

Consolidated Financial Statements

Quest PharmaTech Inc.

Nine months ended October 31, 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 nine month period ended October 31, 2007 have not been reviewed by the Company's auditors.

Quest PharmaTech Inc.

CONSOLIDATED BALANCE SHEETS

(see note 1 – going concern uncertainty)

As at

	October 31, 2007 (Unaudited) \$	January 31, 2007 (Audited) \$
ASSETS		
Current		
Cash	377,579	123,022
Accounts receivable	22,257	23,513
Prepaid expenses and other assets	12,607	16,595
	412,443	163,130
Property, plant and equipment <i>[note 4]</i>	75,149	96,966
	487,592	260,096
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current		
Accounts payable and accrued liabilities	273,504	630,208
Deposit on share subscription	—	183,000
Demand notes <i>[note 10]</i>	180,000	230,000
Convertible debenture <i>[note 6]</i>	800,000	991,434
	1,253,504	2,034,642
Deferred revenue	111,667	117,667
	1,365,171	2,152,309
Shareholders' deficiency		
Share capital <i>[note 7]</i>	23,024,674	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	(25,366,368)	(24,261,003)
	(877,579)	(1,892,213)
	487,592	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**

	For the quarter ended October 31		For the nine months ended October 31	
	2007	2006	2007	2006
	\$	\$	\$	\$
REVENUE				
Income on market distribution rights and licensing fees [note 9]	2,000	—	172,005	—
EXPENSES				
General and administrative	113,924	145,566	429,592	395,401
Research and development, net [note 12]	415,753	185,145	748,844	626,256
Amortization	7,272	20,014	21,817	57,010
Bank charges and interest [notes 6 and 10]	24,018	18,643	81,276	74,198
	560,967	369,368	1,281,529	1,152,865
Loss before the undernoted	(558,967)	(369,368)	(1,109,524)	(1,152,865)
Other income (expenses):				
Interest income	3,846	207	10,301	615
Foreign exchange gain/(loss)	(11,338)	18,802	(15,404)	31,112
Gain on disposal of surplus assets		35,371		35,371
	(7,492)	54,380	(5,103)	67,098
Loss before discontinued operations	(566,459)	(314,988)	(1,114,627)	(1,085,767)
Income from discontinued operations [note 5]	—	27,890	9,262	176,917
Net loss for the period	(566,459)	(287,098)	(1,105,365)	(908,850)
Deficit, beginning of period	(24,799,909)	(23,428,678)	(24,261,003)	(22,806,926)
Deficit, end of period	(25,366,368)	(23,715,776)	(25,366,368)	(23,715,776)
Basic and diluted loss per share				
Continuing operations	(\$0.01)	(\$0.01)	(\$0.02)	(\$0.03)
Discontinued operations	\$0.00	\$0.00	\$0.00	\$0.01
	(\$0.01)	(\$0.01)	(\$0.02)	(\$0.02)

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the quarter ended October 31		For the nine months ended October 31	
	2007 \$	2006 \$	2007 \$	2006 \$
CASH USED IN OPERATING ACTIVITIES				
Net loss for the period	(566,459)	(287,098)	(1,105,365)	(908,850)
(Income) / loss from discontinued operations	—	(27,890)	—	(176,917)
	(566,459)	(314,988)	(1,105,365)	(1,085,767)
Items that do not involve cash:				
Interest accreted on convertible debenture	2,143	—	8,565	11,112
Amortization	7,272	20,014	21,817	57,010
Stock based compensation	—	44,630	—	49,130
Deferred revenue recognized in the period	(2,000)	—	(6,000)	—
Changes in non-cash working capital items relating to operating activities [note 11]	99,112	(135,879)	(351,460)	152,786
	(459,932)	(386,223)	(1,432,443)	(815,729)
CASH PROVIDED BY FINANCING ACTIVITIES				
Private placement of units/common shares [note 7]	—	200,000	2,120,000	200,000
Increase in demand notes	—	60,000	—	290,000
Repayment of demand notes	—	—	(50,000)	—
Deposit on share subscription	—	—	(183,000)	—
Repayment of convertible debenture	—	—	(200,000)	—
	—	260,000	1,687,000	490,000
CASH USED IN INVESTING ACTIVITIES				
Purchase of property, plant and equipment	—	—	—	(4,784)
	—	—	—	(4,784)
Cash provided by (used in) continuing operations	(459,932)	(126,223)	254,557	(330,513)
Cash (used in) provided by discontinued operations				
Operating activities	—	27,890	—	223,122
Investing activities	—	312,409	—	189,688
Increase (decrease) in cash and cash equivalents	(459,932)	214,076	254,557	82,297
Cash and cash equivalents, beginning of period	837,511	16,274	123,022	115,505
Cash and cash equivalents, end of period	377,579	197,802	377,579	197,802
Cash consists of:				
Cash	377,579	197,802	377,579	197,802
Cash equivalents	—	—	—	—
	377,579	197,802	377,579	197,802

See accompanying notes

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 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). 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 \$841,061 and a shareholders’ deficiency of \$877,579 as at October 31, 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 nine months ended October 31, 2007

3. INTANGIBLE ASSETS

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.

