Management Discussion and Analysis of Financial Condition and Results of Operations (As of May 19, 2010)

This MD&A contains projections and other forward-looking statements regarding future events. Such statements are predictions, which may involve known and unknown risks, uncertainties and other factors, which could cause the actual events or results and company plans and objectives to differ materially from those expressed. For information concerning factors affecting the Company's business, the reader is referred to the documents that the Company files from time to time with applicable Canadian securities and regulatory authorities.

This discussion and analysis of the results of operations of Quest PharmaTech Inc. ("Quest" or the "Company") should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended January 31, 2010. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP). This discussion and analysis provides information on the operations of Quest on a consolidated basis. All amounts are expressed in Canadian dollars unless otherwise noted and references to the term "year" refer to the fiscal year ended January 31st. Additional information related to the Company is on SEDAR at www.sedar.com.

2010 Development Highlights:

- **Signed a technology purchase agreement with Paladin Labs Inc. to acquire the proprietary rights, intellectual property and other assets related to a pipeline of late-stage immunotherapy product candidates consisting of five monoclonal antibodies targeting certain tumor antigens that are presented in a variety of cancers.**

- **Completed a critical review of the development status for the Company's therapeutic antibody platform, conducted in association with external consultants and leading international experts in cancer therapeutics and immunology. The Company believes that combinatorial immunotherapy will lead to important commercial applications of this immunology platform in the treatment of cancer.**

- **Commenced work to (i) initiate an 80 patient multicentre Italian cooperative trial to establish evidence for the clinical benefit associated with enhanced specific T cell immunity achievable by combining oregovomab with carboplatin and paclitaxel in the initial treatment of advanced ovarian cancer, (ii) initiate a 30 patient Canadian clinical trial to evaluate the ability of a TLR-3 agonist to enhance the strength of the oregovomab immune response generated in the 'maintenance' setting in advanced ovarian cancer patients following front-line chemotherapy, and, (iii) initiate a clinical trial to be conducted in the U.S. to use gemcitabine, another cytotoxic agent, in a cohort of patients with CA125 associated resectable pancreatic cancer in combination with oregovomab.**

- **Received research ethics approval in Edmonton and two other centers in Toronto in connection with the Company's clinical trial for SL052 Prostate Cancer. Dosing of first patient occurred in early May, 2010.**

- **Supported the financial position of the Company by receiving $500,000 in licensing fees and $90,000 in Government grants and scientific research and experimental development ("SR&ED") tax credits. Subsequent to year end, the Company secured debt financing of up to $1,000,000 from an officer of the Company, of which $400,000 has been drawn to date.**

Overview

Quest is committed to building shareholder value through the discovery, development and commercialization of new pharmaceutical products. It is developing a portfolio of product candidates for the treatment of cancer by combining immunotherapeutic antibodies with chemotherapy, photodynamic therapy, radioimmunotherapy or immunoadjuvants. Quest is also developing a series of products for the treatment of cancer and dermatological conditions, based on its SonoLight Technology platform.

Products under Development:

Antibody Immunotherapy

Quest is developing the high affinity monoclonal antibody oregovomab (*MAb B43.13)* for the treatment of ovarian cancer. Oregovomab targets the circulating tumour-associated antigen CA125, which is shed from the surface of human epithelial ovarian cancer cells; the antibodies induce broad cellular and humoral immune responses against CA125 via complex formation. Clinical testing conducted to date has shown that front-line carboplatin-paclitaxel administered in combination with oregovomab immunotherapy results in more vigorous immune response to the immunization than observed with oregovomab in the post front-line mono-immunotherapy maintenance setting. There is a growing appreciation in the cancer immunotherapy community that cytotoxic therapy can provide the immune system better access to injured cells and also dampen the immune suppressive pathways that serve to turn off immune reactions. The Company believes further clinical trials are warranted with oregovomab in combination with front-line chemotherapy for the treatment of ovarian cancer.

