

Consolidated Financial Statements

Quest PharmaTech Inc.

Nine months ended October 31, 2015

(Unaudited)

Quest PharmaTech Inc.

National Instrument 51 – 102
Continuous Disclosure Obligations

Notice

Pursuant to Part 4.3 (3) of National Instrument 51 – 102, these unaudited interim consolidated financial statements of Quest PharmaTech Inc. for the nine month period ended October 31, 2015 have not been reviewed by the Company's auditors.

Quest PharmaTech Inc.**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
(see note 1 – going concern uncertainty)

As at

	October 31, 2015 (Unaudited) \$	Jan 31, 2015 (Audited) \$
ASSETS		
Current		
Cash	2,042,504	100,042
Accounts receivable	15,726	42,577
Prepaid expenses	81,466	123,927
	2,139,696	266,546
Non current		
Property and equipment <i>[note 4]</i>	32,468	43,019
Intangibles <i>[note 3]</i>	5,338	22,424
	2,177,502	331,989
LIABILITIES		
Current		
Accounts payable and accrued liabilities	1,513,087	1,628,265
Demand loans <i>[note 9]</i>	1,984,799	1,768,042
Current portion of deferred revenue <i>[note 14]</i>	373,000	396,000
	3,870,886	3,792,307
Long term portion of deferred revenue <i>[note 14]</i>	—	274,000
	3,870,886	4,066,307
SHAREHOLDERS' DEFICIENCY		
Common shares <i>[note 5]</i>	26,831,458	26,164,791
Common shares to be issued <i>[note 5]</i>	2,000,000	—
Warrants <i>[note 5]</i>	801,917	468,583
Contributed surplus	2,347,965	2,332,465
Deficit	(33,674,724)	(32,700,157)
	(1,693,384)	(3,734,318)
	2,177,502	331,989

See accompanying notes

Quest PharmaTech Inc.

**CONSOLIDATED STATEMENTS OF
LOSS AND COMPREHENSIVE LOSS**

	For the three months ended October 31		For the nine months ended October 31	
	2015	2014	2015	2014
	\$	\$	\$	\$
REVENUE				
Licensing fees	—	107,000	—	107,000
Investment financing revenue <i>[note 14]</i>	99,000	160,825	297,000	321,650
	99,000	267,825	297,000	589,475
EXPENSES				
General and administrative	131,523	228,256	597,326	643,583
Research and development, net <i>[note 13]</i>	151,508	276,684	531,679	836,736
	283,031	504,940	1,129,005	1,480,319
Loss before the undernoted	(184,031)	(237,115)	(832,005)	(890,844)
Other income (expense)				
Financial income	—	109	105	196
Financial expenses <i>[note 9]</i>	(41,060)	(27,661)	(122,434)	(71,758)
Foreign exchange gain (loss)	1,025	(2,491)	(20,233)	(1,199)
	(40,035)	(30,043)	(142,562)	(72,761)
Net and comprehensive loss for the period	(224,066)	(267,158)	(974,567)	(963,605)
Basic and diluted loss per share	(\$0.002)	(\$0.003)	(\$0.009)	(\$0.009)

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY

	Share capital \$	Shares to be issued \$	Warrants \$	Contributed surplus \$	Deficit \$	Total Shareholders' Deficiency \$
Balance, February 1, 2014	25,813,875	—	400,000	2,252,965	(30,879,473)	(2,412,633)
Common shares issued <i>[note 5]</i>	342,916	—	—	—	—	342,916
Warrants issued <i>[note 5]</i>	—	—	68,583	—	—	68,583
Net loss for the period	—	—	—	—	(963,605)	(963,605)
Balance, October 31, 2014	26,156,791	—	468,583	2,252,965	(31,843,078)	(2,964,739)
Balance, February 1, 2015	26,164,791	—	468,583	2,332,465	(32,700,157)	(3,734,318)
Shares issued <i>[note 5]</i>	666,667	—	—	—	—	666,667
Shares to be issued <i>[note 5]</i>	—	2,000,000	—	—	—	2,000,000
Warrants issued <i>[note 5]</i>	—	—	333,334	—	—	333,334
Share based compensation <i>[note 7]</i>	—	—	—	15,500	—	15,500
Net loss for the period	—	—	—	—	(974,567)	(974,567)
Balance, October 31, 2015	26,831,458	2,000,000	801,917	2,347,965	(33,674,724)	(1,693,384)

