

Consolidated Financial Statements

Quest PharmaTech Inc.
(formerly Altachem Pharma Ltd.)
Six months ended July 31, 2006
(Unaudited)

Quest PharmaTech Inc. (formerly Alchem Pharma Ltd.)

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 six month period ended July 31, 2006 have not been reviewed by the Company's auditors.

Quest PharmaTech Inc. (formerly Altachem Pharma Ltd.)

CONSOLIDATED BALANCE SHEETS

(see note 1 – going concern uncertainty)

As at

	July 31, 2006 (Unaudited) \$	January 31, 2006 (Audited) \$
ASSETS		
Current		
Cash and cash equivalents [note 9]	1,050	115,505
Accounts receivable	312,389	166,921
Prepaid expenses and other assets	5,276	28,920
Current assets held for sale [notes 5(b) and (h)]	974	82,510
	319,689	393,856
Intangible assets [note 3]	—	11,833
Property, plant and equipment [note 4]	150,291	170,670
Assets held for sale – intangible [notes 5(a) and 9]	—	5,464
Assets held for sale – property, plant and equip [notes 5(b) and 9]	—	872,368
	469,980	1,454,191
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current		
Bank overdraft	17,324	—
Accounts payable and accrued liabilities	478,620	381,953
Demand notes [note 10]	230,000	—
Convertible debenture [note 6]	1,000,000	988,888
Current liabilities – assets held for sale [note 5(h)]	2,387	13,492
Current portion of obligation under capital lease - assets held for sale [note 5(b)]	—	921,047
	1,728,331	2,305,380
Shareholders' equity (deficiency)		
Share capital [note 7]	21,067,415	20,968,675
Warrants [note 7]	—	98,740
Equity portion of convertible debenture [note 6]	66,667	66,667
Contributed surplus	1,036,245	1,031,745
Cumulative translation adjustment	—	(210,090)
Deficit	(23,428,678)	(22,806,926)
	(1,258,351)	(851,189)
	469,980	1,454,191

See accompanying notes

On behalf of the Board:

(signed)
Ragupathy (“Madi”) Madiyalakan
Director

(signed)
Ian McConnan
Director

Quest PharmaTech Inc. (formerly Altachem Pharma Ltd.)

**CONSOLIDATED STATEMENTS OF
OPERATIONS AND DEFICIT**

	For the quarter ended July 31		For the six months ended July 31	
	2006 \$	2005 \$	2006 \$	2005 \$
EXPENSES				
General and administrative [note 10]	110,320	201,767	249,835	511,669
Research and development, net [note 12]	212,493	319,467	441,111	695,210
Amortization	12,671	35,480	36,996	70,382
Bank charges and interest [notes 5,6 and 10]	23,810	27,107	55,555	43,501
	359,294	583,821	783,497	1,320,762
Loss before the undernoted	(359,294)	(583,821)	(783,497)	(1,320,762)
Other income (expenses):				
Interest income	155	3,276	408	5,085
Foreign exchange gain	499	546	12,310	42,327
	654	3,822	12,718	47,412
Loss before discontinued operations	(358,640)	(579,999)	(770,779)	(1,273,350)
Income (loss) from discontinued operations [note 5]	209,751	(60,510)	149,027	(181,829)
Net loss for the period	(148,889)	(640,509)	(621,752)	(1,455,179)
Deficit, beginning of period	(23,279,789)	(20,117,783)	(22,806,926)	(19,303,113)
Deficit, end of period	(23,428,678)	(20,758,292)	(23,428,678)	(20,758,292)
Basic and diluted loss per share				
Continuing operations	(\$0.01)	(\$0.02)	(\$0.01)	(\$0.03)
Discontinued operations	\$0.01	\$0.00	\$0.00	(\$0.01)
	\$0.00	(\$0.02)	(\$0.01)	(\$0.04)

