

LIFEQUEST WORLD CORP
Form 10KSB
September 15, 2008

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-KSB

Annual report under section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended: May 31, 2008

Commission file number: 333-61801

LIFEQUEST WORLD CORPORATION

(Exact name of registrant as specified in its charter)

(Name of small business issuer in its charter)

Minnesota

(State or other jurisdiction of incorporation
or organization)

88-0407679

(I.R.S. Employer Identification No.)

1181 Grier Drive, Suite C, Las Vegas, Nevada 89119-3746

(Address of principal executive offices)

(702) 914-9688

(Issuer's telephone number)

**Securities registered pursuant to Section
12(b) of the Act:**

None

**Name of each exchange on which
registered:**

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$0.001 par value

(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Check here if there is no disclosure of delinquent filers in response to item 405 of Regulation S-B contained in this Form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB

State issuer's revenues for its most recent fiscal year ended May 31, 2008: \$977,469

Edgar Filing: LIFEQUEST WORLD CORP - Form 10KSB

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity: As of August 8, 2008, the aggregate market value of the issuer's common stock was \$13,965,196, based on the average bid and ask price on that date of \$0.34.

State the number of shares outstanding of each of the issuer's classes of common equity, as of the most practicable date:

Class	Outstanding as of August 8, 2008
Common Stock, \$0.001 par value	40,478,830

Documents Incorporated By Reference

If the following documents are incorporated by reference, briefly describe them and identify the part of the Form 10-KSB into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933 (Securities Act). The listed documents should be clearly described for identification purposes.

None.

Transitional Small Business Disclosure Format (Check one): Yes [] No [X]

LIFEQUEST WORLD CORPORATION

Form 10-KSB

Item 1.	<u>Description of Business.</u>	5
Item 2.	<u>Description of Property.</u>	21
Item 3.	<u>Legal Proceedings.</u>	21
Item 4.	<u>Submission of Matters to a Vote of Security Holders.</u>	21
Item 5.	<u>Market for Registrant's Common Equity and Related Stockholder Matters.</u>	23
Item 6.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	25
Item 7.	<u>Financial Statements.</u>	33
Item 8.	<u>Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.</u>	48
Item 8A.	<u>Controls and Procedures.</u>	48
Item 8B.	<u>Other Information.</u>	50
Item 9.	<u>Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act.</u>	51
Item 10.	<u>Executive Compensation.</u>	53
Item 11.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.</u>	55
Item 12.	<u>Certain Relationships and Related Transactions.</u>	55
Item 13.	<u>Exhibits.</u>	56

Item 14. Principal Accountant Fees and Services.

56

NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report includes or is based upon estimates, projections or other "forward looking statements". Such forward-looking statements include any projections or estimates made by us and our management in connection with our business operations. Such forward-looking statements are based on the beliefs of LifeQuest World Corporation. When used in this Annual Report, the words "anticipate," "believe," "estimate," "expect," "intends" and similar expressions, as they relate to us, are intended to identify forward-looking statements, which include statements relating to, among other things, the ability of our company to continue to successfully compete in the herbal supplement markets. While these forward looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current information and judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested herein.

Such estimates, projections, or other "forward looking statements" involve various risks and uncertainties. We caution the reader that important factors in some cases have affected, and in the future could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections, or other "forward-looking statements".

Available Information

LifeQuest World Corporation files annual, quarterly and current reports and other information with the Securities and Exchange Commission (the Commission). You may read and copy documents referred to in this Annual Report that has been filed with the Commission at the Commission's Public Reference Room, 100 F Street, NE, Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. You can also obtain copies of our Commission filings by going to the Commission's website at <http://www.sec.gov>. The Company maintains a website at www.phytolabsinc.com. Our annual reports on Form 10-KSB, our quarterly reports on Form 10-QSB and our periodic reports on Form 8-K (and any amendments to these reports) are available free of charge by linking from our website to the Securities & Exchange Commission website.

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

BUSINESS HISTORY AND DEVELOPMENT

Company Name Change

Effective August 20, 2007, the Company changed its name to LifeQuest World Corporation (formerly, Phytolabs, Inc. and Jurak Corporation World Wide, Inc.) in order to embrace to a greater degree the fundamental principal of what a direct sales organization must have in place to succeed: motivation; training; self-development; enthusiasm; and a **LIFE**-changing sense of purpose for its distributors; along with a **QUEST** for a quality of life which includes better health and a gain in wealth for its family of distributors throughout the **WORLD**. The shares of the Company trade on the Over the Counter Bulletin Board under the symbol, LQWC.

LifeQuest World Corporation was incorporated under the laws of the State of Minnesota on November 1, 1997. In this Annual Report, the terms Company, us, we, our and its are used as references to LifeQuest World Corporation develop and distribute dietary supplements.

LifeQuest World Corporation is a company that was created to provide the opportunity for positive changes in the health and overall well being of people worldwide. LifeQuest's founder, Anthony Carl Jurak, is a well recognized visionary in the nutritional industry and is a pioneer in ushering in the new, flourishing category of functional foods that today is quickly becoming one of the largest segments in the nutritional industry. Anthony's inspiration comes from his father Carl Jurak, who in 1922 developed a first in nutritional functional foods in the form of a whole body tonic herb liquid supplement. By 1943, Carl started one of the first direct sales organizations in America for the distribution of his functional nutritional product. Due to its personal appeal and many health benefits, it is still being used, distributed and sold by LifeQuest today. Since the early 1980's, Anthony's companies have sold over seven hundred million dollars of functional nutritional products and with the formation of LifeQuest he is once again following his quest to provide an opportunity for health, wealth and happiness to those who desire to join these efforts.

BUSINESS OPERATIONS

General

LifeQuest World Corporation is a Life Science company that is dedicated to significantly improving the lives of its family members, associates and distributor organization. We strive daily through our own research and development laboratories, as well as our professional association with one of the world's leading botanical research centers, to provide human beings with solutions to many of life's unanswered health challenges. Infusing proprietary science under

the scrutiny of Good Manufacturing Practices (GMP), and adhering to the efficacy of pharmaceutical protocols, LifeQuest's products are effective, safe and superior within the marketplace for nutritional supplements and consumables.

But our commitment does not end there. The world's demand for health and well-being only begins with proper nutrition. LifeQuest strives to present a whole-minded approach for our distributors to better living by putting equal emphasis on an improved life style, freedom through financial reward and the enhancement of the Human Spirit.

