Management Discussion and Analysis of Financial Condition and Results of Operations (As of September 17, 2012)

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 three and six months ended July 31, 2012 and the audited consolidated financial statements for the years ended January 31, 2012 and January 31, 2011. This discussion and analysis provides an update to the discussion and analysis prepared for the year ended January 31, 2012. The unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada (IFRS 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.

2012 Development Highlights:

Continued progression with the Phase IIb multicentre study for the treatment of advanced ovarian cancer with 7 centers actively enrolling patients in Italy and the U.S.

Hosted a clinical investigators meeting in Rome, Italy for the ongoing oregovomab clinical trial.

Attended and made presentations at the the Immunotherapeutics and Vaccine Summit, Cambridge, MA, USA.

Closed an equity financing of $500,000, in May, 2012, by way of a common share offering of 5,000,000 common shares.

Received debt financing of $500,000 in a non-interest bearing loan from an insider of the Company.

Announced signing of $8,000,000 investment financing arrangement to support the Company's clinical trial programs, with $500,000 of funding received to date.

Announced re-election of Mr. Lorne Meikle, Mr. Ian McConnan, Mr. Paul Van Damme and Dr. Ragupathy Madiyalakan to the Company's Board of Directors at the July 26, 2012 Annual General and Special Meeting of Shareholders.

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 - Proprietary Technology:

Quest is developing high affinity monoclonal antibodies targeting certain tumour associated antigens that are presented in various cancers including ovary, pancreas, lung, breast, prostate and stomach. Quest believes that it can apply its portfolio of antibody oncology product candidates to prolong, amplify and shape anti-tumour immune responses to increase the clinical benefits of its proprietary antibodies for the treatment of cancer. The following modalities are critical to that approach:

Chemo Enhanced Immuno-Therapy – combining antibodies with chemotherapy can potentially further complement and enhance the treatment outcome compared to antibody treatment alone.

Combination Therapy – combining antibodies with a booster compound (adjuvant) that improves the immune system's response – compared to antibody treatment alone - can potentially complement and enhance the therapeutic outcome.

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's products are expected to offer high selectivity and efficacy with minimal side effects. Quest is also developing these compounds as an adjuvant to cancer immunotherapy.

Current Clinical Programs:

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 is conducting one and is planning to conduct two other 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 and U.S. 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 (front-line).

A 30 patient clinical trial to evaluate the ability of an immuno-adjuvant, to enhance the strength of the Oregovomab immune response with front-line chemotherapy generated in advanced ovarian cancer patients.

A 30 patient U.S. trial will use gemcitabine, another cytotoxic agent, with neoadjuvant immunotherapy in a cohort of patients with CA125 associated partially resectable pancreatic cancer.

One of the endpoints in all the three clinical trials is the induction of CA125 specific T cells as measured by a well validated ELISPOT assay. Since, CA125 specific T cells induction has been correlated with progression free survival and overall survival in our previous 40 patient Oregovomab combination therapy clinical trial, we are hoping to use this assay as a surrogate marker to get expedited product approval.

Product Pipeline

Quest's pipeline of product candidates consists of four other monoclonal antibodies targeting certain tumour antigens that are presented in a variety of cancers including such cancers as breast, lung, pancreas, stomach and, prostate etc. Quest already has in its possession proprietary antibodies against MUC1, PSA, CA19.9 and TAGG72. These antibodies in the platform will undergo continuing preclinical development in anticipation of rapid clinical development, once the initial Oregovomab studies establish the validity of the proof-of-concept. It is noted that a Phase I clinical trial with anti-MUC1 antibody in 17 patients with metastatic cancer, including multiple myeloma, demonstrated the activation of anti-tumour immunity in those patients.

SonoLight Technology

SonoLight Technology for Dermatology Applications: The Company's lead product, SL017, is a topical formulation indicated for dermatology applications. 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 Technology for Oncology Applications: A second product from the SonoLight platform, SL052, is an injectable formulation that has 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 tumours in the prostate while limiting collateral damage to healthy tissue.

