

Consolidated Financial Statements

Quest PharmaTech Inc.

Three months ended April 30, 2008

(Unaudited)

Quest PharmaTech Inc.

National Instrument 51 – 102
Continuous Disclosure Obligations

Notice

Pursuant to Part 4.3 (3) of National Instrument 51 – 102, these unaudited interim consolidated financial statements of Quest PharmaTech Inc. for the three month period ended April 30, 2008 have not been reviewed by the Company's auditors.

Quest PharmaTech Inc.**CONSOLIDATED BALANCE SHEETS**

(see note 1 – going concern uncertainty)

As at

	April 30, 2008 (Unaudited) \$	January 31, 2008 (Audited) \$
ASSETS		
Current		
Cash	1,046,918	1,305,802
Accounts receivable	56,648	168,893
Prepaid expenses and other assets	103,365	32,240
	1,206,931	1,506,935
Property, plant and equipment <i>[note 4]</i>	70,033	66,665
Assets held for sale <i>[note 5]</i>	—	37,500
	1,276,964	1,611,100
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	252,183	161,265
Convertible debenture <i>[note 6]</i>	482,137	500,000
Current portion of deferred revenue <i>[note 8]</i>	258,000	758,000
	992,320	1,419,265
Deferred revenue <i>[note 8]</i>	99,667	101,667
	1,091,987	1,520,932
Shareholders' equity		
Share capital <i>[note 9]</i>	23,998,875	23,998,875
Warrants <i>[note 9]</i>	48,000	144,000
Equity portion of convertible debenture <i>[note 6]</i>	60,000	40,000
Contributed surplus <i>[note 9]</i>	1,535,115	1,439,115
Deficit	(25,457,013)	(25,531,822)
	184,977	90,168
	1,276,964	1,611,100

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 INCOME (LOSS) AND
DEFICIT**

Three months ended April 30

	2008	2007
	\$	\$
		<i>(restated – note 16)</i>
REVENUE		
License fees and market distribution rights <i>[notes 7 & 11]</i>	502,000	168,005
EXPENSES		
General and administrative	123,342	171,831
Research and development, net <i>[note 14]</i>	302,192	112,030
Amortization	5,326	7,272
Bank charges and interest	13,723	30,975
	444,583	322,108
Income (loss) before the undernoted	57,417	(154,103)
Other income		
Interest income	7,464	1,865
Foreign exchange gain	1,178	5,603
	8,642	7,468
Income / (loss) from continuing operations	66,059	(146,635)
Income from discontinued operations <i>[note 5]</i>	8,750	9,262
Net and comprehensive income (loss) for the period	74,809	(137,373)
Deficit, beginning of period	(25,531,822)	(24,213,376)
Deficit, end of period	(25,457,013)	(24,350,749)
Basic and diluted earnings (loss) per share		
Continuing operations	\$0.00	(\$0.00)
Discontinued operations	\$0.00	(\$0.00)
	\$0.00	(\$0.00)

See accompanying notes

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

Three months ended April 30

	2008	2007
	\$	\$
CASH USED IN OPERATING ACTIVITIES		
Net income (loss) for the period	74,809	(137,373)
Income from discontinued operations	(8,750)	(9,262)
	66,059	(146,635)
Items that do not involve cash:		
Interest accreted on convertible debenture <i>[note 6]</i>	2,137	3,211
Amortization	5,326	7,272
Deferred revenue recognized in the period	(502,000)	(2,000)
Changes in non-cash working capital items relating to operating activities <i>[note 13]</i>	132,038	(568,543)
	(296,440)	(706,695)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Issuance of private placement units	—	960,000
Deposit on share subscription	—	(183,000)
	—	777,000
CASH USED IN INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(8,694)	—
	(8,694)	—
Cash (used in) provided by continuing operations	(305,134)	70,305
Cash provided by discontinued operations		
Operating activities	—	4,262
Investing activities	46,250	5,000
	46,250	9,262
(Decrease) increase in cash and cash equivalents	(258,884)	79,567
Cash and cash equivalents, beginning of period	1,305,802	123,022
Cash and cash equivalents, end of period	1,046,918	202,589

See accompanying notes

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2008

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, 2008. These unaudited interim consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements for the year ended January 31, 2008.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2008

3. INTANGIBLE ASSETS

	<u>at April 30, 2007</u>		<u>at January 31, 2007</u>	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Hypocrellin based technology and licenses	2,476,822	2,476,822	2,476,822	2,476,822
Net book value		—		—

CORE TECHNOLOGY:

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].

