

Consolidated Financial Statements

**Quest PharmaTech Inc.**

January 31, 2007 and 2006

## AUDITORS' REPORT

To the Shareholders of  
**Quest PharmaTech Inc.**

We have audited the consolidated balance sheets of **Quest PharmaTech Inc.** as at January 31, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Ernst + Young LLP*

Edmonton, Canada  
April 11, 2007  
(except for note 17 which is  
as of May 22, 2007)

Chartered Accountants

Quest PharmaTech Inc.

**CONSOLIDATED BALANCE SHEETS**  
(see note 1 – going concern uncertainty)

As at January 31

	2007	2006
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash	123,022	115,505
Accounts receivable	23,513	166,921
Prepaid expenses and other assets	16,595	28,920
Current assets held for sale [notes 5(b) and (f)]	—	82,510
	<b>163,130</b>	<b>393,856</b>
Property, plant and equipment [note 4]	96,966	170,670
Intangible assets [note 3]	—	11,833
Assets held for sale – property, plant and equip [note 5(b) and (f)]	—	872,368
Assets held for sale – intangible [note 5(a)]	—	5,464
	<b>260,096</b>	<b>1,454,191</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	630,208	381,953
Deposit on share subscription [note 17]	183,000	—
Demand notes [note 12(a)]	230,000	—
Convertible debenture [note 6]	991,434	988,888
Current liabilities – assets held for sale [note 5(f)]	—	13,492
Current portion of obligation under capital lease - assets held for sale [note 5(b)]	—	921,047
	<b>2,034,642</b>	<b>2,305,380</b>
Deferred revenue [notes 9 and 17]	117,667	—
	<b>2,152,309</b>	<b>2,305,380</b>
Commitments and contingencies [note 8]		
<b>Shareholders' deficiency</b>		
Share capital [note 9]	21,048,675	20,968,675
Warrants [note 9]	—	98,740
Equity portion of convertible debenture [note 6]	80,000	66,667
Contributed surplus	1,240,115	1,031,745
Cumulative translation adjustment	—	(210,090)
Deficit	(24,261,003)	(22,806,926)
	<b>(1,892,213)</b>	<b>(851,189)</b>
	<b>260,096</b>	<b>1,454,191</b>

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**

Years ended January 31

	2007	2006
	\$	\$
<b>REVENUE</b>		
Income on market distribution rights <i>[note 9]</i>	2,333	—
<b>EXPENSES</b>		
General and administrative <i>[note 10]</i>	640,718	1,069,241
Research and development, net <i>[note 15]</i>	861,954	1,257,649
Amortization	60,715	116,393
Bank charges and interest <i>[notes 6 and 12]</i>	119,876	141,368
	<b>1,683,263</b>	<b>2,584,651</b>
<b>Loss before the undernoted</b>	<b>(1,680,930)</b>	<b>(2,584,651)</b>
<b>Other income (expenses)</b>		
Interest income	267	6,843
Foreign exchange gain (loss)	5,252	(13,839)
Gain on sale of property, plant and equipment and other assets	21,307	354
	<b>26,826</b>	<b>(6,642)</b>
<b>Loss from continuing operations <i>[note 7]</i></b>	<b>(1,654,104)</b>	<b>(2,591,293)</b>
Income (loss) from discontinued operations <i>[note 5]</i>	200,027	(912,520)
<b>Net loss for the year</b>	<b>(1,454,077)</b>	<b>(3,503,813)</b>
Deficit, beginning of year	<b>(22,806,926)</b>	<b>(19,303,113)</b>
<b>Deficit, end of year</b>	<b>(24,261,003)</b>	<b>(22,806,926)</b>
<b>Basic and diluted loss per share</b>		
Continuing operations	(\$0.04)	(\$0.06)
Discontinued operations	\$0.01	(\$0.02)
	<b>(\$0.03)</b>	<b>(\$0.08)</b>

