Consolidated Financial Statements

Quest PharmaTech Inc.

Three months ended April 30, 2011

(Unaudited)

Quest PharmaTech Inc.

National Instrument 51 – 102
Continuous Disclosure Obligations

Notice

Pursuant to Part 4.3 (3) of National Instrument 51 – 102, these unaudited interim consolidated financial statements of Quest PharmaTech Inc. for the three month period ended April 30, 2011 have not been reviewed by the Company's auditors.

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(see note 1 – going concern uncertainty)

As at

	Apr 30, 2011 (Unaudited) $	Jan 31, 2011 (Audited) $	Feb 1, 2010 (Unaudited) $
ASSETS			
Current			
Cash	**1,677**	13,394	31,752
Accounts receivable	**8,611**	6,993	104,672
Marketable securities *[note 7]*	**36,839**	74,645	47,872
Prepaid expenses	**23,108**	17,445	6,575
	70,235	112,477	190,871
Non current			
Property and equipment *[note 6]*	**114,416**	123,944	177,880
Intangibles *[note 5]*	**140,385**	160,175	140,000
	254,801	284,119	317,880
	325,036	396,596	508,751
LIABILITIES			
Current			
Accounts payable and accrued liabilities	**725,781**	624,130	315,512
Demand loans *[note 15]*	**880,000**	790,000	—
Convertible debenture *[note 8]*	**500,000**	500,000	500,000
Current portion of deferred revenue *[note 13]*	**8,000**	8,000	8,000
	2,113,781	1,922,130	823,512
Non current			
Deferred revenue *[note 13]*	**75,667**	77,667	85,667
	2,189,448	1,999,797	909,179
Commitments and contingencies *[note 9]*			
SHAREHOLDERS' DEFICIENCY			
Common shares *[note 10]*	**24,198,875**	24,198,875	24,058,875
Shares to be issued *[note 5]*	—	—	60,000
Equity portion of convertible debenture *[note 8]*	**60,000**	60,000	60,000
Contributed surplus *[notes 4 and 10]*	**1,750,365**	1,746,365	1,675,365
Deficit	**(27,873,652)**	(27,608,441)	(26,254,668)
	(1,864,412)	(1,603,201)	(400,428)
	325,036	396,596	508,751

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

Three months ended April 30

	2011 $	2010 $
REVENUE		
Market distribution rights *[note 14]*	**2,000**	2,000
EXPENSES		
General and administrative	**96,566**	126,923
Research and development	**132,243**	195,273
	228,809	322,196
Loss before the undernoted	**(226,809)**	(320,196)
Other income (expenses)		
Financial income	—	2,137
Financial expenses *[notes 8 and 15]*	**(27,136)**	(15,608)
Foreign exchange gain	**225**	921
Loss on fair value adjustment of marketable securities *[note 7]*	**(3,651)**	(6,922)
Loss on sale of marketable securities *[note 7]*	**(7,840)**	—
	(38,402)	(19,472)
Net and comprehensive loss for the period	**(265,211)**	(339,668)
Deficit, beginning of period	**(27,608,441)**	(26,254,668)
Deficit, end of period	**(27,873,652)**	(26,594,336)
Basic and diluted loss per share	**($0.00)**	($0.00)

