

Consolidated Financial Statements

Quest PharmaTech Inc.

Six months ended July 31, 2020

(Unaudited)

Quest PharmaTech Inc.

National Instrument 51 – 102
Continuous Disclosure Obligations

Notice

Pursuant to Part 4.3 (3) of National Instrument 51 – 102, these unaudited interim consolidated financial statements of Quest PharmaTech Inc. for the six-month period ended July 31, 2020 have not been reviewed by the Company's auditors.

Quest PharmaTech Inc.

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

As at

	July 31	January 31
	2020	2020
	\$	\$
ASSETS		
Current		
Cash <i>[note 4]</i>	6,941	2,153,184
Short term investments <i>[note 4]</i>	75,000	300,000
Accounts receivable	8,833	10,932
Prepaid expenses	3,725	424,514
	94,499	2,888,630
Non current		
Property and equipment <i>[note 6]</i>	74,673	99,206
Non-current prepaid expenses	10,420	1,463,962
Investment in OncoQuest <i>[note 16]</i>	108,287,978	—
	108,373,071	1,563,168
	108,467,570	4,451,798
LIABILITIES		
Current		
Accounts payable and accrued liabilities	1,271	5,859,738
Short term loan	—	2,646,600
Common share instrument	—	12,349,446
	1,271	20,855,784
Non current		
Lease obligation <i>[note 6]</i>	73,672	92,411
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Common shares <i>[note 7]</i>	30,567,716	30,567,716
Non-controlling interest	—	(1,160,713)
Contributed surplus	7,301,125	10,347,297
Accumulated other comprehensive income	—	844,689
Retained earnings (deficit)	70,523,786	(57,095,386)
	108,392,627	(16,496,397)
	108,467,570	4,451,798

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	For the three months ended July 31		For the six months ended July 31	
	2020	2019	2020	2019
	\$	\$	\$	\$
EXPENSES				
General and administrative	170,487	517,631	237,028	1,067,736
Research and development	22,584	2,286,689	32,782	4,213,104
	193,071	2,804,320	269,810	5,280,840
Loss before the undernoted	(193,071)	(2,804,320)	(269,810)	(5,280,840)
Other income (expenses)				
Financial income	1,170	17,588	1,520	36,032
Financial expenses	(1,438)	—	(3,144)	—
Lease obligation reduction	—	5,945	—	14,753
Equity loss OncoVent [note 15]	—	—	—	(31,301)
Equity income (loss) - OncoQuest [note 16]	3,408,850	—	(4,552,177)	—
Gain on deconsolidation of a subsidiary [note 3]	—	—	1,233,858	—
FV adjustment - investment in OncoQuest [note 16]	—	—	112,840,155	—
Foreign exchange gain / (loss)	377	264,280	1,016	104,357
	3,408,959	287,813	109,521,228	123,841
Income (loss) from continuing operations	3,215,888	(2,516,507)	109,251,418	(5,156,999)
Income (loss) from discontinued operations [note 10]	—	(570)	—	4,457
Net and comprehensive income (loss) for the period	3,215,888	(2,517,077)	109,251,418	(5,152,542)
Attributable to:				
Equity holders of the parent	3,215,888	(1,054,587)	109,251,418	(2,724,780)
Non-controlling interest	—	(1,462,490)	—	(2,427,762)
Total	3,215,888	(2,517,077)	109,251,418	(5,152,542)
Basic income (loss) per share	\$ 0.019	\$ (0.006)	\$ 0.651	\$ (0.016)
Fully diluted income (loss) per share	0.019	\$ (0.006)	0.640	\$ (0.016)

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

	Share capital - common shares	Non-controlling interest	Contributed surplus	Accumulated other comprehensive income	Retained earnings (deficit)	Total shareholders' equity (deficiency)
	\$	\$	\$	\$	\$	\$
Balance, January 31, 2020	30,567,716	(1,160,713)	10,347,297	844,689	(57,095,386)	(16,496,397)
Adjust deficit - loss of control <i>[note 3]</i>	—	—	—	—	15,586,606	15,586,606
Adjust other comprehensive income <i>[note 3]</i>	—	—	—	(844,689)	844,689	—
Adjust contributed surplus <i>[note 3]</i>	—	—	(3,097,172)	—	3,097,172	—
Adjust non-controlling interest <i>[note 3]</i>	—	1,160,713	—	—	(1,160,713)	—
Share based payments <i>[note 9]</i>	—	—	51,000	—	—	51,000
Net loss for the period	—	—	—	—	109,251,418	109,251,418
Balance, July 31, 2020	30,567,716	—	7,301,125	—	70,523,786	108,392,627

