

Management Discussion and Analysis of Financial Condition and Results of Operations (As of May 15, 2008)

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, 2008. 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.

2008 Development Highlights:

- **Raised \$3,128,000 in equity financings**
- **Received \$1,316,575 in licensing fees and \$52,422 in government grants**
- **Completed the Phase I clinical trial for Actinic Keratosis (final results are due in June, 2008)**
- **Expanded the hair removal clinical trial from 50 to 90 patients with two different light sources**
- **Received proof of concept data from the Cross Cancer Institute for the prostate cancer photodynamic therapy product**
- **Formed a strategic alliance with the Alberta Research Council to develop an alternate method to manufacture raw material for SonoLight Technology based products**
- **Signed a collaborative research agreement with the BC Cancer Agency to develop Immuno Photodynamic therapies for oncology applications**

Overview

Quest PharmaTech is committed to build shareholder value through discovery, development and commercialization of new pharmaceutical products. It is developing a series of products for the treatment of cancer and dermatological conditions, based on its SonoLight Technology platform.

The patented SonoLight Technology is based on a unique non-toxic family of photosensitizing and sonosensitizing, small molecular weight compounds called Hypocrellin, isolated from a parasitic fungi that grows on bamboo trees in China. Quest is developing these compounds as drugs, as well as developing novel means of activating and delivering them to target tissues. Quest's products are expected to offer high selectivity and efficacy with minimal side effects.

Products under Development:

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 initiated a ninety patient clinical trial for the same indication and the results are anticipated during the last quarter of 2008. Use of SL017 with a light-based hair removal device is likely to overcome some of the limitations associated with the light treatment alone. In addition, SL017 has undergone a Canadian Phase I clinical trial for Actinic Keratosis and is also being evaluated for acne treatment in a pre-clinical study.

Oncology: A second product from the SonoLight platform, SL052, is an injectable formulation that is in late-stage pre-clinical development for prostate cancer treatment. SL052 will be delivered directly to the prostate by a unique delivery system thereby maximizing drug uptake and minimizing side effects. The animal studies done so far at the Cross Cancer Institute in Edmonton, Alberta indicate that SL052 has potential to destroy cancerous tumors on the prostate while limiting collateral damage to healthy tissue. SL052 is scheduled to enter a Phase I clinical trial during the second half of 2008.

Products under Discovery:

Immuno Photodynamic Therapy: Our 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 signed a 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.

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 will be selectively destroyed by exposure to ultrasound energy applied to the exterior of the abdomen or thorax.

Strategic Partners

Marketing Partner for Asia: Quest has entered into a license agreement with KMH Co., Ltd ("KMH") to market the Company's hair removal product, SL017, in Asia. KMH is a publicly traded (KRX Stock Market: KRX), Korea-based healthcare company committed to the development, manufacture and commercialization of healthcare products and cosmetics. Under the terms of the agreement, KMH will be responsible for product registration, marketing, sales and distribution of SL017 for hair removal applications in Asia and to pay a royalty to Quest based on product sales. In addition, KMH will invest up to \$1,500,000 in Quest. KMH has already invested \$500,000.

Strategic Partner for Dermatology: Paramount BioSciences, LLC, has acquired multinational rights to Quest's proprietary SonoLight technology for dermatology applications. Paramount BioSciences is a global drug development and healthcare investment firm with a portfolio of life-sciences-focused companies. Under the terms of the agreement, Paramount BioSciences is responsible for dermatology-related development and commercialization activities outside of Canada. Quest will receive licensing fees and potential future milestone payments in excess of US\$35 million plus royalties on sales.

Partner for Manufacturing Development: Quest PharmaTech 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 will undertake 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.

Oncology Partner: 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 has already received \$1,000,000; and the balance of \$2,000,000 to be paid within the next twelve months. In return for this non-equity funding, the Investor will receive 35 percent of all future net revenue from the commercialization of Quest's oncology products. This agreement does not preclude Quest from out-licensing the oncology applications of the SonoLight Technology to a third party.

