

Consolidated Financial Statements

**Quest PharmaTech Inc.**

Nine Months ended October 31, 2009

(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, 2009 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, 2009 (Unaudited) \$	January 31, 2009 (Audited) \$
<b>ASSETS</b>		
<b>Current</b>		
Cash	140,685	594,826
Accounts receivable	31,878	54,617
Marketable securities <i>[note 5]</i>	34,570	53,010
Prepaid expenses	5,941	37,860
	<b>213,074</b>	740,313
Intangible assets <i>[note 3]</i>	97,500	—
Property, plant and equipment <i>[note 4]</i>	193,620	238,024
	<b>504,194</b>	978,337
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	52,640	202,912
Convertible debenture <i>[note 6]</i>	500,000	497,137
Current portion of deferred revenue <i>[note 8]</i>	8,000	258,000
	<b>560,640</b>	958,049
Deferred revenue <i>[note 8]</i>	87,667	93,667
	<b>648,307</b>	1,051,716
<b>Shareholders' deficiency</b>		
Share capital <i>[note 9]</i>	24,058,875	23,998,875
Equity portion of convertible debenture <i>[note 6]</i>	60,000	60,000
Contributed surplus <i>[note 9]</i>	1,622,865	1,603,615
Deficit	(25,885,853)	(25,735,869)
	<b>(144,113)</b>	(73,379)
	<b>504,194</b>	978,337

*See accompanying notes*

On behalf of the Board:

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

Quest PharmaTech Inc.

**CONSOLIDATED STATEMENTS OF  
OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT**

	For the quarter ended October 31		For the nine months ended October 31	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>REVENUE</b>				
License fees and market distribution rights <i>[notes 7 and 12]</i>	2,000	502,000	756,000	1,506,000
<b>EXPENSES</b>				
General and administrative	144,234	118,889	472,480	466,817
Research and development, net <i>[note 15]</i>	109,360	676,446	322,743	1,252,170
Amortization	17,665	10,998	52,575	28,501
Bank charges and interest	11,575	16,895	37,341	47,123
	282,834	823,228	885,139	1,794,611
<b>Loss before the undernoted</b>	<b>(280,834)</b>	<b>(321,228)</b>	<b>(129,139)</b>	<b>(288,611)</b>
<b>Other income (expenses):</b>				
Interest income	159	6,033	1,998	18,402
Foreign exchange (loss) gain	(235)	35,895	(4,403)	39,454
Gain on sale of non-core assets <i>[note 5]</i>	—	—	—	5,000
Loss on write down/disposal of property, plant and equipment	—	(12,128)	—	(12,128)
Gain (loss) on fair value change in marketable securities <i>[note 5]</i>	6,756	—	(18,440)	—
	6,680	29,800	(20,845)	50,728
<b>Net and comprehensive loss for the period</b>	<b>(274,154)</b>	<b>(291,428)</b>	<b>(149,984)</b>	<b>(237,883)</b>
Deficit, beginning of period	(25,611,699)	(25,478,277)	(25,735,869)	(25,531,822)
<b>Deficit, end of period</b>	<b>(25,885,853)</b>	<b>(25,769,705)</b>	<b>(25,885,853)</b>	<b>(25,769,705)</b>
<b>Basic and diluted loss per share</b>	<b>(\$0.00)</b>	<b>(\$0.00)</b>	<b>(\$0.00)</b>	<b>(\$0.00)</b>

