

Consolidated Financial Statements

**Quest PharmaTech Inc.**

January 31, 2020 and 2019



KINGSTON  
ROSS  
PASNAK LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

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June 26, 2020  
Edmonton, Alberta

## **INDEPENDENT AUDITOR'S REPORT**

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To the Shareholders of Quest PharmaTech Inc.

### **Opinion**

We have audited the consolidated financial statements of Quest PharmaTech Inc. (the Company), which comprise the consolidated statements of financial position as at January 31, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at January 31, 2020 and 2019, and the consolidated financial performance and consolidated cash flow for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### **Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Material Uncertainty Relating to Going Concern**

We draw your attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss exclusive of non-controlling interest of \$6,183,540 during the year ended January 31, 2020 and, as of that date, the Company had a working capital deficiency of \$18,391,668 and a shareholders deficiency of \$16,496,397. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **Other Information**

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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## Independent Auditor's Report to the Shareholders of Quest PharmaTech Inc. *(continued)*

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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Independent Auditor's Report to the Shareholders of Quest PharmaTech Inc. *(continued)*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Justin Rousseau.

*Kingston Ross Pasmak LLP*  
Kingston Ross Pasmak LLP  
Chartered Professional Accountants

# Quest PharmaTech Inc.

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

As at January 31		
	2020	2019
	\$ Cdn	\$ Cdn
<b>ASSETS</b>		
<b>Current</b>		
Cash <i>[note 5]</i>	2,153,184	347,301
Short term investments <i>[note 5]</i>	300,000	3,113,349
Accounts receivable	10,932	14,300
Prepaid expenses <i>[note 9]</i>	424,514	820,057
	<b>2,888,630</b>	<b>4,295,007</b>
<b>Non-current</b>		
Property and equipment <i>[note 7]</i>	99,206	19,661
Non-current prepaid expenses <i>[note 9]</i>	1,463,962	1,463,962
Investment in OncoVent Co., Ltd. <i>[note 21]</i>	—	31,301
	<b>4,451,798</b>	<b>5,809,931</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	5,859,738	506,693
Short term loan <i>[note 5]</i>	2,646,600	—
Common share instrument <i>[note 10]</i>	12,349,446	9,637,588
	<b>20,855,784</b>	<b>10,144,281</b>
<b>Non current</b>		
Lease obligation <i>[note 9]</i>	92,411	—
Commitments and contingencies <i>[note 9]</i>		
<b>SHAREHOLDERS' (DEFICIENCY)</b>		
Common shares <i>[note 10]</i>	30,567,716	30,531,716
Non-controlling interest <i>[note 10]</i>	(1,160,713)	5,933,083
Contributed surplus	10,347,297	8,913,040
Accumulated other comprehensive income	844,689	1,193,717
Deficit	(57,095,386)	(50,905,906)
	<b>(16,496,397)</b>	<b>(4,334,350)</b>
	<b>4,451,798</b>	<b>5,809,931</b>

See accompanying notes

On behalf of the Board:

(signed)  
Shawn Lu  
Director

(signed)  
Madi R. Madiyalakan  
Director

# Quest PharmaTech Inc.

## CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

	Years ended January 31	
	2020	2019
	\$ Cdn	\$ Cdn
<b>EXPENSES</b>		
General and administrative including amortization	2,370,375	2,776,732
Research and development, net <i>[note 16]</i>	11,264,235	6,265,172
	13,634,610	9,041,904
<b>Loss before the undernoted</b>	<b>(13,634,610)</b>	<b>(9,041,904)</b>
<b>Other income (expenses)</b>		
Financial income	46,930	157,369
Financial expenses <i>[note 15]</i>	(13,740)	(4,419)
Equity loss <i>[note 21]</i>	(31,301)	(324,877)
Claim settlement <i>[note 22]</i>	—	275,000
Foreign exchange gain/(loss)	378,255	297,510
	380,144	400,583
<b>Net loss for the year from continuing operations</b>	<b>(13,254,466)</b>	<b>(8,641,321)</b>
<b>Loss from discontinued operations <i>[note 13]</i></b>	<b>(22,870)</b>	<b>(33,902)</b>
<b>Net loss for the year</b>	<b>(13,277,336)</b>	<b>(8,675,223)</b>
<b>Other comprehensive income (loss)</b>	<b>(349,028)</b>	<b>(267,044)</b>
<b>Comprehensive loss</b>	<b>(13,626,364)</b>	<b>(8,942,267)</b>
<b>Net Loss attributable to:</b>		
Equity holders of the parent	(6,183,540)	(4,392,659)
Non-controlling interest <i>[note 10]</i>	(7,093,796)	(4,282,564)
Total	(13,277,336)	(8,675,223)
<b>Basic and diluted loss per share <i>[note 18]</i></b>	<b>\$ (0.037)</b>	<b>\$ (0.026)</b>

See accompanying notes

# Quest PharmaTech Inc.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY / (DEFICIENCY)

	Share capital - common shares \$ Cdn	Warrants \$ Cdn	Non- controlling interest \$ Cdn	Contributed surplus \$ Cdn	Accumulated other comprehensive income \$ Cdn	De ficit \$ Cdn	Total shareholders' (deficiency) / equity \$ Cdn
<b>Balance, January 31, 2018</b>	30,501,716	34,292	10,215,647	7,135,062	1,460,761	(46,513,247)	2,834,231
Common shares issued Quest <i>[note 10]</i>	30,000	—	—	—	—	—	30,000
Other comprehensive loss	—	—	—	—	(267,044)	—	(267,044)
Share-based payments <i>[note 12]</i>	—	—	—	1,743,686	—	—	1,743,686
Warrants expired <i>[note 10]</i>	—	(34,292)	—	34,292	—	—	—
Fiscal 2019 non-controlling interest <i>[note 10]</i>	—	—	(4,282,564)	—	—	—	(4,282,564)
Net loss for the year	—	—	—	—	—	(4,392,659)	(4,392,659)
<b>Balance, January 31, 2019</b>	<b>30,531,716</b>	<b>—</b>	<b>5,933,083</b>	<b>8,913,040</b>	<b>1,193,717</b>	<b>(50,905,906)</b>	<b>(4,334,350)</b>
Common shares issued Quest <i>[note 10]</i>	36,000	—	—	—	—	—	36,000
Other comprehensive income	—	—	—	—	(349,028)	—	(349,028)
Share-based payments <i>[note 12]</i>	—	—	—	1,434,257	—	—	1,434,257
Retained Earnings IFRS 16 adjustment <i>[note 9]</i>	—	—	—	—	—	(5,940)	(5,940)
Fiscal 2020 non-controlling interest <i>[note 10]</i>	—	—	(7,093,796)	—	—	—	(7,093,796)
Net loss for the year	—	—	—	—	—	(6,183,540)	(6,183,540)
<b>Balance, January 31, 2020</b>	<b>30,567,716</b>	<b>—</b>	<b>(1,160,713)</b>	<b>10,347,297</b>	<b>844,689</b>	<b>(57,095,386)</b>	<b>(16,496,397)</b>

