

Consolidated Financial Statements

Quest PharmaTech Inc.

Three months ended April 30, 2018

(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, 2018 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, 2018 (Unaudited) \$	Jan 31, 2018 (Audited) \$
ASSETS		
Current		
Cash <i>[note 3]</i>	398,041	416,436
Short-term investments <i>[note 3]</i>	9,769,760	10,877,096
Accounts receivable	27,463	23,041
Prepaid expenses	611,557	575,535
Investment in Natural Rf <i>[note 14]</i>	500,000	500,000
Inventory	—	364
	11,306,821	12,392,472
Non-current		
Property and equipment <i>[note 5]</i>	23,435	25,539
Non-current prepaid expenses	10,420	10,420
Investment in OncoVent <i>[note 15]</i>	281,995	356,178
	11,622,671	12,784,609
LIABILITIES		
Current		
Accounts payable and accrued liabilities	1,664,195	930,170
Common share instrument <i>[note 6]</i>	9,400,021	9,020,208
	11,064,216	9,950,378
SHAREHOLDERS' EQUITY		
Common shares <i>[note 6]</i>	30,501,716	30,501,761
Warrants <i>[note 6]</i>	—	34,292
Non-controlling interest <i>[note 6]</i>	8,901,576	10,215,647
Contributed surplus	7,235,949	7,135,062
Accumulated other comprehensive income	1,460,761	1,460,761
Deficit	(47,541,547)	(46,513,247)
	558,455	2,834,231
	11,622,671	12,784,609

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

Three months ended April 30

	2018	2017
	\$	\$
		(Note 16)
REVENUE		
Bellus Skin sales	—	3,043
Cost of goods sold	—	(985)
Gross margin	—	2058
	—	2058
EXPENSES		
General and administrative, including amortization	470,435	579,992
Research and development	1,883,202	968,911
	2,353,637	1,548,903
Loss before the undernoted	(2,353,637)	(1,546,845)
Other income (expenses)		
Financial income, net	42,139	15,856
Equity loss [note 15]	(74,183)	(130,229)
Foreign exchange gain	43,310	362,280
	11,266	247,907
Net and comprehensive loss for the period	(2,342,371)	(1,298,938)
Attributable to:		
Equity holders of the parent	(1,028,300)	(841,768)
Non-controlling interest [note 6]	(1,314,071)	(457,170)
Total	(2,342,371)	(1,298,938)
Basic and diluted loss per share [note 6]	(\$0.006)	(\$0.006)

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share Capital Common Shares	Warrants	Non-controlling interest	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders' equity
	\$	\$	\$	\$	\$	\$	\$
Balance, January 31, 2018	30,501,716	34,292	10,215,647	7,135,062	1,460,761	(46,513,247)	2,834,231
Share based payments <i>[note 8]</i>	—	—	—	66,595	—	—	66,595
Warrants expired <i>[note 6]</i>	—	(34,292)	—	34,292	—	—	—
Non-controlling interest <i>[note 6]</i>	—	—	(1,314,071)	—	—	—	(1,314,071)
Net loss for the period	—	—	—	—	—	(1,028,300)	(1,028,300)
Balance, April 30, 2018	30,501,716	—	8,901,576	7,235,949	1,460,761	(47,541,547)	558,455

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended April 30

	2018	2017
	\$	\$
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net loss for the period	(2,342,371)	(1,298,938)
Add (deduct) items not involving cash:		
Amortization	2,104	3,258
Net change in working capital <i>[note 11]</i>	693,945	(175,574)
Share based payments <i>[note 8]</i>	66,595	219,529
Allocation of loss from OncoVent <i>[note 15]</i>	74,183	130,229
Non-current prepaid expenses	—	68,185
Foreign exchange adjustment on common share instrument	379,813	—
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(1,125,731)	(1,053,311)
CASH FLOWS FROM FINANCING ACTIVITIES		
Exercise of warrants <i>[note 6]</i>	—	100,000
NET CASH FLOWS FROM FINANCING ACTIVITIES	—	100,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	—	(8,722)
Redemption of short-term & non-current investments, net	1,107,336	107,983
NET CASH FLOWS FROM FINANCING ACTIVITIES	1,107,336	99,261
Net increase (decrease) in cash	(18,395)	(854,050)
Cash, beginning of period	416,436	1,221,938
Cash, end of period	398,041	367,888

