

Consolidated Financial Statements

Quest PharmaTech Inc.

Six months ended July 31, 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 six-month period ended July 31, 2017 have not been reviewed by the Company's auditors.

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at

	July 31, 2017 (Unaudited) \$	Jan 31, 2017 (Audited) \$
ASSETS		
Current		
Cash <i>[note 3]</i>	660,475	1,221,938
Short term investments <i>[note 3]</i>	6,776,298	8,274,693
Accounts receivable	33,193	18,518
Share subscription receivable <i>[note 6]</i>	3,987,520	—
Prepaid expenses	520,771	576,463
Inventory	77,104	90,142
	12,055,361	10,181,754
Non-current		
Loan receivable <i>[note 15]</i>	250,000	250,000
Property and equipment <i>[note 5]</i>	30,266	26,777
Intangibles <i>[note 4]</i>	665	1,998
Non-current prepaid expenses	10,420	178,502
Non-current investments	—	39,090
Investment in Natural Rf Life Sciences Inc. <i>[note 16]</i>	100,000	—
Investment in OncoVent Co., Ltd. <i>[note 17]</i>	509,764	687,620
	12,956,476	11,365,741
LIABILITIES		
Current		
Accounts payable and accrued liabilities	281,760	733,493
	281,760	733,493
SHAREHOLDERS' EQUITY		
Common shares <i>[note 6]</i>	33,920,359	28,810,839
Preferred shares <i>[note 6]</i>	17,166,365	17,166,365
Warrants <i>[note 6]</i>	169,626	367,626
Non-controlling interest <i>[note 6]</i>	(657,272)	(392,406)
Contributed surplus	6,714,377	6,147,319
Deficit	(44,638,739)	(41,467,495)
	12,674,716	10,632,248
	12,956,476	11,365,741

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

	For the three months ended July 31		For the six months ended July 31	
	2017 \$	2016 \$	2017 \$	2016 \$
REVENUE				
Bellus Skin sales	13,299	—	16,342	—
Cost of goods sold	(6,894)	—	(7,879)	—
Gross margin	6,405	—	8,463	—
EXPENSES				
General and administrative	570,783	425,146	1,150,775	717,030
Research and development, net <i>[note 14]</i>	922,456	323,488	1,891,367	700,285
	1,493,239	748,634	3,042,142	1,417,315
Loss before the undernoted	(1,486,834)	(748,634)	(3,033,679)	(1,417,315)
Other income (expense)				
Financial income, net	20,331	(66)	36,187	12,254
Equity loss <i>[note 17]</i>	(47,627)	—	(177,856)	—
Foreign exchange gain (loss)	(623,042)	(366,157)	(260,762)	32,003
	(650,338)	(366,223)	(402,431)	44,257
Net and comprehensive loss for the period	(2,137,172)	(1,114,857)	(3,436,110)	(1,373,058)
Attributable to:				
Equity holders of the parent	(1,938,873)	(1,050,317)	(3,171,244)	(1,322,393)
Non-controlling interest <i>[note 6]</i>	(198,299)	(64,540)	(264,866)	(50,665)
Total	(2,137,172)	(1,114,857)	(3,436,110)	(1,373,058)
Basic and diluted loss per share	(\$0.014)	(\$0.007)	(\$0.023)	(\$0.009)

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share Capital – common shares \$	Share Capital – preferred shares \$	Warrants \$	Non-controlling interest \$	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 <i>[note 6]</i>	5,109,520	—	—	—	—	—	5,109,520
Share based payments <i>[note 8]</i>	—	—	—	—	369,058	—	369,058
Warrants exercised <i>[note 6]</i>	—	—	(198,000)	—	198,000	—	—
Non-controlling interest <i>[note 6]</i>	—	—	—	(264,866)	—	—	(264,866)
Net loss for the period	—	—	—	—	—	(3,171,244)	(3,140,344)
Balance, July 31, 2017	33,920,359	17,166,365	169,626	(657,272)	6,714,377	(44,638,739)	12,674,716