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the 3 months ended Jul 31		For the 6 months ended Jul 31	
	2020	2019	2020	2019
	\$	\$	\$	\$
CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES				
Net income (loss) for the period	3,215,888	(2,517,077)	109,251,418	(5,152,542)
Items that do not involve cash				
Amortization	10,326	10,424	24,533	20,790
Share-based payments <i>[note 9]</i>	51,000	381,975	51,000	796,985
Allocation of loss from OncoVent <i>[note 15]</i>	—	—	—	31,301
Allocation of (income) loss from OncoQuest <i>[note 16]</i>	(3,408,850)	—	4,552,177	—
Fair value adjustment - investment in OncoQuest <i>[note 16]</i>	—	—	(112,840,155)	—
Foreign exchange adjustment - common share instrument	—	(315,319)	—	(89,548)
Net change in working capital <i>[note 12]</i>	(58,482)	451,050	(5,435,579)	703,598
	(190,118)	(1,988,947)	(4,396,606)	(3,689,416)
CASH FLOWS FROM FINANCING ACTIVITIES				
Exercise of OncoQuest options into common shares	—	58,681	—	58,681
Private placement proceeds - OncoQuest common shares	—	—	—	2,663,400
Items related to deconsolidation of OncoQuest: <i>[note 3]</i>				
Change in deficit	—	—	18,367,754	—
Change in common share instrument	—	—	(12,349,446)	—
Reduction in non-controlling interest	—	—	1,160,713	—
Reduction in other comprehensive income	—	—	(844,689)	—
Change in contributed surplus	—	—	(3,097,172)	—
Short term loan	—	—	(2,646,600)	—
Non-current prepaid expenses	—	—	1,453,542	—
NET CASH GENERATED FROM FINANCING ACTIVITIES	—	58,681	2,044,102	2,722,081
CASH FLOWS FROM INVESTING ACTIVITIES				
Redemption of short term investments, net	125,000	1,303,620	225,000	802,907
Lease obligation reduction	(9,439)	(5,945)	(18,739)	(14,753)
NET CASH GENERATED FROM INVESTING ACTIVITIES	115,561	1,297,675	206,261	788,154
Net increase (decrease) in cash and cash equivalents	(74,557)	(632,591)	(2,146,243)	(179,181)
Cash and cash equivalents, beginning of period	81,498	800,711	2,153,184	347,301
Cash and cash equivalents, end of period	6,941	168,120	6,941	168,120

See accompanying notes

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2020

1. CORPORATE INFORMATION AND GOING CONCERN UNCERTAINTY

Corporate information

Quest PharmaTech Inc. (“Quest” or the “Company”) is a publicly traded, Canadian based pharmaceutical company developing products to improve the quality of life. The Company is developing targeted cancer therapy with its lead product (MAb AR9.6), under development for a novel target (truncated O-glycans on MUC16) discovered at University of Nebraska Medical Center. The Company is also developing products utilizing proprietary transdermal delivery technologies with a focus on dermatology and wound healing applications. Quest has an exclusive worldwide license from Stanford University to develop and commercialize patented EGF wound healing technology.

The Company also holds an equity interest in several companies, including a 44% interest in OncoQuest Inc., a private Canadian biotechnology company developing next generation of combinatorial immunotherapy products for the treatment of cancer. On April 22, 2020, OncoQuest announced a definitive agreement to sell its drug portfolio to Dual Industrial Co., Ltd. (“Dual”) in exchange for Dual bonds with a notional value of US\$300 million and a commitment to fund the Oregovamab Phase 3 Clinical Trial. Other equity investments for Quest include, OncoVent Co., Ltd., a China-based global pharmaceutical company focusing on the development, manufacturing and commercialization of Cancer Immunotherapy Products within China with pancreatic cancer as its first target; and Bioceltran Co., Ltd., a Korean company developing Skin penetrating Active Molecules for Cosmetic and Pharmaceutical Use. Quest, through its subsidiary, Madenco Biosciences, has worldwide (excluding South Korea) rights to Bioceltran PTD Technology and Products for certain indications and Bioceltran has an exclusive license to Quest’s Photodynamic Therapy Technology.

