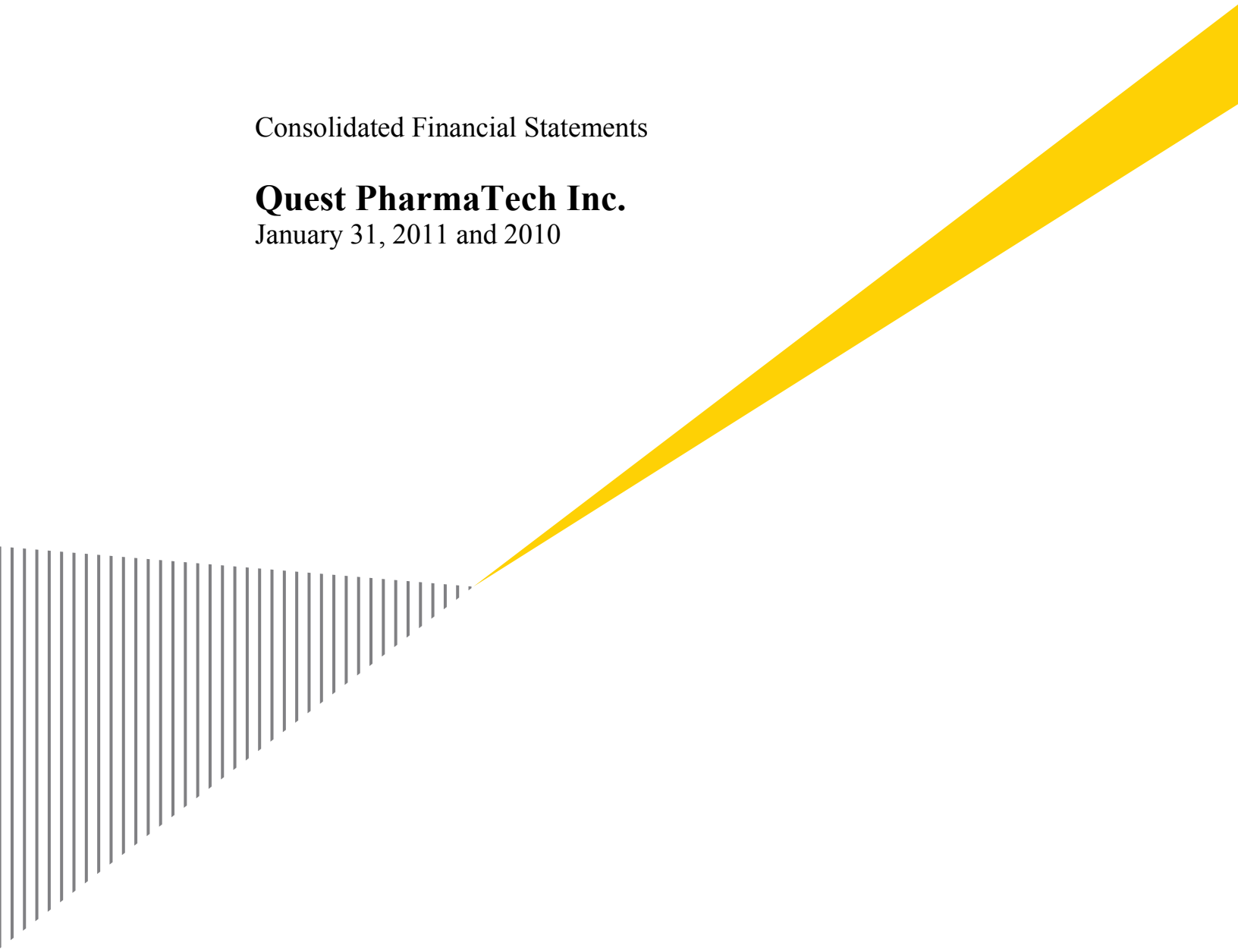
Consolidated Financial Statements

Quest PharmaTech Inc.

January 31, 2011 and 2010



Ernst & Young

Quality In Everything We Do

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Quest PharmaTech Inc.

We have audited the accompanying consolidated financial statements of Quest PharmaTech Inc. (the "Company"), which comprise the consolidated balance sheets as at January 31, 2011 and 2010 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Quest PharmaTech Inc. as at January 31, 2011and 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that the Company incurred a net loss of $1,354,773 during the year ended January 31, 2011 and, as of that date, the Company's current liabilities exceeded its current assets by $1,809,653. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Ernst & Young LLP

Edmonton, Canada
May 20, 2011

Chartered Accountants

Quest PharmaTech Inc.