*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	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>				
Net loss for the period	(274,154)	(291,428)	(149,984)	(237,883)
Items that do not involve cash:				
Interest accreted on convertible debenture	—	5,000	2,863	12,137
Amortization	17,665	10,998	52,575	28,501
Stock-based compensation	15,000	—	19,250	—
Gain on the sale of non-core assets	—	—	—	(5,000)
(Gain) loss on fair value change in marketable securities	(6,756)	—	18,440	—
Loss on disposal of property, plant and equipment	—	12,128	—	12,128
Deferred revenue recognized in the period	(2,000)	(502,000)	(756,000)	(1,506,000)
Cash received on deferred licenses <i>[note 7]</i>	—	—	500,000	1,000,000
Changes in non-cash working capital items relating to operating activities <i>[note 14]</i>	1,286	103,648	(95,614)	147,278
	(248,959)	(661,654)	(408,470)	(548,839)
<b>CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment	(39,805)	—	(45,671)	(191,397)
Proceeds from the sale of property, plant and equipment and other assets	—	—	—	42,500
	(39,805)	—	(45,671)	(148,897)
<b>Decrease in cash and cash equivalents</b>	<b>(288,764)</b>	<b>(661,654)</b>	<b>(454,141)</b>	<b>(697,736)</b>
Cash and cash equivalents, beginning of period	429,449	1,269,720	594,826	1,305,802
<b>Cash and cash equivalents, end of period</b>	<b>140,685</b>	<b>608,066</b>	<b>140,685</b>	<b>608,066</b>

See accompanying notes

## **Quest PharmaTech Inc.**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the nine months ended October 31, 2009**

## **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 consolidated 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.

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 consolidated 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, 2009. These unaudited interim consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements for the year ended January 31, 2009.

## Quest PharmaTech Inc.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2009

### 3. INTANGIBLE ASSETS

	<u>at October 31, 2009</u>		<u>at January 31, 2009</u>	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Immunotherapy technology	97,500	—	—	—
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
	2,799,322	2,701,822	2,701,822	2,701,822
		97,500		—

#### CORE TECHNOLOGY:

##### **Immunotherapy technology and licenses (“Immunotherapy Technology”)**

During September, 2009, the Company signed a technology purchase agreement with Paladin Labs Inc. (“Paladin”) to acquire the proprietary rights and intellectual property related to an antibody immunotherapy technology. Under this technology, the Company acquired product candidates consisting of five monoclonal antibodies targeting certain tumor antigens that are presented in a variety of cancers. Under the terms of the agreement, the Company has made an initial deposit towards the full purchase price comprised of a cash payment of \$37,500 and the issuance of 1,500,000 common shares (with a deemed value for accounting purposes of \$60,000 - \$0.04 per share based on the closing price of the common shares on the date of issue). Should the Company determine to proceed with the technology purchase in full, the Company will issue an additional 1,500,000 common shares no later than December 31, 2010 and a further 2,000,000 common shares upon successful future financing initiatives by the Company. The agreement also requires the Company to make milestone and royalty payments to Paladin on future revenues. The Company intends to amortize this asset on a straight-line basis over a three-year period commencing no later than December 31, 2010.

##### **Hypocrellin based technology and licenses (“SonoLight Technology”)**

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).

## Quest PharmaTech Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2009

#### 3. INTANGIBLE ASSETS (CONTINUED)

##### NON CORE TECHNOLOGIES - 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. During fiscal 2009, the Company determined that it will not proceed with further development with respect to the CDK technology at this time.

#### 4. PROPERTY, PLANT AND EQUIPMENT

	<u>at October 31, 2009</u>		<u>at January 31, 2009</u>	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
	\$	\$	\$	\$
Computer hardware and software	80,743	68,647	74,878	66,273
Furniture and fixtures	12,114	11,034	12,114	10,122
Office equipment	31,494	29,749	31,494	28,278
Manufacturing and R&D equipment	454,083	277,589	441,838	228,310
Leasehold improvements	2,305	100	—	—
Deposit on manufacturing and R&D equipment	—	—	12,245	—
	<b>580,739</b>	<b>387,119</b>	572,569	334,545
Net book value		<b>193,620</b>		238,024

During the three and nine month periods ended October 31, 2009, amortization of property, plant and equipment was \$17,665 and \$52,575, respectively (for the three and nine month periods ended October 31, 2008 – \$10,998 and \$28,501, respectively).

