Consolidated Financial Statements

Quest PharmaTech Inc.

Six months ended July 31, 2009
(Unaudited)

Quest PharmaTech Inc.

National Instrument 51 – 102
Continuous Disclosure Obligations

<u>Notice</u>

Pursuant to Part 4.3 (3) of National Instrument 51 – 102, these unaudited interim consolidated financial statements of Quest PharmaTech Inc. for the six month period ended July 31, 2009 have not been reviewed by the Company's auditors.

Quest PharmaTech Inc.

CONSOLIDATED BALANCE SHEETS

(see note 1 – going concern uncertainty)

As at

	July 31, 2009 (Unaudited) $	January 31, 2009 (Audited) $
ASSETS		
Current		
Cash	**429,449**	594,826
Accounts receivable	**30,925**	54,617
Marketable securities *[note 5]*	**27,814**	53,010
Prepaid expenses	**7,665**	37,860
	495,853	740,313
Property, plant and equipment *[note 4]*	**208,980**	238,024
	704,833	978,337
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current		
Accounts payable and accrued liabilities	**52,125**	202,912
Convertible debenture *[note 6]*	**500,000**	497,137
Current portion of deferred revenue *[note 8]*	**8,000**	258,000
	560,125	958,049
Deferred revenue *[note 8]*	**89,667**	93,667
	649,792	1,051,716
Shareholders' equity (deficiency)		
Share capital *[note 9]*	**23,998,875**	23,998,875
Equity portion of convertible debenture *[note 6]*	**60,000**	60,000
Contributed surplus *[note 9]*	**1,607,865**	1,603,615
Deficit	**(25,611,699)**	(25,735,869)
	55,041	(73,379)
	704,833	978,337

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 INCOME (LOSS) AND DEFICIT

	For the quarter ended July 31		For the six months ended July 31	
	2009 $	2008 $	**2009** $	2008 $
REVENUE				
License fees and market distribution rights *[notes 7 and 12]*	**252,000**	502,000	**754,000**	1,004,000
EXPENSES				
General and administrative	**129,311**	224,586	**328,246**	347,928
Research and development, net *[note 15]*	**94,067**	273,532	**213,383**	575,724
Amortization	**17,565**	12,177	**34,910**	17,503
Bank charges and interest	**11,350**	16,505	**25,766**	30,228
	252,293	526,800	**602,305**	971,383
Income (loss) before the undernoted	**(293)**	(24,800)	**151,695**	32,617
Other income (expenses):				
Interest income	**443**	4,905	**1,839**	12,369
Foreign exchange (loss) gain	**(2,958)**	2,381	**(4,168)**	3,559
Gain (loss) on sale of non-core assets *[note 5]*	**—**	(3,750)	**—**	5,000
Loss on fair value impairment of marketable securities *[note 5]*	**—**	—	**(25,196)**	—
	(2,515)	3,536	**(27,525)**	20,928
Net and comprehensive (loss) income for the period	**(2,808)**	(21,264)	**124,170**	53,545
Deficit, beginning of period	**(25,608,891)**	(25,457,013)	**(25,735,869)**	(25,531,822)
Deficit, end of period	**(25,611,699)**	(25,478,277)	**(25,611,699)**	(24,478,277)
Basic and diluted (loss) earnings per share	**($0.00)**	($0.00)	**$0.00**	$0.00

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the quarter ended July 31		For the six months ended July 31	
	2009	2008	**2009**	2008
	$	$	**$**	$
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Net income (loss) for the period	**(2,808)**	(21,264)	**124,170**	53,545
Items that do not involve cash:				
Interest accreted on convertible debenture	—	5,000	**2,863**	7,137
Amortization	**17,565**	12,177	**34,910**	17,503
Stock-based compensation	**2,750**	—	**4,250**	—
Loss (gain) on the sale of non-core assets	—	3,750	—	(5,000)
Loss on fair value impairment of marketable securities	—	—	**25,196**	—
Deferred revenue recognized in the period	**(252,000)**	(502,000)	**(754,000)**	(1,004,000)
Cash received on deferred licenses *[note 7]*	—	1,000,000	**500,000**	1,000,000
Changes in non-cash working capital items relating to continuing operating activities *[note 14]*	**(67,547)**	(88,407)	**(96,900)**	43,630
	(302,040)	409,256	**(159,511)**	112,815
CASH USED IN INVESTING ACTIVITIES				
Purchase of property and equipment	**(5,866)**	(186,454)	**(5,866)**	(191,397)
Proceeds from the sale of property, equipment and other assets	—	—	—	42,500
	(5,866)	(186,454)	**(5,866)**	(148,897)
Increase (decrease) in cash and cash equivalents	**(307,906)**	222,802	**(165,377)**	(36,082)
Cash and cash equivalents, beginning of period	**737,355**	1,046,918	**594,826**	1,305,802
Cash and cash equivalents, end of period	**429,449**	1,269,720	**429,449**	1,269,720

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2009

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 cash outflows from operations since its inception.

