Consolidated Financial Statements

Quest PharmaTech Inc.

Three months ended April 30, 2017

(Unaudited)

Quest PharmaTech Inc.

National Instrument 51 – 102
Continuous Disclosure Obligations

Notice

Pursuant to Part 4.3 (3) of National Instrument 51 – 102, these unaudited interim consolidated financial statements of Quest PharmaTech Inc. for the three month period ended April 30, 2017 have not been reviewed by the Company's auditors.

Quest PharmaTech Inc.

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

As at

	Apr 30, 2017 (Unaudited) $	Jan 31, 2017 (Audited) $
ASSETS		
Current		
Cash *[note 3]*	**367,888**	1,221,938
Short-term investments *[note 3]*	**8,205,800**	8,274,693
Accounts receivable	**25,176**	18,518
Prepaid expenses	**510,060**	576,463
Inventory	**89,311**	90,142
	9,198,235	10,181,754
Non-current		
Property and equipment *[note 5]*	**32,904**	26,777
Intangible assets *[note 4]*	**1,335**	1,998
Non-current prepaid expenses	**110,317**	178,502
Loan receivable *[note 15]*	**250,000**	250,000
Non-current investments	—	39,090
Investment in OncoVent *[note 16]*	**557,391**	687,620
	10,150,182	11,365,741
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**497,343**	733,493
	497,343	733,493
SHAREHOLDERS' EQUITY		
Common shares *[note 6]*	**28,910,839**	28,810,839
Preferred shares *[note 6]*	**17,166,365**	17,166,365
Warrants *[note 6]*	**347,626**	367,626
Non-controlling interest *[note 6]*	**(458,973)**	(392,406)
Contributed surplus	**6,386,848**	6,147,319
Deficit	**(42,699,866)**	(41,467,495)
	9,652,839	10,632,248
	10,150,182	11,365,741

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

Three months ended April 30

	2017 $	2016 $
REVENUE		
Bellus Skin sales	**3,043**	—
Cost of goods sold	**(985)**	—
Gross margin	**2,058**	—
	2,058	—
EXPENSES		
General and administrative, including amortization	**579,992**	291,884
Research and development, net *[note 14]*	**968,911**	376,797
	1,548,903	668,681
Loss before the undernoted	**(1,546,845)**	(668,681)
Other income (expenses)		
Financial income, net	**15,856**	12,320
Equity loss *[note 16]*	**(130,229)**	—
Foreign exchange gain	**362,280**	398,160
	247,907	410,480
Net and comprehensive loss for the period	**(1,298,938)**	(258,201)
Attributable to:		
Equity holders of the parent	**(1,232,371)**	(272,076)
Non-controlling interest *[note 6]*	**(66,567)**	13,875
Total	**(1,298,938)**	(258,201)
Basic and diluted loss per share *[note 6]*	**($0.008)**	($0.002)

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share Capital Common Shares $	Share Capital Preferred Shares $	Warrants $	Non-controlling interes $	Contributed surplus $	Deficit $	Total shareholders' equity $
Balance, January 31, 2017	28,810,839	17,166,365	367,626	(392,406)	6,147,319	(41,467,495)	10,632,248
Shares issued *[note 6]*	100,000	—	—	—	—	—	100,000
Share based payments *[note 8]*	—	—	—	—	219,529	—	219,529
Warrants exercised *[note 6]*	—	—	(20,000)	—	20,000	—	—
Non-controlling interest *[note 6]*	—	—	—	(66,567)	—	—	(66,567)
Net loss for the period	—	—	—	—	—	(1,232,371)	(1,232,371)
Balance, April 30, 2017	28,910,839	17,166,365	347,626	(458,973)	6,386,848	(42,699,866)	9,652,839

