



VOQP.OB

VioQuest Pharmaceuticals Inc.

August 25, 2008

Creating Value; Turnaround Leverages Product Opportunities while Expectation Abounds and Losses Decrease

Q2/08 Update

Ranking: "BUY"

Price at 8/25/08: **\$0.60**

52 Week Range: **\$0.20 – \$5.10**

Valuation: **\$8.51**

Market Capitalization: **\$2.94M**

Enterprise Value: **\$2.64M**

Float: **3.38M**

Shares Outstanding: **4.91M**

Fully Diluted: **18.2M**

Fiscal Year End: **December 31**

Exchange: **NASDAQ**



Expectation and market opportunity

VOQP.OB's lead compound under development is Xyfid™ (1% uracil topical cream) to treat dry skin conditions and manage the burning and itching associated with various dermatoses. In parallel, Xyfid™ is also being developed for the treatment and prevention of Hand-Foot Syndrome ("HFS"), a common and serious side effect of chemotherapy treatments. VOQP.OB filed a 510(k) Application to the FDA for Xyfid (1% uracil topical cream) on 6/30/08 for various skin disorders including hand-foot syndrome (HFS) associated with 5-FU based chemotherapies. Potential commercial clearance from the FDA is due around 9/30/08 (90-day review period). The 510(k) strategy, if successful, could dramatically accelerate the speed to market. Xyfid™'s market opportunity approximates to 600,000 cycles of Xeloda therapy appropriate for prophylactic treatment with a conservative expectation of 100,000 patients treated with Xeloda annually. The average six (6) cycles of Xeloda per year; treatment of HFS priced at ~\$1,200 per cycle would be competitive with other supportive care products addressing dose limiting toxicities - for example, anti-emetics and blood growth factors. Potential peak market opportunity is nearly \$1B; not including combination kit opportunity while partnership discussions are ongoing.

Losses decrease

In Q2/08, G&A expenses decreased to \$555k following a decrease in Q1/08 (to \$690,651) compared to \$1.2M in Q2/07. The decrease in G&A expenses was primarily attributable again to headcount reductions. Also, in Q2/08, R&D expenses decreased to \$473,000 compared to Q1/08 (to \$979,094) versus \$951k in Q2/07. The decrease in R&D expenses was primarily attributable to \$300,000 in nonrecurring licensing fees incurred during Q1/07 to acquire the worldwide license to Xyfid. Reductions in clinical research costs; offset increased labor costs, regulatory and legal fees. Interest expense (net of interest income) for Q2/08 was \$103k; compared to interest income (net of interest expense) in Q1/08 (was \$1.4M) versus Q2/07 of \$6k. Interest expense for Q2/08 included expenses recorded for dividends payable on mandatorily redeemable convertible preferred stock of \$107k offset by interest income earned on cash and cash equivalents of \$4k.

Less risk and quicker time-to-market strategies

VioQuest Pharmaceuticals is developing novel drug therapies targeting both the molecular basis of cancer and side effects of treatment. VioQuest's oncology portfolio includes: Xyfid™ (1% uracil topical) for the treatment of dry skin conditions and manage the burning and itching associated with various dermatoses; VQD-002 (tricitabine phosphate monohydrate), a targeted inhibitor of Akt activation; and Lenocita™ (sodium stibogluconate), an inhibitor of certain protein tyrosine phosphatases such as SHP-1, SHP-2, and PTP1B.

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Please Read the Updated
Disclosures Section
At the end of this review!

Investment Thesis

We are maintaining our 'BUY' ranking and valuation for VioQuest Pharmaceuticals (VOQP.OB) at \$8.51 per share. VOQP.OB develops drug therapies for cancer and the side-effects of its treatment. We upgraded our valuation model of \$8.55 from \$3.89 on 7/29/08.