Financial Results

Net consolidated loss for the year was \$1,318,446 or \$0.02 per share as compared to a consolidated loss of \$1,454,077 or \$0.03 per share for the year ended January 31, 2007. Research and development expenditures totaled \$901,530 while general and administrative expenses were \$869,593 for the same period. As of January 31, 2008, the Company had cash and cash equivalents of \$1,305,802. The Company also has debt of \$500,000 in the form of a convertible debenture (exercisable at \$0.25 and due on March 22, 2009).

On a forward going basis, the Company anticipates to receive \$2,000,000 in licensing fees to develop oncology products based on its SonoLight Technology. The Company may receive an additional \$1,000,000 equity investment from KMH Co., Ltd. upon reaching specific milestones related to SL017 for hair removal applications. The Company also expects to receive up to \$200,000 in government grants to offset the costs to develop its ultrasound activation technology.

Currently, the Company has 4,800,000 outstanding share purchase warrants exercisable at \$ 0.20 and expiring in September, 2008. If exercised, these warrants would generate up to \$960,000 of additional funding for the Company.

Selected Annual Financial Information

	January 31, 2008	January 31, 2007	January 31, 2006
		\$	\$
Revenue from continuing operations	574,575	2,333	0
Revenue from discontinued operations	-	24,787	216,732
Loss before discontinued operations	(1,327,708)	(1,654,104)	(2,591,293)
Net loss for the year	(1,318,446)	(1,454,077)	(3,503,813)
Basic and diluted loss / share before discontinued operations	(0.02)	(0.04)	(0.06)
Basic and diluted loss / share	(0.02)	(0.03)	(0.08)
Total assets	1,611,100	260,096	1,454,191
Total debt	500,000	1,221,434	1,909,935

Results of Operations

Quest's net consolidated loss includes significant non-cash items. These non-cash items from continuing operations include amortization, options/shares issued as consideration for services and options issued to employees, and gain/loss on sale of assets. For the years ended January 31, 2008 and January 31, 2007, amortization from continuing operations was \$28,571 and \$60,715 respectively, stock based compensation expense related to shares/options issued for services was \$99,500 and \$24,230 respectively, options issued to employees was \$59,500 and \$85,400, respectively, and (loss)/gain on sale of assets was (\$7,462) and \$21,307, respectively. Net consolidated loss for the year ended January 31, 2008 was \$1,318,446 or \$0.02 per share on a fully diluted basis as compared to a consolidated loss of \$1,454,077 or \$0.03 per share for the year ended January 31, 2007. After adjusting for non-cash items, cash flows used to fund continuing operations for the year ended January 31, 2008 were \$964,450 as compared to \$962,988 for the year ended January 31, 2007.

Revenues:

The following table identifies the changes in revenue for the year ended January 31, 2008 compared to the year ended January 31, 2007.

Revenue	2008	2007	Increase (decrease)
	\$	\$	\$
Continuing operations			
License fees	566,575	-	566,575
Market distribution rights	8,000	2,333	5,667
Total revenue from continuing operations	574,575	2,333	572,242
Discontinued operations			
Accu-MAb TM	-	24,787	(24,787)
Total revenue from discontinued operations	-	24,787	(24,787)

License Fees

During the year, the Company recognized license fee revenue of \$566,575, comprised of \$316,575 for dermatology applications from Paramount Biosciences and \$250,000 from a multinational company for oncology applications.

The oncology license agreement requires the Company to pay royalties on all future net revenue from the commercialization of the Company's oncology products. Under the terms of the agreement, the Company is required to use commercially reasonable efforts to initiate a Phase I clinical trial for photodynamic therapy treatment of prostate cancer. The Company is recognizing the license fee in relation to the costs incurred with these efforts and has recognized \$250,000 of the license fee as of January 31, 2008.

Expenses

The following table identifies the changes in general and administrative expense for the year ended January 31, 2008 compared to the year ended January 31, 2007.

General and administrative expense	2008	2007	Increase (decrease)
	\$	\$	\$
Salaries, wages and benefits	211,499	206,032	5,467
Other support costs	162,143	114,370	47,773
Consulting	259,500	131,336	128,164
Legal fees	12,671	16,506	(3,835)
Audit fees	74,538	50,175	24,363
Public company related costs	86,795	52,406	34,389
Rent	9,728	14,732	(5,004)
Travel	35,315	39,725	(4,410)
Insurance	17,404	15,436	1,968
Total general and administrative expense	869,593	640,718	228,875

Overall, general and administrative expenses have increased in 2008 compared to 2007. The increases are due primarily to an increase in financing activities and to an increase in business

development activities within the Company. 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 from approximately \$86,000 in 2007 to \$141,500 in 2008.

