

LIFEQUEST WORLD CORP  
Form 10-K  
September 14, 2009

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended May 31, 2009**

**OR**

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission file number: 333-61801**

**LIFEQUEST WORLD CORPORATION**  
**(Exact name of registrant as specified in its charter)**

**Minnesota**  
**(State or other jurisdiction of incorporation or organization)**

**88-0407679**  
**(I.R.S. Employer Identification Number)**

**8022 S. Rainbow Blvd., Suite 345**  
**Las Vegas, Nevada 89139-6477**  
**(Address of principal executive offices)**

**(702) 914-9688**  
**(Registrant's telephone number, including area code)**

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

| <b>Title of Each Class</b> | <b>Name of Exchange on Which Registered</b> |
|----------------------------|---|
| N/A                        | N/A   |

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

**Title of Each Class**  
**Common Stock, par value \$0.001 per share**  
**Preferred Stock, par value \$0.001 per share**

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Indicate by check mark if the Registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such filed). Yes  No  (Not required for smaller reporting companies.)

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At November 30, 2008, the aggregate market value of shares held by non-affiliates of the Registrant (based upon 23,914,064 shares) was \$5,739,375.

At September 11, 2009, there were 60,237,164 shares of the Registrant's common stock outstanding and 10,000,000 of the Registrant's preferred stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

None.

**LIFEQUEST WORLD CORPORATION****Form 10-K**

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## **PART I**

### **ITEM 1. BUSINESS.**

#### **BUSINESS HISTORY AND DEVELOPMENT**

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. The shares of the Company trade on the Over the Counter Bulletin Board under the symbol, LQWC.

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 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.

LifeQuest embraces 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**.

#### **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

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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 products 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.

The immune stimulatory extract that LifeQuest World acquired had the potential to be a successful addition to the Company's product line and funding for the license rights and for on-going marketing through private placements was key for the Company to have a successful introduction. However, our fundraising efforts were not sufficient to meet the contract terms.

The product was developed at the University of Mississippi and had already been tested extensively in Europe and was being marketed in that part of the world in a limited way. North America was considered to be the primary market and preparations for this were on-going until the collapse of the economy in September 2008. This situation put on hold additional funding (which was to come from the same group who funded the purchase of the license) for the marketing of the product and thus, the project had to be curtailed.

The license agreement which was to terminate on December 1, 2008 included an option to purchase the license-holder, Nordic Immotech Trading ApS and discussions to that end were taking place which concluded with an Letter Of Intent (LOI) to delay the termination date to March 31, 2009, and when the market conditions had not improved the LOI was again renegotiated for an extension to June 1, 2009.

As mentioned above, LifeQuest World was handicapped by the lack of funding but nevertheless continued its efforts to market the product. However, sales were insufficient to be able to fulfill its purchase obligations under the LOI, and the license holder Nordic Immotech Trading ApS terminated the license agreement on August 19, 2009.

Since the termination of the agreement, there have been ongoing discussions with Nordic Immotech with a view to indeed purchase that company and thereby obtain total license rights to this extract. At this date of the 10-K filing, nothing has been formalized.

In the meantime, the business of LifeQuest World continues with its original product line and with a number of new additions to the product line in various stages of preparation. These

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include hair products; a multiple vitamin/mineral compound; a natural product for stimulation; and a group of organ specific herbal supplements.

Additionally the Company has recently entered into an agreement with a telemarketing group from Canada to prepare a marketing campaign for some of the Company's products.

## 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.

## 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 licensed 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.

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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 \$1,600,803 and \$1,087,598 at May 31, 2009 and 2008, respectively. During the year ended May 31, 2009, the Company and JHL refinanced \$1,345,957 of accrued royalties into a convertible note.

### **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 had 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.

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 2007 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 had 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 could exercise the option anytime before December 1, 2008.

Also, under the terms of the license and distributor agreement, the Company was required to make certain minimum raw material purchases from Nordic Immotech. During the 3<sup>rd</sup> and 4<sup>th</sup> quarters of fiscal 2009, the Company received two extensions on their agreement due to not meeting their raw material purchase commitments. On August 19, 2009, the agreement was formerly terminated by Nordic Immotech. The Company is still trying to negotiate some sort of re-instatement at this time. If those negotiations are not successful, the Company will no longer be able to sell the ImmunXT product beyond 1-year from the termination date.

### **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 August 12, 2008, the United States Patent and Trademark Office issued a certificate of registration, serial no. 78/523794 registration no. 3,486,184 to JHL for protection of our exclusive use of the trademark **HELENA**. The certificate of registration for **HELENA** was issued under Class 3 for non-medicated skin care preparation and hair care preparation and shall remain in force and effect for ten years from the date of issuance.

## **Vimirex**

On July 7, 2009, the United States Patent and Trademark Office issued a certificate of registration, serial no. 78/549525 registration no. 3,652,626 to JHL for protection of our exclusive use of the trademark **VIMIREX**. The certificate of registration for **VIMIREX** was issued under Class 5 for vitamins; mineral supplements and nutritional supplements and 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.

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### **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.

## **ITEM 1A. 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 \$1,219,382 for the fiscal year ended May 31, 2009, and have an aggregate net loss of \$8,687,684 as of May 31, 2009. As of May 31, 2009, we had a working capital deficit of \$2,346,515. 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

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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 2,000 distributors and 1,600 retail customers at May 31, 2009.

Our success is dependent on the on-going sales of our flagship product, JC Tonic, from which 85% of our sales are derived. We are developing a new training program that will be introduced in the 2<sup>nd</sup> quarter which will train and motivate current distributors and revitalize our distribution force. The end result will be a larger number of new distributors purchasing and re-selling our products, thus increasing our sales.

### **Our Continued Operations Depend on the Successful Marketing of our Products**

After the license termination of our ImmunXT product, our business plan is based on the marketing and distribution of primarily two products, The Youth Solution (JC Tonic), 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 are 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 products. Acceptance of herbal supplemental products will depend on the success of our advertising, promotional and marketing efforts.

**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 two 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, 2009, there are 49,062,164 outstanding shares of our common stock, of which 34,812,108 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 \$0.11 and as high as \$1.50 for the years ended May 31, 2009 and 2008, 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

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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 additional 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 15c-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 are 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

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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

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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 three (3) employees, all of whom are full-time employees. In addition to our current staff, we also have approximately 2,000 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-Q; (ii) an annual report on Form 10-K; (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. PROPERTIES**

The Company is currently leasing temporary space from one of its employees. The agreement terms for the space will extend through February 2010. The Company anticipates moving to a new location at that time.

## **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 obtained a default judgment granting all of the relief sought. The Company has not yet been able to collect any amounts granted by the default judgment.

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.

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ITEM 4. Submission of Matters to a Vote of Security Holders.

None.

**Part II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

**MARKET FOR COMMON EQUITY**

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, 2009         | \$0.55          | \$0.11         |
| February 28, 2009    | \$0.24          | \$0.16         |
| November 30, 2008    | \$0.31          | \$0.24         |
| August 31, 2008      | \$0.40          | \$0.30         |
| May 31, 2008         | \$0.60          | \$0.30         |
| February 28, 2008    | \$0.65          | \$0.55         |
| November 30, 2007    | \$0.70          | \$0.45         |
| August 31, 2007      | \$1.50          | \$0.26         |
| May 31, 2007         | \$0.90          | \$0.40         |

As of May 31, 2009, there were approximately 312 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

10,000,000 of preferred stock 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 market our products and expand our business; therefore, it is unlikely that we would use profits for the purpose of paying dividends for the foreseeable future.

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**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 was 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. This plan was terminated on June 1, 2007. 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, 2009 was 88,160. A corresponding liability for the certificates earned has previously been recorded and the outstanding balance is \$111,695 at May 31, 2009 and is included in Accrued compensation and benefits. During the years ended May 31, 2009 and 2008, 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.

| <b>Plan Category</b>                                       | <b><u>Equity Compensation Plan Information</u></b>   |  |  |
|--|--|--|--|
|  | <b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b> | <b>Weighted-average exercise price of outstanding options, warrants and rights</b> | <b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b> |
|  | <b>(a)</b>   | <b>(b)</b>   | <b>(c)</b>   |
| 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, 2009, we issued Nordic Immotech 4,166,667 shares of common stock with a fair value of \$1,000,000 or \$0.24 per share on December 8, 2008. Additionally, we issued Nordic Immotech another 4,166,667 shares of common stock with a fair value of \$645,833 or \$0.155 per share on March 31, 2009. The Company was intending to use the value of these shares to offset the purchase price of Nordic Immotech, if an agreement to purchase Nordic Immotech was reached. If no agreement was reached, the shares would remain with Nordic Immotech and would be tradeable.

In May 2009, the Company had a single private placement and issued 250,000 shares of our restricted common stock at \$0.20 per share for \$50,000. In addition, there were 250,000 warrants attached with an exercise price of \$0.30 to purchase one common share. The warrants expire in one year.

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

## **ITEM 6. SELECTED FINANCIAL DATA**

Not required by smaller reporting companies.

