

Consolidated Financial Statements

Quest PharmaTech Inc.

Nine Months ended October 31, 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 nine month period ended October 31, 2008 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, 2008 (Unaudited) \$	January 31, 2008 (Audited) \$
ASSETS		
Current		
Cash	608,066	1,305,802
Accounts receivable	80,969	168,893
Prepaid expenses and other assets	44,902	32,240
	733,937	1,506,935
Property, plant and equipment <i>[note 4]</i>	217,434	66,665
Assets held for sale <i>[note 5]</i>	—	37,500
	951,371	1,611,100
LIABILITIES AND SHAREHOLDERS' (DEFICIENCY) EQUITY		
Current		
Accounts payable and accrued liabilities	233,282	161,265
Convertible debenture <i>[note 6]</i>	492,137	500,000
Current portion of deferred revenue <i>[note 8]</i>	258,000	758,000
	983,419	1,419,265
Deferred revenue <i>[note 8]</i>	95,667	101,667
	1,079,086	1,520,932
Shareholders' equity		
Share capital <i>[note 9]</i>	23,998,875	23,998,875
Warrants <i>[note 9]</i>	—	144,000
Equity portion of convertible debenture <i>[note 6]</i>	60,000	40,000
Contributed surplus <i>[note 9]</i>	1,583,115	1,439,115
Deficit	(25,769,705)	(25,531,822)
	(127,715)	90,168
	951,371	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 LOSS AND DEFICIT**

	For the quarter ended October 31		For the nine months ended October 31	
	2008 \$	2007 \$	2008 \$	2007 \$
REVENUE				
License fees and market distribution rights [notes 7 and 11]	502,000	2,000	1,506,000	172,005
EXPENSES				
General and administrative	118,889	113,924	466,817	429,592
Research and development, net [note 14]	676,446	415,753	1,252,170	748,844
Amortization	10,998	7,272	28,501	21,817
Bank charges and interest	16,895	24,018	47,123	81,276
	823,228	560,967	1,794,611	1,281,529
Loss before the undernoted	(321,228)	(558,967)	(288,611)	(1,109,524)
Other income (expenses):				
Interest income	6,033	3,846	18,402	10,301
Foreign exchange gain (loss)	35,895	(11,338)	39,454	(15,404)
Loss on disposal of property, plant and equipment	(12,128)	—	(12,128)	—
	29,800	(7,492)	45,728	(5,103)
Loss from continuing operations	(291,428)	(566,459)	(242,883)	(1,114,627)
Income from discontinued operations [note 5]	—	—	5,000	9,262
Net and comprehensive loss for the period	(291,428)	(566,459)	(237,883)	(1,105,365)
Deficit, beginning of period	(25,478,277)	(24,799,909)	(25,531,822)	(24,261,003)
Deficit, end of period	(25,769,705)	(25,366,368)	(25,769,705)	(25,366,368)
Basic and diluted (loss) earnings per share				
Continuing operations	(\$0.00)	(\$0.01)	(\$0.00)	(\$0.02)
Discontinued operations	\$0.00	\$0.00	\$0.00	\$0.00
	(\$0.00)	(\$0.01)	(\$0.00)	(\$0.02)

