

WELICHEM BIOTECH INC.

FORM 51 – 102F2

MANAGEMENT DISCUSSION AND ANALYSIS

Period Ended November 30, 2008

The following discussion and analysis, prepared as of January 20, 2009, should be read together with the Company's audited financial statements for year ended May 31, 2008 and unaudited financial statements for period ended November 30, 2008 and related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are stated in Canadian dollars unless otherwise indicated.

This Management Discussion & Analysis summarizes the activities of the Company up to date, and provides financial information for the three months period ended November 30, 2008 ("2008 Q2"). 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.

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 tumors.

The Company is building on its latest success and has now placed a high priority on completing the development of its anti-inflammatory drug candidate, WBI-1001, and on securing proof of principle of its unique anti-cancer/neutrophil boosting drug candidate, WBI-2100. The timely development of these two drug candidates is the spearhead of the Company's business.

2008 Q2 BUSINESS HIGHLIGHT

- Completed Phase IIa clinical trial of WBI-1001 on atopic dermatitis (AD).
- Prepared and had regulatory meeting with the Canadian regulatory authority
- Participated in major partnering and business development events

At the end of October Welichem announced positive results from the Phase IIa clinical trial of its drug candidate, WBI-1001, a new, non-steroid, topical cream treatment for AD. This is the first phase II trial of WBI-1001 and the results showed an excellent safety profile and significant efficacy.

This clinical Phase IIa trial of WBI-1001 was a randomized, double-blind, placebo-controlled study conducted in Montreal with the objectives of evaluating the safety and efficacy of the cream on topically treated patients. A total of 36 patients with mild-to-moderate AD were treated with 0.5% or 1% of WBI-1001 cream or placebo twice daily for 28 days. No serious side effects were reported in any of the groups and no patient dropped out due to adverse side effects of the treatment. All primary efficacy indices measured efficacy positively and WBI-1001 was significantly more efficacious than the placebo at one or both treatment doses for all indices at day 28, the end of the treatment period.

AD is a major unmet medical indication, and these positive results are of significance for our overall strategy of developing WBI-1001 for the treatment of this disease and for additional conditions. There is currently no cure for AD, and most common treatments are anti-inflammatory drugs (e.g. corticosteroids) or immunosuppressants (e.g. tacrolimus). AD represents a significant global market that is expected to exceed \$1 billion USD by 2010.

Welichem attended BioPartnering Europe, held in London, UK in October, and Bio-Europe 2008, held in Mannheim, Germany in November. The Company presented its latest information on the technology, product development and business to over 20 companies via face-face meetings. This has generated considerable interest among mid-large size biotech and pharmaceutical companies.

In November, the Company had a successful pre-CTA meeting in Ottawa with the Therapeutic Products Directorate (TPD) of Health Canada regarding WBI-1001. The purpose of the meeting was to seek guidance and concurrence from the TPD regarding two proposed Phase II clinical studies and a comprehensive, long-term development plan to enable a marketing application for WBI-1001 as a topical treatment for psoriasis and AD. Prior to this meeting, the Company submitted, for review by the regulators, a pre-CTA meeting package to update the TPD on the toxicology/safety studies and clinical studies conducted on WBI-1001 to date and on the Company's development plans for this drug candidate. Health Canada provided feedback on Welichem's plans and guidance on future 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 cancer and inflammatory diseases. The Company may seek future partnering opportunities for its drug candidates provided that reasonable terms can be negotiated for the shareholders and for the advancement of the Company's technology and business.

INTELLECTUAL PROPERTY

We file patent applications to protect our proprietary discoveries. Patent and patent applications are currently being prosecuted under the following areas:

- Anti-inflammatory/autoimmune Products
- Anticancer Products

Patent applications are designated and/or filed in jurisdictions of major pharmaceutical markets, including Europe, Japan and the US. As with the patent positions of other pharmaceutical, biopharmaceutical and biotechnology firms, we do not know whether any patent applications will result in the issuance of patents or, for patents that are issued, whether they will provide significant proprietary protection or will be circumvented or invalidated.

SUMMARY OF ANNUAL INFORMATION

	Year Ended May 31, 2008	Year Ended May 31, 2007	Year Ended May 31, 2006
Loss for the year	(2,519,988)	(3,201,151)	(2,378,867)
Loss per Common Share -basic and fully diluted	(0.03)	(0.05)	(0.08)
Total Assets	5,389,498	1,763,595	759,574
Total Current Liabilities	1,626,499	463,591	289,920
Total Long-term Liabilities	0	0	0
Shareholders' Equity	3,762,999	1,300,004	469,654

RESULTS OF OPERATIONS

The Company has not generated any revenues in current and previous years other than interest income earned on the Company's cash and cash equivalent accounts. The Company has incurred operating losses since inception and is unlikely to be in a position to generate sufficient revenues to meet its ongoing operating and capital expenses for the foreseeable future.

