

Consolidated Financial Statements

Quest PharmaTech Inc.
(formerly Altachem Pharma Ltd.)
Nine months ended October 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 nine month period ended October 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

	October 31, 2006 (Unaudited) \$	January 31, 2006 (Audited) \$
ASSETS		
Current		
Cash and cash equivalents <i>[note 9]</i>	197,802	115,505
Accounts receivable	155,174	166,921
Prepaid expenses and other assets	13,046	28,920
Current assets held for sale <i>[notes 5(b) and (h)]</i>	304	82,510
	366,326	393,856
Intangible assets <i>[note 3]</i>	—	11,833
Property, plant and equipment <i>[note 4]</i>	130,277	170,670
Assets held for sale – intangible <i>[notes 5(a) and 9]</i>	—	5,464
Assets held for sale – property, plant and equip <i>[notes 5(b) and 9]</i>	—	872,368
	496,603	1,454,191
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current		
Accounts payable and accrued liabilities	507,100	381,953
Demand notes <i>[note 10]</i>	290,000	—
Convertible debenture <i>[note 6]</i>	1,000,000	988,888
Current liabilities – assets held for sale <i>[note 5(h)]</i>	322	13,492
Current portion of obligation under capital lease - assets held for sale <i>[note 5(b)]</i>	—	921,047
	1,797,422	2,305,380
Shareholders' equity (deficiency)		
Share capital <i>[note 7]</i>	21,267,415	20,968,675
Warrants <i>[note 7]</i>	—	98,740
Equity portion of convertible debenture <i>[note 6]</i>	66,667	66,667
Contributed surplus	1,080,875	1,031,745
Cumulative translation adjustment	—	(210,090)
Deficit	(23,715,776)	(22,806,926)
	(1,300,819)	(851,189)
	496,603	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 October 31		For the nine months ended October 31	
	2006	2005	2006	2005
	\$	\$	\$	\$
EXPENSES				
General and administrative	145,566	280,433	395,401	792,102
Research and development, net [note 12]	185,145	402,094	626,256	1,105,470
Amortization	20,014	35,326	57,010	105,708
Bank charges and interest [notes 6 and 10]	18,643	22,549	74,198	66,050
	369,368	740,402	1,152,865	2,069,330
Loss before the undernoted	(369,368)	(740,402)	(1,152,865)	(2,069,330)
Other income (expenses):				
Interest income	207	1,627	615	6,241
Foreign exchange gain / (loss)	18,802	(79,733)	31,112	(37,406)
Gain on disposal of surplus assets	35,371	-	35,371	-
	54,380	(78,106)	67,098	(31,165)
Loss before discontinued operations	(314,988)	(818,508)	(1,085,767)	(2,100,495)
Income (loss) from discontinued operations [note 5]	27,890	(65,602)	176,917	(238,794)
Net loss for the period	(287,098)	(884,110)	(908,850)	(2,339,289)
Deficit, beginning of period	(23,428,678)	(20,758,292)	(22,806,926)	(19,303,113)
Deficit, end of period	(23,715,776)	(21,642,402)	(23,715,776)	(21,642,402)
Basic and diluted loss per share				
Continuing operations	(\$0.01)	(\$0.02)	(\$0.03)	(\$0.05)
Discontinued operations	\$0.00	(\$0.00)	\$0.01	(\$0.01)
	(\$0.01)	(\$0.02)	(\$0.02)	(\$0.06)