We provide extensive product education and personal development through sophisticated training programs for our distributors. We offer substantial earning potential available through a generous compensation plan. To promote optimum health, we have invested millions of dollars to create superior nutritional supplements and advanced personal care products. It is with great pride that LifeQuest World Corporation hopes continue to inspire thousands to change an average existence, into a life of celebration.

LifeQuest World Corporation has recently acquired the worldwide rights to a new, patented Immune-Stimulatory extract from marine sourced Spirulina developed by leading research scientists at the National Center for Natural Product Research (NCNPR) at the University of Mississippi. LifeQuest had a limited introduction through its distributors its initial launch of ImmunXT in February 2008. The product named ImmunXT, was researched and developed over a ten year period with exhaustive clinical and scientific testing with benchmark criteria that it had to be 100% natural and certified vegetarian. Per the studies done by NCNPR, ImmunXT is a powerful Immune-Stimulatory extract discovered to date, specifically with respect to macrophage activation within the innate immune system. Recent research has shown that the innate immune system, primarily in the digestive tract, is the body's first line of defense and its main function is to guard the body against disease and invasion by harmful pathogens.

Along with this scientific team, LifeQuest's own group has decades of practical research, development and manufacturing experience in nutritional products and maintain a professional awareness of any new life changing products available from major product development centers. To be considered for acquisition, products must have either good reputable academic pedigrees, backed with very thorough scientific data, or meet product criteria as LifeQuest's Youth Solution that have very long substantiated consumer use with extremely credible personal, subjective and objective results. LifeQuest has made a substantial financial investment along with years of developmental work in the acquisition of ImmunXT.

LifeQuest products also must meet the requirements of strong functionality and be results based because we design product research on the principle that functional, beneficial nutritional products are desired by consumers today. The consumer understands that good nutritional practices may reduce the risk of disease. LifeQuest's products have been developed to enhance immune competence, detoxification, functionality at the cellular level and promote digestive health. LifeQuest believes that an optimal immune system, positive cellular function and digestive health are vital and beneficial for overall, better physical health.

Industry Overview Nutritional Supplements

The nutrition industry includes many various sized companies that manufacturer and distribute products generally intended to maintain the body's health and general well being. The four major product categories within the nutrition industry are: (i) nutritional supplements, which are products such as vitamins and minerals, dietary supplements, herbs and botanicals, and compounds derived from these substances; (ii) natural and organic foods; (iii) functional foods; and (iv) personal care products.

One of our products, The Youth Solution, is a blend of 18 bi-directional tonic herbs with added minerals. Daniel B. Mowrey, Ph.D., in his book, Herbal Tonic Therapies, states, "The definition of a tonic clearly excludes the notion of 'making stronger' by pushing the body in one direction only. Tonics are bi-directional, capable of both increasing and decreasing the activity of body processes. Herbs whose action is bi-directional are called tonics. Tonic herbs have the ability to exert balancing action on both systems and biochemical processes of the body. Their power lies in both their therapeutic benefits and ease of application.

Mowrey continues, "The concept of a tonic may sound strange to modern ears. We simply have not made room in our medical or nutritional agendas for a concept of a substance that restores balance. We believe that this will change as the medical community begins to realize that many modern plagues may be prevented and even treated by maintaining optimum health in all body systems. Such a re-orientation of thought demands that much less emphasis be placed on finding and killing 'germs', and much more on increasing the body systems natural defenses and restorative powers.

LifeQuest's most exciting development in the past year centers on the introduction of ImmunXT. ImmunXT is a patented nutritional extract developed by leading research scientists at the **National Center for Natural Products Research (NCNPR)**. The NCNPR is located at the Research Institute of Pharmaceutical Sciences, School of Pharmacy at the University of Mississippi and is one of the country's leading botanical research organizations. ImmunXT is a 100% vegetarian, bioactive micro-algae that was specifically researched and developed to support, enhance and boost the body's **natural immune system**. ImmunXT is a concentrated nutritional, botanical complex from *Arthrospira Platensis* (Spirulina) that has been extracted through a patented, proprietary manufacturing process. Scientific investigation shows, ImmunXT to be a powerful, natural immune-stimulatory dietary extract

Scientific research has shown that a healthy immune system is the primary answer for optimum health as a healthy immune system quickly recognizes and reacts to foreign invaders and pathogens and helps the body in defense of itself. Not only does ImmunXT stimulate the natural immune system or "early warning system" but it also primes the secondary (adaptive) immune system to determine an appropriate type of response to foreign invaders.

ImmunXT patented micro-algae complex was discovered by scientists at the **National Center for Natural Products Research (NCNPR)** after research and development over a ten year period. NCNPR is a part of the Research Institute of Pharmaceutical Sciences, School of Pharmacy at the University of Mississippi and is one of the country's leading botanical research organizations. It is one of the nation's leading university research center devoted to improving human health

through the discovery, development and commercialization of pharmaceuticals and dietary supplements derived from plants, fresh-water organisms and other natural products. The NCNPR researches and locates botanicals and plants from around the globe for new drug discovery investigations. The NCNPR receives funding from a variety of government agencies including the U.S. Food and Drug Administration (FDA), the U.S. Army, the National Institutes of Health and the U.S. Department of Agriculture (USDA).

Due to the quality and professionalism necessary for the NCNPR to conduct meaningful botanical and natural product research, they developed an extremely unique bioassay testing method that produces data reflecting the activity levels of extracts from botanicals, plants and other natural ingredients. The bioassay yields results that are comparable to data that biologic pharmaceuticals use to standardize their products. The process is patent pending and is sophisticated allowing the scientists at the NCNPR to be able to validate the activity of any given botanical for macrophage activation.

When the immune enhancement project commenced, the NCNPR began conducting research on a large number of known natural immune stimulatory ingredients. By utilizing their bioassay method for validation of activity, the NCNPR could ascertain if any of the extracts and products tested was powerful enough to be considered for practical use. The center tested over 50 extracts and products that were traditionally used to enhance immune function, with primary emphasis on macrophage activation. The researcher found that extracts from micro-algae Spirulina were over 1,000 times more active than all others tested using an assay that measures NF-kappa B activation in human THP-1 monocytes . Utilizing the NCNPR's proprietary extraction procedure and by optimizing the source of the Spirulina, ImmunXT was developed. The active component within ImmunXT is present at levels greater than found in other immune enhancing extracts or herbs. After ten years of exhaustive research, clinical studies and hundreds of case studies, this very concentrated extract and powerful tool for enhancing the innate immune function, has aptly been called "the most powerful natural immune-stimulatory dietary supplement discovered to date", said co-inventor Dr. David Pasco, Assistant Director at NCNPR. ImmunXT stands alone in the immune enhancement category of new dietary supplements.