Clinical Trial Strategy

Taking advantage of the availability of clinical grade oregovomab (anti CA125 antibody), Quest will conduct three carefully planned and executed proof-of-concept clinical trials to establish these principles to ultimately lead to the design of a definitive combinatorial product registration. An 80 patient multicentre Italian cooperative trial will establish evidence for the clinical benefit associated with enhanced specific T cell immunity achievable by combining oregovomab with carboplatin and paclitaxel in the initial treatment of advanced ovarian cancer. Concurrent to this effort, a 30 patient Canadian clinical trial will evaluate the ability of a TLR-3 agonist to enhance the strength of the oregovomab immune response generated in the 'maintenance' setting in

advanced ovarian cancer patients following front-line chemotherapy. The third clinical trial to be conducted in the U.S. will use gemcitabine, another cytotoxic agent, in a cohort of patients with CA125 associated resectable pancreatic cancer in combination with oregovomab.
The additional antibodies in the platform (anti-MUC1, anti-PSA, anti-CA19.9 and anti-TAG 72) will undergo continuing preclinical development in anticipation of rapid clinical development once the initial oregovomab studies establish the validity of the combination therapy premise.

Sonolight Technology

SonoLight Dermatology: The Company's lead product, SL017, is a topical formulation indicated for dermatology applications. The utility of SL017 with Intense Pulsed Light has already been demonstrated for hair removal applications in a Phase I clinical trial. The Company has recently completed the enrollment of 110 patients in a Phase II clinical trial for the same indication. Use of SL017 with a commercially available light delivery system is likely to overcome some of the limitations associated with the light treatment alone. In addition, SL017 has undergone a positive Canadian Phase I clinical trial for Actinic Keratosis and is also being evaluated for acne treatment in a pre-clinical study. Recently the Company made a strategic decision to focus its development efforts towards oncology and is therefore looking to out-license its dermatology pipeline of products.

SonoLight Oncology: A second product from the SonoLight platform, SL052, is an injectable formulation that has recently received approval from Health Canada's Therapeutic Product Division to initiate a Phase I clinical trial for the treatment of prostate cancer. The clinical trial will be conducted in two stages. The first stage of the study will evaluate the prostate gland distribution of SL052 in up to six subjects undergoing radical prostatectomy. In the second stage of the study, the safety and preliminary efficacy of SL052 PDT treatment with light dose escalation will be studied in 12 subjects with localized prostate cancer. The treatment response will be monitored by MRI, prostate biopsy and changes in baseline PSA levels. The animal studies completed at the Cross Cancer Institute in Edmonton, Alberta, indicate that SL052 has the potential to destroy cancerous tumors in the prostate while limiting collateral damage to healthy tissue.

Products and Technology under Discovery:

Immuno Photodynamic Therapy: Quest's research has shown that photodynamic therapy can augment the therapeutic effects of immunomodulators such as antibodies, antigens, cytokines and immunoadjuvants in cancer patients. With a strong intellectual property position to use SL052 with immunotherapy, the Company has received encouraging results from its collaborative research agreement with the BC Cancer Agency to investigate the therapeutic and mechanistic aspects of anti-tumor effect achieved in mice by treatment combining photodynamic therapy based on SL052 with various immunotherapeutic agents. The results from the BC Cancer Agency demonstrate that SL052 is an effective immuno-stimulant when combined with immunotherapy for the removal of solid tumors.

Sonodynamic Therapy: Sonodynamic therapy (SDT) involves the administration of non-toxic pharmaceutical agents which may be activated deep within the body, by ultrasound, which is in itself non-toxic. The goal of SDT is to provide effective and specific eradication or control of tumors, while minimizing or eliminating toxicity and morbidity to the remainder of the patient. The Company has initiated a discovery program to develop an adjuvant therapy to standard treatment for peritoneal and/or thoracic carcinomatosis, commonly consequential to a variety of late-stage malignancies. The treatment involves introduction of a non-toxic sonosensitizer to the peritoneal or thoracic space during routine therapeutic drainage of ascitic fluid or of pleural effusion, respectively. The sonosensitized tumor cells and micrometastases may be selectively destroyed by exposure to ultrasound energy applied to the exterior of the abdomen or thorax. This study is being funded in part from a research grant from National Research Councils' Industrial Research Assistant Program.

Novel Formulations: The Company has initiated a research program to develop novel topical and injectable formulations that will lead to a high therapeutic drug accumulation in the target tissue, and be highly potent with negligible toxicity and rapid clearance from blood and skin. In a strategic alliance with IntelligentNano, a spin-off company from the Canadian National Research Council's National Institute for Nanotechnology, Quest has created a water-soluble nano-formulation of SL052 and SL017.