- We believe VOQP.OB has a solid investment potential with significant short term upside based on pending FDA review of their lead drug candidate, Xyfid™,
- The newly announced Priority Review Voucher Program from the FDA that may be granted to the company as a result of its work on Lenocta™,
- Selection of VioQuest's novel Akt inhibitor (tricinbine phosphate monohydrate or TCN-P) as one of the 10 most promising development stage oncology projects for strategic partnering. This designation was made by an independent committee assembled by Windhover Information in 7/08,
- Reiterating, VOQP.OB trades at a huge discount to its peers,
- VOQP.OB has 3 promising drug candidates targeting unmet medical needs in oncology with mid-stage development programs advancing toward registration (2 with Orphan Drug Designation and 1 with Fast Track status) and one (1) potential regulatory submission made in 2008 with a Billion dollar market opportunity in 2008,
- VOQP.OB is also developing Lenocta™ (sodium stibogluconate) for certain cancer applications, which VOQP.OB previously referred to as VQD-001, a selective, small molecule inhibitor of certain protein tyrosine phosphatases ("PTPs"), such as SHP-1, SHP-2 and PTP1B, with demonstrated anti-tumor activity against a wide spectrum of cancers both alone and in combination with other approved immune activation agents, including IL-2 and interferons. Lenocta™ is currently in a PIIa clinical trial as a potential treatment for melanoma, renal cell carcinoma and other solid tumors. In addition to its potential role as cancer therapeutic, sodium stibogluconate has been approved in most of the world for first-line treatment of leishmaniasis, an infection typically found in tropic and sub-tropic developing countries. Lenocta has been granted Orphan Drug status for leishmaniasis. In that this molecule is an approved product and has been in use for 50 years, it is a generic; hence, the intellectual property that VOQP.OB is pursuing for these novel cancer applications are critical components to leverage its shareholder value. The newly launched Priority Review Voucher Program at the FDA is an incentive for drug makers to target diseases affecting poor nations and can be a transferable currency worth millions to its recipient,
- Additionally, VOQP.OB is developing VQD-002 (tricinbine phosphate monohydrate or TCN-P), a small molecule anticancer compound that inhibits activation of protein kinase B (PKB or AKT), a key component of a signaling pathway known to promote cancer cell growth and survival as well as resistance to chemotherapy and radiotherapy. The development program necessary to demonstrate the clinical use of Tricinbine for any application requires a sophisticated series of well run PII trials that represent several partnering opportunities. VQD-002 is currently in Phase I/IIa clinical development for multiple tumor types and VOQP.OB expects to move the compound into a Phase II clinical trial in 2008.
- VOQP.OB has \$814k in cash having reduced headcount in non-reoccurring expenses; we believe a financing is warranted but expect the raise will be post the FDA response to Xyfid™. Potential non-dilutive sources of funding also include securing a partnership for Xyfid™ and/or monetization of the FDA priority review voucher for Lenocta. Post the last reverse split; VOQP.OB has a small number of shares outstanding (5.4M, out of a fully diluted total of 18.1M) which should minimize the dilution effect upon the capitalization.

Company Description

VioQuest Pharmaceuticals is a New Jersey-based biotechnology company developing novel drug therapies targeting both the molecular basis of cancer and side effects of treatment. VOQP.OB's oncology portfolio includes: Xyfid™ (1% uracil topical), for the treatment and prevention of Hand-Foot Syndrome, a common side effect from certain chemotherapy treatments, and to treat dry skin conditions and manage the burning and itching associated with various dermatoses; VQD-002 (tricinbine phosphate monohydrate), a targeted inhibitor of Akt activation; and Lenocta™ (sodium stibogluconate), an inhibitor of certain protein tyrosine phosphatases such as SHP-1, SHP-2, and PTP1B. **VioQuest's lead compound under development is Xyfid (1% topical uracil) for the treatment and prevention of Hand-Foot Syndrome ("HFS"), a common and serious side effect of chemotherapy treatments. In parallel, Xyfid is also being developed to treat dry skin conditions and manage the burning and itching associated with various diseases of the skin, or dermatoses. VOQP.OB expects to initiate a Phase IIb program for Xyfid in 2008 for HFS, and has filed a 510(k) Premarket Notification submission during Q2/08 for Xyfid to treat various dermatoses. Additionally, VOQP.OB is developing VQD-002 (tricinbine phosphate monohydrate or TCN-P), a small molecule anticancer compound that inhibits activation of protein kinase B (PKB or AKT), a key component of a signaling pathway known to promote cancer cell growth and survival as well as resistance to chemotherapy and radiotherapy. **VQD-002 is currently in Phase I clinical development for multiple tumor types and VOQP.OB expects to advance VQD-002 into Phase II clinical development during 2008.**** VOQP.OB is also developing Lenocta (sodium stibogluconate), which it previously referred to as VQD-001, a selective, small molecule inhibitor of certain protein tyrosine phosphatases ("PTPs"), such as SHP-1, SHP-2 and PTP1B, with demonstrated anti-tumor activity against a wide spectrum of cancers both alone and in combination with other approved immune activation agents, including IL-2 and interferons. Lenocta is currently in a Phase IIa clinical trial as a potential treatment for melanoma, renal cell carcinoma, and other solid tumors. In addition to its potential role as a cancer therapeutic, sodium stibogluconate has been approved in most of the world for first-line treatment of leishmaniasis, an infection typically found in tropic and sub-tropic developing countries. **This drug is currently being used to treat U.S. military personnel serving in parts of the world where leishmaniasis is prevalent and may qualify VioQuest for a Priority Review Voucher.** Based on historical published data and a large observational study by the U.S. Army, data from approximately 400 patients could be utilized to support a New Drug Application ("NDA") with the U.S. Food and Drug Administration ("FDA") in 2008. **Lenocta has been granted Orphan Drug status for leishmaniasis.**

Catalysts and Milestones

Xyfid™ Milestones		
DATE	EVENTS	STATUS
Q1/08	Manufacture GMP clinical trial supplies	Completed
Q3/08	510(k) regulatory submission to FDA	Completed
Q3/08	510(k) response due from FDA for potential commercial clearance	
Q4/08	Initiate Phase II study for prevention of Hand-Foot Syndrome	