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended April 30

	2017 $	2016 $
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net loss for the period	**(1,298,938)**	(258,201)
Add (deduct) items not involving cash:		
Amortization	**3,258**	3,416
Net change in working capital *[note 11]*	**(175,574)**	62,675
Share based payments *[note 8]*	**219,529**	35,000
Allocation of loss from OncoVent *[note 16]*	**130,229**	—
Non-current prepaid expenses	**68,185**	—
Foreign exchange adjustment on preferred share instrument	—	(1,463,000)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	**(1,053,311)**	(1,620,110)
CASH FLOWS FROM FINANCING ACTIVITIES		
Exercise of warrants *[note 6]*	**100,000**	—
Private placement proceeds – preferred shares *[note 6]*	—	1,340,000
NET CASH FLOWS FROM FINANCING ACTIVITIES	**100,000**	1,340,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Foreign exchange translation on short-term investments	—	425,368
Foreign exchange translation on non-current monetary assets	—	592,837
Purchase of property and equipment	**(8,722)**	(7,855)
Redemption of short-term & non-current investments, net	**107,983**	—
NET CASH FLOWS FROM FINANCING ACTIVITIES	**99,261**	1,010,350
Foreign currency translation on foreign currency denominated cash	—	53,494
Net increase (decrease) in cash	**(854,050)**	783,734
Cash, beginning of period	**1,221,938**	788,627
Cash, end of period	**367,888**	1,572,361

See accompanying notes

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2017

1. CORPORATE INFORMATION AND GOING CONCERN UNCERTAINTY

Corporate information

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

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

The Company 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".

1. CORPORATE INFORMATION AND GOING CONCERN UNCERTAINTY [CONTINUED]

Going concern uncertainty

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

The Company has incurred a net loss of $1,167,889 for the 3 months ended April 30, 2017 (Year ended January 31, 2017 - $4,134,418) and as at April 30, 2017 had working capital of $8,190,832 (January 31, 2017 – working capital of $8,871,798) and shareholders' equity of $9,652,839 (January 31, 2017 – shareholders' equity of $10,632,248). Although the Company's subsidiary, OncoQuest Inc., has sufficient cash reserves, the Company has cash reserves of only $174,000 at April 30, 2017 (January 31, 2017 - $249,000), accordingly, there is a material uncertainty that may cast significant doubt regarding the Company's ability to continue as a going concern.

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

2. BASIS OF PREPARATION

The unaudited consolidated financial statements of the Company were prepared following the same accounting policies as disclosed in note 3 in the audited consolidated financial statements for the years ended January 31, 2017 and 2016. These unaudited consolidated financial statements for the three months ended April 30, 2017 should be read in conjunction with the consolidated financial statements for the years ended January 31, 2017 and 2016 and the notes thereto. These unaudited consolidated financial statements for the three months ended April 30, 2017 do not include all of the required disclosures for annual consolidated financial statements.

2. BASIS OF PREPARATION [CONTINUED]

Statement of Compliance

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

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on June 27, 2017.

Basis of measurement

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

3. CASH AND SHORT-TERM INVESTMENTS

At April 30, 2017, consolidated cash and short-term investments were held as follows:

	Quest	OncoQuest	Madenco	Total
Cash	174,196	173,187	20,505	367,888
Short-term investments	—	8,205,800	—	8,205,800

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, 2017
Cost, February 1, 2017	63,892	237,500	2,476,822	233,000	3,011,214
Additions	—	—	—	—	—
Deletions	—	—	—	—	—
Cost, April 30, 2017	63,892	237,500	2,476,.822	233,000	3,011,214
Accumulated amortization, February 1, 2017	63,892	237,500	2,476,822	231,002	3,009,216
Amortization	—	—	—	663	663
Accumulated amortization, April 30, 2017	63,892	237,500	2,476,822	231,665	3,009,879
Net book value	—	—	—	**1,335**	**1,335**

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

4. INTANGIBLE ASSETS [CONTINUED]

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

4. INTANGIBLE ASSETS [CONTINUED]

technology purchase agreement are met. Prior to fiscal 2015, the Company issued 200,000 shares under the agreement. During fiscal 2015, the Company issued the remaining 200,000 common shares to consolidate the ownership of this technology. These shares have been recorded at a value that represents the closing price of the common shares on the date the shares were issued. The Company is amortizing the remainder of this asset on a straight-line basis over a three-year period, commencing on November 1, 2014.