Raw Material Manufacturing: Quest and the Alberta Research Council (ARC) have formed a strategic alliance to develop fermentation based technologies to manufacture Hypocrellin B, one of the essential ingredients for the SonoLight Technology. The ARC is undertaking research to develop a semi-synthetic method for the manufacture of Hypocrellin B. If the project is successful, Quest will receive an exclusive license to the developed technology from the ARC to manufacture and commercialize HB based products, including SL017 for dermatology and SL052 for oncology applications.

Financial Results

Net consolidated loss for the year was $517,799 or $0.01 per share as compared to a consolidated loss of $204,047 or $0.00 per share for the year ended January 31, 2009. Research and development expenditures totaled $419,063 while general and administrative expenses were $712,516 for the same period. As of January 31, 2010, the Company had cash and cash equivalents of $31,752 (May 19, 2010 – approximately $110,000). The Company also has debt of $500,000 in the form of a convertible debenture (exercisable at $0.25 and due on March 22, 2011).

Selected Annual Financial Information

	January 31, 2010	January 31, 2009	January 31, 2008
	$	$	$
Revenue from continuing operations	758,000	2,008,000	574,575
Net loss for the year	(517,799)	(204,047)	(1,318,446)
Basic and diluted loss / share	(0.01)	(0.00)	(0.02)
Total assets	508,751	978,337	1,611,100
Total debt	500,000	500,000	500,000

Results of Operations

Quest's net consolidated loss includes some significant non-cash items. These non-cash items include amortization, options/shares issued as consideration for services and options issued to employees, and loss on write down/sale of assets. For the years ended January 31, 2010 and January 31, 2009, amortization was $87,815 and $40,203 respectively, and stock based compensation expense related to shares/options issued for services was $23,250 and $18,000 respectively and for employees was $47,500 and $2,500, respectively. For 2010, The Company recorded a loss on the revaluation of marketable securities of $5,138. For 2009, the Company recorded a gain on sale of its non-core assets of $168,048, a loss on disposal of property plant and equipment of $12,128 and a loss on the revaluation of marketable securities of $113,705. Net consolidated loss for the year ended January 31, 2010 was $517,799 or $0.01 per share on a fully diluted basis as compared to a consolidated loss of $204,047 or $0.00 per share for the year ended January 31, 2009. After adjusting for non-cash items, cash flows used in operating activities for the year ended January 31, 2010 were $515,403 as compared to $538,416 for the year ended January 31, 2009.

Revenues:

The following table identifies the changes in revenue for the year ended January 31, 2010 compared to the year ended January 31, 2009.

Revenue	2010	2009	Increase (decrease)
	$	$	$
License fees	750,000	2,000,000	(1,250,000)
Market distribution rights	8,000	8,000	-
Total revenue	758,000	2,008,000	(1,250,000)

License Fees

Quest has signed an agreement with a multinational technology development company (the Investor) to receive $3,000,000 to develop oncology products based on its SonoLight Technology. Under the terms of the agreement, Quest received $1,000,000 in fiscal 2008, $1,500,000 during fiscal 2009 with the final balance of $500,000 received in Q1, fiscal 2010. In return for this non-equity funding, the Investor will receive 35 percent of all future net revenue from the commercialization of Quest's SonoLight oncology products. This agreement does not preclude Quest from out-licensing the oncology applications of the SonoLight Technology to a third party.

Expenses

The following table identifies the changes in general and administrative expense for the year ended January 31, 2010 compared to the year ended January 31, 2009.

General and administrative expense	2010	2009	Increase (decrease)
	$	$	$
Salaries, wages and benefits	276,898	284,976	(8,078)
Other support costs	60,794	36,350	24,444
Consulting	112,719	202,282	(89,563)
Legal fees	30,921	9,176	21,745
Audit fees	63,881	64,057	(176)
Public company related costs	97,387	87,467	9,920
Rent	11,675	11,305	370
Travel	45,473	45,118	355
Insurance	12,768	14,223	(1,455)
Total general and administrative expense	712,516	754,954	(42,438)

Overall, general and administrative expenses have decreased in 2010 compared to 2009. The decreases are due primarily to a reduction in consulting costs, which are lower as a result of decreased business development activities. Other support costs includes the estimated fair value of non-R&D stock options granted and vested during the year and these fair value expenses have increased - $43,500 in 2010 compared to $18,000 in 2009. Legal fees have increased due to the Company's purchase of the immunotherapy technology in fiscal 2010.

