

Management Discussion and Analysis of Financial Condition and Results of Operations (As of December 18, 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 unaudited consolidated financial statements and accompanying notes for the nine months ended October 31, 2008 and the audited consolidated financial statements for the years ended January 31, 2008 and January 31, 2007. This discussion and analysis provides an update to the discussion and analysis prepared for the year ended January 31, 2008. The unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP) and have not been reviewed by the Company’s auditors. 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.

Q3, 2009 Development Highlights:

- **Continuation of ongoing toxicology testing under Good Laboratory Practices to support a Phase I clinical trial for Prostate Cancer treatment – expected completion of testing in fourth quarter**
- **Finalization of a Phase I clinical trial protocol for Prostate Cancer Program in consultation with potential clinical investigators**
- **110 Patients Phase I/II Hair Removal Clinical Trial fully enrolled**

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 110 patient clinical trial for the same indication and the results are anticipated during the last quarter of calendar 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 first half of calendar 2009.

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.

Financial Results

Net consolidated loss for the three month period ended October 31, 2008 was \$291,428 or \$0.00 per share. Consolidated loss for the nine month period ended October 31, 2008 was \$237,883 or \$0.00 per share. This compares to a consolidated loss of \$566,459 or \$0.01 per share and \$1,105,365 or \$0.02 per share, respectively, for the three and nine month periods ended October

31, 2007. Net research and development expenditures for the three and nine month periods ended October 31, 2008 totaled \$676,446 and \$1,252,170, respectively, while general and administrative expenses were \$118,889 and \$466,817, respectively, for the same period. As of October 31, 2008, the Company had cash and cash equivalents of \$608,066. 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 \$1,000,000 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 a research grant to offset the costs to develop its ultrasound activation technology.

Results of Operations

Revenues

For the three and nine month periods ended October 31, 2008, the Company recognized revenue related to licensing fees and marketing distribution rights. The following table identifies the changes in revenue for the three and nine months ended October 31, 2008 compared to the three and nine months ended October 31, 2007.

Revenue	For the three months ended Oct 31			For the nine months ended Oct 31		
	2008	2007	Increase (decrease)	2008	2007	Increase (decrease)
	\$	\$	\$	\$	\$	\$
License fees	500,000	-	500,000	1,500,000	166,005	1,333,995
Market distribution rights	2,000	2,000	-	6,000	6,000	-
Total revenue from operations	502,000	2,000	500,000	1,506,000	172,005	1,333,995

License Fees

During the three and nine month periods ended October 31, 2008, the Company recognized license fee revenue of \$500,000 and \$1,500,000, respectively, for oncology applications, related to a license agreement dated December 14, 2007. During the nine month period ended October 31, 2007, the Company recognized license fee revenue of \$166,005 for dermatology applications related to a license agreement dated April 30, 2007.

Expenses

The following table identifies the changes in General and Administrative expense for the three and nine month periods ended October 31, 2008 compared to the three and nine month periods ended October 31, 2007.

General and administrative expenses	For the three months ended Oct 31			For the nine months ended Oct 31		
	2008	2007	Increase (decrease)	2008	2007	Increase (decrease)
	\$	\$	\$	\$	\$	\$
Salaries, wages and benefits	60,725	57,155	3,570	209,703	152,318	57,385
Audit fees	-	-	-	976	18,509	(17,533)
Legal fees	4,083	1,425	2,658	4,965	7,893	(2,928)
Other support costs	3,634	7,451	(3,817)	13,180	24,950	(11,770)
Travel	10,524	9,046	1,478	28,895	22,570	6,325
Consulting	13,216	12,500	716	138,216	120,999	17,217
Rent	2,831	2,802	29	8,474	6,944	1,530
Insurance	3,575	4,610	(1,035)	10,725	13,830	(3,105)
Public company related costs	20,301	18,935	1,366	51,683	61,579	(9,896)
Total general and administrative expenses	118,889	113,924	4,965	466,817	429,592	37,225

Overall, general and administrative costs have increased in 2008 compared to 2007 primarily due to an increase in salaries for the Company's corporate executives and also due to an increase in consulting and business development costs.

The following table identifies the changes in research and development expense for the three and nine month periods ended October 31, 2008 compared to the three and nine month periods ended October 31, 2007.

