

LIFEQUEST WORLD CORP  
Form 10QSB  
October 22, 2007

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

FORM 10-QSB

(Mark One)

**PURSUANT TO SECTION 13 OR 15(d)**

**QUARTERLY REPORT**

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended

AUGUST 31, 2007

OR

**TRANSITION REPORT PURSUANT TO SECTION 13**  
**OR**

15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to  
\_\_\_\_\_

Commission File Number: 333-61801

**LIFEQUEST WORLD CORPORATION**

(formerly Phytolabs, Inc. and Jurak Corporation World Wide, Inc.)

(Exact name of registrant as specified in its charter)

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MINNESOTA

88-0407679

(State or other jurisdiction of

(Federal Employer

incorporation or organization)

Identification No.)

1181 Grier Drive, Suite C, Las Vegas, NV

89119-3746

(Address of principal executive offices) (Zip Code)

(702) 914-9688

Registrant's telephone number, including area code

Check 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 [x] NO [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. YES [x] NO [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| <u>Class</u>  | <u>Outstanding at October 12, 2007</u> |
|---------------|--|
| Common Stock, | no par value 34,478,833                |

LIFEQUEST WORLD CORPORATION  
(formerly PHYTOLABS, INC. AND JURAK CORPORATION WORLD WIDE, INC.)

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LIFEQUEST WORLD CORPORATION  
(formerly) PHYTOLABS, INC. AND JURAK CORPORATION WORLD WIDE, INC.)  
NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE 1 - CONDENSED FINANCIAL STATEMENTS

Company Name Change and Nature of Business

Effective August 20, 2007, the Company changed its name to Lifequest World Corporation (formerly Phytolabs, Inc. and Jurak Corporation World Wide, Inc.) to better reflect the business the company is involved in -- that of products designed to positively affect the lives of people worldwide. The shares of the Company trade 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.

Lifequest World Corporation (formerly Phytolabs, Inc. and Jurak Corporation World Wide, Inc.) was incorporated under the laws of the State of Minnesota on November 1, 1997. In this Quarterly Report, the terms "Company", "us", "we", "our" and "its" are used as references to Phytolabs Inc. We develop and distribute dietary herbal supplement products. Our "JC Tonic, The Youth Solution" first developed in the 1920's and 1930's and introduced to the marketplace in 1943 by Mr. Carl Jurak, the father of the founder of our company. Our dietary herbal supplement products are distributed through a network marketing system using independent distributors that we refer to as "Ambassadors of Health" (distributors).

The consolidated balance sheets as of August 31, 2007 and the related consolidated statements of operations for the three months ended August 31, 2007 and 2006 and the consolidated statements of cash flows for the three-month periods then ended have been prepared by the Company without audit. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows at August 31, 2007 and 2006 and for the three months then ended have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted. It is suggested these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's May 31, 2007 audited financial statements and form 10-KSB. The results of operations for the three-month period ended August 31, 2007 are not necessarily indicative of the operating results for the entire year.

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the balance sheet date, and the reported amounts of revenues and expenses during the reporting period. The estimates and assumptions used in the accompanying condensed financial statements are based upon management's evaluation of the relevant facts and circumstances as of the time of the financial statements. Actual results could differ from those estimates.

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 and from financing activities by 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. In December 2006, the Company announced a best efforts private placement of \$3,000,000 at \$1.50 per share. This placement was subsequently cancelled, and a new offering was immediately introduced for \$3,000,000 U.S. at \$1.00 per unit. The proceeds of the private placement are to be used for regular corporate needs as well as funding the product launch of our recently acquired rights to the world's most powerful as stated by the scientific research team that developed the natural immune booster product. One group of investors has invested funds to date. That group required that all investments be made for an average of \$1.00 per share, with a one-year warrant to purchase an additional share at \$1.25 per share, prior to the 1 for 3 reverse stock split approved on July 27, 2007. The Company received the first \$600,000 on December 6, 2006, \$999,950 on March 31, 2007, \$700,000 on July 23, 2007 and \$500,000 on September 28, 2007. However, there can be no assurance the Company will be able to obtain additional capital from private placements 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. Management believes that actions presently being taken provide the opportunity for the Company to continue as a going concern.