Triciribine Milestones		
DATE	EVENTS	STATUS
Q4/07	Present preliminary Phase I solid tumor data at EORTC-NCI-AACR annual meeting	Completed
Q4/07	Present preliminary Phase I leukemia data at ASH annual meeting	Completed
Q4/07	Publication of preclinical data demonstrating ability to overcome Herceptin® resistance in breast cancer	Completed
Q1/08	Publication of preclinical data demonstrating ability to overcome cisplatin resistance in ovarian cancer	Completed
Q1/08	Obtain Orphan Drug status for treatment of multiple myeloma	Completed
Q1/08	Enter into Clinical Trial Agreement (CTA) with NCI	Completed
Q2/08	Present preclinical data at AACR annual meeting	Completed
1 st Half 08	Complete Phase I dose escalation studies in solid tumors and leukemia	
FY 2008	NCI to initiate Phase I/II study in non-small cell lung cancer (NSCLC) with erlotinib under CTA 2008	
Q4/08	Submit final Phase I leukemia data for ASH 2008	

Lenocta™ Milestones		
DATE	EVENTS	STATUS
Q4/07	Present preliminary Phase I solid tumor study results at EORTC-NCI-AACR annual meeting Q4 2007	Completed
Q4/07	Initiate Phase IIa study in solid tumors Q4 2007	Completed
Q2/08	Present Phase I solid tumor results at ASCO 2008	Completed
Q4/08	Complete enrollment in ongoing Phase IIa solid tumor study (combo w/ interferon) Q4 2008	
FY 2008	Convene advisory board for leishmaniasis, discuss findings with FDA, possible NDA	
1 st Half 09	Submit Phase IIa solid tumor data for ASCO 2009	

Capitalization and Valuation Analysis

Financial Instruments	# of Shares
Common Shares Outstanding	5,462,429
Convertible Preferred A (\$0.06)	5,774,167
B (\$0.38)	896,096
Options	1,087,106
Warrants	5,394,472
Fully Diluted	18,164,269

We achieve our current valuation of \$8.52 by applying a “Sum-of-the-Parts” and a “Comparable Company Analysis and combine the analysis into an Average Blended Valuation Table.

Blended Price Target/Valuation Table	
Sum-of-The-Parts	\$12.14
Comparable Company Analysis (Market Cap)	\$4.89
Avg. Blended Fair Value	\$8.51

* (Uses Fully Diluted Share Count of 18.2M)

We use a risk adjusted NPV (rNPV) of the company’s drug pipeline, which currently has several products in clinical development. We asses the company’s pipeline to be worth a total of approximately \$70M; \$4M for the Sodium Stibogluconate (SSG)/Lenocta product and \$66M for the Triciribine (TCN) product. We also include the company’s current cash reserve, and the current number of fully diluted shares outstanding post financing (see Sum-of-The-Parts figure below).

Sum of the Parts Analysis:

Part (in 000's)	Value
2014E revenues	\$67,305
Price/sales multiple	10x
Discount rate	35.0%
Periods	5.00
Value of revenue (000's)	\$150,099
Cash (000's)	\$814
rNPV of Pipeline (Lenocta & Triciribine)	\$70,000

Total (in 000's)	220,913
Diluted Shares outstanding	18,200
Implied fair value per share	\$12.14

Breakdown Per share:	
Revenues	\$ 8.25
Cash	\$ 0.04
rNPV of Pipeline	\$ 3.85
Total	\$ 12.14

Source: Scimitar Equity, LLC Estimates

Valuation Analysis (continued)

Through the acquisition of Greenwich Therapeutics, Inc. in 10/05, VOQP.OB obtained the rights to develop and commercialize 2 oncology drug candidates - Lenocta and VQD-002. VioQuest holds rights to Lenocta and VQD-002, pursuant to license agreements with The Cleveland Clinic Foundation and the University of South Florida Research Foundation. In 3/07, VOQP.OB acquired license rights to develop and commercialize Xyfid and rights to Xyfid are governed by a license agreement with Asymmetric Therapeutics, LLC and Onc Res, Inc., as assigned by Fiordland Pharmaceuticals, Inc. These licenses give VioQuest the right to develop, manufacture, use, commercialize, lease, sell and/or sublicense Lenocta, VQD-002 and Xyfid.

We compare VQPH with similar companies that are also mostly in Phase 1/2 stage of development to determine a fair value for the company. We note that the average Market Cap for the comparable group is ~\$89.02 m versus only ~\$2.94 m for VQPH (see comparable table below). Therefore, the comparable group has a Market Capitalization that is approximately 30.3x that of VOQP.OB. After our study of VOQP.OB and its peer group we believe the company should be trading in-line with its peers. Therefore, by applying a 30.3x multiple to the market cap of VOQP.OB we derive a fair value of \$4.89 per share using the fully diluted share count of 18.2 m. We use the fully diluted share count of 18.2 m rather than the basic share count of 5.46 m in order to be conservative. We feel that until the company generates enough cash flow to pay down convertible preferred stock then such dilution is inevitable over the next couple years.