Material Agreements

Intellectual Property License Agreement

On approximately January 1, 1999, we entered into an intellectual property license agreement (the License Agreement) with Jurak Holdings Limited (JHL), a corporation organized under the laws of the Province of Alberta and an affiliate of our Chief Executive Officer and one of our directors. Pursuant to the terms and provisions of the License Agreement, we are required to pay the greater of \$500,000 for fiscal year 2003, and each calendar year thereafter, during the first ten years of the License Agreement (the Minimum Royalty Fee), or eight percent of the net sales of all license products sold under the License Agreement (the Continuing Royalty Fee). After fiscal 2013, we are required to make payments in the amount of the Continuing Royalty Fee.

The accrued payments due and owing to JHL under the License Agreement for the Minimum Royalty Fee and the Continuing Royalty Fee including interest was \$1,087,598 and \$631,856 at May 31, 2008 and 2007, respectively.

Immune Booster License Agreement

During the year ended May 31, 2007, the Company initiated the purchase of licensing fees associated with an exclusive license and distribution agreement to acquire the worldwide marketing rights to ImmunXT. These rights have been acquired from Nordic Immotech Trading APS (Nordic Immotech), a leading life science company with a successful history of producing unique, patented products that are distributed on a global scale. On December 1, 2006, the Company finalized the closing of this exclusive global license and distribution agreement with respect to this natural immune booster product. LifeQuest World Corporation has begun to market and sell these products in February 2008.

The Company paid installments totaling \$2,500,000 per the terms of the agreement. The Company has imputed interest on these installments at a rate of 10% because the note was non-interest bearing. The discounted value of the licensed asset totals \$2,390,721.

As part of the license agreement noted above, Nordic Immotech shall pay a royalty of ten percent (10%) of net sales of products sold by Nordic and or affiliates to independent third parties outside of the U.S.

In a separate agreement, the Company was granted an option to purchase all the shares in Nordic Immotech (the supplier). Subject to the terms and conditions of the separate agreement, the Company has the option to purchase all of the shares of Nordic Immotech (170,000 shares) at a fixed price of \$76.47 per share for a total of \$13,000,000. The Company may exercise the option anytime before December 1, 2008.

Intellectual Property

Patents and other proprietary rights are vital to our business operations. We protect our technology through a trademark that Jurak Holdings Limited (JHL) owns and can license. JHL 's policy is to seek appropriate protection both in the United States and abroad for The Youth Solution and other products. We have acquired trademark protection as follows.

JC Tonic

On January 15, 2002, the United States Patent and Trademark Office issued a certificate of registration, registration no. 2,530,329, to JHL for protection of our exclusive use of the trademark JC Tonic . The certificate of registration for JC Tonic was issued under Class 6, 18, 44, 46, 51 and 52 for herbal, mineral and vitamin supplements, and shall remain in force and effect for ten years from the date of issuance.

The Youth Solution

On May 3, 2005, the United States Patent and Trademark Office issued an application serial no. 78/618,318, registration no. 2625515, to JHL for protection of our exclusive use of the trademark "The Youth Solution". The certificate of registration for "The Youth Solution" was issued under Class 3 for body lotions, and shall remain in force and effect for ten years from the date of issuance.

On September 24, 2002, the United States Patent and Trademark Office issued a certificate of registration, serial no. 75/703,055, registration no. 2,625,515, to JHL for protection of our exclusive use of the trademark "The Youth Solution". The certificate of registration for "The Youth Solution" was issued under Class 5 and 32 for herbal supplements, and shall remain in force and effect for ten years from the date of issuance.

Helena

On November 29, 2004, the United States Patent and Trademark Office accepted JHL's application for registration under serial no. 78/523,794, for protection of our exclusive use of the trademark "Helena". The application was filed for "Helena" under Class 3 for non-medicated skin care preparation. Once final approval is obtained by the United States Patent and Trademark Office, the trademark shall remain in force and effect for ten years from the date of issuance.

Vimirex

On January 18, 2005, the United States Patent and Trademark Office accepted JHL's application for registration under serial no. 78/549,525, for protection of our exclusive use of the trademark "Vimirex". The application was filed for "Vimirex" under Class 5 for vitamins and minerals. Once final approval is obtained by the United States Patent and Trademark Office, the trademark shall remain in force and effect for ten years from the date of issuance.

JC Junior

On June 28, 2005, the United States Patent and Trademark Office accepted JHL's application for registration under serial no. 78/659,837, for protection of our exclusive use of the trademark "JC Junior". The application was filed for "JC Junior" under Class 5 and 32 for herbal supplements. Once final approval is obtained by the United States Patent and Trademark Office, the trademark shall remain in force and effect for ten years from the date of issuance.

Take An Ounce and Feel the Bounce

On June 13, 2000, the United States Patent and Trademark Office issued a certificate of registration, serial no. 76/069,199, registration no. 2,490,428, to us for protection of our exclusive use of the trademark **Take An Ounce and Feel the Bounce** . The certificate of registration for **Take An Ounce and Feel the Bounce** was issued under Class 32 for herbal supplements, and shall remain in force and effect for ten years from the date of issuance.

Ambassador of Health

On May 5, 1999, the United States Patent and Trademark Office issued a certificate of registration, serial no. 75/702,892, registration no. 2,613,042, to us for protection of our exclusive use of the trademark **Ambassador of Health**. The certificate of registration for **Ambassador of Health** was issued under Class 16 and 35 for magazines and newsletters on health and nutrition and for personnel recruitment and business consultation, and shall remain in force and effect for ten years from the date of issuance.

We may consider filing additional patent applications with respect to our technologies and any novel aspects of our technology to protect our intellectual property. Future patents, if issued, may be challenged, invalidated or circumvented. Thus, any patent that we own or license from third parties may not provide adequate protection against competitors. The patent applications that we may file in the future may not result in issued patents. Also, patents may not provide us with adequate proprietary protection or advantages against competitors with similar or competing technologies. As a result of potential conflicts with the proprietary rights of others, we may in the future have to prove that we are not infringing the patent rights of others or be required to obtain a license to the patent. We do not know whether such a license would be available on commercially reasonable terms, or at all.