See accompanying notes

# Quest PharmaTech Inc.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended January 31		
	2020	2019
	\$ Cdn	\$ Cdn
<b>CASH FLOWS (USED IN) OPERATING ACTIVITIES</b>		
Net loss for the year	(13,277,336)	(8,675,223)
Items that do not involve cash		
Amortization	42,778	7,512
Share-based compensation <i>[note 12]</i>	1,434,257	1,743,686
Allocation of loss from Oncovent <i>[note 21]</i>	31,301	324,877
Other comprehensive (income) loss	(349,028)	(267,044)
Foreign exchange translation of subsidiary common share instrument	(10,222)	617,380
Net Change in non-cash working capital <i>[note 15]</i>	5,751,956	(658,894)
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>	<b>(6,376,295)</b>	<b>(6,907,706)</b>
<b>CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES</b>		
Exercise of share options - common shares <i>[note 10]</i>	94,681	30,000
Private placement proceeds - common shares <i>[note 10]</i>	2,663,400	—
Short term loan <i>[note 5]</i>	2,646,600	—
Non-current prepaid expenses	—	(1,453,542)
<b>NET CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES</b>	<b>5,404,681</b>	<b>(1,423,542)</b>
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>		
Purchase of property and equipment	—	(1,634)
Redemption (purchase) of short term investments, net	2,813,349	7,763,747
Reduction in Lease obligation	(35,852)	—
Return of investment (investment in) Natural Rf <i>[note 20]</i>	—	500,000
<b>NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>	<b>2,777,497</b>	<b>8,262,113</b>
<b>Net Increase (decrease) in cash for the year</b>	<b>1,805,883</b>	<b>(69,135)</b>
Cash, beginning of year	347,301	416,436
<b>Cash, end of year</b>	<b>2,153,184</b>	<b>347,301</b>

See accompanying notes



## **Quest PharmaTech Inc.**

# **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2020

## **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, an IgG monoclonal antibody, has been 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, an 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, OncoQuest has completed the treatment phase in a Phase 1/2 clinical trial in two centers in the United States using oregovomab and Hiltonol®, a TLR3 agonist and is presently reviewing the preliminary results. In addition, OncoQuest 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 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.

## **Quest PharmaTech Inc.**

# **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2020

## **1. CORPORATE INFORMATION AND GOING CONCERN UNCERTAINTY [CONTINUED]**

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 26, 2020.

### **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 \$6,183,540 for the year ended January 31, 2020 (2019 - \$4,392,659) and as at January 31, 2020 had a working capital deficiency of \$18,391,668 (January 31, 2019 – working capital deficiency \$6,669,331) and a shareholders' deficiency of \$16,496,397 (January 31, 2019 – shareholders' deficiency of \$4,334,350). The Company has consolidated cash reserves of only \$2,453,184 at January 31, 2020 (January 31, 2019 - \$3,460,650), 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.

Sunsequent to the year end the Company's subsidiary OncoQuest Inc. entered into a series of agreements with Dual Industrial Co., Ltd ("Dual") to sell all of its immunotherapy assets in return for a notional \$300 million (see Note 24)

## **Quest PharmaTech Inc.**

# **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2020

## **2. BASIS OF PREPARATION**

These consolidated financial statements of the Company were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of June 26, 2020, the date the Board of Directors approved the consolidated statements.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of measurement**

The consolidated financial statements have been prepared on a going concern basis under the historical cost convention.

### **Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned and controlled subsidiaries incorporated in Canada as at January 31, 2020:

- OncoQuest Inc., incorporated March 25, 2015 (45.65%)
- Madenco BioSciences Inc., incorporated December 31, 2015 (82%)
- Sonolight Pharmaceuticals Corp. (“Sonolight”) (100%)

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control and continue to be consolidated until the date such control ceases. The financial statements of the subsidiaries are prepared using accounting policies consistently applied. All inter-company transactions and balances have been eliminated in full.

Non-controlling interest is accounted for as the percentage of income (loss) of a subsidiary attributable to the subsidiary’s minority shareholders, based on the minority shareholders’ ownership interest in the subsidiary, and is shown on the consolidated statements of loss of the Company as an adjustment to income and in the equity section of the consolidated statements of financial position.

### **Cash**

Cash consists of liquid bank balances, carried at amortized cost.

### **Short term investments**

Short term investments include short term fixed rate debt securities with maturities of approximately 1 year or less. These deposits are carried at amortized cost.

## **Quest PharmaTech Inc.**

# **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2020

### **3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]**

#### **Prepaid Expenses**

Prepaid expenses represent costs incurred that benefit future periods. These costs are amortized over a specific time period based on the specific agreements. If the period is expected to exceed one year, as is the case with certain clinical research agreements whereby the Company made up front payments, the prepaid expense is classified as a long-term asset.

#### **Short-Term Borrowing**

The Company or its subsidiaries from time-to-time receives cash from investors to be used for working capital purposes. These are short term in nature with a term of less than 12 months and is expected to be repaid along with accrued interest within the term. The interest rate on such borrowings vary based on the term of such deposit. During the year ended January 31, 2020 the company's subsidiary borrowed CAD\$1 million and repaid the same within the year. The Company paid interest of approximately \$3,600 during the year ended January 31, 2020 on such borrowings.

#### **Investments**

##### ***Bioceltran Co. Ltd.***

The Company has an investment comprised of shares of a private company based in South Korea that specializes on transdermal delivery of drugs for cosmetics and pharmaceuticals. The investment has been measured at fair value through other comprehensive income. The shares have a cost to the company of \$107,900 equal to the amount of up-front licensing fees paid to BioCeltran. Taken together these transactions represent non-monetary transactions and have been recognized at a fair value of \$nil as the shares of the company are not traded in an active market and are not readily determinable or reliably measurable. The Company has determined that it does not exercise control or significant influence over the affairs of BioCeltran based on management's assessment of the following factors: no board representation is held; no participation in policy making decisions or regarding decisions on dividends or other distributions is held; and there is no interchange of managerial personnel. Each reporting period subsequent to the acquisition of the investment, the Company evaluates whether control or significant influence is exerted over the affairs of the investee company. There has been no income distribution or profits received from Bioceltran in fiscal 2019 or 2020. In the future, the fair value of the Company's investment in BioCeltran shares could be recognized at a value greater than \$nil if the value of the shares is reliably measurable or if income allocations are received from the investment.

**Quest PharmaTech Inc.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2020

**3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]**

***OncoVent Co., Ltd.***

The Company has an investment in OncoVent Co., Ltd. (see note 21 – Investment in OncoVent ). The Company owns 11% of the shares of OncoVent. The Company’s subsidiary, OncoQuest, owns 29% of the shares of OncoVent. As a result of the direct and indirect ownership interest in OncoVent, the Company accounts for its investment in OncoVent using the equity method of accounting.

**Intangible assets**

Intangible assets include proprietary rights, intellectual property and patent rights that have been acquired from third parties. Intangible assets are recorded at historical cost less accumulated amortization. Following acquisition, the Company evaluates the prospective commercialization of the acquired intangible assets. Depending on the results of the evaluation, the Company generally commences amortization of the assets over a period of three to five years.

Intangible assets are amortized over the useful economic life and assessed for impairment at the end of each reporting period. The amortization period and the amortization method for an intangible asset are reviewed at least at the end of each reporting period. Changes in the expected useful life of the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

**Property and equipment**

Property and equipment are recorded at historical cost net of government assistance and accumulated amortization. Amortization of property and equipment is calculated over their estimated useful lives on a declining balance or straight-line basis at the following annual rates:

Computer equipment	Declining balance - 30%
Furniture and fixtures	Declining balance - 30%
Office equipment	Declining balance - 30%
Manufacturing and research and development equipment	Declining balance - 30%
Leasehold improvements	Straight-line - lease term

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2020

### **3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]**

#### **Leases**

The Company assesses whether a contract is a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these short-term leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever the lease term has changed the lease payments change, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate. The Company did not make any such adjustments during the year ended January 31, 2020 and 2019.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

On Adoption of IFRS 16 effective February 1, 2019 the company choose to reflect a modified retrospective approach in these financial statements. Based on this approach, the Company recorded a net adjustment of \$5,940 to its retained earnings for fiscal year ending January 31, 2020. The Company additionally recognized interest expense (included in financial expenses) on its lease obligation in the amount of \$6,665 resulting from the adoption of IFRS 16.