## **ITEM 7. 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

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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 is trying to generate positive cash flows from operations through increased sales utilizing the network of distributors in place with existing 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. 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.

### **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

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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 consolidated financial statements, management calculates income taxes. This includes estimating the Company's current tax liability as well as assessing temporary differences resulting from different treatment of items for tax and book accounting purposes. These differences result in deferred tax assets and liabilities, which are recorded on the balance sheet. These assets and liabilities are analyzed regularly and management assesses the likelihood that deferred tax assets will be realized from future taxable income. The valuation allowance for deferred income tax benefits is determined based upon the expectation of whether the benefits are more likely than not to be realized. The Company has recorded a full valuation allowance for all deferred tax assets due to the significance of its continued operating losses.

FIN No. 48 requires the recognition of a financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

**Revenue Recognition:** The Company recognizes revenue when the earnings process is complete, evidenced by persuasive evidence of an agreement, delivery has occurred or services have been rendered, the price is fixed or determinable, and collectability is reasonably assured. The earning process completion is evidenced through the shipment of goods, as the sales terms of our products are FOB shipping point, the risk of loss is transferred upon shipment and there are no significant obligations subsequent to that point. There are no significant estimates related to revenue recognition.

## RESULTS OF OPERATIONS

|                                      | <b>Years ended May 31,</b> |               | <b>% Change</b> |
|--------------------------------------|----------------------------|---------------|-----------------|
|                                      | <b>2009</b>                | <b>2008</b>   |                 |
| Revenue                              | \$ 769,616                 | \$ 977,469    | -21.26%         |
| Gross Profit                         | \$ 577,274                 | \$ 767,566    | -24.79%         |
| Net Loss                             | \$(1,219,382)              | \$(1,457,068) | -16.31%         |
| Basic and Diluted Net Loss per Share | \$ (0.03)                  | \$ (0.04)     | -25%            |

**Year Ended May 31, 2009 Compared to Year Ended May 31, 2008**

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## Overview

Total revenue for the year ended May 31, 2009, was \$769,616 compared to \$977,469 in 2008. Gross profit declined to \$577,274 for the year ended May 31, 2009 compared to \$767,566 in 2008, as further discussed below. The net loss for the year ended May 31, 2009, was (\$1,219,382) compared to (\$1,457,068) in 2008.

## Revenue and Gross Margins

Revenues for the year ended May 31, 2009 decreased by 21% to \$769,616 compared to \$977,469 in 2008. Product sales were \$733,833 and \$909,381 for the years ended May 31, 2009 and 2008, respectively. Product sales included sales for the ImmunXT product line which were \$195,613 and \$53,190 for the years ended May 31, 2009 and 2008, respectively. The Company began selling the ImmunXT product in the North America market in February 2008. The revenue amount also includes \$35,783 and \$68,088 of royalty income received from Nordic Immotech for their sales of our ImmunXT product in Europe. The Company has continued to experience weaker demand for its existing products compared to last year and is actively developing new product offerings. Effective August 19, 2009, the Company no longer has the marketing and distribution rights for the ImmunXT product. The Company can continue to sell their remaining ImmunXT inventory over the next 12 months.

Gross profit in the year ended May 31, 2009 decreased to \$577,274 compared to \$767,566 in the same period ended in 2008 due primarily to the decline in product sales. Gross profit as a percentage of revenue decreased to 75% in the year ended May 31, 2009 compared to 78% in the same period ended in 2008. This was due to primarily to having to discount our products due to a continued decline of product sales.

## Royalty Expense-Related Party

The minimum royalty expense-related party accrued to Jurak Holdings Limited (related party) remained consistent for both years at \$500,000 (\$125,000 per quarter) per the contract terms.

## Distribution, Selling, and Administrative Expenses

Total distribution, selling and administrative expenses for the year ended May 31, 2009, were \$1,167,074 compared with \$1,541,999 for the year ended in 2008. Selling and administrative expenses decreased by approximately \$374,925 in 2009. This decrease is primarily related to the decrease in cash available to market the Company's product line and increased effort by management to control overall costs. During this past year, management has reduced headcount to its lowest possible level in order to still be able to effectively operate.

**Other Income and Expense**

Interest expense for the year ended May 31, 2009, was \$129,582 compared with \$182,635 for the year ended in 2008. Current year interest costs decreased over prior year due to decreased

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interest expense on the debt agreement to buy the Nordic Immotech License. The expense for 2009 includes a beneficial conversion charge of \$96,140 in connection with the convertible note issued in payment of past due accrued royalty fees to a related party.

## **LIQUIDITY AND CAPITAL RESOURCES**

We have historically had more expenses and cost of sales than revenue in each year of our operations. The accumulated deficit as of May 31, 2009, was \$8,687,684 compared to \$7,468,302 as of May 31, 2008. Generally, we have financed operations to date through the proceeds of the private placement of equity and debt securities and revenue. We intend to finance these expenses with further issuances of our securities and revenues from operations. Therefore, we expect the need to raise additional capital and increase our revenues to meet long-term operating requirements.

We currently are analyzing the opportunity for a private placement offering. We have not finalized the terms of a placement, if one were to occur. The proceeds of any new private placement would be used for regular corporate needs as well as funding any new product development.

At May 31, 2009, the Company had no unrestricted cash compared to \$16,336 of unrestricted cash at May 31, 2008. The Company had current assets of \$282,009 and current liabilities of \$2,628,524 at May 31, 2009, compared to current assets of \$316,781 and current liabilities of \$1,586,187 at May 31, 2008.

Net cash used in operating activities was \$243,602 during the year ended May 31, 2009, compared to net cash used in operating activities of \$943,919 in the year ended May 31, 2008. The decrease was due primarily to the decreased operating loss and a significant reduction in ImmunXT purchases inventory for the year ended May 31, 2009.

Net cash used in investing activities was \$20,361 in the year ended May 31, 2009, compared to \$6,220 in the year ended in 2008.

Net cash provided by financing activities was \$247,627 in the year ended May 31, 2009, compared to net cash provided by financing activities in the year ended in 2008 of \$769,137. The Company raised a significant amount of additional capital in 2008 compared to 2009 in order to market the ImmunXT product.

## **PLAN OF OPERATION**

We have been, since our inception, reliant on external investment to finance ongoing operations as we are not yet operating profitably. While we expect that we anticipate achieving profitable operations in the future, there can be no assurance that our revenue, margins, and profitability will increase or be sufficient to support our operations in the long term. We expect we will need to raise additional capital to meet short and long-term operating requirements. We believe that private placements of equity capital and debt financing may be adequate to fund our

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long-term operating requirements. We may also encounter business endeavors that require significant cash commitments or unanticipated problems or expenses that could result in a requirement for additional cash. If we raise additional funds through the issuance of equity or convertible debt securities other than to current shareholders, the percentage ownership of our current shareholders would be reduced, and such securities might have rights, preferences or privileges senior to our common stock. Additional financing may not be available upon acceptable terms, or at all. If adequate funds are not available or are not available on acceptable terms, we may not be able to take advantage of prospective business endeavors or opportunities, which could significantly and materially restrict our business operations. We are continuing to pursue external financing alternatives to improve our working capital position and to grow our business to the greatest possible extent.

## **MATERIAL COMMITMENTS**

A significant commitment for fiscal year ending May 31, 2009, relates to the License Agreement with Jurak Holdings Limited (related party). As of fiscal year ended May 31, 2009, an aggregate amount of \$1,600,803 is due and owing to Jurak Holdings Limited for Accrued Minimum Royalty fees, accrued interest and a related note payable due to lack of timely payment. See Note 8 in financial statements for additional information.

On December 1, 2006, the Company finalized the closing of the exclusive global license and distribution agreement with Nordic Immotech Trading. As part of the closing for this agreement, the Company had a calendar year minimum raw product purchase commitment: The license agreement could be terminated by Nordic Immotech Trading if the minimum purchase commitment was not met. Effective August 19, 2009, Nordic Immotech has terminated the license agreement with the Company due to not meeting the required raw material purchase commitments.

As part of the license agreement noted above, Nordic Immotech Trading was required to pay a royalty of ten percent (10%) of net sales of products sold by Nordic and affiliates to independent third parties in Europe. This agreement was effectively terminated in August 2009, as well.

In a separate agreement, the Company was granted an option to purchase all the shares in Nordic Immotech Trading (the sole supplier of the raw material ingredient for our ImmunXT product). Subject to the terms and conditions of the separate agreement, the Company had the option to purchase all of the shares of Nordic (170,000 shares) at a fixed price of \$76.47 per share for a total of \$13,000,000. The Company could exercise the option anytime before December 1, 2008. The Company was able to negotiate with Nordic Immotech two extensions to their agreements through June 1, 2009. For those extensions, the Company issued 8,333,334 shares of common stock valued at \$1,645,833 to Nordic Immotech. These shares were to be used as a partial offset to the purchase price owed to Nordic Immotech if the Company was successful in purchasing Nordic Immotech. However, the Company was unsuccessful in their efforts and the value of these shares has been lost subsequent to year-end. See Notes 3 and 9 in the Company's financial statements for further information.