The following table identifies the changes in research and development (R&D) expense for the year ended January 31, 2010 compared to the year ended January 31, 2009.

Research and development expense	2010	2009	Increase (decrease)
	$	$	$
Salaries, wages and benefits	231,424	205,253	26,171
Sub-contract, consulting and clinical trials	185,212	1,122,601	(937,389)
Rent	27,241	26,377	864
Legal (patent prosecution)	62,759	44,479	18,280
Supplies	23,623	84,786	(61,163)
Other R&D costs	70,658	57,262	13,396
Gross research and development expense	600,917	1,540,758	(939,841)
Less			
NRC – IRAP funding	(85,553)	(95,578)	(10,025)
Revenue Quebec – SR&ED tax credits	(92,568)	-	92,568
Alberta Finance – SR&ED tax credits	(3,733)	-	3,733
Research and development expense (net)	419,063	1,445,180	(1,026,117)

R&D costs have decreased significantly in 2010 compared to 2009 due to a decrease in expenditures for the Company's pre-clinical and clinical trial activities. Most of this decrease is reflected in the sub-contract, consulting and clinical trial costs and in supplies costs. Legal costs have increased in 2010 compared to 2009 due to an increase in patent activity related to the

Company's purchase of the immunotherapy technology in fiscal 2010. Salaries, wages and benefits costs have increased in 2010 compared to 2009 due to an increase in R&D staff.

Fourth Quarter Results of Operations

For the three months ended January 31, 2010 ("Q4 2010"), the Company incurred a net loss of $367,815 or $0.01 per share compared to $94,518 or $0.00 per share for the three months ended January 31, 2009 ("Q4 2009"). Research and development costs of $96,320 were incurred during Q4 2010 compared to $193,010 during Q4 2009. The decrease in R&D costs during Q4 2010 compared to Q4 2009 is mainly the result of decreased expenditures for pre-clinical and clinical trial activities and also the result of provincial government SR&ED tax credits earned during Q4 2010 which were netted against R&D costs. General and administrative costs were $240,036 for Q4 2010 compared to $288,137 for Q4 2009. The decrease in G&A costs relates primarily to a decrease in business development expenses in Q4 2010 compared to Q4 2009. During Q4 2010, the Company's revenues were $2,000 compared to $502,000 for Q4 2009.

Summary of Quarterly Results

The following table presents unaudited selected financial information for each of the last eight quarters ended January 31, 2010.

	Year ended January 31, 2010				Year ended January 31, 2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	$	$	$	$	$	$	$	$
Revenue	502,000	252,000	2,000	2,000	502,000	502,000	502,000	502,000
Net income (loss) for the period	126,978	(2,808)	(274,154)	(367,815)	74,809	53,545	(237,883)	(94,518)
Basic and diluted income (loss) per share (1)	0.00	(0.00)	(0.00)	(0.01)	0.00	0.00	(0.00)	(0.00)

(1) Quarterly losses per share are not additive and may not equal annual loss per share reported. This is due to the effect of shares issued during the year on the weighted average number of shares outstanding for the full year.

Stock-Based Compensation Expense

During the year ended January 31, 2010, the Company granted a total of 1,775,000 (2009 – 350,000) stock options, as per the Company's Stock Option Plan, including 950,000 (2009 – 50,000) to employees and 825,000 (2009 – 300,000) to non-employees. The fair value of these options, totaling $70,750, was recognized as an expense and credited to contributed surplus for the year ended January 31, 2010 (2009 – $20,500).

Intangible Assets

Intangible assets include proprietary rights, intellectual property and patent rights which have been acquired from third parties. Intangible assets are recorded at cost less accumulated amortization. The Company evaluates the recoverability of the carrying cost of proprietary rights and intellectual property annually and if the rights and intellectual property are not considered to be fully recoverable, a provision is recorded to recognize them at fair value. For the year ended January 31, 2010, no provision for impairment in value has been recorded.