The following table identifies the changes in research and development (R&D) expense for the year ended January 31, 2008 compared to the year ended January 31, 2007.

Research and development expense	2008	2007	Increase (decrease)
	\$	\$	\$
Salaries, wages and benefits	222,679	426,570	(203,891)
Sub-contract, consulting and clinical trials	501,596	176,307	325,289
Rent	22,760	61,820	(39,060)
Legal (patent prosecution)	119,040	152,838	(33,798)
Supplies	23,699	48,449	(24,750)
Other R&D costs	64,178	104,730	(40,552)
Gross research and development expense	953,952	970,714	(16,762)
Less			
NRC – IRAP funding	(39,839)	(53,760)	(13,921)
Alberta Ingenuity funding	(12,583)	(55,000)	(42,417)
Research and development expense (net)	901,530	861,954	39,576

Except for Subcontract, consulting and clinical trial costs, R&D expenses have decreased in 2008 compared to 2007 due to the Company’s continuing efforts to streamline operations where possible in order to conserve resources. Subcontract, consulting and clinical trial costs have increased due to an increase in activity related to the Company’s hair removal clinical trial.

Discontinued Operations

As part of the Company’s decision in February, 2005 to divest itself of its non-core assets, the Company has presented the activities related to non-core assets as discontinued operations.

On June 9, 2006, the Company sold its interest in Accu-MAb to a third party for gross proceeds of \$200,000.

In July, 2006, the Company sold its interest in SHGP to the Gaojing Government for gross proceeds of 1,250,000 RMB (Cdn \$177,315).

In August, 2006, the Company disposed of its interest in Anticort to Samaritan Pharmaceuticals, Inc. (“Samaritan”) for gross proceeds of \$50,000 U.S. and 50,000 common shares of Samaritan.

During the year ended January 31, 2008, the Company received an incidental amount of \$5,000 in connection with ACP-HIP and also recognized \$4,262 as a recovery of a bad debt in connection with Accu-MAb.

On December 21, 2007, as amended April 18, 2008, the Company signed a technology transfer agreement with a third party to sell its interest in the Bionex Technology. Under the terms of the agreement, the Company will receive cash of \$50,000, certain share consideration and certain future royalties upon the successful commercialization of Bionex related products. The

agreement is contingent upon TSX Venture Exchange approval of the pending transaction between the purchaser and another unrelated company.

During the year ended January 31, 2007, the Company recognized revenue of \$24,787 and income from operating activities of \$18,074 in connection with Accu-MAB sales, In addition, a gain on disposal of discontinued assets of \$181,953 and income from discontinued operations of \$200,027 was recognized for the year.

Summary of Quarterly Results

The following table presents unaudited selected financial information for each of the last eight quarters ended January 31, 2008.

	Year ended January 31, 2008				Year ended January 31, 2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue from continuing operations	168,005	2,000	2,000	402,570	-	-	-	2,333
Revenue - disc ops	-	-	-	-	23,020	1,562	205	-
Loss from continuing operations	(146,635)	(401,533)	(566,459)	(213,081)	(412,139)	(358,640)	(314,988)	(568,337)
Net loss for the period	(137,373)	(401,533)	(566,459)	(213,081)	(472,863)	(148,889)	(287,098)	(545,227)
Basic and diluted loss per share - continuing operations (1)	(0.00)	(0.01)	(0.01)	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)
Basic and diluted loss per share (1)	(0.00)	(0.01)	(0.01)	(0.00)	(0.01)	0.00	(0.01)	(0.01)

(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, 2008, the Company granted a total of 1,663,000 (2007 – 1,250,000) stock options, as per the Company’s Stock Option Plan, including 500,000 (2007 – 637,000) to employees and 1,163,000 (2007 – 613,000) to non-employees. The fair value of these options and of options which were granted in 2006 and which vested in 2008, totaling \$159,000, was recognized as an expense and credited to contributed surplus for the year ended January 31, 2008 (2007 – \$109,630).