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended July 31		For the six months ended July 31	
	2017	2016	2017	2016
	\$	\$	\$	\$
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES				
Net loss for the period	(2,137,172)	(1,114,857)	(3,436,110)	(1,373,058)
Add (deduct) items not involving cash:				
Depreciation & Amortization	3,308	3,958	6,566	7,415
Share-based compensation <i>[note 8]</i>	149,529	—	369,058	35,000
Foreign exchange loss (gain) - preferred shares	—	357,782	—	(1,302,533)
Allocation of loss from OncoVent	47,627	—	177,856	—
Non-current prepaid expenses	99,897	—	168,082	—
Net changes in working capital <i>[note 11]</i>	(222,104)	286,653	(397,678)	225,599
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(2,058,915)	(466,464)	(3,112,226)	(2,407,577)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES				
Exercise of warrants into common shares <i>[note 6]</i>	1,022,000	—	1,122,000	—
Private placement proceeds – preferred shares <i>[note 6]</i>	—	3,684,950	—	5,205,400
NET CASH FLOWS FROM FINANCING ACTIVITIES	1,022,000	3,684,950	1,122,000	5,205,400
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES				
Purchase of property and equipment	—	—	(8,722)	(7,855)
Investment in Natural Rf Life Sciences <i>[note 16]</i>	(100,000)	—	(100,000)	—
Redemption of short term and non-current Investments, net	1,429,502	—	1,537,485	—
Increase in loan receivable <i>[note 15]</i>	—	(150,000)	—	(150,000)
Foreign exchange (gain) loss on short term investments	—	(156,800)	—	433,471
Foreign exchange (gain) loss on non-current monetary assets	—	(66,076)	—	139,538
NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES	1,329,502	(372,876)	1,428,763	415,153
Foreign currency (gain) loss on foreign currency denominated cash	—	(179,927)	—	236,441
	—	(179,927)	—	236,441
Net increase (decrease) in cash	292,587	2,665,683	(561,463)	3,449,417
Cash, beginning of period	367,888	1,572,361	1,221,938	788,627
Cash, end of period	660,475	4,238,044	660,475	4,238,044
<i>See accompanying notes</i>				

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 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”.

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.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2017

1. CORPORATE INFORMATION AND GOING CONCERN UNCERTAINTY [CONTINUED]

The Company has experienced significant operating losses and cash outflows from operations since its inception.

The Company has incurred a net loss of \$3,171,244 for the 6 months ended July 31, 2017 (Year ended January 31, 2017 - \$4,134,418) and as at July 31, 2017 had working capital of \$11,252,830 (January 31, 2017 – working capital of \$8,871,798) and shareholders' equity of \$12,674,716 (January 31, 2017 – shareholders' equity of \$10,632,248). Although the Company's subsidiary, OncoQuest Inc., has sufficient cash reserves, the Company has cash and short-term investment reserves of only \$830,854 at July 31, 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 six months ended July 31, 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 six months ended July 31, 2017 do not include all of the required disclosures for annual consolidated financial statements.

Statement of Compliance

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

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2017

2. BASIS OF PREPARATION [CONTINUED]

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on September 25, 2017.

Basis of measurement

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

3. CASH AND SHORT-TERM INVESTMENTS

At July 31, 2017, consolidated cash and short-term investments were held as follows:

Cash and short-term investments:

	Quest	OncoQuest	Madenco	Total
Cash	\$155,854	\$484,719	\$19,902	\$660,475
Short term investments	\$675,000	\$6,101,298	—	\$6,776,298

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 major Canadian chartered banks.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2017

