Restated Consolidated Financial Statements

Quest PharmaTech Inc.

January 31, 2016 and 2015

Independent auditors' report

To the Shareholders of
Quest PharmaTech Inc.

We have audited the accompanying consolidated financial statements of **Quest PharmaTech Inc.**, which comprise the consolidated statements of financial position as at January 31, 2016 and 2015, and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the years 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 auditors' 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 auditors consider 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, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Restatement of consolidated financial statements

Without modifying our opinion, we draw attention to Note 24 to the consolidated financial statements for the year ended January 31, 2016 which explains that the consolidated financial statements have been restated from those on which we originally reported on May 31, 2016.

Ernst & Young LLP

Chartered Professional Accountants

Edmonton, Canada
August 5, 2016

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (RESTATED)

As at January 31

	2016 $	2015 $
	Restated (note 24)	
ASSETS		
Current		
Cash *[note 5]*	**788,627**	100,042
Accounts receivable	**30,891**	42,577
Prepaid expenses	**77,150**	123,927
	896,668	266,546
Non current		
Restricted cash *[notes 5 and 11]*	**1,566,000**	—
Restricted short term investments *[notes 5 and 11]*	**8,290,000**	—
Property and equipment *[note 7]*	**30,081**	43,019
Intangibles *[note 6]*	**4,670**	22,424
Non-current prepaid expenses	**85,155**	—
	10,872,574	331,989
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**631,754**	1,628,265
Demand loans *[note 15]*	—	1,768,042
Current portion of deferred revenue *[note 21]*	—	396,000
Preferred share instrument *[note 11]*	**12,672,000**	—
	13,303,754	3,792,307
Long term portion of deferred revenue *[note 21]*	—	274,000
	13,303,754	4,066,307
Commitments and contingencies *[note 9]*		
SHAREHOLDERS' DEFICIENCY		
Common shares *[note 10]*	**28,810,839**	26,164,791
Warrants *[note 10]*	**401,917**	468,583
Non-controlling interest *[note 10]*	**(107,068)**	—
Contributed surplus	**5,796,209**	2,332,465
Deficit	**(37,333,077)**	(32,700,157)
	(2,431,180)	(3,734,318)
	10,872,574	331,989

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

	2016 $	2015 $
REVENUE		
Investment financing revenue *[note 21]*	**230,612**	961,000
EXPENSES		
General and administrative	**965,485**	969,532
Research and development, net *[note 17]*	**1,243,550**	1,687,819
	2,209,035	2,657,351
Loss before the undernoted	**(1,978,423)**	(1,696,351)
Other income (expenses)		
Financial income	**7,546**	197
Financial expenses *[note 15]*	**(133,071)**	(103,420)
Fair value adjustments on contract termination *[note 22]*	**(2,599,964)**	—
Deposit forfeiture	**100,000**	—
Foreign exchange loss	**(136,184)**	(21,110)
	(2,761,673)	(124,333)
Net loss and comprehensive loss for the year	**(4,740,096)**	(1,820,684)
Attributable to:		
Equity holders of the parent	**(4,632,920)**	(1,820,684)
Non-controlling interest *[note 10]*	**(107,176)**	—
Total	**(4,740,096)**	(1,820,684)
Basic and diluted loss per share *[note 19]*	**($0.038)**	**($0.017)**

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY

	Share capital – common shares $	Warrants $	Non-controlling interest $	Contributed surplus $	Deficit $	Total shareholders' deficiency $
Balance, January 31, 2014	25,813,875	400,000	—	2,252,965	(30,879,473)	(2,412,633)
Shares issued *[note 10]*	350,916	—	—	—	—	350,916
Share based payments *[note 13]*	—	—	—	79,500	—	79,500
Warrants issued *[note 10]*	—	68,583	—	—	—	68,583
Net loss for the year	—	—	—	—	(1,820,684)	(1,820,684)
Balance, January 31, 2015	26,164,791	468,583	—	2,332,465	(32,700,157)	(3,734,318)
Shares issued *[note 10]*	2,646,048	—	—	—	—	2,646,048
Share based payments *[note 13]*	—	—	—	24,500	—	24,500
Warrants issued *[note 10]*	—	333,334	—	—	—	333,334
Warrants expired *[note 10]*	—	(400,000)	—	400,000	—	—
Fair value adjustment on contract termination *[note 22]*	—	—	3,039,352	—	—	3,039,352
Balance transfer *[note 22]*	—	—	(3,039,244)	3,039,244	—	—
Fiscal 2016 non-controlling interest *[note 10]*	—	—	(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)**

