Management Discussion and Analysis of Financial Condition and Results of Operations (As of September 14, 2009)

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 six months ended July 31, 2009 and the audited consolidated financial statements for the years ended January 31, 2009 and January 31, 2008. This discussion and analysis provides an update to the discussion and analysis prepared for the year ended January 31, 2009. 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.

Q2, 2010 Development Highlights:

- Continued to work with the research ethics boards in Toronto and Edmonton in connection with the Company's clinical trials for SL052 Prostate Cancer;
- Completed production and release of clinical trial supply of SL052 for Prostate Cancer clinical trial;
- Continued evaluation and selection of second-generation formulations from several nanoparticle-based candidates to further adapt Hypocrellin-based photodynamic and sonodynamic therapy to a wider spectrum of clinical needs including cancer treatment;
- Made progress in the Company's plans to in-license a late stage technology.

Overview

Quest is committed to building shareholder value through the 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 fungus 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 anticipated 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 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.

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: 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 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 will 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 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.

Financial Results

Net consolidated loss for the three month period ended July 31, 2009 was $2,808 or $0.00 per share. Consolidated income for the six month period ended July 31, 2009 was $124,170 or $0.00 per share. This compares to a consolidated loss of $21,264 or $0.00 per share for the three month period ended July 31, 2008 and consolidated income of $53,545 or $0.00 per share for the six month period ended July 31, 2008. Research and development expenditures for the three and six month periods ended July 31, 2009 totaled $94,067 and $213,383, respectively, while general and administrative expenses were $129,311 and $328,246, respectively, for the same period. As of July 31, 2009, the Company had cash and cash equivalents of $429,449. The Company also has debt of $500,000 in the form of a convertible debenture (exercisable at $0.25 and due on March 22, 2010).

On a forward going basis, the Company is eligible to receive up to $18,000 in government grants in fiscal 2010 to offset the costs to develop its ultrasound activation technology.

Results of Operations

Revenues

For the three and six month periods ended July 31, 2009, the Company recognized revenue related to licensing fees and marketing distribution rights. The following table identifies the changes in revenue for the three and six months ended July 31, 2009 compared to the three and six months ended July 31, 2008.

Revenue	For the three months ended July 31			For the six months ended July 31		
	2009	2008	Increase (decrease)	2009	2008	Increase (decrease)
	$	$	$	$	$	$
License fees	250,000	500,000	(250,000)	750,000	1,000,000	(250,000)
Market distribution rights	2,000	2,000	-	4,000	4,000	-
Total revenue from operations	252,000	502,000	(250,000)	754,000	1,004,000	(250,000)

License Fees

During the three and six month periods ended July 31, 2009, the Company recognized license fee revenue of $250,000 and $750,000, respectively, for oncology applications. During the three and six month periods ended July 31, 2008, the Company recognized license fee revenue of $500,000 and $1,000,000, respectively.

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 and $750,000, respectively, of the license fee for the three and six month periods ended July 31, 2009.

Expenses

The following table identifies the changes in General and Administrative expense for the three and six months ended July 31, 2009 compared to the three and six months ended July 31, 2008.

General and administrative expenses	For the three months ended July 31			For the six months ended July 31		
	2009	2008	Increase (decrease)	2009	2008	Increase (decrease)
	$	$	$	$	$	$
Salaries, wages and benefits	66,131	69,765	(3,634)	141,168	148,978	(7,810)
Audit fees	-	-	-	800	976	(176)
Legal fees	5,422	300	5,122	8,709	882	7,827
Other support costs	7,565	2,778	4,787	11,896	9,546	2,350
Travel	7,126	11,536	(4,410)	23,285	18,371	4,914
Consulting	16,071	112,500	(96,429)	85,342	125,000	(39,658)
Rent	2,831	2,831	-	5,662	5,643	19
Insurance	3,348	3,575	(227)	6,694	7,150	(456)
Public company related costs	20,817	21,301	(484)	44,690	31,382	13,308
Total general and administrative expenses	129,311	224,586	(95,275)	328,246	347,928	(19,682)

Overall, general and administrative costs have decreased in 2009 compared to 2008 primarily due to a decrease in business development costs. Public company related costs have increased during the six month period in 2009 compared to 2008 due to increased investor relations efforts that were initiated by the Company. Legal fees have increased in 2009 compared to 2008 due to increased activity in the area of corporate development.

The following table identifies the changes in research and development expense for the three and six month periods ended July 31, 2009 compared to the three and six month periods ended July 31, 2008.

