

Consolidated Financial Statements

Quest PharmaTech Inc.

Six months ended July 31, 2007

(Unaudited)

Quest PharmaTech Inc.

National Instrument 51 – 102
Continuous Disclosure Obligations

Notice

Pursuant to Part 4.3 (3) of National Instrument 51 – 102, these unaudited interim consolidated financial statements of Quest PharmaTech Inc. for the six month period ended July 31, 2007 have not been reviewed by the Company's auditors.

Quest PharmaTech Inc.**CONSOLIDATED BALANCE SHEETS**

(see note 1 – going concern uncertainty)

As at

	July 31, 2007 (Unaudited) \$	January 31, 2007 (Audited) \$
ASSETS		
Current		
Cash	837,511	123,022
Accounts receivable	19,797	23,513
Prepaid expenses and other assets	10,877	16,595
	868,185	163,130
Property, plant and equipment <i>[note 4]</i>	82,422	96,966
Intangible assets <i>[note 3]</i>	—	—
	950,607	260,096
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current		
Accounts payable and accrued liabilities	170,202	630,208
Deposit on share subscription	—	183,000
Demand notes <i>[note 10]</i>	180,000	230,000
Convertible debenture <i>[note 6]</i>	797,858	991,434
	1,148,060	2,034,642
Deferred revenue	113,667	117,667
	1,261,727	2,152,309
Shareholders' deficiency		
Share capital <i>[note 7]</i>	23,024,674	21,048,674
Warrants <i>[note 7]</i>	144,000	—
Equity portion of convertible debenture <i>[note 6]</i>	80,000	80,000
Contributed surplus	1,240,115	1,240,115
Deficit	(24,799,909)	(24,261,003)
	(311,120)	(1,892,213)
	950,607	260,096

See accompanying notes

On behalf of the Board:

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

Quest PharmaTech Inc.

**CONSOLIDATED STATEMENTS OF
OPERATIONS AND DEFICIT**

	For the quarter ended July 31		For the six months ended July 31	
	2007 \$	2006 \$	2007 \$	2006 \$
REVENUE				
Income on market distribution rights and licensing fees [note 9]	2,000	—	170,005	—
EXPENSES				
General and administrative	143,837	110,320	315,668	249,835
Research and development, net [note 12]	221,061	212,493	333,091	441,111
Amortization	7,273	12,671	14,545	36,996
Bank charges and interest [notes 6 and 10]	26,283	23,810	57,258	55,555
	398,454	359,294	720,562	783,497
Loss before the undernoted	(396,454)	(359,294)	(550,557)	(783,497)
Other income (expenses):				
Interest income	4,590	155	6,455	408
Foreign exchange gain/(loss)	(9,669)	499	(4,066)	12,310
	(5,079)	654	2,389	12,718
Loss before discontinued operations	(401,533)	(358,640)	(548,168)	(770,779)
Income from discontinued operations [note 5]	—	209,751	9,262	149,027
Net loss for the period	(401,533)	(148,889)	(538,906)	(621,752)
Deficit, beginning of period	(24,398,376)	(23,279,789)	(24,261,003)	(22,806,926)
Deficit, end of period	(24,799,909)	(23,428,678)	(24,799,909)	(23,428,678)
Basic and diluted loss per share				
Continuing operations	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)
Discontinued operations	\$0.00	\$0.01	\$0.00	\$0.00
	(\$0.01)	\$0.00	(\$0.01)	(\$0.01)

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the quarter ended		For the six months	
	July 31		ended July 31	
	2007	2006	2007	2006
	\$	\$	\$	\$
CASH USED IN OPERATING ACTIVITIES				
Net loss for the period	(401,533)	(148,889)	(538,906)	(621,752)
(Income) / loss from discontinued operations	—	(209,751)	—	(149,027)
	(401,533)	(358,640)	(538,906)	(770,779)
Items that do not involve cash:				
Interest accreted on convertible debenture	3,212	—	6,424	11,112
Amortization	7,273	12,671	14,545	36,996
Stock based compensation	—	—	—	4,500
Deferred revenue recognized in the period	(2,000)	—	(4,000)	—
Changes in non-cash working capital items relating to operating activities [note 11]	117,970	(175,877)	(450,574)	(25,157)
	(275,078)	(521,846)	(972,511)	(743,328)
CASH PROVIDED BY FINANCING ACTIVITIES				
Private placement of units/common shares [note 7]	1,160,000	—	2,120,000	—
Increase in demand notes	—	80,000	-	230,000
Repayment of demand notes	(50,000)	—	(50,000)	—
Deposit on share subscription	—	—	(183,000)	—
Repayment of convertible debenture	(200,000)	—	(200,000)	—
Increase in bank overdraft	—	17,324	—	17,324
	910,000	97,324	1,687,000	247,324
Cash provided by (used in) continuing operations	634,922	(429,306)	714,489	(500,788)
Cash (used in) provided by discontinued operations				
Operating activities	—	(49,618)	—	(42,521)
Investing activities	—	413,325	—	411,530
Increase (decrease) in cash and cash equivalents	634,922	(65,599)	714,489	(131,779)
Cash and cash equivalents, beginning of period	202,589	49,325	123,022	115,505
Cash and cash equivalents, end of period	837,511	(16,274)	837,511	(16,274)
Cash consists of:				
Cash	837,511	1,050	837,511	1,050
Cash equivalents	—	—	—	—
	837,511	1,050	837,511	1,050
Bank overdraft	—	(17,324)	—	(17,324)
	837,511	(16,274)	837,511	(16,274)