We also rely on trade secrets and unpatentable know-how that we seek to protect, in part, by confidentiality agreements. However, it is possible that parties may breach those agreements, and we may not have adequate remedies for any breach. It is also possible that our trade secrets or unpatentable know-how will otherwise become known or be independently developed by competitors. There can be no assurance that third parties will not assert infringement or other claims against us with respect to any existing or future products, or that licenses would be available if our technology were successfully challenged by a third party, or if it became desirable to use any third-party technology to enhance our products. Litigation to protect our proprietary information or to determine the validity of any third-party claims could result in significant expense to us and divert the efforts of our technical and management personnel, whether or not we are successful in such litigation.

While we have no knowledge that we are infringing the proprietary rights of any third party, there can be no assurance that such claims will not be asserted in the future with respect to our existing or future products. Any such assertion by a third party could require us to pay royalties, to participate in costly litigation and defend licensees in any such suit pursuant to indemnification agreements, or to refrain from selling an alleged infringing product or service.

COMPETITION

The business of developing and distributing nutritional and personal care products such as our products is highly competitive. Numerous manufacturers, distributors and retailers compete for consumers and, in the case of other network marketing companies, for distributors. We compete directly with other entities that develop, manufacture,

market and distribute dietary supplements. We compete with these entities by emphasizing the underlying science, value and

high quality of our products, as well as the convenience and financial benefits afforded by our network marketing system and compensation plan. However, many of our competitors may be substantially larger and have greater financial resources and broader name recognition. Our markets are highly sensitive to the introduction of new products that may rapidly capture a significant share of those markets.

The nutritional supplement market is characterized by: (i) large selection of essentially similar products that may be difficult to differentiate; (ii) retail consumer emphasis on value pricing; (iii) constantly changing formulations based on evolving scientific research; (iv) low entry barriers resulting from low brand loyalty, rapid change, widely available manufacturing, low regulatory requirements, and ready access to large distribution channels; and (v) a lack of uniform standards regarding product ingredient sources, potency, purity, absorption rate, and form.

There can be no assurance that we will be able to effectively compete in this intensely competitive environment. Nutritional and personal care products can be purchased in a wide variety of distribution channels, including retail stores and the fact that our product offering line is relatively limited compared to the wide variety of products offered by many of our competitors, and are often premium priced. Our ability to remain competitive depends in part upon the successful marketing of our premium priced products.

We also compete with other network marketing organizations for time, attention and commitment of new and current distributors. Our ability to remain competitive depends, in significant part, on our success in recruiting and retaining distributors. We believe that we offer a rewarding and unique compensation plan and attractive benefits and services. To the extent practicable, our compensation plan is designed to be seamless, permitting international expansion without re-entry requirements. There can be no assurance that our program for recruiting and retaining distributors will be successful. The pool of individuals interested in the business opportunities presented by network marketing tends to be limited in certain markets, and is reduced to the extent other network marketing companies successfully recruit these individuals into their businesses. Although we believe that we offer an attractive opportunity for our distributors, there can be no assurance that other network marketing companies will not be able to recruit our existing distributors or deplete the pool of potential distributors in a given market.

RISK FACTORS

An investment in our common stock involves a number of very significant risks. You should carefully consider the following risks and uncertainties in addition to other information in evaluating our company and its business before purchasing shares of our common stock. Our business, operating results and financial condition could be seriously harmed due to any of the following risks. The risks described below are all of the material risks that we are currently aware of that are facing our company. Additional risks not presently known to us may also impair our business operations. You could lose all or part of your investment due to any of these risks.

Risks Related to Our Business

We Have a History of Operating Losses and There Can Be No Assurance We Will Be Profitable in the Future; Need to Raise Capital to Continue Our Growth.

We have a history of operating losses, expect to continue to incur losses, and may never be profitable. We do not expect positive cash flow from operations in the near term. Further, we have been dependent on sales of our equity securities and debt financing to meet our cash requirements. We incurred a net loss of \$1,457,068 for the fiscal year ended May 31, 2008, and have an aggregate net loss of \$7,468,302 as of May 31, 2008. As of May 31, 2008, we had a working capital deficit of \$1,269,406. There is no assurance that actual cash requirements will not exceed our estimates. In particular, additional capital may be required in the event that we encounter greater costs associated with general and administrative expenses and costs of offering equity securities or debt financing.

We May Need to Raise Capital to Continue Our Growth.

Based upon our historical losses from operations, we will require additional funding in the future. If we cannot obtain capital through financings or otherwise, our ability to execute our development plans and achieve profitable operational levels will be greatly limited. Historically, we have funded our operations through the issuance of equity and short-term debt financing arrangements. We may not be able to obtain additional financing on favorable terms, if at all. Our future cash flows and the availability of financing will be subject to a number of variables, including potential production and the market prices of our products. Further, debt financing could lead to a diversion of cash flow to satisfy debt-servicing obligations and create restrictions on business operations. If we are unable to raise additional funds, it would have a materially adverse effect upon our operations.

Our Success Depends on the Ability of Our Suppliers With Whom We Have Business Arrangements.

We depend on a number of suppliers that produce our products. Failure to maintain continuous access to these suppliers may have a materially adverse affect our business. Such suppliers may experience equipment failures and service interruptions, of which we have no control, which could adversely affect customer confidence, our business operations and our reputation. If we experience a significant increase in demand, we may have to expand our third party suppliers. We cannot be assured that additional suppliers will be available to us, or that if available it will be available on terms that are acceptable to us. If we cannot produce a sufficient quantity of our products to meet demand or delivery schedules, our customers might reduce demand, reduce the purchase price they are willing to pay for our product, or replace our product with the product of a competitor, any of which could have a materially adverse effect on our financial condition and operations.

We Rely on the Network Marketing System.

We have relied on the network marketing system to distribute, market and sell our products. We have no long-term contractual relationship with these distributors. While we believe that the distributors will continue to provide their services, there can be no assurance that the distributors will be available in the future, and if available, will be available on terms deemed acceptable to us. We had approximately 1,600 distributors and 900 retail customers at May 31, 2008.