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS (RESTATED)

Year ended January 31

	2016 $	2015 $
	Restated (note 24)	
CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES		
Net loss for the year	**(4,740,096)**	(1,820,684)
Items that do not involve cash		
Investment financing revenue *[note 21]*	**(230,612)**	(961,000)
Amortization	**31,821**	37,487
Share-based compensation *[note 13]*	**24,500**	79,500
Fair value adjustment on contract termination *[note 22]*	**2,599,964**	—
Foreign exchange adjustment on preferred share instrument *[note 11]*	**695,700**	—
Net change in working capital *[note 16]*	**(938,048)**	721,948
NET CASH FLOWS USED IN OPERATING ACTIVITIES	**(2,556,771)**	(1,942,749)
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES		
Proceeds from demand and other loans *[note 15]*	**455,000**	948,042
Repayment of demand loans *[note 15]*	**(2,223,042)**	(50,000)
Private placement proceeds – common shares and warrants *[note 10]*	**3,000,000**	411,500
Private placement proceeds – preferred shares *[note 11]*	**2,661,400**	—
Share issuance costs	**(20,618)**	—
Non-current prepaid expenses	**(85,155)**	—
NET CASH FLOWS FROM FINANCING ACTIVITIES	**3,787,585**	1,309,542
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchase of property and equipment	**(1,129)**	(9,198)
Foreign exchange gain on short term investments	**(209,084)**	—
Foreign exchange gain on non-current monetary assets	**(315,172)**	—
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(525,385)**	(9,198)
Effect of foreign currency translation in foreign currency denominated cash	**(16,844)**	—
Net increase (decrease) in cash	**688,585**	(642,405)
Cash, beginning of year	**100,042**	742,447
Cash, end of year	**788,627**	100,042

See accompanying notes

Quest PharmaTech Inc.

NOTES TO THE RESTATED CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2016

1. CORPORATE INFORMATION

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 immunoglobulins including CA125, MUC1, PSA and Her2/neu; and the application of combinatorial immunotherapy to enhance tumor specific immunity and clinical outcome. OncoQuest's lead product, oregovomab, is currently undergoing a confirmatory phase IIb clinical trial involving 80 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 to identify optimal design for a product registration trial. OncoQuest's MUC1 program has already undergone a phase I clinical trial in breast cancer patients. OncoQuest's next-generation products are based on immunoglobulin E licensed from UCLA, 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 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 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 restated consolidated financial statements have been authorized for issue by the Company's Board of Directors on August 4, 2016.

NOTES TO THE RESTATED CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2016

2. BASIS OF PREPARATION

These restated 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 August 4, 2016, 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.

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, 2016:

- OncoQuest Inc., incorporated March 25, 2015 (59.2%)
- 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

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

NOTES TO THE RESTATED CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2016

Short term investments

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 amortized cost.

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

Investment

The Company has an investment comprised of shares of a private company that have been acquired from a third party (see note 23 – Investment). 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, 2016, 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.

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.

NOTES TO THE RESTATED CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2016

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, 2016 and 2015, 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.

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.

NOTES TO THE RESTATED CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2016

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.

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.

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 13 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 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.

NOTES TO THE RESTATED CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2016

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, 2016 which are not included in the computation of net loss per share amounts, was 2,406,417.

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 period under which deferred revenue is recognized 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 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 shareholders.

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 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 Leases
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 Flows
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.

IAS 12 Income Taxes
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.