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

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

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

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

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2017

5. PROPERTY AND EQUIPMENT

	Computer Equipment	Furniture and Fixtures	Office Equipment	Manufacturing and Research and Development Equipment	Leasehold Improvements	Totals April 30, 2017
Cost, February 1, 2017	97,526	12,114	31,494	457,983	10,220	609,337
Additions	—	—	—	—	8,722	8,722
Deletions	—	—	—	—	—	—
Cost, April 30, 2017	97.526	12,114	31,494	457,983	18,942	618,059
Accumulated amortization, February 1, 2017	85,271	12,033	31,365	444,127	9,766	582,562
Amortization	663	6	10	1,039	875	2,593
Accumulated amortization, April 30, 2017	85,934	12,039	31,375	445,166	10,641	585,155
Net book value	**11,592**	**75**	**119**	**12,817**	**8,301**	**32,904**

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, 2016	150,422,580	28,810,839
At January 31, 2017	150,422,580	28,810,839
Shares issued pursuant to the exercise of warrants	1,000,000	100,000
At April 30, 2017	151,422,580	28,910,839

6. SHARE CAPITAL [CONTINUED]

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

Series A Preferred Shares

	Number of shares	Amount $
At January 31, 2016	**2,406,417**	**11,960,965**
Shares issued pursuant to a private placement, net of share issuance cost of $250	267,380	1,340,450
Shares issued pursuant to a private placement, net of share issuance cost of $250	802,139	3,864,950
At January 31, 2017	**3,475,936**	**17,166,365**
At April 30, 2017	**3,475,936**	**17,166,365**

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

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

US$4,000,000 for research and development, working capital and general corporate purposes
US$2,000,000 for payment to Quest for patent acquisitions

US$1,000,000 for payment to OncoVent (note 16)
US$6,000,000 to be retained by OncoQuest until approval of filed securities documents with securities regulatory authorities or until 80% of the OncoQuest Board approved otherwise.

6. SHARE CAPITAL [CONTINUED]

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

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

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

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

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

During 2017 fiscal year, the Company amended the terms of the preferred shares such that (i) the preferred shares may only be converted into a fixed number of OncoQuest common shares and (ii) the preferred share dividends are payable as and when declared by the Board. As a result, the preferred shares are recorded as equity at April 30, 2017.

The following options to purchase common shares were outstanding as at April 30, 2017:

Exercise price $	**Options outstanding** \#	**Weighted average remaining life** (years)	**Options exercisable** \#
0.10	**11,390,000**	**3.85**	**11,390,000**
0.15	**2,700,000**	**1.00**	**2,700,000**
0.25	**1,760,000**	**0.17**	**1,750,000**
	15,850,000	**5.03**	**15,840,000**

6. SHARE CAPITAL [CONTINUED]

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

	Shares issuable on exercise of			
	Warrants		Share options	
	Number of shares #	Weighted average exercise price $	Number of shares #	Weighted average exercise price $
Balance, January 31, 2016	20,095,834	0.14	13,340,000	0.12
Granted	3,829,167	0.16	1,260,000	0.15
Expired	(3,829,167)	0.10	—	—
Balance, January 31, 2017	20,095,834	0.11	14,600,000	0.12
Granted	—	—	1,250,000	0.15
Expired	—	—	—	—
Exercised	(1,000,000)	—	—	—
Balance, April 30, 2017	**19,095,834**	**0.11**	**15,850,000**	**0.13**

Warrants

	Number of warrants	Fair value ($)
Balance, January 31, 2016	20,095,834	401,917
Warrants issued	3,429,167	34,292
Warrants expired	(3,429,167)	(68,583)
Balance, January 31, 2017	20,095,834	367,626
Warrants exercised	(1,000,000)	(20,000)
Balance, April 30, 2017	19,095,834	347,626

In September 2014, the Company issued 3,429,167 share purchase warrants exercisable at $0.10 per common share pursuant to a private placement of units. The warrants were valued at $0.02 per warrant using the Black-Scholes option valuation model with the following assumptions (dividend rate – 0.00%, volatility – 121.8%, risk-free interest rate – 1.13%, expected life – 2 years). The warrants were to expire 24 months from the date of issue, on September 26, 2016. On September 16, 2016, the Company amended the terms of these warrants which are now set to expire on March 26, 2018. The warrants have also been repriced to $0.16. The amended warrants were valued at $0.01 per warrant using the Black-Scholes option valuation model with the following assumptions (dividend rate – 0.00%, volatility – 102.5%, risk-free interest rate – 1.00%, expected life – 1.5 years).