Our Continued Operations Depend on the Successful Marketing of our Products

Our business plan is based on the marketing and distribution of primarily three products, The Youth Solution, ImmunXT, and Helena Whole Body Anti-Aging Skin Rejuvenator. There is no assurance that we will be successful in implementing our marketing strategies or that our marketing strategies, even if implemented, will lead to the successful achievement of our objectives. If we are not able to successfully implement our marketing strategies, our business operations and financial performance may be adversely affected. The novelty and the design of our products is important to our success and competitive position, and if we are unable to continue to develop and offer such a unique product to our customers, our business could suffer.

Our Growth Could Harm Our Future Business Results.

As we proceed with the production, marketing and sale of our existing and anticipated products, we expect to experience significant and rapid growth of our business. We may need to add staff to manage operations, handle marketing efforts and perform finance and accounting functions. We may be required to hire a broad range of additional personnel in order to successfully advance our operations. This growth is likely to place a strain on our management and operational resources. The failure to develop and implement effective operational and financial systems, or to hire and retain sufficient personnel for the performance of all of the functions necessary to effectively service and manage our potential business, or the failure to manage growth effectively, could have a materially adverse affect on our business and financial condition.

Our Success is Dependent Upon the Acceptance of Our Products and Our Business.

Our success depends upon our achieving significant market acceptance of our products. We cannot guarantee that consumers will purchase our product. Acceptance of herbal supplemental products will depend on the success of our advertising, promotional and marketing efforts. In the last quarter of 2006, we updated our packaging; engaged a publicity agent; enhanced the flavor of our consumable products; reintroduced our unit dose packaging for our liquid herbal supplements; reduced the number of other sizes available to only one bottle size; released our new online service for distributors referred to as a Back Office; developed personal replicated websites for our distributor force; and concluded an agreement with Nordic Immotech Trading giving us the worldwide rights to market their immune-stimulatory product.

Failure to maintain effective internal controls

A failure to maintain effective internal controls could adversely affect our business. The Company has begun the process of documenting and testing its internal controls as required by the Sarbanes-Oxley Act of 2002. The Company expects to incur significant costs in complying with these requirements, including increased staffing costs, increased accounting, auditing and consulting fees. In addition, the requirements of Sarbanes-Oxley may limit the ability of the Company to make any future acquisitions. Failure by the Company to adequately meet the internal control requirements would be reported in the Company's filings to the Securities and Exchange Commission which could negatively impact the Company's reputation and its stock price.

Loss of Key Management Personnel.

The Company has a relatively small staff and depends on three key management people. The loss of any of our key management personnel could have an adverse impact on our future development and could impair our ability to succeed. Our performance is substantially dependent our ability to continue to hire and retain such personnel. The loss of any of our other key management personnel could have a materially adverse effect on our business, development, financial condition, and operating results. We do not maintain "key person" life insurance on any of our directors or senior executive officers.

Many of Our Competitors Are Larger and Have Greater Financial and Other Resources Than We Do.

The dietary supplement industry, in general, is intensely competitive. Our products compete with other dietary supplemental based products. Such based products are currently marketed by well-established, successful companies that possess greater financial, marketing, distribution, personnel and other resources than us. Using these resources, these companies can implement extensive advertising and promotional campaigns, both generally and in response to specific marketing efforts by competitors, to enter into new markets rapidly and to introduce new products. Competitors with greater financial resources also may be able to enter the market in direct competition with us, offering attractive marketing tools to encourage the sale of products that compete with our products or present cost features which consumers may find attractive.

Government Regulation.

Any changes in regulation by the Federal Trade Commission (FTC) and/or the U.S. Food and Drug Administration (FDA) with respect to labeling and advertising of our products could have an adverse affect on our business. A change in these requirements could add additional cost to the production of our products. However, these government regulatory agencies generally allow companies to make changes when new materials are to be printed and so the financial effects would be minimal.

RISKS RELATED TO OUR COMMON STOCK

Sale of Restricted Common Stock.

As of May 31, 2008, there are 40,478,830 outstanding shares of our common stock, of which 30,962,114 are restricted securities as that term is defined in Rule 144 under the Securities Act of 1933, as amended (the Securities Act). Although the Securities Act and Rule 144 place certain prohibitions on the sale of restricted securities, restricted securities may be sold into the public market under certain conditions.

Any significant downward pressure on the price of our common stock as certain stockholders sell their shares of our common stock may encourage short sales. Any such short sales could place further downward pressure on the price of our common stock.

The Trading Price of Our Common Stock on the OTC Bulletin Board Has Been and May Continue to Fluctuate Significantly and Stockholders May Have Difficulty Reselling Their Shares.

Our common stock has traded as low as \$0.42 and as high as \$5.97 for the years ended May 31, 2008 and 2007, respectively. In addition to volatility associated with Bulletin Board securities in general, the value of your investment could decline due to the impact of any of the following factors upon the market price of our common stock: (i) changes in the demand for our products; (ii) disappointing results from our marketing and sales efforts; (iii) failure to meet our revenue or profit goals or operating budget; (iv) decline in demand for our common stock; (v) downward revisions in securities analysts' estimates or changes in general market conditions; (vi) lack of funding generated for operations; (vii) investor perception of our industry or our business prospects; and (viii) general economic trends.

In addition, stock markets have experienced extreme price and volume fluctuations and the market prices of securities have been highly volatile. These fluctuations are often unrelated to operating performance and may adversely affect the market price of our common stock. As a result, investors may be unable to sell their shares at a fair price and you may lose all or part of your investment.

Additional Issuances of Equity Securities May Result in Dilution to Our Existing Shareholders.

Our Articles of Incorporation authorize the issuance of 150,000,000 shares of common stock and 50,000,000 shares of preferred stock. The Board of Directors has the authority to issue additional shares of our capital stock to provide

additional financing in the future and the issuance of any such shares may result in a reduction of the book value or market price of the outstanding shares of our common stock. If we do issue any such additional shares, such issuance also will cause a reduction in the proportionate ownership and voting power of all other stockholders. As a result of such dilution, if you acquire shares of our common stock, your

proportionate ownership interest and voting power could be decreased. Further, any such issuances could result in a change of control.

We are authorized to issue shares of preferred stock. Our board of directors, without shareholder approval, may issue shares of preferred stock with rights superior to the rights of the holders of shares of common stock. As a result, shares of preferred stock could be issued quickly and easily, adversely affecting the rights of holders of shares of common stock and could be issued with terms calculated to delay or prevent a change in control or make removal of management more difficult. Although we have no present plans to issue shares of preferred stock, the issuance of preferred stock in the future could adversely affect the rights of the holders of common stock and reduce the value of the common stock.