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the quarter ended October 31		For the nine months ended October 31	
	2008	2007	2008	2007
	\$	\$	\$	\$
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Net loss for the period	(291,428)	(566,459)	(237,883)	(1,105,365)
Income from discontinued operations	—	—	(5,000)	(9,262)
	(291,428)	(566,459)	(242,883)	(1,114,627)
Items that do not involve cash:				
Interest accreted on convertible debenture	5,000	2,143	12,137	8,565
Amortization	10,998	7,272	28,501	21,817
Deferred revenue recognized in the period	(502,000)	(2,000)	(1,506,000)	(6,000)
Cash received on deferred licenses [note 7]	—	—	1,000,000	—
Loss on disposal of property, plant and equipment	12,128	—	12,128	—
Changes in non-cash working capital items relating to continuing operating activities [note 13]	103,648	99,112	147,278	(351,460)
	(661,654)	(459,932)	(548,839)	(1,441,705)
CASH PROVIDED BY FINANCING ACTIVITIES				
Private placement of units/common shares	—	—	—	2,120,000
Repayment of demand notes	—	—	—	(50,000)
Deposit on share subscription	—	—	—	(183,000)
Repayment of convertible debenture	—	—	—	(200,000)
	—	—	—	1,687,000
CASH USED IN INVESTING ACTIVITIES				
Purchase of property, plant and equipment	—	—	(191,397)	—
	—	—	(191,397)	—
Cash provided by (used in) continuing operations	(661,654)	(459,932)	(740,236)	245,295
Cash (used in) provided by discontinued operations				
Operating activities	—	—	—	4,262
Investing activities	—	—	42,500	5,000
	—	—	42,500	9,262
Increase (decrease) in cash and cash equivalents	(661,654)	(459,932)	(697,736)	254,557
Cash and cash equivalents, beginning of period	1,269,720	837,511	1,305,802	123,022
Cash and cash equivalents, end of period	608,066	377,579	608,066	377,579
Cash consists of:				
Cash	116,829	377,579	116,829	377,579
Cash equivalents	491,237	—	491,237	—
	608,066	377,579	608,066	377,579

See accompanying notes

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 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 nine months ended October 31, 2008

3. INTANGIBLE ASSETS

	<u>at October 31, 2008</u>		<u>at January 31, 2008</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 October 31, 2008</u>		<u>at January 31, 2008</u>	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Computer hardware and software	74,878	65,417	79,670	65,316
Furniture and fixtures	12,114	10,571	12,114	10,122
Office equipment	31,494	29,001	31,494	28,278
Manufacturing and R&D equipment	421,793	217,856	306,217	259,114
	540,279	322,845	429,495	362,830
Net book value		217,434		66,665

During the three and nine month periods ended October 31, 2008, amortization of property, plant and equipment related to continuing operations was \$10,998 and \$28,501, respectively (for the three and nine month periods ended October 31, 2007 – \$7,272 and \$21,817, respectively).

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 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 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. See Subsequent Events, note 18.

During the nine month period ended October 31, 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 nine month period ended October 31, 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 October 31, 2008, the liability component was calculated to be \$492,137.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2008

6. CONVERTIBLE DEBENTURE (CONTINUED)

During the three and nine month periods ended October 31, 2008, the Company incurred \$16,250 and \$34,637, respectively (2007 - \$18,000 and \$67,624, respectively) in interest under this convertible debenture, of which \$5,000 and \$12,137, respectively (2007 - \$2,143 and \$8,565, 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. The Company received \$1,000,000 on execution of the agreement, \$1,000,000 in June, 2008, with an additional \$1,000,000 anticipated to be received during the current fiscal year. 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 and \$1,500,000, respectively, of the license fee during the three and nine month periods ended October 31, 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:

	Oct 31, 2008	Jan 31, 2008
	\$	\$
<hr/>		
Current portion:		
License fees	250,000	750,000
Market distribution rights	8,000	8,000
	<hr/> 258,000	<hr/> 758,000
<hr/>		
Long term portion:		
Market distribution rights	95,667	101,776
	<hr/>	<hr/>

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 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 October 31, 2008	68,197,580	23,998,875

The following options to purchase common shares were outstanding as at October 31, 2008.