4. INTANGIBLE ASSETS

	IgE Technology	Immunotherapy Technology	Hypocrellin Based Technology and Licenses	CDK Technology	Totals July 31, 2017
	\$	\$	\$	\$	\$
Cost, February 1, 2017	63,892	237,500	2,476,822	233,000	3,011,214
Additions	—	—	—	—	—
Deletions	—	—	—	—	—
Cost, July 31, 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	—	—	—	1,333	1,333
Accumulated amortization, July 31, 2017	63,892	237,500	2,476,822	232,335	3,010,549
Net book value	—	—	—	665	665

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. Consideration for the purchase consisted of payment of cash and common shares with an aggregate value of \$63,892. 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 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

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2017

4. INTANGIBLE ASSETS [CONTINUED]

terms of the agreement, consideration for the purchase consisted of payment of cash and common shares with an aggregate value of \$237,500. The agreement also requires the Company to make milestone and royalty payments 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 issued common shares with an aggregate value of \$233,000. 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.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2017

4. INTANGIBLE ASSETS [CONTINUED]

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.

5. PROPERTY AND EQUIPMENT

	Computer Equipment	Furniture and Fixtures	Office Equipment	Manufacturing and Research and Development Equipment	Leasehold Improvements	Totals July 31, 2017
	\$	\$	\$	\$	\$	\$
Cost, February 1, 2017	97,526	12,114	31,494	457,983	10,220	609,337
Additions	—	—	—	—	8,722	8,722
Deletions	—	—	—	—	—	—
Cost, July 31, 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	9,764	582,560
Amortization	1,836	12	19	2,079	1,287	5,233
Accumulated amortization, July 31, 2017	87,107	12,045	31,384	446,206	11,051	587,793
Net book value	10,419	69	110	11,777	7,891	30,266

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2017

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	11,220,000	1,122,000
At July 31, 2017	161,642,580	29,932,839

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

Common Shares

	Number of shares	Amount \$
At January 31, 2016	100	100
Shares issued pursuant to a technology purchase	5,000,000	—
At January 31, 2017	5,000,100	100
Shares issued pursuant to a private placement	320,000	3,987,520
At July 31, 2017	5,320,100	3,987,620

On July 31, 2017, OncoQuest issued 320,000 common shares at US\$10.00 per share under a private placement to raise US\$3,200,000 (Cdn\$3,987,520). The private placement proceeds were received subsequent to period end (note 18).

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2017

6. SHARE CAPITAL [CONTINUED]

Series A Preferred Shares

	Number of shares	Amount \$
At January 31, 2016	2,406,417	12,672,000
Shares issued pursuant to a private placement	267,380	1,340,450
Shares issued pursuant to a private placement	802,139	3,864,950
At January 31, 2017	3,475,936	17,166,365
At July 31, 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 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.

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
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.

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.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2017

6. SHARE CAPITAL [CONTINUED]

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 July 31, 2017.

The following options to purchase common shares were outstanding as at July 31, 2017:

Exercise price \$	Options outstanding #	Weighted average remaining life (years)	Options exercisable #
0.10	11,390,000	3.54	11,390,000
0.15	3,300,000	1.26	3,300,000
0.25	1,760,000	0.14	1,760,000
	16,450,000	4.94	16,450,000

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2017

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	0.10	13,340,000	0.12
Granted	3,429,167	0.16	1,260,000	0.15
Expired	(3,429,167)	0.10	—	—
Balance, January 31, 2017	20,095,834	0.11	14,600,000	0.12
Granted	—	—	1,850,000	0.15
Expired	—	—	—	—
Exercised	(11,220,000)	0.10	—	—
Balance, July 31, 2017	8,875,834	0.12	16,450,000	0.12

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	(11,220,000)	(198,000)
Balance, July 31, 2017	8,875,834	169,626

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).

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2017

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 six-month period ended July 31, 2017, 11,220,000 shares purchase warrants were exercised into 11,220,000 common shares for proceeds of \$1,122,000. Subsequent to period end, a further 5,446,667 warrants were exercised into 5,446,667 common shares for proceeds of \$544,667 (note 18).

