

BIOHEP TECHNOLOGIES LTD.

Condensed Interim Financial Statements
For the Nine Months Ended October 31, 2018

(Unaudited)

(Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, continuous disclosure requirement, if an auditor has not performed a review of the condensed interim financial statements, they must be accompanied by a notice indicating that the unaudited condensed interim financial statements have not been reviewed by an auditor. The Company's independent auditor has not performed a review of these Unaudited Condensed Interim Financial Statements in accordance with standards established by the Chartered Professional Accountants for a review of unaudited condensed interim financial statements by an entity's auditor.

BioHEP Technologies Ltd.
Condensed Interim Statements of Financial Position
(Unaudited - Expressed in Canadian dollars)

As at	October 31, 2018	January 31, 2018 (audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 756,125	\$ 172,232
Recoverable income tax	-	14,640
GST receivable	2,081	910
	758,206	187,782
NON-CURRENT ASSETS		
Biotechnology asset (note 6)	450,000	450,000
Investments (note 5)	4,424,584	5,307,932
TOTAL ASSETS	\$ 5,632,790	\$ 5,945,714
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (note 8)	\$ 27,659	\$ 18,511
Income Tax Payable	161,027	-
	188,686	18,511
NON-CURRENT LIABILITIES		
Deferred income tax (note 5)	372,113	491,364
TOTAL LIABILITIES	560,799	509,875
SHAREHOLDERS' EQUITY		
Share capital (note 7)	614,845	614,845
Accumulated other comprehensive income (note 4(i))	2,384,278	2,970,610
Retained earnings (note 4(i))	2,072,868	1,850,384
TOTAL SHAREHOLDERS' EQUITY	5,071,991	5,435,839
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 5,632,790	\$ 5,945,714

Nature of Operations and Going Concern (note 1)

These condensed interim financial statements were approved for issuance by the Board of Directors on December 31, 2018 and signed on its behalf by:

"Chester Shynkaryk"

Director

"Donald Gordon"

Director

The accompanying notes are an integral part of these condensed interim financial statements

BioHEP Technologies Ltd.
Condensed Interim Statements of Operations and Comprehensive Income
(Unaudited - Expressed in Canadian dollars)

	For the three months ended October 31, 2018	For the three months ended October 31, 2018	For the nine months ended October 31, 2018	For the nine months ended October 31, 2017
EXPENSES				
Administrative	\$ 4,326	\$ 243	\$ 4,598	\$ 382
Audit fees	3,000	2,000	9,240	7,160
Investor communication	-	-	900	1,902
Professional fees (note 8)	30,208	11,132	71,249	29,875
Transfer agent and regulatory	2,948	669	8,729	13,680
TOTAL EXPENSES	\$ 40,482	\$ 14,044	\$ 94,716	\$ 52,999
LOSS FROM OPERATIONS	(40,482)	(14,044)	(94,716)	(52,999)
OTHER ITEMS:				
License Fee Income (Note 10)	655,485	-	655,485	-
Change in fair value of warrants (note 5)	-	-	(205,337)	-
Gain on sale of investments	-	-	-	56,613
Reinvested dividends	142	0	1,040	2,051
Finance costs	-	(4,587)	-	(13,588)
Accretion of notes payable	-	(3,201)	-	(9,603)
Foreign exchange loss	14	(28)	411	(1,301)
TOTAL OTHER ITEMS	\$ 655,641	\$ (7,816)	\$ 451,599	\$ 34,172
INCOME (LOSS) BEFORE INCOME TAX	615,159	(21,860)	356,883	(18,827)
INCOME TAX EXPENSE (note 5)	(162,144)	-	(134,399)	(7,328)
NET INCOME (LOSS)	\$ 453,015	\$ (21,860)	\$ 222,484	\$ (26,155)
Items that will not be reclassified to net (loss) or income:				
Unrealized gain(loss) on investment	(1,170,189)	706,049	(677,840)	3,266,820
Deferred income tax expense (note 5)	(157,975)	(127,591)	91,508	(409,702)
COMPREHENSIVE INCOME FOR THE PERIOD	\$ (875,149)	\$ 556,598	\$ (363,848)	\$ 2,830,963
Earnings per share - basic and diluted	\$ (0.05)	\$ (0.01)	\$ (0.02)	\$ (0.00)
Weighted average number of common shares outstanding	9,448,708	4,381,198	9,448,708	4,274,580

The accompanying notes are an integral part of these condensed interim financial statements