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 September 24, 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.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2020

1. CORPORATE INFORMATION AND GOING CONCERN UNCERTAINTY [CONTINUED]

The Company has incurred net income exclusive of non-controlling interest of \$109,251,418 for the six-month period ended July 31, 2020 (year ended January 31, 2020 – net loss of \$6,183,540) and as at July 31, 2020 had working capital of \$89,503 (January 31, 2020 – working capital deficiency of \$18,391,668) and shareholders' equity of \$108,392,627 (January 31, 2020 – shareholders' deficiency of \$16,496,397). The Company has cash reserves of only \$81,941 at July 31, 2020 (January 31, 2020 - \$2,453,184), accordingly, there is a material uncertainty that may cast significant doubt regarding the Company's ability to continue as a going concern.

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

2. BASIS OF PREPARATION

The unaudited consolidated financial statements of the Company were prepared following the same accounting policies as disclosed in note 3 in the audited consolidated financial statements for the years ended January 31, 2020 and 2019. These unaudited consolidated financial statements for the six months ended July 31, 2020 should be read in conjunction with the consolidated financial statements for the years ended January 31, 2020 and 2019 and the notes thereto. These unaudited consolidated financial statements for the six months ended July 31, 2020 do not include all of the required disclosures for annual consolidated financial statements.

During the 6 month period ended July 31, 2020, the Company deconsolidated its ownership of OncoQuest due to a loss of control, as the Company has no power to control OncoQuest or to govern the financial and operating policies of OncoQuest through share ownership, contractual rights, board nominees or otherwise. When the Company loses control over a subsidiary, it derecognizes the related assets, liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in income or loss. Any investment retained is recognized at fair value (refer to Notes 3 and 16).

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2020

2. BASIS OF PREPARATION [CONTINUED]

Statement of Compliance

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

Basis of measurement

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

3. LOSS OF CONTROL AND DECONSOLIDATION OF SUBSIDIARY

Starting February 1, 2020, the Company deconsolidated its ownership of OncoQuest, as a result of a loss of control, as the Company has no power to control OncoQuest or to govern the financial and operating policies of OncoQuest through share ownership, contractual rights, board nominees or otherwise. On February 1, 2020, the Company held a 45.65% ownership interest in OncoQuest; accordingly, the Company derecognized related assets, liabilities, non-controlling interest and other components of equity of OncoQuest.

- a. Consideration received
The Company did not receive any consideration in the deconsolidation of OncoQuest.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2020

3. LOSS OF CONTROL AND DECONSOLIDATION OF SUBSIDIARY [CONTINUED]

- b. Analysis of assets, liabilities and equity over which the Company lost control and determination of gain:

Current Assets	
Cash	1,786,490
Short term investments	300,000
Other	403,852
Noncurrent assts	
Other	1,458,425
Current liabilities	
Accounts payable and accrued liabilities	(8,419,785)
Common share instrument	(12,349,446)
Equity	
Other comprehensive income	(844,689)
Contributed surplus	(3,097,172)
Non controlling interest	1,160,713
Retained earnings	18,367,754
Gain on deconsolidation of subsidiary	(1,233,858)

Gain on deconsolidation of subsidiary was included in other income and expenses for the six months ended July 31, 2020.

- c. Net cash outflow arising from deconsolidation of subsidiary

	Six months ended July 31 2020
The balance of cash and cash equivalents deconsolidated	\$2,086,490

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2020

4. CASH AND SHORT-TERM INVESTMENTS

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

	Quest	Madenco	Total
Cash	6,792	149	6,941
Short-term investments	75,000	—	75,000

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

Short-term investments include short-term fixed rate debt securities with maturities of approximately 1 year or less, held with a major Canadian chartered bank.

5. INTANGIBLE ASSETS

All intangible assets have been fully amortized.

Targeted Cancer Therapy Technologies

The Company is 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. MAb AR9.6 is licensed to OncoCare Therapeutics Inc. for development and commercialization of this technology 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.

Mutant EGF – Wound Healing Technology

The Company is also developing wound healing applications and has an exclusive worldwide license from Stanford University to develop and commercialize patented EGF wound healing technology.