4. PROPERTY, PLANT AND EQUIPMENT

	<u>at October 31, 2007</u>		<u>at January 31, 2007</u>	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Computer hardware and software	79,670	63,778	79,670	59,288
Furniture and fixtures	12,114	9,909	12,114	9,269
Office equipment	36,943	32,041	36,943	31,388
Manufacturing and R&D equipment	306,217	254,067	306,217	238,033
	434,944	359,795	434,944	337,978
Net book value		75,149		96,966

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2007

During the three and nine month periods ended October 31, 2007, amortization of property, plant and equipment related to continuing operations was \$7,272 and \$21,817, respectively (for the three and nine month periods ended October 31, 2006 – \$20,014 and \$57,010, 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 of these non-core technologies and operations have been segregated and presented separately as discontinued operations in the consolidated financial statements. These non-core technologies and operations are as follows:

Intangible assets held for sale:

	<u>at October 31, 2007</u>		<u>at January 31, 2007</u>	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
	\$	\$	\$	\$
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 three and nine month periods ended October 31, 2007, amortization of intangible assets held for sale was \$nil and \$nil, respectively (for the three and nine month periods ended October 31, 2006 - \$nil and \$4,096, 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.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2007

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

During the three and nine month periods ended October 31, 2007, the Company received incidental revenue of \$nil and \$5,000, respectively, in connection with ACP-HIP and also recognized \$nil and \$4,262, respectively, as a recovery of a bad debt in connection with Accu-MAb. These events resulted in income of \$nil and \$9,262, respectively, from discontinued operations for the three and nine month periods ended October 31, 2007. During the three and nine month periods ended October 31, 2006, the Company recognized income of \$27,890 and \$176,917, respectively, from discontinued operations, comprised of a loss of \$27,732 and \$118,867, respectively, from the Company's China operations, income of \$55,425 and \$55,425, respectively, from the sale of Anticort, and income of \$197 and \$240,359, respectively, from the operations and subsequent sale of 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 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. In June, 2007, the Company made a principal payment of \$200,000 against the convertible debenture. In September, 2007, the Company negotiated a six month extension to the maturity date of the convertible debenture which is now due March 22, 2008.

The Company has used the residual value method to allocate the proceeds of the \$800,000 convertible debenture between the liability component and the equity component based on a Black-Scholes option pricing model. The equity component was calculated to be \$80,000 and the carrying value of the convertible debenture is estimated to be \$800,000. During the three and nine month periods ended October 31, 2007, the Company incurred \$18,000 and \$67,624, respectively (2006 - \$20,833 and \$60,833, respectively) in interest under this convertible debenture of which \$2,143 and \$8,565, respectively, (2006 - \$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

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2007

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.

7. SHARE CAPITAL (CONTINUED)

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
May 22, 2007 private placement of common shares	3,000,000	300,000
May 29, 2007 private placement of common shares	5,000,000	750,000
July 19, 2007 private placement of common shares	733,333	110,000
At July 31, 2007	61,570,913	23,024,674
At October 31, 2007	61,570,913	23,024,674

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%.

On May 22, 2007, the Company closed a non-brokered private placement with the sale of 3,000,000 common shares for gross proceeds of \$300,000.

In May and July, 2007, the Company closed a non-brokered private placement with the sale of 5,733,333 common shares for gross proceeds of \$860,000.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2007

7. SHARE CAPITAL (CONTINUED)

The following options to purchase common shares were outstanding as at October 31, 2007.

Exercise price	Options outstanding	Weighted average remaining life	Options exercisable	Options non-exercisable
\$0.25	1,528,000	3.08 years	1,528,000	—
\$0.31	171,000	2.22 years	171,000	—
\$0.50	200,000	0.22 years	200,000	—
\$0.52	200,000	1.42 years	200,000	—
\$0.64	50,000	1.35 years	50,000	—
\$0.67	50,000	1.11 years	50,000	—
\$1.00	250,000	2.30 years	250,000	—
\$2.25	3,000	0.03 years	3,000	—
	2,452,000	2.49 years	2,452,000	—

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, 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
Granted	—	—	—	—
Exercised	—	—	—	—
Expired	—	—	(823,000)	0.72
Balance July 31, 2007	4,800,000	0.20	2,470,000	0.39
Granted	—	—	—	—
Exercised	—	—	—	—
Expired	—	—	(18,000)	0.25
Balance October 31, 2007	4,800,000	0.20	2,452,000	0.39

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2007

7. SHARE CAPITAL (CONTINUED)

Warrants

In March, 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 3 and 9 month periods ended October 31, 2007, the Company did not grant stock options.