*See accompanying notes*

**Quest PharmaTech Inc.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended January 31

	2007 \$	2006 \$
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Net loss for the year	(1,454,077)	(3,503,813)
(Income) loss from discontinued operations	(200,027)	912,520
	<b>(1,654,104)</b>	<b>(2,591,293)</b>
Items that do not involve cash:		
Interest accreted on convertible debenture <i>[note 6]</i>	15,879	55,555
Amortization	60,715	116,393
Stock based compensation <i>[note 10]</i>	109,630	117,225
(Gain) loss on sale of property, plant and equipment and other assets	(21,307)	(354)
Deferred revenue recognized in the year	(2,333)	—
Cash received on sale of market distribution rights	120,000	—
Changes in non-cash working capital items relating to operating activities <i>[note 13]</i>	408,532	(733,649)
	<b>(962,988)</b>	<b>(3,036,123)</b>
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>		
Shares issued on private placement <i>[note 9]</i>	80,000	1,432,175
Increase in demand notes	343,300	75,000
Repayment of demand notes	(113,300)	(1,007,683)
Issuance of convertible debenture	—	1,000,000
Deposit on share subscription	183,000	—
	<b>493,000</b>	<b>1,499,492</b>
<b>CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(8,095)	(12,990)
Proceeds from sale of property, plant and equipment and other assets	72,079	1,000
	<b>63,984</b>	<b>(11,990)</b>
<b>Cash used in continuing operations</b>	<b>(406,004)</b>	<b>(1,548,621)</b>
<b>Cash provided by (used in) discontinued operations</b>		
Operating activities	24,309	(95,848)
Investing activities	389,212	54,214
Financing activities	—	(93,395)
	<b>413,521</b>	<b>(135,029)</b>
<b>Increase (decrease) in cash</b>	<b>7,517</b>	<b>(1,683,650)</b>
Cash, beginning of year	115,505	1,799,155
<b>Cash, end of year</b>	<b>123,022</b>	<b>115,505</b>

*See accompanying notes*

## **Quest PharmaTech Inc.**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2007 and 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 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 in the coming fiscal year. The Company had a working capital deficiency of \$1,871,512 and a shareholders' deficiency of \$1,892,213 as at January 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 Company's financial statements have been prepared following Canadian generally accepted accounting principles. The measurement of certain assets and liabilities is dependent upon future events whose outcome will not be fully known until future periods. Therefore the preparation of these financial statements requires the Company's management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may vary from those estimated. The recoverable value of property, plant and equipment of \$96,966 is the more significant item which reflects estimates in these financial statements. Such estimates and assumptions have been made using careful judgments, which, in management's opinion, are within reasonable limits of materiality and conform to the significant accounting policies summarized below:

## **Quest PharmaTech Inc.**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2007 and 2006

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries:

Altachem Pharma Inc.  
Danamedix Inc.  
Shanghai Hua Gao Pharmaceutical Pellet Core Ltd. ("SHGP")  
Sonolight Pharmaceuticals Corp.  
Steroidogenesis Inhibitors Canada Inc. ("SI Canada")  
790563 Alberta Ltd.  
Altachem Pharma (Barbados)  
Shanghai Altachem Pharma Biotechnology Ltd. ("SACP")

SHGP was sold during the year ended January 31, 2007.

790563 Alberta Ltd., Altachem Pharma (Barbados) Inc. and SACP were dissolved during the year ended January 31, 2006.

All significant intercompany transactions and balances are eliminated in the preparation of these consolidated financial statements.

### **Inventory**

Inventory is valued at the lower of cost, computed on a first-in, first-out basis, and estimated net realizable value.

### **Intangible assets**

Intangible assets include proprietary rights, intellectual property and patent rights which have been acquired from third parties. Intangible assets are recorded at cost less accumulated amortization. Following acquisition, the Company evaluates the prospective commercialization of the acquired intangible assets. Depending on the results of the evaluation, the Company generally commences amortization of the assets over a period of three to five years.

**Quest PharmaTech Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2007 and 2006

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Proprietary rights and intellectual property*

The Company's management evaluates the recoverability of the carrying cost of proprietary rights and intellectual property annually, based on the expected utilization of the underlying technology and an assessment as to whether estimated future net cash flows exceed the carrying value of the proprietary rights and intellectual property. If the rights and intellectual property are not considered to be fully recoverable, a provision is recognized for the unrecoverable amount.

*Patent rights*

Patent rights are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over a maximum period of five years from the time of acquisition. The Company's management evaluates the recoverability of the cost of such rights annually, based on the expected utilization of the underlying technology and an assessment as to whether estimated future net cash flows exceed the carrying value of the patent rights. If the rights are not considered to be fully recoverable, a provision is recognized for the unrecoverable amount.

**Property, plant and equipment**

Property, plant and equipment is recorded at cost less accumulated amortization. Amortization of property, plant and equipment and assets acquired under capital lease is calculated over the estimated useful life using the following methods and rates:

	<u>Basis</u>	<u>Rate</u>
Computer hardware and software	Declining balance	30%
Furniture and fixtures	Declining balance	30%
Office equipment	Declining balance	30%
Manufacturing and R&D equipment	Declining balance	30%
Buildings under capital lease	Straight-line	5%
Leasehold improvements	Straight-line	Lease term

**Quest PharmaTech Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2007 and 2006

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Lease accounting**

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease. At the inception of a capital lease, an asset and an obligation is recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of the lease. All other leases are accounted for as operating leases wherein payments are expensed as incurred.