Research and development expenses	For the three months ended Oct 31			For the nine months ended Oct 31		
	2008	2007	Increase (decrease)	2008	2007	Increase (decrease)
	\$	\$	\$	\$	\$	\$
Sub-contract, consulting and clinical trials	584,847	295,111	289,736	947,450	446,262	501,188
Salaries, wages and benefits	27,243	53,611	(26,368)	124,550	182,534	(57,984)
Legal (patent prosecution)	6,702	43,014	(36,312)	42,512	75,306	(32,794)
Rent	6,606	6,539	67	19,772	16,203	3,569
Other R&D costs	66,441	9,476	56,965	97,991	36,238	61,753
Supplies	15,774	8,002	7,772	76,754	17,641	59,113
Gross research and development expenses	707,613	415,753	291,860	1,309,029	774,184	534,845
Less						
NRC-IRAP funding	(31,167)	-	31,167	(56,859)	(13,340)	43,519
Alberta Ingenuity funding	-	-	-	-	(12,000)	(12,000)
Research and development expense (net)	676,446	415,753	260,693	1,252,170	748,844	503,326

Overall, R&D expenses have increased during the three and nine month periods ended October 31, 2008 compared to 2007 due to an increase in activity with the Company's clinical trials.

Most of this increase is reflected in subcontract, consulting and clinical trials, and in supplies costs. Salary costs have decreased during the nine month period ended October 31, 2008 compared to 2007 due to a reduction in R&D staff. Patent costs have decreased in 2008 compared to 2007 due to a streamlining of the Company's patent activities.

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.

During the nine month period ended October 31, 2008, the Company recognized a disposal gain of \$5,000 related to the signing of a technology transfer agreement for the sale of the Bionex Technology to a third party. Under the terms of the agreement, the Company received cash of \$50,000 and certain share consideration. The Company may also receive certain future royalties upon the successful commercialization of Bionex related products.

Stock-Based Compensation Expense

During the nine month period ended October 31, 2008, the Company granted a total of 50,000 (for the nine month period ended October 31, 2007 – nil) stock options, as per the Company's Stock Option Plan. These options were granted to an employee and vested in November, 2008.

Deferred Revenue

The Company has recorded deferred revenue (current portion \$258,000 and long term portion \$95,667) in connection with amounts received for license fees and market distribution rights that relate to future periods. \$250,000 relates to the Company's oncology license agreement and will be recognized in the fourth quarter. The remaining \$103,667 (\$8,000 current and \$95,667 long term) relates to the market distribution rights for Asian hair removal and is being recognized over a remaining 13 year period.

Outstanding Share Data

As at December 18, 2008, there were 68,197,580 common shares issued and outstanding and 3,934,000 stock options.

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.

Credit Risk – Financial instruments that subject the Company to credit risk consist primarily of accounts receivable. At October 31, 2008, 31% of accounts receivable were due from one party.

Liquidity and Capital Resources

As noted in the Risks and Uncertainties section below, 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 October 31, 2008, cash and cash equivalents was \$608,066 as compared to \$1,305,802 at January 31, 2008.

Cash used in operating activities was \$661,654 and \$548,839, respectively, for the three and nine month periods ended October 31, 2008 compared to \$459,932 and \$1,441,705, respectively, for the three and nine month periods ended October 31, 2007.

The Company negotiated an extension 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. The Company has received \$2,000,000 under this agreement, with an additional \$1,000,000 anticipated to be received during the current fiscal year.

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

The Company also expects to receive a research grant of up to \$200,000 during the next 9 months to offset the costs to develop its ultrasound activation technology.

On May 7, 2008, the Company announced the sale of its interest in the Bionex Technology to a third party. This transaction has provided \$50,000 of cash funding to the Company, as well as 1,351,111 common shares of Toba Industries Ltd., a TSX Venture Exchange listed company. The shares are subject to a four month hold expiring March 8, 2009.

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, management believes that the capital resources of the Company should be sufficient to fund operations into the first quarter of fiscal 2010.

The Company will seek additional capital through equity financings, licensing arrangements involving its core technologies and strategic partnerships.

Demand Notes and Related Party Transactions

There were no related party transactions for the three and nine month periods ended October 31, 2008.

Subsequent Events

During November, 2008, the Company received the remainder of the \$50,000 cash consideration in connection with the sale of the Bionex Technology. In addition to the cash consideration, the Company also received 1,351,111 common shares of Toba Industries Ltd., a TSX Venture Exchange listed company. These shares are subject to a four month hold period which expires on March 8, 2009.

In November, 2008, the Company took steps to repatriate the worldwide rights to SonoLight Technology for dermatology applications from Paramount Biosciences. On April 30, 2007, the Company entered into an agreement with Paramount Biosciences to develop and commercialize SonoLight Technology for dermatology applications. Under the terms of the agreement, the Company received U.S. \$300,000 as a licensing fee. The Company has been advised that Paramount Biosciences subsequently assigned the license agreement to North Park Aesthetics. The Company believes that the licensee failed to abide by certain terms of the Agreement, including its obligation in respect of the commercialization of the SonoLight Technology, and hence, the Company has terminated the license agreement.

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 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.