## **OFF-BALANCE SHEET ARRANGEMENTS**

As of the date of this Annual Report, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources, that are material to our investors. The term off-balance sheet arrangement generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have: (i) any obligation arising under a guarantee contract, derivative instrument or variable interest; or (ii) a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity, or market risk support for such assets.

## **FUTURE OUTLOOK**

The demand for our products is largely dependent upon the level of acceptance and understanding of herbal dietary supplements in the North American distributor and consumer sectors. Market size for herbal dietary supplement products and our relative share of this market will be affected by a number of factors, which include general understanding and awareness, continuing growth in homeopathic awareness, government regulations and general economic conditions. We are attempting to mitigate some of these risks through education and employing well-known persons to endorse our products.

As we continue to expand our operations internationally we must be aware of any inherent business risks associated with doing so. We have attempted to mitigate these risks by establishing a network marketing system utilizing persons who are familiar with the industry.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Not required by smaller reporting companies.



**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

**LifeQuest World Corporation**

Audited Financial Statements

As of and for the years ended May 31, 2009 and 2008

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Report of Independent Registered Public Accounting Firm

Balance Sheets

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Statements of Cash Flows

Notes to Financial Statements



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders

LifeQuest World Corporation

We have audited the accompanying consolidated balance sheets of LifeQuest World Corporation as of May 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LifeQuest World Corporation as of May 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations and its current liabilities exceed its current assets. These factors raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Carver Moquist & O'Connor, LLC

Minneapolis, Minnesota

September 14, 2009

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**LIFEQUEST WORLD CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**MAY 31, 2009 AND 2008**

| <b>Assets:</b>                        | <b>May 31<br/>2009</b> | <b>May 31<br/>2008</b> |
|---------------------------------------|------------------------|------------------------|
|                                       | _____                  | _____                  |
| <b>Current assets:</b>                |                        |                        |
| Cash and cash equivalents             | \$ -                   | \$ 16,336              |
| Accounts receivable                   | 24,203                 | 11,646                 |
| Inventories, net                      | 255,789                | 277,879                |
| Prepaid expenses and advances         | 2,017                  | 10,920                 |
|                                       | _____                  | _____                  |
| Total current assets                  | 282,009                | 316,781                |
|                                       | _____                  | _____                  |
| Office furnishings and equipment, net | 19,301                 | 6,024                  |
|                                       | _____                  | _____                  |
| <b>Other assets:</b>                  |                        |                        |
| Deposits and other                    | 1,645,893              | 6,745                  |
| Intangible asset, net                 | 2,385,974              | 2,388,699              |
|                                       | _____                  | _____                  |
| Total other assets                    | 4,031,867              | 2,395,444              |
|                                       | _____                  | _____                  |
| <b>Total Assets</b>                   | <b>\$ 4,333,177</b>    | <b>\$ 2,718,249</b>    |
|                                       | _____                  | _____                  |
|                                       | _____                  | _____                  |

**Liabilities and Stockholders' Equity:**

|   |           |         |
|---|-----------|---------|
| <b>Current liabilities:</b>                 |           |         |
| Checks written in excess of bank balance    | \$ 30,821 | \$ -    |
| Current portion of capital lease obligation | -         | 321     |
| Accounts payable                            | 259,477   | 134,766 |
| Accounts payable-related party              | 96,912    | 96,912  |
| Accrued compensation and benefits           | 305,651   | 218,306 |

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|   |                     |                     |
|---|---------------------|---------------------|
| Other accrued liabilities   | 144,754             | 25,304              |
| Convertible note payable to related party   | 1,350,724           | -                   |
| Accrued royalties-related party   | 250,078             | 1,087,598           |
| Payable to stockholder/officers   | 190,107             | 22,980              |
|   | <hr/>               | <hr/>               |
| Total current liabilities   | 2,628,524           | 1,586,187           |
|   | <hr/>               | <hr/>               |
| <b>Total liabilities</b>  | <b>2,628,524</b>    | <b>1,586,187</b>    |
|   | <hr/>               | <hr/>               |
| <b>Stockholders' equity:</b>  |                     |                     |
| Common stock, par value \$0.001 per share, 150,000,000 shares authorized, 49,062,164 and 40,478,830 shares issued and outstanding at    |                     |                     |
| May 31, 2009 and 2008, respectively   | 49,062              | 40,479              |
| Series B preferred stock, par value \$0.001 per share, 10,000,000 shares authorized, 10,000,000 and no shares issued and outstanding at |                     |                     |
| May 31, 2009 and 2008, respectively   | 10,000              | -                   |
| Undesignated preferred stock, par value \$0.001 per share, 40,000,000 shares authorized, no shares issued or outstanding at             |                     |                     |
| May 31, 2009 and 2008, respectively   | -                   | -                   |
| Additional paid-in capital  | 10,333,275          | 8,559,885           |
| Accumulated deficit   | (8,687,684)         | (7,468,302)         |
|   | <hr/>               | <hr/>               |
| Total stockholders' equity  | 1,704,653           | 1,132,062           |
|   | <hr/>               | <hr/>               |
| <b>Total Liabilities and Stockholders' Equity</b>   | <b>\$ 4,333,177</b> | <b>\$ 2,718,249</b> |
|   | <hr/>               | <hr/>               |

See accompanying notes to consolidated financial statements.



**LIFEQUEST WORLD CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED MAY 31, 2009 AND 2008**

|  | <b>Year Ended May</b> |                       |
|--|-----------------------|-----------------------|
|  | <b>31</b>             |                       |
|  | <b>2009</b>           | <b>2008</b>           |
| <b>Revenue:</b>  |                       |                       |
| Sales-product  | \$ 733,833            | \$ 909,381            |
| Royalty income-immune booster                            | 35,783                | 68,088                |
| <b>Total Revenue</b>                                     | <b>769,616</b>        | <b>977,469</b>        |
| <b>Cost of sales</b>                                     | <b>192,342</b>        | <b>209,903</b>        |
| <b>Gross profit</b>                                      | <b>577,274</b>        | <b>767,566</b>        |
| <b>Royalty expense-related party</b>                     | <b>500,000</b>        | <b>500,000</b>        |
| <b>Distribution, selling and administration expenses</b> | <b>1,167,074</b>      | <b>1,541,999</b>      |
| <b>Loss from operations</b>                              | <b>(1,089,800)</b>    | <b>(1,274,433)</b>    |
| <b>Other income and (expenses):</b>                      |                       |                       |
| Interest expense   | (129,582)             | (182,635)             |
| <b>Total other income and (expense), net</b>             | <b>(129,582)</b>      | <b>(182,635)</b>      |
| <b>Net loss before income taxes</b>                      | <b>(1,219,382)</b>    | <b>(1,457,068)</b>    |
| <b>Income tax expense</b>                                | <b>-</b>              | <b>-</b>              |
| <b>Net loss</b>  | <b>\$ (1,219,382)</b> | <b>\$ (1,457,068)</b> |
| <b>Basic and diluted loss per common share</b>           | <b>\$ (0.03)</b>      | <b>\$ (0.04)</b>      |

**Weighted average**

**outstanding common shares-  
basic and diluted**

43,175,177

38,125,837

See accompanying notes to consolidated financial statements.

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**LIFEQUEST WORLD CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED MAY 31, 2009 AND 2008**

|   | Common Stock |        | Preferred Stock |        | Additional         | Accumulated | TOTAL   |
|---|--------------|--------|-----------------|--------|--------------------|-------------|---------|
|   | Shares       | Amount | Shares          | Amount | Paid-In<br>Capital | Deficit     |         |
| <b>Balance -<br/>May 31, 2007</b>   | 34,245,499   | 34,246 | -               | -      | 6,316,153          | (6,011,234) | 339,165 |
| Issuance of<br>common stock<br>at<br>\$0.50 per<br>share in<br>Private<br>Placement<br>during July<br>2007                                    | 1,400,000    | 1,400  |                 |        | 698,600            |             | 700,000 |
| Issuance of<br>common stock<br>at<br>\$0.20 per<br>share in<br>Private<br>Placement<br>during<br>September<br>2007                            | 2,500,000    | 2,500  |                 |        | 497,500            |             | 500,000 |
| Cancellation of common<br>stock issued for<br>compensation in April<br>2007, originally valued<br>at \$0.70 per<br>share, in<br>February 2008 | (166,669)    | (166)  |                 |        | 166                |             | -       |

