

Consolidated Financial Statements

Quest PharmaTech Inc.

Three months ended April 30, 2007

(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, 2007 have not been reviewed by the Company's auditors.

Quest PharmaTech Inc.**CONSOLIDATED BALANCE SHEETS**

(see note 1 – going concern uncertainty)

As at

	April 30, 2007 (Unaudited) \$	January 31, 2007 (Audited) \$
ASSETS		
Current		
Cash	202,589	123,022
Accounts receivable	201,458	23,513
Prepaid expenses and other assets	12,930	16,595
	416,977	163,130
Property, plant and equipment <i>[note 4]</i>	89,694	96,966
Intangible assets <i>[note 3]</i>	—	—
	506,671	260,096
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current		
Accounts payable and accrued liabilities	235,945	630,208
Deposit on share subscription	—	183,000
Demand notes <i>[notes 10 and 14]</i>	230,000	230,000
Convertible debenture <i>[note 6]</i>	994,646	991,434
	1,460,591	2,034,642
Deferred revenue	115,667	117,667
	1,576,258	2,152,309
Shareholders' deficiency		
Share capital <i>[note 7]</i>	21,864,674	21,048,674
Warrants <i>[note 7]</i>	144,000	—
Equity portion of convertible debenture <i>[note 6]</i>	80,000	80,000
Contributed surplus	1,240,115	1,240,115
Deficit	(24,398,376)	(24,261,003)
	(1,069,587)	(1,892,213)
	506,671	260,096

See accompanying notes

On behalf of the Board:

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

Quest PharmaTech Inc.

**CONSOLIDATED STATEMENTS OF
OPERATIONS AND DEFICIT**

Three months ended April 30

	2007	2006
	\$	\$
REVENUE		
Income on market distribution rights and licensing fees <i>[note 9]</i>	168,005	—
EXPENSES		
General and administrative	171,831	139,515
Research and development, net <i>[note 12]</i>	112,030	228,618
Amortization	7,272	24,325
Bank charges and interest	30,975	31,745
	322,108	424,203
Loss before the undernoted	(154,103)	(424,203)
Other income (expenses)		
Interest income	1,865	253
Foreign exchange gain	5,603	11,811
	7,468	12,064
Loss from continuing operations	(146,635)	(412,139)
Income (loss) from discontinued operations <i>[note 5]</i>	9,262	(60,724)
Net loss for the period	(137,373)	(472,863)
Deficit, beginning of year	(24,261,003)	(22,806,926)
Deficit, end of period	(24,398,376)	(23,279,789)
Basic and diluted loss per share		
Continuing operations	(\$0.00)	(\$0.01)
Discontinued operations	\$0.00	(\$0.00)
	(\$0.00)	(\$0.01)

See accompanying notes

Quest PharmaTech Inc.**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Three months ended April 30

	2007	2006
	\$	\$
CASH USED IN OPERATING ACTIVITIES		
Net loss for the period	(137,373)	(472,863)
Loss from discontinued operations	—	60,724
	(137,373)	(412,139)
Items that do not involve cash:		
Interest accreted on convertible debenture <i>[note 6]</i>	3,212	11,112
Amortization	7,272	24,325
Stock based compensation	—	4,500
Deferred revenue recognized in the period	2,000	—
Changes in non-cash working capital items relating to operating activities <i>[note 11]</i>	(568,543)	150,720
	(693,432)	(221,482)
CASH PROVIDED BY FINANCING ACTIVITIES		
Issuance of private placement units <i>[note 7]</i>	960,000	—
Increase in demand notes	—	150,000
Deposit on share subscription	(183,000)	—
	777,000	150,000
Cash provided by (used in) continuing operations	83,568	(71,482)
Cash (used in) provided by discontinued operations		
Operating activities	(4,001)	5,302
	(4,001)	5,302
Increase / (decrease) in cash and cash equivalents	79,567	(66,180)
Cash and cash equivalents, beginning of period	123,022	115,505
Cash and cash equivalents, end of period	202,589	49,325
Cash and cash equivalents consist of:		
Cash	202,589	49,325
Cash equivalents	—	—
	202,589	49,325

See accompanying notes

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2007

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 Altachem 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 \$1,043,614 and a shareholders' deficiency of \$1,069,587 as at April 30, 2007.