Our Common Stock is Classified as a Penny Stock under SEC Rules Which Limits the Market for Our Common Stock.

Because our stock is not traded on a stock exchange or on the NASDAQ National Market or the NASDAQ Small Cap Market, and because the market price of the common stock is less than \$5 per share, the common stock is classified as a "penny stock." Our stock has not traded above \$5 per share. SEC Rule 15g-9 under the Exchange Act imposes additional sales practice requirements on broker-dealers that recommend the purchase or sale of penny stocks to persons other than those who qualify as an "established customer" or an "accredited investor." This includes the requirement that a broker-dealer must make a determination that investments in penny stocks are suitable for the customer and must make special disclosures to the customers concerning the risk of penny stocks. Many broker-dealers decline to participate in penny stock transactions because of the extra requirements imposed on penny stock transactions. Application of the penny stock rules to our common stock reduces the market liquidity of our shares, which in turn affects the ability of holders of our common stock to resell the shares they purchase, and they may not be able to resell at prices at or above the prices they paid.

A Decline in the Price of Our Common Stock Could Affect Our Ability to Raise Further Working Capital and Adversely Impact Our Operations.

A decline in the price of our common stock could result in a reduction in the liquidity of our common stock and a reduction in our ability to raise additional capital for our operations. Because our operations to date have been principally financed through the sale of equity securities, a decline in the price of our common stock could have an adverse effect upon our liquidity and our continued operations. A reduction in our ability to raise equity capital in the future would have a materially adverse effect upon our business plan and operations, including our ability to continue our current operations. If our stock price declines, we may not be able to raise additional capital or generate funds from operations sufficient to meet our obligations.

GOVERNMENT REGULATION

In the United States, where we primarily sell our products, we are subject to laws, regulations, administrative determinations, court decisions and similar restrictions at the federal, state and local levels, collectively known as regulations . These regulations include and pertain

to, among other things: (i) the formulation, manufacturing, packaging, labeling, advertising, distribution, sale and storage of our product; (ii) our product claims and advertising, including label claims, direct claims, as well as claims and advertising by our distributor, for which we may be held responsible; and (iii) our network marketing organization and activities.

Products

The formulation, manufacturing, packaging, labeling, advertising, distribution, and sale and storage of our products is subject to regulation by a number of governmental agencies. The federal agencies include the Food and Drug Administration (FDA), the Consumer Product Safety Commission, the United States Department of Agriculture, and others. Our activities are also regulated by various codes and agencies of the states and localities in which our product is or may be manufactured, distributed or sold. The FDA, in particular, regulates the formulation, manufacturing and labeling of dietary and herbal supplements, which includes our product.

The Dietary Supplement Health and Education Act of 1994 (DSHEA), revised the provisions of the Federal Food, Drug and Cosmetic Act (FFDCA), concerning the composition and labeling of dietary supplements, which we believe is generally favorable to the dietary supplement industry. DSHEA created a new statutory category of products or dietary supplements . This new category includes vitamins, minerals, herbs, amino acids, and other dietary substances for human use to supplement the diet. However, DSHEA grandfathered, with certain limitations, dietary ingredients that were on the market before October 15, 1994. A dietary supplement containing a new dietary ingredient (NDI), and placed on the market on or after October 15, 1994, must have a history of use or other evidence establishing a basis for expected safety. Manufacturers of dietary supplements using a structure-function statement or other claim must have scientific substantiation that the statement is true, accurate, and not misleading. Our product, JC Tonic, The Youth Solution, is classified as a dietary supplement under the FFDCA and DSHEA.

The labeling requirements for dietary supplements with respect to labels affixed to containers have been set forth in final regulations effective March 23, 1999. These regulations include the serving size, dietary ingredient information, and the proper detail and format required for the Supplement Facts box. Our product labels are in compliance with those regulations. Many states have also recently become active in the regulation of dietary supplement products. These states may require modification of labeling of our product sold in those states, e.g., Texas, New York and California.

On January 6, 2000, the FDA published a final rule on permissible structure/function statements to be placed on labels and in brochures. Structure/function statements are claims of the benefit or positive effect of a product or an ingredient on the body's structure or function. This regulation does not significantly change the way the FDA interprets structure/function statements. We have not made any substantial label revisions based on this regulation regarding any of our structure/function product statements. Subsequently, the FDA published a final rule that the level of science needed to support a structure/function claim would be raised close to the current Federal Trade Commission (FTC) standard, which is competent and reliable scientific evidence . We believe that we have adequate substantiation for all label claims used.

FDA Final Rule Safe Use of Dietary Supplements

On June 22, 2007, FDA announced a final rule establishing current good manufacturing practice requirements (CGMPs) for dietary supplements. In addition, by the end of the year, the industry will be required to report all serious dietary supplement adverse events to FDA.

Ensuring Quality

Under the final rule, manufacturers are required to evaluate the identity, purity, quality, strength and composition of dietary supplements. These regulations are intended to provide more accountability in the manufacturing process so that consumers can be confident that the products they purchase contain what is on the label.

The final rule aims to ensure that dietary supplements do not have:

- *
wrong ingredients
- *
too much or too little of a dietary ingredient
- *
improper packaging
- *
improper labeling
- *
contamination problems due to natural toxins, bacteria, pesticides, glass, lead, or other substances

All of these guidelines have been followed by LifeQuest World Corporation since beginning the marketing of our products.

Product Claims, Advertising and Website

The FDA considers website promotional content to constitute labeling, and thus our website must not contain disease claims or drug claims, but only permissible structure/function claims. The Federal Trade Commission (FTC) governs

the advertising of dietary supplements in any medium or vehicle - print ads, radio spots, infomercials, internet ads, and websites. The fundamental FTC rule is that all material advertising claims, whether express or implied, must be substantiated by reliable and competent scientific evidence. Because our website must comply with both FDA and FTC regulations, we routinely review our web site and our scientific substantiation for particular claims to determine if it is sufficient to ensure that there are no disease claims present. We also require our distributors' replicated websites to be in compliance with FDA and FTC regulations. As such, and to ensure Internet compliance, distributors may only use their replicated website. Any independent websites are unauthorized and their creators are solely liable for defending any regulatory enforcement actions. Violations of this policy may result in the termination of the distributor's relationship with the Company.