4. PARENT CONTROL OF SUBSIDIARY

The Company's subsidiary, OncoQuest, has an ownership structure, as at January 31, 2016 as follows:

	Number of shares held	Percentage ownership
Quest PharmaTech Inc.	4,385,100	59.21
Hepalink USA Inc.	2,406,417	32.49
Others	615,000	8.30
Total	7,406,517	100.00

Ownership – Hepalink USA Inc. ("Hepalink") owns 2,406,417 voting preferred shares of OncoQuest which are convertible into common shares on a one-for-one basis, which equates to a 32.49% 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 42.33%.

Board and Management - The Board of OncoQuest is composed of 5 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.

NOTES TO THE RESTATED CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2016

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

At January 31, 2016, consolidated cash and short term investments were held as follows:

Cash:

	Quest	OncoQuest	Total
Cash	213,190	575,437	788,627
	213,190	575,437	788,627

Non-current restricted cash and short term investments:

	OncoQuest cash	OncoQuest short term investments	Total
Non-current restricted	1,566,000	8,290,000	9,856,000
	1,566,000	8,290,000	9,856,000

The Company has 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 11). It also includes $1,408,000 ($US 1,000,000) that is restricted to an investment to be made in Oncovent Co Ltd (note 11 and 25) that will be classified as a non-current asset.

Subsequent to year-end, 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 (note 25).

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.

6. INTANGIBLE ASSETS

	IgE Technology	Immunotherapy Technology	Hypocrellin Based Technology and Licenses	CDK Technology	Totals 2016	Totals 2015
Cost, beginning of year	63,892	237,500	2,476,822	233,000	3,011,214	3,003,214
Additions	—	—	—	—	—	8,000
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	48,801	237,500	2,476,822	225,667	2,988,790	2,966,827
Amortization	15,091	—	—	2,663	17,754	21,963
Accumulated amortization, end of year	63,892	237,500	2,476,822	228,330	3,006,544	2,988,790
Net book value	**—**	**—**	**—**	**4,670**	**4,670**	**22,424**

Fiscal 2015 additions of $8,000 are comprised of 200,000 shares of the Company issued at $0.04 per share for the Company's CDK technology.

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.

NOTES TO THE RESTATED CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2016

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 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.

NOTES TO THE RESTATED CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2016

7. PROPERTY AND EQUIPMENT

	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**

Fiscal 2015 additions of $9,198 were comprised of computer equipment – $4,198, and leasehold improvements - $5,000.

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8. INCOME TAXES

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

	2016 $	2015 $
Loss from operations	**(4,740,096)**	(1,820,684)
Statutory tax rate	**26.18%**	25.00%
Income tax recovery at Canadian statutory tax rate	**(1,240,957)**	(455,171)
Adjustment in income taxes resulting from:		
Non-deductible expenses	**7,187**	20,400
Non-deductible fair value adjustment on contract termination	**680,671**	—
Expiry of loss carryforwards	—	471,481
Impact on deferred tax assets resulting from statutory rate increase	**(322,761)**	—
SR&ED adjustments and other	**110,160**	(63,749)
Tax impact of capital gain transactions	**447,019**	—
Potential deferred tax assets not recognized	**318,681**	27,039
Deferred tax recovery	—	—

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

	2016 $	2015 $
Deferred tax assets		
Non-capital loss carryforwards	**2,427,540**	1,991,730
Tax cost of property, plant and equipment in excess of book values	**653,949**	264,130
Tax cost of intangible assets in excess of book values	**80,883**	106,496
Share issuance costs	**3,732**	—
Unrealized foreign exchange	**187,839**	—
Scientific research and experimental development expenditure pool	**966,580**	907,751
Capital loss carryforwards	**104,583**	836,318
	4,425,106	4,106,425
Valuation allowance	**(4,425,106)**	(4,106,425)
	—	—

The Company and its subsidiaries have non-capital losses for income tax purposes of approximately $8,990,887 at January 31, 2016 (2015 – $8,074,818), and scientific research and experimental development expenses of approximately $3,579,927 at January 31, 2016 (2015 – $3,631,005) 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 (2015 – $702,400) that can be applied against future taxable income for which no deferred tax asset has been recognized. The Company also has capital losses for income tax purposes of approximately $387,345 at January 31, 2016 (2015 - $6,239,540) 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	1,391,960	—
	8,990,887	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:

	$
2017	65,971
2018	21,990
2019 and thereafter	—
	87,691

The Company recognized $70,552 of lease expense in the consolidated statements of loss in fiscal 2016 (2015 – $63,927).