4. PROPERTY, PLANT AND EQUIPMENT

	<u>at April 30, 2008</u>		<u>at January 31, 2008</u>	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Computer hardware and software	79,670	66,392	79,670	65,316
Furniture and fixtures	12,114	10,272	12,114	10,122
Office equipment	31,494	28,519	31,494	28,278
Manufacturing and R&D equipment	314,911	262,973	306,217	259,114
	438,189	368,156	429,495	362,830
Net book value		70,033		66,665

During the period ended April 30, 2008, amortization of property, plant and equipment related to continuing operations was \$5,326 (for the period ended April 30, 2007 — \$7,272).

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2008

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.

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 will receive cash of \$50,000, certain share consideration and certain future royalties upon the successful commercialization of Bionex related products. During the three month period ended April 30, 2008, the Company recorded a gain on sale of \$8,750 based on the cash consideration of the transaction.

During the three month period ended April 30, 2007, the Company recorded a disposal gain of \$5,000 in connection with ACP-HIP and also recognized \$4,262 as a recovery of a bad debt in connection with Accu-MAb. These events resulted in income of \$9,262 from discontinued operations for the three month period ended April 30, 2007.

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. The Company obtained extensions to the maturity date, and as at April 30, 2008, the maturity date has been extended to March 22, 2009. In connection with the extensions, 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. During 2008, the Company made principal payments of \$500,000 against the convertible debenture.

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 99.5% and an average risk-free interest rate of 2.18%. The equity component was calculated to be \$60,000. The liability component is being accreted to the face value of the debenture over its term and the accretion charge is being accounted for as interest expense. At April 30, 2008, the liability component was calculated to be \$482,137.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2008

6. CONVERTIBLE DEBENTURE (CONTINUED)

During the three month period ended April 30, 2008, the Company incurred \$13,387 [2007 - \$25,712] in interest under this convertible debenture, of which \$2,137 [2007 - \$3,211] 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 with an additional \$2,000,000 to be received within twelve months of execution. The license agreement requires the Company to pay royalties on all future net revenue from the commercialization of the Company's 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 \$500,000 of the license fee during the three month period ended April 30, 2008.

8. DEFERRED REVENUE

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

	Apr 30, 2008	Jan 31, 2008
	\$	\$
Current portion:		
License fees	250,000	750,000
Market distribution rights	8,000	8,000
	<u>258,000</u>	<u>758,000</u>
Long term portion:		
Market distribution rights	99,667	101,776

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2008

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 \$
Common shares		
At January 31, 2008	68,197,580	23,998,875
At April 30, 2008	68,197,580	23,998,875

At April 30, 2008, the Company holds 125,000 common shares for cancellation.

The following options to purchase common shares were outstanding as at April 30, 2008.

Exercise price	Options outstanding	Weighted average remaining life	Options exercisable	Options non-exercisable
\$0.25	3,168,000	2.76 years	3,168,000	—
\$0.31	166,000	1.72 years	166,000	—
\$0.52	200,000	0.92 years	200,000	—
\$0.64	50,000	0.85 years	50,000	—
\$0.67	50,000	0.61 years	50,000	—
\$1.00	250,000	1.80 years	250,000	—
	3,884,000	2.51 years	3,884,000	—

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2008

9. SHARE CAPITAL (CONTINUED)

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, 2008	4,800,000	0.20	3,902,000	0.32
Granted	—	—	—	—
Exercised	—	—	—	—
Expired	—	—	(18,000)	0.27
Balance April 30, 2008	4,800,000	0.20	3,884,000	0.32

Warrants

During the three month period ended April 30, 2007, the Company issued 4,800,000 share purchase warrants exercisable at \$0.20 per common share. These warrants expire on September 19, 2008 and have an estimated fair value of \$48,000 using the Black-Scholes pricing model assuming an expected life to September 19, 2008, a dividend yield of 0%, average expected volatility of 79.7% and an average risk free interest rate of 2.18%.