#### NOTE 3 - INVENTORIES

Inventories summarized below are priced at the lower of first-in, first-out cost or market:

|                             |    | August 31<br>2007 |    | May 31<br>2007 |
|-----------------------------|----|-------------------|----|----------------|
| Finished goods and supplies | \$ | 68,276            | \$ | 56,050         |
| Raw materials               |    | 24,525            |    | 26,571         |
| Allowance for obsolescence  |    | (1,500)           |    | (18,611)       |
| Total                       | \$ | 91,301            | \$ | 64,010         |

#### NOTE 4 - OTHER ASSET- IMMUNE BOOSTER LICENSE

From December 6, 2006 through August 31, 2007, the Company has made payments of \$1,567,531 for licensing fees associated with an exclusive license and distribution agreement to acquire the worldwide marketing rights to the world's most powerful, natural immune booster discovered to date, as stated by the scientific research team that developed the product. These rights are being acquired from Nordic Immotech Trading APS, 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, through its wholly owned subsidiary, Phytolab Solutions, Inc. finalized the closing of this exclusive global license and distribution agreement with respect to this natural immune booster product. Phytolab Solutions, Inc. has not yet begun to market or sell these products. As part of the closing for this agreement, the Company paid \$550,000 per the terms of the agreement on December 6, 2006 and two additional \$500,000 payments in April and August 2007. The agreement calls for additional installment payments totaling \$950,000 to be paid as follows:



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|           |                    |
|-----------|--------------------|
| \$500,000 | September 30, 2007 |
| \$450,000 | November 30, 2007  |

The Company has imputed interest on these installments at a rate of 10%. The discounted value of the licensed asset totals \$2,373,190. Additional costs for legal were also incurred which totaled \$17,531. The remaining installments payable, net of the calculated imputed interest, totals \$919,415 as of August 31, 2007. Since the sales and marketing of this new immune booster product has not been initiated, no amortization of the licensed asset has been made for the three months ended August 31, 2007. The Company is in the final stages of completing the packaging and marketing materials for this new product.

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 in territories outside of the United States.

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

#### NOTE 5 - 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 August 31, 2007 and May 31, 2007 were 103,952. The liability for the bonus points of \$111,695 at August 31, 2007 and May 31, 2007 is included in accrued compensation and benefits. These amounts are redeemable into common stock at a fair market value on the date that they are fully earned and redeemed. During the quarter ended August 31, 2007 and year ended May 31, 2007, no shares were issued to various distributors under this plan. Effective June 1, 2007 this plan was discontinued, however the liability will remain for a period of 3 years relating to the 103,952 shares which were earned but not yet issued. As the shares vest over the three year period of time, the stock certificates will be issued and will correspondingly reduce this liability.

#### NOTE 6 -STOCKHOLDERS' EQUITY

On July 27, 2007, the Board of Directors approved a reverse split of its common stock on a basis of 1 new share for each 3 old shares. Shareholders of record as of the effective date of August 20, 2007 have received 1 new share for three old shares outstanding. All per share information and EPS calculations including prior periods reflects the effect of this reverse stock split.

In July 2007, we continued our private placement offering of 1,000,000 shares of our common stock after taking into account the 1 for 3 reverse stock split in August 2007. The placement consisted of selling units which included one share of common stock and a warrant (one year term) to purchase one share of our common stock at an exercise price of \$3.75 for a unit price of \$3.00. We sold 233,333 units for \$700,000. As of August 31, 2007 we had sold 766,667 units and received \$2,299,950 in proceeds, net of transaction costs in connection with this private placement.

#### Stock Warrants

As of August 31, 2007 the Company has 533,333 warrants outstanding at an exercise price of \$3.75 with a remaining term of no longer than 1 year.

## Stock Option Plan

In June 2007, The Board of Directors authorized a stock option plan whereby management could issue of up to 2,000,000 options to purchase shares of the Company's common stock. The stock options may be issued to directors, officers, employees and consultants of the Company. Options granted under this plan are non-qualified stock options and have exercise prices and vesting terms established by the Board of Directors at the time of each grant. Options must be exercised within five years of grant date, unless otherwise extended by the Board of Directors or unless grantee ceases to be an officer, director, employee or consultant of the Company. As of August 31, 2007, no stock options were issued under this plan.

## NOTE 7 - CONTINGENCIES

In the ordinary course of business, the Company is exposed to legal actions and threatened claims and incurs costs to defend against such legal actions and claims. Company management is not aware of any such outstanding, pending or threatened action, claim or other circumstance that would materially affect the Company's financial position or results of operations.