BioHEP Technologies Ltd.
Condensed Interim Statements of Changes in Shareholders' Equity (Deficiency)
(Unaudited - Expressed in Canadian dollars)

	Number of outstanding shares	Share capital \$	Obligation to issue shares \$	Reserves \$	Accumulated other comprehensive income \$	Retained earnings \$	Total shareholders' equity \$
Balance, January 31, 2017	4,200,387	38,383	-	8,141	887,827	2,834,003	3,768,354
Share issued on acquisition of Biotechnology license	448,321	448,321	-	-	-	-	448,321
Unrealized gain on investment	-	-	-	-	3,266,920	-	3,266,820
Deferred income tax	-	-	-	-	(409,702)	-	(409,702)
Net Loss	-	-	-	-	-	(26,155)	(26,155)
Balance, October 31, 2017	4,648,708	486,704	-	8,141	3,744,945	2,807,848	7,047,638
Shares issued on conversion of debt	4,800,000	120,000	-	-	-	-	120,000
Transfer Reserve related to convertible debt on conversion	-	8,141	-	(8,141)	-	-	-
Unrealized gain on investment	-	-	-	-	(1,616,820)	-	(1,616,820)
Deferred income tax	-	-	-	-	178,031	-	178,031
Transfer on impairment of investment to net loss	-	-	-	-	664,454	-	664,454
Net loss	-	-	-	-	-	(957,464)	(957,464)
Balance, January 31, 2018	9,448,708	614,845	-	-	2,970,610	1,850,384	5,435,839
Unrealized gain on investment	-	-	-	-	(677,840)	-	(677,840)
Deferred income tax	-	-	-	-	91,508	-	91,508
Net Income	-	-	-	-	-	222,484	222,484
Balance, October 31, 2018	9,448,708	614,845	-	-	2,384,278	2,072,868	5,071,991

The accompanying notes are an integral part of these condensed interim financial statements

BioHEP Technologies Ltd.
Condensed Interim Statements of Cash Flows
(Unaudited - Expressed in Canadian dollars)

	For the nine months ended October 31, 2018	For the nine months ended October 31, 2017
Cash and cash equivalents provided by (used in):		
OPERATING ACTIVITIES		
Net income(Loss) for the period	\$ 222,484	\$ (26,155)
Items not involving cash:		
Accretion expense	-	9,603
Change in fair value of warrants	205,336	-
Gain on sale of investments	-	(56,613)
Income tax expense	(27,570)	-
Interest expense	-	13,589
	400,250	(59,576)
Net changes in non-cash working capital items:		
GST receivable	(1,171)	(456)
Income tax payable	175,666	(233,882)
Accounts payable and accrued liabilities	9,148	7,310
Net cash provided by (used in) operating activities	583,893	(286,604)
INVESTING ACTIVITIES:		
Acquisition of Biotechnology License	-	(1,679)
Proceeds on sale of investments	-	131,309
Net cash provided by investing activities	-	129,630
Change in cash and cash equivalents	583,893	(156,975)
Cash and cash equivalents, beginning of the period	172,232	388,949
Cash and cash equivalents, end of the period	\$ 756,125	\$ 231,974
OTHER SUPPLEMENTAL INFORMATION		
Shares Issued for Acquisition of Biotechnology License	-	448,321
Interest paid	\$ -	\$ 240,568
Income taxes paid	\$ -	\$ -
Cash and cash equivalents consist of:		
Cash	\$ 669,830	\$ 52,442
Money market funds	86,295	179,532
Total	\$ 756,125	\$ 231,974

The accompanying notes are an integral part of these condensed interim financial statements

1 NATURE OF OPERATIONS AND GOING CONCERN

BioHEP Technologies Ltd. ("BioHEP" or the "Company") was incorporated under the British Columbia *Business Corporations Act* as a private company on February 11, 2014. On April 11, 2014, BioHEP completed a Plan of Arrangement ("Arrangement") with Carrus Capital Corporation ("Carrus"). Under the terms of the Arrangement, BioHEP received substantially all of Carrus' interest in the SB-9000 technologies by way of a statutory arrangement to allow Carrus to divest itself of certain biotechnology assets with \$nil carrying value, its investment in Spring Bank Pharmaceuticals Inc. ("Spring Bank") of \$1,000 and \$5,000 cash to the Company. As consideration for the SB-9000 technologies, BioHEP issued 2,845,378 common shares to Carrus ("Arrangement Shares"), which were then distributed to the shareholders of Carrus pro rata based on their relative shareholdings of Carrus. The Company recognized a charge of \$33,333 directly against the Company's cumulative deficit for expenses related to the Arrangement, which were paid by Carrus and recorded against deficit.