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|  |            |           |            |         |              |                          |
|--|------------|-----------|------------|---------|--------------|--------------------------|
| Issuance of<br>common stock<br>at<br>\$0.42 per<br>share in<br>Private<br>Placement<br>during<br>November<br>2007  | 1,190,476  | 1,190     |            | 498,775 |              | 499,965                  |
| Issuance of<br>common stock<br>at<br>\$0.42 per<br>share in<br>Private<br>Placement<br>during<br>December<br>2007  | 595,238    | 595       |            | 249,405 |              | 250,000                  |
| Issuance of<br>common stock<br>at<br>\$0.42 per<br>share in<br>Private<br>Placement<br>during<br>February 2008     | 714,286    | 714       |            | 299,286 |              | 300,000                  |
| Net loss   |            |           |            |         | (1,457,068)  | (1,457,068)              |
| <b>Balance -<br/>May 31, 2008</b>  | 40,478,830 | \$ 40,479 | -          | \$ -    | \$ 8,559,885 | \$ (7,468,302) 1,132,062 |
| Issuance of<br>preferred stock<br>for<br>consideration<br>of an<br>employment<br>agreement in<br>September<br>2009 |            |           | 10,000,000 | 10,000  | (10,000)     | -                        |

Issuance of common  
stock for consideration  
of a standstill agreement  
in connection with

the Nordic license in  
December 2008

valued at

|                  |           |       |         |           |
|------------------|-----------|-------|---------|-----------|
| \$0.24 per share | 4,166,667 | 4,167 | 995,833 | 1,000,000 |
|------------------|-----------|-------|---------|-----------|

Issuance of common  
stock for consideration  
of a  
standstill  
agreement in  
connection  
with

the Nordic  
license in  
March 2008  
valued at

\$0.155 per  
share.

|           |       |         |         |
|-----------|-------|---------|---------|
| 4,166,667 | 4,166 | 641,667 | 645,833 |
|-----------|-------|---------|---------|

Beneficial  
conversion  
feature charge  
in

Connection  
with a  
convertible  
note

agreement in  
April 2009

|        |        |
|--------|--------|
| 96,140 | 96,140 |
|--------|--------|

Issuance of  
common stock  
at

\$0.20 per  
share in  
Private  
Placement

during May  
2009

|         |     |        |
|---------|-----|--------|
| 250,000 | 250 | 46,750 |
|---------|-----|--------|

Net loss (1,219,382) (1,219,382)

**Balance -**

**May 31, 2008** 49,062,164 \$ 49,062 10,000,000 \$ 10,000 \$ 10,330,275 \$ (8,687,684) \$ 1,704,653

See accompanying notes to consolidated financial statements.

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**LIFEQUEST WORLD CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED MAY 31, 2009 AND 2008**

|  | 2009           | 2008           |
|--|----------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                   |                |                |
| Net loss   | \$ (1,219,382) | \$ (1,457,068) |
| Adjustments to reconcile net loss<br>to net cash used in operating activities: |                |                |
| Depreciation and amortization  | 5,329          | 7,370          |
| Loss on disposal of assets   | 4,480          | -              |
| Non-cash interest expense  | 96,140         | 42,412         |
| Changes in operating assets and liabilities:                                   |                |                |
| Accounts receivable  | (12,557)       | (4,024)        |
| Inventories  | 22,090         | (213,869)      |
| Prepaid expenses and advances  | 8,903          | 2,934          |
| Deposits   | 6,685          | 31,853         |
| Accounts payable   | 124,711        | 63,844         |
| Accrued expenses   | 719,999        | 582,629        |
|  | (243,602)      | (943,919)      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                   |                |                |
| Acquiring office furnishings and equipment                                     | (20,361)       | (6,220)        |
|  | (20,361)       | (6,220)        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                   |                |                |
| Proceeds from issuance of common stock, net of issuance costs                  | 50,000         | 2,249,965      |
| Payments on installment payable-immune booster license                         | -              | (1,450,000)    |
| Checks issued in excess of bank balance  | 30,821         | -              |
| Payments on capital lease obligations  | (321)          | (932)          |
| Advances from (repayment to) stockholder/officer                               | 167,127        | (29,896)       |
|  | 247,627        | 769,137        |

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|  |          |           |
|--|----------|-----------|
| NET INCREASE IN CASH AND CASH EQUIVALENTS        | (16,336) | (181,002) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 16,336   | 197,338   |
|  | _____    | _____     |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD       | \$ -     | \$ 16,336 |
|  | _____    | _____     |
|  | _____    | _____     |

**Supplemental disclosures of cash flow information:**

|   |              |            |
|---|--------------|------------|
| Interest paid   | \$ -         | \$ 140,233 |
| Income tax payments   | \$ -         | \$ -       |
| Common stock issued as consideration for standstill agreement | \$ 1,645,833 | \$ -       |
| Accrued royalties-related party converted into debt           | \$ 1,345,957 | \$ -       |

See accompanying notes to consolidated financial statements.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**May 31, 2009 and 2008**

**Note 1 - Nature of Business and Summary of Significant Accounting Policies:**

**Nature of business:**

LifeQuest World Corporation was incorporated under the laws of the State of Minnesota on November 1, 1997. The Company is located in Las Vegas, Nevada and develops and distributes dietary herbal supplement products.

The shares of the Company trade on the Over the Counter Bulletin Board under the symbol, "LQWC."

A summary of the Company's significant accounting policies is as follows:

**Principles of Consolidation:**

The consolidated financial statements include the accounts of LifeQuest World Corporation and its wholly owned subsidiary. All significant inter-company accounts and transactions have been eliminated in consolidation.

**Revenue recognition:**

The Company recognizes revenue when persuasive evidence of an arrangement exists, title and risk of ownership passes, the sales price is fixed or determinable, and collectability is probable. Generally, these criteria are met at the time product is shipped to our distributors or directly to a retail customer.

**Use of estimates:**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the financial statement date and revenues and expenses during the reporting period. Actual results could differ from Company estimates.

**Cash:**

The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. The Company maintains its cash in a high quality financial institution. The balance at times may exceed the federally insured limits.

**Accounts Receivable:**

The Company collects payments from its customers almost entirely from credit cards. Primarily, any accounts receivable balance at the end of the reporting period is due to a two or three day lag in receiving the funds from the credit card processors. It also includes royalty payments due from Nordic Immotech for product sales made in Europe through May 31, 2009. Balances still

outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable. Historically, the Company has not experienced significant losses related to receivables from individual customers. At May 31, 2009 and 2008, the Company considers its accounts receivable to be fully collectible and therefore have not recorded an allowance for doubtful accounts.

#### **Inventories:**

Inventories are valued at the lower of cost or market, using the first-in, first-out method (FIFO). The Company reviews inventory on a regular basis and provides for slow-moving, obsolete or unusable inventories by reducing inventory to its estimated useful or scrap value. Inventories are report at their net amounts, and consist of the following:

|                             | May 31     |            |
|-----------------------------|------------|------------|
|                             | 2009       | 2008       |
| Raw materials               | \$ 115,643 | \$170,286  |
| Finished goods and supplies | 157,146    | 117,593    |
| Allowance for obsolescence  | (17,000)   | (10,000)   |
|                             | \$ 255,789 | \$ 277,879 |

#### **Office furnishings and equipment:**

Office furnishings and equipment are recorded at cost and depreciated on a straight-line basis over their estimated useful life of three to seven years. Maintenance and minor renewals are expensed when incurred. Depreciation expense for the years ended May 31, 2009 and 2008 was \$2,604 and \$5,348, respectively.

#### **Intangible Asset-Immune Booster License:**

Intangible asset, entirely comprised of the immune booster license, is recorded at cost and is presented net of amortization. Amortization is being computed over the estimated sales volume that is anticipated over the remaining term of the licensed agreement to properly match revenue and expenses. There was \$2,725 and \$2,022 of amortization expense for the years ended May 31, 2009 and 2008, respectively. In August 2009, the Company has been notified that the distribution rights to this product have been terminated effective August 2009. (See Note 8 Commitments and Note 9 Subsequent Events)

#### **Long-lived assets:**

Long-lived assets, such as property and equipment and intangible assets are reviewed for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows,

an impairment charge is recognized in the amount by which the carrying amount of the assets exceeds the fair value of the asset.

**Income taxes:**

Income taxes are accounted for in accordance with SFAS No. 109, as clarified by FIN No. 48, which requires an asset and liability approach to financial accounting and reporting for income taxes. Accordingly, deferred tax assets and liabilities arise from the difference between the tax basis of an asset or liability and its reported amount in the financial statements. Deferred tax amounts are determined using the tax rates expected to be in effect when the taxes will actually be paid or refunds received, as provided under currently enacted tax law. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense or benefit is the tax payable or refundable, respectively, for the period plus or minus the change in deferred tax assets and liabilities during the period.

FIN No. 48 requires the recognition of a financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

**Advertising:**

The Company expenses advertising costs as they are incurred. Advertising costs were \$400 and \$8,810 for the years ended May 31, 2009 and 2008, respectively.

**Shipping and handling costs:**

Shipping and handling costs charged to customers have been included in sales. Inbound and outbound freight and handling costs incurred by the Company have been included in cost of sales.

**Research and development costs:**

Research and development costs consist of on-going product development and enhancement efforts. Total expenses amounted to \$15,471 and \$16,914 for the years ended May 31, 2009 and 2008, respectively.

**Fair value of financial instruments:**

The carrying value of the Company's financial instruments approximates fair value at May 31, 2009 and 2008. The carrying amounts for cash, accounts receivable, accounts payable, accrued liabilities and notes payable approximate fair value due to the short maturity of these instruments.

