

Consolidated Financial Statements

Quest PharmaTech Inc.

January 31, 2017 and 2016



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May 29, 2017

INDEPENDENT AUDITOR'S REPORT

Edmonton, Alberta

To the Shareholders of Quest PharmaTech Inc.

We have audited the accompanying consolidated financial statements of Quest PharmaTech Inc., which comprise the consolidated statement of financial position as at January 31, 2017 and the consolidated statements of loss and comprehensive loss and changes in shareholders' equity (deficiency) for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Quest PharmaTech Inc. as at January 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Quest PharmaTech Inc.'s ability to continue as a going concern.

(continues)

Independent Auditor's Report to the Shareholders of Quest PharmaTech Inc. *(continued)*

Other Matter

The consolidated financial statements of Quest PharmaTech Inc. for the year ended January 31, 2016 were audited by another auditor who expressed an unmodified opinion on those statements on August 5, 2016.

Kingston Ross Pasmak LLP

Kingston Ross Pasmak LLP

Chartered Professional Accountants

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (see note 1 – going concern uncertainty)

As at January 31

| | 2017 | 2016 |
|--|-------------------|--------------------|
| | \$ | \$ |
| ASSETS | | |
| Current | | |
| Cash [note 5] | 1,221,938 | 788,627 |
| Short term investments [note 5] | 8,274,693 | — |
| Accounts receivable | 18,518 | 30,891 |
| Prepaid expenses | 576,463 | 77,150 |
| Inventory | 90,142 | — |
| | 10,181,754 | 896,668 |
| Non-current | | |
| Restricted cash [notes 5 and 10] | — | 1,566,000 |
| Restricted short term investments [notes 5 and 10] | 39,090 | 8,290,000 |
| Property and equipment [note 7] | 26,777 | 30,081 |
| Intangibles [note 6] | 1,998 | 4,670 |
| Non-current prepaid expenses | 178,502 | 85,155 |
| Loan receivable [note 23] | 250,000 | — |
| Investment in OncoVent Co., Ltd. [note 24] | 687,620 | — |
| | 11,365,741 | 10,872,574 |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities | 733,493 | 631,754 |
| Preferred share instrument [note 10] | — | 12,672,000 |
| | 733,493 | 13,303,754 |
| Commitments and contingencies [note 9] | | |
| SHAREHOLDERS' EQUITY / DEFICIENCY | | |
| Common shares [note 10] | 28,810,839 | 28,810,839 |
| Preferred shares [note 10] | 17,166,365 | — |
| Warrants [note 10] | 367,626 | 401,917 |
| Non-controlling interest [note 10] | (392,406) | (107,068) |
| Contributed surplus | 6,147,319 | 5,796,209 |
| Deficit | (41,467,495) | (37,333,077) |
| | 10,632,248 | (2,431,180) |
| | 11,365,741 | 10,872,574 |

See accompanying notes

On behalf of the Board:

(signed)
Ian McConnan
Director

(signed)
Pierre Vermette
Chief Financial Officer

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

Years ended January 31

| | 2017 \$ | 2016 \$ |
|---|--------------------|--------------------|
| REVENUE | | |
| Bellus Skin sales | 2,569 | — |
| Cost of goods sold | (1,187) | — |
| Gross margin | 1,382 | — |
| Investment financing revenue <i>[note 20]</i> | — | 230,612 |
| | 1,382 | 230,612 |
| EXPENSES | | |
| General and administrative, including amortization | 2,216,362 | 965,485 |
| Research and development, net <i>[note 16]</i> | 2,101,879 | 1,243,550 |
| | 4,318,241 | 2,209,035 |
| Loss before the undernoted | (4,316,859) | (1,978,423) |
| Other income (expenses) | | |
| Gain on sale of shares <i>[note 19]</i> | 320,023 | — |
| Financial income | 44,504 | 7,546 |
| Foreign exchange gain / (loss) | 17,042 | (136,184) |
| Financial expenses <i>[note 14]</i> | (8,695) | (133,071) |
| Deposit forfeiture | — | 100,000 |
| Fair value adjustments on contract termination <i>[note 21]</i> | — | (2,599,964) |
| Equity loss <i>[note 24]</i> | (475,771) | — |
| | (102,897) | (2,761,673) |
| Net loss and comprehensive loss for the year | (4,419,756) | (4,740,096) |
| Attributable to: | | |
| Equity holders of the parent | (4,134,418) | (4,632,920) |
| Non-controlling interest <i>[note 10]</i> | (285,338) | (107,176) |
| Total | (4,419,756) | (4,740,096) |
| Basic and diluted loss per share <i>[note 18]</i> | (\$0.027) | (\$0.038) |

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

| | Share capital common shares \$ | Share capital preferred shares \$ | Warrants \$ | Non-controlling interest \$ | Contributed surplus \$ | Deficit \$ | Total shareholders' deficiency \$ |
|---|---|--|----------------|-----------------------------------|------------------------------|---------------------|--|
| Balance, January 31, 2015 | 26,164,791 | — | 468,583 | — | 2,332,465 | (32,700,157) | (3,734,318) |
| Shares issued <i>[note 10]</i> | 2,646,048 | — | — | — | — | — | 2,646,048 |
| Share based payments <i>[note 13]</i> | — | — | — | — | 24,500 | — | 24,500 |
| Warrants issued <i>[note 10]</i> | — | — | 333,334 | — | — | — | 333,334 |
| Warrants expired <i>[note 10]</i> | — | — | (400,000) | — | 400,000 | — | — |
| Fair value adjustment on contract termination <i>[note 21]</i> | — | — | — | 3,039,352 | — | — | 3,039,352 |
| Balance transfer <i>[note 21]</i> | — | — | — | (3,039,244) | 3,039,244 | — | — |
| Fiscal 2016 non-controlling interest <i>[note 10]</i> | — | — | — | (107,176) | — | — | (107,176) |
| Net loss for the year | — | — | — | — | — | (4,632,920) | (4,632,920) |
| Balance, January 31, 2016 | 28,810,839 | — | 401,917 | (107,068) | 5,796,209 | (37,333,077) | (2,431,180) |
| Preferred shares issued <i>[note 10]</i> | — | 17,166,365 | — | — | — | — | 17,166,365 |
| Share based payments <i>[note 12]</i> | — | — | — | — | 316,819 | — | 316,819 |
| Warrants issued <i>[note 10]</i> | — | — | 34,292 | — | (34,292) | — | — |
| Warrants expired <i>[note 10]</i> | — | — | (68,583) | — | 68,583 | — | — |
| Fiscal 2017 non-controlling interest <i>[note 10]</i> | — | — | — | (285,338) | — | — | (285,338) |
| Net loss for the year | — | — | — | — | — | (4,134,418) | (4,134,418) |
| Balance, January 31, 2017 | 28,810,839 | 17,166,365 | 367,626 | (392,406) | 6,147,319 | (41,467,495) | 10,632,248 |

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended January 31

| | 2017 | 2016 |
|---|--------------------|--------------------|
| | \$ | \$ |
| CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES | | |
| Net loss for the year | (4,419,756) | (4,740,096) |
| Items that do not involve cash | | |
| Investment financing revenue <i>[note 20]</i> | — | (230,612) |
| Amortization | 14,916 | 31,821 |
| Share-based compensation <i>[note 12]</i> | 316,819 | 24,500 |
| Allocation of loss from Oncovent Co., Ltd. <i>[note 24]</i> | 475,771 | — |
| Transfer of OncoVent shares to third party <i>[note 24]</i> | 174,509 | — |
| Fair value adjustment on contract termination <i>[note 21]</i> | — | 2,599,964 |
| Foreign exchange adjustment on preferred share instrument | (695,700) | 695,700 |
| Net change in working capital <i>[note 15]</i> | (475,343) | (938,048) |
| NET CASH FLOWS USED IN OPERATING ACTIVITIES | (4,608,784) | (2,556,771) |
| CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES | | |
| Proceeds from demand and other loans <i>[note 14]</i> | — | 455,000 |
| Repayment of demand loans <i>[note 14]</i> | — | (2,223,042) |
| Private placement proceeds – common shares and warrants <i>[note 10]</i> | — | 3,000,000 |
| Private placement proceeds – preferred shares <i>[note 10]</i> | 5,205,900 | 2,661,400 |
| Share issuance costs | (500) | (20,618) |
| Non-current prepaid expenses | (93,337) | (85,155) |
| NET CASH FLOWS FROM FINANCING ACTIVITIES | 5,112,063 | 3,787,585 |
| CASH FLOWS USED IN INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (8,944) | (1,129) |
| Increase in loan receivable <i>[note 23]</i> | (250,000) | — |
| Redemption of short term investments, net restricted cash | 1,581,307 | — |
| Purchase of restricted short term investments | (39,090) | — |
| Investment in Oncovent Co., Ltd. <i>[note 24]</i> | (1,337,900) | — |
| Foreign exchange loss / (gain) on short term investments | 26,628 | (209,084) |
| Foreign exchange loss / (gain) on non-current monetary assets | 3,150 | (315,172) |
| NET CASH FLOWS USED IN INVESTING ACTIVITIES | (24,849) | (525,385) |
| Effect of foreign currency translation in foreign currency denominated cash | (45,109) | (16,844) |
| Net increase (decrease) in cash | 433,311 | 688,585 |
| Cash, beginning of year | 788,627 | 100,042 |
| Cash, end of year | 1,221,938 | 788,627 |

See accompanying notes

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

1. CORPORATE INFORMATION AND GOING CONCERN UNCERTAINTY

Corporate information

Quest PharmaTech Inc. (the “Company”) is a publicly traded, Canadian based pharmaceutical company developing products to improve the quality of life. The Company through its subsidiary, OncoQuest Inc. (“OncoQuest”) is developing immunotherapies for cancer treatment. OncoQuest’s technology platform includes a panel of tumor antigen specific monoclonal antibodies of the immunoglobulin G (“IgG”) and E (“IgE”) class targeting CA125, MUC1, PSA, Her2/neu, CA 19.9 and TAG72; and the application of combinatorial immunotherapy to enhance tumor specific immunity and clinical outcome. OncoQuest’s lead product, oregovomab, is currently undergoing a Phase 2b clinical trial involving 97 ovarian cancer patients in Italy and the United States. Additional clinical studies are underway or planned for oregovomab in combination with other therapeutic modalities for the treatment of pancreatic and ovarian cancers, which will help to identify optimal design for a product registration trial. OncoQuest’s MUC1 program has already undergone a Phase 1 clinical trial in breast cancer patients. OncoQuest’s next-generation products are based on immunoglobulin E licensed from the University of California at Los Angeles, Stanford University and Advanced Immune Therapeutics, Inc. These antigen-specific monoclonal IgE antibodies are currently in preclinical development.

