

WELICHEM BIOTECH INC.

FORM 51 – 102F2

MANAGEMENT DISCUSSION AND ANALYSIS

Period Ended February 29, 2008

The following discussion and analysis, prepared as of April 24, 2008, should be read together with the Company's audited financial statements for year ended May 31, 2007 and unaudited financial statements for the 9-month period ended February 29, 2008 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 9-month period ended February 29, 2008. 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 dedicated to the discovery, research and development of pharmaceutical drugs for the treatment of unmet medical needs. The Company's prime focus is on the development of drugs for the treatment of autoimmune/inflammatory diseases and cancerous tumours.

Welichem's anti-inflammatory drug candidate, WBI-1001, completed its Phase I clinical trial on patients with mild to moderate psoriasis. All patients tolerated the treatment very well and no serious adverse effects were reported. The final report is expected in early May, 2008. The anti-inflammatory potential of WBI-1001 in another disease indication is being tested through a clinical trial on patients with Atopic Dermatitis (AD). The Therapeutic Products Division of Health Canada has approved the initiation of a randomized, double-blinded, vehicle-controlled Phase IIa study using a topically applied cream formulation of WBI-1001 on patients with mild to moderate AD. The first patients were enrolled into this study early this month, in Montreal, and a final report is expected in August, 2008.

Atopic dermatitis, a form of eczema, is a chronic, hereditary, inflammatory condition in which patches of the skin become inflamed and itchy, often cracking and weeping and the condition is exacerbated by emotional stress and scratching

as well as by contact with some substances in the environment (e.g., soaps, detergents, cosmetics and animal hair) and by the weather. Normal skin is protected by the outer layers (the stratum corneum) of dry, flattened, dead cells. In AD, the stratum corneum is damaged due to inflammatory reactions in the underlying tissues of the skin which result in the itchy, cracked, red, weeping nature of AD. The topically applied WBI-1001 cream appears to target the main pathogenic features of this disease, including the activated T-helper cells (lymphocytes) in the blood.

Another piece of good news this quarter was the very positive response of the National Research Council (NRC) to the progress Welichem has made with its novel, anti-cancer/neutrophil boosting drug, WBI-2100. The Company was awarded an additional \$118,400 in March 2008 by NRC-IRAP in support of its research into the molecular targets of WBI-2100 as a chemotherapeutic for cancer and chemotherapy induced neutropenia. It is important for the optimal use of such pharmaceutical drugs that their molecular targets on the surface or within the target cells is known. In parallel with the molecular target studies the Company has, through *in vivo* tests, confirmed the neutrophil stimulating activity of WBI-2100. In normal mice, the number of neutrophils was increased significantly (up to 7 fold) when treated with WBI-2100, and these stimulatory effects persisted more than those induced by the commonly used neutropenia therapeutic, G-CSF. The stimulation in number of neutrophils in the peripheral blood by WBI-2100 occurred without any apparent effects on other white blood cells, and number of neutrophils returned to normal after three days.

The Company participated once again in the Annual Biopartnering North America Congress held in Vancouver, and took the opportunity to have one-on-one meetings with representatives of some of the world's major pharmaceutical companies. As well, Welichem took advantage of both a booth and an oral presentation to describe the key elements of its drug development programme.

Welichem, together with its collaborating partner, Celestial Pharmaceuticals (Shenzhen) Ltd., in China, continues to derive value from developing its pipeline research especially in the areas of autoimmune and infectious diseases and cancer. The evolving globalized pattern of trade, research and development is beneficial to Welichem's drug development.

The Company's long-term strategy includes the continual discovery and development of new drugs for the pipeline that are focused on the treatment of oncological and inflammatory disease indications. The Company may seek future partnering opportunities for its product candidates provided that reasonable terms can be negotiated for the shareholders and for the advancement of the Company's technology.

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 February 29, 2008.

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 11 to the unaudited financial statements as at February 29, 2008. 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 February 29, 2008 and February 28, 2007, 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 February 29, 2008 compared to the 3-Month Period Ended February 28, 2007

The net loss for the 3-month period ended February 29, 2008 was \$618,287 (2007 - \$812,781) and 1 cent per share (2007 - 2 cents per share). The Research & Development Expenses for this period were \$441,943 (2007 - \$579,288). Major expenses included \$334,331 (2007 - \$443,469) in subcontractors, supplies and materials and \$107,612 (2007 - \$174,971) in wages and benefits, including stock-based compensation costs of \$nil (2007 - \$63,954). The Company received \$nil (2007 - \$39,152) in government assistance and other subsidies.

Administrative expenses for this period were \$180,414(2007 - \$243,491). Major expenses included \$40,409 (2007 - \$120,055) in wages and benefits, including stock-based compensation costs of \$nil (2007 - \$68,343), \$32,361 (2007 - \$31,159) in rent, \$31,413 (2007 - \$19,599) in legal and accounting fees, and \$19,079 (2007 - \$8,100) in office and miscellaneous expenses, \$15,000 (2007 - \$10,481) in consulting fees, and \$8,653 (2007 - \$nil) in interest expenses.