Exercise price	Options outstanding	Weighted average remaining life	Options exercisable	Options non-exercisable
\$0.25	3,218,000	2.29 years	3,168,000	50,000
\$0.31	166,000	1.22 years	166,000	—
\$0.52	200,000	0.42 years	200,000	—
\$0.64	50,000	0.35 years	50,000	—
\$0.67	50,000	0.10 years	50,000	—
\$1.00	250,000	1.30 years	250,000	—
	3,934,000	2.03 years	3,884,000	50,000

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 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)	0.25
Balance April 30, 2008	4,800,000	0.20	3,884,000	0.32
Granted	—	—	50,000	0.25
Exercised	—	—	—	—
Expired	—	—	—	—
Balance July 31, 2008	4,800,000	0.20	3,934,000	0.32
Granted	—	—	—	—
Exercised	—	—	—	—
Expired	(4,800,000)	0.20	—	—
Balance October 31, 2008	—	—	3,934,000	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 expired on September 19, 2008 and had 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%. Upon expiration, the \$48,000 was allocated to contributed surplus.

Stock options

During the three month period ended July 31, 2008, the Company granted 50,000 stock options to an employee under the Company's Stock Option Plan. These options vested in November, 2008.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2008

9. SHARE CAPITAL (CONTINUED)

Escrowed shares

As at October 31, 2008, the Company's transfer agent held 603,577 (As at October 31, 2007 – 1,207,155) 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.

Contributed surplus

	2008	2007
	\$	\$
Contributed surplus, January 31	1,439,115	1,240,115
Revaluation of warrants	96,000	—
Expiration of warrants	48,000	—
Contributed surplus, October 31	1,583,115	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 and nine month periods ended October 31, 2008 and 2007, no stock based compensation was recognized by the Company.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 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

	<u>Three months ended Oct 31</u>		<u>Nine months ended Oct 31,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	\$	\$	\$	\$
United States	—	—	—	166,005
Other	502,000	2,000	1,506,000	6,000
	502,000	2,000	1,506,000	172,005

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

12. DEMAND NOTES AND RELATED PARTY TRANSACTIONS

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

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

	<u>3 Months Ended</u>		<u>9 Months Ended</u>	
	<u>Oct 31 / 08</u>	<u>Oct 31 / 07</u>	<u>Oct 31/ 08</u>	<u>Oct 31/ 07</u>
	\$	\$	\$	\$
Accounts receivable	(16,416)	(2,460)	87,924	1,256
Prepaid expenses and other assets	20,573	(1,730)	(12,662)	3,988
Accounts payable and accrued liabilities	99,491	103,302	72,017	(356,704)
	103,648	99,112	147,279	(351,460)

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2008

14. 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, 2008, the Company recognized \$25,692 of funding as a reduction of research and development expenses.

	<u>3 Months Ended</u>		<u>9 Months Ended</u>	
	Oct 31 / 08	Oct 31 / 07	Oct 31/ 08	Oct 31/ 07
	\$	\$	\$	\$
Gross R & D expenses	707,613	415,753	1,309,029	774,184
Less government assistance	(31,167)	—	(56,859)	(25,340)
R & D expenses, net	676,446	415,753	1,252,170	748,844

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.

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 October 31, 2008 approximately 31% of accounts receivable were due from one organization.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2008

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.

18. SUBSEQUENT EVENTS

During November, 2008, the Company received the remainder of the \$50,000 cash consideration in connection with the sale of the Bionex Technology. In addition to the cash consideration, the Company also received 1,351,111 common shares of Toba Industries Ltd., a TSX Venture Exchange listed company. These shares are subject to a four month hold period which expires on March 8, 2009.

In November, 2008, the Company took steps to repatriate the worldwide rights to SonoLight Technology for dermatology applications from Paramount Biosciences. On April 30, 2007, the Company entered into an agreement with Paramount Biosciences to develop and commercialize SonoLight Technology for dermatology applications. Under the terms of the agreement, the Company received U.S. \$300,000 as a licensing fee. The Company has been advised that Paramount Biosciences subsequently assigned the license agreement to North Park Aesthetics. The Company believes that the licensee failed to abide by certain terms of the Agreement, including its obligation in respect of the commercialization of the SonoLight Technology, and hence, the Company has terminated the license agreement.