Management Discussion and Analysis of Financial Condition and Results of Operations (As of December 19, 2011)

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 nine months ended Oct 31, 2011 and the audited consolidated financial statements for the years ended January 31, 2011 and January 31, 2010. This discussion and analysis provides an update to the discussion and analysis prepared for the year ended January 31, 2011. 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.

2011 Development Highlights:

Continued progression with the Phase IIb multicentre study for the treatment of advanced ovarian cancer in Italy. Two centers have received regulatory approval, with six additional centers in the works.

Made a presentation titled "Targeting Dendritic Cells to Create a More Powerful Immune Response: A New Approach for the Immunotherapy of Ovarian Cancer using anti-CA125 MAb, Oregovomab", at the 2nd Biennial Meeting of the Asian Society of Gynaecologic Oncology in Seoul, South Korea in November 2011.

Issued U.S. Patent # 8038994 entitled: "Combination Therapy for Treating Disease" (the "Patent"). The Patent covers the use of monoclonal antibodies capable of targeting tumour antigens CA 125, MUC1, CA 19.9, TAG-72 and prostate specific antigen, which are presented in ovary, breast, lung, pancreas, stomach and prostate cancers, respectively, in combination with a chemotherapeutic drug to treat cancer.

Announced the development and publications of results from its 2nd generation PDT products for oncology based on nanoparticle formulation and filing of associated patent application.

Completed an equity financing of $600,000 by way of a unit offering of 10,000,000 Units. Each unit is comprised of one common share and one share purchase warrant.

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 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 October 31, 2011 was $214,326 or $0.00 per share. Consolidated loss for the nine months ended October 31, 2011 was $776,224 or $0.01 per share. This compares to a consolidated loss of $265,216 or $0.00 per share for the three months ended October 31, 2010 and a loss of $988,284 or $0.01 per share for the nine months ended October 31, 2010.. Net research and development expenditures for the three and nine months ended October 31, 2011 totaled $151,555 and $386,732, respectively, while general and administrative expenses were $107,494 and $362,307, respectively, for the same period. As of October 31, 2011, the Company had cash and cash equivalents of $249,670 (December 19, 2011

– approximately $125,000). The Company also has debt of $500,000 in the form of a convertible debenture (exercisable at $0.25 and due on March 22, 2012) and demand loans of $1,040,000 (December 19, 2011 - $970,000).

Revenues:

The following table identifies the changes in revenue for the three and nine months ended October 31, 2011 compared to the three and nine months ended October 31, 2010.

Revenue	For the three months ended Oct 31			For the nine months ended Oct 31		
	2011	2010	Increase (decrease)	2011	2010	Increase (decrease)
	$	$	$	$	$	$
Market distribution rights	81,667	2,000	79,667	85,667	6,000	79,667
Total revenue from operations	81,667	2,000	79,667	85,667	6,000	79,667

Expenses

The following table identifies the changes in general and administrative expense for the three and nine months ended October 31, 2011 compared to the three and nine months ended October 31, 2010.

General and administrative expenses	For the three months ended Oct 31			For the nine months ended Oct 31		
	2011	2010	Increase (decrease)	2011	2010	Increase (decrease)
	$	$	$	$	$	$
Salaries, wages and benefits	69,046	54,983	14,063	163,236	193,504	(30,268)
Audit fees	-	-	-	170	1,160	(990)
Legal fees	-	108	(108)	1,393	783	610
Other support costs	3,421	2,485	936	75,998	10,670	65,328
Travel	7,280	8,063	(783)	32,651	29,931	2,720
Consulting	12,500	12,500	-	37,500	37,500	-
Rent	3,870	3,063	807	11,061	10,136	925
Insurance	4,075	3,166	909	11,245	9,241	2,004
Public company related costs	6,763	4,774	1,989	27,436	20,229	7,207
Depreciation	539	770	(231)	1,617	2,310	(693)
Total general and administrative expenses	107,494	89,912	17,582	362,307	315,464	46,843

Overall, general and administrative costs have increased in 2011 compared to 2010, primarily due to an increase in other support costs which includes $68,000 in stock based compensation. Salaries, wages and benefits decreased due to decreased staffing levels in 2011 compared to 2010.

The following table identifies the changes in research and development (R&D) expense for the three and nine months ended October 31, 2011 compared to the three and nine months ended October 31, 2010.