Products under Development:

Product Candidate	Class	Discovery	Preclinical	Phase I/II	Phase III	Regulatory Approval
Oregovomab (Ovarian Cancer)	Chemo-Enhanced Immunotherapy					
Oregovomab (Ovarian Cancer)	Adjuvant-Enhanced Immunotherapy					
Oregovomab (Pancreatic Cancer)	Chemo-Enhanced Immunotherapy					
SL052 (Prostate Cancer)	PDT					
Anti MUC1 AR20.5 (Pancreatic Cancer)	Chemo-Enhanced Immunotherapy					

Financial Results

Net consolidated loss for the three months ended July 31, 2012 was $433,923 or $0.01 per share. Consolidated loss for the six months ended July 31, 2012 was $743,314 or $0.01 per share. This

compares to a consolidated loss of $296,687 or $0.00 per share for the three months ended July 31, 2011 and a loss of $561,898 or $0.01 per share for the six months ended July 31, 2011. Net research and development expenditures for the three and six months ended July 31, 2012 totaled $198,108 and $362,733, respectively, while general and administrative expenses were $206,793 and $316,735, respectively, for the same period. As of July 31, 2012, the Company had cash and cash equivalents of $141,575 (September 17, 2012 – approximately $425,000). The Company also has debt of $500,000 in the form of a convertible debenture (exercisable at $0.25 and due on September 22, 2012), demand loans of $980,000 and an interest free loan of $500,000.

Revenues:
The following table identifies the changes in revenue for the three and six months ended July 31, 2012 compared to the three and six months ended July 31, 2011.

Revenue	For the three months ended July 31			For the six months ended July 31		
	2012	2011	Increase (decrease)	2012	2011	Increase (decrease)
	$	$	$	$	$	$
Market distribution rights	-	2,000	(2,000)	-	4,000	(4,000)
Total revenue from operations	-	2,000	(2,000)	-	4,000	(4,000)

Expenses
The following table identifies the changes in general and administrative expense for the three and six months months ended July 31, 2012 compared to the three and six months ended July 31, 2011.

General and administrative expenses	For the three months ended July 31			For the six months ended July 31		
	2012	2011	Increase (decrease)	2012	2011	Increase (decrease)
	$	$	$	$	$	$
Salaries, wages and benefits	72,991	45,778	27,213	144,495	94,189	50,306
Audit fees	-	-	-	3,888	170	3,718
Legal fees	12,852	1,093	11,759	12,852	1,393	11,459
Other support costs	52,104	70,507	(18,403)	54,772	72,577	(17,805)
Travel	19,508	7,338	12,170	27,040	25,371	1,669
Consulting	12,500	12,500	-	25,000	25,000	-
Rent	4,828	3,424	1,404	8,956	7,191	1,765
Insurance	4,063	3,594	469	8,137	7,170	967
Public company related costs	27,517	13,473	14,044	30,788	20,673	10,115
Depreciation	430	539	(109)	807	1,078	(271)
Total general and administrative expenses	206,793	158,246	48,547	316,735	254,812	61,923

Overall, general and administrative costs have increased in 2012 compared to 2011, primarily due to an increase in salaries, wages and benefits resulting from increased staffing levels in 2012 compared to 2011.

The following table identifies the changes in research and development (R&D) expense for the three and six months ended July 31, 2012 compared to the three and six months ended July 31, 2011.

Research and development expenses	For the three months ended July 31			For the six months ended July 31		
	2012	2011	Increase (decrease)	2012	2011	Increase (decrease)
	$	$	$	$	$	$
Sub-contract, consulting and clinical trials	100,083	49,129	50,954	179,965	72,172	107,793
Salaries, wages and benefits	35,406	30,864	4,542	70,773	67,049	3,724
Legal (patent prosecution)	18,944	9,103	9,841	24,443	23,724	719
Rent	12,364	9,131	3,233	21,996	17,920	4,076
Other R&D costs	26,153	15,138	11,015	34,212	35,190	(978)
Supplies	2,428	629	1,799	2,741	1,400	1,341
Depreciation	25,779	28,781	(3,002)	51,652	57,563	(5,911)
Gross research and development expenses	221,157	142,775	78,382	385,782	275,018	110,764
Less						
Alberta Finance – SR&ED tax credits	(23,049)	(39,839)	(16,790)	(23,049)	(39,839)	(16,790)
Research and development expense (net)	198,108	102,936	95,172	362,733	235,179	127,554

Overall, R&D costs have increased in 2012 compared to 2011 due to an increase in expenditures for the Company's clinical trial activities.

Summary of Quarterly Results

The following table presents unaudited selected financial information for each of the last eight quarters.

Quarter ended	July 31, 2012	April 30, 2012	January 31, 2012	October 31, 2011	July 31, 2011	April 30, 2011	January 31, 2011	October 31, 2010
	$	$	$	$	$	$	$	$
Revenue	-	-	-	81,667	2,000	2,000	2,000	2,000
Net income (loss) for the period	(433,923)	(309,391)	(592,311)	(214,326)	(296,687)	(265,211)	(365,489)	(265,216)
Basic and diluted income (loss) per share (1)	(0.01)	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)	(0.01)	(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 three and six months ended July 31, 2012, the Company granted a total of 940,000 (2011 – 1,950,000 and 2,050,000) stock options, as per the Company's Stock Option Plan. In 2012, all of the options were granted to employees. In 2011, 100,000 options were granted to non-employees and 1,950,000 to employees. All of the options granted in 2012 and 2011 were at an exercise price of $0.10 per share and all vesting immediately. The fair value of these options, totaling $37,600 in 2012 (2011 - $78,000 and $82,000), was recognized as an expense and credited to contributed surplus for the three and six months ended July 31, 2012 and 2011.