CONSOLIDATED BALANCE SHEETS

(see note 1 - going concern uncertainty)

As at January 31

	2011	2010
	$	$
ASSETS		
Current		
Cash and cash equivalents	**13,394**	31,752
Accounts receivable	**6,993**	104,672
Marketable securities *[note 5]*	**74,645**	47,872
Prepaid expenses	**17,445**	6,575
	112,477	190,871
Property and equipment *[note 4]*	**123,944**	177,880
Intangible assets *[note 3]*	**160,175**	140,000
	396,596	508,751
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current		
Accounts payable and accrued liabilities	**624,130**	315,512
Demand loans *[note 15]*	**790,000**	—
Convertible debenture *[note 6]*	**500,000**	500,000
Current portion of deferred revenue *[note 13]*	**8,000**	8,000
	1,922,130	823,512
Deferred revenue *[note 13]*	**77,667**	85,667
	1,999,797	909,179
Commitments and contingencies *[note 9]*		
Shareholders' deficiency		
Share capital *[note 10]*	**24,198,875**	24,058,875
Shares to be issued *[note 3]*	**—**	60,000
Equity portion of convertible debenture *[note 6]*	**60,000**	60,000
Contributed surplus *[note 10]*	**1,746,365**	1,674,365
Deficit	**(27,608,441)**	(26,253,668)
	(1,603,201)	(400,428)
	396,596	508,751

See accompanying notes

On behalf of the Board:

(signed)	(signed)
Ragupathy ("Madi") Madiyalakan	Ian McConnan
Director	Director

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

Years ended January 31

	2011 $	2010 $
REVENUE		
License fees and market distribution rights *[notes 7 and 13]*	**8,000**	758,000
EXPENSES		
General and administrative	**500,626**	712,516
Research and development, net *[note 17]*	**687,156**	419,063
Amortization	**113,760**	87,815
Bank charges and interest *[notes 6 and 15]*	**87,644**	48,956
	1,389,186	1,268,350
Loss before the undernoted	**(1,381,186)**	(510,350)
Other income (expenses)		
Interest income	**85**	2,522
Foreign exchange gain (loss)	**(444)**	(4,833)
Gain/(loss) on FV adjustment to marketable securities *[note 5]*	**26,772**	(5,138)
	26,413	(7,449)
Net and comprehensive loss for the year	**(1,354,773)**	(517,799)
Deficit, beginning of year	**(26,253,668)**	(25,735,869)
Deficit, end of year	**(27,608,441)**	(26,253,668)
Basic and diluted loss per share *[note 10]*	**$(0.02)**	$(0.01)

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended January 31

	2011 $	2010 $
CASH USED IN OPERATING ACTIVITIES		
Net loss for the year	**(1,354,773)**	(517,799)
Items that do not involve cash		
Interest accreted on convertible debenture *[note 6]*	**—**	2,863
Amortization	**113,760**	87,815
Stock-based compensation *[note 12]*	**72,000**	70,750
(Gain) loss on fair value adjustment of marketable securities *[note 5]*	**(26,772)**	5,138
Deferred revenue recognized in the year *[note 13]*	**(8,000)**	(758,000)
Cash received on deferred license fees *[note 7]*	**—**	500,000
Net change in non-cash working capital items *[note 16]*	**395,427**	93,830
	(808,358)	(515,403)
CASH USED IN INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**—**	(10,171)
Purchase of intangible assets	**—**	(37,500)
	—	(47,671)
CASH PROVIDED BY FINANCING ACTIVITIES		
Increase in demand notes	**790,000**	—
	790,000	—
Net decrease in cash and cash equivalents	**(18,358)**	(563,074)
Cash and cash equivalents, beginning of year	**31,752**	594,826
Cash and cash equivalents, end of year	**13,394**	31,752

Supplement cash flow information *[note 16]*

See accompanying notes

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2011 and 2010

1. DESCRIPTION OF BUSINESS AND GOING CONCERN UNCERTAINTY

Description of business

Quest PharmaTech Inc. (the "Company") is incorporated under the Business Corporations Act (Alberta). The Company's principal business activity is the research and development of pharmaceutical products. The Company is publicly traded on the TSX Venture Exchange under the symbol "QPT".

Going concern uncertainty

The Company's consolidated 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 negative cash outflows from operations since its inception.

The Company has incurred a net loss of $1,354,773 for the year ended January 31, 2011 and as at January 31, 2011 had a working capital deficiency of $1,809,653 [2010 - $634,641] and a shareholders' deficiency of $27,608,441 [2010 - $26,253,668]. Accordingly, there is doubt regarding the Company's ability to continue as a going concern.

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. The Company's consolidated financial statements do not reflect any adjustments to the classifications and carrying values of assets and liabilities that may be required should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business. The Company intends to address this uncertainty through issuing new share capital through equity financing, licensing arrangements and/or strategic partnerships.

2. SIGNIFICANT ACCOUNTING POLICIES

The Company's consolidated financial statements have been prepared following Canadian generally accepted accounting principles ("GAAP"). The measurement of certain assets and liabilities is dependent upon future events whose outcome will not be fully known until future periods. Therefore, the preparation of these consolidated financial statements requires the Company's management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may vary from those estimated. The recoverable value of property, plant and equipment of $123,944 and intangible assets of $160,175, as well as the period over which deferred revenue is recognized into income, are the more significant items which reflect estimates in these consolidated financial statements. Such estimates and assumptions have been made using careful judgments, which, in management's opinion, are within reasonable limits of materiality and conform to the significant accounting policies summarized below.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries:

Sonolight Pharmaceuticals Corp. ("Sonolight")
Steroidogenesis Inhibitors Canada Inc. ("SI Canada")

All significant intercompany transactions and balances are eliminated in the preparation of these consolidated financial statements.