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended April 30	2011 $	2010 $
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net loss for the period	**(265,211)**	339,668
Items that do not involve cash:		
Finance income	—	(2,137)
Finance expense	**27,136**	15,608
Amortization	**29,321**	26,609
Stock-based compensation *[note 12]*	**4,000**	6,000
Loss on sale of marketable securities [note 7]	**7,840**	—
Loss on fair value adjustment of marketable securities *[note 7]*	**3,651**	6,922
Deferred revenue recognized in the period *[note 13]*	**(2,000)**	(2,000)
	(195,263)	(288,666)
Changes in working capital		
(Increase) / decrease in receivables	**(1,618)**	92,939
(Increase) / decrease in prepaids	**(5,663)**	(3,451)
Increase / (decrease) in A/P and accrued liabilities	**101,651**	(90,966)
	94,370	(1,478)
Interest paid	**(11,832)**	(15,608)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	**(112,725)**	(305,752)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in demand loans *[note 15]*	**90,000**	400,000
NET CASH FLOWS FROM FINANCING ACTIVITIES	**90,000**	400,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of marketable securities *[note 7]*	**26,315**	—
Unpaid interest *[note 15]*	**(15,307)**	—
NET CASH FLOWS FROM INVESTING ACTIVITIES	**11,008**	—
Increase in cash and cash equivalents	**(11,717)**	94,248
Cash and cash equivalents, beginning of period	**13,394**	31,752
Cash and cash equivalents, end of period	**1,677**	126,000

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS DEFICIENCY

Three months ended April 30	2011 $	2010 $
SHARE CAPITAL		
Opening balance	**24,198,875**	24,058,875
Closing balance	**24,198,875**	24,058,875
EQUITY PORTION OF CONVERTIBLE DEBENTURE		
Opening balance	**60,000**	60,000
Closing balance	**60,000**	60,000
SHARES TO BE ISSUED		
Opening balance	—	60,000
Closing balance	—	60,000
CONTRIBUTED SURPLUS		
Opening balance	**1,746,365**	1,675,365
Share based compensation	**4,000**	6,000
Closing balance	**1,750,365**	1,681,365
DEFICIT		
Opening balance	**(27,608,441)**	(26,254,668)
Loss for the period	**(265,211)**	(339,668)
Income & expense items recognized in equity	—	—
Total income & expense for the period	**(265,211)**	(339,668)
Effects of changes in accounting policies	—	—
Closing balance	**(27,873,652)**	(26,594,336)
TOTAL SHAREHOLDERS' DEFICIENCY	**(1,864,412)**	(734,096)

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2011

1. DESCRIPTION OF BUSINESS AND GOING CONCERN UNCERTAINTY

Description of business

Quest PharmaTech Inc., (the "Company") is a biotechnology company committed to the development and commercialization of oncology product candidates. It is developing a series of products for the treatment of cancer based on its pipeline of SonoLight compounds and monoclonal antibodies which target certain tumor antigens that are presented in a variety of cancers. The Company believes that by combining these antibodies with other cancer therapies such as chemotherapy, photodynamic therapy or radioimmuno therapy, it can potentially further complement and enhance treatment outcomes compared to antibody treatment alone.

The Company is domiciled in Alberta, Canada and incorporated under the Business Corporations Act (Alberta). The Company's functional currency is the Canadian dollar

The Company is publicly traded on the TSX Venture Exchange under the symbol "QPT".

These consolidated financial statements have been authorized for issue in accordance with the Company's Board of Directors.

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 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, 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.

2. BASIS OF PREPARATION

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles (GAAP) as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate

International Financial Reporting Standards (IFRS) and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these consolidated interim financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These consolidated interim financial statements have been prepared in accordance with IFRS applicable to the preparation of the consolidated interim financial statements including IAS 34 "Interim Financial Reporting" and IFRS 1, (First-time adoption of International Financial Reporting Standards"). Subject to certain transition elections disclosed in note 4, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at February 1, 2010 and throughout all periods presented, as if these policies had always been in effect.

The policies applied in these consolidated interim financial statements are based on IFRS issued and outstanding as of July 22, 2011, the date the Board of Directors approved the statements, Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ended January 31, 2012 could result in restatement of these consolidated interim financial statements, including transition adjustments recognized on change-over to IFRS.

The consolidated interim financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended January 31, 2011. Note 4 discloses IFRS information for the year ended January 31, 2011 not provided in the 2011 annual financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of measurement

The consolidated interim financial statements have been prepared under the historical cost convention.