The FTC issued a guidance document to assist companies in understanding and complying with the substantiation requirement for advertising claims for supplements. We have organized the

documentation supporting and substantiating our advertising and promotional practices in compliance with these guidelines. We have not been notified that we have been or are the subject of any enforcement action by the FTC. However, any such action in the future by the FTC could materially adversely affect our ability to successfully market our product. Therefore, we pay careful attention to new guidelines and recent investigations launched, complaints filed, and fines imposed by the FTC.

We attempt to remain in full compliance with all applicable laws and regulations governing the manufacture, labeling, sale, distribution and advertising of our product.

Network Marketing System

Laws and regulations prevent the use of deceptive or fraudulent practices that have sometimes been inappropriately associated with legitimate direct selling and network marketing activities. These laws include anti-pyramiding, securities, lottery, referral selling, anti-fraud and business opportunity statutes, regulations and court cases. Illegal schemes, typically referred to as pyramid , chain distribution , or endless chain schemes, compensate participants primarily and solely for the introduction or enrollment of additional participants into the scheme. Often these schemes are characterized by large up-front entry or sign-up fees, over-priced products of low value, little or no emphasis on the sale or use of products, high-pressure recruiting tactics, and claims of huge and quick financial rewards requiring little or no effort. Generally, these laws are directed at ensuring that product sales ultimately are made to consumers and that advancement within sales organization is based on sales of the enterprise's products, rather than investments in the organization or other non-retail sales related criteria or activity. We ensure through counsel that our network marketing system is in regulatory compliance.

We currently have distributors in all fifty states. In addition to federal regulation, each state has enacted its own little FTC Act to regulate sales and advertising. We may receive requests to supply information regarding our network marketing plan to regulatory agencies. We believe that our network marketing program is in compliance with laws and regulations relating to network marketing activities in our current markets.

We cannot predict the nature of any future law, regulation, interpretation, or application, nor can we predict what effect additional governmental legislation or regulations, judicial decisions or administrative orders, when and if promulgated, would have on our business in the future. It is possible that future developments may require that we revise our network marketing program or our product manufacturing and labeling.

EMPLOYEES

We currently employ five (5) employees, all of whom are full-time employees. In addition to our current staff, we also have approximately 1,600 distributors nationwide. None of the Company's employees are represented under collective

bargaining agreements. The Company considers its employee relations to be good.

REPORTS TO STOCKHOLDERS

We are currently a reporting issuer in the U.S. and are subject to reporting requirements under section 13 or 15(d) of the U.S. *Securities Exchange Act of 1934*, as amended. We are required to file the following with the U.S. Securities and Exchange Commission (the SEC): (i) quarterly reports on Form 10-QSB; (ii) an annual report on Form 10-KSB; (iii) a Form 8-K to report the occurrence of certain reportable events; (iv) Forms 3, 4 and 5 to report insider sales and acquisition of our securities; and (v) proxy statements. We are required to deliver an annual report to our stockholders prior to or with the distribution of proxy materials relating to annual stockholder meetings.

ITEM 2. DESCRIPTION OF PROPERTY

We lease our principal office space located at Hughes Airport Center, 1181 Grier Drive, Suite C, Las Vegas, Nevada 89119. We currently utilize office space and warehouse. We intend to lease this space pursuant to the terms and provisions of our lease at approximately \$7,000 per month. The lease agreement expires June 30, 2009. We believe these facilities will be adequate to accommodate our administrative and distribution needs for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

On December 13, 2006, a civil suit was filed in the District Court of Clark County in and for the State of Nevada by LifeQuest World Corporation (plaintiffs) and one former employee and her spouse (defendants). The suit entails that the former employee processed credit refunds to a debit/credit card held at their banking institution. In addition, the former employee embezzled funds by setting up a merchant processing system and diverting the charging of our distributors' credit cards from our merchant processor to their processor. All is evidenced by information located on the computer used by the former employee at the Company as well as through other reporting mechanisms and processing systems. The Company is seeking relief for damages in excess of \$60,000; special damages according to proof; for attorneys' fees and costs of suit; and for other and further relief as the Court may deem just and proper as compensation for monies embezzled by the former employee and her spouse. No answer has been received from the defendant and the Company is seeking a default judgment granting all of the relief sought.

Management is not aware of any other legal proceedings contemplated by any governmental authority or any other party involving us or our properties. As of the date of this Annual Report, no director, officer or affiliate is (i) a party adverse to us in any legal proceeding, or (ii) has an adverse interest to us in any legal proceedings. Management is not aware of any other legal proceedings pending or that have been threatened against us or our properties.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During fiscal year ended May 31, 2008, we submitted to our stockholders for approval the election of members of the Board of Directors, approval of our external auditors for the coming year and the 2008 Stock Incentive Plan for Employees and Consultants. The Board of

Directors and management are currently drafting the 2008 Stock Incentive Plan for Employees and Consultants based on the terms approved by Proxy. The Plan will be effective at that time.

Part II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS****MARKET FOR COMMON EQUITY**

Shares of our common stock have been traded on the NASD OTC Bulletin Board under the symbol PYTL . On August 20, 2007, our trading symbol was changed to LQWC . Effective July 30, 2007, the Company changed its name to LifeQuest World Corporation. (formerly Phytolabs, Inc.) The shares of the Company trade on the Over the Counter Bulletin Board under the symbol, LQWC

The market for our common stock is limited, volatile and sporadic. The following table sets forth the high and low sales prices relating to our common stock on a quarterly basis for the last two fiscal years as quoted by the NASDAQ. These quotations reflect inter-dealer prices without retail mark-up, markdown or commissions, and may not represent actual transactions.

<u>Quarter Ended</u>	<u>High Bid</u>	<u>Low Bid</u>
May 31, 2008	\$0.60	\$0.30
February 28, 2008	\$0.65	\$0.50
November 30, 2007	\$0.70	\$0.45
August 31, 2007	\$1.45	\$0.27
May 31, 2007	\$2.61	\$1.20
February 28, 2007	\$4.29	\$2.25
November 30, 2006	\$4.95	\$1.92
August 31, 2006	\$5.58	\$0.42

As of May 31, 2008, there were approximately 357 shareholders of record of our common shares as reported by our transfer agent, Signature Stock Transfer, Inc., which does not include shareholders whose shares are held in street or nominee names. We believe that there are approximately 200 beneficial owners of our common stock. There are no other classes of shares issued or outstanding.