## NOTE 8 - INCOME TAXES

Effective June 1, 2007, the Company adopted FASB Interpretation 48 (FIN 48), "Accounting for Uncertainty in Income Taxes" to address the non-comparability in reporting tax assets and liabilities resulting from a lack of specific guidance in FASB Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes" on the uncertainty in income taxes recognized in an enterprise's financial statements. Specifically, FIN 48 prescribes (a) a consistent recognition threshold and (b) a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides related guidance on derecognition, classification, interest and penalties, accounting interim periods, disclosure and transition. To the extent interest and penalties would be assessed by taxing authorities on any underpayment of income taxes, such amounts would be accrued and classified as a component of income tax expenses on the consolidated statement of operations. The adoption of FIN 48 did not impact the consolidated financial statements for the three months ended August 31, 2007. The Company's federal and state tax returns are potentially open to examinations for fiscal years 2003-2006.

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment. The Company has recorded a full valuation allowance for all deferred tax assets due to the significance of its continued operating losses.

## NOTE 9 - RELATED PARTY TRANSACTIONS

### 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 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.

For the three months ended August 31, 2007 and 2006, the minimum royalty fee for the amount of \$125,000 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 \$735,686 and \$631,856 at August 31, 2007 and May 31, 2007, respectively.

#### NOTE 10 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2007, the FASB issued Statement of Financial Accounting Standards Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115* ("SFAS No. 159"). This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. This standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. We believe the adoption of SFAS No. 159 will not have a material impact on our consolidated financial position or results of operations

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS No. 157"). This standard clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing an asset or liability. Additionally, it establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. This standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of this statement. We believe the adoption of SFAS No. 157 will not have a material impact on our consolidated financial position or results of operations.

#### NOTE 11 - SUBSEQUENT EVENTS

As a continuation to the Company's private placement offering initiated in December 2006, the Company issued an additional 166,667 restricted common shares and warrants in exchange for \$500,000 cash on September 28, 2007. Proceeds were used to pay the September 30, 2007 immune booster license installment payment of \$500,000.

## Item 2. Management's Discussion and Analysis of Financial

### Condition and Results of Operations

#### Overview

Lifequest World Corporation, (formerly Phytolabs, Inc. and Jurak Corporation World Wide, Inc.), 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.

We distribute our products through a network marketing system using independent distributors. Network marketing appeals to a wide cross-section of people, particularly those seeking to supplement income, start a home-based business or pursue entrepreneurial opportunities other than conventional full-time employment. We consider our attractive compensation plan and cash bonus pools to be attractive components of our network marketing system. We also believe that our network marketing system is ideally suited to market herbal supplement products because sales of such products are strengthened by ongoing personal contact between our distributors and their customers. Distributors are given the opportunity through sponsored events and training sessions to network with other distributors, develop

selling skills and establish personal goals. We supplement monetary incentives with other forms of recognition in order to further motivate and foster an atmosphere of excitement through our distributor network.

We have obtained trademark protection for the name "JC Tonic" within the United States and within Canada. We also own the web sites [www.jurak.com](http://www.jurak.com), [www.jctonic.com](http://www.jctonic.com) and [www.tonicman.com](http://www.tonicman.com).

The Company is also obtaining the worldwide marketing rights to the world's most powerful, natural immune booster discovered to date, as stated by the scientific research team that developed the product. These rights are being acquired from 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 has not yet begun to market or sell these products, but expects to begin in the second quarter of fiscal 2008. (See Note 4)

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 in our 10-KSB filed for the year ended May 31, 2007. Our financial statements are prepared in accordance with U.S. GAAP.

#### SPECIAL NOTE REGARDING 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 are 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. The Company intends to generate positive cash flows from operations through increased sales utilizing the network of distributors in place with existing products and the new natural immune booster products, issuing additional stock, and obtaining necessary capital through additional advances from the Company's principal stockholder or through private placements.

To continue operations, the Company must raise additional capital. As stated in Note 6, the Company has sold additional stock in a private placement during the three months ended August 31, 2007. Additionally, the Company has sold additional stock in September 2007 for proceeds of \$500,000. However, there can be no assurance the Company will be able to obtain additional capital from private placements in the future.

In December 2006, the Company announced a best efforts private placement of \$3,000,000 at \$1.50 per share. The proceeds of the private placement are to be used for regular corporate needs as well as funding the product launch of our recently acquired rights to the world's most powerful, natural immune booster product. One group of investors has invested funds to date. That group required that all investments be made for an average of \$1.00 per share, with a one-year warrant to purchase an additional share at \$1.25 per share, these terms have not been restated to reflect the 1 for 3 reverse stock split on August 20, 2007. The Company received the first \$600,000 on December 6, 2006, \$999,950 on March 31, 2007, \$700,000 on July 23, 2007 and \$500,000 on September 28, 2007.