See accompanying notes

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2018

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”), and OncoVent Co., Ltd., OncoQuest’s joint venture partner in China, 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, an IgG monoclonal antibody, is being studied in a Phase 2 clinical trial for the treatment of women with advanced (stage III and IV) ovarian cancer. This Phase 2 randomized controlled clinical trial enrolled 97 patients and was conducted in 13 centers in the United States and Italy. The trial was designed to determine whether the combination of oregovomab and the standard of care chemotherapeutic regimen of carboplatin/paclitaxel used in the frontline setting would generate an incremental benefit in immune response and clinical outcome over the chemotherapeutic regimen alone. This trial, which was completed in December 2017, was conducted to confirm results of a previous Phase 2 clinical trial that demonstrated that oregovomab, a murine anti-CA-125 antibody was able to activate an immune response to CA-125, a tumor associated antigen that has been identified in ovarian and pancreatic cancer cells. It is believed that the chemotherapy when administered concomitantly with oregovomab can enhance an effective immunological anti-tumor response leading to clinical benefit. We announced positive interim results from this trial in November 2016 and presented those findings at the American Society of Clinical Oncology meeting in June 2017. In the recurrent ovarian cancer setting, we are currently enrolling patients in a Phase 1/2 clinical trial in two centers in the United States using oregovomab and Hiltonol®, a TLR3 agonist. In addition, we have also commenced enrollment in another Phase 1/2 clinical trial using oregovomab and a checkpoint inhibitor in the same setting. This study is sponsored by the National Cancer Centre Singapore. These studies will be assessing the safety and activity of oregovomab, with TLR3 stimulation, and separately with checkpoint inhibition in this setting. 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

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2018

1. CORPORATE INFORMATION AND GOING CONCERN UNCERTAINTY [CONTINUED]

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's head office is located at 8123 Roper Road NW, Edmonton, Alberta, Canada T6E 6S4 and it is incorporated under the Business Corporations Act (Alberta). The Company's functional currency is the Canadian dollar.

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

These consolidated financial statements have been authorized for issue by the Company's Board of Directors on June 25, 2018.

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 exclusive of non-controlling interest of \$1,028,300 for the 3 months ended April 30, 2018 (year ended January 31, 2018 - \$5,086,202) and as at April 30, 2018 had a working capital deficiency of \$368,952 (January 31, 2018 – working capital of \$1,866,559) and a shareholders' equity of \$558,455 (January 31, 2018 – shareholders' equity of \$2,834,231). Although the Company's subsidiary, OncoQuest Inc., has sufficient cash reserves, the Company has cash reserves of only \$403,500 at April 30, 2018 (January 31, 2018 - \$550,000), 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.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2018

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, 2018 and 2017. These unaudited consolidated financial statements for the three months ended April 30, 2018 should be read in conjunction with the consolidated financial statements for the years ended January 31, 2018 and 2017 and the notes thereto. These unaudited consolidated financial statements for the three months ended April 30, 2018 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”).

Basis of measurement

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

3. CASH AND SHORT-TERM INVESTMENTS

At April 30, 2018, consolidated cash and short-term investments were held as follows:

	Quest	OncoQuest	Madenco	Total
Cash	85,969	296,821	15,251	398,041
Short-term investments	317,560	9,452,200	—	9,769,760

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.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2018

4. INTANGIBLE ASSETS

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.

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. The agreement also requires the Company to make milestone and royalty payments to Paladin on future revenues.

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.

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.