Small-Mid Cap Company Comparables

Company	Ticker	Price 8/xx/08	Market Cap (\$mm)	Enterprise Value (EV) \$mm
Adherex Technologies	ADH	\$0.17	\$21.77	\$11.42
Ariad	ARIA	\$3.22	\$223.71	\$177.50
ArQule	ARQL	\$3.59	\$158.06	\$116.87
BioCryst	BCRX	\$3.35	\$128.12	\$89.72
Cyclacel Pharmaceuticals	CYCC	\$1.78	\$36.37	(\$3.60)
CYTORI	CYTX	\$6.83	\$180.27	\$175.56
EntreMed	ENMD	\$0.44	\$38.99	\$25.96
Hana Biosciences	HNAB	\$0.60	\$19.43	\$12.40
SUNESIS	SNSS	\$1.55	\$53.32	\$26.78
ZIOPHARM Oncology	ZIOP	\$1.41	\$30.19	\$9.05
Average of Comparables		\$2.29	\$89.02	\$64
VIOQUEST		\$0.60	\$2.94	\$3
Implied Multiples			30.3x	22.3x
Implied fair value per fully diluted share			\$4.89	\$3.53

Source: CapitalIQ; Standard & Poor's

Source: Scimitar Equity, LLC Compilation

VOQP.OB's stock may face liquidity risk because of its low stock price, cash position and volatile movement on little volume. VOQP.OB most likely will need to rely heavily on equity financing to fund its on-going operations. VOQP.OB's auditors issued a "going concern" warning in VOQP.OB's latest 10-K filing. VOQP.OB's common stock is considered to be a "penny stock."

VOQP.OB is an early stage development stage company with a history of losses and can provide no assurance as to future operating results. Products that appear promising in the early phases of development may fail to reach the market for several reasons.

Valuation Analysis (continued)

Xyfid™ (1% uracil topical): Revenue Model

Assumptions:

- Assume about 100K Xeloda users currently worldwide and increasing to about 115K by 2014;
- About 60K cases of HFS (60%) with Xeloda in 2008 and increasing annually with increase use of Xeloda and other 5-FU therapies. It will be used as a preventative with Xeloda and other 5-FU.;
- Xyfid will be priced at \$250-\$300 per one (1) week supply of single use tubes (need several weeks supply per cycle) and be given with each cycle of chemo therefore \$1200 - \$2000 per patient cycle times 6 cycles is \$7.2K to \$12K per patient/per year;
- Add 30% for other 5-FU therapies, and assume 60% penetration of market in peak year, with developing therapies such as COX-2 inhibitors and Pyridoxine capturing remaining market.

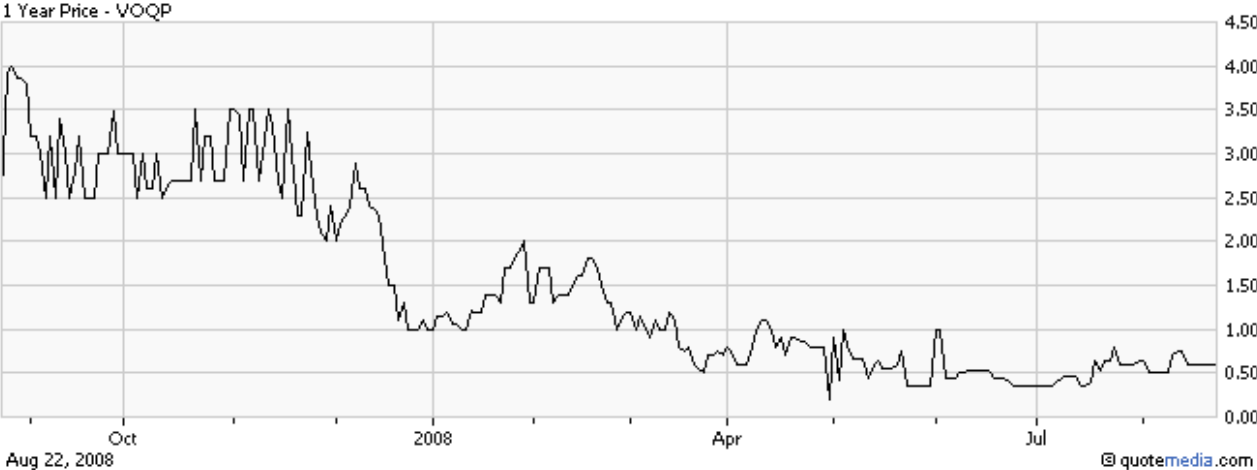
Xyfid™ (1% topical uracil): Revenue Model