**Convertible debentures**

On issuance of debentures convertible into common shares of the Company the fair value of the holders' conversion option is reflected as a component of shareholders' equity (deficiency). The Company's obligation to debenture holders for future interest and principal payments is reflected as a liability and accreted to its maturity value over the term of the debenture. If the holders exercise their conversion option, common shares issued on conversion will be recorded at an amount equal to the aggregate carrying value of the liabilities and conversion option extinguished with no gain or loss recognized.

**Revenue recognition**

Revenues associated with non-refundable up-front fees for the licensing of technology and products under agreements which require the Company to perform future performance obligations is recognized over the period of the contract. The portion related to future periods is recorded as deferred revenue.

**Research and development**

Research and development expenses are expensed as incurred. Upfront and milestone payments made to third parties in connection with specified research and development projects are expensed as incurred.

## **Quest PharmaTech Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2007 and 2006

#### **2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Foreign currency translation**

The Company's Chinese subsidiaries, SHGP and SACP, were considered financially and operationally integrated and were translated using the temporal method of accounting. Under this method, monetary assets and liabilities of the Company and its subsidiaries, denominated in foreign currencies, are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates of exchange. Revenue and expense items are translated at average rates of exchange during the period. Exchange gains and losses arising from these translations are included as a charge to the statement of operations during the period.

Prior to November 1, 2003, SHGP was classified as a self-sustaining foreign operation and foreign exchange gains or losses on translation were recorded as a cumulative translation adjustment and reported as a component of shareholders' equity. As a result of significant changes in the economic facts and circumstances, the Company re-classified SHGP as an integrated subsidiary and adopted the temporal method of accounting effective November 1, 2003.

SHGP was sold during the year ended January 31, 2007 and SACP was dissolved during the year ended January 31, 2006.

##### **Government assistance**

Government assistance, which is non-refundable, towards current expenses is included in the determination of income for the period as a reduction of the expenses to which it relates. Amounts received for future expenditures are recorded as a current liability. Government assistance towards the acquisition of property, plant and equipment is deducted from the cost of the related property, plant and equipment.

## **Quest PharmaTech Inc.**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2007 and 2006

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Stock-based compensation**

The Company accounts for stock options granted to non-employees on or after February 1, 2002 using the fair value method. Stock options granted to employees on or after February 1, 2003 are accounted for using the fair value method. For stock options granted to employees prior to February 1, 2003, pro forma disclosure of net loss and net loss per share is provided as if these awards were accounted for using the fair value method. Fair value is calculated using the Black-Scholes option pricing model with the assumptions described in note 10 and is recognized over the vesting period of the options granted. Consideration paid on the exercise of stock options is credited to share capital.

Under the fair value based method, stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measured. The cost of stock-based payments to non-employees are recognized over the vesting period. For fully vested and non-forfeitable stock based payments, the cost is measured and recognized at the grant date.

### **Income taxes**

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantially enacted tax rates and laws that are expected to be in effect in the periods in which the future tax assets or liabilities are expected to be realized or settled. A valuation allowance is recorded for the portion of the future tax assets for which the realization of any value is not more likely than not to occur.

### **Basic and diluted loss per share**

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. Diluted loss per share is computed using the treasury-stock method. Under this method, options, warrants and convertible securities are assumed to be exercised at the beginning of the period (or at the time of issuance, if later). Proceeds from the exercise are assumed to be used to purchase common shares at the average market price during the period. Incremental shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) are included in the denominator of the diluted loss per share computation.

Basic loss per share has been calculated using the weighted-average number of common shares outstanding during the year (2007 – 42,500,594; 2006 – 40,847,936). For the periods presented, the calculation of loss per common share on a diluted basis excluded all potential common shares because the effect was anti-dilutive.

## Quest PharmaTech Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2007 and 2006

#### 3. INTANGIBLE ASSETS

	<u>January 31, 2007</u>		<u>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
	<u>2,701,822</u>	<u>2,701,822</u>	<u>2,701,822</u>	<u>2,689,989</u>
Net book value		—		11,833

During the year, amortization of intangibles related to continuing operations was \$11,833 (2006 – \$49,334).

#### **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 (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 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

January 31, 2007 and 2006

#### 4. PROPERTY, PLANT AND EQUIPMENT

	<u>January 31, 2007</u>		<u>January 31, 2006</u>	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
	\$	\$	\$	\$
Computer hardware and software	79,670	59,288	101,462	75,158
Furniture and fixtures	12,114	9,269	12,114	8,049
Office equipment	36,943	31,388	36,944	27,907
Manufacturing and R&D equipment	306,217	238,033	397,929	274,945
Leasehold improvements	—	—	9,650	1,370
	<b>434,944</b>	<b>337,978</b>	558,099	387,429
Net book value		<b>96,966</b>		170,670

During the year, amortization of property, plant and equipment related to continuing operations was \$48,882 (2006 – \$67,059).

