Restated Consolidated Financial Statements

Quest PharmaTech Inc.

Three months ended April 30, 2016

(Unaudited)

Quest PharmaTech Inc.

National Instrument 51 – 102
Continuous Disclosure Obligations

Notice

Pursuant to Part 4.3 (3) of National Instrument 51 – 102, these restated unaudited interim consolidated financial statements of Quest PharmaTech Inc. for the three month period ended April 30, 2016 have not been reviewed by the Company’s auditors.

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (RESTATED)

As at

	Apr 30, 2016 (Unaudited) $	**Jan 31, 2016 (Audited) $**
	Restated (note 17)	**Restated (note 17)**
ASSETS		
Current		
Cash *[note 7]*	**1,572,361**	788,627
Accounts receivable	**27,240**	30,891
Prepaid expenses	**79,991**	77,150
	1,679,592	896,668
Non current		
Restricted cash *[notes 3 and 7]*	**3,731,953**	1,566,000
Restricted short term investments *[notes 3 and 7]*	**5,052,347**	8,290,000
Property and equipment *[note 5]*	**35,187**	30,081
Intangibles *[note 4]*	**4,003**	4,670
Non-current prepaid expenses	**85,155**	85,155
	10,588,237	10,872,574
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**693,618**	631,754
Preferred share instrument *[note 7]*	**12,459,000**	12,672,000
	13,242,618	13,303,754
SHAREHOLDERS' DEFICIENCY		
Common shares *[note 6]*	**28,810,839**	28,810,839
Warrants *[note 6]*	**401,917**	401,917
Non-controlling interest *[note 6]*	**(93,193)**	(107,068)
Contributed surplus	**5,831,209**	5,796,209
Deficit	**(37,605,153)**	(37,333,077)
	(2,654,381)	(2,431,180)
	10,588,237	10,872,574

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

Three months ended April 30

	2016 $	2015 $
REVENUE		
Investment financing revenue *[note 16]*	—	99,000
EXPENSES		
General and administrative *[note 10]*	**291,884**	161,164
Research and development, net *[note 15]*	**376,797**	187,407
	668,681	348,571
Loss before the undernoted	**(668,681)**	(249,571)
Other income (expenses)		
Financial income	**13,585**	105
Financial expenses *[note 11]*	**(1,265)**	(37,786)
Foreign exchange gain	**398,160**	36,764
	410,480	(917)
Net and comprehensive loss for the period	**(258,201)**	(250,488)
Attributable to:		
Equity holders of the parent	**(272,076)**	(250,488)
Non-controlling interest *[note 6]*	**13,875**	—
Total	**(258,201)**	(250,488)
Basic and diluted loss per share	**($0.002)**	($0.002)

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY

	Share capital $	Warrants $	Non-controlling interes $	Contributed surplus $	Deficit $	Total shareholders' deficiency $
Balance, February 1, 2015	26,164,791	468,583	—	2,332,465	(32,700,157)	(3,734,318)
Share based payments *[note 9]*	—	—	—	2,500	—	2,500
Net loss for the period	—	—	—	—	(250,488)	(250,488)
Balance, April 30, 2015	26,164,791	446,583	—	2,334,965	(32,950,645)	(3,982,306)
Balance, February 1, 2016	28,810,839	401,917	(107,068)	5,796,209	(33,333,077)	(2,431,180)
Share based payments *[note 9]*	—	—	—	35,000	—	35,000
Net income (loss) for the period	—	—	13,875	—	(272,076)	(258,201)
Balance, April 30, 2016	**28,810,839**	**401,917**	**(93,193)**	**5,831,209**	**(37,605,153)**	**(2,654,381)**

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS (RESTATED)