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:

	$
2017	902,236
2018	555,298
2019	182,223
2020	165,735
2021 and thereafter	82,020
	1,887,512

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 $376,640 at varying amounts per year.

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.

NOTES TO THE RESTATED CONSOLIDATED FINANCIAL STATEMENTS

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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	656,798
Shares issued pursuant to a private placement	25,000,000	1,989,250
At January 31, 2016	150,422,580	28,810,839

In September, 2014, the Company raised $411,500 cash 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 $0.02 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.

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.

NOTES TO THE RESTATED CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2016

The following options to purchase common shares were outstanding as at January 31, 2016:

Exercise price $	Options outstanding #	Weighted average remaining life (years)	Options exercisable #
0.10	**11,390,000**	**5.64**	**11,390,000**
0.15	**200,000**	**0.11**	**200,000**
0.25	**1,750,000**	**0.36**	**1,750,000**
	13,340,000	**6.11**	**13,340,000**

The following schedule details the warrants and share options 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, January 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, 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**

10. SHARE CAPITAL [CONTINUED]

Warrants

	Number of warrants	Fair value ($)
Balance, January 31, 2014	10,000,000	400,000
Warrants issued	3,429,167	68,583
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

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 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.

Company share options

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 vest 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 13).

For the year ended January 31, 2015, the Company granted 2,650,000 share options, as per the Company's Share Option Plan. Options vest immediately on date of grant. Out of this total, 550,000 share options, with an exercise price of $0.10 per share, were granted to non-employees and 2,100,000 share options, all with an exercise price of $0.10 per share were granted to employees (note 13).

NOTES TO THE RESTATED CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2016

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, 2016, 11,660,000 options are available for issue.

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 8.30 % at January 31, 2016:

OncoQuest Ownership:	**Number of shares owned**	**Percentage ownership**
Hepalink	2,406,417	32.49%
Others	615,000	8.30%
Quest	4,385,100	59.21%
Total	7,406,517	100%

OncoQuest Financial information at January 31, 2016:	
OncoQuest fiscal 2016 net loss, after elimination of intercompany transactions	($1,289,283)
Non-controlling interest portion (8.30%)	($107,176)
OncoQuest current assets	
- Cash	$575,437
- Other current assets	$12,914
Total current assets	$588,351
OncoQuest non-current assets	$9,931,864
OncoQuest current liabilities	$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. Non-controlling interest is also reported on the consolidated statements of loss as a share of loss belonging to non-controlling shareholders.

11. PREFERRED SHARE INSTRUMENT

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

	Number of Series A preferred shares	Amount $
Series A preferred shares		
At January 31, 2015	—	—
Shares issued pursuant to a private placement	2,406,417	11,976,300
At January 31, 2016	2,406,417	11,976,300

November 12, 2015 preferred share private placement proceeds	11,976,300
Foreign exchange adjustment at January 31, 2016	695,700
Adjusted preferred share instrument balance at January 31, 2016	12,672,000

On November 12, 2015, as part of a US$13,000,000 preferred share private placement with 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 are issuable in three tranches as OncoQuest meets certain technology transfer milestones under the preferred share subscription agreement. This issuance is 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 (see note 25 – Subsequent Events).

The funds received by OncoQuest are 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 Co., Ltd. (see note 25 – Subsequent Events)
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 approves otherwise.

Based on these restrictions, the Company has classified $1,566,000 of its consolidated cash and $8,290,000 of its short term investments as non-current on the consolidated statements of financial position as at January 31, 2016 (note 5).

Subsequent to year-end, 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 (note 25).

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, or at any time, 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.

The preferred share instrument has 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.

Subsequent to year-end, Hepalink agreed to a removal of the requirement for OncoQuest to issue additional common shares to the preferred shareholders in the event that OncoQuest issues additional common shares for proceeds less than US$3.74 per common share.