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended October 31		For the nine months ended October 31	
	2015	2014	2015	2014
	\$	\$	\$	\$
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES				
Net loss for the period	(224,066)	(267,158)	(974,567)	(963,605)
Add (deduct) items not involving cash				
Amortization	8,621	9,030	27,637	27,095
Share-based compensation [note 7]	13,000	—	15,500	—
Investment financing revenue [note 14]	(99,000)	(160,825)	(297,000)	(482,475)
Net changes in working capital [note 10]	51,905	57,481	(45,866)	(131,259)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(249,540)	(361,472)	(1,274,296)	(1,550,244)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES				
Increase in demand and other loans [note 9]	—	90,000	455,000	590,000
Repayment of demand loans [note 9]	—	(50,000)	(240,000)	(50,000)
Share subscriptions received [note 5]	2,000,000	211,500	3,000,000	411,500
NET CASH FLOWS FROM FINANCING ACTIVITIES	2,000,000	251,500	3,215,000	951,500
CASH FLOWS USED IN INVESTING ACTIVITIES				
Purchase of shares of Bioceltran Co., Ltd.	—	(107,900)	—	(107,900)
NET CASH USED IN INVESTING ACTIVITIES	—	(107,900)	—	(107,900)
Foreign currency loss on demand loans held in foreign currency	175	—	1,758	—
Net increase (decrease) in cash	1,750,635	(217,872)	1,942,462	(706,644)
Cash, beginning of period	291,869	253,675	100,042	742,447
Cash, end of period	2,042,504	35,803	2,042,504	35,803

See accompanying notes

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2015

1. CORPORATE INFORMATION AND GOING CONCERN UNCERTAINTY

Corporate information

Quest PharmaTech Inc. (the “Company”) is a biotechnology company committed to the development and commercialization of oncology product candidates. It is developing a series of products for the treatment of cancer based on its pipeline of SonoLight compounds and monoclonal antibodies which target certain tumor antigens that are presented in a variety of cancers. The Company believes that by combining these antibodies with other cancer therapies such as chemotherapy, photodynamic therapy or radioimmuno therapy, it can potentially further complement and enhance treatment outcomes compared to antibody treatment alone.

The Company is incorporated under the Business Corporations Act (Alberta). The Company’s functional currency is the Canadian dollar. The principal address of the Company is 8123 Roper Road NW, Edmonton, Alberta, T6E 6S4.

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

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.

The Company has incurred a net loss of \$974,567 for the nine months ended October 31, 2015 and as at October 31, 2015 had a working capital deficiency of \$1,731,190 (January 31, 2015 - \$3,525,761) and a shareholders’ deficiency of \$1,693,384 (January 31, 2015 - \$3,734,318). Accordingly, there is a material uncertainty that may cast significant doubt regarding the Company’s ability to continue as a going concern.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2015

1. CORPORATE INFORMATION AND GOING CONCERN UNCERTAINTY [CONTINUED]

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

The unaudited consolidated financial statements of the Company were prepared following the same accounting policies as disclosed in Note 3 in the audited consolidated financial statements for the years ended January 31, 2015 and 2014. These unaudited consolidated financial statements for the nine months ended October 31, 2015 should be read in conjunction with the consolidated financial statements for the years ended January 31, 2015 and 2014 and the notes thereto. These unaudited consolidated financial statements for the nine months ended October 31, 2015 do not include all of the required disclosures for annual consolidated financial statements.