Research and development expenses	For the three months ended July 31			For the six months ended July 31		
	2009	2008	Increase (decrease)	2009	2008	Increase (decrease)
	$	$	$	$	$	$
Sub-contract, consulting and clinical trials	31,885	153,725	(121,840)	83,637	362,603	(278,966)
Salaries, wages and benefits	56,476	47,182	9,294	117,556	97,307	20,249
Legal (patent prosecution)	10,299	12,878	(2,579)	20,752	35,810	(15,058)
Rent	6,606	6,605	1	13,211	13,166	45
Other R&D costs	11,860	21,859	(9,999)	24,994	31,550	(6,556)
Supplies	6,691	56,975	(50,284)	15,324	60,980	(45,656)
Gross research and development expenses	123,817	299,224	(175,407)	275,474	601,416	(325,942)
Less						
NRC-IRAP funding	(29,750)	(25,692)	(4,058)	(62,091)	(25,692)	36,399
Research and development expense (net)	94,067	273,532	(179,465)	213,383	575,724	(362,341)

Overall, R&D expenses have decreased during the three and six month periods ended July 31, 2009 compared to 2008 due to a decrease in activity with the Company's pre-clinical trial work. Most of this decrease is reflected in subcontract, consulting and clinical trials, and in supplies costs. Salary costs have increased during the three and six month period ended July 31, 2009 compared to 2008 due to an increase in R&D staff.

Stock-Based Compensation Expense

During the three and six month periods ended July 31, 2009, the Company granted a total of 75,000 and 175,000 stock options, respectively (for the three and six month periods ended July 31, 2008 – 50,000), as per the Company's Stock Option Plan. The options granted in 2009 were to consultants of the Company (125,000 options vesting immediately) and carry exercise prices ranging from $0.15 to $0.25 per share. The options granted in 2008 (vesting in November, 2008) were to an employee and carried an exercise price of $0.25 per share. The estimated fair value of the options which vested in 2009 - $2,750 and $4,250, respectively for the three and six month periods ended July 31, 2009 were recognized as an expense and credited to contributed surplus for the period.

Deferred Revenue

The Company has recorded deferred revenue (current portion $8,000 and long term portion $89,667) in connection with amounts received for market distribution rights for Asian hair removal that relate to future periods. These amounts are being recognized over a remaining 12.2 year period.

Outstanding Share Data

The Company has the following securities outstanding as at September 14, 2009:

Common shares issued and outstanding at July 31, 2009	68,197,580
Common shares held for cancellation	22,540
Stock options outstanding as at July 31, 2009	4,109,000
Stock options granted since July 31, 2009	-
Stock options expired since July 31, 2009	-
Stock options outstanding as at September 14, 2009	4,109,000
Common shares issuable upon conversion of $500,000 convertible debenture	2,000,000

Fully diluted common shares assuming the exercise of all stock options and the convertible debenture – 74,329,120.

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.

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 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 equivalents and accounts receivable. To minimize its exposure to credit risk for cash equivalents, the Company invests in liquid, fully guaranteed deposits with its financial banker ($385,000 at period end). At July 31, 2009, approximately 67% of accounts receivable were due from one organization.

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 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 on 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

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 July 31, 2009, cash and cash equivalents was $429,449 as compared to $594,826 at January 31, 2009.

During the six month period ended July 31, 2009, the Company recognized revenue of $754,000 related to licensing fees and market distribution rights and $62,091 in R&D grant funding from the National Research Council Industrial Assistance Program.

Cash provided by (used in) operating and investing activities was ($307,906) and ($165,377), respectively, for the three and six month periods ended July 31, 2009 compared to $222,802 and ($36,082), respectively, for the three and six month periods ended July 31, 2008.

The Company negotiated an extension to the maturity date of the $500,000 convertible debenture which is now due March 22, 2010. The interest rate is 9% per annum and the conversion rate is $0.25 per common share.

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, $1,500,000 during fiscal 2009 and $500,000 during the six month period ended July 31, 2009.

The Company also expects to receive a research grant of up to $18,000 during the next two months to offset the costs to develop its ultrasound activation technology.

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 middle of Q4, fiscal 2010.

The Company will seek additional capital through equity and/or debt financings and licensing arrangements involving its products under development.

Related Party Transactions

There were no related party transactions for the three and six month periods ended July 31, 2009.

Accounting Pronouncements for Future Adoption

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.

Implementing IFRS will have an impact on accounting, financial reporting and supporting IT systems and processes. Accordingly, the Company is in the process of developing its IFRS changeover plan which will include considerations such as measures to provide training to key finance personnel, to review contracts and agreements and to increase the level of awareness and knowledge among management, the Board of Directors and the Audit Committee. Additional resources may be engaged to ensure the timely conversion to IFRS.

The Company is in the process of completing the initial diagnostic between Canadian GAAP and IFRS. While the effects of IFRS have not been fully determined, the Company has identified a number of key areas where it is likely to be impacted by changes in accounting policies. These include property plant and equipment, intangible assets, impairment of assets, provisions and contingent liabilities, share based compensation and presentation of cash flows. A detailed diagnostic is planned for Q3, fiscal 2010.

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. 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.