## Quest PharmaTech Inc.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2009

## 5. ASSETS HELD FOR SALE

As part of the Company's approved initiatives to divest itself of certain non-core technologies, on December 21, 2007, and amended on April 18, 2008, the Company signed a technology transfer agreement with a third party to sell its interest in the Bionex Technology. Under the terms of the agreement, the Company received cash of \$50,000, 1,351,111 common shares of Toba Industries Ltd. (afterwards known as Brand Marvel World Wide Consumer Products Corporation), and future royalties of up to \$200,000 upon the successful commercialization of Bionex related products. During the nine month period ended October 31, 2008, the Company recorded a gain on sale of \$5,000 based on the cash consideration of the transaction.

The Company currently holds the following marketable securities which are recorded as follows:

	October 31, 2009	Jan 31, 2009
	\$	\$
1,351,111 common shares of Brand Marvel Worldwide Consumer Products Corporation (BMW.v)	33,778	52,218
8,334 common shares of Samaritan Pharmaceuticals Inc.	792	792
	<u>34,570</u>	<u>53,010</u>

During the three month period ended October 31, 2009, the Company recorded a fair value gain of \$6,756 in connection with the shares of BMW.v. During the nine month period ended October 31, 2009, the Company recorded a fair value impairment of \$18,440 in connection with the shares of BMW.v.

## 6. CONVERTIBLE DEBENTURE

The Company currently carries an obligation in the form of a \$500,000 principal amount 9% convertible debenture with a one-year maturity with two arm's-length parties. The debenture is collateralized by the Company's SonoLight Technology, one of its core technologies [note 3]. The debenture is repayable in monthly, interest only, installments with the balance, due on March 22, 2010. The debenture has a conversion feature whereby it can be converted into common shares of the Company at a price of \$0.25 per common share and can be redeemed at any time by the Company.

## Quest PharmaTech Inc.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2009

## 6. CONVERTIBLE DEBENTURE (CONTINUED)

The Company has used the residual value method to allocate the proceeds of \$500,000 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 238.2% and an average risk-free interest rate of 0.50%. The equity component was calculated to be \$60,000. The liability component has been accreted to the face value of the debenture over its term and the accretion charge has been accounted for as interest expense. At October 31, 2009, the liability component was calculated to be \$500,000. During the three and nine month periods ended October 31, 2009, the Company incurred \$1,250 and \$36,613, respectively [2008 - \$16,250 and \$34,637 respectively] in interest under this convertible debenture, of which \$nil and \$2,863, respectively [2008 - \$5,000 and \$12,137, respectively] was in the form of accreted interest.

## 7. LICENSE FEES

On December 14, 2007, the Company signed a license agreement to receive \$3,000,000 to develop oncology products based on its SonoLight technology. Under the terms of the agreement, the Company received \$1,000,000 on execution of the agreement, \$1,500,000 during fiscal 2009 and \$500,000 during the nine month period ended October 31, 2009. The license agreement requires the Company to pay royalties on all future net revenue from the commercialization of the Company's SonoLight Technology oncology products. Under the terms of the agreement, the Company is required to use commercially reasonable efforts to initiate a Phase 1 clinical trial for photodynamic therapy treatment of prostate cancer. The Company is recognizing the license fee in relation to the costs incurred with these efforts and has recognized \$750,000 of the license fee during the nine month period ended October 31, 2009.

## 8. DEFERRED REVENUE

The Company has recorded deferred revenue in connection with license fees and market distribution rights received but not earned as follows:

	October 31, 2009	Jan 31, 2009
	\$	\$
<b>Current portion:</b>		
License fees	—	250,000
Market distribution rights	<u>8,000</u>	<u>8,000</u>
	<b>8,000</b>	<b>258,000</b>
<b>Long term portion:</b>		
Market distribution rights	<u>87,667</u>	<u>93,667</u>

**Quest PharmaTech Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the nine months ended October 31, 2009**

**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:**

	<b>Number of common shares</b>	<b>Amount \$</b>
<b>Common shares</b>		
<b>At January 31, 2009</b>	<b>68,197,580</b>	23,998,875
September 21, 2009 - shares issued under technology purchase	<b>1,500,000</b>	60,000
<b>At October 31, 2009</b>	<b>69,697,580</b>	24,058,875

On September 21, 2009, the Company issued 1,500,000 common shares as partial consideration under a technology purchase agreement. The shares were valued at \$60,000 (\$0.04 per share) being the closing price of the Company's common shares on the date of issue.