**Segment Reporting:**

The Company operates as one reporting segment.

**Reclassifications:**

Certain prior year amounts have been reclassified to conform to current year presentation.

### Loss per common share:

The Company computes earnings per share in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share ("SFAS 128"). SFAS 128 requires companies to compute earnings per share under two different methods, basic and diluted, and present per share data for all periods in which statements of operations are presented. Basic earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding during the applicable period. Diluted earnings per share are computed by dividing net income by the weighted average number of common stock outstanding during the period increased by potentially dilutive common shares. Potentially dilutive common shares include stock warrants and shares to be issued under the Distributor Stock Bonus Plan (See Note 8 Commitments). Dilution is determined using the treasury stock method.

The following table provides a reconciliation of the numerators and denominators used in calculating basic and diluted earnings per share for the years ended May 31, 2009 and 2008.

|  | May 31        |               |
|--|---------------|---------------|
|  | 2009          | 2008          |
| Basic earnings per share calculation:      |               |               |
| Net loss to common shareholders            | \$(1,219,382) | (\$1,457,068) |
| Weighted average common shares outstanding | 43,175,177    | 38,125,837    |
| Basic net loss per share                   | \$(0.03)      | \$(0.04)      |

|  |               |               |
|--|---------------|---------------|
| Diluted earnings per share calculation:            |               |               |
| Net loss to common shareholders                    | \$(1,219,382) | (\$1,457,068) |
| Weighted average common shares outstanding         | 43,175,177    | 38,125,837    |
| Warrants and dilutive shares <sup>(1)</sup>        | -             | -             |
| Diluted weighted average common shares outstanding | 43,175,177    | 38,125,837    |
| Diluted net loss per share                         | \$(0.03)      | \$(0.04)      |

<sup>(1)</sup>There were 250,000 stock warrants and 88,160 shares under the Distributor Stock Bonus Plan that were anti-dilutive due to the Company's net loss for the year ended May 31, 2009 and 2008, respectively, and therefore have been excluded from the calculation.

### Recent accounting pronouncements:

In April 2009, the Financial Accounting Standards Board ( FASB ) issued FASB Staff Position ( FSP ) No. FAS 157-4, Determining Fair Values When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This FSP provides guidance on (1) estimating the fair

value of an asset or liability when the volume and level of the activity for the asset or liability have significantly declined and

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(2) identifying transactions that are not orderly. This FSP also amends certain disclosure provisions of SFAS No. 157 to require, among other things, disclosures in interim periods of the inputs and valuation techniques used to measure fair value. The Company is currently evaluating the impact of this standard, but would not expect it to have a material impact on our financial position, results of operations, or cash flows.

In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. This guidance states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and should be included in the computation of earnings per share using the two-class method outlined in SFAS No. 128, *Earnings per Share*. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. The adoption of this new guidance on June 1, 2009 should not have an effect on the Company's reported earnings per share.

In April 2008, the FASB issued FASB Staff Position (FSP) No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*. This guidance addresses the determination of the useful life of intangible assets which have legal, regulatory or contractual provisions that potentially limit a company's use of an asset. Under the new guidance, a company should consider its own historical experience in renewing or extending similar arrangements. The Company is required to apply the new guidance to intangible assets acquired after December 31, 2008.

In February 2008, the FASB issued FASB Staff Position FAS 157-2 ("FSP FAS 157-2") "Effective Date of FASB Statement No. 157" which delays the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities that are recognized or disclosed in the financial statements on a nonrecurring basis to fiscal years beginning after November 15, 2008. These non-financial items include assets and liabilities such as reporting units measured at fair value in a goodwill impairment test and non-financial assets acquired and non-financial liabilities assumed in a business combination. The Company has not applied the provisions of SFAS No. 157 to its non-financial assets and non-financial liabilities in accordance with FSP FAS 157-2. The Company does not expect FAS 157-2 to have an impact to the financial statements or reported earnings per share.

During March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161). SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS No. 161 also improves transparency about the location and amounts of derivative instruments in an entity's financial statements; how derivative instruments and related hedged items are accounted for under Statement 133; and how derivative instruments and related hedged items affect its financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We do not believe the adoption of SFAS No. 161 will have a material effect on our results of operations or financial position.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162 ( SFAS 168 ), which establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with generally accepted accounting principles. SFAS 168 explicitly recognizes rules and interpretive releases of the Securities and Exchange Commission ( SEC ) under federal securities laws as authoritative GAAP for SEC registrants. SFAS 168 will become effective in the first quarter of fiscal year 2010 and will not have a material impact on the Company's consolidated financial statements.

**Note 2 - Company's Continued Existence:**

The accompanying consolidated 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 has a significant working capital deficit. The Company intends to generate positive cash flows from operations through increased sales utilizing the network of distributors in place, from financing activities such as issuing additional stock through private placement, and obtaining necessary capital through additional advances from the Company's principal stockholder. However, there can be no assurance the Company will be able to obtain additional capital from private placements or advances from stockholders in the future. The Company has no other committed sources or arrangements for additional financing.

The financial statements do not include any adjustment relating to recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary should the Company be unable to continue to exist.

**Note 3 - Intangible Asset:**

On December 1, 2006, the Company purchased, through an exclusive license and distribution agreement, the worldwide marketing rights to the most powerful, natural immune booster discovered to date, as stated by the scientific research team that developed the product. These rights were being acquired from Nordic Immotech Trading APS. The license was purchased through installment payments totaling \$2,500,000, per the terms of the agreement, which are paid in full as of May 31, 2008. The agreement, however, was terminated on August 19, 2009 by Nordic Immotech Trading APS due to not meeting the minimum raw material purchase commitments. (See Notes 8 and 9).

The Company has imputed interest on these installments at a rate of 10% because the payment schedule was non-interest bearing. The discounted value of the licensed asset totals \$2,373,190. Additional costs for legal services were also incurred for \$17,531. The total cost of the license is \$2,390,721. The Company began marketing the product domestically in February 2008. The Company began amortizing the license at this time. The accumulated amortization for the years ended May 31, 2009 and 2008, was \$4,748 and \$2,022, respectively.

In a separate agreement, the Company was granted an option to purchase all the shares in Nordic Immotech (the sole supplier of the raw material ingredient for our ImmunXT product). 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 could exercise the option anytime before December 1, 2008. The Company has been notified that both agreements have been terminated effective August 2009 (See Note 9 Subsequent Events).

In December 2008, the Company and Nordic Immotech entered into a Standstill Addendum to the purchase agreement and distribution and sublicense agreements related to their exclusive license agreement for the ImmunXT product, as noted above. The primary intent of this Addendum was to extend the time period to acquire Nordic Immotech and to extend the required minimum purchase commitment of raw product for the calendar year 2008 to March 31, 2009. In consideration for this Addendum, the Company has issued Nordic Immotech 4,166,667 shares of common stock with a fair value of \$1,000,000 or \$0.24 per share which was the Company's stock closing price on December 8, 2008. This deposit has been classified in other assets on the Company's balance sheet. Following the terms of the Standstill Addendum, this has been recorded as a non-refundable advance deposit against the purchase price for the potential acquisition of Nordic Immotech.

On March 31, 2009, the Company and Nordic Immotech entered into a second Standstill Addendum (II) to the purchase agreement and distribution and sublicense agreements related to their exclusive license agreement for the ImmunXT product. The primary intent of this Addendum was as follows:

1. To extend the time period to exercise the option to purchase Nordic Immotech.
2. To extend the required minimum purchase commitment of raw product for the calendar year 2008.

In consideration of these extensions, the Company issued, on March 31, 2009, 4,166,667 common shares at a fair value of \$645,833 or \$0.155 per share which was the Company's stock closing price on March 31, 2009 to Nordic Immotech. If the Company and Nordic Immotech come to an agreement to purchase all of the outstanding shares of Nordic Immotech, the value of these common shares and the 4,166,667 common shares already issued on December 8, 2008 will be used to offset the purchase price outlined in the purchase agreement.

The Company and Nordic Immotech have a preliminary agreement on the terms of purchase outlined in a preliminary Letter of Intent. Any consideration made to Nordic Immotech as defined in the agreement is non-refundable if the acquisition transaction is not closed. As of August 19, 2009, Nordic Immotech has terminated both of these agreements due to non-performance of the terms. Because of this termination, the Company will record an impairment loss against the Nordic license intangible asset and the two advance deposits for the acquisition of Nordic Immotech all totaling \$4,031,867 in the 1<sup>st</sup> quarter ending August 31, 2009.

As of the date of this 10-K filing, the Company is still in negotiations to attempt to complete this acquisition and the advance of these shares would be considered a payment against the purchase price. Unless these continuing negotiations are successful, a full writeoff of the Company's

assets pertaining to this agreement, as previously noted, will be recorded in 1<sup>st</sup> quarter ending August 31, 2009. The Company's remaining ImmunXT inventory as of May 31, 2009 totals \$212,589. Under the termination provisions, the Company has the right to continue selling the product for the next 12 months or offer it back to Nordic Immotech at cost.