Three months ended April 30

	2016 $	2015 $
	Restated (note 17)	
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net loss for the period	**(258,201)**	(250,488)
Add (deduct) items not involving cash:		
Amortization	**3,416**	9,508
Share based payments *[note 9]*	**35,000**	2,500
Investment financing revenue *[note 16]*	—	(99,000)
Foreign exchange adjustment on preferred share instrument *[note 7]*	**(1,463,000)**	—
Net change in working capital *[note 12]*	**62,675**	(17,288)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	**(1,620,110)**	(354,768)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in demand loans *[note 11]*	—	295,000
Private placement proceeds – preferred share instrument *[note 7]*	**1,340,000**	—
NET CASH FLOWS FROM FINANCING ACTIVITIES	**1,340,000**	295,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Foreign exchange loss on short term investments	**425,368**	—
Foreign exchange loss on non-current monetary assets	**592,837**	—
NET CASH FLOWS FROM FINANCING ACTIVITIES	**1,018,205**	—
Foreign exchange gain on demand loans held in foreign currency	**—**	(2,872)
Foreign currency loss on foreign currency denominated cash	**45,639**	—
	45,629	(2,872)
Net increase (decrease) in cash	**783,734**	(62,640)
Cash, beginning of period	**788,627**	100,042
Cash, end of period	**1,572,361**	37,402

See accompanying notes

Quest PharmaTech Inc.

NOTES TO THE RESTATED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2016

1. CORPORATE INFORMATION

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 also developing a marketing strategy to distribute the cosmetic skin care product, Bellus Skin.

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".

2. BASIS OF PREPARATION

The restated unaudited consolidated financial statements of the Company were prepared following the same accounting policies as disclosed in Note 3 in the restated audited consolidated financial statements for the years ended January 31, 2016 and 2015. These restated unaudited consolidated financial statements for the three months ended April 30, 2016 should be read in conjunction with the restated consolidated financial statements for the years ended January 31, 2016 and 2015 and the notes thereto. These restated unaudited consolidated financial statements for the three months ended April 30, 2016 do not include all of the required disclosures for annual consolidated financial statements.

Statement of Compliance

These restated 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").

Quest PharmaTech Inc.

NOTES TO THE RESTATED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2016

These restated consolidated financial statements were approved and authorized for issuance by the Board of Directors on August 4 4, 2016.

Basis of measurement

The restated consolidated financial statements have been prepared under the historical cost convention.

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

At April 30, 2016, consolidated cash and short term investments were held as follows:

Cash:

	Quest	OncoQuest	Total
Cash	29,526	1,542,835	1,572,361
	29,526	1,542,835	1,572,361

Non-current restricted cash and short term investments:

	OncoQuest cash	OncoQuest short term investments	Total
Non-current restricted	3,731,953	5,052,347	8,784,300
	3,731,953	5,052,347	8,784,300

The Company has classified $3,731,953 of its cash and $5,052,347 of its short term investments as non-current restricted on the consolidated statement of financial position as at April 30, 2016. This includes $7,529,400 (US$ 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 7). It also includes $1,254,900 ($US 1,000,000) that is restricted to an investment to be made in Oncovent Co Ltd (OncoVent) (note 7) that will be classified as a non-current asset.

Subsequent to period end, on July 11, 2016, the Board of OncoQuest, unanimously approved the removal of the cash restrictions on $US6,000,000 of preferred share private placement proceeds (note 18).

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.

4. INTANGIBLE ASSETS

	IgE Technology	Immunotherapy Technology	Hypocrellin Based Technology and Licenses	CDK Technology	Totals April 30, 2016	Totals April 30, 2015
Cost, February 1, 2016	63,892	237,500	2,476,822	233,000	3,011,214	3,011,214
Additions	—	—	—	—	—	—
Deletions	—	—	—	—	—	—
Cost, April 30, 2016	63,892	237,500	2,476,.822	233,000	3,011,214	3,011,214
Accumulated amortization, February 1, 2016	63,892	237,500	2,476,822	228,330	3,006,544	2,988,790
Amortization	—	—	—	667	667	5,991
Accumulated amortization, April 30, 2016	63,892	237,500	2,476,822	228,997	3,007,211	2,994,781
Net book value	—	**—**	**—**	**4,003**	**4,003**	**16,433**