Consolidation

The consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries incorporated in Canada as at April 30, 2011:

- Sonolight Pharmaceuticals Corp.
- Steroidogenesis Inhibitors Canada Inc.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the

Company obtains control and continue to be consolidated until the date such control ceases. The financial statements of the subsidiaries are prepared using consistent accounting policies. All inter-company transactions and balances are eliminated in full.

Cash equivalents

Cash equivalents includes 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 historical 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.

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 expected utilization of the underlying technology and an assessment of whether estimated future cash flows exceed the carrying value of the proprietary rights and intellectual property. If the rights and intellectual property are not considered to be fully recoverable, a provision is recorded to recognize them at the recoverable amount.

Patent rights

Patent rights are recorded at historical 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 and an assessment as to whether estimated future net cash flows exceed the carrying value of the patent rights. If the rights are not considered to be fully recoverable, a provision is recorded to recognize them at the recoverable amount.

Property and equipment

Property and equipment is recorded at historical 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

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 equity. 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. Upfront 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 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. Investment tax credits 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.

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 plant and equipment is deducted from the cost of the related plant and equipment.

Financial instruments

All financial instruments are classified as either 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 statement of financial position 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 statement of financial position at amortized cost.

The Company has designated cash and cash equivalents, and marketable securities as held-for-trading, its 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.

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.

Impairment of long lived assets

The Company assesses the carrying value of long lived assets, including property and equipment, intangible assets and other assets subject to amortization, for potential impairment when circumstances warrant a determination. Factors that are considered and which could lead to an impairment include significant changes in the manner of use of the asset or the overall strategy of the business.

Impairment of non-monetary long lived assets is recognized when the carrying amount of an asset exceeds its recoverable amount. The impairment amount recorded will be the difference between the recoverable amount and the carrying value. The recoverable amount is the higher of fair value less costs to sell and value in use.

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 and is recognized for employees over the vesting period of the options granted, and for non-employees as goods are received or services rendered. 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 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. For fully vested and non-forfeitable stock based payments, the cost is measured and recognized at the grant date.

Income taxes

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred income tax assets and liabilities are measured at the tax rates expected to apply to the year when the assets are realized or the liability is settled based on the tax rates that have been enacted or substantially enacted at the date of the statement of financial position. The carrying amount of the deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is not probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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 (weighted average number of outstanding shares – basic and diluted: April 30, 2011 – 73,197,580, April 30, 2010 – 69,697,580).

Use of estimates

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, capital reserves and liabilities. Actual results may vary from those estimated. The recoverable value of property, plant and equipment of $114,416 and intangibles of $140,385, as well as the amount of deferred revenue, are the more significant items which reflect estimates in this consolidated statement of financial position. 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 in this document.

4. EXPLANATION OF TRANSITION TO IFRS

Restatement of equity reserves from Canadian GAAP to IFRS:

Certain of the Company's equity reserve accounts have been restated as a result of the transition from Canadian GAAP to IFRS as follows:

	Under Canadian GAAP	Fair Value of Share Based Payments to Non-Employees	Under IFRS
	$	$	$
As at Feb 1, 2010:			
Contributed Surplus	**1,674,365**	**1,000**	**1,675,365**
Deficit	**(26,253,668)**	**(1,000)**	**(26,254,668)**
As at Apr 30, 2010:			
Contributed Surplus	**1,680,365**	**1,000**	**1,681,365**
Deficit	**(26,593,336)**	**(1,000)**	**(26,594,336)**

Under IFRS, the fair value of share based payments to non-employees is measured at the date the Company obtains the goods or the counterparty renders the services. For the Company, this has resulted in the recognition of consulting services in the amount of $1,000 under IFRS that were not previously recognized under Canadian GAAP.

Also, as a result of the transition to IFRS, amortization of intangibles and property & equipment for the three month period ended April 30, 2011 and 2010 was allocated to research and development and general administration expense categories (April 30, 2011: R&D – $28,782, Admin - $539 / April 30, 2010: R&D - $25,839, Admin - $770).