Statement of Compliance

These consolidated financial statements have been prepared by management in accordance with IAS 34 "Interim Financial Reporting" using accounting principles consistent with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on December 29, 2015.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention with the exception of financial instruments which have been measured at fair value.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2015

3. INTANGIBLE ASSETS

	IgE Technology	Immunotherapy Technology	Hypocrellin Based Technology and Licenses	CDK Technology	Totals 2016	Totals 2015
Cost, February 1, 2015	63,892	237,500	2,476,822	233,000	3,011,214	3,003,214
Additions	—	—	—	—	—	—
Deletions	—	—	—	—	—	—
Cost, October 31, 2015	63,892	237,500	2,476,822	233,000	3,011,214	3,003,214
Accumulated amortization, February 1, 2015	48,801	237,500	2,476,822	225,667	2,988,790	2,966,827
Amortization	15,091	—	—	1,995	17,086	15,972
Accumulated amortization, October 31, 2015	63,892	237,500	2,476,822	227,662	3,005,876	2,982,799
Net book value	—	—	—	5,338	5,338	20,415

CORE TECHNOLOGIES

AllergoOncology 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 allegrooncology 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 (\$25,000). The agreement requires the Company to make milestone and royalty payments to AIT on future revenues. The Company has amortized this asset on a straight-line basis over a three-year period that commenced September, 2012. 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

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2015

3. INTANGIBLE ASSETS [CONTINUED]

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 (\$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.

On August 6, 2015, the Company transferred the core IgE and Immunotherapy technologies to the Company's wholly-owned subsidiary, OncoQuest Inc. ("OncoQuest") in return for 5,000,000 OncoQuest common shares. OncoQuest plans to seek additional funding and continue with the further development of these technologies (see Subsequent Events, note 15).

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 (the "SonoLight Technology").

SonoLight Technology is based upon proprietary derivatives of hypocrellins, a major, natural product of a phytopathogen of bamboo (*Hypocrella bambusae*). In general, hypocrellins are small, non-toxic molecules which can be activated by visible light, ultrasound and oxidizing agents such as H₂O₂, to produce reactive oxygen and nitrogen species with high quantum yield. Hypocrellin derivatives can be formulated for topical and systemic delivery and their treatment selectivity effectively limits side-effects or toxicity to the remainder of the patient. Photodynamic therapy has applications in the management and cure of hyperproliferative diseases including cancer, psoriasis, macular degeneration; and cosmetic applications such as hair removal.

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.

During fiscal 2015, the Company licensed the SonoLight Technology to Biocletran, Co., Ltd. in return for future royalty income.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2015

3. INTANGIBLE ASSETS [CONTINUED]

NON-CORE 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. The Company has determined that it will not proceed with further development with respect to the CDK technology and the asset may be sold at a future date.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2015

4. PROPERTY AND EQUIPMENT

	Computer Equipment	Furniture and Fixtures	Office Equipment	Manufacturing and Research and Development Equipment	Leasehold Improvements	Totals 2016	Totals 2015
Cost, February 1, 2015	87,453	12,114	31,494	457,983	10,220	599,264	590,066
Additions	—	—	—	—	—	—	—
Deletions	—	—	—	—	—	—	—
Cost, October 31, 2015	87,453	12,114	31,494	457,983	10,220	599,264	590,066
Accumulated amortization, February 1, 2015	80,168	11,950	31,230	429,628	3,269	556,245	540,720
Amortization	1,639	37	60	6,381	2,434	10,551	11,124
Accumulated amortization, October 31, 2015	81,807	11,987	31,290	436,009	5,703	566,796	551,844
Net book value	5,646	127	204	21,974	4,517	32,468	38,222

There were no additions of property and equipment for the nine month period ended October 31, 2015 or 2014.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2015

5. 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, 2014	101,697,580	25,813,875
Shares issued pursuant to a private placement	6,858,333	342,916
Shares issued pursuant to a technology purchase	200,000	8,000
At January 31, 2015	108,755,913	26,164,791
Shares issued pursuant to a private placement	16,666,667	666,667
At October 31, 2015	125,422,580	26,831,458

In September, 2014, the Company raised \$411,500 through the issuance of 6,858,333 units at \$0.06 per unit, each unit comprised of one common share and one half common share purchase warrant. Each warrant entitles the holder to purchase one common share at \$0.10 per common share. The warrants expire on September 26, 2016. The shares were valued at \$0.05 per share which represented the closing price of the common shares on the date of issue. The common share purchase warrants were valued at \$0.01 per warrant using the Black-Scholes option valuation model.