#### **Revenue recognition**

Revenue associated with financial income is recorded when earned.

#### **Research and development**

Research and development expenses are expensed as incurred. Upfront and milestone payments made to third parties in connection with specified research and development projects are expensed as incurred.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2020

### **3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]**

#### **Investment tax credits**

Investment tax credits relating to qualifying scientific research and experimental development expenditures that are recoverable in the current year are accounted for as a reduction in research and development expenditures. Investment tax credits are recognized when the related expenditures are incurred and there is reasonable assurance of their realization.

#### **Foreign currency translation**

Monetary transactions are translated into the Canadian Dollars using the exchange rates prevailing at the dates of the transactions. Equity and Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at year end. Revenue and expenses are translated at exchange rates in effect on the date of the transaction. Gains and losses arising from foreign currency transactions are included in income for the period.

#### **Government assistance**

Non-refundable government assistance towards current expenses is included in the determination of income for the period as a reduction of the expenses to which it relates. Amounts received for future expenditures are recorded as a current liability.

#### **Financial instruments**

Financial assets are classified at amortized cost, at fair value through other comprehensive income (FVOCI) or fair value profit or loss (FVTPL). The Company determines the classification of its financial assets at initial recognition. All financial assets are recognized initially at fair value plus or minus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs. The Company's financial assets include cash, accounts receivables, short-term investments and long-term investments in Bioceltran.

Financial assets and liabilities are offset and the net amount presented in the financial statements when and only when, the Company has legal rights to offset the amounts and intend either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

## Quest PharmaTech Inc.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2020

### 3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

#### *Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include all financial assets unless measured at amortized cost or at fair value through other comprehensive income. The Corporation can make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

The Corporation may irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis.

The Corporation has not designated any financial assets at fair value through profit or loss.

#### Amortized cost

Financial asset measurement at amortized cost is permitted by IFRS 9 if the following conditions are met:

1. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
2. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Corporation has designated cash, short-term investments and accounts receivable at amortized cost.

#### Fair value through other comprehensive income

Financial asset measurement at fair value through other comprehensive income is permitted by IFRS 9 if the following conditions are met:

1. The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
2. The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Corporation has designated its investment in BioCeltran Co. Ltd. at fair value through other comprehensive income.

Financial liabilities are classified as financial liabilities at fair value through profit or loss, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value plus or minus, in the case of financial liabilities not at FVTPL, directly attributable transaction costs.



## Quest PharmaTech Inc.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2020

### 3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

The Company's financial liabilities include accounts payable and accrued liabilities, and the common share instrument.

#### *Subsequent Measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

#### Financial Liabilities at amortized cost

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the

liabilities are derecognized as well as through the effective interest rate method amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate ("EIR").

The Corporation has designated accounts payable, and accrued liabilities as measured at amortized cost.

#### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities measured at fair market value and financial liabilities designated at fair value through profit or loss.

Financial liabilities are classified as measured at fair market value if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities at fair market value are recognized in the income statement

#### Financial guarantee contracts

Financial guarantee contracts issued by the Corporation are those contracts that require a payment to be made to reimburse the holder for a loss it incurs due performance of the debtor. Financial guarantee contracts consist of common share instruments which guarantee a dividend in kind if additional common shares are issued to other investors below a stated price. Financial guarantee contracts are recognized initially as a liability at fair value and adjusted for transaction costs that are directly attributable to the issuance of the guarantee and are subsequently measured at fair market value.

The Corporation has designated the common share instrument as a financial guarantee measured at fair value through profit or loss.

#### **Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices without any deduction for transaction costs or using a valuation technique where no active market exists.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2020

### **3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]**

#### **Impairment of non-financial assets**

In assessing impairment, the Company estimates the recoverable amount of each asset or cash generating unit based on expected future cash flows and uses an interest rate to discount them. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-Financial assets other than goodwill that have incurred an impairment loss are reviewed for possible reversal of impairment at each reporting date.

#### **Share-based payments**

The Company accounts for share-based payment transactions granted to employees and non-employees using the fair value method. Fair value is calculated using the Black-Scholes option pricing model with the assumptions described (see note 12) and is recognized for employees over the vesting period of the options granted, and for non-employees as goods are received or services rendered. The amount of share-based compensation recognized in each period is also based on the number of share options ultimately expected to vest to each participant. As a result, the Company is required to estimate forfeiture rates, which are typically based on historical employee turnover data and trends. Changes in estimated forfeiture rates will impact the recognition of share-based compensation expense from period to period. Consideration paid on the exercise of share-based payments is credited to share capital and the amount in contributed surplus related to the share-based payments exercised is reclassified to share capital.

Under the fair value based method, share-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measured. The cost of share-based payments to non-employees is recognized over the vesting period. For fully vested share-based payments, the cost is measured and recognized at the grant date. Share-based payments are included in the general and administrative and research and development line items on the consolidated statements of loss.

#### **Income taxes**

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred income tax assets and liabilities are measured at the tax rates expected to apply in the period when the assets are realized or the liability is settled based on the tax rates that have been enacted or substantively enacted at the date of the consolidated statements of financial position. The carrying

## **Quest PharmaTech Inc.**

# **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2020

### **3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]**

amount of the deferred tax asset is reviewed at each consolidated statement of financial position date and reduced to the extent that it is not probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

#### **Basic and diluted loss per share**

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. Diluted loss per share is computed using the treasury stock method. Under this method, options, warrants and convertible securities are assumed to be exercised at the beginning of the period [or at the time of issuance, if later]. Proceeds from the exercise are assumed to be used to purchase common shares at the average market price during the period. Incremental shares [the difference between the number of shares assumed issued and the number of shares assumed purchased] are included in the denominator of the diluted loss per share computation (See note 18).

#### **Use of estimates and significant judgements**

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date

The measurement of certain assets and liabilities is dependent upon future events whose outcome will not be fully known until future periods. Therefore, the preparation of these consolidated financial statements requires the Company's management to make estimates and assumptions and apply significant judgements that affect the reported amounts of assets, liabilities and capital reserves. Actual results may vary from those estimated. The amount recorded for stock based compensation, whether the Company controls OncoQuest, estimates of future licensing fees, estimates of fair value of financial instruments and accrual of deferred income taxes are the more significant items which reflect estimates made and judgements applied in the consolidated statements of financial position. Such estimates and assumptions have been made using careful judgments which, in management's opinion, are within reasonable limits of materiality and conform to the significant accounting policies summarized in these consolidated financial statements.

## Quest PharmaTech Inc.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2020

### 3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

#### Non-controlling interest

Non-controlling interest represents the portion of the Company's subsidiary, OncoQuest Inc., that is not owned by the Company, measured to be 54.35% at January 31, 2020 (53.85% at January 31, 2019) (See note 10). Non-controlling interest is recorded in the consolidated statements of financial position to reflect the proportionate amount of OncoQuest's net assets belonging to the non-controlling shareholders. Non-controlling interest is also reported on the consolidated statements of loss as a share of loss belonging to non-controlling shareholders.

#### Other comprehensive loss

Other comprehensive losses are comprised of gains/losses on conversion of US dollar denominated non-controlling interests in subsidiaries to the Company's functional currency. In addition, other comprehensive losses include gains/losses on the redemption or conversion of preferred shares.