5. INTANGIBLE ASSETS

	April 30, 2011		January 31, 2011		February 1, 2010	
	Cost $	Accumulated amortization $	Cost $	Accumulated amortization $	Cost $	Accumulated amortization $
Immunotherapy technology	**237,500**	**97,117**	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	2,476,822	2,476,822
CDK technology	**225,000**	**225,000**	225,000	225,000	225,000	225,000
	2,939,322	**2,798,939**	2,859,322	2,779,147	2,859,322	2,719,322
Net book value	**140,383**		160,175		140,000	

During the three month period ended April 30, 2011, amortization of intangible assets was $19,792 (2010 – $13,125). As at January 31, 2011, the Company performed a review of the carrying value of intangible assets and determined that no impairment charge was required.

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 a 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 8).

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.

6. PROPERTY AND EQUIPMENT

	April 30, 2011		January 31, 2011		February 1, 2010	
	Cost $	Accumulated amortization $	Cost $	Accumulated amortization $	Cost $	Accumulated amortization $
Computer equipment	**80,744**	**73,473**	80,744	72,884	80,744	69,515
Furniture and fixtures	**12,114**	**11,482**	12,114	11,431	12,114	11,138
Office equipment	**31,494**	**30,474**	31,494	30,391	31,494	29,918
Manufacturing and R&D equipment	**456,084**	**351,193**	456,084	342,688	456,084	294,090
Leasehold improvements	**2,305**	**1,703**	2,305	1,403	2,305	200
	582,741	**468,325**	582,741	458,797	582,741	404,861
Net book value	**114,416**		123,944		177,880	

During the three month period ended April 30, 2011, amortization of property and equipment was $9,529 (2010 – $13,484).

7. MARKETABLE SECURITIES

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

	Apr 30, 2011 $	Jan 31, 2011 $	Feb 1, 2010 $
Common shares of Brand Marvel Worldwide Consumer Products Corporation (BMW.v)	**36,506**	74,311	47,289
8,334 common shares of Samaritan Pharmaceuticals Inc.	**333**	333	583
	36,839	74,644	47,872

At January 31, 2011, the Company held 1,351,111 common shares of BMW.v. During the three month period ended April 30, 2011, the Company sold 621,000 common shares of BMW.v for net proceeds of $26,315. At April 30, 2011, the Company continued to hold 730,111 common shares of BMW.v and recorded a fair value adjustment of $3,651 in connection with the shares. Subsequent to period end, the Company sold the remaining 730,111 shares of BMW.v for net proceeds of $30,342.

8. 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 5). 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 April 30, 2011, the maturity date had been extended to September 22, 2011. In connection with the extensions, 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 Q1, fiscal 2012, the Company used the residual value method to allocate the proceeds of $500,000 between the liability component and the equity component based on a Black-Scholes option pricing model assuming an expected life of one year, dividend yield of 0%, average expected volatility of 39.9% and an average risk-free interest rate of 1.15%. The equity component was calculated to be $60,000 (January 31, 2011 - $60,000). At April 30, 2011, the liability component was calculated to be $500,000 (at January 31, 2011 - $500,000).

During the three month period ended April 30, 2011, the Company incurred $11,250 (2010 - $11,250) in interest under this convertible debenture.

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:

	$
2012	29,295
	29,295

b) Research and development, and other

Subject to successful completion of contractual milestones, the Company has commitments to fund various research and development and other activities in the normal business course as follows:

	$
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.

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 5). 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 February 1, 2010	69,697,580	24,058,875
Shares issued pursuant to technology purchase	3,500,000	140,000
At January 31, 2011	73,197,580	24,198,875
At April 30, 2011	73,197,580	24,198,875

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2011

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.

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 fifteen 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 fifteen-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 April 30, 2011.