Research and development expenses	For the three months ended Oct 31			For the nine months ended Oct 31		
	2011	2010	Increase (decrease)	2011	2010	Increase (decrease)
	$	$	$	$	$	$
Sub-contract, consulting and clinical trials	50,330	91,561	(41,231)	110,460	297,491	(187,031)
Salaries, wages and benefits	33,344	45,378	(12,034)	100,393	149,161	(48,768)
Legal (patent prosecution)	18,279	30,248	(11,969)	42,003	61,460	(19,457)
Rent	9,488	7,148	2,340	27,408	23,651	3,757
Other R&D costs	10,851	6,932	3,919	58,081	49,609	8,472
Supplies	483	853	(370)	1,883	7,102	(5,219)
Depreciation	28,780	26,496	2,284	86,343	78,174	8,169
Gross research and development expenses	151,555	208,616	(57,061)	426,571	666,648	(240,077)
Less						
Alberta Finance – SR&ED tax credits	-	(30,466)	30,466	(39,839)	(30,466)	9,373
Research and development expense (net)	151,555	178,150	(26,595)	386,732	636,182	(249,450)

Overall, R&D costs have decreased in 2011 compared to 2010 due to a decrease in expenditures for the Company's clinical trial activities. Most of this decrease is reflected in the sub-contract, consulting and clinical trial costs. Salaries, wages and benefits costs have decreased in 2011 compared to 2010 due to a decrease in R&D staff levels. Legal patent costs have decreased due to a streamlining of the Company's patent activities.

Summary of Quarterly Results

The following table presents unaudited selected financial information for each of the last eight quarters ended October 31, 2011.

	Q3, fiscal 2012	Q2, fiscal 2012	Q1, fiscal 2011	Q4, fiscal 2011	Q3, fiscal 2011	Q2, fiscal 2011	Q1, fiscal 2010	Q4, fiscal 2010
	$	$	$	$	$	$	$	$
Revenue	81,667	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Net income (loss) for the period	(214,326)	(296,687)	(265,211)	(365,489)	(265,216)	(383,400)	(339,668)	(368,815)
Basic and diluted loss per share (1)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	(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 three and nine months ended October 31, 2011, the Company granted a total of 100,000 and 2,150,000 (2010 – nil and 350,000) stock options, as per the Company's Stock Option Plan. In 2011, 200,000 options were granted to non-employees, and 1,950,000 to employees, at exercise prices ranging from $0.10 to $0.15 per share, all vesting immediately. The options granted in 2010 were to non-employees, all at an exercise price of $0.10 per share and all vesting immediately. The fair value of these options, totaling $2,000 and $84,000, respectively in 2011 (2010 - $nil and $17,000), was recognized as an expense and credited to contributed surplus for the three and nine months ended October 31, 2011 and 2010.

Capital Expenditures
Expenditures on capital assets were $nil for the three and nine months ended October 31, 2011 and 2010.

Deferred Revenue
The Company had recorded deferred revenue of $81,667 in connection with amounts received for market distribution rights that related to future periods. This amount related to the Company's market distribution rights for Asian hair removal and was being recognized over the remaining term of the market distribution rights agreement.

On August 31, 2011, the Company terminated this agreement for failure to comply with certain material provisions of the agreement. Therefore, the remainder of deferred revenue was recognized as revenue during the three month period ended October 31, 2011. For the three and nine months ended October 31, 2011, the Company recognized $81,667 and $85,667, respectively (2010 - $2,000 and $6,000, respectively) of the deferred amount into income.

Outstanding Share Data
The Company has the following securities outstanding as at December 19, 2011:

Common shares issued and outstanding at October 31, 2011	83,197,580
Stock options outstanding as at October 31, 2011	6,575,000
Stock options granted since October 31, 2011	-
Stock options expired since October 31, 2011	-
Stock options outstanding as at December 19, 2011	6,575,000
Warrants outstanding as at December 19, 2011	10,000,000
Common shares issuable upon conversion of $500,000 convertible debenture	2,000,000

Fully diluted common shares are 101,772,580, assuming the exercise of all stock options and warrants 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 October 31, 2011, approximately 86% of accounts receivable were due from one organization under a provincial government program.

Market Risk - The Company owns investments in common shares of a publicly traded company 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 October 31, 2011 cash and cash equivalents were $249,670 as compared to $13,394 at January 31, 2011. At December 19, 2011, the Company had cash and cash equivalents of approximately $125,000.

During the nine month period ended October 31, 2011, the Company recognized revenue of $85,667 related to market distribution rights.

Cash used in operating activities was $385,370 and $635,564, respectively, for the three and nine months ended October 31, 2011 compared to $98,116 and $659,904 for the three and nine months ended October 31, 2010.

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

In February, 2010, the Company secured demand loan financing of up to $1,000,000 from one of its officers. This demand loan financing bears interest at 8% per annum, interest payable monthly and is unsecured with no fixed terms of repayment. The principal is to be repaid upon the Company receiving sufficient future licensing fees, equity financing or other revenues. To date, the Company owes $870,000 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.

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 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.

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	22,934	22,934	-	-	-
Research & development and other contracts	710,274	140,572	325,544	244,158	-
Total contractual obligations	733,208	163,506	325,544	244,158	-

Demand Loans 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, has no fixed terms of repayment, with interest payable monthly. The principal is to be repaid upon the Company receiving sufficient future licensing fees, equity financing or other revenues. To date, the Company owes $870,000 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.

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.