Cash equivalents

Cash equivalents include short-term liquid investments with maturities of less than 90 days. Such investments are carried at fair value.

Intangible assets

Intangible assets include proprietary rights, intellectual property and patent rights which have been acquired from third parties. Intangible assets are recorded at cost less accumulated amortization. Following acquisition, the Company evaluates the prospective commercialization of the acquired intangible assets. Depending on the results of the evaluation, the Company generally commences amortization of the assets over a period of three to five years.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary rights and intellectual property

The Company's management evaluates the recoverability of the carrying cost of proprietary rights and intellectual property annually, based on the expected utilization of the underlying technology.

Patent rights

Patent rights are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over a maximum period of five years from the time of acquisition. The Company's management evaluates the recoverability of the cost of such rights annually, based on the expected utilization of the underlying technology.

Property and equipment

Property and equipment are recorded at cost net of government assistance and accumulated amortization. Amortization of property and equipment is calculated over the estimated useful life on a declining balance or straight-line basis at the following annual rates:

Computer equipment	Declining balance - 30%
Furniture and fixtures	Declining balance - 30%
Office equipment	Declining balance - 30%
Manufacturing and R&D equipment	Declining balance - 30%
Leasehold improvements	Straight-line - lease term

Leases

Leases that transfer substantially all the risks and benefits of assets to the Company are accounted for as capital leases. Assets under capital leases are recorded at the inception of the lease together with the long-term obligation to reflect the purchase and financing thereof. As at January 31, 2011 and 2010, the Company had no capital leases. Rental payments under operating leases are expensed evenly over the lease term.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Convertible debenture

On issuance of the debenture convertible into common shares of the Company, the fair value of the holders' conversion option is reflected as a component of shareholders' deficiency. The Company's obligation to debenture holders for future interest and principal payments is reflected as a liability and accreted to its maturity value over the term of the debenture using the effective interest method. If the holders exercise their conversion option, common shares issued on conversion will be recorded at an amount equal to the aggregate carrying value of the liabilities and the conversion option is extinguished with no gain or loss recognized.

Revenue recognition

Revenues associated with non-refundable up-front fees for the licensing of technology and products under agreements which require the Company to perform future performance obligations are recognized over the period of the contract as the performance obligation is satisfied. The portion related to future periods is recorded as deferred revenue.

Research and development

Research and development expenses are expensed as incurred. Up-front and milestone payments made to third parties in connection with specified research and development projects are expensed as incurred.

Investment tax credits

Investment tax credits ("ITCs") relating to qualifying scientific research and experimental development expenditures that are recoverable in the current year are accounted for as a reduction in research and development expenditures. ITCs are recognized when the related expenditures are incurred and there is reasonable assurance of their realization.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at year end. Revenue and expenses are translated at exchange rates in effect on the date of the transaction. Gains and losses arising from translation of assets and liabilities are included in income for the period.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government assistance

Non-refundable government assistance towards current expenses is included in the determination of income for the period as a reduction of the expenses to which it relates. Amounts received for future expenditures are recorded as a current liability. Government assistance towards the acquisition of property, plant and equipment is deducted from the cost of the related property, plant and equipment.

Comprehensive income

Comprehensive income is the change in equity of an enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by shareholders and distributions to shareholders. Other comprehensive income comprises revenues, expenses, gains and losses that are recognized in comprehensive income, but are excluded from net loss calculated in accordance with GAAP. The Company did not have other comprehensive income and, accordingly, total comprehensive loss and net loss are the same.

Financial instruments

All financial instruments are classified as held-for-trading, available-for-sale financial assets, loans and receivables, investments held to maturity or other financial liabilities. Financial assets classified as held-for-trading and available-for-sale are measured on the consolidated balance sheets at fair value. Subsequent changes in the fair value of held-for-trading financial assets are recognized in net loss immediately. Changes in the fair value of financial assets available-for-sale are recorded in comprehensive income until the investment is derecognized or impaired, at which time amounts would be recorded in net loss. Other comprehensive income and its components, when presented, are included directly in equity as accumulated other comprehensive income. Loans and receivables, investments held to maturity and other financial liabilities are measured on the consolidated balance sheets at amortized cost.

The Company has designated cash and cash equivalents, and marketable securities as held-for-trading, accounts receivable as loans and receivables and its accounts payable and accrued liabilities, and the liability component of the convertible debenture as other financial liabilities. The Company has not recorded any financial instruments as available-for-sale or held to maturity investments.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For financial liabilities classified as other, transaction costs that are directly attributable to the issue of the financial liability are recorded as part of the fair value initially recognized for the financial instrument. These costs are expensed using the effective interest method and recorded in interest expense.