See accompanying notes

Quest PharmaTech Inc. (formerly Altachem Pharma Ltd.)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	For the quarter ended		For the six months	
	July 31		ended July 31	
	2006	2005	2006	2005
	\$	\$	\$	\$
CASH USED IN OPERATING ACTIVITIES				
Net loss for the period	(148,889)	(640,509)	(621,752)	(1,455,179)
(Income) loss from discontinued operations	(209,751)	60,510	(149,027)	181,829
	(358,640)	(579,999)	(770,779)	(1,273,350)
Items that do not involve cash:				
Interest accreted on convertible debenture	—	—	11,112	—
Amortization	12,671	35,480	36,996	70,382
Stock based compensation	—	48,885	4,500	94,218
Changes in non-cash working capital items relating to operating activities	(175,877)	(91,436)	(25,157)	(652,336)
	(521,846)	(587,070)	(743,328)	(1,761,086)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of private placement units	—	1,005,000	—	1,432,175
Increase in demand notes	80,000	—	230,000	75,000
Repayment of demand notes	—	(459,571)	—	(782,683)
Increase in bank overdraft	17,324	—	17,324	—
Issuance of convertible debentures	—	—	—	1,000,000
	97,324	545,429	247,324	1,724,492
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(4,784)	(2,488)	(4,784)	(3,409)
	(4,784)	(2,488)	(4,784)	(3,409)
Cash used in continuing operations	(429,306)	(44,129)	(500,788)	(40,003)
Cash (used in) provided by discontinued operations				
Operating activities	(49,618)	19,326	(42,521)	(163,210)
Investing activities	413,325	(2,377)	411,530	(4,865)
Increase (decrease) in cash and cash equivalents	(65,599)	(27,180)	(131,779)	(208,078)
Cash and cash equivalents, beginning of period	49,325	1,618,257	115,505	1,799,155
Cash and cash equivalents, end of period	(16,274)	1,591,077	(16,274)	1,591,077
Cash consists of:				
Cash	1,050	320,015	1,050	320,015
Cash equivalents	—	1,271,062	—	1,271,062
	1,050	1,591,077	1,050	1,591,077
Bank overdraft	(17,324)	—	(17,324)	—
	(16,274)	1,591,077	(16,274)	1,591,077

See accompanying notes

Quest PharmaTech Inc. (formerly Alchem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2006

1. DESCRIPTION OF BUSINESS AND GOING CONCERN UNCERTAINTY

Description of Business

Quest PharmaTech Inc., (the "Company") is incorporated under the Business Corporations Act (Alberta). On September 16, 2005, pursuant to shareholder approval obtained on September 15, 2005, the Company changed its name from Alchem Pharma Ltd. to Quest PharmaTech Inc. 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 financial statements have been prepared on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has experienced significant operating losses and cash outflows from operations since its inception and it is expected to continue to experience negative cash flows from operations for the foreseeable future. The Company had a working capital deficiency of \$1,408,642 and a shareholders' deficiency of \$1,258,351 as at July 31, 2006.

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 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, 2006. These unaudited interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended January 31, 2006.

Quest PharmaTech Inc. (formerly Alchem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2006

3. INTANGIBLE ASSETS

	<u>at July 31, 2006</u>		<u>at January 31, 2006</u>	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
	\$	\$	\$	\$
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	213,167
	2,701,822	2,701,822	2,701,822	2,689,989
		—		11,833

During the three and six month periods ended July 31, 2006, amortization of intangibles related to continuing operations was \$nil and \$11,833, respectively (for the three and six month periods ended July 31, 2005 – \$18,750 and \$37,500, respectively).

CORE TECHNOLOGIES:

Hypocrellin based technology and licenses (proprietary rights)

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 issued during the year (note 6).

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 has 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.

Quest PharmaTech Inc. (formerly Altachem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2006

4. PROPERTY, PLANT AND EQUIPMENT

	<u>at July 31, 2006</u>		<u>at January 31, 2006</u>	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Computer hardware and software	101,472	79,114	101,462	75,158
Furniture and fixtures	12,114	8,659	12,114	8,049
Office equipment	36,944	29,263	36,944	27,907
Manufacturing and R&D equipment	402,713	293,572	397,929	274,945
Leasehold improvements	9,650	1,994	9,650	1,370
	562,893	412,602	558,099	387,429
Net book value		150,291		170,670

During the three and six month periods ended July 31, 2006, amortization of property, plant and equipment related to continuing operations was \$12,671 and \$25,163, respectively (for the three and six month periods ended July 31, 2005 – \$16,731 and \$32,883, respectively).

5. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

During 2006, the Company announced that it had approved initiatives to divest of certain non-core technologies and operations as a part of a plan to focus on core technologies and refinancing the Company. Accordingly, the results of operations and financial position of these non-core technologies and operations have been segregated and presented separately as discontinued operations and assets held for sale in the consolidated financial statements. The values of these non-core technologies and operations have been measured and presented at the lower of the carrying amount or estimated fair value less estimated costs to sell. An impairment loss of \$582,404 was recorded for the year ended January 31, 2006 as the carrying value of these assets exceeded their estimated fair market value. These non-core technologies/operations are as follows:

a) Intangible assets held for sale:

	<u>at July 31, 2006</u>		<u>at January 31, 2006</u>	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Bionex technology and license	369,600	369,600	369,600	369,600
Accu-MAb™ license	—	—	81,924	76,460
Anticort™ license	419,887	419,887	419,887	419,887
Business license – China	—	—	105,618	105,618
	789,487	789,487	977,029	971,565
Net book value		—		5,464

Quest PharmaTech Inc. (formerly Altachem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2006

**5. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE
(CONTINUED)**

During the three and six month periods ended July 31, 2006, amortization of intangible assets held for sale was \$nil and \$4,096, respectively (for the three and six month periods ended July 31, 2005 - \$4,096 and \$24,457, respectively) and is included in discontinued operations, net of income taxes.

Bionex technology and license (proprietary rights)

The Company owns the exclusive worldwide rights to develop, manufacture and sell Bionex, a family of novel disinfectants used for multiple applications. 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, 160,000 common shares have been issued with an ascribed value of \$369,600 pursuant to this agreement, of which none were issued during 2006 and 2005. These shares were recorded at a value that represents the closing price of the common shares on the date the shares were issued. 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 March 20, 2002. This intangible asset is fully amortized.

b) Shanghai Hua Gao Pharmaceutical Pellet Core Ltd. ("SHGP"):

During 2006, the Company initiated a plan to dispose of the assets and liabilities of its wholly-owned subsidiary SHGP. At the end of July 2006, the Company signed an agreement with Shanghai Gaojing Capital Management Co. Ltd., to sell SHGP for gross proceeds of 1,250,000 RMB. As part of this transaction, the Gaojing Government cancelled \$725,000 U.S. of lease obligations owed by the Company.

The following table summarizes the assets held for sale and related liabilities as at July 31, 2006 and January 31, 2006:

	Jul 31/06	Jan 31/06
	\$	\$
Cash	—	36,843
Accounts receivable	—	8,068
Inventory	—	5,149
Prepaid expenses	—	2,755
Current assets of SHGP discontinued operations	—	52,815
SHGP Property, plant and equipment	—	872,368
Total assets of SHGP discontinued operations	—	925,183
Obligations under capital lease	—	(921,047)
Net assets of SHGP discontinued operations	—	4,136

Quest PharmaTech Inc. (formerly Alchem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2006

**5. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE
(CONTINUED)**

On September 10, 2003, the Company entered into a capital lease to purchase the office and manufacturing buildings, less the land, in which SHGP operates. As part of the sale of SHGP, the Gaojing Government cancelled the future lease obligations owed by the company.

For the three and six month periods ended July 31, 2006, the imputed interest expense related to this capital lease obligation with \$nil and \$12,664, respectively (for the three and six month periods ended July 31, 2005 - \$14,140 and \$28,089, respectively.)

- c) On August 18, 2005, the Company received approval from the People's Republic of China to wind-up and dissolve Shanghai Alchem Pharma Biotechnology Ltd. ("SACP") and repatriate its remaining assets to Canada. This process was completed in September, 2005.
- d) On September 2, 2005, the Company completed the dissolution of its wholly-owned subsidiary Alchem Pharma (Barbados) Inc. ("Barbados").
- e) On October 28, 2005, the Company completed the wind-up and dissolution of 790563 Alberta Ltd. into its parent, Steroidogenesis Inhibitors Canada Inc. ("SI Canada").
- f) In July, 2004, the Company sold the assets related to its contract manufacturing operations in Edmonton, Alberta for the sum of \$460,000 to a third party. These assets were used primarily to make breath test kits for a third party under an agreement expiring November 2007.
- g) On January 30, 2006, the Company sold the assets associated with ACP-HIP to the original inventor for proceeds of \$60,000 plus future consideration.
- h) On June 9, 2006, the Company sold the assets and technology related to Accu-MAb to a third party for gross proceeds of \$200,000. The following table summarizes the assets held for sale and related liabilities of the Accu-MAb operations as at July 31, 2006 and January 31, 2006:

	Jul 31/06	Jan 31/06
	\$	\$
Accounts receivable	974	20,397
Inventory	—	9,298
Current assets of Accu-MAb discontinued operations	974	29,695
Current liabilities of Accu-MAb discontinued operations	(2,387)	(13,492)
Net assets of Accu-MAb discontinued operations	(1,413)	16,203

Quest PharmaTech Inc. (formerly Altachem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2006

5. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE (CONTINUED)