#### 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 in 2006 as the carrying value of these assets exceeded their estimated fair market value. These non-core technologies and operations are as follows:

## Quest PharmaTech Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2007 and 2006

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

a) Intangible assets held for sale:

	<u>January 31, 2007</u>		<u>January 31, 2006</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
Accu-MAb™ license	—	—	81,924	76,460
Anticort™ license	—	—	419,887	419,887
Business license – China	—	—	105,618	105,618
	<u>369,600</u>	<u>369,600</u>	<u>977,029</u>	<u>971,565</u>
Net book value		—		5,464

During the year, amortization of intangible assets held for sale was \$5,464 (2006 - \$50,251) and is included in discontinued operations, net of income taxes.

#### **ACP-HIP (patent rights)**

The Company had the worldwide patent rights over compounds with anti-Kaposi's Sarcoma ("KS") and HIV activity described as the ACP-HIP molecule, to make, have made, use, lease, sell, import and export technology products and processes, and practice the technology processes. The Company has amortized this intangible asset on a straight-line basis over five years. This intangible asset is fully amortized. This intangible asset was sold on January 30, 2006 to the original inventor for \$60,000 plus future payments on successful milestones and sales royalties.

#### **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 2005 to 2007. 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**

January 31, 2007 and 2006

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

##### **Accu-MAb™ license (proprietary rights)**

On February 27, 2001 the Company acquired the inventory and associated rights to produce and distribute a diagnostic test kit (“Accu-MAb”) for the detection of whooping cough. The term of the license to produce and distribute the product was for a period of ten years with a ten-year renewal option. The Company amortized the license rights on a straight-line basis over five years. This intangible asset was sold for gross proceeds of \$200,000 on June 9, 2006.

##### **Anticort™ license (proprietary rights)**

The Company owned the exclusive renewable rights to market and distribute the product Anticort™ in Canada for a period of ten years commencing upon approval of the drug by Health Canada (“HC”). Anticort is a product designed to reduce blood cortisol levels and relieve symptoms associated with AIDS. The Company also had an option to acquire the exclusive rights for countries in the British Commonwealth, except for England, New Zealand, Australia, and Brunei, for a period of one year from the date drug approval is received from HC. The Company amortized this asset on a straight-line basis over a three-year period that commenced on November 1, 2001. On July 21, 2006 the Company sold its Anticort rights back to Samaritan Pharmaceuticals Inc. for gross proceeds of U.S. \$50,000 and 50,000 common shares of Samaritan Pharmaceuticals Inc.

##### **Business license – China**

The Company, through Shanghai Hua Gao Pharmaceutical Pellet Core Ltd. (“SHGP”), held a business license issued by State Administration for Industry and Commerce of the People’s Republic of China. The Company amortized this asset on a straight-line basis over a three-year period, which commenced on August 6, 2002. The Company sold all its interest in SHGP to the Gaojing Government in July, 2006.

## Quest PharmaTech Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2007 and 2006

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

- 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. In July, 2006, the Company sold the shares of SHGP to Shanghai Gaojing Capital Management Co. Ltd. for gross proceeds of 1,250,000 RMB (\$177,315 Canadian). As part of this transaction, the Gaojing Government cancelled \$725,000 U.S. of lease obligations owed by the Company. The disposal loss recognized on the sale of SHGP in fiscal 2007 is net of the removal of the \$210,090 cumulative translation adjustment related to SHGP. The following table summarizes the assets held for sale and related liabilities as at January 31, 2007 and 2006:

	Years ended January 31,	
	2007	2006
	\$	\$
Cash	—	36,843
Accounts receivable	—	8,068
Inventory	—	5,149
Prepaid expenses	—	2,755
Current assets held by discontinued operations	—	52,815
Property, plant and equipment	—	872,368
Total assets held by discontinued operations	—	925,183
Obligations under capital lease	—	(921,047)
Net assets held by discontinued operations	—	4,136

- c) On August 18, 2005, the Company received government 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 repatriation 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”).