The Company's ability to continue as a going concern is uncertain and is dependent upon its ability to raise additional capital to successfully complete its research and development programs, commercialize its technologies and conduct clinical trials and receive regulatory approvals for its products. It is not possible at this time to predict the outcome of these matters. 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. SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim consolidated financial statements have been prepared by management in accordance with the accounting policies described in the Company's consolidated financial statements for the year ended January 31, 2009. These unaudited interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended January 31, 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2009

3. INTANGIBLE ASSETS

	at July 31, 2009		at January 31, 2009	
	Cost	**Accumulated amortization**	Cost	Accumulated amortization
	$	$	$	$
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
	2,701,822	**2,701,822**	2,701,822	2,701,822
		—		—

CORE TECHNOLOGY:

Hypocrellin based technology and licenses ("SonoLight Technology")
The Company's subsidiary, Sonolight Pharmaceuticals Corp ("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 6).

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2009

4. PROPERTY, PLANT AND EQUIPMENT

	at July 31, 2009		at January 31, 2009	
	Cost	**Accumulated amortization**	Cost	Accumulated amortization
	$	$	$	$
Computer hardware and software	**80,743**	**67,783**	74,878	66,273
Furniture and fixtures	**12,114**	**10,929**	12,114	10,122
Office equipment	**31,494**	**29,580**	31,494	28,278
Manufacturing and R&D equipment	**454,083**	**261,162**	441,838	228,310
Deposit on manufacturing and R&D equipment	—	—	12,245	—
	578,434	**369,454**	572,569	334,545
Net book value	**208,980**		238,024	

During the three and six month periods ended July 31, 2009, amortization of property, plant and equipment was $17,565 and 34,910, respectively (for the three and six month periods ended July 31, 2008 – $12,177 and $17,503, respectively).

5. ASSETS HELD FOR SALE

As part of the Company's approved initiatives to divest itself of certain non-core technologies, on December 21, 2007, and amended on April 18, 2008, the Company signed a technology transfer agreement with a third party to sell its interest in the Bionex Technology. Under the terms of the agreement, the Company received cash of $50,000, 1,351,111 common shares of Toba Industries Ltd. (afterwards known as Brand Marvel World Wide Consumer Products Corporation), and future royalties of up to $200,000 upon the successful commercialization of Bionex related products. During the six month period ended July 31, 2008, the Company recorded a gain on sale of $5,000 based on the cash consideration of the transaction.

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

	July 31, 2009	**Jan 31, 2009**
	$	$
1,351,111 common shares of Brand Marvel Worldwide Consumer Products Corporation (BMW.v)	**27,022**	52,218
8,334 common shares of Samaritan Pharmaceuticals Inc.	**792**	792
	27,814	53,010

During the six month period ended July 31, 2009, the Company recorded a fair value impairment of $25,196 in connection with the shares of BMW.v.

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 SonoLight 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 July 31, 2009, the maturity date has been extended to March 22, 2010. 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.

The Company has 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 238.2% and an average risk-free interest rate of 0.50%. The equity component was calculated to be $60,000. The liability component has been accreted to the face value of the debenture over its term and the accretion charge has been accounted for as interest expense. At July 31, 2009, the liability component was calculated to be $500,000.

During the three and six month periods ended July 31, 2009, the Company incurred $11,250 and $25,363, respectively [2008 - $16,250 and $29,637 respectively] in interest under this convertible debenture, of which $nil and $2,863, respectively [2008 - $5,000 and $7,137, respectively] was in the form of accreted interest.

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, $1,500,000 during fiscal 2009 and $500,000 during the six month period ended July 31, 2009. 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 is recognizing the license fee in relation to the costs incurred with these efforts and has recognized $750,000 of the license fee during the six month period ended July 31, 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2009

8. DEFERRED REVENUE

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

	July 31, 2009 $	Jan 31, 2009 $
Current portion:		
License fees	—	250,000
Market distribution rights	**8,000**	8,000
	8,000	258,000
Long term portion:		
Market distribution rights	**89,667**	93,667

9. 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
At July 31, 2009	**68,197,580**	23,998,875

At July 31, 2009, the Company holds 22,540 common shares for cancellation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2009

9. SHARE CAPITAL (CONTINUED)

The following options to purchase common shares were outstanding as at July 31, 2009.