Stock-based compensation

The Company accounts for stock options granted to employees and non-employees using the fair value method. Fair value is calculated using the Black-Scholes option pricing model with the assumptions described in note 12 and is recognized over the vesting period of the options granted. The Company accounts for forfeitures when the forfeitures event occurs. Consideration paid on the exercise of stock options is credited to share capital and the amount in contributed surplus related to the stock options exercised is reclassified to share capital.

Under the fair value based method, stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measured. The cost of stock-based payments to non-employees is recognized over the vesting period. For fully vested and non-forfeitable stock-based payments, the cost is measured and recognized at the grant date.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future tax assets or liabilities are expected to be realized or settled. Future tax assets for which the realization of any value is more likely than not to occur are recognized. A valuation allowance is recorded for that portion not more likely to occur.

Basic and diluted loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. Diluted loss per share is computed using the treasury-stock method. Under this method, options, warrants and convertible securities are assumed to be exercised at the beginning of the period (or at the time of issuance, if later). Proceeds from the exercise are assumed to be used to purchase common shares at the average market price during the period. Incremental shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) are included in the denominator of the diluted loss per share computation.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent accounting pronouncements

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 be required to report its results in accordance with IFRS commencing in its fiscal year ending January 31, 2012. The Company has completed its conversion project and is monitoring the ongoing impact of IFRS on its consolidated financial statements. The Company has chosen its accounting policies and is monitoring the impact of IFRS on its information systems, internal controls and business operations. During fiscal 2011, the Company completed the opening consolidated balance sheet. The Company anticipates that there will be a significant increase in disclosure resulting from the adoption of IFRS. The Company also expects IFRS to have an ongoing impact on financial reporting, business processes, internal controls and information systems.

3. INTANGIBLE ASSETS

	2011		**2010**	
	Cost	**Accumulated amortization**	**Cost**	**Accumulated amortization**
	$	$	$	$
Immunotherapy technology	**237,500**	**77,325**	157,500	17,500
Hypocrellin-based technology and licenses	**2,476,822**	**2,476,822**	2,476,822	2,476,822
CDK technology	**225,000**	**225,000**	225,000	225,000
	2,939,322	**2,779,147**	2,859,322	2,719,322
Net book value	**160,175**		140,000	

During the year, amortization of intangible assets was $59,825 (2010 – $17,500). As at January 31, 2011, the Company performed a review of the expected utilization of intangible assets and determined that no impairment charge was required.

3. INTANGIBLE ASSETS (CONTINUED)

CORE TECHNOLOGIES

Immunotherapy technology and licenses ("Immunotherapy Technology")

During September 2009, the Company signed a technology purchase agreement with Paladin Labs Inc. ("Paladin") to acquire the proprietary rights and intellectual property related to an antibody Immunotherapy Technology. Under this technology, the Company acquired product candidates consisting of five monoclonal antibodies targeting certain tumor antigens that are presented in a variety of cancers. Under the terms of the agreement, consideration for the purchase consisted of a cash payment of $37,500 and the issuance of 1,500,000 common shares upon the effective date of the purchase and an additional 1,500,000 common shares to be issued no later than December 31, 2010. The common shares issued on the effective date and those issued prior to December 31, 2010 were valued for accounting purposes at $0.04 per share which reflected the closing price of the common shares on the effective date of the purchase ($60,000 and $60,000 respectively). Under the terms of the agreement, a further 2,000,000 common shares were contingently issuable upon successful future financing initiatives by the Company. On October 22, 2010, the Company determined to take control over the technology and issued the final 3,500,000 common shares under the agreement. The 2,000,000 common shares issued on October 22, 2010 reflecting the contingent consideration were valued for accounting purposes at $0.04 per share which reflected the closing price of the common shares at that date ($80,000). The agreement also requires the Company to make milestone and royalty payments to Paladin on future revenues. The Company is amortizing this asset on a straight-line basis over a three-year period.

Hypocrellin-based technology and licenses (proprietary rights)

The Company's subsidiary, Sonolight, holds the exclusive worldwide license to develop, commercialize and exploit several proprietary inventions involving a class of sonosensitizers and their use in cancer and non-cancer therapies. Sonolight signed a licensing agreement dated March 6, 2001 with the University of Alberta. The license agreement is for a term of 25 years. The agreement requires royalty payments upon successful sales and marketing of products developed using the technology. The Company has amortized this asset on a straight-line basis over the three-year period that commenced August 1, 2001. This intangible asset is fully amortized. The Company has pledged this technology as collateral in connection with the convertible debenture (note 6).

3. INTANGIBLE ASSETS (CONTINUED)

NON-CORE TECHNOLOGIES - CDK technology (proprietary rights)

The Company owns the worldwide rights to develop, manufacture and sell the CDK technology, a novel immunomodulator with anti-cancer properties. As consideration for its acquisition of the technology, the Company must issue 400,000 common shares as certain milestones outlined in the technology purchase agreement are met. To date, the Company has issued 200,000 shares under the agreement: 100,000 shares issued in fiscal 2004 and 100,000 shares in fiscal 2003. These shares have been recorded at a value that represents the closing price of the common shares on the date the shares were issued. The Company amortized this asset on a straight-line basis over a three-year period, which commenced on August 1, 2002. This intangible asset is fully amortized. During fiscal 2009, the Company determined that it will not proceed with further development with respect to the CDK technology at this time.