In October, 2014, the Company issued the remaining 200,000 common shares under the CDK technology purchase agreement to consolidate the ownership of this technology. These shares have been recorded at \$0.04 per share which represents the closing price of the common shares on the date of issue.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2015

5. SHARE CAPITAL [CONTINUED]

August 2015 Private Placement

In August, 2015, the Company issued 16,666,667 units at \$0.06 per unit under a \$1,000,000 private placement, 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.

Subsequent to period end, on November 5, 2015, the Company issued 25,000,000 common shares under a \$2,000,000 private placement. The shares were issued at \$0.08 per common shares (see Subsequent Events, note 15).

The following options to purchase common shares were outstanding as at October 31, 2015:

Exercise price \$	Options outstanding #	Weighted average remaining life (years)	Options exercisable #
0.10	11,390,000	6.06	11,390,000
0.15	200,000	0.12	200,000
0.25	1,300,000	0.30	1,300,000
	12,890,000	6.48	12,890,000

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2015

5. SHARE CAPITAL [CONTINUED]

The following schedule details the warrants and share-based payment transactions granted and expired:

	Shares issuable on exercise of			
	Warrants		Share options	
	Number of shares #	Weighted average exercise price \$	Number of shares #	Weighted average exercise price \$
Balance, Jan 31, 2014	10,000,000	0.15	9,190,000	0.10
Granted	3,429,167	0.10	2,650,000	0.10
Expired	—	—	(50,000)	0.15
Balance, Jan 31, 2015	13,429,167	0.14	11,790,000	0.10
Granted	16,666,667	0.10	1,350,000	0.24
Expired	—	—	(250,000)	0.10
Balance, Oct 31, 2015	30,095,834	0.12	12,890,000	0.12

Warrants

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 expire 24 months from the date of issue, 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 expire 24 months from the date of issue, on September 26, 2016.

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.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2015

5. SHARE CAPITAL [CONTINUED]

Share options

For the three and nine months ended October 31, 2015, the Company granted 1,300,000 and 1,350,000, respectively, share options, as per the Company's Share Option Plan. These share options, vesting immediately, have exercise prices ranging from \$0.10 to \$0.25 and were granted to non-employees (note 7).

For the three and nine month periods ended October 31, 2014, the Company did not grant any share options under the Company's Share Option Plan.

Under the Company's Share Option Plan, the aggregate number of common shares eligible for issuance shall not exceed 20,000,000. At October 31, 2015, 7,110,000 options are available for issue. Subsequent to period end, at the Company's November 27, 2015 Annual, General and Special meeting of shareholders, the Company received shareholder approval to increase the number of common shares eligible for issuance under the Company's Share Option Plan to 25,000,000.

Basic and diluted loss per share

Basic loss per share has been calculated using the weighted average number of common shares outstanding during the period (3 and 9 months ended October 31, 2015 – 123,610,986 and 113,748,303, respectively; 3 and 9 months ended October 31, 2014 – 104,381,276 and 102,599,498, respectively). For the periods presented, the calculation of loss per common share on a diluted basis excluded all potential common shares because the effect was anti-dilutive.

6. 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 continue as a going concern so that it can continue with its drug development program and strive to maximize shareholder value. Note 1 provides a discussion surrounding the Company's ability to continue as a going concern. Capital is defined by the Company as shareholders' deficiency (primarily comprised of share capital, contributed surplus and deficit) and current term debt consisting of demand loans. The Company manages its capital structures, 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. The Company is not subject to any externally imposed capital requirements.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2015

7. SHARE-BASED PAYMENTS

For the nine month period ended October 31, 2015, the Company granted a total of 1,350,000 (2014 – nil) share options under the Company’s Share Option Plan. Options vest immediately on date of grant. The fair value of options vesting in 2015 of \$15,500 (2014 - \$nil) was recognized as a share-based payment expense and credited to contributed surplus for the nine month period ended October 31, 2015. There were no forfeitures of Company’s share options during the nine month periods ended October 31, 2015 and 2014.