TECHNOLOGIES

Allergo-Oncology technology and licenses (“IgE technology”)
During September, 2012, the Company signed a technology purchase agreement with Advanced Immune Therapeutics, Inc. (“AIT”) to acquire the proprietary rights and intellectual property related to an allergo-oncology technology based on tumor associated Immunoglobulin E (IgE) antibody for the treatment of cancer. Under the terms of the agreement, consideration for the purchase consisted of payment of $40,000 U.S. for past patent costs and the issuance of 500,000

common shares, valued for accounting purposes at $0.05 per common share, which reflected the closing price of the common shares on the date of issuance of $25,000. The agreement requires the Company to make milestone and royalty payments to AIT on future revenues. The Company amortized this asset on a straight-line basis over a three year period. This intangible asset is fully amortized.

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

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

Hypocrellin-based technology and licenses (proprietary rights)
The Company's subsidiary, Sonolight, holds the exclusive worldwide license to develop, commercialize and exploit several proprietary inventions involving a class of sonosensitizers and their use in cancer and non-cancer therapies. Sonolight signed a licensing agreement dated March 6, 2001 with the University of Alberta. The license agreement is for a term of 25 years. The agreement requires royalty payments upon successful sales and marketing of products developed using the technology. The Company has amortized this asset on a straight-line basis over a three-

year period that commenced August 1, 2001. This intangible asset is fully amortized.

Targeted Cancer Therapy Technologies

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

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

Protein Transduction Domain (PTD) Drug Delivery Technology

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

Out License of Sonolight Technology

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

Cosmetics

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

Quest PharmaTech Inc.

NOTES TO THE RESTATED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2016

5. PROPERTY AND EQUIPMENT

	Computer Equipment	Furniture and Fixtures	Office Equipment	Manufacturing and Research and Development Equipment	Leasehold Improvements	Totals April 30, 2016	Totals April 30, 2015
Cost, February 1, 2016	88,582	12,114	31,494	457,983	10,220	600,393	599,264
Additions	7,855	—	—	—	—	7,855	—
Deletions	—	—	—	—	—	—	—
Cost, April 30, 2016	96,437	12,114	31,494	457,983	10,220	608,248	599,264
Accumulated amortization, February 1, 2016	82,353	11,999	31,309	438,135	6,516	570,312	556,245
Amortization	425	9	14	1,490	812	2,749	3,517
Accumulated amortization, April 30, 2016	82,778	12,008	31,323	439,625	7,328	573,061	559,762
Net book value	**13,659**	**106**	**171**	**18,358**	**2,892**	**35,187**	**39,502**

There were no additions of property and equipment for the three month period ended April 30, 2015.

6. SHARE CAPITAL

Authorized

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

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

Issued

	Number of common shares	Amount $
Common shares		
At January 31, 2015	108,755,913	26,164,791
Shares issued pursuant to a private placement	16,666,667	656,798
Shares issued pursuant to a private placement	25,000,000	1,989,250
At January 31, 2016	150,422,580	28,810,839
At April 30, 2016	150,422,580	28,810,839

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.

6. SHARE CAPITAL [CONTINUED]

The following options to purchase common shares were outstanding as at April 30, 2016:

Exercise price $	Options outstanding #	Weighted average remaining life (years)	Options exercisable #
0.10	**11,390,000**	**4.96**	**11,390,000**
0.15	**1,450,000**	**0.10**	**1,450,000**
0.25	**1,775,000**	**0.32**	**1,750,000**
	14,615,000	**5.38**	**14,590,000**

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, January 31, 2015	13,429,167	0.14	11,790,000	0.10
Granted	16,666,667	0.10	1,800,000	0.25
Expired	(10,000,000)	0.15	(250,000)	0.10
Balance, January 31, 2016	20,095,834	0.10	13,340,000	0.12
Granted	—	—	1,275,000	0.15
Expired	—	—	—	—
Balance, April 30, 2016	**20,095,834**	**0.10**	**14,615,000**	**0.12**

Warrants

	Number of warrants	Fair value ($)
Balance, January 31, 2015	13,429,167	468,583
Warrants issued	16,666,667	333,334
Warrants expired	(10,000,000)	(400,000)
Balance, January 31, 2016	20,095,834	401,917
Balance, April 30, 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.