6. SHARE CAPITAL [CONTINUED]

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. During the 3 month period ended April 30, 2017, 1,000,000 shares purchase warrants were exercised into 1,000,000 common shares for proceeds of $100,000. Subsequent to period end, a further 2,100,000 share purchase warrants were exercised into 2,100,000 common shares for proceeds of $210,000 (note 17).

Share options

For the three months ended April 30, 2017, the Company granted 1,250,000 share options under the Company's Share Option Plan (2016 – 1,250,000) to employees and to non-employees all at an exercise price of $0.15, with vesting provisions up to 6 months (note 8).

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, 2017, 9,150,000 options are available for issue.

OncoQuest share options

For the three months ended April 30, 2017, there were no share options granted under OncoQuest's share option plan. At April 30, 2017, there are 610,000 OncoQuest share options issued with a further 235,000 options available for issue.

6. SHARE CAPITAL [CONTINUED]

Non-controlling interest

Non-controlling interest represents the proportionate share of the Company's subsidiary, OncoQuest Inc., that is owned by minority shareholders, measured to be 7.26 % at April 30, 2017:

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

OncoQuest financial information at April 30, 2017:	
OncoQuest Q1 fiscal 2018 net loss, after elimination of intercompany transactions	($916,907)
Non-controlling interest portion (7.26%)	($66,567)
OncoQuest current assets	
Cash	$173,187
Short-term investments	$8,205,800
Other current assets	$508,457
Total current assets	$8,887,444
OncoQuest non-current assets	$520,248
OncoQuest current liabilities	$365,945

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 (2017 – 150,487,797; 2016 – 150,422,580). For the three month periods ended April 30, 2017 and 2016, the calculation of loss per common share on a diluted basis included 3,049,217 (2016 – nil) potential common shares.

7. CAPITAL DISCLOSURES

The Company is a biotechnology company and consistent with other companies in the industry, the Company's objectives when managing capital are to safeguard its accumulated capital in order to maintain its ability to operate as a going concern so that it can continue with its drug development program and strive to maximize shareholder value. Capital is defined by the Company as shareholders' equity (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.

8. SHARE-BASED PAYMENTS

For the three month period ended April 30, 2017, the Company granted a total of 1,250,000 (2016 – 1,250,000) share options under the Company's Share Option Plan with options vesting immediately. The fair value of options vesting in 2017 of $150,000 (2015 - $35,000) was recognized as a share-based payment expense and credited to contributed surplus for the three month periods ended April 30, 2017 and 2016. There were no forfeitures of Company's share options during the three month periods ended April 30, 2017 and 2016.

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:

	2017	**2016**
Dividend yield	**0.00%**	0.00%
Volatility	**172%**	115.1 – 119.5%
Risk-free interest rate	**1.71%**	1.03 – 1.15%
Expected life (years)	**10.00**	3.00
Fair value per option	**$0.12**	$0.02 - $0.03

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

OncoQuest Share Options

OncoQuest accrued $69,529 of stock based compensation expense for the three-month period ended April 30, 2017 related to share options granted in Fiscal 2017.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2017

9. 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, 2017, the Company has two operating segments – biopharmaceutical/pharmaceutical products and consumer/cosmetic products. Management assesses performance and makes resource decisions based on the consolidated results of operations of these operating segments. Substantially all of the operations of the Company are directly engaged in or support these operating segments.

	Three months ended Apr 30, 2017			**Three months ended Apr 30, 2016**		
	Pharmaceuticals	**Consumer/ Cosmetics**	**Total**	**Pharmaceuticals**	**Consumer/ Cosmetics**	**Total**
Revenue						
Bellus Skin sales	—	**3,043**	**3,043**	—	—	—
Belus Skin COGS	—	**(985)**	**(985)**	—	—	—
	—	**2,058**	**2,058**	—	—	—
Expenses						
G&A	**535,837**	**44,155**	**579,992**	248,598	43,286	291,884
R&D, net *[note 14]*	**968,911**	—	**968,911**	376,797	—	376,797
Other	**(247,907)**	—	**(247,907)**	(410,480)	—	(410,480)
	1,256,841	**44,155**	**1,300,996**	214,915	43,286	258,201
Net loss	**(1,256,841)**	**(42,097)**	**(1,298,938)**	(214,915)	(43,286)	(258,201)

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

Canada (2017 - $3,043: 2016 - $nil)

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.