4. PROPERTY AND EQUIPMENT

	2011		**2010**	
	Cost	**Accumulated amortization**	**Cost**	**Accumulated amortization**
	$	$	$	$
Computer equipment	**80,744**	**72,884**	80,744	69,515
Furniture and fixtures	**12,114**	**11,431**	12,114	11,138
Office equipment	**31,494**	**30,391**	31,494	29,918
Manufacturing and R&D equipment	**456,084**	**342,688**	456,084	294,090
Leasehold improvements	**2,305**	**1,403**	2,305	200
	582,741	**458,797**	582,741	404,861
Net book value	**123,944**		177,880	

During the year, amortization of property and equipment was $53,935 (2010 - $70,315).

5. MARKETABLE SECURITIES

The Company currently holds the following marketable securities which are recorded as follows:

	2011 $	2010 $
1,351,111 common shares of Brand Marvel Worldwide Consumer Products Corporation ("BMW.v")	**74,312**	47,289
8,334 common shares of Samaritan Pharmaceuticals Inc.	**333**	583
	74,645	47,872

During the year ended January 31, 2011, the Company recorded a fair value adjustment of $26,772 (January 31, 2010 – $5,138) in connection with the above noted shares. Subsequent to yearend, the Company sold all of the shares of BMW.v for net proceeds of approximately $60,000.

6. CONVERTIBLE DEBENTURE

On March 23, 2005, the Company entered into an agreement to issue a $1,000,000 principal amount 8% convertible debenture with a one-year maturity to two arm's-length parties. The debenture is collateralized by the Company's Hypocrellin-based technology, one of its core technologies (note 3). The debenture was repayable in blended monthly installments of $6,667 with the balance, including accrued interest, due on March 22, 2006. The debenture had a conversion feature whereby it could be converted into common shares of the Company at a price of $0.45 per common share and could be redeemed at any time by the Company. The Company obtained extensions to the maturity date, and as at January 31, 2011, the maturity date had been extended to March 22, 2011. Subsequent to year end, the debenture holders agreed to extend the maturity date to September 22, 2011 (see Subsequent Events, note 19). In connection with the extensions negotiated in prior years, the debenture interest rate was revised from 8% to 9% per annum and the debenture conversion price was amended from $0.45 to $0.25 per common share. During 2008, the Company made principal payments of $500,000 against the convertible debenture.

During the year ended January 31, 2011, the Company incurred $45,000 (2010 - $47,863) in interest under this convertible debenture. The Company recorded accreted interest expense of $2,863 for the year ended January 31, 2010.

7. LICENSE FEES

On December 14, 2007, the Company signed a license agreement to receive $3,000,000 to develop oncology products based on its SonoLight Technology. Under the terms of the agreement, the Company received $1,000,000 on execution of the agreement with an additional $1,500,000 received during fiscal 2009. During fiscal 2010, the Company received the final $500,000 license fee in connection with this agreement. The 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 1 clinical trial for photodynamic therapy treatment of prostate cancer. The Company has recognized the license fee in relation to the costs incurred with these efforts and has recognized $750,000 of the license fee for the year ended January 31, 2010.

8. INCOME TAXES

Details of the components of income taxes are as follows:

	2011 $	**2010** $
Loss from operations	**(1,354,773)**	(517,799)
Statutory tax rate	**27.87%**	28.92%
Tax recovery at Canadian statutory rate	**(377,610)**	(149,747)
Adjustment in income taxes resulting from:		
Non-deductible stock-based compensation expense	**20,068**	20,482
Impact on future tax assets resulting from statutory rate reduction and expiry of loss carryforwards	**673,436**	278,511
Non-deductible expenses and other	**(6,918)**	2,536
Valuation allowance	**(308,976)**	(151,782)
Future tax recovery	**—**	—

8. INCOME TAXES (CONTINUED)

Significant components of the Company's future tax balances are as follows:

	2011 $	2010 $
Future tax assets		
Non-capital loss carryforwards	**2,068,506**	2,560,639
Tax cost of property, plant and equipment in excess of book values	**224,602**	211,118
Tax cost of intangible assets in excess of book values	**124,327**	109,371
Scientific research and experimental development tax credits	**836,108**	677,794
Share issue costs deductible for tax purposes	**3,595**	7,135
Capital loss carryforwards	**842,583**	834,069
	4,099,721	4,400,126
Valuation allowance	**(4,099,721)**	(4,400,126)
	—	—

The Company and its subsidiaries have non-capital losses for income tax purposes of approximately $8,109,000 at January 31, 2011 (2010 - $10,083,000) that may be applied against future taxable income. In addition, the Company has scientific research and experimental development expenses of approximately $3,344,000 (2010 - $2,711,000). In total, approximately $8,109,000 (2010 - $10,083,000) of non-capital losses and $4,100,000 (2010 - $7,357,000) of deductible temporary differences for Canadian income tax purposes have not been recognized for accounting purposes. The non-capital losses and ITCs available for carryforward will expire as follows:

