |

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 period ended August 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.