Worldwide	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Annual Number Patients on Xeloda®	100,000	102,000	104,040	106,121	108,243	110,408	112,616
% Xeloda pts. afflicted by Hand-Foot Syndrome (HFS)	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%
# Treatable Patients (HFS) on Xeloda	60,000	61,200	62,424	63,672	64,946	66,245	67,570
% pts. Eligible or who have access to Xyfid treatment	90%	90%	90%	90%	90%	90%	90%
# treatment cycles per patient on Xeloda per year	6	6	6	6	6	6	6
Maximum # treatable Xeloda cycles	324,000	330,480	337,090	343,831	350,708	357,722	364,877
% Penetration Rate		10%	20%	40%	60%	60%	60%
Cost per cycle Xyfid treatment Hand-Foot Syndrome	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200
Revenue from Xeloda Patients	\$0	\$39,657,600	\$80,901,504	\$165,039,068	\$252,509,774	\$257,559,970	\$262,711,169
Additional Revenue for other 5-FU therapies (add 30%)	30%	30%	30%	30%	30%	30%	30%
Total Revenue from Xeloda & other 5-FU patients	\$0	\$51,554,880	\$105,171,955	\$214,550,789	\$328,262,707	\$334,827,961	\$341,524,520
~\$30M Payment to original inventor (amortized)		\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000
Post Inventor Total Revenue		\$46,554,880	\$100,171,955	\$209,550,789	\$323,262,707	\$329,827,961	\$336,524,520
Estimated Royalty Rate from Partner		17%	18%	20%	20%	20%	20%
Total Royalty Revenue to VioQuest	\$0	\$7,914,330	\$18,030,952	\$41,910,158	\$64,652,541	\$65,965,592	\$67,304,904

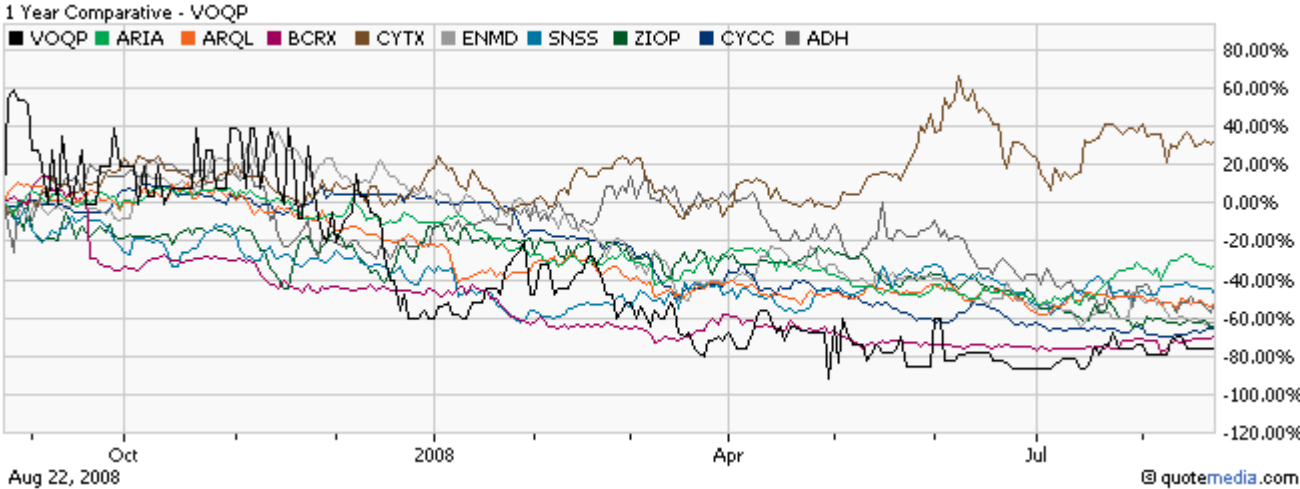
Source: Scimitar Equity, LLC Estimates

Charts

Chart for VOQP.OB:



Comparables Chart for VOQP.OB:



- VioQuest (VOQP.OB) - Black
- Ariad (ARIA) - Green
- ArQule (ARQL) - Orange
- BioCryst (BCRX) - Purple
- CYTORI (CYTX) - Brown
- EntreMed (ENMD) - Gray
- SUNESIS (SNSS) - Light Blue
- Ziopharma (ZIOP) - Dark Green
- Cyclacel (CYCC) - Dark Blue
- Adherex (ADH) - Dark Gray

Technology

Xyfid™ (1% uracil topical cream)

VioQuest has been developing Xyfid for the treatment and prevention of palmar-plantar erythrodysesthesia (PPE), also known as hand-foot syndrome (HFS), a relatively common dose-limiting side effect of cytotoxic chemotherapy - most frequently fluoropyrimidines, such as continuous infusion 5-fluorouracil (5-FU), and the oral 5-FU prodrug capecitabine (Xeloda® by Roche). Fluoropyrimidines are among the most commonly used cancer chemotherapeutics nearly 50 years after their introduction. Fluoropyrimidines, alone or in combination therapy, are commonly given for cancers of the head and neck, breast, cervix, and gastrointestinal tract.

Annually, more than 100,000 patients worldwide take Xeloda® with approximately six treatment cycles per year. Therefore the market for Xyfid™ is approximately 600,000 treatment cycles per year for Xeloda® alone. Treatment of HFS priced at ~\$1,200 per cycle would be competitive with other supportive care products addressing dose limiting toxicities, such as blood growth factors. Accordingly, the potential market opportunity for treating HFS is nearly \$1 Billion.