**Note 4 - Capital Lease Obligations:**

The Company has one capital lease for new computer equipment, expiring October 2008. The lease bears interest at 5%. The obligation is collateralized by the equipment under lease. Total cost of the lease equipment was \$20,406 and was fully depreciated at May 31, 2009 and 2008, respectively. The lease was paid in full during the year ended May 31, 2009.

**Note 5 - Stockholders Equity:**

In September 2008, the Board of Directors has designated 10,000,000 of 50,000,000 total authorized preferred shares as Series B. The Series B preferred shares have no liquidating or other preference, cannot be converted to common stock or sold and has no dividend rights. However, each Series B preferred share has the equivalent of ten common shares for voting rights. The Company will vote with Series B preferred stock and common stock shareholders as one class. The Company issued 10,000,000 shares of the Series B preferred stock to our CEO for his consideration in signing a 2-year employment agreement effective October 15, 2008. If for any reason the CEO terminates his contract and employment with the Company, these preferred shares will be returned to the treasury of the Company.

On December 8, 2008, the Company issued 4,166,667 shares of its common stock valued at \$1,000,000 (\$0.24 per share) in connection with the first extension agreement with Nordic Immotech (See note 3).

On March 31, 2009, the Company issued 4,166,667 shares of its common stock valued at \$645,833 (\$0.155 per share) in connection with the 2<sup>nd</sup> extension agreement with Nordic Immotech (see note 3).

In May 2009, the Company had a single private placement and issued 250,000 shares of our restricted common stock at \$0.20 per share for \$50,000. In addition, there were 250,000 warrants attached with an exercise price of \$0.30 per common share. The warrants expire in one year.

In July 2007, the Company had a single private placement and issued 1,400,000 shares of our restricted common stock at \$0.50 per share for \$700,000. No warrants were issued with this issuance.

In September 2007, we subsequently authorized a private placement of up to 12,000,000 shares of our common stock without warrants on a best efforts basis. The Company sold 2,500,000 shares at \$0.20 per share for \$500,000 in September 2007. From November 2007 to February 2008, the Company sold 2,500,000 shares at \$0.42 per share for total net proceeds of \$1,049,965.

In April 2007, we issued 83,335 shares of our restricted common stock to an officer/employee and 83,334 shares of restricted stock to an employee as compensation for services provided. The

shares were valued at their fair value of \$0.70 per share for a total compensation charge of \$350,000.

During the year ended May 31, 2008, the employees forfeited the shares due to personal tax ramifications and the Company does not intend to replace this form of compensation. During the year ended May 31, 2009 and 2008, no shares were issued to our distributors under the Company's distributor bonus plan (See Note 8 - Commitments).

#### Note 6 - Income Taxes:

The provision for income taxes differs from the amount computed by applying the U.S. federal income tax rate to loss before income taxes as follows:

|                                      | May 31 |       |
|--------------------------------------|--------|-------|
|                                      | 2009   | 2008  |
| Expected (benefit) at statutory rate | 34%    | 34%   |
| State taxes                          | -      | -     |
| Increase in valuation allowance      | (34%)  | (34%) |
| Effective tax rate                   | 0%     | 0%    |

The income tax provision consists of the following for the years ended May 31:

|                               | 2009      | 2008      |
|-------------------------------|-----------|-----------|
| Current tax provision         | \$ -      | \$ -      |
| Deferred tax (benefit)        | (371,000) | (487,000) |
| Change in valuation allowance | 371,000   | 487,000   |
| Total income tax provision    | \$ -      | \$ -      |

The following is a summary of the significant components of the Company's deferred tax, assets and liabilities:

|                         | May 31       |              |
|-------------------------|--------------|--------------|
|                         | 2009         | 2008         |
| Deferred tax assets:    |              |              |
| Net operating loss      | \$ 2,172,000 | \$ 1,975,000 |
| Related party accruals  | 582,000      | 408,000      |
| Valuation allowance     | (2,754,000)  | (2,383,000)  |
| Net deferred tax assets | \$ -         | \$ -         |

Tax law provides for limitation on the use of future net operating loss carryovers should significant ownership changes occur. The Company has net operating loss carry forwards of

approximately \$6,386,000 that begin to expire in 2018 and continue to expire through the year 2028.

**Note 7 - Related Party Transactions:**

**Jurak Intellectual Property License Agreement**

In January 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, Canada 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 price of all licensed 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. On any amounts past due on this agreement, interest will accrue at prime plus 1%.

For the year ended May 31, 2009 and 2008, the Minimum Royalty Fee in the amount of \$500,000 was expensed. The accrued payments due and owing to JHL under the License Agreement for the Minimum Royalty Fee and the Continuing Royalty Fee were \$250,078 and \$1,087,598 at May 31, 2009 and 2008, respectively. The amount owed as of May 31, 2009 and 2008, respectively, includes interest of \$144,591 and \$129,494 due to continued delinquent payments. Total interest expense of \$15,097 and \$61,610 was recorded for the years ended May 31, 2009 and 2008, respectively.

In April 2009, the Company and Jurak Holdings Limited have entered into an agreement to convert \$1,345,957 of the accrued royalties related party outstanding related to the Intellectual Property License Agreement into a formal convertible note effective April 24, 2009. The note will pay interest at prime rate plus 1% and is due upon demand. Jurak Holdings Limited has the right to convert this debt at any time into common stock at a value of \$0.14 per share adjusted for any stock split or adjustment. Because the fair value of the Company's stock was \$0.15 on the date of this convertible note, a \$96,140 beneficial conversion feature charge was recorded to interest expense. The remaining accrued royalties in excess of the note balance will continue with payment terms based on the Intellectual Property License Agreement including accumulating new royalties and interest per the agreement. The outstanding balance of the convertible note to related party at May 31, 2009, including interest of \$4,767, is \$1,350,274.

**Payable to stockholder/officer**

The Company has a payable due to its majority stockholder totaling \$190,107 and \$22,980 at May 31, 2009 and 2008, respectively. These liabilities are for reimbursement of business expenses due the stockholder and for working capital advances made to the Company. No interest is being charged on these balances.

**Accounts Payable Related Party**



The Company has included in accounts payable related party balances due to an entity owned by the majority stockholder totaling \$96,912 at May 31, 2009 and 2008, respectively. These liabilities are for consulting services and reimbursement of business expenses due the entity. No interest is being charged on these outstanding balances.

**Note 8 Commitments:**

**Distributor Stock Bonus Plan**

Prior to June 1, 2007, the Company offered to its distributors a plan whereby the distributors could earn a stock bonus based on sales and "bonus points." Distributors earned certificates 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, 2009 was 88,160. The liability recorded by the Company for these bonus points was \$111,695 at May 31, 2009 and 2008, respectively, which was recorded by the Company at the fair market value of the common stock on the date that they were earned. This liability balance is classified with accrued compensation and benefits on the balance sheet.

During the years ended May 31, 2009 and 2008, respectively, no shares were issued to various distributors under this plan. Effective June 1, 2007, this plan was discontinued and all distributors who had earned certificates under the plan became fully vested. As of September 14, 2009, all 88,160 certificates remain outstanding.

**License Agreement-Related Party:**

The Company has entered into an intellectual property license agreement with an entity owned by the majority stockholder. 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 price 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 agreement also requires interest payments of prime plus one percent if the royalty fees are in arrears at the end of a calendar year. The Company is currently in arrears on royalty fees. Accrued royalties and related interest charges due under this license agreement are \$250,078 and \$1,087,598 at May 31, 2009 and 2008, respectively. (See Note 7 Related Party Transactions)

**Other Asset Immune Booster License Agreement:**

The Company has a license agreement with Nordic Immotech to purchase raw product to distribute. See Note 3 for additional information. As defined in the agreement, the Company has a minimum purchase commitment of raw product. The supplier has the right to terminate the license agreement, without recourse, if the purchase commitment is not met. The commitment is based on the calendar year as follows: 1,000 kg (\$490,000) in 2007, 2,000 kg (\$980,000) in 2008 (as amended), 9,000 kg (\$4,410,000) in 2009, 15,000 kg (\$7,350,000) in 2010 and 20,000 kg (\$9,800,000) in 2011. The value of these commitments was determined with pricing effective as of May 31, 2009.

The supplier has entered into a sublicense agreement with the Company to distribute the product in defined markets, primarily Europe. The Company will receive a royalty of ten percent of sales.

The Company has earned \$35,783 and \$68,088 in royalties for the years ended May 31, 2009 and 2008, respectively.

The agreement permits the Company to include 100% of raw product sold by the supplier, during calendar year 2007 and 2008, and 50% of raw product sold by the supplier, during subsequent calendar years, along with the Company's own purchases, in the determination of meeting the minimum commitment as defined in the agreement. The Company has met the minimum purchase commitment for calendar year 2007 and not for 2008. Because the Company has not met the required minimum purchases, the agreement has been terminated effective August 19, 2009 for this non-performance.