See accompanying notes

Quest PharmaTech Inc. (formerly Altachem Pharma Ltd.)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	For the quarter ended October 31		For the nine months ended October 31	
	2006	2005	2006	2005
	\$	\$	\$	\$
CASH USED IN OPERATING ACTIVITIES				
Net loss for the period	(287,098)	(884,110)	(908,850)	(2,339,289)
(Income) loss from discontinued operations	(27,890)	65,602	(176,917)	238,794
	(314,988)	(818,508)	(1,085,767)	(2,100,495)
Items that do not involve cash:				
Interest accreted on convertible debenture	—	—	11,112	—
Amortization	20,014	35,326	57,010	105,708
Stock based compensation	44,630	22,447	49,130	116,665
Changes in non-cash working capital items relating to continuing operating activities	(135,879)	(161,272)	152,786	(792,146)
	(386,223)	(922,007)	(815,729)	(2,670,268)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of private placement common shares	200,000	-	200,000	1,432,175
Increase in demand notes	60,000	—	290,000	75,000
Repayment of demand notes	—	(225,000)	—	(1,007,683)
Issuance of convertible debentures	—	—	—	1,000,000
	260,000	(225,000)	490,000	1,499,492
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	-	(2,187)	(4,784)	(10,461)
	-	(2,187)	(4,784)	(10,461)
Cash used in continuing operations	(126,223)	(1,149,194)	(330,513)	(1,181,237)
Cash (used in) provided by discontinued operations				
Operating activities	27,890	(41,506)	223,122	(195,540)
Financing activities	-	(146,300)	-	(146,300)
Investing activities	312,409	298,010	189,688	276,009
Increase (decrease) in cash and cash equivalents	214,076	(1,038,990)	82,297	(1,247,068)
Cash and cash equivalents, beginning of period	(16,274)	1,591,077	115,505	1,799,155
Cash and cash equivalents, end of period	197,802	552,087	197,802	552,087
Cash consists of:				
Cash	197,802	552,087	197,802	552,087
Cash equivalents	—	-	—	-
	197,802	552,087	197,802	552,087

See accompanying notes

Quest PharmaTech Inc. (formerly Alchem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 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 \$1,431,096 and a shareholders' deficiency of \$1,300,819 as at October 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 nine months ended October 31, 2006

3. INTANGIBLE ASSETS

	<u>at October 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 nine month periods ended October 31, 2006, amortization of intangibles related to continuing operations was \$nil and \$11,833, respectively (for the three and nine month periods ended October 31, 2005 – \$18,750 and \$56,250, 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 Alchem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2006

4. PROPERTY, PLANT AND EQUIPMENT

	<u>at October 31, 2006</u>		<u>at January 31, 2006</u>	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Computer hardware and software	101,462	81,076	101,462	75,158
Furniture and fixtures	12,114	8,964	12,114	8,049
Office equipment	36,943	29,940	36,944	27,907
Manufacturing and R&D equipment	402,713	302,975	397,929	274,945
Leasehold improvements	9,650	9,650	9,650	1,370
	562,882	432,605	558,099	387,429
Net book value	130,277		170,670	

During the three and nine month periods ended October 31, 2006, amortization of property, plant and equipment related to continuing operations was \$19,660 and \$45,177, respectively (for the three and nine month periods ended October 31, 2005 – \$16,358 and \$48,866, respectively).

5. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

During fiscal 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:

Quest PharmaTech Inc. (formerly Altachem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2006

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

a) Intangible assets held for sale:

	<u>at October 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
Business license – China	—	—	105,618	105,618
	369,600	369,600	977,029	971,565
Net book value		—		5,464

During the three and nine month periods ended October 31, 2006, amortization of intangible assets held for sale was \$nil and \$4,096, respectively (for the three and nine month periods ended October 31, 2005 - \$4,096 and \$46,157, 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 fiscal 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.

Quest PharmaTech Inc. (formerly Altachem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2006

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

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

	Oct 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

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 nine month periods ended October 31, 2006, the imputed interest expense related to this capital lease obligation was \$nil and \$12,664, respectively (for the three and nine month periods ended October 31, 2005 - \$12,323 and \$40,412, respectively).

- c) On August 18, 2005, the Company received approval from the People's Republic of China to wind-up and dissolve Shanghai Altachem 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 Altachem 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.

Quest PharmaTech Inc. (formerly Alchem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2006

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

- 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 October 31, 2006 and January 31, 2006:

	Oct 31/06	Jan 31/06
	\$	\$
Accounts receivable	304	20,397
Inventory	—	9,298
Current assets of Accu-MAb discontinued operations	304	29,695
Current liabilities of Accu-MAb discontinued operations	(322)	(13,492)
Net assets of Accu-MAb discontinued operations	(18)	16,203

- i) In August 2006, the Company completed the sale to a third party of the assets and technology associated with Anticort for proceeds of \$ 50,000 U.S..