In addition, the Company owns the photodynamic therapy technology for oncology and dermatology applications, licensed to Bioceltran Co., Ltd. (Bioceltran), a South Korea based company. The Company has an ownership interest in Bioceltran which is focused on transdermal delivery of drugs and photosensitizers for pharmaceutical and cosmetic purposes, called “SP Technology™”. The Company also markets consumer health products worldwide, including Bellus Skin™ serum, a premium anti-wrinkle skin care product licensed from South Korea. The Company is also developing an antibody licensed from the University of Nebraska, Mab AR 9.6 against truncated O-glycan on MUC16, for targeted cancer therapy applications.

The Company’s head office is located at 8123 Roper Road NW, Edmonton, Alberta, Canada T6E 6S4 and it is incorporated under the Business Corporations Act (Alberta). The Company’s functional currency is the Canadian dollar.

The Company is publicly traded on the TSX Venture Exchange under the symbol “QPT”.

These consolidated financial statements have been authorized for issue by the Company’s Board of Directors on May 29, 2017.

Going concern uncertainty

The Company’s consolidated financial statements have been prepared on a going concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has experienced significant operating losses and cash outflows from operations since its inception.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

1. CORPORATE INFORMATION AND GOING CONCERN UNCERTAINTY [CONTINUED]

The Company has incurred a net loss of \$4,134,418 for the year ended January 31, 2017 (2016 - \$4,632,920) and as at January 31, 2017 had working capital of \$8,871,798 (January 31, 2016 – working capital deficiency of \$12,484,236) and a shareholders' equity of \$10,632,248 (January 31, 2016 – shareholders' deficiency of \$2,431,180). Although the Company's subsidiary, OncoQuest Inc., has sufficient cash reserves, the Company has cash reserves of only \$249,000 at January 31, 2017 (January 31, 2016 - \$213,190), accordingly, there is a material uncertainty that may cast significant doubt regarding the Company's ability to continue as a going concern.

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

2. BASIS OF PREPARATION

These consolidated financial statements of the Company were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of May 29, 2017, the date the Board of Directors approved the consolidated statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of measurement

The consolidated financial statements have been prepared on a going concern basis under the historical cost convention.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned and controlled subsidiaries incorporated in Canada as at January 31, 2017:

- OncoQuest Inc., incorporated March 25, 2015 (50.14%)
- Madenco BioSciences Inc., incorporated December 31, 2015 (100%)
- Sonolight Pharmaceuticals Corp. (“Sonolight”) (100%)
- Steroidogenesis Inhibitors Canada Inc. (100%)

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control and continue to be consolidated until the date such control ceases. The financial statements of the subsidiaries are prepared using accounting policies consistently applied. All inter-company transactions and balances have been eliminated in full.

Non-controlling interest is accounted for as the percentage of income (loss) of a subsidiary attributable to the subsidiary’s minority shareholders, based on the minority shareholders’ ownership interest in the subsidiary, and is shown on the consolidated statements of loss of the Company as an adjustment to income and in the equity section of the consolidated statements of financial position.

Cash and restricted cash

Cash and restricted cash consists of liquid bank balances and includes investments with maturities less than three months, carried at fair value.

Short term investments and restricted short term investments

Short term investments and restricted short term investments include short term fixed rate debt securities with maturities of approximately 1 year or less. Other-than-temporary impairment charges are included in financial expenses, net, and unrealized gains (losses), if determined to be temporary, are included in accumulated other comprehensive income in shareholders’ equity. These deposits are classified as held to maturity and recorded at fair value through profit or loss.

Cash and short term investments with restrictions preventing current use are presented as non-current assets.

Inventory

Inventory is recorded at the lower of cost and net realizable value and includes finished goods of Bellus Skin product, importation costs and brokerage fees.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

Investments

Bioceltran Co. Ltd.

The Company has an investment comprised of shares of a private company that have been acquired from a third party (see note 22 – Investment in Bioceltran). The investment was initially recorded at fair value and is subsequently carried at cost. The shares have a cost to the Company of \$107,900 equal to the amount of the up-front license fees paid to the private company. Taken together, these transactions represented non-monetary transactions and for accounting purposes were recognized at nil value because the fair value of the assets exchanged is not reliably measurable. Each reporting period, following acquisition, the Company evaluates whether control or significant influence is exerted by the Company over the affairs of the investee company. Based on the evaluation, the Company accounts for the investment using either the consolidation, equity accounting or cost method. As at January 31, 2017, the Company has determined that control or significant influence does not exist between the Company and the investee, and therefore, the Company has accounted for its investment using the cost method. The Company evaluates the investment each reporting period for evidence of impairment.

OncoVent Co., Ltd.

The Company has an investment in OncoVent Co., Ltd. (see note 24 – Investment in OncoVent). The Company owns 11% of the shares of OncoVent. The Company's subsidiary, OncoQuest, owns 29% of the shares of OncoVent. As a result of the direct and indirect ownership interest in OncoVent, the Company accounts for its investment in OncoVent using the equity method of accounting.

Intangible assets

Intangible assets include proprietary rights, intellectual property and patent rights that have been acquired from third parties. Intangible assets are recorded at historical cost less accumulated amortization. Following acquisition, the Company evaluates the prospective commercialization of the acquired intangible assets. Depending on the results of the evaluation, the Company generally commences amortization of the assets over a period of three to five years.

Intangible assets are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset are reviewed at least at the end of each reporting period. Changes in the expected useful life of the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

Property and equipment

Property and equipment are recorded at historical cost net of government assistance and accumulated amortization. Amortization of property and equipment is calculated over their estimated useful lives on a declining balance or straight-line basis at the following annual rates:

| | |
|--|----------------------------|
| Computer equipment | Declining balance - 30% |
| Furniture and fixtures | Declining balance - 30% |
| Office equipment | Declining balance - 30% |
| Manufacturing and research and development equipment | Declining balance - 30% |
| Leasehold improvements | Straight-line - lease term |

Leases

Leases that transfer substantially all of the risks and benefits of assets to the Company are accounted for as finance leases. Assets under finance leases are recorded at the inception of the lease together with the long-term obligation to reflect the purchase and financing thereof. As at January 31, 2017 and 2016, the Company had no finance leases. Rental payments under operating leases are expensed evenly over the lease term.

Revenue recognition

Under an investment financing arrangement, the Company receives clinical development funding in return for the Company's common shares and future revenue sharing. Revenues associated with investment financing arrangements that require the Company to perform future performance obligations are recognized over the period that the performance obligation is satisfied. The portion related to future periods is recorded as deferred revenue. Revenue related to sales of Bellus Skin is recorded when the product is shipped to the customer. Revenue associated with financial income is recorded when earned.

Research and development

Research and development expenses are expensed as incurred. Upfront and milestone payments made to third parties in connection with specified research and development projects are expensed as incurred.

Investment tax credits

Investment tax credits relating to qualifying scientific research and experimental development expenditures that are recoverable in the current year are accounted for as a reduction in research and development expenditures. Investment tax credits are recognized when the related expenditures are incurred and there is reasonable assurance of their realization.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at year end. Revenue and expenses are translated at exchange rates in effect on the date of the transaction. Gains and losses arising from foreign currency transactions are included in income for the period.

Loan receivable

The Company has a loan receivable with a non-related third party under an arrangement to establish a Swiss based company for sales and marketing for Bellus Skin and related products in Europe, Russia and the GCC countries. Under a loan agreement, the Company is entitled to future payments totally \$250,000 by April, 2018. The loan is recorded at cost.

Government assistance

Non-refundable government assistance towards current expenses is included in the determination of income for the period as a reduction of the expenses to which it relates. Amounts received for future expenditures are recorded as a current liability.

Financial instruments

All financial instruments are classified as either fair value through profit and loss, available-for-sale financial assets, loans and receivables, investments held to maturity or other financial liabilities. Financial assets classified as fair value through profit and loss and available-for-sale are measured on the consolidated statements of financial position at fair value. Subsequent changes in the fair value of held-for-trading financial assets are recognized in net loss immediately. Changes in the fair value of financial assets available-for-sale are recorded in comprehensive income until the investment is derecognized or impaired, at which time amounts would be recorded in net loss. Other comprehensive income and its components, when presented, are included directly in equity as accumulated other comprehensive income. Loans and receivables, investments held to maturity and other financial liabilities are measured on the consolidated statements of financial position at amortized cost.

The Company has designated cash and preferred shares as fair value through profit and loss, its short term investments as held to maturity, its accounts receivable as loans and receivables and its accounts payable and accrued liabilities as other financial liabilities. The investment in Bioceltran is an available-for-sale financial asset. It was initially recorded at fair value and subsequently carried at cost because it is an equity instrument that does not have a quoted price in an active market and whose fair value cannot be reliably measured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

For financial liabilities classified as other, transaction costs that are directly attributable to the issue of the financial liability are recorded as part of the fair value initially recognized for the financial instrument. These costs are expensed using the effective interest rate method and recorded in finance expense.