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

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2018

4. INTANGIBLE ASSETS [CONTINUED]

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, 2018

5. PROPERTY AND EQUIPMENT

	Computer Equipment	Furniture and Fixtures	Office Equipment	Manufacturing and Research and Development Equipment	Leasehold Improvements	Totals April 30, 2018
Cost, February 1, 2018	97,526	12,114	31,494	457,983	18,942	609,337
Additions	—	—	—	—	—	8,722
Deletions	—	—	—	—	—	—
Cost, April 30, 2018	97,526	12,114	31,494	457,983	18,942	618,059
Accumulated amortization, February 1, 2018	88,931	12,057	31,405	448,285	11,842	592,520
Amortization	653	4	7	1,032	408	2,104
Accumulated amortization, April 30, 2018	89,584	12,061	31,412	449,317	12,250	594,624
Net book value	7,942	53	82	8,666	6,692	23,435

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2018

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	16,666,667	1,666,667
At January 31 and April 30, 2018	167,089,247	30,477,506

During the year ended January 31, 2018, 16,666,667 share purchase warrants were exercised into 16,666,667 common shares for proceeds of \$1,666,667, including proceeds of \$181,667 from an officer and a director of the Company.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2018

6. SHARE CAPITAL [CONTINUED]

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

Common Shares

	Number of shares	Amount \$
At January 31, 2016	100	—
Shares issued pursuant to a technology purchase	5,000,000	—
At January 31, 2017	5,000,100	—
Shares issued pursuant to private placements	603,000	7,629,458
Shares issued on conversion of preferred shares	3,475,936	16,308,500
Shares issued pursuant to a dividend in kind	130,231	—
At January 31, 2018	9,209,267	23,937,958

On July 31, 2017, the Company's subsidiary issued 320,000 common shares of stock to an Investment Consortium for cash proceeds of \$3,995,200 (US\$3.2 Million - \$10.00 per share). This financing has a price protection feature that would entail the owner of these securities until the time of an IPO, to receive additional shares in the event of a future financing of common stock that is completed at a price per share below \$10 per share. The number of shares received would be the difference between \$10 per share and the price of the offering multiplied by the shares issued in this offering divided by the price per share of the new down-round offering.

On December 15, 2017, the Company's subsidiary issued 240,000 common shares of stock to an Investment Consortium for cash proceeds of \$3,080,160 (US\$2.4 Million - \$10.00 per share). This financing has a price protection feature that would entail the owner of these securities until the time of an IPO, to receive additional shares in the event of a future financing of common stock that is completed at a price per share below \$10 per share. The number of shares received would be the difference between \$10 per share and the price of the offering multiplied by the shares issued in this offering divided by the price per share of the new down-round offering.

On December 19, 2017, the Company's subsidiary issued 43,000 common shares of stock to an individual investor for cash proceeds of \$554,098 (US\$0.43 Million - \$10.00 per share). This financing has a price protection feature that would entail the owner of these securities until the time of an IPO, to receive additional shares in the event of a future financing of common stock that is completed at a price per share below \$10 per share. The number of shares received would be the difference between \$10 per share and the price of the offering multiplied by the shares issued in this offering divided by the price per share of the new down-round offering.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2018

6. SHARE CAPITAL [CONTINUED]

On December 31, 2017, the Company's subsidiary converted 3,475,936 preferred shares of stock into 3,475,936 common shares of stock pursuant to a conversion agreement.

On December 31, 2017, the Company declared and issued a dividend in kind of \$1,302,310 (130,231 common shares of stock at \$10 per share) to Hepalink USA. This share issuance has a price protection feature that would entail the owner of these securities until the time of an IPO, to receive additional shares in the event of a future financing of common stock that is completed at a price per share below \$10 per share. The number of shares received would be the difference between \$10 per share and the price of the offering multiplied by the shares issued in this dividend payment divided by the price per share of the new down-round offering.

Common share instrument:

The common shares issued under the private placements and under the dividend in kind have a down round feature attached whereby if OncoQuest issues additional common shares to other investors below US\$10 per share, the subscribers and Hepalink USA will be eligible to receive additional common shares to account for any dilution they would experience. Under IFRS, this down round feature represents a potential liability to OncoQuest and as such, the entire equity portion of the common shares issued is treated as a liability in the Company's records and fair valued at January 31, 2018.