Quest PharmaTech Inc. (formerly Altachem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 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 nine month periods ended Oct 31, 2006 and 2005:

	Three month period ended October 31, 2006						
	SHGP (China)	SACP (China)	Barbados	Bionex (China)	Accu-Mab (Canada)	Anticort (Canada)	Total
	\$	\$	\$	\$	\$	\$	\$
Revenue	-	—	—	—	-	-	-
Income (loss) from operating activities	(35,963)	—	—	—	197	-	(35,766)
Gain (loss) on sale of assets	8,231	-	-	-	-	55,425	63,656
Income (loss) for the period	(27,732)	—	—	—	197	55,425	27,890
	Nine month period ended October 31, 2006						
	SHGP (China)	SACP (China)	Barbados	Bionex (China)	Accu-Mab (Canada)	Anticort (Canada)	Total
	\$	\$	\$	\$	\$	\$	\$
Revenue	2,437	—	—	—	24,787	-	27,224
Income (loss) from operating activities	(156,562)	—	—	—	13,420	-	(143,142)
Gain (loss) on sale of assets	37,695	-	-	-	226,939	55,425	320,059
Income (Loss) for the period	(118,867)	-	-	-	240,359	55,425	176,917

Quest PharmaTech Inc. (formerly Altachem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2006

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

	Three month period ended October 31, 2005					
	SHGP (China)	SACP (China)	Barbados	Bionex (China)	Accu-Mab (Canada)	Total
	\$	\$	\$	\$	\$	\$
Revenue	22,254	—	—	—	40,739	62,993
Income (loss) from operating activities	(90,878)	-	(450)	—	25,726	(65,602)
Income (loss) for the period	(90,878)	-	(450)	—	25,726	(65,602)

	Nine month period ended October 31, 2005					
	SHGP (China)	SACP (China)	Barbados	Bionex (China)	Accu-Mab (Canada)	Total
	\$	\$	\$	\$	\$	\$
Revenue	49,905	—	—	—	121,411	171,316
Income (loss) from operating activities	(237,989)	(50,833)	(5,605)	(16,265)	71,898	(238,794)
Income (loss) for the period	(237,989)	(50,833)	(5,605)	(16,265)	71,898	(238,794)

Quest PharmaTech Inc. (formerly Alchem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 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 nine month periods ended October 31, 2006, the Company incurred \$20,833 and \$60,833, 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 Alchem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 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
October 27, 2006 private placement	1,000,000	200,000
At October 31, 2006	43,237,580	21,267,415

In addition, at October 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 October 31, 2006.

Exercise price	Options outstanding	Weighted average remaining life	Options exercisable	Options non-exercisable
\$0.25	1,791,000	4.01 years	1,724,333	66,667
\$0.31	321,000	3.22 years	321,000	—
\$0.50	200,000	1.22 years	200,000	—
\$0.52	200,000	2.42 years	200,000	—
\$0.64	50,000	2.35 years	50,000	—
\$0.65	28,000	0.06 years	28,000	—
\$0.67	50,000	2.11 years	50,000	—
\$1.00	500,000	0.68 years	500,000	—
\$1.00	250,000	3.30 years	250,000	—
\$2.25	603,000	0.44 years	602,250	750
	3,993,000	2.66 years	3,925,583	67,417

Quest PharmaTech Inc. (formerly Alchem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2006

7. SHARE CAPITAL (CONTINUED)

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

	Shares issuable on exercise of			
	<u>Warrants</u>	<u>Stock options</u>		
	Number of shares	Weighted average exercise price \$	Number of shares	Weighted average exercise price \$
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
Granted	—	—	950,000	—
Exercised	—	—	—	—
Expired	-	-	-	-
Balance October 31, 2006	—	—	3,993,000	0.74

Stock options

For the three and nine month periods ended October 31, 2006, the Company granted 950,000 and 1,100,000 stock options, respectively, as per the Company's Stock Option Plan. 613,000 of these options were granted to employees and 487,000 were granted to non-employees. These stock options have an exercise price of \$0.25. See note 8.

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 4,323,758. At October 31, 2006, 330,758 options are available for issue.