Impairment of long-lived assets

Assets that are subject to amortization are reviewed at the end of each reporting period for indications that the asset may be impaired. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Long-lived assets other than goodwill that have incurred an impairment loss are reviewed for possible reversal of impairment at each reporting date.

Share-based payments

The Company accounts for share-based payment transactions granted to employees and non-employees using the fair value method. Fair value is calculated using the Black-Scholes option pricing model with the assumptions described in note 12 and is recognized for employees over the vesting period of the options granted, and for non-employees as goods are received or services rendered. The amount of share-based compensation recognized in each period is also based on the number of share options ultimately expected to vest to each participant. As a result, the Company is required to estimate forfeiture rates, which are typically based on historical employee turnover data and trends. Changes in estimated forfeiture rates will impact the recognition of share-based compensation expense from period to period. Consideration paid on the exercise of share-based payments is credited to share capital and the amount in contributed surplus related to the share-based payments exercised is reclassified to share capital.

Under the fair value based method, share-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measured. The cost of share-based payments to non-employees is recognized over the vesting period. For fully vested share-based payments, the cost is measured and recognized at the grant date. Share-based payments are included in the general and administrative and research and development line items on the consolidated statements of loss.

Income taxes

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

differences can be utilized. Deferred income tax assets and liabilities are measured at the tax rates expected to apply in the period when the assets are realized or the liability is settled based on the tax rates that have been enacted or substantively enacted at the date of the consolidated statements of financial position. The carrying amount of the deferred tax asset is reviewed at each consolidated statement of financial position date and reduced to the extent that it is not probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Basic and diluted loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. Diluted loss per share is computed using the treasury stock method. Under this method, options, warrants and convertible securities are assumed to be exercised at the beginning of the period [or at the time of issuance, if later]. Proceeds from the exercise are assumed to be used to purchase common shares at the average market price during the period. Incremental shares [the difference between the number of shares assumed issued and the number of shares assumed purchased] are included in the denominator of the diluted loss per share computation. Diluted net loss per share does not reflect the effect of preferred shares as their inclusion would also be anti-dilutive. The number of preferred shares issued as of January 31, 2017 and 2016 which are not included in the computation of net loss per share amounts, was 3,475,936 and 2,406,417, respectively (See Loss Per Share – note 18).

Use of estimates and significant judgements

The measurement of certain assets and liabilities is dependent upon future events whose outcome will not be fully known until future periods. Therefore, the preparation of these consolidated financial statements requires the Company's management to make estimates and assumptions and apply significant judgements that affect the reported amounts of assets, liabilities and capital reserves. Actual results may vary from those estimated. The amount recorded for stock based compensation and whether the Company controls OncoQuest, are the more significant items which reflect estimates made and judgements applied in the consolidated statements of financial position. Such estimates and assumptions have been made using careful judgments which, in management's opinion, are within reasonable limits of materiality and conform to the significant accounting policies summarized in these consolidated financial statements.

Non-controlling interest

Non-controlling interest represents the portion of the Company's subsidiary, OncoQuest Inc., that is not owned by the Company, measured to be 7.26% at January 31, 2017 (8.30% at January 31, 2016) (See Share Capital - note 10). Non-controlling interest is recorded in the consolidated statements of financial position to reflect the proportionate amount of OncoQuest's net assets belonging to the non-controlling shareholders. Non-controlling interest is also reported on the consolidated statements of loss as a share of loss belonging to non-controlling

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

shareholders.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

Accounting standards and amendments issued but not yet adopted

The listing below includes standards, amendments and interpretations that the Company reasonably expects to be applicable at a future date and intends to adopt when they become effective. The Company is currently assessing the impact of adopting these standards on the consolidated financial statements but does not expect any significant impact.

IFRS 2 – Share – Based Payment

In June, 2016, the IASB issued amendments to IFRS 2 Share Based Payments to clarify the classification and measurement of share-based payment transactions. IFRS 2 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

IFRS 9 - Financial Instruments: Classification and Measurement

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

IFRS 15 Revenue from Contracts with Customers

This new standard establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard has an effective date of January 1, 2018, is applicable to all entities and will supersede all current revenue recognition requirements under IFRS.

IFRS 16 Lease

This new standard specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 applies to annual reporting periods beginning on or after 1 January 2019.

IAS 7 Statement of Cash Flow

The amendments to this standard are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after 1 January 2017, with earlier application being permitted.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

IAS 12 Income Tax

The amendments to this standard relate to the recognition of deferred tax assets and liabilities, with the latter also being subject to a 'probable profits' test. The amendments are effective for annual periods beginning on or after 1 January 2017, with earlier application being permitted.

IAS 28 Investments in Associates and Joint Venture

The amendments to this standard relate to the clarification of certain fair value measurements. The amendments are effective for annual periods beginning on or after 1 January 2018, with earlier application being permitted.

IAS 40 Investment Property

The amendments to this standard clarify transfers of property to, or from, investment property. The amendments are effective for annual periods beginning on or after 1 January 2018, with earlier application being permitted.

4. PARENT CONTROL OF SUBSIDIARY

The Company's subsidiary, OncoQuest, has an ownership structure, as at January 31, 2017 as follows:

| | Number of shares held | Percentage ownership |
|-----------------------|-----------------------|----------------------|
| Quest PharmaTech Inc. | 4,250,100 | 50.14 |
| Hepalink USA Inc. | 3,475,936 | 41.01 |
| Others | 615,000 | 7.26 |
| Quest insider | 135,000 | 1.59 |
| Total | 8,476,036 | 100.00 |

Ownership – Hepalink USA Inc. (“Hepalink”) owns 3,475,936 voting preferred shares of OncoQuest which are convertible into common shares on a one-for-one basis, which equates to a 41.01% voting interest prior to conversion. Hepalink also owns 25,000,000 common shares of the Company representing a 16.62% ownership interest in the Company. Hepalink's combined direct and indirect ownership interest in OncoQuest is therefore 49.5%.

Board and Management - The Board of OncoQuest is composed of five Board members, three nominated by the Company and two nominated by Hepalink. Board decisions govern the activities of OncoQuest.

Preferred Shareholder Rights – The preferred shareholders have certain protective rights which are designed to protect the financial interests and the investments made by the preferred shareholders. These protective interests do not prevent OncoQuest from executing on its business strategy to develop the Immunotherapy Assets. In addition, these protective rights do not restrict the Company's ability to access or use its assets and settle its liabilities.

Based on the above three items, Ownership, Board and Management and Preferred Share Protective Rights, management of the Company has determined that the Company has control over OncoQuest for purposes of these consolidated financial statements.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

5. CASH AND NON-CURRENT RESTRICTED CASH AND SHORT TERM INVESTMENTS

At January 31, 2017, consolidated cash and short term investments were held as follows:

Cash and short term investments:

January 31, 2017:

| | Quest | OncoQuest | Madenco | Total |
|------------------------|---------|-----------|---------|-----------|
| Cash | 249,114 | 922,317 | 50,507 | 1,221,938 |
| Short term investments | — | 8,274,693 | — | 8,274,693 |

January 31, 2016:

| | Quest | OncoQuest | Madenco | Total |
|------------------------|---------|-----------|---------|---------|
| Cash | 213,190 | 575,437 | — | 788,627 |
| Short term investments | — | — | — | — |

Each company is responsible for its cash and short term investment balances.

Short term investments include short term fixed rate debt securities with maturities of approximately 1 year or less, held with a major Canadian chartered bank.

Non-current restricted cash and short term investments:

January 31, 2017:

| | Quest | OncoQuest | Madenco | Total |
|------------------------|-------|-----------|---------|--------|
| Cash | — | — | — | — |
| Short term investments | — | 39,090 | — | 39,090 |

The Company classified \$39,090 of its short term investments as non-current and restricted on the consolidated statement of financial position as at January 31, 2017, comprised of \$US30,000 restricted as security for credit card purchases.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

5. CASH AND NON-CURRENT RESTRICTED CASH AND SHORT TERM INVESTMENTS [CONTINUED]

January 31, 2016:

| | Quest | OncoQuest | Madenco | Total |
|------------------------|-------|-----------|---------|-----------|
| Cash | — | 1,566,000 | — | 1,566,000 |
| Short term investments | — | 8,290,000 | — | 8,290,000 |

The Company classified \$1,566,000 of its cash and \$8,290,000 of its short term investments as non-current and restricted on the consolidated statement of financial position as at January 31, 2016. This includes \$8,448,000 (US\$ 6,000,000) received from the private placement with Hepalink that is to be retained in OncoQuest’s bank account until approval of filed securities documents with securities regulatory authorities or until 80% of the OncoQuest Board approves otherwise (note 10). It also includes \$1,408,000 (\$US 1,000,000) that is restricted to an investment to be made in Oncovent Co Ltd (note 10 and 24) that will be classified as a non-current asset.

On July 11, 2016, the Board of the Company’s subsidiary, OncoQuest, unanimously approved the removal of the cash restrictions on \$US6,000,000 of preferred share private placement proceeds.