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

For the six months ended July 31, 2020

6. PROPERTY AND EQUIPMENT

	Computer Equipment	Furniture and Fixtures	Office Equipment	Manufacturing and Research and Development Equipment	Leasehold Improvements	Leased Assets – 8123 Roper Road	Totals July 31, 2020
Cost, February 1, 2020	97,526	12,114	31,494	457,983	20,576	183,484	803,177
Additions	—	—	—	—	—	—	—
Deletions	(1,129)	—	—	—	(10,352)	—	(11,481)
Cost, July 31, 2020	96,397	12,114	31,494	457,983	10,224	183,484	791,696
Accumulated amortization, February 1, 2020	93,598	12,089	31,457	453,235	15,734	97,858	703,971
Adjustments	(1,091)	—	—	—	(5,510)	—	(6,601)
Amortization	580	4	8	713	—	18,348	19,653
Accumulated amortization, July 31, 2020	93,087	12,093	31,465	453,948	10,224	116,206	717,023
Net book value	3,310	21	29	4,035	—	67,278	74,673

Right-of-Use Leased Assets

Effective February 1, 2019, the Company has recorded leased assets related to the Company's right-of-use for its lease space at 8123 Roper Road NW Edmonton. The lease is effective until May 31, 2022 with no renewal provisions in the lease agreement. The Company has a minimum annual lease payment obligation of \$42,516. Based on an estimated incremental borrowing rate of 5.95%, the Company has recorded leased assets of \$183,484. At July 31, 2020, the lease obligation is estimated to be \$73,762.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2020

7. SHARE CAPITAL

Authorized

Unlimited number of common shares without nominal or par value

Unlimited number of first preferred shares

Unlimited number of second preferred shares

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

Issued

	Number of common shares	Amount \$
Common shares		
At January 31, 2019	167,389,247	30,531,716
Shares issued pursuant to the exercise of options	360,000	36,000
At January 31 and July 31, 2020	167,749,247	30,567,716

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

Exercise price \$	Options outstanding #	Weighted average remaining life (years)	Options exercisable #
0.10	10,340,000	1.37	10,340,000
0.15	3,225,000	1.17	3,225,000
0.18	1,250,000	0.59	1,250,000
0.25	3,110,000	0.94	3,110,000
\$0.14	17,925,000	1.20	17,925,000

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2020

7. SHARE CAPITAL [CONTINUED]

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

	Shares issuable on exercise of			
	Warrants		Share options	
	Number of shares #	Weighted average exercise price \$	Number of shares #	Weighted average exercise price \$
Balance, January 31, 2019	—	—	19,650,000	0.14
Granted	—	—	200,000	0.25
Expired	(3,429,167)	0.16	(1,715,000)	0.15
Exercised	—	—	(360,000)	0.10
Balance, January 31, 2020	—	—	17,775,000	0.14
Granted	—	—	300,000	0.25
Expired	—	—	(150,000)	0.10
Exercised	—	—	—	—
Balance, July 31, 2020	—	—	17,925,000	0.14

Share options

For the six months ended July 31, 2020, the Company granted 300,000 share options under the Company's Share Option Plan to non-employees all at an exercise price of \$0.25, vesting immediately.

For the six months ended July 31, 2019, the Company granted 200,000 share options under the Company's Share Option Plan to a non-employee at an exercise price of \$0.25, vesting immediately.

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. At July 31, 2020, 7,075,000 options are available for issue.

Basic and diluted income / (loss) per share

Basic and diluted income / (loss) per share has been calculated using the weighted average number of common shares outstanding during the period (2020 – 167,749,247; 2019 – 167,389,247).

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2020

8. CAPITAL DISCLOSURES

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

9. SHARE-BASED PAYMENTS

For the six-month period ended July 31, 2020, the Company granted a total of 300,000 (2019 – 200,000) share options under the Company's Share Option Plan. The fair value of options vesting in 2020 of \$51,000 (2019 - \$32,000) was recognized as a share-based payment expense and credited to contributed surplus for the six-month periods ended July 31, 2020 and 2019. There were no forfeitures of Company's share options during the six-month periods ended July 31, 2020 and 2019.

The Company used the Black-Scholes option pricing model to estimate the fair value of these options. The Company considers historical volatility of its common shares in estimating future share price volatility. The following assumptions were used:

	2020	2019
Dividend yield	0.00%	0.00%
Volatility	114%	378%
Risk-free interest rate	0.32%	1.91%
Expected life (years)	3.0	10.0
Fair value per option	\$0.17	\$0.16

The Company accrued \$51,000 (2019 - \$32,000) of share-based compensation expense for the six-month periods ended July 31, 2020 and 2019.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2020

10. 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 three and six months ended July 31, 2020 and 2019:

Discontinued operations	For the three months ended July 31		For the six months ended July 31	
	2020	2019	2020	2019
	\$	\$	\$	\$
Revenue	—	640	—	9,935
Direct Costs	—	117	—	4,253
Gross Margin	—	523	—	5,682
General and administrative expenses	—	1,093	—	1,225
Income / (loss) from discontinued operations	—	(570)	—	4,457

11. RELATED PARTY TRANSACTIONS

Cost Sharing Agreement - The Company and its equity investee, OncoQuest, operate in the same lease space. In December 2015, the Company entered into a cost sharing agreement with OncoQuest whereby certain of the common costs (leasing costs, utilities, etc.) are shared on an equal 50/50 basis between the companies. These costs were approximately \$7,500 gross per month and fluctuated on a month to month basis. The amount paid for lease and other office related costs to Quest increased on February 1, 2017 to a monthly rate of \$10,000 per month due to increase in scope of operations at OncoQuest.