Exercise price $	Options outstanding #	Weighted average remaining life (years)	Options exercisable #
0.10	**2,750,000**	**4.82**	**2,750,000**
0.15	**425,000**	**0.19**	**425,000**
0.25	**1,865,000**	**0.44**	**1,865,000**
	5,040,000	**5.45**	**5,040,000**

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, February 1, 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
Granted	100,000	0.10
Expired	(100,000)	0.25
Balance, April 30, 2011	**5,040,000**	**0.16**

Stock options

For the three month period ended April 30, 2011, the Company granted 100,000 stock options, as per the Company's Stock Option Plan. These stock options all had an exercise price of $0.10 and were granted to non-employees (note 12).

For the three month period ended April 30, 2010, the Company granted 100,000 stock options, as per the Company's Stock Option Plan. These stock options had an exercise price of $0.10 and were granted to non-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 April 30, 2011, 2,960,000 options are available for issue.

Contributed surplus

	2011 $	2010 $
Contributed surplus, February 1	**1,746,365**	1,675,365
Stock-based compensation expense	**4,000**	6,000
Contributed surplus, April 30	**1,750,365**	1,681,365

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 three month period ended April 30, 2011, the Company granted a total of 100,000 (2010 – 100,000) stock options under the Company's Stock Option Plan. The fair value of options vesting in 2011 of $4,000 (2010 - $6,000) was recognized as an expense and credited to contributed surplus for the three month period ended April 30, 2011 and 2010.

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	**136.2%**	128.6%
Risk-free interest rate	**3.20%**	3.45%
Expected life (years)	**10.00**	10.00
Fair value per option	**$0.04**	$0.06

13. DEFERRED REVENUE

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

	Apr 30, 2011 $	Jan 31, 2011 $	Feb 1, 2010 $
Market distribution rights (*note 10*)	**83,667**	85,667	93,667
Less current portion	**8,000**	8,000	8,000
Long term portion	**75,667**	77,667	85,667

The Company recognized $2,000 of deferred revenue on the statements of operations during the three month period ended April 30, 2011 (April 30, 2010 - $2,000).

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 three month period ended April 30, 2011 and 2010, by geographic area.

Revenues by geographic area

	2011 $	2010 $
Canada	—	—
United States	—	—
Asia	**2,000**	2,000
	2,000	2,000

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2011

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 April 30, 2011, the Company had drawn $830,000 on this financing. During the three month period ended April 30, 2011, the Company incurred $15,307 in interest under the demand loan financing. Subsequent to April 30, 2011, the Company drew a further $80,000 on this financing (see Subsequent Events note 19). Subsequent to April 30, 2011, the Company secured additional demand loan financing of $50,000 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. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS RELATED TO OPERATING ACTIVITIES

For the three months ended April 30	**2011**	**2010**
	$	$
Accounts receivable	**(1,618)**	92,939
Prepaid expenses	**(5,663)**	(3,451)
Accounts payable and accrued liabilities	**101,651**	(90,966)
	94,370	(1,478)

17. 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.

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). During the three month period ended April 30, 2011, the Company renegotiated the maturity of its convertible debenture to September 22, 2011. Subsequent to April 30, 2011, the Company secured demand loan financing of $130,000.

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 period end, 98% 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.

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.

18. COMPENSATION OF KEY MANAGEMENT

Key management includes directors and executives of the Company. The compensation paid or payable to key management for services is shown below:

For the three months ended April 30	**2011**	**2010**
	$	$
Salaries and short term employee benefits	**80,996**	95,025
Director compensation	**nil**	nil
	80,996	95,025

During the three months ended April 30, 2011, nil options (2010 – nil) were granted to key management.

19. SUBSEQUENT EVENTS

In May and June, 2011, the Company drew an additional $80,000 on its demand loan financing (see Demand Loans and Related Party Transactions, note 15). To date the Company has drawn a total of $910,000 on this financing.

In May, 2011, the Company secured additional demand loan financing of $50,000 from a director of the Company. The Company currently owes $100,000 under this demand loan financing which bears interest at 8% per annum, interest payable monthly and is unsecured with principal repayment to be made 30 days after demand.

On June 2, 2011, the Company signed agreements granting 1,950,000 stock options to Officers and to a Director 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 June 2, 2021.