12. 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' 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. The Company is not subject to any externally imposed capital requirements.

13. SHARE-BASED PAYMENTS

For the year ended January 31, 2016, the Company granted a total of 1,800,000 (2015 – 2,650,000) share options under the Company's Share Option Plan. Options vest immediately on date of grant. The fair value of options vesting in 2016 of $24,500 (2015 - $79,500) was recognized as a share-based payment expense and credited to contributed surplus for the years ended January 31, 2016 and 2015. There were no forfeitures of Company's share options during the years ended January 31, 2016 and 2015.

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:

	2016	2015
Dividend yield	0.00%	0.00%
Volatility	115.5%	150.2%
Risk-free interest rate	0.614%	1.93%
Expected life (years)	3.194	10
Fair value per option	$0.014	$0.03

For share options issued to non-employees, the Company has determined that the fair value of the share options issued ($24,500 in 2016, $15,000 in 2015) is a reliable measure of the fair value of the services provided to the Company by non-employees.

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January 31, 2016

14. 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, 2016, 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, 2016			**Year ended Jan 31, 2015**		
	Pharmaceuticals	**Consumer/ Cosmetics**	**Total**	**Pharmaceuticals**	**Consumer/ Cosmetics**	**Total**
Revenue						
Investment financing revenue	**230,612**	**—**	**230,612**	961,000	—	961,000
	230,612	**—**	**230,612**	961,000	—	961,000
Expenses						
G&A	**869,338**	**96,147**	**965,485**	752,709	216,823	969,532
R&D	**1,243,550**	**—**	**1,243,550**	1,687,819	—	1,687,819
Other	**2,861,673**	**(100,000)**	**2,761,673**	124,333	—	124,333
	4,974,561	**(3,853)**	**4,970,708**	2,564,861	216,823	2,781,684
Net loss	**(4,743,949)**	**3,853**	**(4,740,096)**	(1,603,861)	(216,823)	(1,820,684)

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 (2016 - $230,612: 2015 - $961,000)

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.

NOTES TO THE RESTATED CONSOLIDATED FINANCIAL STATEMENTS

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15. 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 (2015 – $100,243) in interest under the demand loan financings, of which $57,955 was incurred in connection with related parties (2015 – $70,709), 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 $7,000 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.

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

16. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2016 $	2015 $
Accounts receivable	**11,686**	(3,383)
Prepaid expenses	**46,777**	(89,447)
Accounts payable and accrued liabilities	**(996,511)**	814,778
	(938,048)	721,948

During the year ended January 31, 2016, the Company paid $133,071 of interest (2015 - $103,420) and income taxes of nil (2015 - nil).

17. GOVERNMENT ASSISTANCE

During the year ended January 31, 2016, the Company recognized $nil (2015 - $25,025) from Alberta Finance related to scientific research and development claims made for research and development expenditures incurred in fiscal 2016 and 2015. This funding was treated as a reduction of research and development expenses.

During the year ended January 31, 2016, the Company recognized $60,300 (2015 - $9,808) 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 and 2015. This funding was treated as a reduction of research and development expenses.

	2016 $	2015 $
Gross research and development expenditures	**1,303,850**	1,722,652
Less: government assistance	**(60,300)**	(34,833)
Research and development expenditures, net	**1,243,550**	1,687,819

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

a) Carrying value and fair value

The carrying values of cash, 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 year end 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 is 1.4080 and Euros to Canadian dollars is 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 12). 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 (note 15). During fiscal 2015 and 2016, the Company secured equity financings of $411,500 and $3,000,000, respectively, 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 11). Subsequent to year end, 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 (see note 25 – Subsequent Events). As such there is limited liquidity risk at January 31, 2016.

iii) Credit risk

Financial instruments that subject the Company to credit risk consist primarily of cash, restricted 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, 43% 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 restricted 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.

19. 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, 2016 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, 2016 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, 2016 which are not included in the computation of net loss per share amounts, was 2,406,417.