### 4. PARENT CONTROL OF SUBSIDIARY

The Company's subsidiary, OncoQuest, has an ownership structure, as at January 31, 2020 as follows:

	Number of shares held	Percentage ownership
Quest PharmaTech Inc.	4,250,100	45.65
Hepalink USA Inc.	3,606,167	38.74
Others	1,333,000	14.32
Quest insider	120,000	1.29
<b>Total</b>	<b>9,309,267</b>	<b>100.00</b>

The Company's subsidiary, OncoQuest, had an ownership structure, as at January 31, 2019 as follows:

	Number of shares held	Percentage ownership
Quest PharmaTech Inc.	4,250,100	46.15
Hepalink USA Inc.	3,606,167	39.16
Others	1,233,000	13.39
Quest insider	120,000	1.30
<b>Total</b>	<b>9,209,267</b>	<b>100.00</b>

Ownership – Hepalink USA Inc. (“Hepalink”) owns 3,606,167 voting common shares of OncoQuest, representing a 38.74% ownership interest. Hepalink also owns 25,000,000 common shares of the Company representing a 14.90% ownership interest, which represents a 6.80% ownership interest in OncoQuest. Hepalink's combined direct and indirect ownership interest in OncoQuest is therefore 45.54%.

## Quest PharmaTech Inc.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2020

#### 4. PARENT CONTROL OF SUBSIDIARY [CONTINUED]

Board and Management - The Board of OncoQuest is composed of five Board members, three nominated by the shareholders of OncoQuest and two nominated by Hepalink. Board decisions govern the activities of OncoQuest.

Based on the above two items, Ownership, Board and Management, management of the Company has determined that the Company has control over OncoQuest for purposes of these consolidated financial statements.

Subsequent to year end, the Company determined that its ownership interest in OncoQuest was not sufficient to allow the Company to control the affairs of OncoQuest, therefore, OncoQuest will be treated for accounting purposes using the equity method of accounting with a carrying value of \$nil.

#### 5. CASH, SHORT TERM INVESTMENTS AND SHORT TERM LOANS

At January 31, 2020, consolidated cash and short term investments were held as follows:

##### Cash and short term investments:

##### January 31, 2020:

	Quest	OncoQuest	Madenco	Total
Cash	362,571	1,786,490	4,123	2,153,184
Short term investments	—	300,000	—	300,000

##### January 31, 2019:

	Quest	OncoQuest	Madenco	Total
Cash	57,995	257,770	31,536	347,301
Short term investments	703,869	2,409,480	—	3,113,349

Each company is responsible for its cash and short term investment balances.

Short term investments include short term fixed rate 2020: 2.11-2.18% (2019: 1.53 – 2.70%) debt securities with maturities of approximately 1 year or less, held with a major Canadian chartered bank.

##### Short Term Loan

The Company's subsidiary received a short term loan from a potential purchaser of assets of the subsidiary to be used for working capital purposes. This loan, which is not part of the asset sale, is short term in nature and is to be repaid within a 12 month term with no set repayment amounts, The deposit accrues no interest. The deposit is outstanding as of January 31, 2020.

## Quest PharmaTech Inc.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2020

## 6. INTANGIBLE ASSETS

All intangible assets have been fully amortized. The historical presentation of the technologies are noted below:

### **Allergo-Oncology technology and licenses (“IgE technology”)**

During September, 2012, the Company signed a technology purchase agreement with Advanced Immune Therapeutics, Inc. (“AIT”) to acquire the proprietary rights and intellectual property related to an allergo-oncology technology based on tumor associated Immunoglobulin E (IgE) antibody for the treatment of cancer. Under the terms of the agreement, consideration for the purchase consisted of payment of \$40,000 U.S. for past patent costs and the issuance of 500,000 common shares, valued for accounting purposes at \$0.05 per common share, which reflected the closing price of the common shares on the date of issuance of \$25,000. The agreement requires the Company to make milestone and royalty payments to AIT on future revenues. The Company amortized this asset on a straight-line basis over a three year period. This intangible asset is fully amortized.

### **Immunotherapy technology and licenses (“Immunotherapy technology”)**

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

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

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2020

### **6. INTANGIBLE ASSETS [CONTINUED]**

#### **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 on August 1, 2001. This intangible asset is fully amortized.

#### **Targeted Cancer Therapy Technologies**

The Company is also developing a novel approach for cancer therapy using a combinatorial approach for optimal efficacy. Lead product (MAb AR9.6) under development is for a novel target (truncated O-glycans on MUC16) for cancer therapy discovered at University of Nebraska Medical Center. MAb AR 9.6 binds to MUC16 and blocks the activation of growth factor receptors and thereby inhibit phosphorylation of Akt, which leads to reduced cell proliferation, in vivo tumor growth and metastasis. The Akt pathway can also be regulated by Cyclin Dependent Kinases and/or mTOR Inhibitors. The Company has developed ACP 2127, which is a novel immunomodulator with anti-cancer properties targeted to inhibit CDK functionality and prevent the growth of cancer cells. ACP 2127 is a multi-functional potential irreversible inhibitor combining the effect of CDK inhibitor p21 and also through additionally inhibiting mTOR in the PI3K-AKT Pathway.

The inhibition of two novel targets with these agents can potentially be complimentary and can enhance the efficacy compared to each individual agent. The potential cancer targets include pancreatic, colon, leukemia, ovarian and breast cancer.

Both MAb AR9.6 and ACP2127 were licensed to OncoCare Therapeutics Inc., in 2019, for development and commercialization of these technologies in the U.S. Quest is entitled to receive 45% of the equity in OncoCare Therapeutics when US\$1 million of funding has been raised per the licensing agreement.

#### **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.

**Quest PharmaTech Inc.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2020

**7. PROPERTY AND EQUIPMENT**

The Company entered into a 5 year lease for its office building in May 2017. On Adoption of IFRS 16 effective February 1, 2019 the company choose to reflect a modified retrospective approach in these financial statements. Based on this approach, the Company recorded a net adjustment of \$5,940 to its retained earnings for fiscal year ending January 31, 2020. The Company also adjusted the following as additions during the year to reflect the adoption of IFRS 16

	January 31, 2020
Leasehold improvements	183,484
Accumulated amortization	61,161

**For the year ended January 31, 2020:**

	Computer Equipment	Furniture and Fixtures	Office Equipment	Manufacturing and Research and Development Equipment	Leasehold Improvements	Leased Assets	Totals 2020	Totals 2019
Cost, beginning of year	97,526	12,114	31,494	457,983	20,576	—	619,693	618,059
Additions	—	—	—	—	—	183,484	183,484	1,634
Deletions	—	—	—	—	—	—	—	—
Cost, end of year	97,526	12,114	31,494	457,983	20,576	183,484	803,177	619,693
Accumulated amortization, beginning of year	91,578	12,074	31,432	451,195	13,753	—	600,032	592,520
Amortization	2,020	15	25	2,040	1,981	97,858	103,939	7,512
Accumulated amortization, end of year	93,598	12,089	31,457	453,235	15,734	97,858	703,971	600,032
<b>Net book value</b>	<b>3,928</b>	<b>25</b>	<b>37</b>	<b>4,748</b>	<b>4,842</b>	<b>85,626</b>	<b>99,206</b>	<b>19,661</b>



**Quest PharmaTech Inc.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2020

**7. PROPERTY AND EQUIPMENT [CONTINUED]**

**For the year ended January 31, 2019:**

	Computer Equipment	Furniture and Fixtures	Office Equipment	Manufacturing and Research and Development Equipment	Leasehold Improvements	Totals 2019	Totals 2018
Cost, beginning of year	97,526	12,114	31,494	457,983	18,942	618,059	609,337
Additions	—	—	—	—	1,634	1,634	8,722
Deletions	—	—	—	—	—	—	—
Cost, end of year	97,526	12,114	31,494	457,983	20,576	619,693	618,059
Accumulated amortization, beginning of year	88,931	12,057	31,405	448,285	11,842	592,520	582,560
Amortization	2,647	17	27	2,910	1,911	7,512	9,960
Accumulated amortization, end of year	91,578	12,074	31,432	451,195	13,753	600,032	592,520
<b>Net book value</b>	<b>5,948</b>	<b>40</b>	<b>62</b>	<b>6,788</b>	<b>6,823</b>	<b>19,661</b>	<b>25,539</b>