Share options

For the three months ended April 30, 2016, the Company granted 1,275,000 share options under the Company's Share Option Plan (2015 – 50,000) to an employee and to non-employees at exercise prices ranging from $0.10 - $0.25, with vesting provisions up to 6 months *[note 9]*.

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 April 30, 2016, 10,385,000 options are available for issue.

Quest PharmaTech Inc.

NOTES TO THE RESTATED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2016

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 8.01 % at April 30, 2016:

OncoQuest Ownership:	**Number of shares owned**	**Percentage ownership**
Hepalink USA Inc.	2,673,797	34.84%
Others	615,000	8.01%
Quest	4,385,100	57.15%
Total	7,673,897	100%

OncoQuest financial information at April 30, 2016:	
OncoQuest Q1 fiscal 2017 net income, after elimination of intercompany transactions	$173,218
Non-controlling interest portion (8.01%)	$13,875
OncoQuest current assets	
Cash	$5,274,789
Short term investments	$5,052,347
Other current assets	$25,639
Total current assets	$10,352,775
OncoQuest non-current assets	$75,864
OncoQuest current liabilities	$418,268

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.

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 (2016 – 150,422,580; 2015 – 108,755,913). 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.

7. PREFERRED SHARE INSTRUMENT

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

Series A Preferred Shares

	Number of shares	Amount $
At January 31, 2015	—	—
Shares issued pursuant to a private placement	2,406,417	11,976,300
Foreign exchange adjustment at January 31, 2016		695,700
At January 31, 2016	**2,406,417**	**12,672,000**
Shares issued pursuant to a private placement	267,380	1,340,000
Foreign exchange adjustment at April 30, 2016		(1,463,000)
At April 30, 2016	**2,673,797**	**12,549,000**

On November 12, 2015, as part of a US$13,000,000 preferred share private placement with Hepalink USA Inc. (Hepalink), OncoQuest raised $11,976,300 (US$9,000,000) through the issuance of 2,406,417 Series A preferred shares at US$3.74 per Series A preferred share. The preferred shares 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 18 – 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
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 $3,731,953 of its cash and $5,052,347 of its short term investments as non-current restricted on the consolidated statement of financial position as at April 30, 2016 (note 3).

Subsequent to period end, on July 11, 2016, the Board of OncoQuest, unanimously approved the removal of the cash restrictions on $US6,000,000 of preferred share private placement proceeds (note 18).

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

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

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

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.

8. 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.

9. SHARE-BASED PAYMENTS

For the three month period ended April 30, 2016, the Company granted a total of 1,275,000 (2015 – 50,000) share options under the Company's Share Option Plan. Options vest up to six months from the date of grant. The fair value of options vesting in 2016 of $35,000 (2015 - $2,500) was recognized as a share-based payment expense and credited to contributed surplus for the three month periods ended April 30, 2016 and 2015. There were no forfeitures of Company's share options during the three month periods ended April 30, 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 were used:

	2016	**2015**
Dividend yield	**0.00%**	0.00%
Volatility	**115.1 – 119.5%**	149.4%
Risk-free interest rate	**1.03 – 1.15%**	1.59%
Expected life (years)	**3.00**	10
Fair value per option	**$0.02 - $0.03**	$0.05

For share options issued to non-employees, the Company has determined that the fair value of the share options issued ($35,000 in 2016, $2,500 in 2015) is a reliable measure of the fair value of the services provided to the Company by non-employees.

10. 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 April 30, 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.

	Three months ended Apr 30, 2016			**Three months ended Apr 30, 2015**		
	Pharmaceuticals	**Consumer/ Cosmetics**	**Total**	**Pharmaceuticals**	**Consumer/ Cosmetics**	**Total**
Revenue						
Investment financing revenue	—	—	—	99,000	—	99,000
	—	—	—	99,000	—	99,000
Expenses						
G&A	**248,598**	**43,286**	**291,884**	143,176	17,988	161,164
R&D, net *[note 13]*	**376,797**	—	**376,797**	187,407	—	187,407
Other	**(410,480)**	—	**(410,480)**	917	—	917
	214,915	**43,286**	**258,201**	331,500	17,988	349,488
Net loss	**(214,915)**	**(43,286)**	**(258,201)**	(232,500)	(17,988)	(250,488)

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 - $nil: 2015 - $99,000)

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.