	Non-capital losses $	ITCs $
2012	—	64,400
2013	—	9,600
2015	1,936,483	—
2026	2,390,867	—
2027	1,943,198	91,300
2028	1,129,979	98,900
2029	159,324	198,900
2030	122	90,400
2031	548,635	—
	8,108,608	553,500

9. COMMITMENTS AND CONTINGENCIES

a) Lease obligations

The Company is committed to lease payments, including estimated operating costs, for its business premises as follows to August 31, 2011:

	Operations $
2012	29,295
	29,295

Of the operating lease expense of $53,826 incurred during 2011 (2010 - $38,915) $16,148 (2010 – $11,675) was recorded in general and administrative expense and $37,678 (2010 – $27,240) was recorded in research and development expense.

b) Research and development, and other

The Company has commitments to fund various research and development and other activities in the normal course of its business. Subject to successful completion of contractual milestones, the Company is committed to fund the following research and development and other expenditures:

	$
2012	242,690
2013	161,470
2014	161,470
2015	161,470
2016	80,727
	807,827

In fiscal 2008, the Company entered into a collaborative agreement for product development with the Alberta Research Council (the "ARC") whereby the ARC agreed to incur up to $200,000 worth of expenditures to develop a fermentation-based method to manufacture Hypocrellin B. Upon commercial sales of the developed product, the Company has committed to reimburse the ARC for its expenditures plus a 25% premium. This product development has not reached the commercialization stage and the outcome is not yet determinable.

9. COMMITMENTS AND CONTINGENCIES (CONTINUED)

In fiscal 2010, the Company entered into an assumption agreement (the "Assumption Agreement") with the Alberta Heritage Foundation for Medical Research (the "Foundation") in connection with the Company's September 2009 purchase of the Immunotherapy Technology (note 3). This related to prior Foundation funding of $500,000 towards the development of the Immunotherapy Technology. Under the Assumption Agreement, upon the generation of revenues related to any developed product, the Company has committed to reimburse the Foundation for its $500,000 funding and to pay a royalty of $500,000 based on product revenues. This technology has not reached the commercialization stage and the outcome is not yet determinable.

10. SHARE CAPITAL

Authorized

Unlimited number of common shares without nominal or par value
Unlimited number of first preferred shares
Unlimited number of second preferred shares

The first and second preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

Issued

	Number of common shares	Amount $
Common shares		
At January 31, 2009	68,197,580	23,998,875
Shares issued pursuant to technology purchase	1,500,000	60,000
At January 31, 2010	69,697,580	24,058,875
Shares issued pursuant to a technology purchase (note 3)	3,500,000	140,000
At January 31, 2011	**73,197,580**	**24,198,875**

On October 22, 2010, the Company issued 3,500,000 common shares to complete the purchase of the Immunotherapy Technology. 1,500,000 of these shares were previously valued at $0.04 per share representing the price of the Company's common shares on the effective date of the purchase agreement. The remaining 2,000,000 common shares were valued at $0.04 per common share which represented the closing price of the common shares on October 22, 2010.

10. SHARE CAPITAL (CONTINUED)

On October 15, 2006, the Company signed an exclusive agreement with KMH Co, Ltd ("KMH"), for the distribution rights of the SL017 topical gel variant of its Hypocrellin-based technology in Asia for 15 years or until the expiration of patents, whichever is longer. The agreement required an initial investment in the Company of $200,000 with additional investments of up to $1,300,000 upon the achievement of specified milestones as well as specified royalty payments on product sales. In addition, the Company has also committed to issuing up to 5,000,000 additional shares to KMH contingent on whether the product meets the clinical endpoints as outlined in the Health Canada approved clinical trial protocol.

Under the terms of the agreement, the Company issued 1,000,000 common shares to KMH. Of the $200,000 initial investment, $120,000 was recorded as deferred revenue which will be recognized into income over the 15 year term of the agreement. In 2011, the Company recognized $8,000 (2010 - $8,000) of the deferred amount into income. The remaining $80,000 was applied to share capital based on the fair value of the shares at the date of the agreement with KMH.

In September 2009, the Company issued 1,500,000 common shares as partial consideration under a technology purchase agreement. The shares were recorded at a value of $60,000 ($0.04 per share) which represented the closing price of the Company's common shares on the date the shares were issued.