6. INTANGIBLE ASSETS

| | IgE Technology | Immunotherapy Technology | Hypocrellin Based Technology and Licenses | CDK Technology | Totals 2017 | Totals 2016 |
|---|----------------|--------------------------|---|----------------|--------------|--------------|
| Cost, beginning of year | 63,892 | 237,500 | 2,476,822 | 233,000 | 3,011,214 | 3,011,214 |
| Additions | — | — | — | — | — | — |
| Deletions | — | — | — | — | — | — |
| Cost, end of year | 63,892 | 237,500 | 2,476,822 | 233,000 | 3,011,214 | 3,011,214 |
| Accumulated amortization, beginning of year | 63,892 | 237,500 | 2,476,822 | 228,334 | 3,006,548 | 2,988,790 |
| Amortization | — | — | — | 2,668 | 2,668 | 17,754 |
| Accumulated amortization, end of year | 63,892 | 237,500 | 2,476,822 | 231,002 | 3,009,216 | 3,006,544 |
| Net book value | — | — | — | 1,998 | 1,998 | 4,670 |

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

6. INTANGIBLE ASSETS [CONTINUED]

TECHNOLOGIES

Allergo-Oncology technology and licenses (“IgE technology”)

During September, 2012, the Company signed a technology purchase agreement with Advanced Immune Therapeutics, Inc. (“AIT”) to acquire the proprietary rights and intellectual property related to an allergo-oncology technology based on tumor associated Immunoglobulin E (IgE) antibody for the treatment of cancer. Under the terms of the agreement, consideration for the purchase consisted of payment of \$40,000 U.S. for past patent costs and the issuance of 500,000 common shares, valued for accounting purposes at \$0.05 per common share, which reflected the closing price of the common shares on the date of issuance of \$25,000. The agreement requires the Company to make milestone and royalty payments to AIT on future revenues. The Company amortized this asset on a straight-line basis over a three year period. This intangible asset is fully amortized.

Immunotherapy technology and licenses (“Immunotherapy technology”)

During September, 2009, the Company signed a technology purchase agreement with Paladin Labs Inc. (“Paladin”) to acquire the proprietary rights and intellectual property related to an antibody immunotherapy technology. Under this technology, the Company acquired product candidates consisting of five monoclonal antibodies targeting certain tumor antigens that are presented in a variety of cancers. Under the terms of the agreement, consideration for the purchase consisted of a cash payment of \$37,500 and the issuance of 1,500,000 common shares upon the effective date of the purchase and an additional 1,500,000 common shares to be issued no later than December 31, 2010. The common shares issued on the effective date and those issued prior to December 31, 2010 were valued for accounting purposes at \$0.04 per share which reflected the closing price of the common shares on the effective date of the purchase (\$60,000 and \$60,000 respectively). Under the terms of the agreement a further 2,000,000 common shares were contingently issuable upon successful future financing initiatives by the Company. On October 22, 2010, the Company decided to take control over the technology and issued the final 3,500,000 common shares under the agreement. The 2,000,000 common shares issued on October 22, 2010 reflecting the contingent consideration were valued for accounting purposes at \$0.04 per share, which reflected the closing price of the common shares at that date of \$80,000. The agreement also requires the Company to make milestone and royalty payments to Paladin on future revenues. This intangible asset is fully amortized.

In August, 2015, the Company transferred its interest in the Immunotherapy and IgE technologies to its subsidiary, OncoQuest, in return for the issuance of 5,000,000 common shares of OncoQuest. This is intended to be a tax deferred transaction. During November, 2015, the Company transferred certain Immuno-Photodynamic therapy patents to OncoQuest for U.S. \$2 million. These intercompany transactions were eliminated upon consolidation.

Hypocrellin-based technology and licenses (proprietary rights)

The Company’s subsidiary, Sonolight, holds the exclusive worldwide license to develop, commercialize and exploit several proprietary inventions involving a class of sonosensitizers and their use in cancer and non-cancer therapies. Sonolight signed a licensing agreement dated March 6, 2001 with the University of Alberta. The

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

6. INTANGIBLE ASSETS [CONTINUED]

license agreement is for a term of 25 years. The agreement requires royalty payments upon successful sales and marketing of products developed using the technology. The Company has amortized this asset on a straight-line basis over a three-year period that commenced August 1, 2001. This intangible asset is fully amortized.

Targeted Cancer Therapy Technologies

CDK technology (proprietary rights)

The Company owns the worldwide rights to develop, manufacture and sell the CDK technology, a novel immunomodulator with anti-cancer properties. As consideration for its acquisition of the technology, the Company must issue 400,000 common shares as certain milestones outlined in the technology purchase agreement are met. Prior to fiscal 2015, the Company issued 200,000 shares under the agreement. During fiscal 2015, the Company issued the remaining 200,000 common shares to consolidate the ownership of this technology. These shares have been recorded at a value that represents the closing price of the common shares on the date the shares were issued. The Company is amortizing the remainder of this asset on a straight-line basis over a three-year period, commencing on November 1, 2014.

Mab AR9.6 technology

The Company has also licensed from the University of Nebraska an antibody, MAb AR9.6, that binds to a novel cancer target (truncated O-glycans on MUC16) that has potential for oncology applications. Quest is developing this product in collaboration with the University of Nebraska Medical Center.

Protein Transduction Domain (PTD) Drug Delivery Technology

Madenco BioSciences Inc., a subsidiary of Quest, and Bioceltran are developing skin penetrating active molecules for cosmetic and pharmaceutical use based on Bioceltran's PTD technology. Madenco has the worldwide rights to certain products developed with Bioceltran's PTD technologies for certain indications.

Out License of Sonolight Technology

In fiscal 2015, the Company out-licensed its Sonolight Technology for Dermatology and Oncology applications to Bioceltran in return for future royalty income. Bioceltran is working with Quest to develop the Sonolight Technology for various applications.

Cosmetics

Madenco has an exclusive supply and distribution arrangement with Smart Cell Tec for marketing and distribution of Bellus Skin, an anti-wrinkle skin care product.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

7. PROPERTY AND EQUIPMENT

For the year ended January 31, 2017:

| | Computer Equipment | Furniture and Fixtures | Office Equipment | Manufacturing and Research and Development Equipment | Leasehold Improvements | Totals 2017 | Totals 2016 |
|---|--------------------|------------------------|------------------|--|------------------------|---------------|---------------|
| Cost, beginning of year | 88,582 | 12,114 | 31,494 | 457,983 | 10,220 | 600,393 | 599,264 |
| Additions | 8,944 | — | — | — | — | 8,944 | 1,129 |
| Deletions | — | — | — | — | — | — | — |
| Cost, end of year | 97,526 | 12,114 | 31,494 | 457,983 | 10,220 | 609,337 | 600,393 |
| Accumulated amortization, beginning of year | 82,353 | 11,999 | 31,309 | 438,135 | 6,516 | 570,312 | 556,245 |
| Amortization | 2,918 | 34 | 56 | 5,992 | 3,248 | 12,248 | 14,067 |
| Accumulated amortization, end of year | 85,271 | 12,033 | 31,365 | 444,127 | 9,764 | 582,560 | 570,312 |
| Net book value | 12,255 | 81 | 129 | 13,856 | 456 | 26,777 | 30,081 |

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

7. PROPERTY AND EQUIPMENT [CONTINUED]

For the year ended January 31, 2016:

| | Computer Equipment | Furniture and Fixtures | Office Equipment | Manufacturing and Research and Development Equipment | Leasehold Improvements | Totals 2016 | Totals 2015 |
|--|-----------------------|---------------------------|---------------------|--|---------------------------|---------------|---------------|
| Cost, beginning of year | 87,453 | 12,114 | 31,494 | 457,983 | 10,220 | 599,264 | 590,066 |
| Additions | 1,129 | — | — | — | — | 1,129 | 9,198 |
| Deletions | — | — | — | — | — | — | — |
| Cost, end of year | 88,582 | 12,114 | 31,494 | 457,983 | 10,220 | 600,393 | 599,264 |
| Accumulated amortization, beginning of year | 80,168 | 11,950 | 31,230 | 429,628 | 3,269 | 556,245 | 540,720 |
| Amortization | 2,185 | 49 | 79 | 8,507 | 3,247 | 14,067 | 15,525 |
| Accumulated amortization, end of year | 82,353 | 11,999 | 31,309 | 438,135 | 6,516 | 570,312 | 556,245 |
| Net book value | 6,229 | 115 | 185 | 19,848 | 3,704 | 30,081 | 43,019 |

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

8. INCOME TAXES

Details of the components of income taxes from operations are as follows:

| | 2017 \$ | 2016 \$ |
|--|-------------|-------------|
| Loss from operations | (4,419,756) | (4,740,096) |
| Statutory tax rate | 27.00% | 26.18% |
| Income tax recovery at Canadian statutory tax rate | (1,193,334) | (1,240,957) |
| Adjustment in income taxes resulting from: | | |
| Non-deductible expenses | 86,435 | 7,187 |
| Non-deductible fair value adjustment on contract termination | — | 680,671 |
| Expiry of loss carryforwards | — | — |
| Impact on deferred tax assets resulting from statutory rate increase | (32,410) | (322,761) |
| SR&ED adjustments and other | — | 110,160 |
| Tax impact of capital gain transactions | 562,902 | 447,019 |
| Potential deferred tax assets not recognized | 576,407 | 318,681 |
| Deferred tax recovery | — | — |

Significant components of the Company's deferred tax balances are as follows:

| | 2017 \$ | 2016 \$ |
|--|-------------|-------------|
| Deferred tax assets | | |
| Non-capital loss carryforwards | 2,920,675 | 2,427,540 |
| Tax cost of property, plant and equipment in excess of book values | 986,423 | 653,949 |
| Tax cost of intangible assets in excess of book values | 80,734 | 80,883 |
| Share issuance costs | 21,968 | 3,732 |
| Unrealized foreign exchange | — | 187,839 |
| Scientific research and experimental development expenditure pool | 966,580 | 966,580 |
| Capital loss carryforwards | 64,816 | 104,583 |
| | 5,071,196 | 4,425,106 |
| Valuation allowance | (5,071,196) | (4,425,106) |

The Company and its subsidiaries have non-capital losses for income tax purposes of approximately \$10,817,313 at January 31, 2017 (2016 – \$8,990,887), and scientific research and experimental development expenses of approximately \$3,579,927 at January 31, 2017 (2016 – \$3,579,927) that can be applied against taxable income. The benefit of these deductible temporary differences has not been recognized. The Company also has investment tax credits (“ITCs”) of \$702,400 (2016 – \$702,400) that can be applied against future taxable income

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

8. INCOME TAXES [CONTINUED]

for which no deferred tax asset has been recognized. The Company also has capital losses for income tax purposes of approximately \$480,119 at January 31, 2017 (2016 - \$387,345) which carryforward indefinitely and can be applied against future taxable capital gains for which no deferred tax asset has been recognized.