## Quest PharmaTech Inc.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2020

#### 8. INCOME TAXES

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

	2020 \$	2019 \$
Loss from operations	(13,277,336)	(8,675,223)
Statutory tax rate	26.00%	27.00%
Income tax recovery at Canadian statutory tax rate	(3,452,107)	(2,342,310)
Adjustment in income taxes resulting from:		
Non-deductible expenses	387,960	472,874
Impact on deferred tax assets resulting from statutory rate increase	111,583	111,676
Potential deferred tax assets not recognized	2,952,564	1,757,760
Deferred tax recovery	—	—

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

	2020 \$	2019 \$
<b>Deferred tax assets</b>		
Non-capital loss carryforwards	9,493,562	6,913,129
Tax cost of property, plant and equipment in excess of book values	311,217	573,051
Tax cost of intangible assets in excess of book values	76,343	(7,738)
Share issuance costs	830	2,772
Scientific research and experimental development expenditure pool	701,755	966,580
	10,583,707	8,447,794
Valuation allowance	(10,583,707)	(8,447,794)

The Company and its subsidiaries have non-capital losses for income tax purposes of approximately \$37,974,247 at January 31, 2020 (2019 – \$24,552,568), and scientific research and experimental development expenses of approximately \$2,807,018 at January 31, 2020 (2019 – \$3,579,927) that can be applied against taxable income. The benefit of these deductible temporary differences has not been recognized. The Company also has

**Quest PharmaTech Inc.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2020

**8. INCOME TAXES [CONTINUED]**

investment tax credits (“ITCs”) of \$702,400 (2019 – \$702,400) that can be applied against future taxable income for which no deferred tax asset has been recognized. The Company also has capital losses for income tax purposes of approximately \$480,119 at January 31, 2020 (2019 - \$480,119) which carryforward indefinitely and can be applied against future taxable capital gains for which no deferred tax asset has been recognized.

The non-capital losses and investment tax credits (“ITCs”) available for carry forward will expire as follows:

	<b>Non-capital losses</b>	<b>ITC</b>
	<b>\$</b>	<b>\$</b>
2026	2,440,282	—
2027	1,137,273	91,300
2028	614,800	98,900
2029	97	198,900
2030	122	48,700
2031	809,406	63,700
2032	524,854	41,500
2033	727,483	50,200
2034	98	75,400
2035	1,344,512	33,800
2036	695,722	—
2037	1,808,229	—
2038	7,675,669	—
2039	7,506,067	—
2040	12,689,633	—
<b>Totals</b>	<b>37,794,247</b>	<b>702,400</b>

**Quest PharmaTech Inc.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2020

**9. COMMITMENTS AND CONTINGENCIES**

**a) Lease obligations**

The Company entered into a 5 year lease for it's office building in May 2017. The net carrying amount of this lease obligation is:

	January 31, 2020
	<hr/>
Current Portion of Lease Obligation	38,044
Non-Current portion of lease Obligation	54,368

The Company recognized \$22,448 of lease expense in the consolidated statements of loss in fiscal 2020 (2019 – \$66,732) (See Note 14).

**b) Research and development and other activities**

Subject to successful completion of contractual milestones, the Company has commitments to fund various research and development and other activities in the normal course of business as follows:

	<hr/> \$ <hr/>
2021	\$40,749,170
2022	27,818,592
2023	6,017,794
2024	1,281,909
2025 and thereafter	9,046,606
	<hr/> <b>\$84,914,070</b> <hr/>

In fiscal 2014 and 2018, the Company entered into a total of five licensing agreements with two Universities located in the United States. The licensing agreements require ongoing license maintenance fees which continue until the contract is terminated. As the duration and success of the contracts are unknown, the Company has included estimated licensing fees for five years in the schedule above and has not included any amounts after the five year period. The total amount included for these licensing agreements in the five year period is approximately \$681,500 at varying amounts per year (2019 - \$676,000).

The Company subsidiary, OncoQuest, has an arrangement with Oncovir, Inc. (“Oncovir”), a drug development company, to evaluate the clinical utility of combining OncoQuest’s antibody immunotherapy technology with Oncovir’s immune activator “Hiltonol®”. If the Subsidiary Company is satisfied with the results of the evaluation, the Subsidiary Company and Oncovir are obligated to enter into a worldwide non-exclusive license for the right to develop, use and sell Hiltonol® containing targeted vaccines and our other products that contain Hiltonol® for any and all uses. The license agreement will provide for the Subsidiary Company to make a

## Quest PharmaTech Inc.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2020

#### 9. COMMITMENTS AND CONTINGENCIES [CONTINUED]

US\$300,000 binding purchase order of Hiltonol® upon commencement of clinical trials and a US\$300,000 milestone payment upon receipt of US or EU marketing approval of a product candidate. In addition, the Subsidiary Company agreed that the license agreement will pay Oncovir royalty payments on net sales of combination products equal to: 2% on net sales up to US\$250 million, 4% on net sales between US\$250 million and US\$500 million and 6% on net sales over US\$500 million; provided the total royalty payment to Oncovir will be limited to US\$50 million on the first product candidate to reach market.

The Company has long term agreements with vendors conducting certain research and development activities, some of which require a prepayment of a portion of the costs. The prepaid research and development expense as of January 31, 2020 and 2019 is as follows and is included in the prepaid assets and non-current prepaid assets on the balance sheets:

	January 31, 2020			January 31, 2019		
	Total	R&D	Admin	Total	R&D	Admin
Current	424,514	397,533	26,981	820,057	762,416	57,641
Non-current	1,463,962	1,453,542	10,420	1,463,962	1,453,542	10,420

#### 10. SHARE CAPITAL

##### Authorized

Unlimited number of common shares without nominal or par value

Unlimited number of first preferred shares

Unlimited number of second preferred shares

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

**Quest PharmaTech Inc.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2020

**10. SHARE CAPITAL [CONTINUED]**

**Issued**

	<b>Number of common shares</b>	<b>Amount \$</b>
<b>Common shares</b>		
<b>At January 31, 2018</b>	167,089,247	30,501,716
Shares issued pursuant to the exercise of options	300,000	30,000
<b>At January 31, 2019</b>	167,389,247	30,531,716
Shares issued pursuant to the exercise of options	360,000	36,000
<b>At January 31, 2020</b>	<b>167,749,247</b>	<b>30,567,716</b>

During the year ended January 31, 2020, 360,000 share options were exercised into 360,000 common shares for proceeds of \$36,000 from a director, 2 officers and an employee of the Company.

During the year ended January 31, 2019, 300,000 share options were exercised into 300,000 common shares for proceeds of \$30,000 from an officer of the Company.

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

**Common Shares**

	Number of shares	Amount \$
At January 31, 2018	<b>9,209,267</b>	<b>23,937,958</b>
	—	—
At January 31, 2019	<b>9,209,267</b>	<b>23,937,958</b>
Shares issued pursuant to a private placement	80,000	2,663,400
Shares issued pursuant to the exercise of stock options	20,000	58,681
January 31, 2020	<b>9,309,267</b>	<b>26,660,039</b>

On March 8, 2019, the Company's subsidiary issued 80,000 common shares of stock to an investment consortium for cash proceeds of \$2,663,400 (US\$2.0 Million - \$25.00 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 \$25 per share. The number of shares received would be the difference between \$25 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

January 31, 2020

#### 10. SHARE CAPITAL [CONTINUED]

On May 23, 2019, the Company's subsidiary issued 20,000 common shares of stock pursuant to the exercise of stock options at US\$2.18 per common share.