See accompanying notes

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2007

1. DESCRIPTION OF BUSINESS AND GOING CONCERN UNCERTAINTY

Description of business

Quest PharmaTech Inc., (the "Company") is incorporated under the Business Corporations Act (Alberta). 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 for the foreseeable future. The Company had a working capital deficiency of \$279,875 and a shareholders' deficiency of \$311,120 as at July 31, 2007.

The Company's ability to continue as a going concern is uncertain and is dependent upon its ability to raise additional capital to successfully complete its research and development programs, commercialize its technologies and conduct clinical trials and receive regulatory approvals for its products. It is not possible at this time to predict the outcome of these matters. The Company's financial statements do not reflect any adjustments to the classifications and carrying values of assets and liabilities that may be required should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business.

2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim consolidated financial statements have been prepared by management in accordance with the accounting policies described in the Company's consolidated financial statements for the year ended January 31, 2007. These unaudited interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended January 31, 2007.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2007

3. INTANGIBLE ASSETS

	<u>at July 31, 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
CDK technology	225,000	225,000	225,000	225,000
	<u>2,701,822</u>	<u>2,701,822</u>	<u>2,701,822</u>	<u>2,701,822</u>
Net book value		—		—

During the three and six month period ended July 31, 2007, amortization of intangibles related to continuing operations was \$nil and \$nil, respectively (for the three and six month periods ended July 31, 2006 – \$nil and \$11,833, respectively).

CORE TECHNOLOGIES:

Hypocrellin based technology and licenses (proprietary rights)

The Company's subsidiary, Sonolight Pharmaceuticals Corp ("Sonolight"), holds the exclusive worldwide license to develop, commercialize and exploit several proprietary inventions involving a class of sonosensitizers and their use in cancer and non-cancer therapies. Sonolight signed a licensing agreement dated March 6, 2001 with the University of Alberta. The license agreement is for a term of 25 years. The agreement requires royalty payments upon successful sales and marketing of products developed using the technology. The Company has amortized this asset on a straight-line basis over a three-year period that commenced August 1, 2001. This intangible asset is fully amortized. The Company has pledged this technology as collateral in connection with the convertible debenture issued during the year (note 6).

CDK technology (proprietary rights)

The Company owns the worldwide rights to develop, manufacture and sell the CDK technology, a novel immunomodulator with anti-cancer properties. As consideration for its acquisition of the technology, the Company must issue 400,000 common shares as certain milestones outlined in the technology purchase agreement are met. To date, the Company has issued 200,000 shares under the agreement: 100,000 shares issued in fiscal 2004 and 100,000 shares in fiscal 2003. These shares have been recorded at a value that represents the closing price of the common shares on the date the shares were issued. The Company has amortized this asset on a straight-line basis over a three-year period, which commenced on August 1, 2002. This intangible asset is fully amortized.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2007

4. PROPERTY, PLANT AND EQUIPMENT

	<u>at July 31, 2007</u>		<u>at January 31, 2007</u>	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Computer hardware and software	79,670	62,240	79,670	59,288
Furniture and fixtures	12,114	9,696	12,114	9,269
Office equipment	36,943	31,566	36,943	31,388
Manufacturing and R&D equipment	306,217	249,020	306,217	238,033
	434,944	352,522	434,944	337,978
Net book value		82,422		96,966

During the three and six month periods ended July 31, 2007, amortization of property, plant and equipment related to continuing operations was \$7,273 and \$14,545, respectively (for the three and six month periods ended July 31, 2006 – \$12,671 and \$25,163, respectively).

5. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

During 2006, the Company announced that it had approved initiatives to divest of certain non-core technologies and operations as a part of a plan to focus on core technologies and refinancing the Company. Accordingly, the results of operations of these non-core technologies and operations have been segregated and presented separately as discontinued operations in the consolidated financial statements. These non-core technologies and operations are as follows:

Intangible assets held for sale:

	<u>at July 31, 2007</u>		<u>at January 31, 2007</u>	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Bionex technology and license	369,600	369,600	369,600	369,600
	369,600	369,600	369,600	369,600
Net book value		—		—

During the three and six month periods ended July 31, 2007, amortization of intangible assets held for sale was \$nil and \$nil, respectively (for the three and six month periods ended July 31, 2006 - \$nil and \$4,096, respectively) and is included in discontinued operations, net of income taxes.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2007

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

Bionex technology and license (proprietary rights)

The Company owns the exclusive worldwide rights to develop, manufacture and sell Bionex, a family of novel disinfectants used for multiple applications. As consideration for its acquisition of the technology, the Company must issue 400,000 common shares as certain milestones outlined in the technology purchase agreement are met. To date, 160,000 common shares have been issued with an ascribed value of \$369,600 pursuant to this agreement, of which none were issued during 2006 and 2005. These shares were recorded at a value that represents the closing price of the common shares on the date the shares were issued. The agreement requires royalty payments upon successful sales and marketing of products developed using the technology. The Company has amortized this asset on a straight-line basis over a three-year period that commenced March 20, 2002. This intangible asset is fully amortized.

During the three and six month periods ended July 31, 2007, the Company received incidental revenue of \$nil and \$5,000, respectively, in connection with ACP-HIP and also recognized \$nil and \$4,262, respectively, as a recovery of a bad debt in connection with Accu-MAB. These events resulted in income of \$nil and \$9,262, respectively, from discontinued operations for the three and six month periods ended July 31, 2007. During the three and six month periods ended July 31, 2006, the Company recognized income of \$209,751 and \$149,027, respectively, from discontinued operations, comprised of a loss of \$17,703 and \$91,083, respectively, from the Company's China operations and income of \$227,454 and \$240,110, respectively, from the operations and subsequent sale of Accu-MAB.

6. CONVERTIBLE DEBENTURE

In March, 2005, the Company entered into an agreement to issue a \$1,000,000 principal amount convertible debenture to two arm's length parties. The debenture is collateralized by the Company's Sonolight technology. The debenture carries an interest rate of 9% per annum and is convertible into common shares of the Company at a price of \$0.25 per common share. In June, 2007, the Company made a principal payment of \$200,000 against the convertible debenture. In September, 2007, the Company negotiated a six month extension to the maturity date of the convertible debenture which is now due March 22, 2008 (refer to Note 14 – Subsequent Events).

The Company has used the residual value method to allocate the proceeds of the \$800,000 convertible debenture between the liability component and the equity component based on a Black-Scholes option pricing model. The equity component was calculated to be \$80,000 and the carrying value of the convertible debenture is estimated to be \$797,858. During the three and six month periods ended July 31, 2007, the Company incurred \$23,912 and \$49,624, respectively (2006 - \$20,000 and \$51,112, respectively) in interest under this convertible debenture of which \$3,212 and \$6,424, respectively, (2006 - \$nil and \$11,112, respectively) was in the form of accreted interest.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2007

7. SHARE CAPITAL

Authorized

Unlimited number of common shares without nominal or par value

Unlimited number of First Preferred shares

Unlimited number of Second Preferred shares

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, 2007	43,237,580	21,048,674
March 8, 2007 private placement of units	9,600,000	816,000
At April 30, 2007	52,837,580	21,864,674
May 22, 2007 private placement of common shares	3,000,000	300,000
May 29, 2007 private placement of common shares	5,000,000	750,000
July 19, 2007 private placement of common shares	733,333	110,000
At July 31, 2007	61,570,913	23,024,674

On March 8, 2007, the Company closed a non-brokered private placement with the sale of 9,600,000 units for gross proceeds of \$960,000, including \$165,000 raised from Officers and Directors of the Company. Each unit consisted of one common share and one half of one non-transferable share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of \$0.20 at any time within one year of issuance. The value of these warrants, estimated at the grant date by reference to the Black-Scholes option pricing model was \$144,000. The Company has assumed an expected life of one year, a dividend yield of 0%, average expected volatility of 128.4% and an average risk free interest rate of 2.83%.

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

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2007

7. SHARE CAPITAL (CONTINUED)

On May 29, 2007, the Company closed a non-brokered private placement with the sale of 5,000,000 common shares for gross proceeds of \$750,000.

On July 19, 2007, the Company closed a non-brokered private placement selling 733,333 common shares for gross proceeds of \$110,000, including \$55,000 raised from Officers and Directors.