At October 31, 2009, the Company held 22,540 common shares for cancellation.

**Quest PharmaTech Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the nine months ended October 31, 2009**

**9. SHARE CAPITAL (CONTINUED)**

The following options to purchase common shares were outstanding as at October 31, 2009.

<b>Exercise price</b>	<b>Options outstanding</b>	<b>Weighted average remaining life</b>	<b>Options exercisable</b>	<b>Options non-exercisable</b>
\$0.15	375,000	4.19 years	375,000	—
\$0.25	3,506,000	1.65 years	3,456,000	50,000
\$0.31	166,000	0.22 years	166,000	—
\$1.00	250,000	0.30 years	250,000	—
	4,297,000	1.73 years	4,247,000	50,000

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, 2009</b>	—	—	4,184,000	0.31
Granted	—	—	675,000	0.24
Exercised	—	—	—	—
Expired	—	—	(562,000)	0.38
<b>Balance October 31, 2009</b>	—	—	4,297,000	0.29

**Stock options**

For the three and nine month periods ended October 31, 2009, the Company granted 500,000 and 675,000, respectively (2008 – nil and 50,000, respectively) stock options under the Company's Stock Option Plan. 600,000 of these options have an exercise price of \$0.25 and 75,000 options have an exercise price of \$0.15. All of the options were granted to non-employees (note 11). At October 31, 2009, 2,672,758 options are available for issue.

## Quest PharmaTech Inc.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2009

## 9. SHARE CAPITAL (CONTINUED)

### Escrowed shares

As at October 31, 2009, the Company's transfer agent held nil (As at October 31, 2008 – 905,366) 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 were automatically released over time through to October 30, 2009.

### Contributed surplus

	2009	2008
	\$	\$
Contributed surplus, January 31	1,603,615	1,439,115
Stock-based compensation expense	19,250	—
Expiration or revaluation of warrants	—	96,000
Contributed surplus, October 31	1,622,865	1,535,115

## 10. CAPITAL DISCLOSURES

The Company is a biotechnology company and consistent with other companies in the industry, the Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern so that it can continue with its drug development program and strive to maximize shareholder value. Note 1 provides a discussion surrounding the Company's ability to continue as a going concern. Capital is defined by the Company as shareholders' equity (deficiency) (primarily comprised of share capital, contributed surplus and deficit) and current term debt consisting of a convertible debenture. The Company manages its capital structures and makes adjustments based on the needs of the Company's operations and the requirement for funding to continue with the Company's drug development program. The Company does this through new share or debt issuances, selling assets or licensing its technologies to third parties to fund operations. The Company is not subject to externally imposed capital requirements

## 11. STOCK-BASED COMPENSATION

During the three and nine month periods ended October 31, 2009, the Company granted a total of 500,000 and 675,000 stock options, respectively, as per the Company's Stock Option Plan, to consultants, at exercise prices ranging from \$0.15 per share to \$0.25 per share. 625,000 of these stock options vested during the nine month period ended October 31, 2009. The estimated fair value of these vested options (\$15,000 and \$19,250, respectively) was recognized as an expense and credited to contributed surplus for the three and nine month periods ended October 31, 2009. For the three and nine month periods ended October 31, 2008, the Company did not recognize any stock based compensation.

## Quest PharmaTech Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2009

#### 12. SEGMENT DISCLOSURES

The Company is managed as one operating segment – biopharmaceutical products. The following table presents information on the Company’s operating results.

##### Revenues by geographic area

	Three months ended Oct 31,		Nine months ended Oct 31,	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	\$	\$	\$	\$
Asia	2,000	502,000	756,000	1,506,000
	2,000	502,000	756,000	1,506,000

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

#### 13. RELATED PARTY TRANSACTIONS

During the three and nine month periods ended October 31, 2009 and 2008, there were no related party transactions.