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, 2007. These unaudited interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended January 31, 2007.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2007

3. INTANGIBLE ASSETS

	<u>at April 30, 2007</u>		<u>at January 31, 2007</u>	
	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
Net book value		—		—

During the period ended April 30, 2007, amortization of intangibles related to continuing operations was \$nil (for the period ended April 30, 2006 – \$11,833).

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2007

4. PROPERTY, PLANT AND EQUIPMENT

	<u>at April 30, 2007</u>		<u>at January 31, 2007</u>	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Computer hardware and software	79,670	60,702	79,670	59,288
Furniture and fixtures	12,114	9,482	12,114	9,269
Office equipment	36,943	31,093	36,943	31,388
Manufacturing and R&D equipment	306,217	243,973	306,217	238,033
	434,944	345,250	434,944	337,978
Net book value		89,694		96,966

During the period ended April 30, 2007, amortization of property, plant and equipment related to continuing operations was \$7,272 (for the period ended April 30, 2006 – \$12,492).

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 of these non-core technologies and operations have been segregated and presented separately as discontinued operations 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. These non-core technologies and operations are as follows:

Intangible assets held for sale:

	<u>at April 30, 2007</u>		<u>at January 31, 2007</u>	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Bionex technology and license	369,600	369,600	369,600	369,600
	369,600	369,600	369,600	369,600
Net book value		—		—

During the period ended April 30, 2007, amortization of intangible assets held for sale was \$nil (for the period ended April 30, 2006 - \$4,096) and is included in discontinued operations, net of income taxes.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2007

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

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.

During the three month period ended April 30, 2007, the Company received incidental revenue of \$5,000 in connection with ACP-HIP and also recognized \$4,262 as a recovery of a bad debt in connection with Accu-MAb. These events resulted in income of \$9,262 from discontinued operations for the three month period ended April 30, 2007. During the three month period ended April 30, 2006, the Company recognized a loss of \$60,724 from discontinued operations, comprised of a loss of \$73,380 from the Company's China operations and income of \$12,656 from Accu-MAb.

6. CONVERTIBLE DEBENTURE

In March, 2005, the Company entered into an agreement to issue a \$1,000,000 principal amount convertible debenture to two arm's length parties. The debenture is collateralized by the Company's Sonolight technology. The debenture is due September 22, 2007, carries an interest rate of 9% per annum and is convertible into common shares of the Company at a price of \$0.25 per common share.

The Company has 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. In fiscal 2007, the equity component was calculated to be \$80,000 and a portion of the equity component, \$13,333, was reflected as a reduction in the carrying value of the convertible debenture and will be accreted to the full value of the debenture over its remaining term with the accretion reflected as interest expense. During the three month period ended April 30, 2007, the Company incurred \$25,712 (2006 - \$31,112) in interest under this convertible debenture of which \$3,212 (2006 - \$11,112) was in the form of accreted interest.

In June, 2007, the Company made a principal payment of \$200,000 against the convertible debenture (see Note 14 - Subsequent Events).

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2007

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.

Issued:

	Number of common shares	Amount \$
Common shares		
At January 31, 2007	43,237,580	21,048,674
March 8, 2007 private placement of units	9,600,000	816,000
At April 30, 2007	52,837,580	21,864,674

In addition, at April 30, 2006, the Company's subsidiary, SI Canada Inc., holds 125,000 common shares of the Company.

On March 8, 2007, the Company closed a non-brokered private placement with the sale of 9,600,000 units for gross proceeds of \$960,000, including \$165,000 raised from Officers and Directors of the Company. Each unit consisted of one common share and one half of one non-transferable share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of \$0.20 at any time within one year of issuance. The value of these warrants, estimated at the grant date by reference to the Black-Scholes option pricing model was \$144,000. The Company has assumed an expected life of one year, a dividend yield of 0%, average expected volatility of 128.4% and an average risk free interest rate of 2.83%.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2007

7. SHARE CAPITAL (CONTINUED)

The following options to purchase common shares were outstanding as at April 30, 2007.