The following options to purchase common shares were outstanding as at January 31, 2011:

Exercise price $	Options outstanding #	Weighted average remaining life (years)	Options exercisable #
0.10	**2,650,000**	**4.75**	**2,650,000**
0.15	**425,000**	**0.21**	**425,000**
0.25	**1,965,000**	**0.53**	**1,915,000**
	5,040,000	**5.49**	**4,990,000**

10. SHARE CAPITAL (CONTINUED)

The following schedule details the stock options granted, exercised and expired:

	Shares issuable on exercise of	
	Stock options	
	Number of shares #	Weighted average exercise price $
Balance, January 31, 2009	4,184,000	0.31
Granted	1,775,000	0.16
Expired	(1,628,000)	0.27
Balance, January 31, 2010	4,331,000	0.26
Granted	1,700,000	0.10
Expired	(991,000)	0.43
Balance, January 31, 2011	**5,040,000**	**0.17**

Stock options

For the year ended January 31, 2011, the Company granted 1,700,000 stock options, as per the Company's Stock Option Plan. Out of this total, 450,000 stock options, all with an exercise price of $0.10 were granted to non-employees and 1,250,000 stock options all with an exercise price of $0.10 were granted to employees (note 12).
For the year ended January 31, 2010, the Company granted 1,775,000 stock options, as per the Company's Stock Option Plan. Out of this total, 825,000 stock options with exercise prices ranging from $0.15 to $0.25 were granted to non-employees and 950,000 stock options with an exercise price of $0.10 were granted to employees (note 12).

On January 26, 2010, the Company received shareholder and regulatory approval to amend the Company's Stock Option Plan such that the aggregate number of common shares eligible for issuance under the Stock Option Plan shall not exceed 8,000,000. At January 31, 2011, 2,960,000 options are available for issue.

10. SHARE CAPITAL (CONTINUED)

Contributed surplus

	2011 $	2010 $
Contributed surplus, beginning of year	**1,674,365**	1,603,615
Stock-based compensation expense	**72,000**	70,750
Contributed surplus, end of year	**1,746,365**	1,674,365

Basic and diluted loss per share

Basic loss per share has been calculated using the weighted-average number of common shares outstanding during the year (2011 – 70,675,662; 2010 – 68,758,757). For the periods presented, the calculation of loss per common share on a diluted basis excluded all potential common shares because the effect was anti-dilutive.

11. CAPITAL DISCLOSURES

The Company is a biotechnology company and consistent with other companies in the industry, the Company's objectives when managing capital are to safeguard its accumulated capital in order to maintain its ability to continue as a going concern so that it can continue with its drug development program and strive to maximize shareholder value. Note 1 provides a discussion surrounding the Company's ability to continue as a going concern. Capital is defined by the Company as shareholders' (deficiency) equity (primarily comprised of share capital, contributed surplus and deficit) and current term debt consisting of a convertible debenture and demand loans. The Company manages its capital structures and makes adjustments based on the needs of the Company's operations and the requirement for funding to continue with the Company's drug development program. The Company does this through new share or debt issuances, selling assets or licensing its technologies to third parties to fund operations. The Company is not subject to externally imposed capital requirements.

12. STOCK-BASED COMPENSATION

For the year ended January 31, 2011, the Company granted a total of 1,700,000 (2010 – 1,775,000) stock options under the Company's Stock Option Plan. The fair value of options vesting in 2011 of $72,000 (2010 - $70,750) was recognized as an expense and credited to contributed surplus for the years ended January 31, 2011 and 2010.

12. STOCK-BASED COMPENSATION (CONTINUED)

The Company used the Black-Scholes option pricing model to estimate the fair value of these options. The following assumptions were used:

	2011 $	**2010** $
Dividend yield	**0.00%**	0.00%
Volatility	**129 – 226%**	129 – 178%
Risk-free interest rate	**1.98 – 3.60%**	1.30 – 3.90%
Expected life (years)	**5.00 – 10.00**	2.00 – 10.00
Fair value per option	**$0.04 - $0.06**	$0.03 - $0.05

13. DEFERRED REVENUE

The Company has recorded deferred revenue in connection with market distribution rights received but not earned as follows:

	2011 $	**2010** $
Market distribution rights *(note 10)*	**85,667**	93,667
Less current portion	**8,000**	8,000
Long-term portion	**77,667**	85,667

The Company recognized $8,000 of deferred revenue on the statements of operations during the year ended January 31, 2011 (January 31, 2010 - $8,000).

14. SEGMENT DISCLOSURES

The Company is managed as one operating segment – biopharmaceutical / pharmaceutical products. Management assesses performance and makes resource decisions based on the consolidated results of operations of this operating segment. Substantially all of the operations of the Company are directly engaged in or support this operating segment. The following table presents information on the Company's operating results for the years ended January 31, 2011 and 2010, by geographic area.

Revenues by geographic area

	2011 $	**2010** $
Asia	**8,000**	758,000
	8,000	758,000

Revenues are attributed to countries based on location of customers or counterparties. Revenues represent market distribution rights and license fees earned during the year.

15. DEMAND LOANS AND RELATED PARTY TRANSACTIONS

During the year ended January 31, 2011, the Company entered into a demand loan agreement with one of its officers to provide up to $1,000,000 bearing interest at 8% compounded annually to be used for the Company's operating expenditures. This financing is unsecured, has no fixed terms of repayment with interest payable monthly. As at January 31, 2011, the Company had drawn $790,000 on this financing. During the year ended January 31, 2011, the Company incurred $40,368 in interest under the demand loan financing and this amount is included in accounts payable and accrued liabilities. Subsequent to January 31, 2011, the Company drew a further $40,000 on this financing (see Subsequent Events note 19). Subsequent to January 31, 2011, the Company secured additional demand loan financing of $100,000 from a 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.