Escrowed shares

As at October 31, 2007, the Company's transfer agent held 1,207,155 (As at October 31, 2006 – 2,112,522) common shares pursuant to a time based escrow agreement. These shares will be automatically released over time through to October 30, 2009.

8. STOCK-BASED COMPENSATION

For the 3 and 9 month periods ended October 31, 2007, the Company did not grant stock options (for the 3 and 9 month periods ended October 31, 2006 – 950,000 and 1,100,000, respectively). The estimated fair value of the options issued during the 3 and 9 month periods ended October 31, 2006, \$44,630 and \$49,130, respectively, was recognized as an expense and credited to contributed surplus for the 3 and 9 month periods ended October 31, 2006.

9. REVENUE DISCLOSURES

Revenues are presented below.

	Three months ended October 31,			
	2007		2006	
	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations
	\$	\$	\$	\$
Revenues	2,000	—	—	—

	Nine months ended October 31,			
	2007		2006	
	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations
	\$	\$	\$	\$
Revenues	172,005	9,262	—	27,224

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2007

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

10. DEMAND NOTES AND RELATED PARTY TRANSACTIONS

At October 31, 2007, the Company holds \$180,000 of demand notes from a company controlled by a Director of the Company bearing interest at 6% per annum.

In June, 2007, the Company made a \$50,000 principal payment against demand notes held by a company controlled by a Director of the Company.

Under the Company's March and July, 2007 private placements, \$165,000 and \$55,000, respectively, was raised from Officers and Directors of the Company.

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

	<u>3 Months Ended</u>		<u>9 Months Ended</u>	
	<u>Oct 31 / 07</u>	<u>Oct 31 / 06</u>	<u>Oct 31/ 07</u>	<u>Oct 31/ 06</u>
	\$	\$	\$	\$
Accounts receivable	(2,460)	(156,911)	1,256	11,443
Prepaid expenses and other assets	(1,730)	(7,770)	3,988	15,874
Accounts payable and accrued liabilities	103,302	28,802	(356,704)	125,469
	<u>99,112</u>	<u>(135,879)</u>	<u>(351,460)</u>	<u>152,786</u>

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2007

12. GOVERNMENT ASSISTANCE

The Company obtained federal government assistance in the form of IRAP grants to cover salaries and contractor fees related to the development of the Company's photodynamic therapies for the treatment of prostate cancer and for the treatment of acne. During the three and nine month periods ended October 31, 2007, the Company recognized \$nil and \$13,340, respectively, (2006 - \$16,366 and \$33,966, respectively) of funding as a reduction of research and development expenses.

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 and nine month periods ended October 31, 2007, the Company received \$nil and \$12,000, respectively, (three and nine months ended October 31, 2006 - \$12,000 and \$43,000, respectively) under this grant which was recorded as a reduction to research and development expenses.

	<u>3 Months Ended</u>		<u>9 Months Ended</u>	
	Oct 31 / 07	Oct 31 / 06	Oct 31 / 07	Oct 31 / 06
	\$	\$	\$	\$
Gross R & D expenses	415,753	213,511	774,184	703,222
Less government assistance	—	(28,366)	(25,340)	(76,966)
R & D expenses, net	415,753	185,145	748,844	626,256

14. SUBSEQUENT EVENTS

In November, 2007, the Company announced the closing of a private placement with the sale of 6,386,667 common shares for net proceeds of \$913,200, including \$7,500 raised from an officer of the Company. The Company paid a 10% finder's fee to a third party in connection with a portion of this private placement.

In November, 2007, the Company granted stock options to three independent Directors (150,000 options), Officers and employees (500,000 options) and Consultants of the Company (1,150,000 options). These options are exercisable at \$0.25 per common share.

In November, 2007, the company announced the issuance of 240,000 common shares from treasury to be allocated to the original inventors of Bionex related to a September, 2001 technology purchase agreement.

In December, 2007, the Company announced that it had entered into an agreement with a third party to license the oncology applications of the Company's SonoLight technology. As consideration, the Company will receive \$3,000,000 in three equal installments over the next 12 months.