Capital Expenditures

Expenditures on capital assets were $10,171 for the year ended January 31, 2010 compared to $215,060 for fiscal 2009. Capital expenditures for the current and prior year relate primarily to the acquisition of scientific equipment. During the year ended January 31, 2010, the Company recorded an impairment loss on the write down and disposal of R&D equipment of $nil (2009 – $12,128). The 2009 loss is comprised of write-downs of $5,328 and a loss on disposal of $6,800.

Deferred Revenue

The Company has recorded deferred revenue of $93,667 in connection with amounts received for market distribution rights that relate to future periods. This amount relates to the Company's market distribution rights for Asian hair removal and is being recognized over a remaining 11.7 year period.

Outstanding Share Data

The Company has the following securities outstanding as at May 19, 2010:

Common shares issued and outstanding at January 31, 2010	69,697,580
Stock options outstanding as at January 31, 2010	4,331,000
Stock options granted since January 31, 2010	100,000
Stock options expired since January 31, 2010	(575,000)
Stock options outstanding as at May 19, 2010	3,856,000
Common shares issuable upon conversion of $500,000 convertible debenture	2,000,000

Fully diluted common shares are 75,553,580, assuming the exercise of all stock options and the conversion of the convertible debenture.

Financial Instruments

Fair Value - Given their short-term maturity, the fair value of cash and cash equivalents, accounts receivable, marketable securities, accounts payable and accrued liabilities and the convertible debenture approximate the carrying value. The fair values of the Company's financial instruments are measured using a Level 1 classification (quoted prices in active markets).

Foreign Currency Risk - The Company has assets and liabilities that are denominated in foreign currencies and that are exposed to the financial risk of earnings fluctuation arising from changes in foreign exchange rates and the degree of volatility of those rates. The Company does

not consider its exposure to foreign currency risk to be significant and currently does not use derivative instruments to reduce its exposure to foreign currency risk.

Liquidity Risk - Company's exposure to liquidity risk is dependent on its ability to raise funds to meet its commitments and sustain its operations. The Company controls liquidity risk by managing its working capital and by securing additional funds through equity, debt or partnering transactions.

Credit Risk - Financial instruments that subject the Company to credit risk consist primarily of cash and cash equivalents and accounts receivable. To minimize its exposure to credit risk for cash equivalents, the Company invests surplus cash in fully guaranteed short term deposits with its financial banker, a major Canadian bank. As the Company is primarily involved in research and development, the Company's exposure to credit risk related to accounts receivable is not considered to be significant. At January 31, 2010, approximately 85% of accounts receivable were due from one organization under a provincial government SR&ED tax credit program.

Market Risk - The Company owns investments in common shares of publicly traded companies that subject the Company to market risk. As market prices change, the Company's income and the value of its marketable securities are affected. The Company expects that its exposure to market risk will be short lived as the investments are viewed as temporary in nature.

Interest Rate Risk - Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's cash and cash equivalents are comprised of highly liquid deposits or investments that earn interest at market rates. Interest on the long-term debt is at fixed rates. Consequently, the Company is exposed to fair value changes on long-term debt when the market rate of interest changes. Accounts receivable, accounts payable and accrued liabilities bear no interest. The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis.

Liquidity and Capital Resources

The Company's ability to continue as a going concern is uncertain and is dependent upon its ability to raise additional capital to successfully complete its research and development programs, commercialize its technologies, conduct clinical trials and receive regulatory approval for its products.

At January 31, 2010, cash and cash equivalents were $31,752 as compared to $594,826 at January 31, 2009. At May 19, 2010, the Company had cash and cash equivalents of approximately $110,000.

During the year ended January 31, 2010, the Company recognized revenue of $758,000 related to licensing fees and market distribution rights, $85,553 in R&D grant funding from the National Research Council Industrial Research Assistance Program and $96,301 of funding from the Revenue Quebec and Alberta Finance SR&ED tax credit programs.

Cash used in operating activities was $515,403 for the year ended January 31, 2010 compared to $538,416 for the year ended January 31, 2009.

In December, 2007, the Company announced that it had entered into an agreement with a third party to license the oncology applications of the Company's SonoLight technology. As consideration, the Company received an initial license fee payment of $1,000,000. During fiscal 2009, the Company received $1,500,000 of additional license fee payments. During fiscal 2010, the Company received the final $500,000 license fee payment.

The Company has negotiated various extensions to the maturity date of the $500,000 convertible debenture which is now due March 22, 2011. The interest rate and conversion rate remain unchanged at 9% per annum and $0.25 per common share, respectively.