16. SUPPLEMENT CASH FLOW INFORMATION

Net change in non-cash working capital items related to operating activities

	2011 $	**2010** $
Accounts receivable	**97,679**	(50,055)
Prepaid expenses	**(10,870)**	31,285
Accounts payable and accrued liabilities	**308,618**	112,600
	395,427	93,830

During the year ended January 31, 2011, the Company paid approximately $64,345 of interest (2010 - $46,100) and income taxes of nil (2010 – nil).

As described in Note 3, the Company issued 2,000,000 common shares valued at $80,000 to Paladin on October 22, 2010 which represented the contingent consideration on the purchase of immunotherapy technology, This was a non-cash transaction which is not reflected in the financial and investment activities on the statement of cash flow.

17. GOVERNMENT ASSISTANCE

During the year ended January 31, 2011, the Company received $30,466 from Alberta Finance related to scientific research and development claims made for research and development expenditures incurred in fiscal 2010. This funding was treated as a reduction of research and development expenses.

In April, 2008, the Company obtained federal government assistance in the form of an NRC-IRAP grant to cover salaries and contractor fees related to the development of the Company's Sonodynamic therapy for the treatment of peritoneal carcinomatosis and pleural effusion. During the year ended January 31, 2010, the Company received $85,553 of funding all which was recognized as a reduction of research and development expenses.

During the year ended January 31, 2010, the Company recognized $3,733 from Alberta Finance and $92,568 from Revenue Quebec related to scientific research and experimental development claims made for R&D expenditures incurred in fiscal 2007, 2008 and 2009. This funding was treated as a reduction of research and development expenses.

	2010 $	**2010** $
Gross research and development expenses	**717,622**	600,917
Less government assistance	**(30,466)**	(181,854)
Research and development expenses, net	**687,156**	419,063

18. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and cash equivalents, accounts receivable, marketable securities, accounts payable and accrued liabilities, and the convertible debenture and the demand loans.

a) Carrying value and fair value

The carrying values of cash and cash equivalents, accounts receivable, marketable securities, accounts payable and accrued liabilities and the convertible debenture and the demand loans approximate fair value due to the immediate or short term maturity of these financial instruments. The fair values of other financial instruments reflect the Company's best estimate based upon estimated interest rates at which the Company believes it could enter into with similar instruments at the consolidated balance sheet dates. The fair value of the Company's financial instruments of cash and cash equivalents and marketable securities are measured using a Level 1 classification.

b) Risks

i) Foreign currency risk

The Company has certain assets and liabilities that are denominated in foreign currencies and are exposed to risks from changes in foreign exchange rates and the degree of volatility of these rates. Due to the limited number of transactions that are denominated in foreign currencies, 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.

At year-end the Company's exposure to foreign currency risk is US$20,724 in accounts payable. The year-end rate of conversion of U.S. to Canadian dollars is 1.0022. Based on the foreign currency exposures noted above, a 10 percent strengthening of the Canadian dollar would have decreased the net loss by $1,806 assuming that all other variables remain unchanged. A 10 percent weakening of the Canadian dollar would have an equal but opposite effect, assuming that all other variables remain unchanged.

ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The 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 (see Capital Disclosures, note 11). In February, 2010, the Company secured debt financing from one of its officers to provide up to $1,000,000 in demand loan financing for operational expenditures (note 15). Subsequent to January 31, 2011, the Company renegotiated the maturity of its convertible debenture to September 22, 2011. Subsequent to January 31, 2011, the Company secured demand loan financing of $100,000 from a director of the Company.

18. FINANCIAL INSTRUMENTS (CONTINUED)

iii) 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 short term deposits that are fully guaranteed by the Company's financial banker, a major Canadian bank. As the Company is a research and development company, the Company's exposure to credit risk related to accounts receivable is not considered to be significant. At year end, 90% of accounts receivable were due from federal or provincial government agencies (all from one agency).

iv) 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. At year-end a 10 percent increase in the market price of those shares would have decreased the net loss by $7,464, assuming that all other variables remain unchanged. A 10 percent decrease in the market price would have increased the net loss by $7,464, assuming that all other variables remain unchanged.

v) 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 convertible debenture and demand loans 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. The Company's policy limits the investing of excess funds to liquid government guaranteed deposits or guaranteed investment certificates.

19. SUBSEQUENT EVENTS

Subsequent to year end, the Company drew an additional $40,000 on its demand loan financing (see Demand Loans and Related Party Transactions, note 15). To date the Company has drawn a total of $830,000 on this financing.

On March 22, 2011, the Company signed an agreement with its convertible debenture holders to extend the date of maturity by six months. Under the agreement, the convertible debenture has a maturity date of September 22, 2011, with all other conditions remaining unchanged.

In March and May 2011, the Company secured additional demand loan financing of $100,000 from a 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.

In April 2011, the Company signed agreements granting stock options to consultants of the Company. The stock options are exercisable at a price of $0.10 per common share, vest immediately and carry an expiry date of April 26, 2021.