

Management Discussion and Analysis of Financial Condition and Results of Operations (As of September 27, 2007)

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, 2007 and the audited consolidated financial statements for the years ended January 31, 2007 and January 31, 2006. This discussion and analysis provides an update to the discussion and analysis prepared for the year ended January 31, 2007. 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.

Overview

Quest is committed to the 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 unique photodynamic and sonodynamic therapy platform.

A summary of the Company’s projects follows.

HYPOCRELLIN-BASED TECHNOLOGIES

This technology platform is based on a unique, non-toxic family of photosensitizing and sonosensitizing compounds. The active ingredient is a derivative of Hypocrellin B (“HB”), a small molecular compound isolated from parasitic fungi on bamboo. Quest has formulated HB derivatives into a topical gel (SL017), and an injectable solution (SL052). The drug is delivered to the target tissue and then the target tissue is illuminated. This activates the photosensitizer which has the potential to destroy the diseased tissue, predominately through the action of singlet oxygen.

HB Topical - SL017

This gel penetrates skin and can potentially be used to treat various skin conditions such as acne, actinic keratosis, psoriasis, etc. HB gels target a large patient population and will face comparatively less stringent regulatory requirements than injectible HB compounds. The Company has reported positive results from a phase I clinical trial for acne and hair removal, and has initiated an 80 patient clinical trial to determine the appropriate light dose to be used with SL017 for cosmetic hair removal applications. Additionally, the Company recently completed the enrolment of 12 patients in a Phase I clinical study for PDT treatment of actinic keratosis.

HB Injectible – SL052

Quest has developed SL052, which may have utility in the photodynamic therapy of prostate cancer. During 2004, the Company entered into an agreement with Dr. Ronald B. Moore, the Alberta Cancer Board and the Cross Cancer Institute to conduct preclinical studies on SL052. Over the next year, the Company will continue to focus on the development of HB Injectible for prostate cancer and will incur additional costs associated with accumulating preclinical data in order to advance this technology into clinical trials.

Quest is also developing SL052 (SDT) for peritoneal carcinomatosis (cancer of the abdominal cavity and linings) to demonstrate the proof-of-principle for a sonodynamic therapy approach for the treatment of cancer. The Company intends to seek a partner to undertake development of an ultrasound transducer suitable for abdominal and thoracic activation of the sonosensitizer, SL052, previously administered to the ascites fluid or pleural effusion of patients with advanced carcinomatosis.

OTHER DRUG DEVELOPMENT PROGRAMS

2127 (formerly CDK Immunomodulator)

2127 is a novel immunomodulator which inhibits cycline-dependent kinases (“CDKs”) and prevents the growth of cancer cells. CDKs are the proteins that control the growth cycle of cancer cells. Initial studies demonstrated unique advantages of 2127 over other CDK inhibitors, and the Company has filed patent applications to protect the intellectual property generated to date. Further development of 2127 is on hold pending receipt of additional funding.

Results of Operations

Net consolidated loss for the three and six month periods ended July 31, 2007 was \$401,533 or \$0.01 per share and \$538,906 or \$0.01 per share, respectively, on a fully diluted basis. For the three and six month periods ended July 31, 2006, net consolidated loss was \$148,889 or \$0.00 per share and \$621,752 or \$0.01 per share, respectively, on a fully diluted basis. After adjusting for non-cash items, cash flows used to fund continuing operations for the three and six month periods ended July 31, 2007 were \$275,078 and \$972,511, respectively, as compared to \$521,846 and \$743,328, respectively, for the three and six month periods ended July 31, 2006.

Expenses

The following table identifies the changes in General and Administrative expense for the three and six month periods ended July 31, 2007 compared to the three and six month periods ended July 31, 2006.

General and administrative expenses	For the three months ended July 31			For the six months ended July 31		
	2007	2006	Increase (decrease)	2007	2006	Increase (decrease)
	\$	\$	\$	\$	\$	\$
Salaries, wages and benefits	47,822	37,563	10,259	95,163	89,639	5,524
Audit fees	18,509	1,136	17,373	18,509	1,136	17,373
Legal fees	1,835	4,590	(2,755)	6,468	7,469	(1,001)
Other support costs	2,977	1,240	1,737	17,499	8,980	8,519
Travel	12,777	9,609	3,168	13,524	14,955	(1,431)
Consulting	27,499	35,867	(8,368)	108,499	80,367	28,132
Rent	2,345	3,990	(1,645)	4,142	6,752	(2,610)
Insurance	4,610	7,640	(3,030)	9,220	22,387	(13,167)
Public company related costs	25,463	8,685	16,778	42,644	18,150	24,494
Total general and administrative expenses	143,837	110,320	33,517	315,668	249,835	65,833

Audit fees have increased in 2007 compared to 2006 due to an increase in the amount of audit work which was performed for the year ended January 31, 2007 related to the loss of accounting data in Q3, 2007.