The non-capital losses and investment tax credits (“ITCs”) available for carry forward will expire as follows:

| | Non-capital losses | ITC |
|---------------|--------------------|----------------|
| | \$ | \$ |
| 2026 | 2,440,282 | — |
| 2027 | 1,137,273 | 91,300 |
| 2028 | 614,800 | 98,900 |
| 2029 | 97 | 198,900 |
| 2030 | 122 | 48,700 |
| 2031 | 809,406 | 63,700 |
| 2032 | 524,854 | 41,500 |
| 2033 | 727,483 | 50,200 |
| 2034 | 98 | 75,400 |
| 2035 | 1,344,512 | 33,800 |
| 2036 | 695,722 | — |
| 2037 | 2,522,664 | — |
| Totals | 10,817,313 | 702,400 |

9. COMMITMENTS AND CONTINGENCIES

a) Lease obligations

The Company is committed to future minimum lease payments, including estimated operating costs, for its business premises as follows:

| | |
|---------------------|----------------|
| | \$ |
| 2018 | 63,916 |
| 2019 | 62,889 |
| 2020 | 62,889 |
| 2021 | 62,889 |
| 2022 and thereafter | 62,889 |
| | <u>315,472</u> |

The Company recognized \$63,057 of lease expense in the consolidated statements of loss in fiscal 2017 (2016 – \$70,552).

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

9. COMMITMENTS AND CONTINGENCIES [CONTINUED]

b) Research and development and other activities

Subject to successful completion of contractual milestones, the Company has commitments to fund various research and development and other activities in the normal course of business as follows:

| | \$ |
|---------------------|------------------|
| 2018 | 4,551,091 |
| 2019 | 2,762,571 |
| 2020 | 480,149 |
| 2021 | 428,700 |
| 2022 and thereafter | 233,250 |
| | <u>8,455,761</u> |

In fiscal 2014, the Company entered into a total of four licensing agreements with two Universities located in the United States. The licensing agreements require ongoing license maintenance fees which continue until the contract is terminated. As the duration and success of the contracts are unknown, the Company has included estimated licensing fees for five years in the schedule above and has not included any amounts after the five year period. The total amount included for these licensing agreements in the five year period is approximately \$521,200 at varying amounts per year.

The Company subsidiary, OncoQuest, has an arrangement with Oncovir, Inc. (“Oncovir”), a drug development company, to evaluate the clinical utility of combining OncoQuest’s antibody immunotherapy technology with Oncovir’s immune activator “Hiltonol®”. If we are satisfied with the results of the evaluation, the Company and Oncovir are obligated to enter into a worldwide non-exclusive license for the right to develop, use and sell Hiltonol® containing targeted vaccines and our other products that contain Hiltonol® for any and all uses. The license agreement will provide for the Company to make a US\$300,000 binding purchase order of Hiltonol® upon commencement of clinical trials and a US\$300,000 milestone payment upon receipt of US or EU marketing approval of a product candidate. In addition, the Company agreed that the license agreement will pay Oncovir royalty payments on net sales of combination products equal to: 2% on net sales up to US\$250 million, 4% on net sales between US\$250 million and US\$500 million and 6% on net sales over US\$500 million; provided the total royalty payment to Oncovir will be limited to US\$50 million on the first product candidate to reach market.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

10. SHARE CAPITAL

Authorized

Unlimited number of common shares without nominal or par value
Unlimited number of first preferred shares
Unlimited number of second preferred shares

The first and second preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

Issued

| | Number of common shares | Amount \$ |
|---|------------------------------------|----------------------|
| Common shares | | |
| At January 31, 2015 | 108,755,913 | 26,164,791 |
| Shares issued pursuant to a private placement | 16,666,667 | 656,798 |
| Shares issued pursuant to a private placement | 25,000,000 | 1,989,250 |
| At January 31, 2016 | <u>150,422,580</u> | <u>28,810,839</u> |
| At January 31, 2017 | <u>150,422,580</u> | <u>28,810,839</u> |

In August, 2015, the Company raised \$1,000,000 cash through the issuance of 16,666,667 units at \$0.06 per unit, each unit comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at \$0.10 per common share. The warrants expire on August 10, 2017. The shares were valued at \$0.04 per share which represented the closing price of the common shares on the date of issue. The common share purchase warrants were valued at \$0.02 per warrant using the Black-Scholes option valuation model. These common shares are recorded net of share issuance costs of \$9,871.

In November, 2015, the Company raised \$2,000,000 cash through the issuance of 25,000,000 common shares at \$0.08 per common share. These common shares are recorded net of share issuance costs of \$10,750.

The Company's subsidiary, OncoQuest, issued the following preferred shares:

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

10. SHARE CAPITAL [CONTINUED]

Series A Preferred Shares

| | Number of shares | Amount \$ |
|--|------------------|-------------------|
| At January 31, 2015 | — | — |
| Shares issued pursuant to a private placement | 2,406,417 | 11,976,300 |
| Foreign exchange adjustment at January 31, 2016 | | 695,700 |
| At January 31, 2016 | 2,406,417 | 12,672,000 |
| Shares issued pursuant to a private placement | 267,380 | 1,340,000 |
| Foreign exchange adjustment at April 30, 2016 | | (1,463,000) |
| Shares issued pursuant to a private placement | 802,139 | 3,865,200 |
| Preferred share adjustment for equity classification | | 752,165 |
| At January 31, 2017 | 3,475,936 | 17,166,365 |

On November 12, 2015, as part of a US\$13,000,000 preferred share private placement with Hepalink USA Inc. (Hepalink), OncoQuest raised \$11,976,300 (US\$9,000,000) through the issuance of 2,406,417 Series A preferred shares at US\$3.74 per Series A preferred share. The preferred shares were issuable in three tranches as OncoQuest met certain technology transfer milestones under the preferred share subscription agreement. This issuance was the first tranche of three tranches. The second tranche of 267,380 preferred shares for \$1,340,000 (US\$1,000,000) was issued on March 1, 2016. The third tranche of 802,139 preferred shares for \$3,865,200 (US\$3,000,000) was issued on May 4, 2016.

The funds received by OncoQuest were subject to certain restrictions on the availability and use of cash as follows:

US\$4,000,000 for research and development, working capital and general corporate purposes

US\$2,000,000 for payment to Quest for patent acquisitions

US\$1,000,000 for payment to OncoVent (refer to note 24 – Investment in OncoVent)

US\$6,000,000 to be retained by OncoQuest until approval of filed securities documents with securities regulatory authorities or until 80% of the OncoQuest Board approved otherwise.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

10. SHARE CAPITAL [CONTINUED]

On July 11, 2016, the Board of OncoQuest, unanimously approved the removal of the cash restrictions on \$US6,000,000 of preferred share private placement proceeds.

The preferred shares have voting rights equivalent to OncoQuest common shares, carry a 5% cumulative annual dividend payable upon conversion and are convertible one-for-one into common shares of OncoQuest, subject to adjustments, upon a public offering of common shares. The preferred shares are also convertible at the option of the holder.

The preferred shares are redeemable for US\$3.74 cash per share in the event of a deemed liquidation of assets or merger of OncoQuest.

The preferred shares carry protective rights which are designed to protect the financial interests and investment of the preferred shareholders. These protective rights are designed to ensure that the assets of OncoQuest are used in a responsible manner. The protective rights do not significantly restrict or prevent OncoQuest from executing on its business strategies to develop the Immunotherapy Assets.

For the year ended January 31, 2016 and as at April 30, 2016, the preferred share instrument had been recorded as a liability on the consolidated statements of financial position due to (i) the possibility that the preferred shares may be converted into a variable number of OncoQuest common shares in the event that OncoQuest issues additional common shares prior to conversion for per share proceeds less than US\$3.74 per common share and (ii) the preferred share dividends having a cumulative feature that results in an obligation.

During 2017 fiscal year, the Company amended the terms of the preferred shares such that (i) the preferred shares may only be converted into a fixed number of OncoQuest common shares and (ii) the preferred share dividends are payable as and when declared by the Board. As a result, the preferred shares are recorded as equity at January 31, 2017.

The following options to purchase common shares were outstanding as at January 31, 2017:

| Exercise price | Options outstanding | Weighted average remaining life | Options exercisable |
|-----------------------|----------------------------|--|----------------------------|
| \$ | # | (years) | # |
| 0.10 | 11,390,000 | 4.38 | 11,390,000 |
| 0.15 | 1,450,000 | 0.27 | 1,450,000 |
| 0.25 | 1,760,000 | 0.21 | 1,760,000 |
| | 14,600,000 | 4.86 | 14,600,000 |

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

10. SHARE CAPITAL [CONTINUED]

The following schedule details the warrants and share options granted and expired:

| | Shares issuable on exercise of | | | |
|----------------------------------|--------------------------------|---|------------------------------------|---|
| | Warrants | | Share options | |
| | Number of warrants # | Weighted average exercise price \$ | Number of share options # | Weighted average exercise price \$ |
| Balance, January 31, 2015 | 13,429,167 | 0.14 | 11,790,000 | 0.10 |
| Granted | 16,666,667 | 0.10 | 1,800,000 | 0.25 |
| Expired | (10,000,000) | 0.15 | (250,000) | 0.10 |
| Balance, January 31, 2016 | 20,095,834 | 0.10 | 13,340,000 | 0.12 |
| Granted | 3,429,167 | 0.16 | 1,260,000 | 0.15 |
| Expired | (3,429,167) | 0.10 | — | — |
| Balance, January 31, 2017 | 20,095,834 | 0.11 | 14,600,000 | 0.12 |

Warrants

| | Number of warrants | Fair value (\$) |
|---------------------------|--------------------|-----------------|
| Balance, January 31, 2015 | 13,429,167 | 468,583 |
| Warrants issued | 16,666,667 | 333,334 |
| Warrants expired | (10,000,000) | (400,000) |
| Balance, January 31, 2016 | 20,095,834 | 401,917 |
| Warrants issued | 3,429,167 | 34,292 |
| Warrants expired | (3,429,167) | (68,583) |
| Balance, January 31, 2017 | 20,095,834 | 367,626 |

In January 2014, the Company issued 10,000,000 share purchase warrants exercisable at \$0.15 per common share pursuant to a private placement of units. The warrants were valued at \$0.04 per warrant using the Black-Scholes option valuation model with the following assumptions (dividend rate – 0.00%, volatility – 153.1%, risk-free interest rate – 0.96%, expected life – 2 years). The warrants expired on January 23, 2016.