There are currently no treatments or preventative agents for HFS, which is characterized by the progressive redness and cracking of the hands and feet. The severity of HFS is typically defined by three grade levels: Grade 1: numbness, tingling, painless swelling; Grade 2: painful discomfort, swelling; Grade 3: ulceration, blistering, severe pain and discomfort, unable to work or perform activities of daily living. Up to 60% of all capecitabine patients experience HFS and up to 20% experience severe HFS (Grade 3). According to the prescribing information for capecitabine, if grade 2 or 3 HFS occurs, administration of capecitabine should be interrupted until the event resolves or decreases in intensity to grade 1. Following grade 3 HFS, subsequent doses of capecitabine should be decreased. Uracil, the active ingredient in Xyfid, is a naturally occurring substrate for enzymes, such as thymidine phosphorylase (TP) and dihydropyrimidine dehydrogenase (DPD), that metabolize fluoropyrimidines into toxic metabolites. Addition of uracil to systemic fluoropyrimidine treatment regimens, such as tegafur-uracil, or UFT, is well-established to significantly diminish the incidence of HFS. Whereas such combination products have been licensed in Japan and much of Europe, they have not been approved for use in the United States due, in part, to FDA questions regarding the demonstrable non-inferiority of the combination drug compared with fluoropyrimidines alone. In contrast to systemic exposure, topical application of uracil would potentially allow for the treatment and prevention of HFS without compromising the efficacy of systemic fluoropyrimidine therapy. **In a small pilot study, Xyfid has been effective at preventing the both the incidence and recurrence of dose limiting HFS when applied topically.**

VOQP.OB believes that Xyfid may be substantially equivalent to several predicate devices designed to improve dry skin conditions and to relieve and to manage the burning and itching associated with various dermatoses including atopic dermatitis, irritant contact dermatitis, radiation dermatitis and other dry skin conditions, by maintaining a moist wound and skin environment. A pilot clinical study in patients has demonstrated that topical application of Xyfid to the hands and feet may be effective in preventing the recurrence of dose limiting HFS. On this basis, an investigational new drug application (IND) was submitted and accepted by the FDA. Subsequently, Xyfid was granted fast track designation for the prevention of HFS in patients receiving capecitabine for the treatment of advanced metastatic breast cancer. Pursuant to this IND, we expect to evaluate the safety, tolerability and activity of Xyfid and its ability to reduce the incidence of HFS. VioQuest is considering a 60-patient Phase IIb study in breast cancer patients receiving capecitabine that could begin during 2008. The outcome of the Phase IIb study could support plans for registration of Xyfid under the NDA process. **Xyfid has been awarded fast-track status by the FDA in this setting.** Combination products using systemic uracil have been licensed in Japan and much of Europe, they have not been approved for use in the United States due, in part, to FDA questions regarding ("does DPD inhibition negatively effect therapeutic outcome") the demonstrable noninferiority of the combination drug compared with 5-FU alone.

Examples of Grade 3 Hand-Foot Syndrome (HFS)



Technology (continued)

Lenocta™

Lenocta™ is a selective, small molecule inhibitor of certain protein tyrosine phosphatases (PTPs), such as SHP-1, SHP-2 and PTP1B, with demonstrated anti-tumor activity against a wide spectrum of cancers both alone and in combination with other approved immune activation agents, including IL-2 and interferons. PTPs are a family of proteins that regulate signal transduction pathways in cells and have been implicated in a number of diseases including cancer, diabetes, and neurodegeneration.

Lenocta™ (sodium stibogluconate). Lenocta is a selective, small molecule inhibitor of certain protein tyrosine phosphatases (PTPs), such as SHP-1, SHP-2 and PTP1B, with demonstrated anti-tumor activity against a wide spectrum of cancers both alone and in combination with other approved immune activation agents, including IL-2 and interferons. PTPs are a family of proteins that regulate signal transduction pathways in cells and have been implicated in a number of diseases including cancer, diabetes, and neurodegeneration. Lenocta has been shown to have anti-proliferative activity against a broad number of tumor cell lines, including melanoma and renal cell lines. Pre-clinical work in nude mice with cancer xenografts has shown that Lenocta can control malignancies in vivo as well. These effects were seen whether used as part of a combination therapy with existing treatments, including interferon and interleukin-2, or alone. In addition, preclinical data also suggests that monotherapy with Lenocta may be useful to treat certain other tumor types, including prostate cancer.

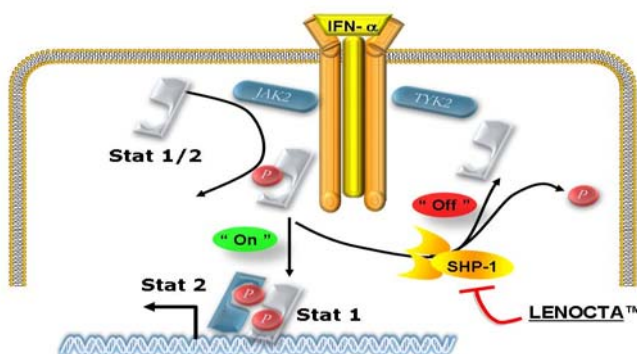
The preclinical data suggests that Lenocta utilizes multiple modes of action, including having a direct effect on cancer cells, as well as generally enhancing the body's immune system. These multiple modes of action, along with Lenocta's known historical toxicity profile, demonstrate that Lenocta is a potentially attractive drug candidate to evaluate as an anti-cancer agent. Phase I data from our combination trial of Lenocta and alpha interferon ("IFN a-2b") demonstrated pharmacodynamic activity in some solid tumors as demonstrated by increases in the activities of natural killer cells, CD8 and type II dendritic cells, and two patients with ocular melanoma (1) and adenocystic carcinoma (1) have remained stable by Response Evaluation Criteria in Solid Tumors, or RECIST, on first assessment. There have been 17 subjects evaluable for response.