19. 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:

	2016 $	**2015** $
Net loss	**(4,632,920)**	(1,820,684)
Number of weighted average common shares outstanding	**122,660,023**	104,149,658
Net loss per share	**($0.038)**	($0.017)

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:

	2016	**2015**
Share-based payment transactions	**13,340,000**	11,790,000
Warrants	**20,095,834**	13,429,167
Preferred shares	**2,406,417**	—
	35,842,251	25,219,167

20. 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:

	2016 $	**2015** $
Salaries and short-term employee benefits	**412,967**	441,000
Director cash and share-based compensation	**40,000**	18,000
	452,967	459,000

During the year ended January 31, 2016, nil share options (2015 – 2,100,000) were granted to executives and to independent directors.

NOTES TO THE RESTATED CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2016

21. 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.

22. 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.

23. INVESTMENT

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. This transaction was 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 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 2015 or 2016. 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.

24. RESTATEMENT

The Company has restated its January 31, 2016 consolidated financial statements to classify $1,566,000 of its cash and $8,290,000 of its short term investments as non-current 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 Board of OncoQuest approves otherwise (note 11). It also includes $1,408,000 ($US 1,000,000) that is restricted to an investment to be made in Oncovent Co Ltd (note 11 and 25) that will be classified as a non-current asset.

The restatement results in a $1,566,000 decrease in cash and a $8,290,000 decrease in short term investments within the current assets section, and a $1,566,000 increase in non-current restricted cash and a $8,290,000 increase in non-current short term investments within the non-current section of the consolidated statement of financial position as at January 31, 2016. The restatement also affects the consolidated statement of cash flows for the year ended January 31, 2016 to remove restricted cash and short term investments from the cash flows. This resulted in a $9,314,900 decrease in the cash flows from financing activities section, a $8,290,000 decrease in purchase of short term investments, a $209,084 increase in foreign exchange gain on short term investments and a $315,172 increase in foreign exchange gain on non-current monetary assets in the cash flows from investing activities section, a $16,844 increase in the effect of foreign currency translation in foreign currency denominated unrestricted cash and a $1,566,000 decrease in cash for the year and cash, end of year.

25. SUBSEQUENT EVENTS

Subsequent to year-end, on March 1, 2016, the Company's subsidiary, OncoQuest, received $1,340,700 (U.S. $1,000,000) from Hepalink as the second milestone payment related to OncoQuest's November 12, 2015 Preferred Share Private Placement. OncoQuest issued 267,380 preferred shares to Hepalink as a result of this payment.

As part of the preferred share agreement, on March 4, 2016, the Company's subsidiary, OncoQuest, signed a joint venture contract with Shenzhen Hepalink Pharmaceutical Co., Ltd. (Shenzhen Hepalink), a China-based global pharmaceutical company to fund the research and development of immunotherapies for treatment of cancer in China. 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 will license the greater China rights to the immunotherapy

technologies and provide US$1,000,000 for 46% of the shares of OncoVent. Shenzhen Hepalink will contribute US$5,000,000 for 54% of the shares of OncoVent. As part of the agreement, OncoQuest will be required to transfer a portion of its shares in OncoVent to the Company and to another party such that the Company will own 11% and the other party will own 6%, respectively, of the shares of OncoVent. OncoVent will focus on the development, manufacturing and commercialization of Cancer Immunotherapy Products within China with pancreatic cancer as its first target.

The third and final milestone payment from Hepalink for $3,865,200 (US$3,000,000) was received May 4, 2016. OncoQuest has issued the remaining 802,139 preferred shares to Hepalink that are provided for under the November 12, 2015 private placement.

Subsequent to year-end, Hepalink agreed to a removal of the requirement for OncoQuest to issue additional common shares to the preferred shareholders in the event that OncoQuest issues additional common shares for proceeds less than US$3.74 per common share.

Subsequent to year- end, the Company granted a total of 1,275,000 share options to an employee and to non-employees at exercise prices ranging from $0.10 - $0.25, with vesting provisions up to 6 months.

Subsequent to year-end, 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.

Subsequent to year-end, the Company entered into a $250,000 loan agreement with a non-related third party 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. The loan is unsecured, non-interest bearing and repayable by the third party within 18 months and no later than April, 2018.