**Quest PharmaTech Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2007 and 2006

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

- f) 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 January 31, 2007 and 2006:

	<b>Years ended January 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
Accounts receivable	—	20,397
Inventory	—	9,298
Current assets of Accu-MAb discontinued operations	—	29,695
Current liabilities of Accu-MAb discontinued operations	—	(13,492)
<b>Net assets of Accu-MAb discontinued operations</b>	<b>—</b>	<b>16,203</b>

- g) In August, 2006, the Company completed the sale to a third party of the assets and technology associated with Anticort for proceeds of U.S. \$50,000 and 50,000 common shares of Samaritan Pharma, publicly traded on the American Stock Exchange. At January 31, 2007 the fair value of these shares is recorded in prepaid expenses and other assets.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2007 and 2006

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

The following table shows revenue and net after-tax income (loss) from the discontinued operations for the years ended January 31, 2007 and 2006:

	<b>Year ended January 31, 2007</b>								
	<b>Contract</b>								
	<b>SHGP (China)</b>	<b>SACP (China)</b>	<b>Manufacturing (Canada)</b>	<b>Barbados</b>	<b>Bionex (China)</b>	<b>Accu-Mab (Canada)</b>	<b>ACP-HIP (Canada)</b>	<b>Anticort (Canada)</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenue</b>	—	—	—	—	—	24,787	—	—	24,787
<b>Income from operating activities</b>	—	—	—	—	—	18,074	—	—	18,074
Disposal gain (loss)	(70,349)	—	—	—	—	174,696	—	77,606	181,953
<b>Loss for the year, net of income taxes</b>	<b>(70,349)</b>	—	—	—	—	<b>192,770</b>	—	<b>77,606</b>	<b>200,027</b>
	<b>Year ended January 31, 2006</b>								
	<b>Contract</b>								
	<b>SHGP (China)</b>	<b>SACP (China)</b>	<b>Manufacturing (Canada)</b>	<b>Barbados</b>	<b>Bionex (China)</b>	<b>Accu-Mab (Canada)</b>	<b>ACP-HIP (Canada)</b>	<b>Anticort (Canada)</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenue</b>	60,784	—	—	—	—	155,948	—	—	216,732
<b>Income (loss) from operating activities</b>	(402,183)	(50,833)	(2,467)	(5,605)	(16,265)	87,237	—	—	(390,116)
Impairment charge	(582,404)	—	—	—	—	—	—	—	(582,404)
Disposal gain	—	—	—	—	—	—	60,000	—	60,000
<b>Loss for the year, net of income taxes</b>	<b>(984,587)</b>	<b>(50,833)</b>	<b>(2,467)</b>	<b>(5,605)</b>	<b>(16,265)</b>	<b>87,237</b>	<b>60,000</b>	—	<b>(912,520)</b>

No income tax expense (recovery) was recognized on discounted operations for 2007 or 2006.

## **Quest PharmaTech Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2007 and 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 was repayable in blended monthly installments of \$6,667 with the balance, including accrued interest, due on March 22, 2006. The Debenture had a conversion feature whereby it could be converted into common shares of the Company at a price of \$0.45 per common share and could be redeemed at any time by the Company. In March, 2006, the Company negotiated a six month extension to the maturity date and in September, 2006, the Company negotiated a further 12 month extension to the maturity date. The debenture is now due September 22, 2007. In connection with the extension, the debenture interest rate was revised from 8% to 9% per annum and the debenture conversion price was amended from \$0.45 to \$0.25 per common share.

On the issuance of the convertible debenture in 2006, 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 was accreted to the face value of the debenture over its term and the accretion charge was accounted for as interest expense.

In fiscal 2007, after modification of the terms as described above, the Company valued 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 137.7% and an average risk free interest rate of 2.88%. The equity component was calculated to be \$80,000. The incremental increase of the fair value of the equity portion of \$13,333 was reflected as a reduction in the carrying value of the convertible debenture and will accreted to the full value of the debenture over its remaining term with the accretion reflected as interest expense.

During the year ended January 31, 2007, the Company incurred \$99,212 (2006 - \$122,226) in interest under this convertible debenture, of which \$15,879 (2006 - \$55,555) was in the form of accreted interest.

## Quest PharmaTech Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2007 and 2006

#### 7. INCOME TAXES

Details of the components of income taxes from continuing operations are as follows:

	2007	2006
	\$	\$
Loss before income taxes from continuing operations	<b>(1,654,104)</b>	(2,591,293)
Statutory tax rate	<b>32.37%</b>	33.62%
Tax recovery at Canadian statutory rate	<b>(535,433)</b>	(871,193)
Adjustment in income taxes resulting from:		
Fair value of stock options granted	<b>35,487</b>	39,411
Non-taxable portion of capital gain	<b>(4,847)</b>	—
Non taxable dividends	—	(8,404)
Non-deductible expenses and other	<b>9,005</b>	18,314
Valuation allowance	<b>495,788</b>	821,872
Future tax recovery	—	—