A complete treatment cycle is for six weeks, with week 1 the patient is intravenously dosed with Lenocta for five days as a monotherapy, week 2 the patient is dosed with Lenocta and IFN a-2b, week 3 is a rest period, weeks 4 and 5 the patient is dosed with Lenocta and IFN a-2b, and then there is a week rest before a subsequent cycle is initiated. Patients have been given five different dose cohorts: 400 mg/m², 600 mg/m², 900 mg/m², 1350 mg/m² and a dose reduced cohort of 1125 mg/m². Lenocta with IFN a-2b has been well tolerated at doses up to 900 mg/m². VOQP.OB plans to initiate an expansion phase for 20 patients to have twelve subjects evaluable for response at a dose of 900 mg/m².

VOQP.OB has filed with the FDA an IND for Lenocta, which the FDA accepted in 8/06, allowing commencement of clinical trials of Lenocta. Lenocta is currently being studied at the M.D. Anderson Cancer Center and the University of New Mexico in a Phase IIa corporate-sponsored clinical trial in combination with IFN a-2b in up to 54-patients with melanoma, renal cell carcinoma, and other solid tumors that have been non-responsive in previous cytokine therapy. In November 2007, we dosed our first patient in our Phase IIa solid tumor study. VOQP.OB expects to complete enrollment in the Phase IIa solid tumor study in 2008. The Phase IIa trial has been designed to evaluate the clinical efficacy and biological effectiveness of Lenocta at the highest tolerable doses in combination with IFN a-2b in patients with advanced-stage solid tumors.

Additional Potential Indication of Lenocta: VOQP.OB continues to develop Lenocta for indications primarily used for an oncology drug candidate; VioQuest is also in the process of evaluating its potential development as a treatment for leishmaniasis. According to the WHO, leishmaniasis currently threatens 350 m men, women and children in 88 countries around the world. The leishmaniasis are parasitic diseases with a wide range of clinical symptoms, including skin ulcers, partial or total destruction of the mucus membrane and irregular bouts of fever, substantial weight loss, swelling of the spleen and liver, and anemia (occasionally serious). In collaboration with the U.S. Army, through an executed Cooperative Research and Development Agreement; VioQuest is evaluating the potential development of Lenocta in the treatment of leishmaniasis. Lenocta was granted orphan drug designation by the FDA in the second half of 2006 for the treatment of leishmaniasis. VioQuest has also convened an advisory board to evaluate the potential submission of an NDA to the FDA for Lenocta for the treatment of leishmaniasis in 2008.

Lenocta™ Potentiates IFN- α Signaling by Inhibiting SHP-1



Adapted From Platanius. Nature Reviews Immunology 5, 375-386 (May 2005)

Financial Highlights

Q2/08

For Q2/2008, operating expenses decreased to \$1.0 million as compared to \$2.1 million for the same period of 2007. The VOQP.OB's net loss applicable to common stockholders was \$1.8 million for Q2/2008, or \$0.38 per basic and diluted share, versus a net loss of \$2.5 million, or \$0.65 per basic and diluted share, for the same period of 2007. For the six-month period ended June 30, 2008, operating expenses decreased to \$2.7 million as compared to \$4.4 million for the same period of 2007. VOQP.OB's net loss applicable to common stockholders was \$4.9 million for the six-month period ended June 30, 2008, or \$1.00 per basic and diluted share, versus a net loss applicable to common stockholders of \$5.0 million, or \$1.08 per basic and diluted share, for the same period of 2007. The 2008 net loss figures above include the impact of a \$708,000 non-cash charge related to a beneficial conversion feature embedded in the 2008 preferred stock financing transactions. For Q2/2008, research and development expenses decreased to \$473,000 compared to \$951,000 for the same period in 2007. The decrease in R&D expenses was primarily attributable to \$300,000 in nonrecurring licensing fees incurred during the first quarter of 2007 to acquire the worldwide license to Xyfid. In addition, there was a reduction in clinical research costs, offset by increased labor costs and regulatory and legal fees related to our oncology drug candidates. For Q2/2008, general and administrative expenses decreased to \$555,000 compared to \$1.2 million for the same period in 2007. The decrease in G&A expenses was primarily attributable to headcount reductions. Interest expense (net of interest income) for Q2/2008 was \$103,000 compared to interest income (net of interest expense) for the same period of 2007 of \$6,000. Interest expense for Q2/2008 included expenses recorded for dividends payable on mandatorily redeemable convertible preferred stock of \$107,000, which was offset by interest income earned on cash and cash equivalents of \$4,000. As of June 30, 2008, VioQuest Pharmaceuticals' cash and cash equivalents were \$814,000 compared to \$695,000 as of December 31, 2007.