In September 2014, the Company issued 3,429,167 share purchase warrants exercisable at \$0.10 per common share pursuant to a private placement of units. The warrants were valued at \$0.02 per warrant using the Black-Scholes option valuation model with the following assumptions (dividend rate – 0.00%, volatility – 121.8%, risk-free interest rate – 1.13%, expected life – 2 years). The warrants were to expire 24 months from the date of issue, on September 26, 2016. On September 16, 2016, the Company amended the terms of these warrants which

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

10. SHARE CAPITAL [CONTINUED]

are now set to expire on March 26, 2018. The warrants have also been repriced to \$0.16. The amended warrants were valued at \$0.01 per warrant using the Black-Scholes option valuation model with the following assumptions (dividend rate – 0.00%, volatility – 102.5%, risk-free interest rate – 1.00%, expected life – 1.5 years).

In August, 2015, the Company issued 16,666,667 share purchase warrants exercisable at \$0.10 per common share pursuant to a private placement of units. The warrants were valued at \$0.02 per warrant using the Black-Scholes option valuation model with the following assumptions (dividend rate – 0.00%, volatility – 121.4%, risk-free interest rate – 0.39%, expected life – 2 years). The warrants expire 24 months from the date of issue, on August 10, 2017.

Company share options

For the year ended January 31, 2017, the Company granted 1,260,000 share options, as per the Company's Share Option Plan to an employee and to non-employees at exercise prices ranging from \$0.15 - \$0.25, with vesting provisions up to 6 months (note 12).

For the year ended January 31, 2016, the Company granted 1,800,000 share options, as per the Company's Share Option Plan. These options vested immediately on date of grant. All of these share options, with exercise prices ranging from \$0.10 - \$0.25 per share, were granted to non-employees (note 12).

On November 27, 2015, the Company obtained shareholder approval to amend its Share Option Plan such that the aggregate number of common shares eligible for issuance under the Share Option Plan shall not exceed 25,000,000. As at January 31, 2017, 10,400,000 options are available for issue.

OncoQuest share options

OncoQuest's stock option plan permits the Board of Directors of the Company to grant incentive stock options to directors, officers, managers, employees and consultants of the Company. Pursuant to the plan, options may be granted to acquire a rolling number of common shares (currently up to 10% of the issued and outstanding shares of the Company).

The options shall include vesting provisions as determined by the Board of Directors, are non-transferable and will expire no later than the tenth anniversary of the date the option was granted.

On August 8, 2016, OncoQuest granted a total of 570,000 stock options under OncoQuest's stock option plan. The options have a 10 year expiry, were exercisable at \$5.00 (\$US3.74) per share with vesting provisions over a four year period. The fair value of options vesting of \$238,235 was recognized as a stock based payment expense and credited to additional paid-in capital. On December 29, 2016, OncoQuest's Board approved the repricing of the exercise price of these stock options to \$2.90 (\$US2.18) from \$5.00 (\$US3.74) per share. As a result of the re-pricing, OncoQuest recorded an additional amount of \$25,084 that was recognized as stock based payment expense for these vested options.

Quest PharmaTech Inc.

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January 31, 2017

10. SHARE CAPITAL [CONTINUED]

On January 16, 2017, OncoQuest granted 40,000 stock options under OncoQuest's stock option plan. These options have a 10 year expiry, are exercisable at \$2.90 (\$US2.18) per share and vest over a four year period. The fair value of these options vesting in 2017 of \$18,500, was recognized as a stock-based payment expense and credited to additional paid-in capital in OncoQuest.

The following table summarizes the activity related to stock option grants for the year ended January 31, 2017:

| | Option Shares | Weighted Average Exercise Price Per Common Share Outstanding |
|----------------------------------|--------------------------|---|
| Balance, February 1, 2016 | — | — |
| Granted during year | 610,000 | \$2.90 |
| Balance, January 31, 2017 | 610,000 | \$2.90 |
| Vested, January 31, 2017 | 152,500 | \$2.90 |

The Black-Scholes option pricing model was used to estimate the fair value of these options. The Company considers historical volatility of comparable companies common shares in estimating future share price volatility.

The following assumptions, were used:

| | Year ended January 31, 2017 | Year ended January 31, 2016 |
|------------------------------|-----------------------------------|-----------------------------------|
| Dividend yield | 0.00% | — |
| Volatility | 81.0% | — |
| Risk-free interest rate | 1.02% | — |
| Expected life (years) | 10.0 | — |
| Fair value per option | CAN\$1.85 | — |

Approximately \$846,375 of unrecognized compensation expense at January 31, 2017 will be recognized ratably through July 2020. The intrinsic value of stock options vested and unvested at January 31, 2017 is \$nil.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

10. SHARE CAPITAL [CONTINUED]

Non-controlling interest

Non-controlling interest represents the proportionate share of the Company's subsidiary, OncoQuest Inc., that is owned by minority shareholders, measured to be 7.26 % at January 31, 2017:

| OncoQuest Ownership: | Number of shares owned | Percentage ownership |
|-----------------------------|-------------------------------|-----------------------------|
| Hepalink | 3,475,936 | 41.01% |
| Others | 615,000 | 7.26% |
| Quest | 4,250,100 | 50.14% |
| Quest insider | 135,000 | 1.59% |
| Total | 8,476,036 | 100% |

| OncoQuest Financial information at: | January 31, 2017 | January 31, 2016 |
|--|-------------------------|-------------------------|
| OncoQuest fiscal 2017 net loss, after elimination of intercompany transactions | (\$3,930,276) | (\$1,289,283) |
| Non-controlling interest portion (7.26%) | (\$285,338) | (\$107,176) |
| OncoQuest current assets | | |
| - Cash | \$922,317 | \$575,437 |
| - Short term investments | \$8,274,693 | - |
| - Other current assets | \$558,658 | \$12,914 |
| Total current assets | \$9,755,668 | \$588,531 |
| OncoQuest non-current assets | \$706,656 | \$9,931,864 |
| OncoQuest current liabilities | \$580,575 | \$418,735 |

Non-controlling interest is recorded in the consolidated statements of financial position to reflect the claim on the Company's assets belonging to the non-controlling shareholders.

| | \$ |
|-----------------------------|---------|
| Balance, January 31, 2016 | 107,068 |
| Year ended January 31, 2017 | 285,338 |
| Balance, January 31, 2017 | 392,406 |

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

10. SHARE CAPITAL [CONTINUED]

Non-controlling interest is also reported on the consolidated statements of loss as a share of loss belonging to non-controlling shareholders.

| | Year ended January 31, 2017 | Year ended January 31, 2016 |
|---------------------------------|-----------------------------|-----------------------------|
| | \$ | \$ |
| Non-controlling interest | 285,338 | 107,176 |

Non-controlling interest is recorded in the consolidated statements of financial position to reflect the claim on the Company's assets belonging to the non-controlling shareholders. Non-controlling interest is also reported on the consolidated statements of loss as a share of loss belonging to non-controlling shareholders.

11. CAPITAL DISCLOSURES

The Company is a biotechnology company and consistent with other companies in the industry, the Company's objectives when managing capital are to safeguard its accumulated capital in order to maintain its ability to operate as a going concern so that it can continue with its drug development program and strive to maximize shareholder value. Capital is defined by the Company as shareholders' equity / deficiency (primarily comprising of share capital, contributed surplus and deficit). The Company manages its capital structure, and makes adjustments to it based on the needs of the Company's operations and the requirement for funding to continue with the Company's drug development program. The Company does this through new share or debt issuances, selling assets or licensing its technologies to third parties to fund operations. Other than the restrictions imposed upon cash and short term investments, the Company is not subject to any externally imposed capital requirements.

12. SHARE-BASED PAYMENTS

For the year ended January 31, 2017, the Company granted a total of 1,260,000 (2016 – 1,800,000) share options under the Company's Share Option Plan. Options vested over periods ranging to 6 months. The fair value of options vesting in 2017 of \$35,000 (2016 - \$24,500) was recognized as a share-based payment expense and credited to contributed surplus for the years ended January 31, 2017 and 2016. There were no forfeitures of Company's share options during the years ended January 31, 2017 and 2016.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

12. SHARE-BASED PAYMENTS [CONTINUED]

The Company used the Black-Scholes option pricing model to estimate the fair value of these options. The Company considers historical volatility of its common shares in estimating future share price volatility. The following assumptions, disclosed on a weighted average basis, were used:

| | 2017 | 2016 |
|-------------------------|--------|---------|
| Dividend yield | 0.00% | 0.00% |
| Volatility | 118.9% | 115.5% |
| Risk-free interest rate | 1.13% | 0.614% |
| Expected life (years) | 3.06 | 3.194 |
| Fair value per option | \$0.03 | \$0.014 |

For share options issued to non-employees, the Company has determined that the fair value of the share options issued (\$35,000 in 2017, \$24,500 in 2016) is a reliable measure of the fair value of the services provided to the Company by non-employees.