With the formal completion of the exclusive global license and distribution agreement relative to the natural immune booster product, the Company will accelerate work on the packaging and branding of this new product to make it widely available to North American and European markets with an anticipated launch in the 3rd quarter of fiscal 2008.

Three months Ended August 31, 2007 Compared to Three months Ended August 31, 2006

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Total sales for the three months ended August 31, 2007 was \$282,504 compared to \$255,491 in the same period ended in 2006. Gross profit was \$206,148 for the three months ended August 31, 2007 compared to \$203,586 for the same period ended in 2006, as further discussed below. The net loss during the three months ended August 31, 2007 was \$349,424 compared to a net loss of \$280,257 in the same period ended in 2006.

### Sales and Gross Margins

Sales for three months ended August 31, 2007 increased slightly to \$282,504 compared to \$255,491 in the same period ended in 2006. Management is confident that improved computer system tracking and reporting, a replicated website and significant new product offerings in fiscal 2008 will result in an increase in sales volumes.

Gross profit in the three months ended August 31, 2007 increased slightly to \$206,148 compared to \$203,586 in the same period ended in 2006. Gross profit as a percentage of revenue decreased to 73% in the three months ended August 31, 2007 compared to 80% in the same period ended in 2006 as a result of increased material, packaging and freight costs in the current period.

### Royalty Expense-Related Party

The minimum royalty expense-related party accrued to Jurak Holdings Limited (related party) remained consistent for both periods at \$125,000.

### Distribution, Selling and Administrative Expenses

Total distribution, selling and administrative expenses for the three months ended August 31, 2007 were \$399,914 compared with \$358,843 for the same period ended in 2006. The increase is primarily related to increases in expenses and consulting fees associated with the development and promotion of the Company's new product offerings expected to be available late 2007. Other selling and administrative expenses were consistent with the prior period.

Interest expense for the three months ended August 31, 2007 was \$30,658 compared with \$0 for the same period in the prior year. Current year interest costs relate primarily to the imputed interest on the installment payable-immune booster license.

### Liquidity and Capital Resources

#### Three Month Period Ended August 31, 2007

We have historically had more expenses and cost of sales than revenue in each year of our operations. The accumulated deficit as of August 31, 2007 was \$6,360,658 compared to \$6,011,234 as of May 31, 2007. Generally, we have financed operations to date through the proceeds of the private placement of equity and debt securities and sales revenue. In connection with our business plan, management anticipates that there may be additional increases in operating expenses and capital expenditures relating to the new immune booster products. We intend to finance these expenses with further issuances of our securities and revenues from operations. Therefore, we expect we may need to raise additional capital and increase our revenues to meet long-term operating requirements.

We currently have a \$3,000,000 private placement offering in process. These funds will be used to make the required payments for our new license agreement and to launch and market our natural immune booster products.

At August 31, 2007, the Company had \$131,815 of unrestricted cash compared to \$197,338 of unrestricted cash at May 31, 2007. The Company had current assets of \$270,821 and current liabilities of \$1,991,569 at August 31, 2007 compared to current assets of \$282,824 and current liabilities of \$2,377,809 at May 31, 2007.

Net cash used in operating activities was \$278,257 during the three months ended August 31, 2007 compared to net cash used in operating activities of \$183,238 in the same period ended in 2006. The increase was due primarily to the increased operating loss for the three months ended August 31, 2007 compared to the operating loss for the three months ended August 31, 2006 after adjusting for the net increase in trade payables and accrued expenses.

Net cash used in investing activities was \$0 in the first three months ended August 31, 2007 compared to \$17,372 in the same period ended in 2006. The change was caused primarily by the initial costs associated with the purchase of the other asset-immune booster license in 2006.

Net cash provided by financing activities was \$212,734 in the first three months ended August 31, 2007 compared to net cash provided by financing activities in the same period in 2006 of \$156,691. Proceeds from the issuance of common stock were \$700,000 in the first three months ended August 31, 2007 compared to \$200,000 in the same period of 2006. In December, 2006 the Company announced a best efforts private placement of \$3,000,000 U.S. at \$1.50 per share. The placement was subsequently cancelled, and a new offering was immediately introduced for \$3,000,000 U.S. at \$1.00 per unit. Each unit consists of one share of common stock and one-year warrant to purchase one share of common stock at \$1.25. These terms do not reflect the 1 for 3 reverse stock split on August 20, 2007. The proceeds of the private placement are to be used for regular corporate needs as well as funding the product launch of our recently acquired rights to the world's most powerful as stated by the scientific research team that developed the natural immune booster product. The Company received the first \$600,000 on December 6, 2006, \$999,950 on March 31, 2007, \$700,000 on July 23, 2007 and \$500,000 on September 28, 2007.