The following table shows revenue and net income (loss) from the discontinued operations for the three and six month periods ended Jul 31, 2006 and 2005:

	Three month period ended July 31, 2006					Total
	SHGP	SACP	Barbados	Bionex	Accu-Mab	
	(China)	(China)		(China)	(Canada)	
	\$	\$	\$	\$	\$	\$
Revenue	425	—	—	—	1,562	1,987
Income (loss) from operating activities	(47,592)	—	—	—	(1,047)	(48,639)
Gain (loss) on sale of assets	29,464				226,939	256,403
Income (loss) for the period	(17,703)	—	—	—	227,454	209,751
	Six month period ended July 31, 2006					
	SHGP	SACP	Barbados	Bionex	Accu-Mab	Total
	(China)	(China)		(China)	(Canada)	
	\$	\$	\$	\$	\$	\$
Revenue	2,437	—	—	—	24,582	27,019
Income (loss) from operating activities	(122,984)	—	—	—	(11,411)	(134,395)
Gain (loss) on sale of assets	29,464				226,939	256,403

Quest PharmaTech Inc. (formerly Altachem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2006

Income (Loss) for the period	(91,083)	240,110	149,027
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Three month period ended July 31, 2005

	SHGP (China) \$	SACP (China) \$	Barbados \$	Bionex (China) \$	Accu-Mab (Canada) \$	Total \$
Revenue	9,370	—	—	—	32,450	41,820
Income (loss) from operating activities	(87,013)	(239)	(4,549)	—	(10,529)	(102,330)
Income (loss) for the period	(77,643)	(239)	(4,549)	—	21,921	(60,510)

Six month period ended July 31, 2005

	SHGP (China) \$	SACP (China) \$	Barbados \$	Bionex (China) \$	Accu-Mab (Canada) \$	Total \$
Revenue	27,652	—	—	—	80,671	108,323
Income (loss) from operating activities	(183,399)	(50,833)	(5,156)	(16,265)	(34,499)	(290,152)
Income (loss) for the period	(155,747)	(50,833)	(5,156)	(16,265)	46,172	(181,829)

Quest PharmaTech Inc. (formerly Alchem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2006

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 is repayable in blended monthly installments of \$6,667 with the balance, including accrued interest, due on September 22, 2006. The Debenture may be converted into common shares of the Company at a price of \$0.45 per common share and may be redeemed at any time by the Company. In September, 2006, the Company renegotiated an extension of the maturity of the Company's \$1,000,000 convertible debenture, which is now due September 22, 2007. The debenture interest rate has also changed from 8% to 9% per annum and the debenture conversion price has changed from \$0.45 to \$0.25 per common share (see note 14).

The Company used the residual value method to allocate the proceeds of \$1,000,000 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 92.6% and an average risk free interest rate of 2.75%. The equity component was calculated to be \$66,667. The liability component is being accreted to the face value of the debenture over its term and the accretion charge is accounted for as interest expense.

During the three and six month periods ended July 31, 2006, the Company incurred \$20,000 and \$51,112, respectively, in interest under this convertible debenture of which \$nil and \$11,112, respectively was in the form of accreted interest.

7. 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.

Quest PharmaTech Inc. (formerly Altachem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2006

7. SHARE CAPITAL (CONTINUED)

Issued:

	Number of common shares	Amount \$
Common shares		
At January 31, 2006	42,237,580	20,968,675
Value of expired March 7, 2005 warrants	—	35,440
Value of expired May 10, 2005 warrants	—	63,300
At July 31, 2006	42,237,580	21,067,415

In addition, at July 31, 2006, the Company's subsidiary, SI Canada, holds 125,000 common shares of the Company.

The following options to purchase common shares were outstanding as at July 31, 2006.

Exercise price	Options outstanding	Weighted average remaining life	Options exercisable	Options non-exercisable
\$0.25	841,000	4.07 years	715,999	125,001
\$0.31	321,000	3.47 years	321,000	—
\$0.50	200,000	1.47 years	200,000	—
\$0.52	200,000	2.67 years	200,000	—
\$0.64	50,000	2.60 years	50,000	—
\$0.65	28,000	0.31 years	28,000	—
\$0.67	50,000	2.36 years	50,000	—
\$1.00	500,000	0.62 years	500,000	—
\$1.00	250,000	1.18 years	250,000	—
\$2.25	603,000	0.69 years	602,250	750
	3,043,000	2.43 years	3,442,249	125,751

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

Quest PharmaTech Inc. (formerly Altabchem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2006