##### 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, 2020 and 2019.

The fair value of the common share instrument at January 31, 2020 and 2019 is as follows:

	Number of shares	US\$ Amount	Fair Value in Cdn\$ at January 31, 2020	Fair Value in Cdn\$ at January 31, 2019
Common shares issued pursuant to private placements	683,000	8,030,000	10,626,099	7,925,832
Common shares issued under dividend in kind	130,231	1,302,310	1,723,347	1,711,756
<b>Totals</b>	<b>813,231</b>	<b>9,332,310</b>	<b>12,349,446</b>	<b>9,637,588</b>

Subsequent to year-end, OncoQuest, raised US\$50,000,000 of equity funding through a private placement of 2,500,000 common shares at US\$20.00 per common share. As a result, OncoQuest was required to issue an addition 20,000 down round common shares to an existing shareholder who had purchased common shares for 25.00 per share with price protection features.

The following options to purchase common shares were outstanding as at January 31, 2020:

Exercise price \$	Options outstanding #	Weighted average remaining life (years)	Options exercisable #
0.10	10,440,000	1.67	10,440,000
0.15	3,275,000	1.27	3,275,000
0.18	1,250,000	0.63	1,250,000
0.25	2,810,000	0.97	2,810,000
	<b>17,775,000</b>	<b>1.41</b>	<b>17,775,000</b>

**Quest PharmaTech Inc.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2020

**10. SHARE CAPITAL [CONTINUED]**

The following schedule details the warrants and share options granted and expired:

	Shares issuable on exercise of			
	Warrants		Share options	
	Number of warrants #	Weighted average exercise price \$	Number of share options #	Weighted average exercise price \$
<b>Balance, January 31, 2018</b>	<b>3,429,167</b>	<b>0.16</b>	<b>17,850,000</b>	<b>0.13</b>
Granted	—	—	3,850,000	0.25
Expired	(3,429,167)	0.16	(1,750,000)	0.25
Exercised	—	—	(300,000)	0.10
<b>Balance, January 31, 2019</b>	<b>—</b>	<b>—</b>	<b>19,650,000</b>	<b>0.14</b>
Granted	—	—	200,000	0.25
Expired	—	—	(1,715,000)	0.14
Exercised	—	—	(360,000)	0.10
<b>Balance, January 31, 2020</b>	<b>—</b>	<b>—</b>	<b>17,775,000</b>	<b>0.14</b>

**Warrants**

	Number of warrants	Fair value (\$)
<b>Balance, January 31, 2018</b>	<b>3,429,167</b>	<b>34,292</b>
Warrants expired	(3,429,167)	(34,292)
<b>Balance, January 31, 2019</b>	<b>—</b>	<b>—</b>
<b>Balance, January 31, 2020</b>	<b>—</b>	<b>—</b>

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 amended warrants expired on March 26, 2018.



## **Quest PharmaTech Inc.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2020

#### **10. SHARE CAPITAL [CONTINUED]**

##### **Company share options**

For the year ended January 31, 2020, the Company granted 200,000 share options, as per the Company's Share Option Plan to a non-employee at an exercise price of \$0.25, vesting immediately on date of grant (note 12).

For the year ended January 31, 2019, the Company granted 3,850,000 share options, as per the Company's Share Option Plan to employees (1,250,000) and to non-employees (2,600,000) at exercise prices ranging from \$0.18 - \$0.25, all vesting immediately on date of grant (note 12).

On November 27, 2015, the Company obtained shareholder approval to amend its Share Option Plan such that the aggregate number of common shares eligible for issuance under the Share Option Plan shall not exceed 25,000,000. As at January 31, 2020, 7,225,000 options are available for issue (January 31 2019 – 5,350,000).

##### **OncoQuest share options**

OncoQuest's stock option plan permits the Board of Directors of OncoQuest to grant incentive stock options to directors, officers, managers, employees and consultants of OncoQuest. Pursuant to the plan, options may be

granted to acquire a rolling number of common shares, currently up to 15% of the issued and outstanding shares of OncoQuest (2019 – 15%).

The options shall include vesting provisions as determined by the Board of Directors, are non-transferable and will expire no later than the tenth anniversary of the date the option was granted.

During the year ended January 31, 2019, OncoQuest granted 345,000 options to independent directors and to consultants at exercise prices ranging from \$2.90 (US \$2.18) to \$13.00 (US\$10.00) per share, vesting over 3 years. The fair value of options vesting in 2019 of \$1,143,186 was recognized as a stock based payment expense and credited to additional paid-in capital in OncoQuest.

During the year ended January 31, 2020, OncoQuest granted 25,000 options to a consultant at a previously reserved exercise price of \$2.90 (\$US2.18) vesting immediately. The fair value of options vesting in 2020 of \$1,524,333 was recognized as a stock based payment expense and credited to additional paid-in capital in OncoQuest.

During the year ended January 31 2020, 20,000 stock options were exercised into 20,000 common shares of stock at \$2.90 (US\$2.18) per common share.

Subsequent to year end, OncoQuest granted 193,333 options to independent directors, an employee and consultants at exercise prices ranging from \$2.90 (\$US 2.18) to \$13.25 (\$US 10.00) per share, with vesting provisions ranging from immediate vesting to vesting over 3 years.

**Quest PharmaTech Inc.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2020

**10. SHARE CAPITAL [CONTINUED]**

The following table summarizes the activity related to stock option grants for the years ended January 31, 2020 and 2019:

	<b>Option Shares</b>	<b>Weighted Average Exercise Price Per Common Share Outstanding</b>
	<u>                    </u>	<u>                    </u>
<b>Balance, January 31, 2018</b>	610,000	\$2.90
Granted during year	345,000	12.29
Expired during year	<u>(20,000)</u>	<u>\$2.90</u>
<b>Balance, January 31, 2019</b>	<b><u>935,000</u></b>	<b><u>\$6.39</u></b>
Granted during year	25,000	\$2.90
Exercised during year	<u>(20,000)</u>	<u>\$2.90</u>
<b>Balance, January 31, 2020</b>	<b><u>940,000</u></b>	<b><u>\$6.47</u></b>
<b>Vested, January 31, 2018</b>	152,500	\$2.90
<b>Vested, January 31, 2019</b>	167,500	\$2.90
<b>Vested, January 31, 2020</b>	<u>730,000</u>	<u>\$4.45</u>

The Black-Scholes option pricing model was used to estimate the fair value of these options. OncoQuest considers historical volatility of comparable companies common shares in estimating future share price volatility.

The following assumptions were used:

	Year ended January 31, 2020	Year ended January 31, 2019
	<u>                    </u>	<u>                    </u>
Dividend yield	0.00%	0.00%
Volatility	81.0%	81.0%
Risk-free interest rate	2.19%	2.23%
Expected life (years)	<u>5.75</u>	<u>5.75</u>
<b>Fair value per option</b>	<b><u>CAN\$11.63</u></b>	<b><u>CAN\$9.17</u></b>

At January 31, 2020, there are 940,000 OncoQuest shares options outstanding. Not included in this number is the 130,000 options set aside for a consultant on June 19, 2017 exercisable at US\$2.18 to be granted at a future unknown date subject to attainment of a milestone.