10. RELATED PARTY TRANSACTIONS

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 were approximately $7,500 gross per month, and fluctuated on a month to month basis. The amount paid for lease and other office related costs to Quest increased on February 1, 2017 to a monthly rate of $10,000 per month due to increase in scope of operations at OncoQuest.

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

11. SUPPLEMENTAL CASH FLOW INFORMATION

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

Three months ended April 30	**2017** $	**2016** $
Accounts receivable	**(6,658)**	3,651
Prepaid expenses	**66,403**	2,840
Inventory	**831**	—
Accounts payable and accrued liabilities	**(236,150)**	61,864
	(175,574)	62,675

12. 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.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

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 7). 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 6). During fiscal 2017, OncoQuest secured $1,340,000 (US$1,000,000) through the second tranche of a preferred share private placement and $3,865,200 (US$3,000,000) through the third tranche of a preferred share private placement. Although OncoQuest has sufficient funding in place, the Company only has cash reserves of $174,196 at April 30, 2017 (January 31, 2017 - $249,114). As such, there is a liquidity risk for the Company at April 30, 2017.

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, 65% 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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

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.

13. 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, 2017 and 2016 is shown below:

	2017 $	**2016** $
Management compensation	**253,173**	124,450
Director compensation	**82,548**	—
	335,721	124,450

14. GOVERNMENT ASSISTANCE

During the three month period ended April 30, 2017, the Company recognized $nil (2016 – $15,724) 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, 2017 $	**April 30, 2016** $
Gross research and development expenditures	**968,911**	392,521
Less: government assistance	—	(15,724)
Research and development expenditures, net	**968,911**	376,797

15. LOAN RECEIVABLE

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

16. INVESTMENT IN ONCOVENT CO., LTD.

As part of the preferred share agreement, on March 4, 2016, the Company's subsidiary, OncoQuest, signed a joint venture contract with Shenzhen Hepalink. The agreement results in the creation of a new company in China called OncoVent Co., Ltd. ("OncoVent"), to focus on the research and development of Cancer Immunotherapy Products for the Chinese market. Under the agreement, OncoQuest licensed the greater China rights to the Immunotherapy Technologies and provided US$1,000,000 for 46% of the shares of OncoVent. Shenzhen Hepalink contributed US$5,000,000 for 54% of the shares of OncoVent. As part of the agreement, OncoQuest transferred a portion of its shares in OncoVent to Quest and to another party such that Quest owns 11% (recognized as a deemed dividend of $319,933) and the other party owns 6% (recognized as a research and development expense of $174,509), respectively, of the shares of OncoVent. Management believes the creation of OncoVent will provide additional resources for product development that OncoQuest can access to accelerate its worldwide product registration strategy. OncoVent will focus on the development, manufacturing and commercialization of Cancer Immunotherapy Products within China with pancreatic cancer as its first target. On October 31, 2016, Shenzhen Hepalink contributed US$5,000,000 to OncoVent. On November 1, 2016, OncoQuest contributed $1,337,900 (US$1,000,000) to OncoVent.

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

	$
Balance, January 31, 2016	**-**
Investment in joint venture, November 1, 2016	1,337,900
Equity method share of loss for the year ended January 31, 2017	(475,771)
Transfer of 6% interest to third party	(174,509)
Balance, January 31, 2017	687,620
Equity method share of loss for the 3 month period ended April 30, 2017	(130,229)
Balance, April 30, 2017	557,391

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2017

17. SUBSEQUENT EVENTS

Subsequent to period end, Company warrant holders exercised 2,100,000 share purchase warrants to acquire 2,100,000 common shares of the Company at a price of $0.10 per share.

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

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