Significant components of the Company's future tax balances are as follows:

	2007	2006
	\$	\$
<b>Future tax assets</b>		
Non-capital loss carryforwards	<b>4,011,969</b>	4,252,321
Tax cost of property, plant and equipment in excess of book values	<b>202,123</b>	371,583
Tax cost of intangible assets in excess of book values	<b>149,466</b>	151,084
Scientific research and experimental development tax credits	<b>107,092</b>	124,152
Share issue costs deductible for tax purposes	—	35,408
Capital loss carryforwards	<b>662,856</b>	305,970
Other	—	78,946
	<b>5,133,506</b>	5,319,464
Valuation allowance	<b>(5,133,506)</b>	(5,319,464)
	—	—

**Quest PharmaTech Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2007 and 2006

**7. INCOME TAXES (CONTINUED)**

The Company and its subsidiaries have non-capital losses for income tax purposes of approximately \$13,743,000 at January 31, 2007 (\$12,649,000 at January 31, 2006) that may be applied against future taxable income. In addition, the Company has scientific research and experimental development expenses of \$369,000, which have no expiry date. In total, approximately \$17,610,000 (January 31, 2006 - \$16,732,000) of non-capital losses and deductible temporary differences for Canadian income tax purposes have not been recognized for accounting purposes. The non-capital losses and investment tax credits ("ITC") available for carry forward must be claimed in years ending no later than:

	\$	\$
	<b>Non-capital losses</b>	<b>ITCs</b>
2008	932,900	—
2009	1,252,200	—
2010	2,543,900	—
2011	2,682,300	—
2012	—	64,000
2013	—	9,600
2015	1,936,500	—
2026	2,443,500	—
2027	1,951,700	—
	<u>13,743,000</u>	<u>73,600</u>

**Quest PharmaTech Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2007 and 2006

**8. COMMITMENTS AND CONTINGENCIES**

**a) Lease Obligations**

The Company is committed to lease payments, including estimated operating costs, for its business premises as follows to August 31, 2011:

	<b>Continuing operations \$</b>
2008	<b>37,364</b>
2009	<b>37,364</b>
2010	<b>37,364</b>
2011	<b>37,364</b>
2012	<b>21,795</b>
	<b>171,251</b>

Operating lease expense of \$59,333 was incurred during 2007 (general and administration expense of \$15,960; research and development expense of \$43,373).

**b) Research and Development**

The Company has commitments to fund various research and development activities in the normal course of its business. Subject to successful completion of contractual milestones, the Company is committed to approximately \$302,000 of research and development expenditures for fiscal 2008 and \$50,000 of research and development expenditures for fiscal 2009.

**c) Litigation**

In the ordinary course of business, the Company may be contingently liable for litigation and claims with customers, suppliers and former employees. As at January 31, 2007, management is not aware of any ongoing litigation against the Company.

## Quest PharmaTech Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2007 and 2006

#### 9. SHARE CAPITAL

##### Authorized

Unlimited number of common shares without nominal  
or par value

Unlimited number of First Preferred shares

Unlimited number of Second Preferred shares

The First and Second Preferred shares may be issued in

one or more series and the directors are authorized to fix

the number of shares in each series and to determine the

designation, rights, privileges, restrictions and conditions attached to the shares of each series.

##### Issued

	Number of common shares	Amount \$
<b>Common shares</b>		
<b>At January 31, 2005</b>	<b>36,265,580</b>	19,635,240
Shares issued pursuant to a private placement	<b>1,772,000</b>	391,735
Shares issued pursuant to a private placement	<b>4,200,000</b>	941,700
<b>At January 31, 2006</b>	<b>42,237,580</b>	20,968,675
Shares issued pursuant to a private placement	<b>1,000,000</b>	80,000
<b>At January 31, 2007</b>	<b>43,237,580</b>	21,048,675

At January 31, 2007, the Company's subsidiary SI Canada holds 125,000 common shares of the Company.

On October 15, 2006, the Company signed an exclusive agreement with KMH Co, Ltd ("KMH"), for the distribution rights of the SL017 topical gel variant of its hypocrellin technology in Asia for fifteen years or until the expiration of patents, whichever is longer. The agreement required an initial investment in the Company of \$200,000 with additional investments of up to \$1,300,000 upon the achievement of specified milestones as well as specified royalty payments on product sales (see note 17).

Under the terms of the agreement, the Company issued 1,000,000 common shares to KMH. Of the \$200,000 initial investment, \$120,000 was recorded as deferred income which will be recognized into income over the fifteen year term of the agreement. The company recognized \$2,333 of the deferred amount into income in 2007. The remaining \$80,000 was applied to share capital based on the fair value of the shares at the date of the agreement with KMH.