Share options

For the six months ended July 31, 2017, the Company granted 1,850,000 share options under the Company's Share Option Plan (2016 – 1,275,000) to employees and to non-employees at an exercise price of \$0.15, vesting immediately *[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 July 31, 2017, 8,550,000 options are available for issue.

OncoQuest share options

For the six months ended July 31, 2017, there were no share options granted under OncoQuest's share option plan. At July 31, 2017, there are 610,000 OncoQuest share options issued. However, on June 19, 2017, OncoQuest set aside/reserved 180,000 options exercisable at US\$2.25 for a consultant to be granted subject to attainment of a milestone. At July 31, 2017, a further 89,604 options are available for potential grants.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2017

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 10.63 % at July 31, 2017:

OncoQuest Ownership:	Number of shares owned	Percentage ownership
Hepalink USA Inc.	3,475,936	39.52%
Others	935,000	10.63%
Quest	4,250,100	48.32%
Quest insider	135,000	1.53%
Total	8,796,036	100%

OncoQuest financial information at July 31, 2017:	\$
OncoQuest net loss for the six months ended July 31, 2017, after elimination of intercompany transactions	(2,782,371)
Non-controlling interest portion	(264,866)
OncoQuest net loss for the three months ended July 31, 2017, after elimination of intercompany transactions	(1,865,464)
Non-controlling interest portion (10.63%)	(198,299)
OncoQuest current assets	
Cash	484,719
Short term investments	6,101,298
Other current assets	4,522,977
Total current assets	11,108,994
OncoQuest non-current assets	350,256
OncoQuest current liabilities	261,326

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

	\$
Balance, January 31, 2017	392,406
6 months ended July 31, 2017	264,866
Balance, July 31, 2017	657,272

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2017

6. SHARE CAPITAL [CONTINUED]

Non-controlling interest is also reported on the consolidated statements of loss as a share of loss belonging to non-controlling shareholders.

	3 months ended July 31		6 months ended July 31	
	2017	2016	2017	2016
	\$	\$	\$	\$
Non-controlling interest	198,299	64,540	264,866	50,665

Basic and diluted loss per share

Basic and diluted loss per share has been calculated using the weighted average number of common shares outstanding during the period (3 and 6 months ended July 31, 2017 – 151,533,667 and 151,004,607; 3 and 6 months ended July 31, 2016 – 150,422,580 and 150,422,580). For the three and six-month periods ended July 31, 2017 and 2016, the weighted average number of common shares outstanding on a diluted basis includes an additional 4,231,675 and 3,808,294 (2016 – nil and nil) potential common shares respectively.

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 six-month period ended July 31, 2017, the Company granted a total of 1,850,000 (2016 – 1,275,000) share options under the Company's Share Option Plan. Options vest immediately from the date of grant. The fair value of options vesting in fiscal 2018 of \$369,058, including \$139,058 of share based compensation recognized for OncoQuest (fiscal 2017 - \$35,000) was recognized as a share-based payment expense and credited to contributed surplus for the six-month periods ended July 31, 2017 and 2016. There were no forfeitures of Company's share options during the six-month periods ended July 31, 2017 and 2016.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2017

8. SHARE-BASED PAYMENTS [CONTINUED]

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:

	Fiscal 2018	Fiscal 2017
Dividend yield	0.00%	0.00%
Volatility	172 - 437%	115.1 - 119.5%
Risk-free interest rate	0.78 - 1.89%	1.03 - 1.15%
Expected life (years)	3.00 - 10.0	3.00
Fair value per option	\$0.12 - \$0.15	\$0.02 - \$0.03

For share options issued to non-employees, the Company has determined that the fair value of the share options issued (\$60,500 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 \$139,058 of share based compensation expense for the six-month period ended July 31, 2017.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 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 July 31, 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.