Q1/08

For Q1/08, G&A expenses decreased to \$690,339 compared to \$913,651 for the same period in 2007. The decrease in G&A expenses was primarily attributable to headcount reductions. For Q1/08, research and development expenses decreased to \$979,094 compared to \$1.4 million for the same period in 2007. The decrease in R&D expenses was primarily attributable to \$300,000 in licensing fees incurred during the first quarter of 2007 to acquire the worldwide license to Xyfid. Interest expense, net of interest income, for the first quarter of 2008 was \$1.4 million compared to interest income, net of interest expense, for the same period of 2007 of \$25,684. Interest expense for Q1/08 included expenses recorded upon the extinguishment of senior convertible promissory notes of \$1.4 million and dividends payable on mandatorily redeemable convertible preferred stock of \$14,947, which was offset by interest income of \$2,923. During 3/08, VOQP.OB completed an initial closing of a private placement raising \$765,000 in gross proceeds through the sale of units consisting of shares of its Series A Convertible Preferred Stock and warrants to purchase shares of its Common Stock, pursuant to a series of subscription agreements with selected accredited investors. As of March 31, 2008, VOQP.OB' cash and cash equivalents were \$305,561 compared to \$694,556 as of December 31, 2007. In April 2008, VOQP.OB completed a second closing of the private placement, raising approximately \$2.2 million in additional gross proceeds.

Financials

VIOQUEST PHARMACEUTICALS INC.					
UNAUDITED CONDENSED STATEMENTS OF OPERATIONS					
Three Months Ended					
	FY2005	FY2006	FY2007	2008	2008
				Mar	Jun
Revenues	-	-	-	-	-
Expenses					
In-process research and development	7,975,218	-	963,225	-	-
Research and development	-	1,819,736	4,988,145	979,094	472,801
General and administrative	2,419,442	3,461,529	3,791,089	690,339	554,753
Total Expenses	10,396,306	5,281,265	9,742,459	1,669,433	1,027,554
Loss from Operations	(10,396,306)	(5,281,265)	(9,742,459)	(1,669,433)	(1,027,554)
Other Income (Expense)					
Interest Income	42,422	105,695	(1,126,273)	(1,411,548)	(103,110)
Net Loss	(12,834,629)	(10,891,741)	(8,271,164)	(3,080,981)	(1,130,664)
Net loss per share, basic and diluted	(0.58)	(0.23)	(0.21)	(0.63)	(0.38)
Weighted average shares used in computing basic and diluted loss per share	22,034,198	39,786,686	46,721,932	4,905,426	4,905,081
Balance Sheet Metrics	FY2005	FY2006	FY2007	2008	2008
Cash and cash equivalents	6,021,399	2,931,265	694,556	305,561	814,477
Total Assets	6,923,436	5,828,323	1,358,353	650,541	1,177,335
Stockholders Equity (Deficiency)	6,339,009	2,840,759	(4,484,268)	(6,685,343)	(5,670,850)

The information contained herein is believed to be reliable, but is not guaranteed by us

Please review our multiple disclosures section. 08/25/08

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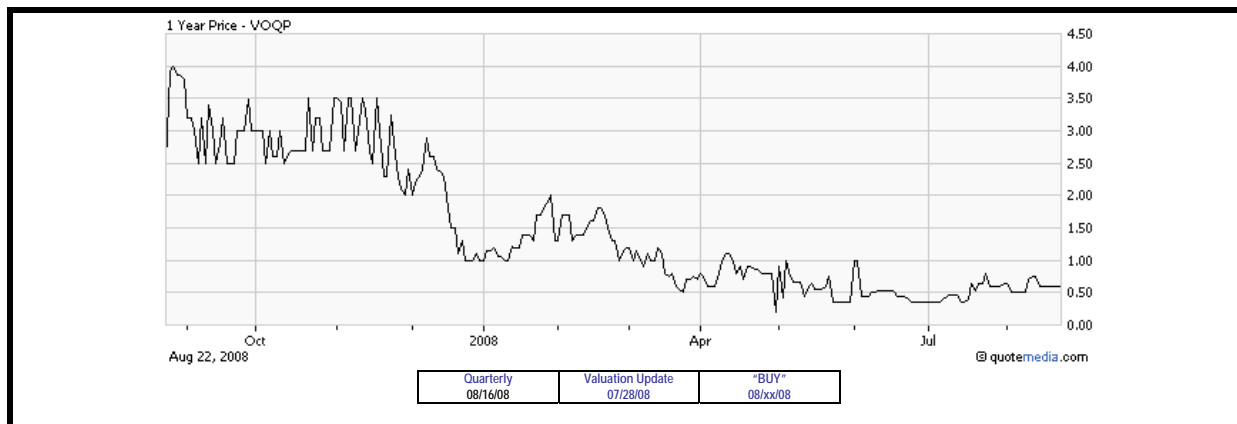
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