The Company reported a net loss of \$457K in Q2 2008 compared to a net loss of \$493K in Q2 2007. Because the company had 100 million more common shares outstanding in this period (173 mil share at November 30 08 vs. 73 mil shares at November 30, 2007), its net loss per share in Q2 2008 decreased to \$0.2 cent per share from \$1 cent per share in Q2 2007.

Research and Development Expenses

Research & Development expenses (“R&D”) will generally vary from period to period depending on the scope of clinical development, research programs pursued, stage of clinical trials undertaken, the number of clinical trails that are active during a particular period of time, the rate of patient enrollment, the decisions made to continue the development and testing a product candidate based on supporting safety and efficacy results from clinical trails.

The R&D expenses in this period decreased \$88K (or 27%) over the comparative period last year (\$237K in Q2 2008 vs. \$324K in Q2 2007). The major decrease of R&D expenses came from \$196K (or 61%) less subcontracting costs occurred in this period. Our subcontracting work in this quarter focused on the preparation for WBI-1001 Phase IIb clinical trial and ongoing studies for WBI-2100 as compared with WBI-1001 Phase I clinical trial costs during the comparative period last year. The Company is expecting a high volume of subcontracts in the Q3 and Q4 of 2008 for further evaluations and drug product manufacturing.

In year 2007 the Company was awarded a financial grant of up to \$460K over a two-year period from National Research Council of Canada Industrial Research Assistance Program (NRC-IRAP). The Company has been entitled approximately \$30K grand from NRC-IRAP each quarter. In Q2 2007 the Company received \$88K of accumulative grant funds for three quarters from NRC-IRAP and \$24K grant from Natural Science and Engineering Research Council of Canada (NSERC). In Q2 2008 the Company received \$29K grant which dropped \$83K (or 74%) compared to \$111K grants mainly due to the unusual high amount of fund received from NRC-IRAP and NSERC in the comparative period last year. The 2008 YTD grant received from NRC-IRAP totaled \$60K. The total remaining grant entitled of \$60K is expected to be received in Q3 and Q4 of 2008.

The 2008 YTD R&D expenses totaled \$532K representing a \$211K (or 28%) decrease from the \$743K incurred during the 2007 YTD comparative period. The decrease was due to the different stage of development costs and clinical trial activities for the WBI-1001 product. The 2008 YTD R&D expense is estimated slightly higher than 2007 YTD R&D expenses as the Phase IIb tests approach at the end of this fiscal year.

General and Administrative Expenses

General and Administrative expenses (“G&A”) increased \$79K (or 45%) over the comparative period last year (\$254K in Q2 2008 vs. \$175K in Q2 2007).

Factors that contributed to increases for certain administrative expense items for this quarter included:

- i) \$30K of increase in public relation costs of the Company.
- ii) \$29K of increase in accounting fees mainly due to annual auditing fee.
- iii) \$13K of increase in wages and benefits due to \$10K retroactive wage payment to the CEO.
- iv) \$10K of increase in rent due to posting error occurred in Q2 2007 and adjusted in Q4 2007.

The 2008 YTD G&A expenses also increased \$69K (or 19%) to \$426K from \$357K incurred during the 2007 YTD comparative period. The major increase came from financing activity related legal and regulatory costs, patent maintenance legal costs and annual auditing fees. YTD G&A wages and benefits dropped \$28K as the Company started to lay off staff to adjust in current global economy recession. Our average G&A headcounts went down from 5 persons last year to 3 persons this year. Our office space will be reduced by one-third as well as our rent costs starting from January 2009.

Interest Income

Interest income increased \$18K in Q2 2008 over Q2 2007 and \$37K in 2008 YTD compared to 2007 YTD. The increase in interest income was directly attributable to fair market value change of interest bearing short-term investments.

Foreign Exchange Gain or (Loss)

The Company maintains a minimal amount of USD dollars in its bank account and needs to buy USD dollars to pay for some of the subcontracting work done in USA. For Q2 2008, \$67K of USD dollar was bought compared to \$76K of USD dollars in Q2 2007. The increase of USD/CND (1.1538 in Q2 2008 vs. 0.9892 in Q2 2007) caused a \$5K foreign exchange gain in Q2 2008 versus \$5K loss in Q2 2007.

The YTD USD purchase in 2008 was \$122K over \$97K in 2007. The Company recorded \$4K gain this year compared to \$5K loss last year when the average USD/CND rate increased from 1.0236 in 2007 to 1.0909 in 2008.