	Six months ended Jul 31, 2017			Six months ended Jul 31, 2016		
	Pharmaceuticals	Cosmetics	Total	Pharmaceuticals	Cosmetics	Total
Revenue						
Bellus Skin sales	—	16,342	16,342	—	—	—
Bellus Skin COGS	—	(7,879)	(7,879)	—	—	—
	—	8,463	8,463	—	—	—
Expenses						
G&A, net	1,070,236	80,539	1,150,775	631,752	85,278	717,030
R&D, net <i>[note 13]</i>	1,891,367	—	1,891,367	700,285	—	700,285
Other	402,431	—	402,431	(44,257)	—	(44,257)
	3,364,034	80,539	3,444,573	1,287,780	85,278	1,373,058
Net loss	(3,364,034)	(72,076)	(3,436,110)	(1,287,780)	(85,278)	(1,373,058)

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

Canada (Six months ended July 31, 2017 - \$16,342; Six months ended July 31, 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.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2017

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 the 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 July 31		Six months ended July 31	
	2017	2016	2017	2016
	\$	\$	\$	\$
Accounts receivable	(8,017)	6,984	(14,675)	10,635
Prepaid expenses	(10,711)	(236)	55,692	(3,077)
Inventory	12,207	(44,122)	13,038	(44,122)
Accounts payable and accrued liabilities	(215,583)	324,027	(451,733)	262,163
	<u>(222,104)</u>	<u>286,653</u>	<u>(397,678)</u>	<u>225,599</u>

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2017

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

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 7). 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 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. During the six-month period ended July 31, 2017, OncoQuest secured equity financing of \$3,987,520 (\$3,200,000 U.S.) through a private placement of common shares. Although OncoQuest has sufficient funding in place, Quest PharmaTech only has cash and short-term investment reserves of \$830,854 at July 31, 2017 (January 31, 2017 - \$249,114). As such there is a liquidity risk for Quest PharmaTech at July 31, 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, 73% 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

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2017

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

variable interest rates expose the Company to cash flow interest rate risk. The Company's 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.

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 and six months ended July 31, 2017 and 2016 is shown below:

	Three months ended July 31		Six months ended July 31	
	2017	2016	2017	2016
	\$	\$	\$	\$
Employee Compensation	130,700	124,450	333,100	248,900
Director Compensation	44,500	—	136,500	—
	175,200	124,450	469,600	248,900

14. GOVERNMENT ASSISTANCE

During the three and six-month periods ended July 31, 2017 and 2016, the Company recognized \$nil and \$nil, respectively (2016 – \$nil and \$15,724, respectively) from National Research Council's Industrial Research Assistance Program related to the Company's IgE antibody cancer immunotherapy development program for research and development expenditures incurred in fiscal 2017 and 2016. This funding was treated as a reduction of research and development expenses.

	Three months ended July 31		Six months ended July 31	
	2017	2016	2017	2016
	\$	\$	\$	\$
Gross research and development expenditures	922,456	323,488	1,891,367	716,009
Less: government assistance	—	—	—	(15,724)
Research and development expenditures, net	922,456	323,488	1,891,367	700,285

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2017

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 NATURAL Rf LIFE SCIENCES INC.

During the 3 months ended July 31, 2017, 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 made a payment of \$100,000 during the 3 months ended July 31, 2017 with the remaining \$400,000 paid subsequent to period end.

17. 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.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2017

17. INVESTMENT IN ONCOVENT CO., LTD. [CONTINUED]

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 6 month period ended July 31, 2017	(177,856)
Balance, July 31, 2017	509,764

18. SUBSEQUENT EVENTS

Subsequent to period end, the Company's subsidiary, OncoQuest, received US\$3,200,000 (Cdn\$3,987,520) of equity funding pursuant to a July 31, 2017 private placement of 320,000 common shares issued at US\$10 per share.

Subsequent to period end, 5,446,667 warrants were exercised into 5,446,667 common shares for proceeds of \$544,667.

Subsequent to period end, the Company paid the remaining \$400,000 of investment to Natural Rf Life Sciences Inc.