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

	<u>3 Months Ended</u>		<u>9 Months Ended</u>	
	<u>Oct 31/ 09</u>	<u>Oct 31/ 08</u>	<u>Oct 31/ 09</u>	<u>Oct 31/ 08</u>
	\$	\$	\$	\$
Accounts receivable	(953)	(16,416)	22,739	87,924
Prepaid expenses	1,724	20,573	31,919	(12,662)
Accounts payable and accrued liabilities	515	99,491	(150,272)	72,017
	1,286	103,648	(95,614)	147,279

## Quest PharmaTech Inc.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2009

## 15. GOVERNMENT ASSISTANCE

In April, 2008, the Company obtained government assistance in the form of an IRAP grant to cover salaries and contractor fees related to the development of the Company's sonodynamic therapy for the treatment of peritoneal cancer. During the three and nine month periods ended October 31, 2009, the Company recognized \$9,463 and \$81,514, respectively (2008 - \$31,167 and \$56,859, respectively) of funding as a reduction of research and development expenses.

	<u>3 Months Ended</u>		<u>9 Months Ended</u>	
	Oct 31/09	Oct 31/08	Oct 31/09	Oct 31/08
	\$	\$	\$	\$
Gross R & D expenses	128,823	707,613	404,257	1,309,029
Less government assistance	(19,463)	(31,167)	(81,514)	(56,859)
<b>R &amp; D expenses, net</b>	<b>109,360</b>	<b>676,446</b>	<b>322,743</b>	<b>1,252,170</b>

## 16. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and cash equivalents, accounts receivable, marketable securities, accounts payable and accrued liabilities, and the convertible debenture.

### a) Carrying value and fair value

The carrying values of cash and cash equivalents, accounts receivable, marketable securities, accounts payable and accrued liabilities, and the convertible debenture approximate fair value due to the immediate or short term maturity of these instruments. The fair values of other financial instruments reflect the Company's best estimate based upon estimated interest rates at which the Company believes it could enter into with similar instruments at the consolidated balance sheet dates.

### b) Risks

#### i) Foreign currency risk

The Company has certain assets and liabilities that are denominated in foreign currencies and are exposed to risks from changes in foreign exchange rates and the degree of volatility of these rates. Due to the limited number of transactions that are denominated in foreign currencies, the Company does not consider its exposure to foreign currency risk to be significant and currently does not use derivative instruments to reduce its exposure to foreign currency risk.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the nine months ended October 31, 2009**

### **16. FINANCIAL INSTRUMENTS (CONTINUED)**

#### **ii) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Company's exposure to liquidity risk is dependent on its ability to raise funds to meet its commitments and sustain its operations. The Company controls liquidity risk by managing its working capital and by securing additional funds through equity, debt or partnering transactions (see Capital Disclosures note 10).

#### **iii) Credit risk**

Financial instruments that subject the Company to credit risk consist primarily of cash equivalents and accounts receivable. To minimize its exposure to credit risk for cash equivalents, the Company invests in short term deposits that are fully guaranteed by the Company's financial banker, a major Canadian bank (approximately \$110,000 at October 31, 2009). At October 31, 2009, approximately 61% of accounts receivable were due from one organization.

#### **iv) Market risk**

The Company owns investments in common shares of publicly traded companies that subject the Company to market risk. As market prices change, the Company's income and the value of its marketable securities are affected. The Company expects that its exposure to market risk will be short lived as the investments are viewed as temporary in nature.

#### **v) Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's cash and cash equivalents are comprised of highly liquid investments that earn interest at market rates. Interest on the long term debt is at fixed rates. Consequently, the Company is exposed to fair value changes on long-term debt when the market rate on interest changes. Accounts receivable, accounts payable and accrued liabilities bear no interest. The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis. The Company invests excess funds in liquid, fully guaranteed deposits with its financial banker.

### **17. 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 nine months ended October 31, 2009**

### **18. SUBSEQUENT EVENTS**

In November, 2009, the Company announced that Dr. Donald Rix, director of the Company and Chairman of the Board, had passed away. Dr. Rix had been a director of the Company since September, 2005.