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 were used:

	<u>2015</u>
Dividend yield	0.00%
Volatility	114.7 - 149.4%
Risk-free interest rate	0.55 - 1.59%
Expected life (years)	3 - 10
Fair value per option	<u>\$0.01 - \$0.05</u>

For share options issued to non-employees, the Company has determined that the fair value of the share options issued (\$15,500 in 2015, \$nil in 2014) is a reliable measure of the fair value of the services provided to the Company by non-employees.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2015

8. SEGMENT DISCLOSURES

During fiscal 2015, the Company made a decision to develop a marketing strategy to market and sell the premium quality cosmetic skin care product, Bellus Skin™. As a result, at October 31, 2015, the Company has two operating segments – biopharmaceutical/pharmaceutical products and 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.

	Nine months ended October 31, 2015			Nine months ended October 31, 2014		
	Pharmaceuticals	Cosmetics	Total	Pharmaceuticals	Cosmetics	Total
Revenue						
Licensing fees	—	—	—	107,000	—	107,000
Investment financing revenue	297,000	—	297,000	482,475	—	482,475
	297,000	—	297,000	589,475	—	589,475
Expenses						
G&A, net	536,535	60,791	597,326	467,027	176,556	643,583
R&D, net [note 13]	531,679	—	531,679	836,736	—	836,736
Other	142,562	—	142,562	72,761	—	72,761
	1,210,776	60,791	1,271,567	1,376,524	176,556	1,553,080
Net loss	(913,776)	(60,791)	(974,567)	(787,049)	(176,556)	(963,605)

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:

Asia (2015 - \$297,000; 2014 - \$589,475)

Cosmetics related expenses of \$60,791 for the 9 month period ended October 31, 2015 are net of a marketing expense reimbursement of \$110,000.

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 CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2015

9. DEMAND LOANS AND RELATED PARTY TRANSACTIONS

During the year ended January 31, 2011, the Company entered into a demand loan agreement with one of its officers 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 principal repayment to be made 30 days after demand and interest is payable monthly. As at October 31, 2015, the Company had drawn \$620,000 on this financing. 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. As at October 31, 2015, the Company had demand loan financing of \$140,000 from an officer 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 fiscal 2015 and 2016, the Company received a net total amount of \$1,124,625 of demand loan financings from nonrelated third parties. The Company received \$455,000 of demand loan financings from nonrelated third parties during the nine month period ended October 31, 2015, of which \$180,000 was repaid during the second quarter. These demand loan financings bear interest at 8% per annum, interest payable monthly and are unsecured with principal repayment to be made 30 days after demand. Subsequent to period end, the Company repaid the principal amounts of all the demand loan financings.

During the three and nine month periods ended October 31, 2015, the Company incurred \$40,030 and \$119,764 respectively (2014 – \$26,845 and \$69,206, respectively) in interest under the demand loan financings, \$17,341 and \$53,694, respectively, with related parties (2014 – \$17,683 and \$52,197 respectively).

10. SUPPLEMENT CASH FLOW INFORMATION

NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS RELATED TO OPERATING ACTIVITIES

	Three months ended October 31		Nine months ended October 31	
	2015	2014	2015	2014
	\$	\$	\$	\$
Accounts receivable	125,596	(6,106)	26,851	25,447
Prepaid expenses	101,973	(11,500)	42,461	(4,538)
Accounts payable and accrued liabilities	(175,664)	75,087	(115,178)	(152,168)
	51,905	57,481	(45,866)	(131,259)

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2015

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, and the demand loans.

a) Carrying value and fair value

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities 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 cash equivalents are measured using the Level 1 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. Due to the limited number of transactions that are denominated in foreign currencies, the Company does not consider its exposure to foreign currency risk to be significant and currently does not use derivative instruments to reduce its exposure to this.

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 6). In fiscal 2015 and 2016, the Company secured debt financing from its officers and from unrelated third parties to provide demand loan financing for operational expenditures. During fiscal 2015 and 2016, the Company secured equity financing under offerings of common shares and share purchase warrants.

iii) Credit risk

Financial instruments that subject the Company to credit risk consist primarily of cash and accounts receivable. To minimize its exposure to credit risk for cash, 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 period end, 85% of accounts receivable was due from one federal government agency.