Exercise price	Options outstanding	Weighted average remaining life	Options exercisable	Options non-exercisable
$0.15	375,000	4.44 years	375,000	—
$0.25	3,318,000	1.54 years	3,268,000	50,000
$0.31	166,000	0.47 years	166,000	—
$1.00	250,000	0.55 years	250,000	—
	4,109,000	1.70 years	4,059,000	50,000

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

	Shares issuable on exercise of			
	Warrants		Stock options	
	Number of shares	Weighted average exercise price $	Number of shares	Weighted average exercise price $
Balance January 31, 2009	—	—	4,184,000	0.31
Granted	—	—	175,000	0.21
Exercised	—	—	—	—
Expired	—	—	(250,000)	0.54
Balance July 31, 2009	—	—	4,109,000	0.29

Stock options

For the six month period ended July 31, 2009, the Company granted 175,000 (2008 – 50,000) stock options under the Company's Stock Option Plan. 100,000 of these options have an exercise price of $0.25 and 75,000 options have an exercise price of $0.15. All of the options were granted to non-employees (note 11). At July 31, 2009, 2,710,758 options are available for issue.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2009

9. SHARE CAPITAL (CONTINUED)

Escrowed shares

As at July 31, 2009, the Company's transfer agent held 301,788 (As at July 31, 2008 – 905,366) common shares pursuant to a time based escrow agreement (prior to October 31, 2004, these shares were subject to a TSX Venture Exchange performance based escrow agreement). These shares will be automatically released over time through to October 30, 2009.

Contributed surplus

	2009	**2008**
	$	$
Contributed surplus, January 31	**1,603,615**	1,439,115
Stock-based compensation expense	**4,250**	—
Expiration or revaluation of warrants	**—**	96,000
Contributed surplus, July 31	**1,607,865**	1,535,115

10. 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 the Company's 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' equity (deficiency) (primarily comprised of share capital, contributed surplus and deficit) and current term debt consisting of a convertible debenture. 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

11. STOCK-BASED COMPENSATION

During the three and six month periods ended July 31, 2009, the Company granted a total of 75,000 and 175,000 stock options, respectively, as per the Company's Stock Option Plan, to consultants, at exercise prices of $0.15 per share and $0.25 per share, respectively. 125,000 of these stock options vested during the six month period ended July 31, 2009. The estimated fair value of these vested options ($2,750 and $4,250, respectively) was recognized as an expense and credited to contributed surplus for the three and six month periods ended July 31, 2009. For the three and six month periods ended July 31, 2008, the Company did not recognize any stock based compensation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2009

12. SEGMENT DISCLOSURES

The Company is managed as one operating segment – biopharmaceutical products. The following table presents information on the Company's operating results.

Revenues by geographic area

	Three months ended July 31,		Six months ended July 31,	
	2009	2008	2009	2008
	$	$	$	$
Asia	**252,000**	502,000	**754,000**	1,004,000
	252,000	502,000	**754,000**	1,004,000

Revenues from operations represent license fees and market distribution rights earned during the period.

13. RELATED PARTY TRANSACTIONS

During the three and six month periods ended July 31, 2009 and 2008, there were no related party transactions.

14. CHANGES IN NON-CASH WORKING CAPITAL ITEMS RELATING TO CONTINUING OPERATING ACTIVITIES

	3 Months Ended		6 Months Ended	
	July 31 / 09	July 31 / 08	July 31/ 09	July 31/ 08
	$	$	$	$
Accounts receivable	**(3,015)**	(7,905)	**23,692**	104,339
Prepaid expenses and other assets	**17,084**	37,890	**30,195**	(33,235)
Accounts payable and accrued liabilities	**(81,616)**	(118,392)	**(150,787)**	(27,474)
	(67,547)	(88,407)	**(96,900)**	43,630

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2009

15. GOVERNMENT ASSISTANCE

In April, 2008, the Company obtained government assistance in the form of an IRAP grant to cover salaries and contractor fees related to the development of the Company's sonodynamic therapy for the treatment of peritoneal cancer. During the three and six month periods ended July 31, 2009, the Company recognized $29,750 and $62,091, respectively (2008 - $25,692) of funding as a reduction of research and development expenses.

	3 Months Ended		6 Months Ended	
	July 31 / 09	**July 31 / 08**	**July 31/ 09**	**July 31/ 08**
	$	**$**	**$**	**$**
Gross R & D expenses	**123,817**	299,224	**275,474**	601,416
Less government assistance	**(29,750)**	(25,692)	**(62,091)**	(25,692)
R & D expenses, net	**94,067**	273,532	**213,383**	575,724

16. 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.

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 approximate fair value due to the immediate or short term maturity of these 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.

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.

16. FINANCIAL INSTRUMENTS (CONTINUED)

ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. 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 10).

iii) Credit risk

Financial instruments that subject the Company to credit risk consist primarily of cash equivalents and accounts receivable. To minimize its exposure to credit risk for cash equivalents, the Company invests in short term deposits that are fully guaranteed by the Company's financial banker, a major Canadian bank (approximately $385,000 at July 31, 2009). At July 31, 2009, approximately 67% of accounts receivable were due from one organization.

iv) Market risk

The Company owns investments in common shares of publicly traded companies that subject the Company to market risk. As market prices change, the Company's income and the value of its marketable securities are affected. The Company expects that its exposure to market risk will be short lived as the investments are viewed as temporary in nature.

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 investments that earn interest at market rates. Interest on the long term debt is at fixed rates. Consequently, the Company is exposed to fair value changes on long-term debt when the market rate on 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 invests excess funds in liquid, fully guaranteed deposits with its financial banker.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.