Exercise price	Options outstanding	Weighted average remaining life	Options exercisable	Options non-exercisable
\$0.25	1,716,000	3.14 years	1,682,667	33,333
\$0.31	321,000	1.49 years	321,000	—
\$0.50	200,000	0.73 years	200,000	—
\$0.52	200,000	1.92 years	200,000	—
\$0.64	50,000	1.85 years	50,000	—
\$0.65	3,000	0.59 years	3,000	—
\$0.67	50,000	1.61 years	50,000	—
\$1.00	500,000	0.18 years	500,000	—
\$1.00	250,000	2.81 years	250,000	—
\$2.25	3,000	0.59 years	3,000	—
	3,293,000	2.24 years	3,259,667	33,333

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, 2007	—	—	4,093,000	0.72
Granted	4,800,000	0.20	—	—
Exercised	—	—	—	—
Expired	—	—	(800,000)	1.75
Balance April 30, 2007	4,800,000	0.20	3,293,000	0.47

Warrants

During the three month period ended April 30, 2007, the Company issued 4,800,000 share purchase warrants exercisable at \$0.20 per common share. These warrants expire 12 months from the date of issue.

Stock options

For the three month period ended April 30, 2007, the Company did not grant any stock options.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2007

7. SHARE CAPITAL (CONTINUED)

Escrowed shares

As at April 30, 2007, the Company's transfer agent held 1,508,944 (As at April 30, 2006 – 2,112,522) 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 three month period ended April 30, 2007, the Company granted a total of nil (for the three month period ended April 30, 2006 – 150,000) stock options under the Company's Stock Option Plan.

9. SEGMENT DISCLOSURES

The Company is managed as one reportable business segment; therefore segmented information is not presented. Revenues are presented below.

	Three months ended April 30,			
	2007		2006	
	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations
	\$	\$	\$	\$
Revenues	168,005	9,262	—	25,032

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

10. DEMAND NOTES AND RELATED PARTY TRANSACTIONS

The Company holds \$230,000 of demand notes from Directors of the Company bearing interest at 6% per annum.

In June, 2007, the Company made a \$50,000 principal payment against these demand notes (see Note 14 - Subsequent Events).

Under the Company's March, 2007 private placement, \$165,000 was raised from Officers and Directors of the Company.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2007

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

	April 30/ 07	April 30/ 06
	\$	\$
Accounts receivable	(177,945)	134,600
Prepaid expenses and other assets	3,665	16,050
Accounts payable and accrued liabilities	(394,263)	70
	<u>(568,543)</u>	<u>150,720</u>

12. GOVERNMENT ASSISTANCE

In August, 2006, the Company 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 April 30, 2007, the Company recognized \$13,340 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 being paid over a 24 month period. During the three month period ended April 30, 2007, the Company received \$12,000 (three months ended April 30, 2006 – \$12,000) under this grant which was recorded as a reduction to research and development expenses.

	Apr 30/07	Apr 30/06
	\$	\$
Gross research and development expenses	137,370	240,618
Less government assistance	(25,340)	(12,000)
Research and development expenses, net	112,030	228,618

13. COMPARATIVE FIGURES

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

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2007

14. SUBSEQUENT EVENTS

On May 7, 2007, the Company obtained approval for federal government assistance in connection with a \$26,500 IRAP grant to cover salaries and contractor fees related to the development of a prototype home use light delivery system device for hair removal with the Company's SL017 technology.

On May 11, 2007, in connection with the SL017 distribution rights agreement signed with KMH (note 9), the Company received TSX Venture Exchange approval to issue from treasury 3,000,000 common shares related to the receipt by the Company of gross proceeds of \$300,000.

On May 22, 2007, the Company's Board of Directors provided approval for the Company to raise up to \$1,000,000 by way of a treasury issue of up to 6,666,667 common shares at \$0.15 per common share, subject to TSX Venture Exchange approval. On May 29, 2007, the Company closed a first tranche of 5,000,000 common shares for gross proceeds of \$750,000 under this private placement.

In June, 2007, the Company made a \$200,000 principal payment against the Company's \$1,000,000 convertible debenture and a \$50,000 principal payment against the \$230,000 of demand notes.