As a result of completing the Arrangement and subsequent to issuing the Arrangement Shares, the Company became a reporting issuer in the jurisdictions of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec.

The Company's head office is located at 2820 – 200 Granville Street, Vancouver, British Columbia, V6C 1S4.

2. BASIS OF PRESENTATION

[a] Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". They do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited annual financial statements for the fiscal year ended January 31, 2018, which have been prepared with International Financial Reporting Standards ("IFRS").

[b] Basis of measurement

These condensed interim financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial assets and financial liabilities to fair value. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

[c] Functional and foreign currency

These condensed interim financial statements are presented in Canadian dollars, which is the Company's functional currency. Foreign currency transactions are translated into Canadian dollars using the exchange rates at the date of the transactions. Foreign exchange gains or losses resulting from the settlement of transactions and from the translation at period-end rate of monetary assets and liabilities denominated in foreign currencies are recognized in net income or loss.

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments

The preparation of these condensed interim financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed interim financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These condensed interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim condensed interim financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company reviews its estimates and underlying assumptions on an ongoing basis.

Critical Judgments

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the condensed interim financial statements:

- i. Research costs are recognized as an expense when incurred but development costs may be capitalized as intangible assets if certain conditions are met as described in IAS 38, Intangible Assets. Management has determined that development costs do not meet the conditions for capitalization under IAS 38 and all research and development costs have or will be expensed when incurred.
- ii. Management is required to assess the functional currency of the Company. In concluding that the Canadian dollar is the functional currency of the Company, management considered the currency that mainly influences the operating expenditures in the jurisdiction in which the Company operates.
- iii. The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.
- iv. Management is required to determine whether or not the going concern assumption is appropriate for the Company at the end of each reporting period. Considerations taken into account include available information about the future including the availability of financing and revenue projection, as well as liquidity of its assets, current working capital balance and future commitments of the Company.
- v. Judgment is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets.

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments (continued)

Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the current and next fiscal financial years:

- i. Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxation authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.
- ii. Management uses the Black-Scholes Option Pricing Model for valuation of investment in warrants, which requires the input of subjective assumptions including expected price volatility, risk-free interest rates and forfeiture rates. Changes in the input assumptions can materially affect the fair value estimate and the Company's results of operations.
- iii. The Company estimates the expected manner and timing of the realization or settlement of the carrying value of its assets and liabilities and applies the tax rates that are enacted or substantively enacted on the estimated dates of realization or settlement.
- iv. The fair value of accrued liabilities at the time of initial recognition is made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors.

3. SIGNIFICANT ACCOUNTING POLICIES

These condensed interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's audited annual financial statements for the fiscal year ended January 31, 2018.

4. RECENT ACCOUNTING PRONOUNCEMENTS

New Standards Recently Adopted

These condensed interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's audited annual financial statement for the fiscal year ended January 31, 2018, with the exception of the following:

i. Financial instruments

The Company adopted all of the requirements of IFRS 9 Financial Instruments ("IFRS 9") as of February 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

4. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

i. Financial instruments (Continued)

The following is the Company's new accounting policy for financial instruments under IFRS 9:

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at February 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial assets/liabilities	Original classification IAS 39	New classification IFRS 9
Cash and cash equivalents	FVTPL	FVTPL
Accounts receivable	Amortized cost	Amortized cost
Investments in Marketable securities	AFS	FVOCI
Investment in warrants	AFS	FVTPL
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Due to related parties	Amortized cost	Amortized cost

The Company did not restate prior periods as it recognized the effects of retrospective application to shareholders' equity at the beginning of the 2018 annual reporting period, which also includes the date of initial application. The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated other comprehensive income on February 1, 2018.

(ii) Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of loss in the period in which they arise.

4. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

i. Financial instruments (Continued)

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of loss.

New Standards Not Yet Effective

The following is an overview of new accounting standards that the Company will be required to adopt in future years. The Company does not expect to adopt any of these standards before their effective dates. The Company continues to evaluate the impact of these standards on its condensed interim financial statements.

- IFRS 16 - Leases – This standard specifies how an IFRS reporter will 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 Leases. The standard was issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019.