**Quest PharmaTech Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2007 and 2006

**9. SHARE CAPITAL (CONTINUED)**

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

<b>Exercise price</b>	<b>Options outstanding</b>	<b>Weighted average remaining life</b>	<b>Options exercisable</b>	<b>Options non-exercisable</b>
\$0.25	1,916,000	3.42 years	1,849,333	66,667
\$0.31	321,000	2.93 years	321,000	—
\$0.50	200,000	0.97 years	200,000	—
\$0.52	200,000	2.17 years	200,000	—
\$0.64	50,000	2.10 years	50,000	—
\$0.65	3,000	0.83 years	3,000	—
\$0.67	50,000	1.85 years	50,000	—
\$1.00	500,000	0.43 years	500,000	—
\$1.00	250,000	3.05 years	250,000	—
\$2.25	603,000	0.19 years	603,000	—
	<b>4,093,000</b>	<b>2.11 years</b>	<b>4,026,333</b>	<b>66,667</b>

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

	<b>Shares issuable on exercise of</b>			
	<b>Warrants</b>		<b>Stock options</b>	
	<b>Number of shares</b>	<b>Weighted average exercise price \$</b>	<b>Number of shares</b>	<b>Weighted average exercise price \$</b>
<b>Balance January 31, 2005</b>	—	—	2,682,500	1.13
Granted	2,986,000	0.45	1,491,000	0.28
Exercised	—	—	—	—
Expired	—	—	(443,500)	1.09
<b>Balance January 31, 2006</b>	<b>2,986,000</b>	<b>0.45</b>	<b>3,730,000</b>	<b>0.79</b>
Granted	—	—	1,250,000	0.25
Exercised	—	—	—	—
Expired	(2,986,000)	0.45	(887,000)	0.35
<b>Balance January 31, 2007</b>	<b>—</b>	<b>—</b>	<b>4,093,000</b>	<b>0.72</b>

**Quest PharmaTech Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2007 and 2006

**9. SHARE CAPITAL (CONTINUED)**

**Warrants**

During the year ended January 31, 2007, 2,986,000 warrants issued in 2006 and exercisable at \$0.45 per common share expired without exercise. The recorded value of these warrants of \$98,740 was reflected in contributed surplus on the expiry of the warrants.

**Stock options**

For the year ended January 31, 2007, the Company granted 1,250,000 stock options, as per the Company's Stock Option Plan. Out of this total, 613,000 stock options were granted to non-employees and 637,000 were granted to employees. All of these stock options have an exercise price of \$0.25. See note 10.

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 at that date. The aggregate number of common shares reserved for issuance under the Company's Stock Option Plan shall not exceed 4,223,758. At January 31, 2007, 130,758 options are available for issue.

**Escrowed shares**

As at January 31, 2007, the Company's transfer agent held 1,810,733 (2006 – 2,414,311) 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.

## Quest PharmaTech Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2007 and 2006

#### 10. STOCK-BASED COMPENSATION

For the year ended January 31, 2007, the Company granted a total of 1,250,000 (2006 – 1,491,000) stock options under the Company's Stock Option Plan. The fair value of options vesting in 2007 of \$109,630 (2006 - \$117,225) was recognized as a general and administrative expense and credited to contributed surplus for the year ended January 31, 2007.

The Company used the Black-Scholes option pricing model to estimate the fair value of these options. The following assumptions were used:

	2007 \$	2006 \$
Dividend yield	0.00%	0.00%
Volatility	95.9 – 118%	89.8 – 92.6%
Risk-free interest rate	2.93 – 3.13%	2.48 – 2.78%
Expected life (years)	2.90 – 5.00	4.76 – 4.89
Fair value per option	\$0.03 – \$0.06	\$0.12 – \$0.17

#### 11. SEGMENT DISCLOSURES

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

##### Revenues by geographic area

	Years ended January 31,			
	2007		2006	
	Continuing operations \$	Discontinued operations \$	Continuing operations \$	Discontinued operations \$
Canada	—	426	—	2,630
United States	—	22,336	—	144,853
Other	2,333	2,025	—	69,249
	2,333	24,787	—	216,732

Revenues are attributed to countries based on location of customers or counterparties.