### **Endorsement and Consulting Agreement**

The Company has entered into an endorsement and consulting agreement with a film and television actor to promote the immune booster product line. The one year agreement was effective May 1, 2008, with a Company option to extend two years. The Company has terminated this agreement during the year ended May 31, 2009. The Company has negotiated a settlement where the actor is owed \$55,000 for prior services at May 31, 2009. The entire \$55,000 settlement amount is accrued as of May 31, 2009 and is classified in other accrued liabilities on the balance sheet.

### **Operating Lease**

The Company rented office and warehouse space in Las Vegas, Nevada under terms of an operating lease which calls for an initial base monthly rental of approximately \$6,700, increasing annually, plus common area operating expenses, through June 2009. Rent expense plus common area operating expenses under this agreement for the years ended May 31, 2009 and 2008, was \$118,033 and \$115,083, respectively. The Company vacated the premises in February 2009. As of May 31, 2009, the Company has back due amounts on this lease totaling \$33,172 which is classified in other accrued liabilities on the balance sheet.

The Company relocated in February 2009 to the home of an employee on a temporary basis. The employee was compensated by issuance of 1,000,000 shares of common stock in June 2009 with fair value of \$170,000. The value of these shares is being expensed over the 1-year term of the agreement. The term of the lease is one year ending February 2010. Rent expense under this agreement for the year ended May 31, 2009 was \$35,000. There are no minimum lease payments. (See Note 9 - Subsequent Events)

### **NOTE 9 - Subsequent Events:**

#### Private Placement Sale

In September 2009, the Company had a single private placement and issued 175,000 shares of our restricted common stock at \$0.20 per share for \$35,000. In addition, there were 175,000

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warrants attached with an exercise price of \$0.30 per common share. The warrants expire in one year.

#### Cancellation of Nordic Immotech License Agreement

The Company has received, on August 19, 2009, a termination notification to the Exclusive License and Distribution Agreement date December 1, 2006 (See Note 3 Intangible Asset) from Nordic Immotech. Per the agreement, we are responsible for the remaining minimum raw material purchase commitment for the year 2008 and a scientific study performed by Nordic Immotech. The total obligation is estimated to be approximately \$850,000. Scandinavian Clinical Nutrition, the parent of Nordich Immotech APS, is working with the Company to sell raw material to a new distributor to minimize the liability for this obligation. Due to the loss of this Nordic Immotech license agreement, the Company will write-off in 1<sup>st</sup> quarter ending August 31, 2009, the value of the assets pertaining to this agreement totaling \$4,031,867 (see Note 3 for more information).

#### Agreement to Provide Auto-Dial Telemarketing

The Company entered into a one year marketing agreement on June 2009. This marketing agreement calls for the vendor to provide telemarketing and promotional advertising to assist with increasing sales of our product and developing additional distributors and marketers. As a part of the compensation for these services, the Company was required to issue 12,000,000 common shares. The Company issued 10,000,000 restricted common shares at fair value of \$1,700,000 or \$0.17 per share which was the Company's stock closing price on June 25, 2009. In addition, an existing shareholder transferred 2,000,000 tradeable common shares to the company at fair value of \$340,000 or \$0.17 per share which was the Company's stock closing price on June 29, 2009. The marketing company is required to return the 10,000,000 restricted common shares if it doesn't achieve certain agreed upon performance measures. If the marketing company is not successful in increasing the Company's active customer accounts by 50% within 90 days, the company can terminate the agreement.

In addition to the stock compensation, cash payments will be due each month at a rate of 50% of new gross sales proceeds and repeat orders will incur a 40% commission rate. There is no maximum commission that can be earned under this agreement.

#### Office Lease Change

In February 2009, the Company vacated their leased office space and moved to the home of an employee. On June 1, 2009, the Company issued 1,000,000 restricted common shares at fair value of \$170,000 or \$0.17 per share which was the Company's stock closing price on June 1, 2009. The term of the lease is one year through February 2010.

### **ITEM 9. CHANGES IN AND DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9AT. CONTROLS AND PROCEDURES**

The Company maintains disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in its reports filed pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Such information is accumulated and communicated to management, including our Chief Executive Officer / Principal Accounting Officer as appropriate, to allow timely decisions regarding required disclosure. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance the objectives of the control system are met.

As of May 31, 2009 our management, with the participation of our Chief Executive Officer / Principal Accounting Officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures as such term is defined in Rule 13a-15(e) under the Exchange Act. Based on this evaluation, the Chief Executive Officer / Principal Accounting Officer concluded that the Company's disclosure controls and procedures were not effective as of May 31, 2009, because of the identification of the material weaknesses in internal control over financial reporting described below. Notwithstanding the material weaknesses that existed as of May 31, 2009, our Chief Executive Officer / Principal Accounting Officer has concluded that the financial statements included in this Annual Report on Form 10-K present fairly, in all material respects, the financial position, results of operations and cash flows of the Company in conformity with accounting principles generally accepted in the United States of America ("GAAP").

### **Report of Management on LifeQuest World Corporation's Internal Control Over Financial Reporting**

Our principal executive officer (Chief Executive Officer and Principal Accounting Officer), and other members of management of LifeQuest World Corporation, are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) or 15d-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements. Because of its inherent limitations, our internal controls and procedures may not prevent or detect misstatements. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can

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provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. The following material weaknesses have been identified by members of our management and reported to the board of directors:

o

Currently, the sole Board Member acts in the capacity of the Audit Committee. This individual lacks independence and is not considered a financial expert. It is management's view that such a committee, including financial expertise and independent membership, is an utmost important entity level control over the Company's financial statement.

o

We did not maintain proper segregation of duties for the preparation of our financial statements. As of May 31, 2009, the majority of the preparation of the financial statements was carried out by an independent contractor. The independent contractor prepared routine and non-routine journal entries, processed certain transactions, prepared certain account reconciliations, selected accounting principles, and prepared interim and annual financial statements (including report combinations, consolidation entries and footnote disclosures) in accordance with generally accepted accounting principles without review and approval by someone with financial expertise for overseeing such duties.

o

The Company had insufficient resources to adequately review and approve certain account reconciliations and journal entries prepared by personnel without technical accounting and reporting expertise.

o

We have a history of entering into legal arrangements or agreements with significant financial statement implications without timely and complete supporting documentation, such as private equity placements. This has potential for improper application of accounting principles and related financial reporting of such transactions.

o

The Company has not adopted a Code of Ethics and Code of Conduct to provide guidance for our directors, officers and employees.

As of May 31, 2009, our management with the participation of our chief executive officer and principal accounting officer, documented our control environment, however, management did not assess our internal control over financial reporting based on criteria for effective internal control over financial reporting as described in "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. As a result of this review, material weaknesses were identified, as described above, and, management has concluded that our internal controls over financial reporting were not effective as of May 31, 2009. Carver, Moquist & O'Connor, an independent registered public accounting firm, was not required to and has not issued a report concerning the effectiveness of our internal control over financial reporting as of May 31, 2009.

(c) *Changes in Internal Control Over Financial Reporting.* There have not been any changes in the Company's internal control over financial reporting during the most recent fiscal quarter ended May 31, 2009, that materially affected, or are reasonably likely to materially effect, the Company's internal control over financial reporting.

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The Company is continuing its efforts to address deficiencies in internal control over financial reporting. Management and the Board of Directors believe, as the Company receives further funding through private placements and growth in operations, it will be able to invest in remediating the identified weaknesses.

**ITEM 9B. OTHER INFORMATION**

None.

**Part III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

**IDENTIFICATION OF DIRECTORS AND EXECUTIVE OFFICERS**

All of our directors hold office until the next annual general meeting of the shareholders or until their successors are elected and qualified. Our officers are appointed by our Board of Directors and hold office until their earlier death, retirement, resignation or removal.

As of the date of this Annual Report, our directors and executive officers, their ages and positions held are as follows:

| <u>NAME</u>      | <u>AGE</u> | <u>OFFICES HELD</u> |
|------------------|------------|---------------------|
| Anthony C. Jurak | 71         |                     |

Director, Chairman of the Board and Chief Executive  
Officer, President and Secretary

## **BIOGRAPHIES**

The backgrounds of our directors and executive officers are as follows:

**Anthony C. Jurak.** Mr. Jurak is the founder of our company, and a director and Chairman of the Board and our Chief Executive Officer/Secretary. Mr. Jurak was also a co-chairman and secretary/treasurer for more than the five years of Matol Partners Corporation, terminating his position in February 1997, and since has worked primarily for us. While with Matol Partners Corporation, Mr. Jurak was in charge of finances and then committed his time to marketing and sales. Mr. Jurak has broad marketing and financial experience, including wholesale and retail companies.

## **FAMILY RELATIONSHIPS**

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There are no family relationships among our directors or officers.

## **INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS**

During the past five years, none of our directors, executive officers or persons that may be deemed promoters is or have been involved in any legal proceeding concerning (i) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (ii) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses); (iii) being subject to any order, judgment or decree, not subsequently reversed, suspended, or vacated, of any court of competent jurisdiction permanently or temporarily enjoining, barring, suspending or otherwise limiting involvement in any type of business, securities or banking activity; or (iv) being found by a court, the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law (and the judgment has not been reversed, suspended or vacated).