Capital Expenditures

Expenditures on capital assets were $4,906 for the three and six months ended July 31, 2012 and $nil for the three and six months ended July 31, 2011.

Outstanding Share Data

The Company has the following securities outstanding as at September 17, 2012:

Common shares issued and outstanding at July 31, 2012	83,197,580
Stock options outstanding as at July 31, 2012	7,390,000
Warrants outstanding as at July 31, 2012	10,000,000
Stock options granted since July 31, 2012	200,000
Stock options expired since July 31, 2012	-
Stock options outstanding as at September 17, 2012	7,590,000
Common shares issuable upon conversion of $500,000 convertible debenture	2,000,000

Fully diluted common shares are 102,787,580, 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 July 31, 2012, approximately 75% of accounts receivable were due from one organization under a provincial government 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 July 31, 2012 cash and cash equivalents were $141,575 as compared to $74,975 at January 31, 2012. At September 17, 2012, the Company had cash and cash equivalents of approximately $425,000.

Cash used in operating activities was $799,796 and $888,494, respectively, for the three and six months ended July 31, 2012 compared to $147,922 and $275,951 for the three and six months ended July 31, 2011.

The Company has negotiated various extensions to the maturity date of the $500,000 convertible debenture which is now due September 22, 2012. The interest rate and conversion rate remain unchanged at 9% per annum and $0.25 per common share, respectively.

Commencing 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 principal repayment to be made 30 days after demand. The principal is to be repaid upon the Company receiving sufficient future licensing fees, equity financing or other revenues. To date, the Company owes $680,000 on this demand loan financing.

In March and May, 2011, the Company secured additional demand loan financing of $100,000 from an independent director of the Company. This demand loan financing bears interest at 8% per annum, interest payable monthly and is unsecured with principal repayment to be made 30 days after demand.

As at July 31, 2012, the Company had secured demand loan financing of $90,000 from an officer of the Company and $110,000 from an unrelated third party to the Company. These demand loan financings bears interest at 8% per annum, interest payable monthly and are unsecured with principal repayment to be made 30 days after demand.

In May, 2012, the Company closed a $500,000 private placement of common shares, subject to TSX Venture Exchange approval.

In May, 2012, the Company received a $500,000 interest free loan from an insider of the Company, Mr. Gi Ho Park.

In May, 2012, the Company signed an $8,000,000 investment agreement to provide up to $8,000,000 of funding over the next 12 months. To date, $500,000 of funding has been received under this 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, management believes that the capital resources of the Company should be sufficient to fund operations into the fourth quarter of fiscal 2013.

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.

Demand Loans, Interest Free Loan and Related Party Transactions

During fiscal 2011, 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, with principal repayment to be made 30 days after demand, 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 owes $680,000 on this financing through a wholly-owned company of Dr. Madiyalakan.

During April and May, 2011, the Company received demand loan financing of $100,000 from Mr. Ian McConnan, an independent director of the Company. The loan is 8% annual interest bearing, unsecured with principal payable 30 days after demand and interest payable monthly.

As at July 31, 2012, the Company had demand loan financing of $90,000 from Mr. Thomas Woo, an officer of the Company. This financing is unsecured, with principal repayment to be made 30 days after demand, and with 8% annual interest payable monthly.

In May, 2012, the Company received a $500,000 interest free loan from Mr. Gi Ho Park, an insider of the Company. This loan is to be repaid as funding under the $8,000,000 investment arrangement is received.

Accounting Pronouncements for Recent Adoption

International Financial Reporting Standards
The Company has adopted International Financial Reporting Standards ("IFRS") at February 1, 2011, with a transition date of February 1, 2010. To facilitate this process and ensure that the full impact of the conversion was understood and managed reasonably, in 2010 the Company completed a conversion project and monitored the ongoing impact of IFRS on its financial statements. The Company chose its accounting policies and monitored the impact of IFRS on its information systems, internal controls and business operations. During fiscal 2011, the Company completed the opening balance sheet. IFRS uses a conceptual basis similar to Canadian GAAP, but there are some significant differences on recognition, measurement and disclosures. The Company also expects IFRS to have an ongoing impact on 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 by 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.