In February, 2010, the Company secured demand loan financing of up to $1,000,000 from one of its officers. This demand loan financing bears interest at 8% per annum, interest payable monthly and is unsecured with no fixed terms of repayment. The principal is to be repaid upon the Company receiving sufficient future licensing fees, equity financing or other revenues. To date, the Company has drawn $400,000 on this demand loan financing.

The Company continues to implement a disciplined approach to containing costs and is focusing on programs aimed at achieving near-term goals.

Quest's funding needs will vary as its drug development products move into and through clinical trials. Based on current operating budgets and assuming the ongoing divestiture of non-core assets, management believes that the capital resources of the Company should be sufficient to fund operations beyond the end of fiscal 2011.

The Company will seek additional capital through the sale of the remaining non-core assets, further equity financings, licensing arrangements involving its core technologies and strategic partnerships.

Contractual Obligations

In the normal course of operations, Quest has entered into several contracts providing for the following payments over the following fiscal years:

	Payments due by year				
	Total	Within 1 year	2 – 3 years	4 – 5 years	After 5 years
	$	$	$	$	$
Operating leases	64,676	40,848	23,828	-	-
Research & development contracts	269,056	269,056	-	-	-
Total contractual obligations	333,732	309,904	23,828	-	-

Demand Loans and Related Party Transactions

There were no related party transactions during fiscal 2010 and 2009.

Subsequent to the fiscal 2010 year-end, the Company entered into a demand loan agreement with Dr. Ragupathy Madiyalakan, CEO and a director of the Company, to provide up to $1,000,000 in 8% annual interest bearing demand loan financing to be used for the Company's operating expenditures. This financing is unsecured, has no fixed terms of repayment, with interest payable monthly. The principal is to be repaid upon the Company receiving sufficient future licensing fees, equity financing or other revenues. To date, the Company has drawn $400,000 on this financing through a wholly-owned company of Dr. Madiyalakan.

Changes in Accounting Policies

Goodwill and Intangible Assets

In February, 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets. This new standard, which is effective for fiscal periods beginning on or after January 1, 2009, establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company has adopted this section for its fiscal year beginning February 1, 2009. Adoption of this section did not have an impact on the Company's consolidated financial statements.

Credit Risk and the Fair Value of Financial Assets and Liabilities

In January, 2009, the CICA issued EIC Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The EIC requires the Company to take into account the Company's own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC 173 is to be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in the interim and annual financial statements for the periods ending on or after the date of issuance of the Abstract. The Company has adopted this standard for its fiscal year beginning February 1, 2009 and has concluded that this standard has no material impact on its consolidated financial statements.

Financial Instruments - Disclosures

In March, 2009, the Canadian Accounting Standards Board announced it has agreed to adopt recent amendments to IFRS 7, Financial Instruments: Disclosures, into section 3862, Financial Instruments – Disclosures. The amendments to section 3862 will apply to annual financial statements for years ending after September 30, 2009. The amendments require that an entity disclose the classification, for each class of financial instrument, of fair value measurements within a fair value hierarchy. The hierarchy includes three levels: Level 1 – quoted prices in active markets, Level 2 – measurements determined using valuation models that employ observable inputs and Level 3 – measurements determined using valuation models that employ unobservable inputs. The Company adopted this standard and has reflected the required changes to its disclosures in the consolidated financial statements.

Accounting Pronouncements for Future Adoption

Consolidated Financial Statement and Non-Controlling Interest
In January, 2009, the CICA issued Handbook section 1601, Consolidated Financial Statements, and Handbook section 1602, Non-Controlling Interest, which replace the existing standards. These sections carry forward existing Canadian guidance for preparing consolidated financial statements containing or excluding non-controlling interests. The sections are effective for interim and annual financial statements beginning on January 1, 2011 and earlier adoption is permitted. The Company is currently assessing the outcome of adopting these standards on its consolidated financial statements.

Business Combinations
In January, 2009, the CICA issued Handbook section 1582, Business Combinations, which replaces section 1581, Business Combinations. It provides guidance on improving the relevance, reliability and comparability of the information disclosed about a business combination and its effects. This section is applied prospectively for business combinations for which the acquisition date is on or after the first annual reporting beginning on or after January 1, 2011 and earlier adoption is permitted. The Company is currently assessing the outcome of adopting this standard on its consolidated financial statements.