OncoQuest Stock Option Plan:

For the year ended January 31, 2017, OncoQuest granted a total of 610,000 (2016 – nil) share options under its share option plan. The options have vesting provisions over a four year period. The fair value of options vesting in 2017 of \$281,819 (2016 – nil) was recognized as a share based payment expense and credited to contributed surplus for the year ended January 31, 2017. There were no forfeitures of OncoQuest’s share options during the years ended January 31, 2017 and 2016.

The Black-Scholes option pricing model was used to estimate the fair value of these options. OncoQuest considers historical volatility of comparable companies common shares in estimating future share price volatility.

The following assumptions, were used:

| | Year ended January 31, 2017 | Year ended January 31, 2016 |
|-------------------------|-----------------------------------|-----------------------------------|
| Dividend yield | 0.00% | — |
| Volatility | 81.0% | — |
| Risk-free interest rate | 1.02% | — |
| Expected life (years) | 10.0 | — |
| Fair value per option | \$1.85 | — |

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

13. SEGMENT DISCLOSURES

During fiscal 2015, the Company made a decision to develop a marketing strategy to market and sell consumer products, including the cosmetic skin care product, Bellus Skin™. As a result, at January 31, 2017, the Company has two operating segments – biopharmaceutical/pharmaceutical products and consumer/cosmetic products. Management assesses performance and makes resource decisions based on the consolidated results of operations of these operating segments. Substantially all of the operations of the Company are directly engaged in or support these operating segments.

| | Year ended Jan 31, 2017 | | | Year ended Jan 31, 2016 | | |
|------------------------------|-------------------------|------------------------|-------------|-------------------------|------------------------|-------------|
| | Pharmaceuticals | Consumer/ Cosmetics | Total | Pharmaceuticals | Consumer/ Cosmetics | Total |
| Revenue | | | | | | |
| Bellus Skin sales | — | 2,569 | 2,569 | — | — | — |
| Bellus Skin COGS | — | (1,187) | (1,187) | — | — | — |
| Investment financing revenue | — | — | — | 230,612 | — | 230,612 |
| | — | 1,382 | 1,382 | 230,612 | — | 230,612 |
| Expenses | | | | | | |
| G&A | 2,038,660 | 177,702 | 2,216,362 | 869,338 | 96,147 | 965,485 |
| R&D | 2,101,879 | — | 2,101,879 | 1,243,550 | — | 1,243,550 |
| Other | 101,760 | 1,137 | 102,897 | 2,861,673 | (100,000) | 2,761,673 |
| | 4,242,299 | 178,839 | 4,421,138 | 4,974,561 | (3,853) | 4,970,708 |
| Net loss | (4,242,299) | (177,457) | (4,419,756) | (4,743,949) | 3,853 | (4,740,096) |

Investment financing revenue represents deferred investment financing revenue recognized into income during the period.

Revenues are attributed to countries based on location of customers or counterparties. Revenues by geographic area are:

Canada (2017 - \$2,569; 2016 - \$nil)

Asia (2017 - \$nil; 2016 - \$230,612)

The Company has included revenue and expense information in its segmented disclosures. Information concerning the Company's assets and liabilities has not been disclosed by segment as these items are managed on a group basis.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

14. DEMAND LOANS AND RELATED PARTY TRANSACTIONS

During the year ended January 31, 2011, the Company entered into a demand loan agreement with a company controlled by an officer of the Company to provide up to \$1,000,000 bearing interest at 8% compounded annually to be used for the Company's operating expenditures. This financing is unsecured, with interest payable monthly and with principal repayment to be made 30 days after demand. As at January 31, 2015, the Company had drawn \$680,000 on this financing. During the year ended January 31, 2016, this demand loan financing was repaid in full.

During the year ended January 31, 2012, the Company secured additional demand loan financing of \$100,000 from a director of the Company. This demand loan financing bears interest at 8% per annum, interest payable monthly and is unsecured with principal repayment to be made 30 days after demand. During the year ended January 31, 2016, this demand loan financing was repaid in full.

During fiscal 2013, 2014 and 2015, the Company secured demand loan financing of \$140,000 from an officer of the Company. During fiscal 2016, this demand loan financing was repaid in full.

During fiscal 2015 and 2016, the Company secured \$1,303,042 of demand loan financings from unrelated third parties to the Company. During fiscal 2016, these demand loan financings were repaid in full.

These demand loan financings bear interest at 8% per annum with interest payable monthly and are unsecured with principal repayment to be made 30 days after demand. During the year ended January 31, 2016, the Company incurred \$130,014 in interest under the demand loan financings, of which \$57,955 was incurred in connection with related parties, all of which was paid during fiscal 2015 and 2016.

Under the Company's August, 2015 unit offering private placement, officers of the Company purchased \$69,000 worth of units.

Cost Sharing Agreement - The Company and OncoQuest operate in the same lease space. In December, 2015, the Company entered into a Cost Sharing agreement with OncoQuest whereby certain of the common costs (leasing costs, utilities, etc.) are shared on an equal 50/50 basis between the companies. These costs are approximately \$7,500 gross per month, and fluctuate on a month to month basis.

In August, 2015, OncoQuest acquired the Immunotherapy Assets from the Company in return for the issuance of 5,000,000 common shares of OncoQuest. At January 31, 2016, the Company held 4,385,100 OncoQuest shares following transfers of 615,000 shares to Third parties and including 100 shares issued to the Company on incorporation of OncoQuest (see note 22).

During November, 2015, OncoQuest acquired certain Immuno-Photodynamic therapy patents from the Company. These patents were purchased for \$2,672,000 (US\$2,000,000). This intercompany transaction was eliminated upon consolidation.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

14. DEMAND LOANS AND RELATED PARTY TRANSACTIONS [CONTINUED]

All of these transactions were recorded at the exchange amount which is the amount agreed to by the related parties.

15. SUPPLEMENTAL CASH FLOW INFORMATION

Net change in non-cash working capital items related to operating activities

| | 2017 | 2016 |
|--|------------------|------------------|
| | \$ | \$ |
| Accounts receivable | 12,373 | 11,686 |
| Prepaid expenses | (499,313) | 46,777 |
| Inventory | (90,142) | — |
| Accounts payable and accrued liabilities | 101,739 | (996,511) |
| | <u>(475,343)</u> | <u>(938,048)</u> |

During the year ended January 31, 2017, the Company paid \$8,695 of interest (2016 - \$133,071) and income taxes of nil (2016 - nil).

16. GOVERNMENT ASSISTANCE

During the year ended January 31, 2017, the Company recognized \$15,724 (2016 - \$60,300) from National Research Council's Industrial Research Assistance Program related to the Company's IgE antibody cancer immunotherapy development program for research and development expenditures incurred in fiscal 2017 and 2016. This funding was treated as a reduction of research and development expenses.

| | 2017 | 2016 |
|---|------------------|------------------|
| | \$ | \$ |
| Gross research and development expenditures | 2,117,603 | 1,303,850 |
| Less: government assistance | (15,724) | (60,300) |
| Research and development expenditures, net | <u>2,101,879</u> | <u>1,243,550</u> |

Quest PharmaTech Inc.

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January 31, 2017

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments include cash, short term investments, restricted cash and short term investments, accounts receivable, accounts payable and accrued liabilities, loan receivable and preferred shares.

a) Carrying value and fair value

The carrying values of cash, short term investments, restricted cash and short term investments, accounts receivable, accounts payable and accrued liabilities, preferred share instruments and the demand loans approximate their fair value due to the immediate or short-term maturity of these financial instruments. The fair value of the Company's financial instruments of cash and short term investments are measured using the Level 1 classification of the fair value hierarchy. The fair value of the Company's financial instruments of preferred shares are measured using a Level 2 classification of the fair value hierarchy.

b) Risks

i) Foreign currency risk

The Company has certain assets and liabilities that are denominated in foreign currencies and are exposed to risks from changes in foreign exchange rates and the degree of volatility of these rates.

At January 31, 2017 the Company's exposure to foreign currency risk is US\$6,180,898 in cash and short term investments, US\$228,693 in accounts payable and 105,281 Euros in accrued liabilities. The year-end rate of conversion of U.S. to Canadian dollars is 1.303 and Euros to Canadian dollars is 1.4063. Based on the foreign currency exposures noted above, a 10 percent strengthening of the Canadian dollar would have increased the net loss by \$754,438, assuming that all other variables remain unchanged. A 10 percent weakening of the Canadian dollar would have an equal but opposite effect, assuming that all other variables remain unchanged.

At January 31, 2016 the Company's exposure to foreign currency risk is US\$6,421,758 in cash and short term investments, US\$26,132 in accounts payable and 218,154 Euros in accrued liabilities. The year-end rate of conversion of U.S. to Canadian dollars was 1.408 and Euros to Canadian dollars was 1.5251. Based on the foreign currency exposures noted above, a 10 percent strengthening of the Canadian dollar would have increased the net loss by \$867,233, assuming that all other variables remain unchanged. A 10 percent weakening of the Canadian dollar would have an equal but opposite effect, assuming that all other variables remain unchanged.

The Company currently does not use derivative instruments to reduce its exposure to foreign currency risk.

ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's exposure to liquidity risk is dependent on its ability to raise funds to meet its commitments and sustain its operations. The Company controls liquidity risk by managing its working capital and by securing additional funds through equity, debt or partnering transactions (see Capital Disclosures, note 11). In fiscal 2016, the Company secured debt financing from its officers and from unrelated third parties to provide demand loan

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

financing for operational expenditures (note 14). During fiscal 2016, the Company secured equity financings of \$3,000,000, through private placements of common shares and warrants (note 10). During fiscal 2016, the Company's subsidiary, OncoQuest Inc., secured an equity financing of \$11,960,965 (\$9,000,000 U.S.), through a private placement of preferred shares (note 10). During fiscal 2017, OncoQuest secured \$1,340,000 (US\$1,000,000) through the second tranche of a preferred share private placement and \$3,865,200 (US\$3,000,000) through the third tranche of a preferred share private placement. Although OncoQuest has sufficient funding in place, the Company only has cash reserves of \$249,114 at January 31, 2017 (January 31, 2016 - \$213,190). As such, there is a liquidity risk for the Company at January 31, 2017.

iii) Credit risk

Financial instruments that subject the Company to credit risk consist primarily of cash and short term investments and accounts receivable. To minimize its exposure to credit risk for cash and short term investments, the Company invests surplus cash in short-term deposits that are fully guaranteed by the Company's financial banker, a major Canadian chartered bank. As the Company is a research and development company, the Company's exposure to credit risk related to accounts receivable is not considered to be significant. At year end, 75% of accounts receivable was due from one federal government agency.

iv) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's cash and short term investments are comprised of highly liquid deposits that earn interest at market rates. Accounts receivable and accounts payable bear no interest. The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis. The Company's policy limits the investing of excess funds to liquid government guaranteed deposits or guaranteed investment certificates.

18. LOSS PER SHARE

Basic and diluted net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding for the year. In determining diluted net loss and net loss per common share, the weighted average number of common shares outstanding is adjusted for share options and warrants eligible for exercise where the average market price of common shares for the year ended January 31, 2017 exceeds the exercise price. Common shares that could potentially dilute basic net loss and net loss per common share in the future that could be issued from the exercise of share options and warrants were not included in the computation of the diluted loss per common share for the year ended January 31, 2017 because to do so would be anti-dilutive. Diluted net loss per share does not reflect the effect of preferred shares as their inclusion would also be anti-dilutive. The number of preferred shares issued as of January 31, 2017 which are not included in the computation of net loss per share amounts, was 3,475,936.

Quest PharmaTech Inc.

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January 31, 2017

18. LOSS PER SHARE [CONTINUED]

The numerator and denominator used in the calculation of historical basic and diluted net loss amounts per common share are as follows:

| | 2017 | 2016 |
|--|--------------------|-------------|
| | \$ | \$ |
| Net loss | (4,134,418) | (4,632,920) |
| Number of weighted average common shares outstanding | 150,422,580 | 122,660,023 |
| Net loss per share | (\$0.027) | (\$0.038) |

The following number and type of securities could potentially dilute basic earnings per common share in the future. These securities are not included in the computation of diluted earnings per share, because to do so would have reduced the loss per common share (anti-dilutive) for the years presented:

| | 2017 | 2016 |
|----------------------------------|-------------------|-------------|
| Share-based payment transactions | 14,600,000 | 13,340,000 |
| Warrants | 20,095,834 | 20,095,834 |
| Preferred shares | 3,475,936 | 2,406,417 |
| | 38,171,770 | 35,842,251 |

19. COMPENSATION OF KEY MANAGEMENT

Key management includes directors and executives of the Company. The compensation paid or payable (including share-based payments) to key management for services is shown below:

| | 2017 | 2016 |
|-------------------------|-------------|-------------|
| | \$ | \$ |
| Management compensation | 1,108,636 | 412,967 |
| Director compensation | 34,688 | 40,000 |
| Totals | 1,143,324 | 452,967 |

During the year ended January 31, 2017, 570,000 OncoQuest share options (2016 – nil) were granted to executives and to independent directors.

During the year ended January 31, 2017, an officer of the Company received 135,000 shares of OncoQuest and 7,500 shares of Bioceltran as a part of his remuneration package. These shares had a combined fair market value of \$320,023 at December 31, 2016.

Quest PharmaTech Inc.

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January 31, 2017

20. INVESTMENT FINANCING

During fiscal 2014, the Company entered into an investment agreement with a third party to provide up to \$12,000,000 of clinical development funding in return for the Company's common shares and future revenue sharing. The Company received \$2,000,000 of funding under this agreement, and is obligated to complete the Phase II clinical trial on the Company's immunotherapy program and share 40% of future net revenues from this program. A portion of this investment financing has been recognized as revenue in the consolidated statements of loss and comprehensive loss, based on the portion of the Phase II clinical trial completed in the periods subsequent to receipt of the funding. Under the terms of the investment financing agreement, the Company was to receive an additional \$2,000,000 by December 31, 2013. This funding was not received and the Company terminated the agreement.

On October 2, 2015, the Company signed a Termination and Release agreement with the third party whereby the Company was released from the revenue sharing and other obligations under the investment agreement in return for the transfer to the third party of 400,000 common shares of OncoQuest owned by the Company. As a result, the remainder of the deferred revenue balance of \$439,388 was derecognized with a corresponding increase to non-controlling interest.

21. FAIR VALUE ADJUSTMENT OF SHARES ON CONTRACT TERMINATION

On October 2 and October 6, 2015, the Company signed Termination and Release agreements with 3 third parties whereby the Company was released from the revenue sharing and other obligations under investment agreements in return for the transfer to the third parties of 615,000 common shares of OncoQuest owned by the Company. The Company recognized the fair value of these shares, \$3,039,352, based on the per share value of the preferred shares issued to Hepalink (US\$3.74), less the \$439,388 of deferred revenue derecognized, as a \$2,599,964 fair value adjustment on the contract terminations and obligation releases under the three agreements with a corresponding credit to non-controlling interest. The Company also made an adjustment of \$2,599,856 to record non-controlling interest at the proportionate share of the book value of OncoQuest's net assets with the corresponding credit being recorded in contributed surplus.

22. INVESTMENT IN BIOCELTRAN CO., LTD.

Pursuant to a Share Transfer Agreement dated August 26, 2014, the Company purchased 288,000 existing shares of Bioceltran Co., Ltd ("Bioceltran") equivalent to more than 20% of the outstanding shares of Bioceltran at January 31, 2016. Bioceltran is a private South Korea based company focused on transdermal delivery of drugs for cosmetics and pharmaceuticals. During fiscal 2016, the Company transferred 38,000 of its shares of Bioceltran to a Third party. During fiscal 2017, the Company transferred 7,500 of its shares of Bioceltran to an officer of the Company as part of his remuneration package. This transactions were recorded at \$nil value because the value of the shares is not determinable. The Company purchased the shares of Bioceltran for investment purposes and has determined that for fiscal 2016, it does not exercise control or significant influence over the affairs of Bioceltran based on management's reasoned judgements regarding the following factors: no board representation, no participation in policy making decisions or in decisions regarding dividends or other distributions and no interchange of managerial personnel. In addition, the shares of Bioceltran are not traded on

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

22. INVESTMENT IN BIOCELTRAN CO., LTD. [CONTINUED]

a public exchange. Therefore, the Company's investment in shares of Bioceltran has been accounted for using the Cost method with the investment initially recorded at fair value and subsequently recorded at cost. There was no income or distribution of profits received from Bioceltran in fiscal 2016 or 2017. The shares of Bioceltran have a cost to the Company of \$107,900 equal to the amount of the Bioceltran up-front license fees. Taken together, these transactions represented non-monetary transactions and for accounting purposes were recognized at nil value because the fair value of the assets exchanged is not reliably measurable. In the future, the fair value of the Company's investment in Bioceltran shares could be recognized if the value of the shares is reliably measurable.

23. LOAN RECEIVABLE

During the year ended January 31, 2017, the Company paid \$250,000 to a non-related third party under an arrangement to establish a Swiss based company for sales and marketing for Bellus Skin and related products in Europe, Russia and the GCC countries. Bellus Skin is currently registered for sale in Europe. In addition to royalties from the sale of Bellus Skin in those territories, the Company will also be entitled to receive a 40% ownership interest in the Swiss based company and future payments totaling \$250,000 by April, 2018.

24. INVESTMENT IN ONCOVENT CO., LTD.

As part of the preferred share agreement, on March 4, 2016, the Company's subsidiary, OncoQuest, signed a joint venture contract with Shenzhen Hepalink. The agreement results in the creation of a new company in China called OncoVent Co., Ltd. ("OncoVent"), to focus on the research and development of Cancer Immunotherapy Products for the Chinese market. Under the agreement, OncoQuest licensed the greater China rights to the Immunotherapy Technologies and provided US\$1,000,000 for 46% of the shares of OncoVent. Shenzhen Hepalink contributed US\$5,000,000 for 54% of the shares of OncoVent. As part of the agreement, OncoQuest transferred a portion of its shares in OncoVent to Quest and to another party such that Quest owns 11% and the other party owns 6%, respectively, of the shares of OncoVent. Management believes the creation of OncoVent will provide additional resources for product development that OncoQuest can access to accelerate its worldwide product registration strategy. OncoVent will focus on the development, manufacturing and commercialization of Cancer Immunotherapy Products within China with pancreatic cancer as its first target. On October 31, 2016, Shenzhen Hepalink contributed US\$5,000,000 to OncoVent. On November 1, 2016, OncoQuest contributed \$1,337,900 (US\$1,000,000) to OncoVent.

For financial statement purposes, OncoQuest accounts for its investment in this affiliated entity under the equity method. Oncovent began operations in November, 2016.

| | \$ |
|---|----------------|
| Balance, January 31, 2016 | - |
| Investment in joint venture, November 1, 2016 | 1,337,900 |
| Equity method share of loss for the year ended January 31, 2017 | (475,771) |
| Transfer of 6% interest to third party | (174,509) |
| Balance, January 31, 2017 | 687,620 |

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2017

25. SUBSEQUENT EVENTS

Subsequent to year-end, the Company granted a total of 1,250,000 share options to employees and 200,000 share options to non-employees, vesting immediately and all at an exercise price of \$0.15.

Subsequent to year-end, for \$500,000, the Company acquired a 32% ownership interest in Natural Rf Life Sciences Inc., a private Alberta-based company focused on sales of health care products. The Company paid an up-front payment of \$100,000 with the remainder to be paid no later than September 30, 2017.

Subsequent to year-end, Company warrant holders exercised 2,000,000 share purchase warrants to acquire 2,000,000 common shares of the Company at a price of \$0.10 per share.