9-Month Period Ended February 29, 2008 compared to the 9-Month Period Ended February 28, 2007

The net loss for the 9-month period ended February 29, 2008 was \$1,702,294 (2007 - \$2,511,360) and 2 cents per share (2007 - 5 cents per share). The

Research & Development Expenses for this period were \$1,184,664 compared to \$1,858,469 for the same period in 2007. Major expenses included \$999,921 (2007 - \$1,467,151) in subcontractors, supplies and materials and \$318,718 (2007 - \$456,057) in wages and benefits, including \$nil (2007 - \$119,879) in Stock-based compensation. The Company received \$133,975 (2007 - \$71,564) in government assistance and other subsidies.

Administrative expenses for this period were \$535,257 (2007 - \$698,057). Major expenses included \$159,618 (2007 - \$347,777) in wages and benefits, including stock-based compensation costs of \$12,950 (2007 - \$209,302), \$80,963 (2007 - \$80,537) in rent, \$64,330 (2007 - \$26,834) in legal and accounting fees, and \$42,128 (2007 - \$29,375) in office and miscellaneous expenses, \$21,551 (2007 - \$49,862) in travel and related costs, \$17,089 (2007 - \$28,200) in regulatory expenses, \$42,157 (2007 - \$30,631) in consulting fees, and \$12,750 (2007 - \$14,503) in director's fees.

Factors that contributed to increases for certain administrative expense items for the nine-month period ended February 29, 2008 included:

- i) increase in insurance cost due to commencement of Phase I Clinical Trials for WBI-1001.
- ii) increase in consulting fees due to hiring of consultants for corporate development.
- iii) higher legal and accounting costs due to requirement of more legal advice related to clinical trials.
- iv) increase in office expenses due to more staff and business activities.

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.

On November 30, 2007, the Company established a loan facility with Canadian Maple Leaf Investment Ltd. (CMLI), a major shareholder of the Company, that commits to provide funding up to \$1,000,000 to the Company within a six-month period on an "as and required" basis. The Company will pay CMLI interest at a rate of Canadian prime rate plus 2% per annum, calculated daily based on the daily closing balance and to be paid at maturity. The loan facility can be extended to longer term at mutual agreement.

The Company is currently exploring financing options to raise funding for its R & D activities and operations. In addition, the Company may seek future partnering

opportunities for its product candidates provided that reasonable terms can be negotiated for the shareholders and for the advancement of the Company's technology.

LIQUIDITY AND CAPITAL RESOURCES

During the 9-month period ended February 29, 2008, the Company relied on the proceeds from the non-brokered private placements completed in June 2007 and a loan facility established in November 2007 to continue its operations and Research and Development activities.

As at February 29, 2008, the Company had a net working deficit of \$742,466 (compared to a net working capital of \$514,805 in 2007) with \$nil (2007 - \$43,620) in cash and cash equivalents, and a bank overdraft of \$51,910 (2007 - \$nil) and \$103,429 (2007 - \$540,403) in short-term investments.

As stated in Financing Section above, 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, the established loan facility with Canadian Maple Leaf Investment Ltd., and possible financing in the near future, 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 should have sufficient funds for operations to the end of 2008. In addition, the Company is exploring opportunities to raise additional funds by licensing its lead drug compounds to major pharmaceutical and biotech companies.

MATERIAL COMMITMENTS AND CONTRACTUAL OBLIGATIONS

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

2007/08	\$17,376
2008/09	70,228
2009/10	73,848
2010/11	<u>24,616</u>
	<u>\$186,068</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 \$347,894 to the CROs 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

	3 rd Quarter Ended February 29, 2008	2 nd Quarter Ended November 30, 2007	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
Loss for the period	(618,287)	(490,904)	(593,104)	(689,791)	(812,781)	(831,878)	(866,701)	(754,920)
Loss per Common Share – basic and fully diluted	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)	(0.03)	(0.03)
Total Assets	496,460	789,421	1,094,739	1,763,595	1,066,679	1,998,235	2,588,236	759,574
Total Liabilities	915,767	590,442	404,856	463,591	211,874	470,946	232,001	289,920
Shareholders' Equity	(419,307)	198,979	689,883	1,300,004	854,805	1,527,289	2,356,235	469,654

OFF BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

During the period ended February 29, 2008, the Company paid \$36,042 (2007 - \$52,795) in wages and \$4,250 (2007 - \$4,253) in directors' fees to its directors and officers.

SUBSEQUENT EVENTS

On March 11, 2008, the Company borrowed another \$198,000 from Canadian Maple Leaf Investment Ltd. through the loan facility established on November 30, 2007.

On March 12, 2008, the National Research Council Canada Industrial Research Assistance Program (NRC-IRAP) provided an increase to the Company's original contribution agreement of up to \$118,000. The contribution will assist Welichem with research and development on its unique oncology drug candidate, WBI-2100. This contribution agreement will allow the Company to have up to a total of \$460,000 towards the development of this particular R&D project.

OUTSTANDING SHARE DATA

As at April 24, 2008, the Company had the following outstanding securities:

(1) Common shares issued:	73,362,992
(Shares in escrow:	1,656,769)
(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 February 29, 2008 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.