5 LONG-TERM INVESTMENTS

On April 11, 2014 Carrus Capital Corporation ("Carrus") assigned a biotechnology license agreement (the "Agreement") to the Company as part of the Plan of Arrangement. The Agreement originally dated December 17, 2003, between Carrus (formerly Migenix Inc.) and Spring Bank Pharmaceuticals Inc. ("Spring Bank"), a U.S. development stage company, granted Spring Bank the worldwide rights to a dinucleotide analogue compound (SB-9000) which was acquired by Migenix Inc. in September 2002 from Origenix Technologies Inc. As consideration related to the license granted, Spring Bank issued 1,000,000 Series A non-voting, convertible preferred shares of Spring Bank and 50,000 common shares of Spring Bank. In addition, the Company may receive in the future, payments related to the Agreement aggregating US\$3,500,000 upon the achievement of certain clinical development milestones and royalties on net sales and sublicensing revenues. Spring Bank is responsible for all development and related patent costs.

BioHEP Technologies Ltd.
Notes to the Condensed Interim Financial Statements
For the Nine Months Ended October 31, 2018
(Unaudited - Expressed in Canadian dollars)

5 LONG-TERM INVESTMENTS (CONTINUED)

The value of the intellectual property relating to the SB-9000 could not be measured reliably and as such, did not have a carrying value at the period end. Similarly, the fair value of the long-term investment had not been disclosed as the fair value of the Series A preferred shares and common shares held by the Company could not be measured reliably under IFRS as the equity instruments did not have a quoted market price in an active market. As at May 6, 2016, Spring Bank completed an IPO and began trading on NASDAQ, and as such, the shares have been measured at fair value based on their quoted market price at each reporting date.

On February 1, 2016, the Company enter into an amended and restated license agreement with Spring Bank Pharmaceuticals, Inc. ("Spring Bank") of Milford, MA ("New Agreement"). Under the amended and restated license agreement, BioHEP granted Spring Bank an exclusive worldwide license under certain patents and know-how to make, have made, use, sell, offer to sell and import certain product candidates comprising a novel phosphorothioate dinucleotide referred to as ORI-9020 and certain related compounds, for the diagnosis and/or treatment of all viral diseases and conditions. In exchange, the Company received an additional 125,000 common shares of Spring Bank and 125,000 share purchase warrants with an exercise price of USD\$16 per share, expiring on August 1, 2018.

On March 18, 2016, Spring Bank completed a 4-for-1 reverse stock split. Following the reverse split the Company owned 250,000 convertible preferred shares, 137,500 common shares and 125,000 warrants with an exercise price of USD\$16 per share, expiring on August 1, 2018. The fair value of the shares was determined to be \$11.10 per share which is based on the closing price on May 6, 2016 when the 250,000 convertible preferred shares were converted to 250,000 common shares and Spring Bank became publicly traded on the NASDAQ stock exchange.

The warrants expired unexercised on August 1, 2018. Since the warrants expired unexercised on August 31, 2018, as a result the warrants no longer have a value (January 31, 2018 - \$205,509). As of January 31, 2018, the Warrants were valued using using the Black-Scholes valuation method. The following assumptions were used in determining the fair value of the warrants as of:

	October 31, 2018		January 31, 2018	
Share price	USD	N/A	USD	12.39
Exercise price	USD	N/A	USD	16.00
Expected life (years)		N/A		0.50
Interest rate		N/A		1.77%
Volatility		N/A		70%
Dividend yield		N/A		N/A
Estimated forfeitures		N/A		N/A

The following summarizes the Company's investment in Spring Bank as of:

	October 31, 2018			January 31, 2018		
	Number	Cost	Fair Value	Number	Cost	Fair Value
Trading equities						
Spring Bank common shares	335,000	\$1,668,191	\$4,424,584	335,000	\$1,668,191	\$5,102,423
Other securities						
Spring Bank – warrants	-	-	-	125,000	-	205,509
		\$1,668,191	\$4,424,584		\$1,668,191	\$5,307,932

5 LONG-TERM INVESTMENTS (CONTINUED)

As at October 31, 2018, deferred income tax liability of \$372,113 has been estimated using the 2018 tax rate of 27% applied to the unrealized gain to date on shares classified as available for sale. During the nine months ended October 31, 2018, deferred income tax recovery of \$91,508 related to change in value of marketable securities was recognized in other comprehensive income and deferred tax recovery of \$27,570 was recognized in the statement of operations and comprehensive income as a result of the reduction in value of the warrants.

6. BIOTECHNOLOGY LICENSE

On September 27, 2017 the Company closed the asset sale agreement ("Assignment Agreement") entered into on April 21, 2017 between the Company and Exro Technologies Inc. (formerly BioDE Ventures Ltd.) ("BioDE"). Pursuant to this agreement, BioDE assigned to the Company a license agreement and certain patents for its estimated fair value of \$450,000 which was paid by the Company by issuing 448,321 shares to BioDE and paying \$1,679 in cash. The technology is currently licensed by Cutanea Lifesciences Inc. ("Cutanea").