International Financial Reporting Standards
In February, 2008, the Canadian Accounting Standards Board confirmed that Canadian public enterprises will need to adopt International Financial Reporting Standards ("IFRS") for years beginning on or after January 1, 2011. The Company will therefore be required to report using IFRS commencing with its unaudited interim consolidated financial statements for the three months ended April 30, 2011, which must include the interim results for the three months ended April 30, 2010 prepared on the same basis. IFRS uses a conceptual basis similar to Canadian GAAP, but there are some significant differences on recognition, measurement and disclosures.

The Company has developed a conversion plan, including a detailed timeline, identification of staff training and education requirements and the impact on the Company's accounting policies, information systems, internal controls and the business operations. During the year ended January 31, 2010, Company staff attended IFRS training sessions and the Company completed a high level review of the key accounting policy differences between Canadian GAAP and IFRS as well as determining the policy choices and elections allowed under IFRS. The areas identified to have the highest potential to impact the Company are property, plant and equipment, intangible assets and initial adoption of IFRS under the provisions of IFRS 1 "First Time Adoption of IFRS". The Company is now completing a detailed analysis and evaluation of options available under IFRS, the financial impact of those options, and the impact on internal controls over financial reporting is in progress. Policy choices are currently being reviewed and it is expected that the determination of policy choices will be completed in the second quarter of calendar 2010. The Company plans to complete the opening balance sheet in the second quarter of calendar 2010. The Company anticipates that there will be a significant increase in disclosure resulting from the adoption of IFRS. The Company also expects the transition to IFRS to impact financial reporting, business processes, internal controls and information systems.

Disclosure Controls and Procedures

The management of Quest is responsible for establishing and maintaining disclosure controls and procedures for the Company and is continuing with the implementation of disclosure controls and procedures, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to Quest management particularly during the period in which the annual filings are being prepared.

Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Management has taken steps to improve the procedures and provide maintenance related to an effective design for the Company's internal controls and procedures over financial reporting.

Management continues to note weaknesses in internal controls over financial reporting including those related to the limited number of accounting staff members resulting in a lack of segregation of duties.

Management will continue with the implementation of procedures aimed at minimizing the risk of material error in its financial reporting and will seek outside expertise when the need arises.

Risks and Uncertainties

Going concern uncertainty - The Company's financial statements have been prepared on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has experienced significant operating losses and cash outflows from operations since its inception. The Company's ability to continue as a going concern is uncertain and is dependent upon its ability to raise additional capital to successfully complete its research and development programs, commercialize its technologies and conduct clinical trials and receive regulatory approvals for its products. It is not possible at this time to predict the outcome of these matters.

Quest's proprietary technologies are in various stages of development and some technologies have not received regulatory approval to begin clinical trials. It will be necessary for the Company to produce sufficient preclinical data in order to receive regulatory approval to begin clinical trials. There is no assurance that regulatory approval will be received to begin clinical trials. For the proprietary technologies that have received regulatory approval to begin clinical trials, future success will depend upon the ability of the Company to move the products through clinical trials, the effect and safety of these products, the timing and cost to receive regulatory and marketing approvals and the filing and maintenance of patent claims.

Quest's proprietary technologies have exposure to risks associated with commercialization. Even after product approval is obtained, there is no assurance that the Company will have a sufficient market for its products or the working capital required for commercialization.

The Company maintains clinical trial liability and product liability insurance; however, it is possible that this coverage may not provide full protection against all risks.

The Company may be exposed to risks associated with malfunctioning equipment, catastrophic events and other events within and outside of the Company's control. The Company maintains insurance believed to be adequate to cover any eventuality, but there is no guarantee that coverage will be sufficient for all purposes.

To a large degree, the Company's success is dependant upon attracting and retaining key management and scientific personnel to further the Company's drug development programs. There is a risk that required personnel may not be available to the Company when needed and, as a result, this may have a negative impact on the Company.

Quest must continue to raise additional capital through the exercise of stock options, issuing new share capital through equity financing, licensing arrangements and/or strategic partnerships. The Company's ability to raise additional capital will depend upon the progress of moving its drug development products into and through clinical trials and the strength of the equity markets, which are uncertain. There can be no assurance that additional capital will be available.