11. 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 April 30, 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 three month period ended April 30, 2015, the Company incurred $36,665 in interest under demand loan financings, $17,946 with related parties.

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.

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

12. SUPPLEMENTAL CASH FLOW INFORMATION

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

Three months ended April 30	**2016** $	**2015** $
Accounts receivable	**3,651**	6271
Prepaid expenses	**(2,840)**	3518
Accounts payable and accrued liabilities	**61,864**	(27,077)
	62,675	(17,288)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company’s financial instruments include cash, 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, accounts receivable, restricted cash, restricted short term investments, 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. 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 8). During 2016, the Company secured equity financings of $3,000,000, through private placements of common shares and warrants (note 6). During fiscal 2016, the Company’s subsidiary, OncoQuest, secured an equity financing of $11,976,300 ($9,000,000 U.S.), through a private placement of preferred shares (note 7). During the three month period ended April 30, 2016, OncoQuest secured $1,340,000 (US$1,000,000) through the second tranche of a preferred share private placement. Subsequent to period end, OncoQuest secured $3,865,200 (US$3,000,000) through the third tranche of a preferred share private placement (see note 18 – Subsequent Events). As such there is limited liquidity risk at April 30, 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, restricted 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 period end, 44% 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, 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.

14. 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 during the three months ended April 30, 2016 and 2015 is shown below:

	2016	**2015**
	$	$
Salaries and short term employee benefits	**124,450**	99,000
Director compensation	—	—
	124,450	99,000

15. GOVERNMENT ASSISTANCE

During the three month period ended April 30, 2016, the Company recognized $15,724 (2015 – $14,642) from National Research Council's Industrial Research Assistance Program related to the Company's IgE antibody cancer immunotherapy development program for research and development expenditures incurred in fiscal 2017. This funding was treated as a reduction of research and development expenses.

Three month period ended

	April 30, 2016 $	April 30, 2015 $
Gross research and development expenditures	**392,521**	202,049
Less: government assistance	**(15,724)**	(14,642)
Research and development expenditures, net	**376,797**	187,407

16. 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.

17. RESTATEMENT

The Company has restated its April 30, 2016 consolidated financial statements to classify \$3,731,953 of its cash and \$5,052,347 of its short term investments as non-current on the consolidated statement of financial position as at April 30, 2016. This includes \$7,529,400 (US\$ 6,000,000) received from the private placement with Hepalink that is to be retained in OncoQuest's bank account for future projects until approval of filed securities documents with securities regulatory authorities or until 80% of the OncoQuest Board approves otherwise (note 7). It also includes \$1,254,900 (\$US 1,000,000) that is restricted to an investment to be made in Oncovent (note 7) that will be classified as a non-current asset.

The restatement results in a \$3,731,953 decrease in cash and a \$5,052,347 decrease in short term investments within the current assets section, and a \$3,731,953 increase in restricted cash and a \$5,052,347 increase in restricted short term investments within the non-current section of the consolidated statement of financial position as at April 30, 2016. The restatement also affects the consolidated statement of cash flows for the period ended April 30, 2016 with a \$38,500 decrease in purchase of short term investments, a \$2,509,800 decrease in redemption of short term investments, a \$425,368 increase in foreign exchange loss on short term investments, a \$592,837 increase in foreign exchange loss on non-current monetary assets within the cash flows from investing activities section, a \$758,497 decrease in foreign exchange loss on cash and short term investments held in foreign currency, a \$2,165,953 decrease in cash during period, a \$1,566,000 decrease in cash, beginning of period and a \$3,731,953 decrease in cash, end of period.

18. SUBSEQUENT EVENTS

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

On May 30, 2016, 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. The Company plans to seek clarification to the terms of the agreement so that equity classification will be appropriate.

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

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.