7. SHARE CAPITAL (CONTINUED)

	<u>Shares issuable on exercise of</u>			
	<u>Warrants</u>	<u>Weighted average exercise price</u>	<u>Stock options</u>	<u>Weighted average exercise price</u>
	Number of shares	\$	Number of shares	\$
Balance January 31, 2006	2,986,000	0.45	3,730,000	0.79
Granted	—	—	150,000	0.25
Exercised	—	—	—	—
Expired	(886,000)	0.45	(303,667)	0.41
Balance April 30, 2006	2,100,000	0.45	3,576,333	0.80
Granted	—	—	—	—
Exercised	—	—	—	—
Expired	(2,100,000)	0.45	(533,333)	0.31
Balance July 31, 2006	—	—	3,043,000	0.89

Stock options

For the three and six month periods ended July 31, 2006, the Company granted nil and 150,000 stock options, respectively, as per the Company's Stock Option Plan. All of these stock options were granted to a non-employee. These stock options have an exercise price of \$0.25. See note 8.

Quest PharmaTech Inc. (formerly Altachem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2006

7. SHARE CAPITAL (CONTINUED)

On September 15, 2005, 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 Plan is equal to 10 % of the number of the Company's issued and outstanding common shares. The aggregate number of common shares reserved for issuance under the Company's Stock Option Plan shall not exceed 4,223,758. At July 31, 2006, 1,180,758 options are available for issue.

Escrowed shares

As at July 31, 2006, the Company's transfer agent held 2,112,522 (As at July 31, 2005 – 2,565,205) 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.

8. STOCK-BASED COMPENSATION

For the period ended July 31, 2006

During the three months ended July 31, 2006, the Company did not grant any stock options.

For the six month period ended July 31, 2006, the Company granted a total of 150,000 options to a director with an estimated fair value of \$4,500. All of these options were granted in the first quarter. The fair value of these options was recognized as an expense and credited to contributed surplus for the six month period ended July 31, 2006.

For the period ended July 31, 2005

During the three months ended July 31, 2005, the Company granted 410,000 stock options, as per the Company's Stock Option Plan. These stock options were granted to directors, an employee, and Company consultants and have an exercise price of \$0.25 per share. 385,000 of the options vested immediately and 25,000 vest over three years. The fair value of the vested options of \$48,885 was recognized as an expense and credited to contributed surplus for the three month period ended July 31, 2005.

Quest PharmaTech Inc. (formerly Altachem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2006

8. 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:

Period of issuance	Quarter 2
Dividend yield	0.00%
Volatility	89.8
Risk-free interest rate	2.48%
Expected life (years)	4.80
Number of options issued	410,000
Number of options vested	393,333

Based on these assumptions, the weighted average fair value of stock options granted was \$0.12 for the second quarter ended July 31, 2005. The fair value of these stock options has been estimated to be \$48,885 for the quarter ended July 31, 2005.

For the six month period ended July 31, 2005, the Company granted a total of 1,210,000 options to directors, employees and consultants with an estimated fair value of \$94,218. 800,000 of these options were granted in the first quarter and 410,000 options (noted above) were granted in the second quarter.

Quest PharmaTech Inc. (formerly Alchem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2006

9. SEGMENT DISCLOSURES

The Company is managed as one reportable business segment; therefore segmented information is not presented. Revenues and capital assets by geographic segment are presented below.

Revenues by geographic area

6 months ended July 31

	2006	2005
	\$	\$
Canada (discontinued operations)	426	1,154
United States (discontinued operations)	22,131	75,078
Other (discontinued operations)	4,462	32,091
	27,019	108,323

Revenues are attributed to countries based on location of customers.

Cash and cash equivalents by geographic area

As at

	Jul 31/06	Jan 31/06
	\$	\$
Canada	1,050	115,505
People's Republic of China – assets held for sale	—	36,843
	1,050	152,348

Long lived assets by geographic area

As at

	July 31/06	Jan 31/06
	\$	\$
Canada	150,291	187,967
People's Republic of China (assets held for sale)	—	872,368
	150,291	1,060,335

10. RELATED PARTY TRANSACTIONS

On August 8, 2005, the Company entered into an agreement with a company controlled by a director of the Company to provide consulting services. The consulting agreement requires the Company to make monthly payments of \$7,500 plus reimbursable out of pocket expenses, and is for a term of 12 months and the amounts are recorded at the exchange amount agreed to by the parties.