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 recognized for the unrecoverable amount. For the year ended January 31, 2008, no provision for impairment in value has been recorded.

Capital Expenditures

Expenditures on capital assets were \$1,500 for the year ended January 31, 2008 compared to \$8,095 for the prior year. Capital expenditures for the current and prior year relate primarily to the acquisition of scientific equipment. During the year ended January 31, 2008, the Company recorded a loss on disposal of equipment of \$7,462 (2007 – gain of \$21,307). The 2008 and 2007 loss / gain relate to the disposition of surplus administrative and R&D equipment.

Deferred Revenue

The Company has recorded deferred revenue of \$859,667 in connection with amounts received for market distribution rights and license fees that relate to future periods. Of this amount, \$750,000 relates to the Company's oncology license agreement and is being recognized over a 4.5 month period. The remaining \$109,667 relates to the market distribution rights for Asian hair removal and is being recognized over a remaining 13.7 year period.

Outstanding Share Data

The Company has the following securities outstanding as at May 15, 2008:

Common shares issued and outstanding at January 31, 2008	68,322,580
Common share purchase warrants issued and outstanding	4,800,000
Stock options outstanding as at January 31, 2008	3,902,000
Stock options expired since January 31, 2008	(18,000)
Stock options outstanding as at May 15, 2008	3,884,000
Common shares issuable upon conversion of \$500,000 convertible debenture	2,000,000

Fully diluted common shares assuming the exercise of all share purchase warrants, stock options and the convertible debenture – 79,006,580.

Financial Instruments

Fair Value - Given their short-term maturity, the fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and the convertible debenture approximate the carrying value.

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 currently use derivative instruments to reduce its exposure to foreign currency risk.

Liquidity and Capital Resources

As noted in the Overview section above, 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, 2008, cash and cash equivalents was \$1,305,802 as compared to \$123,022 at January 31, 2007.

During the year ended January 31, 2008, the Company completed several equity offerings which provided gross proceeds of \$3,128,000. The Company also recognized revenue of \$574,575 related to licensing fees and market distribution rights and \$52,422 in R&D grant funding from the National Research Council Industrial Research Assistance Program and from Alberta Ingenuity Fund.

Cash used in operating activities was \$964,450 for the year ended January 31, 2008 compared to \$962,988 for the year ended January 31, 2007.

The Company has used a portion of its equity offering proceeds to make principal payments of \$500,000 against the \$1,000,000 convertible debenture and principal payments of \$230,000 against the demand notes during fiscal 2008.

The Company has negotiated various extensions to the maturity date of the \$500,000 convertible debenture which is now due March 22, 2009. The interest rate and conversion rate remain unchanged at 9% per annum and \$0.25 per common share, respectively.

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 payment of \$1,000,000. \$2,000,000 of additional payments are expected to be received in 2 equal installments over the next 7 months.

The Company may also receive future funding upon reaching specific milestones related to the strategic partnerships with KMH Co., Ltd. and with Paramount BioSciences.

On May 7, 2008, the Company announced the sale of its interest in the Bionex Technology to a third party. This transaction, while contingent upon TSX Venture Exchange approval, will provide a minimum of \$50,000 of funding to the Company.

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 to the end of the fourth quarter of fiscal 2009.

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	133,893	37,364	74,728	21,801	-
Research & development contracts	364,609	364,609	-	-	-
Total contractual obligations	498,502	401,973	74,728	21,801	-

Demand Notes and Related Party Transactions

In March, 2007, the Company paid \$15,975 to a company controlled by Dr. Madiyalakan related to consulting services provided in fiscal 2007. The amounts were accrued but unpaid at the end of fiscal 2007.

In June, 2007, the Company made a principal payment of \$50,000 towards the demand note held by a company controlled by Dr. Donald Rix, a Director of the Company.

In December, 2007, the Company made a principal payment of \$180,000 towards the demand notes held by a company controlled by Dr. Madiyalakan, a Director of the Company.

Under the Company's March, July and December, 2007 private placements, \$167,000, \$55,000 and \$7,500, respectively, was raised from Officers and Directors of the Company.

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 and warrants, 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.