## Quest PharmaTech Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2007 and 2006

#### 11. SEGMENT DISCLOSURES (CONTINUED)

##### Long lived assets by geographic area

	As at January 31,	
	2007	2006
	\$	\$
Canada	96,966	187,967
Canada (assets held for sale)	—	5,464
People's Republic of China (assets held for sale)	—	866,904
	<b>96,966</b>	<b>1,060,335</b>

#### 12. DEMAND NOTES AND RELATED PARTY TRANSACTIONS

- a) During fiscal 2007, the Company obtained bridge financing from related parties, including officers, directors and companies controlled by officers or directors of the Company in the amount of \$271,800. This bridge financing was unsecured and had no fixed terms of repayment. Of the amounts borrowed, \$230,000 bears interest at 6% per annum, payable monthly and the remainder was non-interest bearing. During the year the non-interest bearing amounts were repaid and only the \$230,000 interest bearing amounts remain outstanding at January 31, 2007. Interest of \$10,926 was incurred on this bridge financing in fiscal 2007.
- b) During fiscal 2007, the Company obtained bridge financing from third parties in the amount of \$71,500. This bridge financing was unsecured and had no fixed terms of repayment. Of the amounts borrowed, \$60,000 bore interest at 8% per annum, payable monthly and the remainder was non-interest bearing. The \$71,500 was repaid in full prior to the year-end and no amounts remain outstanding at January 31, 2007. Interest of \$1,519 was incurred on this bridge financing in fiscal 2007.
- c) 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 required the Company to make monthly payments of \$7,500 plus reimbursable out of pocket expenses, and was for a term of 12 months and the amounts were recorded at the exchange amount agreed to by the parties. This consulting agreement expired August 31, 2006.
- d) On February 8, 2005, the Company obtained bridge financing in the amount of \$75,000 from a director. At that time, the Company converted all of the director's outstanding loans (which totaled \$150,000 and was comprised of \$130,000 in bridge financing and \$20,000 of legal expenses incurred by this director on behalf of the Company) to interest bearing notes (totaling \$225,000) at 6% per annum. The Company paid this obligation in full by October 31, 2005.

## Quest PharmaTech Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2007 and 2006

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

	2007	2006
	\$	\$
Accounts receivable	143,408	(118,864)
Prepaid expenses and other assets	16,869	42,882
Accounts payable and accrued liabilities	248,255	(657,667)
	<u>408,532</u>	<u>(733,649)</u>

During the year ended January 31, 2007, the Company paid approximately \$96,000 of interest (2006 – \$87,000) and income taxes of nil (2006 – nil).

#### 14. FINANCIAL INSTRUMENTS

##### Fair Values

Given their short-term maturity, the fair value of cash, accounts receivable, accounts payable and accrued liabilities, demand notes and convertible debenture approximate their carrying value.

#### 15. 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 year ended January 31, 2007, the Company recognized approximately \$17,600 (2006 - \$217,000) 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 recorded \$nil as receivable under this grant as at January 31, 2007 (2006 - \$65,189). The funding is contingent upon the Company funding approximately \$600,000 of expenditures. As at January 31, 2007, the Company had funded in excess of \$600,000 (2006 - \$446,000) of this commitment.

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 year ended January 31, 2007, the Company received \$55,000 (2006 - \$39,000) under this grant which was recorded as a reduction to research and development expenses.

## Quest PharmaTech Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2007 and 2006

#### 15. GOVERNMENT ASSISTANCE (CONTINUED)

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 year ended January 31, 2007, the Company recognized \$36,160 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 received \$39,643 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.

	2007	2006
	\$	\$
Gross research and development expenses	970,714	1,553,292
Less government assistance	(108,760)	(295,643)
<b>Research and development expenses, net</b>	<b>861,954</b>	<b>1,257,649</b>

#### 16. COMPARATIVE FIGURES

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

#### 17. SUBSEQUENT EVENTS

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. The units were sold at a price of \$0.10 per unit. Each unit consisted of one common share of the Company 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. The warrants will expire 12 months from the date of issue. At January 31, 2007 \$183,000 of cash was received in advance of the closing of the private placement and is recorded as deposit on share subscription on the balance sheet.

**Quest PharmaTech Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2007 and 2006

**17. SUBSEQUENT EVENTS (CONTINUED)**

On April 13, 2007, the Company signed an agreement with the Alberta Research Council (“ARC”) whereby the ARC will undertake research to develop a semi-synthetic method for the manufacture of Hypocrellin B (“HB”), an active ingredient for the production of SL017 and SL052. If the project were to be successful, Quest will receive an exclusive license, on pre-determined terms, to the developed technology from the ARC to manufacture and commercialize HB based products.

Effective April 30, 2007, the Company entered into a multinational license agreement with Paramount Bio Sciences LLC to develop and commercialize SL017 for dermatology applications. The agreement provides for an initial up-front payment and further payments upon meeting successful milestones.

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 22, 2007, the Company entered into an agreement to purchase a minimum of U.S. \$70,000 of Hypocrellin B product prior to August 31, 2008.