Quest PharmaTech Inc. (formerly Alchem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2006

10. RELATED PARTY TRANSACTIONS (CONTINUED)

From March to July, 2006, the Company obtained bridge financing totaling \$180,000 from a company controlled by a director. This bridge financing is unsecured, has no fixed terms of repayment and carries an interest rate of 6% per annum, with interest payable monthly.

During May, 2006, the Company obtained bridge financing of \$50,000 from a company controlled by a director. This bridge financing is unsecured, has no fixed terms of repayment and carries an interest rate of 6% per annum, with interest payable monthly.

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

	<u>3 Months Ended</u>		<u>6 Months Ended</u>	
	July 31 / 06	July 31 / 05	July 31/ 06	July 31/ 05
	\$	\$	\$	\$
Accounts receivable	(280,068)	(38,239)	(145,468)	(62,404)
Prepaid expenses and other assets	7,594	18,087	23,644	13,803
Accounts payable and accrued liabilities	96,597	(71,284)	96,667	(603,735)
	<u>(175,877)</u>	<u>(91,436)</u>	<u>(25,157)</u>	<u>(652,336)</u>

12. GOVERNMENT ASSISTANCE

The Company has obtained federal government assistance in the form of a National Research Council Industrial Research Assistance Program (“IRAP”) grant to cover salaries and contractor fees related to the development of the Company’s photodynamic therapy for prostate cancer, based on the Company’s lead proprietary hypocrellin derivative. During the three and six month periods ended July 31, 2006, the Company recognized \$nil and \$17,600, respectively (for the three and six month periods ended July 31, 2005 - \$60,000 and \$120,000, respectively) of funding as a reduction of research and development expenses. This funding is part of a \$295,000 grant the Company is eligible to receive for the period to March 31, 2006.

During the year ended January 31, 2006, the Company was awarded a grant from Alberta Ingenuity Fund to cover salary expenditures related to the development of the Company’s photodynamic therapy for prostate cancer. The \$110,000 grant is paid over a 24 month period. During the three and six month periods ended July 31, 2006, the Company received \$12,000 and \$31,000, respectively (for the three and six month periods ended July 31, 2005 - \$19,000 and \$19,000, respectively) under this grant which was recorded as an offset to R and D expenses.

Quest PharmaTech Inc. (formerly Altachem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2006

12. GOVERNMENT ASSISTANCE (CONTINUED)

During the three months ended July 31, 2005, the Company received approximately \$40,000 in funding from Revenue Quebec related to scientific research and experimental development claims made for R&D expenditures incurred in Danamedix Inc. in fiscal 2002 and 2003.

13. COMPARATIVE FIGURES

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

14. SUBSEQUENT EVENTS

In August, 2006, the Company reached an agreement with Samaritan Pharmaceuticals, Inc. ("Samaritan") in connection with the Statement of Claim that was filed by Quest against Samaritan in March, 2006. The settlement agreement provides for a cash payment to Quest of \$50,000 U.S. and 50,000 common shares of Samaritan.

In August, 2006, the Company obtained approval for federal government assistance in the form of an IRAP grant of approximately \$25,000 to cover salaries and contractor fees related to the development of the Company's SL017 technology for acne applications.

In September, 2006, the Company renegotiated an extension of the maturity of the Company's \$1,000,000 convertible debenture, which is now due September 22, 2007. The debenture interest rate has also changed from 8% to 9% per annum and the debenture conversion price has changed from \$0.45 to \$0.25 per common share.

Since the expiry of the consulting arrangement with Biostrat Inc. to provide management services to Quest, the Company has appointed Dr. R. Madiyalakan to the position of CEO of the Company, effective August 1, 2006. As part of his remuneration, Dr. Madiyalakan will receive 400,000 stock options exercisable at \$0.25 per common share.

In September, 2006, the Company signed a memorandum of understanding with KMH Co., Ltd. of Korea, for \$1,500,000 in equity financing in exchange for the Asian marketing rights to SL017 for cosmetic hair removal. \$200,000 of this financing will be by way of a 1,000,000 treasury share issue at \$0.20 per common share. The remainder of the investment will be made in two installments upon reaching specific milestones related to SL017 development in the next nine months and at a share price to be determined later.

Quest PharmaTech Inc. (formerly Altabchem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2006

14. SUBSEQUENT EVENTS (CONTINUED)

In September, 2006, the Company granted, in addition to the grant of 400,000 stock options to Dr. Madiyalakan, a total of 550,000 stock options to 3 Officers, 5 employees and 4 consultants. The exercise price is \$0.25. All allocations will be subject to approval by the TSX Venture Exchange.