Consulting fees for the six month period ended July 31, 2007 have increased compared to the same period in 2006 due to an increase in business development activities.

Insurance costs have decreased due to the allocation of a portion of insurance expense to R&D activities in Q1 and Q2, fiscal 2008.

Public company related costs were higher in 2007 compared to 2006 due to the issuance of private placement units and common shares in 2007.

The following table identifies the changes in research and development expense for the three and six month periods ended July 31, 2007 compared to the three and six month periods ended July 31, 2006.

Research and development expenses	For the three months ended July 31			For the six months ended July 31		
	2007	2006	Increase (decrease)	2007	2006	Increase (decrease)
	\$	\$	\$	\$	\$	\$
Sub-contract and consulting	124,019	57,985	66,034	151,151	82,777	68,374
Salaries, wages and benefits	45,372	104,815	(59,443)	128,923	227,986	(99,063)
Legal (patent prosecution)	23,473	18,400	5,073	32,292	62,572	(30,280)
Rent	6,969	14,925	(7,956)	9,664	32,698	(23,034)
Other R&D costs	16,345	14,237	2,108	26,762	44,133	(17,371)
Supplies	4,883	14,131	(9,248)	9,639	39,545	(29,906)
Gross research and development expenses	221,061	224,493	(3,432)	358,431	489,711	(131,280)
Less						
NRC-IRAP funding	-	-	-	(13,340)	(17,600)	(4,260)
Alberta Ingenuity funding	-	(12,000)	(12,000)	(12,000)	(31,000)	(19,000)
Research and development expense (net)	221,061	212,493	8,568	333,091	441,111	(108,020)

Sub-contract and consulting costs have increased in 2007 compared to 2006 due to the Company's increased expenditures for its clinical trial activities.

Salaries, wages and benefits decreased during the six month period ended July 31, 2007 compared to the same period in 2006 due to a reduction in staff levels.

Legal (patent prosecution) costs have decreased during the six month period ended July 31, 2007 compared to the same period in 2006 due to a decrease in patent prosecution activity during the six month period. Patent costs increased for the three month period ended July 31, 2007 compared to the same period in 2006. The trend of increasing patent costs is expected to continue as the Company accelerates the development of its patentable technologies.

Rent has decreased during the six month period ended July 31, 2007 compared to the same period in 2006 due to a reduction in lab space requirements for the Company's R&D activities.

While R&D costs have decreased overall during the six month period ended July 31, 2007 compared to the same period in 2006, the Company expects that its total R&D costs will increase on a going forward basis as the Company moves forward with its clinical trial programs.

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.

The following table identifies the activity in connection with the Company's discontinued operations for the three and six month periods ended July 31, 2007 compared to the three and six month periods ended July 31, 2006.

Discontinued operations	For the three months ended July 31			For the six months ended July 31		
	2007	2006	Increase (decrease)	2007	2006	Increase (decrease)
	\$	\$	\$	\$	\$	\$
Revenue	-	1,987	(1,987)	9,262	27,019	(17,757)
Direct Costs	-	1,553	(1,553)	-	10,907	(10,907)
Gross Margin	-	434	(434)	9,262	16,122	(6,860)
General and administrative expenses	-	33,093	(33,093)	-	64,322	(64,322)
Amortization expense	-	13,939	(13,939)	-	46,205	(46,205)
Interest expense	-	159	(159)	-	13,083	(13,083)
Interest income	-	105	(105)	-	122	(122)
Gain on disposal of assets	-	256,403	(256,403)	-	256,403	(256,403)
Income / (loss) from discontinued operations	-	209,751	(209,751)	9,262	149,027	(139,765)

During the six month period ended July 31, 2007, the Company received incidental revenue of \$5,000 in connection with ACP-HIP and also recognized \$4,262 as a recovery of a bad debt in connection with Accu-MAB.