Quest PharmaTech Inc. (formerly Altachem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2006

7. SHARE CAPITAL (CONTINUED)

Escrowed shares

As at October 31, 2006, the Company's transfer agent held 2,112,522 (As at October 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 nine month period ended October 31, 2006

During the three months ended October 31, 2006, the Company granted a total of 950,000 stock options, as per the Company's Stock Option Plan, to four officers (550,000), four employees (63,000), and 5 consultants (337,000), all at an exercise price of \$0.25 per share. The estimated fair value of these options (\$44,630) was recognized as an expense and credited to contributed surplus for the three month period ended October 31, 2006

For the three month period ended April 30, 2006, the Company granted a total of 150,000 options to a director with an exercise price of \$0.25 per share. The estimated fair value of these options (\$4,500) was recognized as an expense and credited to contributed surplus for the three month period ended April 30, 2006.

For the nine month period ended October 31, 2005

During the three months ended October 31, 2005, the Company granted 281,000 stock options to two directors, two officers and an employee at an exercise price of \$0.25 per share. 106,000 of the options vested immediately and 175,000 vest over three years. The fair value of the vested options of \$22,447 was recognized as an expense and credited to contributed surplus for the three month period ended October 31, 2005.

For the nine month period ended October 31, 2005, the Company granted a total of 1,491,000 options to directors, employees and consultants with an estimated fair value of \$116,665. 800,000 of these options were granted in the first quarter, 410,000 options were granted in the second quarter and 281,000 were granted in the third quarter.

Quest PharmaTech Inc. (formerly Alchem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 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

9 months ended October 31

	2006	2005
	\$	\$
Canada (discontinued operations)	426	1,684
United States (discontinued operations)	22,336	114,468
Other (discontinued operations)	4,462	55,164
	27,224	171,316

Revenues are attributed to countries based on location of customers.

Cash and cash equivalents by geographic area

As at

	Oct 31/06	Jan 31/06
	\$	\$
Canada	197,802	115,505
People's Republic of China – assets held for sale	—	36,843
	197,802	152,348

Long lived assets by geographic area

As at

	Oct 31/06	Jan 31/06
	\$	\$
Canada	130,277	187,967
People's Republic of China (assets held for sale)	—	872,368
	130,277	1,060,335

Quest PharmaTech Inc. (formerly Alchem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2006

10. DEMAND NOTES AND 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.

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.

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 received 400,000 stock options exercisable at \$0.25 per common share.

In August, 2006, the company obtained bridge financing of \$60,000 from a third party. This bridge financing is unsecured, has no fixed terms of repayment and carries an interest rate of 8% 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>9 Months Ended</u>	
	Oct 31 / 06	Oct 31 / 05	Oct 31/ 06	Oct 31/ 05
	\$	\$	\$	\$
Accounts receivable	(156,911)	(22,755)	11,443	(51,978)
Prepaid expenses and other assets	(7,770)	44,531	15,874	63,453
Accounts payable and accrued liabilities	28,802	(183,048)	125,469	(803,621)
	(135,879)	(161,272)	152,786	(792,146)

Quest PharmaTech Inc. (formerly Alchem Pharma Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2006

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 nine month periods ended October 31, 2006, the Company recognized \$nil and \$17,600, respectively (for the three and nine month periods ended October 31, 2005 - \$55,000 and \$175,000, 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.

The Company has recently obtained federal government assistance in the form of an IRAP grant to cover salaries and contractor fees related to the development of the Company's photodynamic therapy for the treatment of acne. During the three month period ended October 31, 2006, the Company recognized \$16,366 of funding as a reduction of research and development expenses. This funding is part of a \$49,500 grant the Company is eligible to receive for the period to March 31, 2007.

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 nine month periods ended October 31, 2006, the Company received \$12,000 and \$43,000, respectively (for the three and nine month periods ended October 31, 2005 - \$12,000 and \$31,000, respectively) under this grant which was recorded as an offset to R and D expenses.

During the nine months ended October 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 December, 2006, the Company obtained approval for an increase in federal government assistance in connection with an IRAP grant to cover salaries and contractor fees related to the development of the Company's SL017 technology for acne applications. The amount of the funding increased from \$24,500 to \$49,500.