The fair value of the common share instrument at January 31, 2018 is as follows:

	Number of shares	US\$ Amount	Fair Value in Cdn\$ at April 30, 2018
Common shares issued pursuant to private placements	603,000	6,030,000	7,730,460
Common shares issued under dividend in kind	130,231	1,302,310	1,669,561
Totals	733,231	7,332,310	9,400,021

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2018

6. SHARE CAPITAL [CONTINUED]

The following options to purchase common shares were outstanding as at April 30, 2018:

Exercise price \$	Options outstanding #	Weighted average remaining life (years)	Options exercisable #
0.10	11,390,000	2.78	11,390,000
0.15	4,700,000	1.77	4,700,000
0.25	1,760,000	0.05	1,760,000
	17,850,000	4.60	17,850,000

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, 2017	20,095,834	0.11	14,600,000	0.12
Granted	—	—	3,250,000	0.15
Expired	—	—	—	—
Exercised	(16,666,667)	0.10	—	—
Balance, January 31, 2018	3,429,167	0.16	17,850,000	0.13
Granted	—	—	—	—
Expired	(3,429,167)	0.16	—	—
Exercised	—	—	—	—
Balance, April 30, 2018	—	—	17,850,000	0.13

Warrants

	Number of warrants	Fair value (\$)
Balance, January 31, 2017	20,095,834	367,626
Warrants exercised	(16,666,667)	(333,334)
Balance, January 31, 2018	3,429,167	34,292
Warrants expired	(3,429,167)	(34,292)
Balance, April 30, 2018	—	—

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2018

6. SHARE CAPITAL [CONTINUED]

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 were 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). The warrants expired on March 26, 2018.

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 year ended January 31, 2018, 16,666,667 share purchase warrants were exercised into 16,666,667 common shares for proceeds of \$1,666,667.

Share options

There were no share options granted for the 3-month period ended April 30, 2018.

For the three months ended April 30, 2017, the Company granted 1,250,000 share options under the Company's Share Option Plan 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, 2018, 7,150,000 options are available for issue.

OncoQuest share options

For the three months ended April 30, 2018, there were no share options granted under OncoQuest's share option plan. At April 30, 2018, there are 610,000 OncoQuest share options issued with a further 310,927 options available for issue.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2018

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 53.85 % at April 30, 2018:

OncoQuest Ownership:	Number of shares owned	Percentage ownership
Hepalink USA Inc.	3,606,167	39.16%
Others	1,233,000	13.39%
Quest	4,250,100	46.15%
Quest insider	120,000	1.30%
Total	9,209,267	100%

OncoQuest financial information at April 30, 2018:	
OncoQuest Q1 fiscal 2019 net loss, after elimination of intercompany transactions	(\$2,440,243)
Non-controlling interest portion (53.85%)	(\$1,314,071)
OncoQuest current assets	
Cash	\$296,821
Short-term investments	\$9,452,200
Other current assets	\$520,667
Total current assets	\$10,269,688
OncoQuest non-current assets	\$210,788
OncoQuest current liabilities	\$1,574,548

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	2,066,604
Conversion of preferred shares to common shares	(16,308,500)
Year ended January 31, 2018	4,026,249
Balance, January 31, 2018	(10,215,647)
Three months ended April 30, 2018	1,314,071
Balance, April 30, 2018	(8,901,576)

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2018

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. See note 16.

	Three-month period ended April 30, 2018	Three-month period ended April 30, 2017
	\$	\$
Non-controlling interest	1,314,071	457,170

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 (2018 – 167,089,247; 2017 – 150,487,797). For the three-month periods ended April 30, 2018, 2,976,932 shares (2017 – 3,049,217) were not included in the computation of diluted earnings per share, because to do so would have reduced the loss per common share (anti-dilutive). However, these shares could potentially dilute future earnings per common share.

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, 2018, the Company granted a total of nil (2017 – 1,250,000) share options under the Company's Share Option Plan. The fair value of options vesting in 2018 of \$nil (2017 - \$150,000) was recognized as a share-based payment expense and credited to contributed surplus for the three-month periods ended April 30, 2018 and 2017. There were no forfeitures of Company's share options during the three-month periods ended April 30, 2018 and 2017.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2018

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:

	2018	2017
Dividend yield	n/a	0.00%
Volatility	n/a	172%
Risk-free interest rate	n/a	1.71%
Expected life (years)	n/a	10.00
Fair value per option	n/a	\$0.12

There were no share options issued to non-employees in 2017.