Revenues

For the three and six month periods ended July 31, 2007, the Company recognized revenue related to licensing fees and marketing distribution rights, and incidental revenue related to discontinued operations. The following table identifies the changes in revenue for the three and six months ended July 31, 2007 compared to the three and six months ended July 31, 2006.

Revenue	For the three months ended July 31			For the six months ended July 31		
	2007	2006	Increase (decrease)	2007	2006	Increase (decrease)
	\$	\$	\$	\$	\$	\$
Continuing operations						
License fees and market distribution rights	2,000	-	2,000	170,005	-	170,005
Total revenue from continuing operations	2,000	-	2,000	170,005	-	170,005
Discontinued operations						
Accu-MAB TM	-	1,562	(1,562)	4,262	24,582	(20,320)
Pharmaceutical pellet core	-	425	(425)	-	2,437	(2,437)
ACP-HIP	-	-	-	5,000	-	5,000
Total revenue from discontinued operations	-	1,987	(1,987)	9,262	27,019	(17,757)
Total revenue	2,000	1,987	13	179,267	27,019	152,248

Stock-Based Compensation Expense

During the three and six month periods ended July 31, 2007, the Company granted stock options of nil and nil, respectively (for the three and six month periods ended July 31, 2006 – nil and 150,000, respectively) under the Company's Stock Option Plan. The fair value of the options granted in Q1, 2006, \$4,500, was recognized as an expense and credited to contributed surplus during the period.

Liquidity and Capital Resources

As noted in Risks and Uncertainties 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, 2007, cash and cash equivalents was \$837,511 as compared to \$123,022 at January 31, 2007.

During the six months ended July 31, 2007, the Company completed several equity offerings which provided gross proceeds of \$2,120,000. The Company also recognized revenue of \$170,005 related to market distribution rights and licensing fees and \$25,340 in R&D grant funding from Alberta Ingenuity Fund and NRC-IRAP. The Company expects to recognize additional R&D grant funding of \$26,500 from NRC-IRAP in the fourth quarter of fiscal 2008.

Cash used in operating activities was \$972,511 for the six month period ended July 31, 2007 compared to \$743,328 for the six month period ended July 31, 2006. The increase was primarily due to a pay-down of accounts payable and accrued liabilities during the six month period.

The Company has used a portion of its equity offering proceeds to make a \$200,000 principal payment against the \$1,000,000 convertible debenture and a \$50,000 principal payment against the \$230,000 demand notes.

The Company has negotiated a six month extension to the maturity date of the \$800,000 convertible debenture which is now due March 22, 2008. The interest rate and conversion rate remain unchanged at 9% per annum and \$0.25 per common share, respectively.

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 into the first quarter of fiscal 2009.

The Company will seek additional capital through the sale of the remaining non-core assets, further equity financings, licensing arrangements involving its core technologies, strategic partnerships and/or financings from directors.

Demand Notes and Related Party Transactions

At July 31, 2007, the Company holds \$180,000 of demand notes from a company controlled by Dr. Madiyalakan, a Director of the Company, bearing interest at 6% per annum.

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

Under the Company's March and July, 2007 private placements, \$165,000 and \$55,000, respectively, was raised from Officers and Directors of the Company.

Outstanding Share Data

As at September 27, 2007, there were 61,695,913 common shares issued and outstanding, 2,452,000 stock options and 4,800,000 share purchase warrants.

Disclosure Controls and Procedures

The management of Quest is responsible for establishing and maintaining disclosure controls and procedures for the Company and has designed such disclosure controls and procedures, or caused them to be designed under Quest management's supervision, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to Quest management by others within those entities particularly during the period covered by this MD&A.

Quest management has evaluated the effectiveness of the Company's disclosure controls and procedures for the period covered by this MD&A and based on that evaluation, management has concluded that the disclosure controls and procedures are effective.

Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Management has considered the effectiveness of design of the Company's internal controls and procedures over financial reporting and has noted several weaknesses in internal controls over financial reporting such as a lack of segregation of duties because of limited staff members.

Management intends to initiate steps to remedy the noted shortcomings over the next fiscal year by carrying out a management assessment of the weaknesses with a view to improving areas where weaknesses exist and implementing procedures aimed at minimizing the risk of material error in its financial reporting.

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 and it is expected to continue to experience negative cash flows from operations in the coming fiscal year. The Company had a working capital deficiency of \$279,875 and a shareholders' deficiency of \$311,120 as at July 31, 2007. 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.