## **COMMITTEES OF THE BOARD OF DIRECTORS**

### **Audit Committee**

The audit committee operates under a written charter adopted by the Board of Directors during June 2004. As of the date of this Annual Report, Anthony Jurak has been appointed to our audit committee. Mr. Jurak is not independent within the meaning of Rule 10A-3 under the Exchange Act. The Board of Directors has determined that there is not a financial expert serving on the audit committee.

The audit committee's primary function is to provide advice with respect to our financial matters and to assist the Board of Directors in fulfilling its oversight responsibilities regarding finance, accounting, and legal compliance. The audit committee's primary duties and responsibilities will be to: (i) serve as an independent and objective party to monitor our financial reporting process and internal control system; (ii) review and appraise the audit efforts of our independent accountants; (iii) evaluate our quarterly financial performance as well as our compliance with laws and regulations; (iv) oversee management's establishment and enforcement of financial policies and business practices; and (v) provide an open avenue of communication among the independent accountants, management, and the Board of Directors.

## **COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT**

Section 16(a) of the Exchange Act requires directors and officers, and the persons who beneficially own more than 10% of common stock of certain companies, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. We are not required to file reports under Section 16 of the Exchange Act.

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**ITEM 11. EXECUTIVE COMPENSATION**

During fiscal years ended May 31, 2009 and 2008, certain officers were compensated for their role as executive officers. As of the date of this Annual Report, we do not have any stock option, pension, annuity, insurance, profit sharing or similar benefit plans. Executive compensation is subject to change concurrent with our requirements. We have employment agreement with our officer. This agreement is for two years and expires October 14, 2010.

Generally, our director does not receive salary or fees for serving as director nor does he receive any compensation for attending meetings of the Board of Directors. However, we may adopt a director compensation policy in the future. We do not currently have any standard arrangement pursuant to which our directors are compensated for services provided as a director or for committee participation or special assignments. Directors are, however, entitled to reimbursement of expenses incurred in attending meetings.

**SUMMARY COMPENSATION TABLE****Compensation**

We do not currently have a compensation committee. Compensation decisions are made from time-to-time by our Board of Directors with no established policies or formulas. The following table sets forth the compensation received by officers.

| Name and Principal Position  | Year | <u>Annual Compensation</u> |            | <u>Long Term Compensation</u>  |   |  |                                     |                             |
|--|------|----------------------------|------------|--------------------------------|---|--|-------------------------------------|-----------------------------|
|  |      | Salary (\$)                | Bonus (\$) | Other Annual Compensation (\$) | <u>Awards</u><br>Restricted Stock Award(s) (\$) | <u>Securities</u><br>Underlying Options/SARs (#) | <u>Payouts</u><br>LTIP Payouts (\$) | All Other Compensation (\$) |
| <b>Anthony Jurak</b><br>Chief Executive Officer/ Secretary, Chairman of the Board, Director, | 2009 | \$90,000                   | Nil        | Nil                            | None  | Nil  | None                                | \$27,651                    |
|  | 2008 | \$66,000                   | Nil        | Nil                            | None  | Nil  | None                                | \$23,661                    |

President

**Stock Options/SAR Grants In Fiscal Year Ended May 31, 2009**

As of the date of this Annual Report, we do not have a stock option plan in effect. The following reflects the information for fiscal year ended May 31, 2009, regarding stock options. No stock options were granted in any previous fiscal years.

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| Name           | Number of Securities Under Options/SARs Granted | % of Total Options/SARs Granted to Employees in Financial Year | Exercise or Base Price (\$/Security) | Expiration Date |
|----------------|---|--|--------------------------------------|-----------------|
| Not Applicable | Nil   | Nil  | Nil                                  | Not applicable  |

#### Long Term Incentive Plan ( LTIP ) Awards Table

We have no long-term incentive plans in place and therefore there were no awards made under any long-term incentive plan to any of the above executive officers during fiscal year ended May 31, 2009.

#### EMPLOYMENT AGREEMENTS

As of the date of this Annual Report, our President and Director have an employment agreement that expires in October 2010.

#### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

As of the date of this Annual Report, the following table sets forth certain information with respect to the beneficial ownership of our common stock by each stockholder known by us to be the beneficial owner of more than 5% of our common stock and by each of our current directors and executive officers. Each person has sole voting and investment power with respect to the shares of common stock, except as otherwise indicated. Beneficial ownership consists of a direct interest in the shares of common stock, except as otherwise indicated. As of May 31, 2009, there are 49,062,164

shares of common stock issued and outstanding.

| <u>Title of Class</u> | <u>Name and Address of Beneficial Owner</u>                            | <u>Amount and Nature of Beneficial Ownership</u> | <u>Percentage of Class</u> | <u>Preferred Shares</u> |
|-----------------------|--|--|----------------------------|-------------------------|
| Common                | Anthony C. Jurak (1) (2)   | 16,564,769                                       | 33.94%                     | 10,000,000              |
|                       | Chief Executive Officer/ Secretary,<br>Chairman of the Board, Director |  |                            |                         |
| Common                | Executive Officers/Directors as a group                                | 16,564,769                                       | 33.94%                     |                         |

(1) The address for all management is 8022 S. Rainbow Blvd, Suite 345, Las Vegas, NV 89139.

(2) 9,837,284 shares held by Jurak Holdings Limited, 4478 97th Street, Edmonton, Alberta, Canada T6E 5R9, of which Anthony Jurak is the sole beneficiary.

## CHANGES IN CONTROL

Our Board of Directors is unaware of any arrangement or understanding among the individuals listed in the beneficial ownership table with respect to election of our directors or other matters. We are unaware of any contract or other arrangement of which may at a

subsequent date result in a change in control of our company.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

On approximately January 1, 1999, we entered into an intellectual property license agreement (the License Agreement) with Jurak Holdings Limited, a corporation organized under the laws of the Province of Alberta and an affiliate of our Chief Executive Office and director, Anthony Jurak. Pursuant to the terms and provisions of the License Agreement, beginning with fiscal year 2003, for a term of ten (10) years, we are required to pay annually the greater of \$500,000 ( Minimum Royalty Fee ) or eight percent (8%) of the net sales revenue ( Continuing Royalty Fee ) of all licensed products sold under the license agreement. After fiscal 2013, we are required to make payments in the amount of the Continuing Royalty Fee. As of May 31, 2009, the amount of the Accrued Minimum Royalty Fee due and owing is \$250,078.

The Company and Jurak Holdings Limited have entered into an agreement to convert \$1,345,957 of the accrued royalties related party outstanding related to the Intellectual Property License Agreement into a formal convertible note effective April 24, 2009. The note will pay interest at prime rate plus 1% and is due upon demand. Jurak Holdings Limited has the right to convert this debt into common stock at a value of \$0.14 per share adjusted for any stock split or adjustment. The outstanding balance on the convertible note at May 31, 2009, including interest of \$4,767, is \$1,350,274.

### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

#### **AUDIT AND NON-AUDIT FEES**

The following table presents fees for audit and other services provided by Carver Moquist & O'Connor, LLC for the years ended May 31, 2009 and 2008:

|                | <b>Year Ended</b>       |                         |
|----------------|-------------------------|-------------------------|
|                | <b>May 31,<br/>2009</b> | <b>May 31,<br/>2008</b> |
| Audit fees (1) | \$ 33,800               | \$ 36,260               |

|                        |   |       |
|------------------------|---|-------|
| Audit-related fees (2) | - | 8,999 |
|------------------------|---|-------|

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|                    |           |           |
|--------------------|-----------|-----------|
| Tax fees (3)       | 6,345     | 5,620     |
| All other fees (4) | --        | --        |
| Total Fees         | \$ 40,145 | \$ 50,879 |

(1) Audit fees consist of fees for services provided in connection with the audit of our financial statements and reviews of our quarterly financial statements.

(2) Audit-related fees consist of assurance and related services that include, but are not limited to, consultation concerning financial accounting and reporting standards and regulatory filing reviews.

(3) Tax fees consist of the aggregate fees billed for professional services rendered by Carver Moquist & O'Connor, LLC for tax compliance, tax advice, and tax planning.

(4) All Other Fees relate to services rendered that do not meet the above category descriptions. We did not engage the services of Carver Moquist & O'Connor, LLC to render other professional services.

## PART IV

### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

#### Exhibit List

31.1 Certificate pursuant to Rule 13a-14(a)

31.2 Certification pursuant to Rule 13a-14(a)

32.1 Certificate pursuant to 18 U.S.C. Subsection 1350

32.2 Certificate pursuant to 18 U.S.C. Subsection 1350

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

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LifeQuest World Corporation

(Registrant)

By

/s/ Anthony Jurak

Anthony Jurak  
Chairman, Chief Executive Officer, Principal Accounting Officer, Director and President

Date

September 14, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By

/s/ Anthony Jurak

Anthony Jurak  
Chairman, Chief Executive Officer, Principal Accounting Officer, Director and President

Date

September 14, 2009