Stock options

For the three month periods ended April 30, 2008 and 2007, the Company did not grant any stock options under the Company's Stock Option Plan.

Escrowed shares

As at April 30, 2008, the Company's transfer agent held 905,366 (As at April 30, 2007 – 1,508,944) 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

For the three months ended April 30, 2008

9. SHARE CAPITAL (CONTINUED)

Contributed surplus

	2008	2007
	\$	\$
Contributed surplus, beginning of period	1,439,115	1,240,115
Stock-based compensation expense	—	—
Change in equity component of convertible debenture	—	—
Expiration or revaluation of warrants	96,000	—
Contributed surplus, end of period	1,535,115	1,240,115

Capital Disclosures – Managing Capital

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. 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 by issuing new shares, selling assets or licensing its technologies to third parties to fund operations and reduce Company debt.

10. STOCK-BASED COMPENSATION

For the three month period ended April 30, 2008 and 2007, no stock based compensation was recognized by the Company.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2008

11. 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 April 30,	
	<u>2008</u>	<u>2007</u>
	\$	\$
Canada	—	—
United States	—	166,005
Other	<u>502,000</u>	<u>2,000</u>
	<u>502,000</u>	<u>168,005</u>

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

12. DEMAND NOTES AND RELATED PARTY TRANSACTIONS

During the three month period ended April 30, 2008, there were no related party transactions.

During the three month period ended April 30, 2007, the Company held \$230,000 of demand notes from Directors of the Company bearing interest of 6% per annum. As well, under the Company’s March, 2007 private placement, \$165,000 was raised from Officers and Directors of the Company.

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

	April 30/ 08	April 30/ 07
	\$	\$
Accounts receivable	<u>112,245</u>	(177,945)
Prepaid expenses and other assets	<u>(71,125)</u>	3,665
Accounts payable and accrued liabilities	<u>90,918</u>	<u>(394,263)</u>
	<u>132,038</u>	<u>(568,543)</u>

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2008

14. GOVERNMENT ASSISTANCE

During the three month period ended April 30, 2008, the Company did not recognize any government assistance.

In August, 2006, the Company obtained federal government assistance in the form of an IRAP grant to cover salaries and contractor fees related to the development of the Company's photodynamic therapy for the treatment of acne. During the three month period ended April 30, 2007, the Company recognized \$13,340 of funding as a reduction of research and development expenses.

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 was paid over a 24 month period. During the three month period ended April 30, 2007, the Company received \$12,000 under this grant which was recorded as a reduction to research and development expenses.

	Apr 30/08	Apr 30/07
	\$	\$
Gross research and development expenses	302,192	137,370
Less government assistance	—	(25,340)
Research and development expenses, net	302,192	112,030

15. FINANCIAL INSTRUMENTS

a) Fair value

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and the convertible debenture. The fair value of financial instruments represents the amounts that would have been received from or paid to counterparties, calculated at the reporting date, to settle these instruments. Transaction costs on financial instruments are expensed when incurred. Purchases and sales of financial assets are accounted for at trade dates. Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and the convertible debenture are assets and liabilities that have short periods to maturity and the carrying values contained in the consolidated balance sheets approximate their estimated fair value. 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.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2008

15. FINANCIAL INSTRUMENTS (CONTINUED)

b) 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.

The Company does not currently use derivative instruments to reduce its exposure to foreign currency risk.

c) Credit risk

Financial instruments that subject the Company to credit risk consist primarily of accounts receivable. At April 30, 2008 approximately 79% of accounts receivable were due from one organization.

16. PRIOR PERIOD RESTATEMENT

The 2007 opening deficit figure on the consolidated statements of operations, comprehensive income (loss) and deficit has been restated to reflect an overstatement of the balance as at January 31, 2007. The impact of the restatement was to reduce the deficit at the beginning of the period by \$47,627.

17. COMPARATIVE FIGURES

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