SUMMARY OF UNAUDITED QUARTERLY INFORMATION

	2 nd Quarter Ended November 30, 2008	1 st Quarter Ended August 31, 2008	4 th Quarter Ended May 31, 2008	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
Loss for the period	(457,124)	(441,535)	(817,695)	(618,287)	(490,904)	(593,104)	(689,791)	(812,781)
Loss per Common Share – basic and fully diluted	(0.002)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)
Total Assets	2,509,189	3,014,478	5,389,498	496,460	789,421	1,094,739	1,763,595	1,066,679
Total Liabilities	141,850	190,014	1,626,499	915,767	590,442	404,856	463,591	211,874
Shareholders' Equity	2,367,339	2,824,464	3,762,999	(419,307)	198,979	689,883	1,300,004	854,805

LIQUIDITY AND CAPITAL RESOURCES

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.

In June 2008 the Company closed a non-brokered private placement of 100,000,000 units at a purchase price of \$0.05 per unit, for total gross proceeds of \$5,000,000. 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 \$0.10 for a period of 24 months from the date of issuance of the share purchase warrant. The gross proceeds were all received at the current year-end and the finder's fees of \$497,000 were paid in June 2008 in connection with the private placement.

As of November 30, 2008, the Company had a net working capital of \$2,063,238 (May 31 2008 - \$3,448,782) with \$2,155,823 (May 31 2008 - \$4,984,241) in cash and cash equivalents.

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, research and development to the summer of 2009.

The Company is trying to arrange financing to raise additional funds to complete its planned Research and Development programs through sale of equity securities, issuance of debts and other feasible activities.

MATERIAL COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The Company renegotiated lab and office lease contract in December 2008 and reduced office space by one-third starting from January 2009. The lab and office space minimum lease payments commitments are shown as follows:

December 2008 to May 2009	56,063
June 2009 to March 2010	<u>88,927</u>
	<u>\$144,990</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 \$771,471 to CROs in the fiscal year of 2008 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, 2009. Thus there is no CRO obligation shown beyond the fiscal year ending May 31, 2009.

OFF BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

In addition to related party transactions disclosed elsewhere in the financial statements, the Company paid \$51,225 (2007 Q2 - \$35,850) in wages and \$9,000 (2007 Q2 - \$8,500) in directors' fees to its former and current officers and directors during this three months period.

The Company repaid a former major shareholder the principal amount of \$998,000 and accrued interest of \$27,521 in Q1 2008.

CHANGES IN ACCOUNTING POLICIES

Capital Disclosure

Effective June 1, 2008, the Company adopted the new recommendations of the CICA Handbook Section 1535, "*Capital Disclosure*". This new accounting

standard establishes the requirement for disclosing information about an entity's capital and how it managed. Section 1535 requires the disclosure of (i) an entity's objectives, policies, and processes for managing capital; (ii) quantitative data about what the entity regards as capitals; (iii) whether the entity has complied with any capital requirement; and if it has not complied, the consequences of such non-compliance. The adoption of these Handbook Sections had no significant impact on opening deficit.

Section 1535 relates to disclosure and presentation only and has no impact on our financial results for the period ended November 30, 2008.

Financial instruments – Disclosure and Presentation

Effective June 1, 2008, the Company also adopted the new recommendations of the CICA Handbook Section 3862, "*Financial Instruments – Disclosure*", and Section 3863, "*Financial Instruments – Presentation*". These new accounting standards provide enhanced and expanded disclosure requirements to complement the changes in accounting policy adopted on June 1, 2007 in accordance with Section 3855 "*Financial Instruments – Recognition and Measurement*", and Section 3861, "*Financial Instruments – Disclosure and Presentation*".

Section 3862 and Section 3863 relate to disclosure and presentation only and have no impact on our financial results for the period ended November 30, 2008.

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 patent rights and applications, assessment of the impairment of patent rights and applications, 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:

Patent rights and applications

Patent rights and applications costs include the acquisition costs and 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 audited financial statements as at May 31, 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.

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 November 30, 2008 and 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.

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.

NEW ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standards

In January 2006, CICA Accounting Standards Board (“AcSB”) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards (“IFRS”) for accounting periods commencing on or after January 1, 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, “*Goodwill and Intangible Assets*”, which replaces Section 3062, “*Goodwill and Other Intangible Assets*” and Section 3450, “*Research and Development Costs*”. Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. The new Section will be applicable to the Company’s financial statements for its fiscal year beginning June 1, 2009. The Company is currently evaluating the impact of the adoption of this new Section on its financial statements.

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 favorable 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.

SUBSEQUENT EVENTS

The Company renegotiated the lab and office lease contract in December 2008 and reduced one-third office space. The rental costs will be reduced starting from January 2009.

On January 5, 2009, Mr. Samson Mui resigned from the CFO position of the Company for personal reasons. The Company appointed Ms. Zhao Yue as new CFO effective on the same date.

OUTSTANDING SHARE DATA

As of January 20, 2009, the Company had the following outstanding securities:

(1) Common shares issued:	173,362,992
(Shares in escrow:	none)
(2) Stock options:	9,699,600
(3) Warrants:	50,000,000

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 November 30, 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.

ADDITIONAL INFORMATION

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