**Quest PharmaTech Inc.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2020

**10. 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 54.35 % at January 31, 2020:

<b>OncoQuest Ownership:</b>	<b>Number of shares owned</b>	<b>Percentage ownership</b>
Hepalink	3,606,167	38.74%
Others	1,333,000	14.32%
Quest	4,250,100	45.65%
Quest insider	120,000	1.29%
<b>Total</b>	<b>9,309,267</b>	<b>100%</b>

<b>OncoQuest Financial information at:</b>	<b>January 31, 2020</b>	<b>January 31, 2019</b>
OncoQuest fiscal year net loss, after elimination of intercompany transactions	(\$13,108,515)	(\$7,914,169)
Non-controlling interest percentage	54.35	53.85
Non-controlling interest portion	(\$7,124,478)	(\$4,261,780)
OncoQuest current assets		
- Cash	\$1,786,490	\$257,770
- Short term investments	\$300,000	\$2,409,480
- Other current assets	\$403,852	\$771,079
Total current assets	\$2,490,342	\$3,438,329
OncoQuest non-current assets	\$1,458,425	\$1,484,200
OncoQuest current liabilities	\$8,419,785	\$408,948

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.

<b>Non-controlling interest</b>	<b>\$</b>
<b>Balance, January 31, 2018</b>	<b>(10,215,647)</b>
Year ended January 31, 2019	4,282,564
<b>Balance, January 31, 2019</b>	<b>(5,933,083)</b>
Year ended January 31, 2020	7,093,796
<b>Balance, January 31, 2020</b>	<b>1,160,713</b>

## Quest PharmaTech Inc.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2020

#### 10. 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.

	Year ended January 31, 2020	Year ended January 31, 2019
	\$	\$
<b>Non-controlling interest</b>	<b>7,093,796</b>	<b>4,282,564</b>

Included in the amount above for the year ended January 31, 2020 is \$7,691 (2019 – \$20,786) relating to the non-controlling interest of Madenco Biosciences Inc. Non-controlling interest is recorded in the consolidated statements of financial position to reflect the claim on the Company's assets belonging to the non-controlling shareholders. Non-controlling interest is also reported on the consolidated statements of loss as a share of loss belonging to non-controlling shareholders.

#### 11. CAPITAL DISCLOSURES

The Company is a biotechnology company and consistent with other companies in the industry, the Company's objectives when managing capital are to safeguard its accumulated capital in order to maintain its ability to operate as a going concern so that it can continue with its drug development program and strive to maximize shareholder value. Capital is defined by the Company as shareholders' deficiency (primarily comprising of share capital, contributed surplus and deficit). The Company manages its capital structure, and makes adjustments to it based on the needs of the Company's operations and the requirement for funding to continue with the Company's drug development program. The Company does this through new share or debt issuances, selling assets or licensing its technologies to third parties to fund operations. Other than the restrictions imposed upon cash and short term investments, the Company is not subject to any externally imposed capital requirements.

#### 12. SHARE-BASED PAYMENTS

For the year ended January 31, 2020, the Company granted a total of 200,000 (2019 – 3,850,000) share options under the Company's Share Option Plan. Options vested immediately. The fair value of options vesting in 2020 of \$32,000 (2019 - \$600,500) was recognized as a share-based payment expense and credited to contributed surplus for the years ended January 31, 2020 and 2019. There were no forfeitures of Company's share options during the years ended January 31, 2020 and 2019.

## Quest PharmaTech Inc.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2020

#### 12. 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, disclosed on a weighted average basis, were used:

	2020	2019
Dividend yield	0.00 %	0.00 %
Volatility	378 %	340 %
Risk-free interest rate	1.91 %	2.12 %
Expected life (years)	10.0	7.86
Fair value per option	\$0.16	\$0.16

For share options issued to non-employees, the Company has determined that the fair value of the share options issued \$32,000 in 2020, (\$413,000 in 2019) is a reliable measure of the fair value of the services provided to the Company by non-employees.

#### OncoQuest Stock Option Plan:

For the year ended January 31, 2020, OncoQuest granted a total of 25,000 (2019 – 345,000) share options under its share option plan. The options have vesting provisions ranging over a three year period. The fair value of options vesting in 2020 of \$1,402,257 (2019 – \$1,143,186) was recognized as a share based payment expense and credited to contributed surplus for the years ended January 31, 2020 and 2019. There were no forfeitures of OncoQuest's share options during the years ended January 31, 2020 and 2019.

The Black-Scholes option pricing model was used to estimate the fair value of these options. OncoQuest considers historical volatility of comparable companies common shares in estimating future share price volatility.

The following assumptions, were used:

	Year ended January 31, 2020	Year ended January 31, 2019
Dividend yield	0.00 %	0.00 %
Volatility	81.00 %	81.00 %
Risk-free interest rate	2.19 %	2.23 %
Expected life (years)	5.75	5.75
Fair value per option	\$11.63	\$9.17

## Quest PharmaTech Inc.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2020

#### 13. DISCONTINUED OPERATIONS

In July 2018, the Company made a strategic decision to no longer actively promote consumer health products in order to focus on pharmaceutical product development. As a result, the Company is treating all consumer health product activities including those related to Bellus Skin, as discontinued operations.

The following table identifies the activity in connection with the Company's discontinued operations for the years ended January 31, 2020 and 2019:

Discontinued operations	For the years ended January 31	
	2020	2019
	\$	\$
Revenue	10,132	22,757
Direct Costs	(4,292)	(12,261)
Gross Margin	5,840	10,496
General and administrative and other expenses	(28,710)	(44,398)
Income / (loss) from discontinued operations	<b>(22,870)</b>	<b>(33,902)</b>

#### 14. 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 are approximately \$7,500 gross per month, and fluctuate on a month to month basis. The amount paid for lease and other office related costs to the Company increased on February 1, 2017 to a monthly rate of \$10,000 per month due to the increase in scope of operations at OncoQuest.

During the year ended January 31, 2020, 2 officers and a director of the Company exercised 350,000 share options to acquire 350,000 common shares of the Company at an exercise price of \$0.10 per common share.

During the year ended January 31, 2019, an officer of the Company exercised 300,000 share options to acquire 300,000 common shares of the Company at an exercise price of \$0.10 per common share.

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

January 31, 2020

#### 15. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2020	2019
	\$	\$
Accounts receivable	3,368	8,741
Prepaid expenses	395,543	(244,522)
Inventory	—	364
Accounts payable and accrued liabilities	5,353,046	(423,477)
	<u>5,751,956</u>	<u>(658,894)</u>

During the year ended January 31, 2020, the Company paid \$13,740 of interest (2019 - \$4,419) and income taxes of \$nil (2019 - \$nil).

#### 16. GOVERNMENT ASSISTANCE

During the year ended January 31, 2020, the Company's subsidiary, OncoQuest, recognized \$nil (2019 - \$32,331) from Alberta Finance related to scientific research and development claims made for research and development expenditures incurred in Fiscal 2018. This funding was treated as a reduction of research and development expenses.

	2020	2019
	\$	\$
Gross research and development expenditures	11,264,235	6,297,503
Less: government assistance	—	(32,331)
<b>Research and development expenditures, net</b>	<u>11,264,235</u>	<u>6,265,172</u>

#### 17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments include cash, short term investments, long-term investment in Bioceltran, accounts receivable, accounts payable and accrued liabilities and the common share instrument.

##### a) Carrying value and fair value

The carrying values of cash, short term investments, accounts receivable, accounts payable and accrued

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2020

### **17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]**

liabilities, and the common share instrument approximate their fair value due to the immediate or short-term maturity of these financial instruments.

#### **Fair value**

All financial instruments carried at fair value are categorized in one of three categories:

Level 1 – Quoted market price

Level 2 – Market observable valuation technique

Level 3 – Non-market observable valuation technique

During the period ended January 31, 2020, there were no transfers between levels of the fair value hierarchy.

#### **b) Risks**

The Company is exposed to risks of various degrees of significance from its use of financial instruments which could effect its ability to and specifically to achieve its strategic objectives for growth and stakeholder returns. The principal risks the company is exposed to and the actions taken to manage them are:

##### **i) Foreign currency risk**

The Company has certain assets and liabilities that are denominated in foreign currencies and are exposed to risks from changes in foreign exchange rates and the degree of volatility of these rates.