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

Exercise price	Options outstanding	Weighted average remaining life	Options exercisable	Options non-exercisable
\$0.25	1,546,000	3.29 years	1,521,000	25,000
\$0.31	171,000	2.47 years	171,000	—
\$0.50	200,000	0.47 years	200,000	—
\$0.52	200,000	1.67 years	200,000	—
\$0.64	50,000	1.60 years	50,000	—
\$0.67	50,000	1.36 years	50,000	—
\$1.00	250,000	2.55 years	250,000	—
\$2.25	3,000	0.28 years	3,000	—
	2,470,000	2.72 years	2,445,000	25,000

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

	Shares issuable on exercise of			
	Warrants		Stock options	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
		\$		\$
Balance January 31, 2007	—	—	4,093,000	0.72
Granted	4,800,000	0.20	—	—
Exercised	—	—	—	—
Expired	—	—	(800,000)	1.75
Balance April 30, 2007	4,800,000	0.20	3,293,000	0.47
Granted	—	—	—	—
Exercised	—	—	—	—
Expired	—	—	(823,000)	0.72
Balance July 31, 2007	4,800,000	0.20	2,470,000	0.39

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2007

7. SHARE CAPITAL (CONTINUED)

Warrants

During the six month period ended July 31, 2007, the Company issued 4,800,000 share purchase warrants exercisable at \$0.20 per common share. These warrants expire 12 months from the date of issue.

Stock options

For the three and six month periods ended July 31, 2007, the Company did not grant any stock options.

Escrowed shares

As at July 31, 2007, the Company's transfer agent held 1,508,944 (As at July 31, 2006 – 2,112,522) 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.

8. STOCK-BASED COMPENSATION

For the three and six month periods ended July 31, 2007, the Company granted stock options of nil and nil, respectively, (for the three and six month periods ended July 31, 2006 – nil and 150,000, respectively) under the Company's Stock Option Plan.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2007

9. REVENUE DISCLOSURES

Revenues are presented below.

	Three months ended July 31,			
	2007		2006	
	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations
	\$	\$	\$	\$
Revenues	2,000	—	—	1,987

	Six months ended July 31,			
	2007		2006	
	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations
	\$	\$	\$	\$
Revenues	170,005	9,262	—	27,019

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

10. DEMAND NOTES AND RELATED PARTY TRANSACTIONS

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

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

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

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2007

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

	<u>3 Months Ended</u>		<u>6 Months Ended</u>	
	July 31 / 06	July 31 / 06	July 31 / 06	July 31 / 06
	\$	\$	\$	\$
Accounts receivable	181,661	(280,068)	3,716	(145,468)
Prepaid expenses and other assets	2,052	7,594	5,718	23,644
Accounts payable and accrued liabilities	(65,743)	96,597	(460,008)	96,667
	<u>117,970</u>	<u>(175,877)</u>	<u>(450,574)</u>	<u>(25,157)</u>

12. GOVERNMENT ASSISTANCE

The Company obtained federal government assistance in the form of IRAP grants to cover salaries and contractor fees related to the development of the Company's photodynamic therapies for the treatment of prostate cancer and for the treatment of acne. During the three and six month periods ended July 31, 2007, the Company recognized \$nil and \$13,340, respectively, (2006 - \$nil and \$17,600, respectively) of funding as a reduction of research and development expenses.

During the year ended January 31, 2006, the Company was awarded a grant from Alberta Ingenuity Fund to cover salary expenditures related to the development of the Company's photodynamic therapy for prostate cancer. The \$110,000 grant is being paid over a 24 month period. During the three and six month periods ended July 31, 2007, the Company received \$nil and \$2,000, respectively, (three and six months ended July 31, 2006 - \$12,000 and \$31,000, respectively) under this grant which was recorded as a reduction to research and development expenses.

	<u>3 Months Ended</u>		<u>6 Months Ended</u>	
	July 31 / 07	July 31 / 06	July 31 / 07	July 31 / 06
	\$	\$	\$	\$
Gross R & D expenses	221,061	224,493	358,431	489,711
Less government assistance	—	(12,000)	(25,340)	(48,600)
R & D expenses, net	<u>221,061</u>	<u>212,493</u>	<u>333,091</u>	<u>441,111</u>

13. 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 six months ended July 31, 2007

14. SUBSEQUENT EVENTS

In September, 2007, the Company negotiated a six month extension to the maturity of the Company's \$800,000 convertible debenture, which is now due March 22, 2008. The debenture interest rate remains unchanged at 9% per annum and the conversion rate remains unchanged at \$0.25 per common share.