#### Critical Accounting Policies

Our critical accounting policies, including the assumptions and judgments underlying them, are discussed in our fiscal 2007 Form 10-KSB in Note 1 Summary of Significant Accounting Policies included in our Consolidated Financial Statements. There were no significant changes to our critical accounting policies during the three months ended August 31, 2007. These policies have been consistently applied in all material respects and disclose such matters as allowance for doubtful accounts, sales returns, inventory valuation, warranty expense, income taxes, revenue recognition and fixed asset and intangible asset impairment recognition. On an ongoing basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the result of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Results may differ from these estimates due to actual outcomes being different from those on which we based our assumptions. Management on an ongoing basis reviews these estimates and judgments.

#### Recently Issued Accounting Pronouncements

In February 2007, the FASB issued Statement of Financial Accounting Standards Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115* ("SFAS No. 159"). This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. This standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. We believe the adoption of SFAS No. 159 will not have a material impact on our consolidated financial position or results of operations.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS No. 157"). This standard clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing an asset or liability. Additionally, it establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. This standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of this statement. We believe the adoption of SFAS No. 157 will not have a material impact on our consolidated financial position or results of operations.

Item 3. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company's management, Anthony Carl Jurak, our Chief Executive Officer and acting Chief Accounting Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of August 31, 2007 (the "Disclosure Controls Evaluation"). Based on that evaluation, the Company's chief executive officer and chief accounting officer, President and Vice President of Operations/Assistant Secretary concluded that as of the end of the period covered by this report the Company's disclosure controls and procedures were effective to provide a reasonable level of assurance that: (i) information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the specific time periods in the Securities and Exchange Commission's rules and forms and (ii) information required to be disclosed in the reports the Company files or submits under Exchange Act are accumulated and communicated to management, including the chief executive officer and chief accounting officer, to allow timely decisions regarding required disclosure, all in accordance with Exchange Act Rule 13a-15(e).

There were no changes in the Company's internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), during the quarter ended August 31, 2007, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

However, due to the limited number of Company employees engaged in the authorization, recording, processing and reporting of transactions, there is inherently a lack of segregation of duties. The company periodically assesses the cost versus benefit of adding the resources that would remedy or mitigate this situation, and currently does not consider the benefits to outweigh the costs of adding additional staff in light of the limited number of transactions related to the Company's operations.

(b) Changes in Internal Controls Over Financial Reporting

There have been no significant changes in internal control over financial reporting that occurred during the quarter ended covered by this report that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. 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 Jurak Corporation World Wide, Inc. (plaintiffs) and one former employee and her spouse (defendants). The suit entails that the former employee processed credit refunds to a debit/credit card held at their banking institution. In addition, the former employee embezzled funds by setting up a merchant processing system and diverting the charging of our distributors' credit cards from our merchant processor to their processor. All is evidenced by information

located on the computer used by the former employee at the Company as well as through other reporting mechanisms and processing systems. The Company is seeking relief for damages in excess of \$60,000; special damages according to proof; for attorneys' fees and costs of suit; and for other and further relief as the Court may deem just and proper as compensation for monies embezzled by the former employee and her spouse. No answer has been received from the defendant and the Company is seeking a default judgment granting all of the relief sought.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

During the three month period ended August 31, 2007 the Company sold 233,333 shares of unregistered common stock at \$3.00 under a private placement, for a total proceeds of \$700,000 to the Company. Relative to the 233,333 units, each unit consists of one share of common stock and one warrant to purchase a share of common stock at \$3.75. No underwriters were used for the sale of common stock. The shares of stock were sold pursuant to an exemption from registration under Rule 506 of Regulation D.

Item 5 Other Information

No items occurred during the period of this report which would have been required to be reported in a Form 8-K which have not been reported.

There have been no material changes to the procedures by which security holders may recommend nominees to the Company's board of directors.

Item 6 Exhibits

The following exhibits are included herein:

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rules 13a-14 and 15d-14 of the Exchange Act).

32. Certifications pursuant Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Sect. 1350).

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Signatures

In accordance with the requirements of the Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned thereto, duly authorized.

Lifequest World Corporation.

By /s/ Anthony Jurak

Anthony Jurak

Date: October 19, 2007

Chairman of the Board, Director

Acting Chief Accounting Officer