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2015

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

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 cash equivalents are comprised of highly liquid deposits or investments that earn interest at market rates. Interest on the demand loans is at fixed rates. Consequently, the Company is exposed to fair value changes on long-term debt when the market interest rate changes. Accounts receivable, accounts payable and accrued liabilities bear no interest. The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the liquidity needed to conduct operations on a daily basis. The Company's policy limits the investing of excess funds to liquid government guaranteed deposits or guaranteed investment certificates.

12. COMPENSATION OF KEY MANAGEMENT

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

	Three months ended October 31		Nine months ended October 31	
	2015	2014	2015	2014
	\$	\$	\$	\$
Salaries and short term employee benefits	99,000	99,000	297,000	297,000
Director compensation	—	—	—	—
	99,000	99,000	297,000	297,000

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2015

13. GOVERNMENT ASSISTANCE

During the three and nine month periods ended October 31, 2015, the Company recognized \$17,072 and \$43,806, respectively, 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 2016. This funding was treated as a reduction of research and development expenses.

	Three months ended October 31		Nine months ended October 31	
	2015	2014	2015	2014
	\$	\$	\$	\$
Gross research and development expenditures	168,580	276,684	575,485	836,736
Less: government assistance	(17,072)	—	(43,806)	—
Research and development expenditures, net	151,508	276,684	531,679	836,736

14. 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. The remainder has been recorded as deferred revenue on the statements of financial position and will be recognized into income as the clinical trials are completed. 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 has therefore terminated the agreement.

During fiscal 2013, the Company signed an investment agreement with a related party to provide the Company with up to \$8,000,000 of funding over a 12-month period to support the Company's clinical trial programs and for operational expenditures. Under the investment agreement, the Company was required to issue up to 15,000,000 common shares and share up to 50% of future net revenues derived from the Company's immunotherapy and prostate cancer programs as funding milestones under the agreement are met. The Company received \$1,100,000 of funding during fiscal 2013 and \$50,000 of funding during fiscal 2014, which was recognized as deferred revenue. During fiscal 2014, the investment agreement was terminated along with conversion of the

Quest PharmaTech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended October 31, 2015

14. INVESTMENT FINANCING [CONTINUED]

\$500,000 interest free loan in exchange for 3,000,000 common shares of the Company and 7% of future net revenues with this related party plus 3% of future net revenues to a maximum of \$5,000,000 to an unrelated party, derived from the Company's immunotherapy and prostate cancer programs. The shares issued were valued at \$90,000 and recorded in share capital with the remainder of funding received of \$1,560,000 recorded as a gain on settlement of investment agreement in the consolidated statements of loss and comprehensive loss for the year ended January 31, 2014.

15. SUBSEQUENT EVENTS

Subsequent to period end, on November 5, 2015, the Company issued 25,000,000 common shares to Hepalink USA Inc. ("Hepalink") under a \$2,000,000 private placement. The common shares were issued at \$0.08 per share. As a result of this private placement, Hepalink owns 16.62% of the outstanding shares of the Company and is considered an insider of the Company by virtue of owning greater than 10% of the Company's outstanding shares.

Subsequent to period end, the Company's wholly-owned subsidiary, OncoQuest Inc., completed a U.S. \$13,000,000 private placement of preferred shares issued to Hepalink. The preferred shares have a 5% annual dividend rate and were issued at U.S. \$3.74 per preferred share. Each preferred share is convertible into one common share of OncoQuest. As a result of this private placement, Hepalink has a 41% ownership interest in OncoQuest.

In November, the Company transferred 615,000 of its 5,000,000 OncoQuest shares to third parties in order to obtain a full release from the revenue sharing obligations under the investment financing agreements (see Investment Financing, note 14).

In November, the Company repaid the principal amounts of all the demand loan financings.

On November 27, 2015, the Company held its 2015 Annual, General and Special meeting of shareholders which included the election of Mr. Lorne Meikle, Mr. Ian McConnan, Dr. Eric Shi, Mr. Shawn Lu and Dr. Ragupathy Madiyalakan as directors of the Company, and a change to the Company's Share Option Plan to provide for up to 25,000,000 common shares being eligible for issuance under the Company's Share Option Plan.

In December, 2015, the Company announced the sale of its immuno-photodynamic therapy assets to OncoQuest in return for consideration of U.S.\$2,000,000.