OncoQuest Share Options

OncoQuest accrued \$66,595 (2017 - \$69,529) of share based compensation expense for the three-month periods ended April 30, 2018 and 2017 related to share options granted in Fiscal 2017.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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, 2018			Three months ended Apr 30, 2017		
	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	452,699	17,736	470,435	535,837	44,155	579,992
R&D	1,883,202	—	1,883,202	968,911	—	968,911
Other	(11,266)	—	(11,266)	(247,907)	—	(247,907)
	2,324,635	17,736	2,342,371	1,256,841	44,155	1,300,996
Net loss	(2,324,635)	(17,736)	(2,342,371)	(1,256,841)	(42,097)	(1,298,938)

Revenues are attributed to countries based on location of customers or counterparties. Revenues by geographic area are: Canada (2018 - \$nil; 2017 - \$3,043). 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 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.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2018

11. SUPPLEMENTAL CASH FLOW INFORMATION

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

Three months ended April 30	2018	2017
	\$	\$
Accounts receivable	(4,422)	(6,659)
Prepaid expenses	(36,022)	66,403
Inventory	364	832
Accounts payable and accrued liabilities	734,025	(236,150)
	<u>693,945</u>	<u>(175,574)</u>

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.

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 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 fiscal

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For the three months ended April 30, 2018

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

2018, The Company secured \$1,666,667 through the exercise of warrants and OncoQuest secured \$7,629,458 (US\$6,030,000) through a common shares private placement. Although OncoQuest has sufficient funding in place, the Company only has cash and short-term investment reserves of \$403,500 at April 30, 2018 (January 31, 2018 - \$550,000). As such, there is a liquidity risk for the Company at April 30, 2018.

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, 39% 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.

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, 2018 and 2017 is shown below:

	2018	2017
	\$	\$
Management compensation	179,254	253,173
Director compensation	8,188	82,548
	<u>187,442</u>	<u>335,721</u>

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For the three months ended April 30, 2018

14. INVESTMENT IN NATURAL Rf LIFE SCIENCES INC.

During the year ended January 31, 2018, 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. Subsequent to period end, the Company made a strategic decision to exercise its option to divest itself of its investment in Natural Rf. Natural Rf has agreed to return the Company's \$500,000 principal investment during calendar 2018. Subsequent to period end, Natural Rf returned \$300,000 of principal investment to the Company. See note 17.

15. 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% and the other party owns 6%, 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, Quest 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 loss for the year ended January 31, 2018	(331,442)
Balance, January 31, 2018	356,178
Equity method loss for the 3-month period ended April 30, 2018	(74,183)
Balance, April 30, 2018	281,995

Quest PharmaTech Inc.

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16. CORRECTION OF AN ERROR

For the year ended January 31, 2018, the Company became aware that the calculation of non-controlling interest was incorrectly determined for the year ended January 31, 2017 and for the 3-month period ended April 30, 2017. Therefore, the Company has restated the amount for non-controlling interest to include the percentage ownership interests of Hepalink USA Inc. and a Company insider for the 3-month period ended April 30, 2017. As a result, non-controlling interest and loss per share have been restated for the 3-month period ended April 30, 2017, as follows:

Non-controlling interest:

	For the three-month period ended April 30, 2017	
	%	\$
Non-controlling interest as previously reported	7.26	66,567
Restated non-controlling interest	49.86	457,170

Loss and loss per share:

	For the three-month period ended April 30, 2017	For the three-month period ended April 30, 2017
	Loss exclusive of non-controlling interest	Loss per share
Loss and loss per share as previously reported	\$1,232,371	\$0.008 per share
Restated loss and loss per share	\$841,768	\$0.006 per share

Quest PharmaTech Inc.

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17. SUBSEQUENT EVENTS

Subsequent to period end, the Company granted a total of 1,250,000 share options to non-employees, vesting immediately and all at an exercise price of \$0.25 per common share.

Subsequent to period end, the Company made a strategic decision to exercise its option to divest itself of its investment in Natural Rf. The Company received \$300,000 from Natural Rf as a return of principal investment. See note 14.