At January 31, 2020 the Company's exposure to foreign currency risk is US\$1,285,731 in cash, US\$4,333,112 in accounts payable and accrued liabilities, and US\$2,000,000 in a deposit. The year-end rate of conversion of U.S. to Canadian dollars is 1.3233. Based on the foreign currency exposures noted above, a 10 percent strengthening of the Canadian dollar would have decreased the net loss by \$667,920, assuming that all other variables remain unchanged. A 10 percent weakening of the Canadian dollar would have an equal but opposite effect, assuming that all other variables remain unchanged.

At January 31, 2019 the Company's exposure to foreign currency risk is US\$1,941,577 in cash and short term investments, US\$239,848 in accounts payable, 47,239 Euros and 9,300 GBP in accrued liabilities. The year-end rate of conversion of U.S. to Canadian dollars is 1.3144, Euros to Canadian dollars is 1.5096 and GBP to Canadian dollars is 1.7240. Based on the foreign currency exposures noted above, a 10 percent strengthening of the Canadian dollar would have increased the net loss by \$214,941, assuming that all other variables remain unchanged. A 10 percent weakening of the Canadian dollar would have an equal but opposite effect, assuming that all other variables remain unchanged.

The Company currently does not use derivative instruments to reduce its exposure to foreign currency risk.



## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2020

### **17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]**

#### **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, pay its contractual obligations related to financial liabilities 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 11). The Company only has cash and short term investment reserves of \$2,453,184 at January 31, 2020 (January 31, 2019 - \$3,460,650). As such, there is a liquidity risk for the Company at January 31, 2020.

#### **iii) Credit risk**

Financial instruments that subject the Company to credit risk consist primarily of cash and short term investments and accounts receivable. To minimize its exposure to credit risk for cash and short term investments, the Company invests surplus cash in short-term deposits that are fully guaranteed by the Company's financial banker, a major Canadian chartered bank. As the Company is a research and development company, the Company's exposure to credit risk is not considered to be significant.

#### **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 and also expose it to risk from interest on right of use lease. 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.

### **18. LOSS PER SHARE**

Basic and diluted net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding for the year. In determining diluted net loss and net loss per common share, the weighted average number of common shares outstanding is adjusted for share options and warrants eligible for exercise where the average market price of common shares for the year ended January 31, 2020 and 2019 exceeds the exercise price. Common shares that could potentially dilute basic net loss and net loss per common share in the future that could be issued from the exercise of share options and warrants were not included in the computation of the diluted loss per common share for the year ended January 31, 2020 and 2019 because to do so would be anti-dilutive.

## Quest PharmaTech Inc.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2020

#### 18. LOSS PER SHARE [CONTINUED]

The numerator and denominator used in the calculation of historical basic and diluted net loss amounts per common share are as follows:

	<b>2020</b>	<b>2019</b>
	\$	\$
Net loss exclusive of non-controlling interest	<b>(6,183,540)</b>	(4,392,659)
Number of weighted average common shares outstanding	<b>167,404,069</b>	167,182,946
Net loss per share	<b>(\$0.037)</b>	(\$0.026)

The following number and type of securities could potentially dilute basic earnings per common share in the future. These securities are not included in the computation of diluted earnings per share, because to do so would have reduced the loss per common share (anti-dilutive) for the years presented:

	<b>2020</b>	<b>2019</b>
Share-based payment transactions	<b>17,775,000</b>	19,650,000
	<b>17,775,000</b>	19,650,000

#### 19. COMPENSATION OF KEY MANAGEMENT

Key management includes directors and executives of the Company. The compensation paid or payable (including share-based payments) to key management for services is shown below:

	<b>2020</b>	<b>2019</b>
	\$	\$
Management compensation	824,104	897,485
Director compensation	357,254	489,754
Totals	1,181,358	1,387,239

#### 20. 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. During the year ended 31 January 2019, the Company made a strategic decision to exercise its option to divest itself of its investment in Natural Rf. Natural Rf returned the Company's \$500,000 principal investment during fiscal 2019.

## Quest PharmaTech Inc.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2020

#### 21. 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, OncoQuest accounts for its investment in this affiliated entity under the equity method. Oncovent began operations in November, 2016.

<b>Investment in OncoVent Co., Ltd.</b>	<b>\$</b>	<b>\$</b>
	<b>Year ended Jan 31, 2020</b>	<b>Year ended Jan 31, 2019</b>
Opening balance	31,301	356,178
Equity method share of loss for the year	(31,301)	(324,877)
<b>Closing balance</b>	<b>—</b>	<b>31,301</b>

#### 22. CLAIM SETTLEMENT

During the year ended January 31, 2019, the Company received \$275,000 from a third party as a final settlement of a patent claim dispute.

#### 23. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

## Quest PharmaTech Inc.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2020

## 24. SUBSEQUENT EVENTS

Subsequent to year end, OncoQuest completed a USD \$50 million private placement of common shares at USD \$20 per share. OncoQuest issued 2.5 million common shares in exchange for USD \$10 million in cash and USD \$40 million in perpetual bonds convertible into common shares of Dual Industrial Co., Ltd (“Dual”), a Korean (KOSDAQ) publicly traded company. The perpetual convertible bonds have a 30-year term which can be extended at Dual’s discretion, bear no interest and can be redeemed for cash at the option of Dual.

Subsequent to year end, OncoQuest signed additional agreements with Dual to sell all of its immunotherapy assets in return for a notional USD \$300 million, comprised of common shares of Dual and perpetual bonds convertible into shares of Dual or redeemable for cash at the option of Dual (the "Dual Agreements"). The transfer of the immunotherapy assets is subject to Dual having access to USD \$75 Million by June 30, 2020 available and dedicated to finance the Phase 3 trial for Oregovomab. Dual perpetual bonds with a notional USD \$125 million value (convertible into shares of Dual or redeemable for cash) were issued to OncoQuest at the signing of the Dual Agreements. The remaining consideration will be shares of Dual with a notional value of USD \$175 million and will be issued no later than December 31, 2020. The bonds have a 30-year term extendable at the option of Dual and bear no interest. The share conversion prices for the bonds are as follows: USD \$40 million - 2,119KRW/share; USD \$22.5 million – 4,309 KRW/share; \$62.5 million – 4,309 KRW; The USD \$175 million worth of Dual common shares will be issued at 3,265 KRW/Dual share. Any Dual shares to be issued pursuant to the Dual Agreements will carry a 1-year trading restriction from the date of share issuance. OncoQuest has the right, at any time after transfer of the immunotherapy assets, to require Dual to redeem USD \$62.5 million of Dual perpetual convertible bonds at their KRW face value on or before the second closing of the transfer agreement, scheduled to occur not later than December 31, 2020.

Subsequent to year end, OncoQuest granted 193,333 share options to directors, an officer, an employee and to consultants at exercise prices ranging from USD \$2.88 (US\$2.18) to USD \$13.23 (US\$10.00) per share, with vesting provisions ranging from immediate vesting to vesting over 3 years.

Subsequent to year end, the Company determined that its investment in OncoQuest will no longer be consolidated into the Company’s financial statements. For the three month period ended April 30, 2020, OncoQuest will be accounted for under the equity method of accounting, having a carrying value of \$nil.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may impact operating activities and will depend on future developments, including the duration and spread of the outbreak, related travel advisories and restrictions, the recovery times of the disrupted supply chains, the consequential staff shortages, and production delays, or the uncertainty with respect to the accessibility of additional liquidity or capital markets, all of which are highly uncertain and cannot be predicted. Such potential impact is unknown at this time.