DIVIDEND POLICY

No dividends have been declared by the Board of Directors on our common stock. Our losses do not currently indicate the ability to pay any cash dividends, and we do not have any intention of paying cash dividends on our common stock in the foreseeable future. We are trying to build up inventory levels and expand our business; therefore, it is unlikely that we would use profits for the purpose of paying dividends for the foreseeable future.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER COMPENSATION PLANS

As of the date of this Annual Report, we do not have an equity compensation plan under which equity securities are authorized for issuance to employees, officers, or directors. As of the date of this Annual Report, we do not have any options issued or outstanding under any equity compensation plan.

The Company is offering 3,000,000 of its common shares to its distributors under a plan where the distributors earn certificates based on sales and bonus points. Each certificate is redeemable for one share of the Company's common stock three years after the certificate has been earned. The number of certificates outstanding at May 31, 2008 was 88,160. A corresponding liability for the certificates earned has previously been recorded and the outstanding balance is \$111,695 at May 31, 2008 and is included in Accrued compensation and benefits. During the years ended May 31, 2008 and 2007, respectively, no shares were issued to various distributors under this plan. Effective June 1, 2007 this plan has been discontinued and all distributors holding certificates at that time became fully vested. The Company has not set a date for issuing these common shares as of the date of this filing.

Plan Category	<u>Equity Compensation Plan Information</u>		
	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	N/A	N/A	N/A
Equity compensation plans not approved by security holders			
Ambassador Program	88,160	N/A	None

RECENT SALES OF UNREGISTERED SECURITIES

Private Placements

During fiscal year ended May 31, 2008, we executed private placements totaling 6,400,000 shares (1,400,000 at \$0.50 per share, 2,500,000 at \$0.20 per share and 2,500,000 at

\$0.42 per share) of our restricted common stock, for which we received cash in amounts of \$2,249,965.

During fiscal year ended May 31, 2007, we executed private placements totaling 4,033,333 shares (reflects 1 for 3 reverse stock split as noted below) of our restricted common stock, for which we received cash in amounts of \$2,149,950.

Reverse Stock Split

On July 27, 2007, the Board of Directors approved a one-for-three consolidation (reverse split) of our common stock, effective for shareholders of record on August 20, 2007.

In the consolidation, each three shares of our common stock issued and outstanding was converted to one share of common stock. The number of outstanding shares of common stock was reduced from 102,731,791 shares to 34,245,499 shares. The number of authorized shares of common stock was not reduced by this consolidation. Fractional shares of stock were rounded up to the next whole share.

Stock Compensation

During fiscal year ended May 31, 2007, the Company issued 500,000 shares of restricted common stock to two employees at \$0.70 per share in lieu of compensation. During the fiscal year ended May 31, 2008, the employees have elected to cancel these 166,669 shares (split adjusted from the original 500,000 shares) for nothing in return. The employees forfeited the shares due to personal tax ramifications and the Company does not intend to replace this form of compensation.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LifeQuest World Corporation, a Minnesota corporation incorporated on November 1, 1997, currently trades on the Over-the-Counter Bulletin Board under the symbol "LQWC". We are a product-focused company specializing in the herbal supplement industry and market.

The following discussion and analysis of our results of operations and financial position should be read in conjunction with our audited financial statements and the notes thereto, included elsewhere in this Annual Report. Our financial statements are prepared in accordance with U.S. GAAP.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

In this report and from time to time, in reports filed with the Securities and Exchange Commission, in press releases, and in other communications to shareholders or the investing public, there may be forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Company may make forward-looking statements concerning possible or anticipated future financial performance, business activities, plans, pending claims, investigations or litigation which are typically preceded by the words believes , expects ,

anticipates, intends or similar expressions. For such forward-looking statements, the Company claims the protection of the safe harbor for forward-looking statements contained in federal securities laws. Shareholders and the investing public should understand that such forward looking statements are subject to risks and uncertainties which could cause actual performance, activities, anticipated results, outcomes or plans to differ significantly from those indicated in the forward-looking statements. Such risks and uncertainties include, but are not limited to: lower sales to customers; the introduction of competitive products and technologies; our ability to successfully reduce operating expenses; delays in new product introductions; higher than expected expense related to new sales and marketing initiatives; availability of adequate supplies of raw materials; and other factors discussed from time to time in the Company's filings with the Securities and Exchange Commission. Our actual results could differ materially from the results discussed in the forward-looking statements.

The following discussion is intended to provide an analysis of our financial condition and should be read in conjunction with our audited financial statements and the notes thereto. The matters discussed in this section which is not historical or current facts deal with potential future circumstances and developments. Such forward-looking statements include, but are not limited to, the development plans for our growth, trends in the results of our development, anticipated development plans, operating expenses and our anticipated capital requirements and capital resources. Our actual results could differ materially from the results discussed in the forward-looking statements.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. However, the Company has sustained substantial losses and its liabilities exceed its assets which has created a substantial doubt about the Company's ability to continue as a going concern. The Company intends to generate positive cash flows from operations through increased sales utilizing the network of distributors in place with existing products and the new natural immune booster products, issuing additional stock, and obtaining necessary capital through additional advances from the Company's principal stockholder or through private placements.

To continue operations, the Company must raise additional capital beyond the additional stock sold in a private placements by the Company during the year ended May 31, 2008 totaling \$2,249,965. However, there can be no assurance the Company will be able to obtain additional capital from private placements in the future.

The proceeds of the private placements are being used for regular corporate needs as well as funding the product launch of our recently acquired rights to the world's most powerful, natural immune booster product. One group of investors has invested funds to date.

With the formal completion and payment of the exclusive global license and distribution agreement relative to the ImmunXT product, the Company accelerated work on the packaging and branding of this new product to make it available to North American markets in February 2008.

Critical Accounting Policies

Inventory Valuation: The Company's inventories are valued at the lower of cost or market using the first-in, first-out method (FIFO). Reserves for overstock and obsolescence are estimated and recorded to reduce the carrying value to estimated net realizable value. The amount of the reserve is determined based on projected sales information, plans for discontinued products and other factors. Though management considers these reserves adequate and proper, changes in sales volumes due to unexpected economic or competitive conditions are among the factors that could materially affect the adequacy of this reserve.

Intangible Asset: Intangible asset, entirely comprised of the ImmunXT license, is recorded at cost and is presented net of amortization. Amortization is computed over the estimated sales volume that is anticipated over the remaining term of the licensed agreement to properly match revenue and expenses.

Income Taxes: We account for income taxes in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes as clarified by FIN 48. In the preparation of the Company's