7. SHARE CAPITAL

[a] Authorized common shares

There are an unlimited number of common shares without par value authorized for issue.

[b] Issued

At October 31, 2018, the Company had 9,448,708 common shares issued and outstanding (January 31, 2018 – 9,448,708).

There were no share capital transactions during the nine months ended October 31, 2018.

[c] Stock option plan

The Company has adopted an incentive stock option plan (the "Option Plan") which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the applicable stock exchange's requirements, grant to directors, officers, employees and consultants to the Company, non-transferable options to purchase common shares. Pursuant to the Option Plan, the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company. Options granted under the Option Plan can have a maximum exercise term of five years from the date of grant. Vesting terms will be determined at the time of grant by the Board of Directors. During the nine months ended October 31, 2018, no options were granted, expired or cancelled. As at October 31, 2018, the number of outstanding options is nil (January 31, 2018 – nil).

8. RELATED PARTY TRANSACTIONS

Key management personnel are persons responsible for planning, directing and controlling the activities of the Company. During the nine months ended October 31, 2018 and 2017, key management personnel were not paid any compensation, nor did they receive any employment benefits or other incentives such as stock options.

During the nine months ended October 31, 2018, the Company incurred \$24,990 for professional fees (2017 – \$12,870) provided by an entity controlled by the Company's Corporate Secretary and is indebted to this entity for an amount totaling \$15,511 (2017 - \$nil) which was included in accounts payable and accrued liabilities.

During the nine months ended October 31, 2018, the Company incurred \$42,898 for investment management services (2017 – \$4,000) provided by an entity controlled by an insider of the Company.

9. FINANCIAL INSTRUMENTS

As described in note 4 the Company has designated its cash and cash equivalents as fair value through profit or loss, accounts payable and accrued liabilities, and notes payable, as other financial liabilities. The Company's investments in marketable securities are classified as FVOCI and investment in warrants as FVTPL.

Fair value

At October 31, 2018 and January 31, 2018, the carrying values of cash and cash equivalents, accounts payable and accrued liabilities approximate their fair values due their short-term maturity.

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The six levels of the fair value hierarchy are as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: Inputs that are not based on observable market data.

At October 31, 2018 and January 31, 2018, the Company has designated its notes payables as Level 2. The investments in Spring Bank Pharmaceuticals Inc. are designated as Level 1 and warrants from Spring Bank Pharmaceuticals Inc. are designated as Level 3.

Financial risk management

The Company's activities potentially expose it to a variety of financial risks, including credit risk, liquidity risk, and market risk.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. As at October 31, 2018, the Company's exposure to credit risk is the carrying value of cash and cash equivalents. The Company reduces its credit risk by holding its cash and cash equivalents at a major Canadian financial institution and its money market funds are held within a notable low risk fund.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. To secure the additional capital necessary to pursue these plans, the Company intends to raise additional funds through equity or debt financing.

The Company currently does have adequate cash to meet short-term business requirements. At October 31, 2018, the Company had cash and cash equivalents of \$756,125 and accounts payable and accrued liabilities of \$27,659. All accounts payable and accrued liabilities are due within 90 days, interest expense is due annually and taxes are due within two months of year end.

Market risk

Market risk consists of currency risk, interest rate risk and other price risk. These are discussed further below.

Currency risk

Currency risk is the risk that the fair value of the Company's financial assets and liabilities will fluctuate due to changes in foreign exchange rates. As at October 31, 2018, the Company held 335,000 shares in a Nasdaq listed company with a market value of US\$10.05 per share. The Company therefore has exposure to fluctuations in the Canadian dollar - United States dollar exchange rate. The Company has determined that a 10% change in foreign exchange rates would affect the fair value of total assets by approximately \$440,000.

9. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk

Interest rate risk consists of two components:

- i) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
- ii) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

Current financial assets and financial liabilities are generally not exposed to interest rate risk because of their short-term nature and maturity.

Other price risk

Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or currency risk. The Company is exposed to other price risk on its investments due to fluctuations in the current market prices and fluctuations in trading volumes of those securities.

10. LICENSE FEE INCOME

During the period ended October 31, 2018, the Company received a US\$500,000 clinical development milestone payment from Cutanea Life Sciences Inc. pursuant to the terms of its license agreement.