Executive Services Agreement - In July 2020, the Company entered into an Executive Services Agreement with OncoQuest whereby the Company's officers render executive services to OncoQuest for a fee of \$10,000 per month.

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

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2020

12. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three months ended July 31		Six months ended July 31	
	2020 \$	2019 \$	2020 \$	2019 \$
Accounts receivable	23,268	2,632	2,099	(898)
Prepaid expenses	12,083	3,072	420,789	7,162
Accounts payable and accrued liabilities	(93,833)	445,346	(5,858,467)	697,334
	(58,482)	451,050	(5,435,579)	703,598

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

The following chart outlines the classification changes in financial instruments as a result of adopting IFRS 9 standards as at February 1, 2018:

a) Carrying value and fair value

The carrying values of cash, short term investments, accounts receivable, accounts payable and accrued 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 six-month period ended July 31, 2020, there were no transfers between levels of the fair value hierarchy.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended July 31, 2020

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

b) Risks

i) Foreign currency risk

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

At July 31, 2020 the Company's exposure to foreign currency risk is US\$4,388 in cash and short-term investments. The period-end rate of conversion of U.S. to Canadian dollars is 1.3404. Based on the foreign currency exposures noted above, a 10 percent strengthening of the Canadian dollar would have increased the net loss by \$588, 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, 2020 the Company's exposure to foreign currency risk was US\$1,285,731 in cash, US\$4,333,112 in accounts payable and accrued liabilities and US\$2,000,000 in a short term loan. 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 increased 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.

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

ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's exposure to liquidity risk is dependent on its ability to raise funds to meet its commitments and sustain its operations. The Company controls liquidity risk by managing its working capital and by securing additional funds through equity, debt or partnering transactions (see Capital Disclosures, note 7). The Company only has cash and short-term investment reserves of \$81,941 at July 31, 2020 (January 31, 2020 - \$2,453,184). As such, there is a liquidity risk for the Company at July 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 related to accounts receivable is

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13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

not considered to be significant. At period end, 100% of accounts receivable was due from a federal government agency.

iv) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's cash and short-term investments are comprised of highly liquid deposits that earn interest at market rates. Accounts receivable and accounts payable bear no interest. The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis. The Company's policy limits the investing of excess funds to liquid government guaranteed deposits or guaranteed investment certificates.

14. COMPENSATION OF KEY MANAGEMENT

Key management includes directors and executives of the Company. The compensation paid or payable (including share-based payments) to key management for services during the three and six months ended July 31, 2020 and 2019 is shown below:

	Three months ended July 31		Six months ended July 31	
	2020	2019	2020	2019
	\$	\$	\$	\$
Employee Compensation	27,500	202,600	55,000	405,200
Director Compensation	20,000	68,200	20,000	76,400
	47,500	270,800	75,000	481,600

15. INVESTMENT IN ONCOVENT CO., LTD.

On March 4, 2016, the Company's equity investee, OncoQuest, signed a joint venture contract with Shenzhen Hepalink. The agreement resulted 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 equity investee OncoQuest can access to accelerate its worldwide product registration strategy. OncoVent will focus on the development, manufacturing

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For the six months ended July 31, 2020

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

and commercialization of Cancer Immunotherapy Products within China with pancreatic cancer as its first target. On October 31, 2016, Shenzhen Hepalink contributed US\$5,000,000 to OncoVent. On November 1, 2016, OncoQuest contributed \$1,337,900 (US\$1,000,000) to OncoVent.

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

	\$
Balance, January 31, 2016	-
Investment in joint venture, November 1, 2016	1,337,900
Equity method share of loss for the year ended January 31, 2017	(475,771)
Transfer of 6% interest to third party	(174,509)
Balance, January 31, 2017	687,620
Equity method loss for the year ended January 31, 2018	(331,442)
Balance, January 31, 2018	356,178
Equity method loss for the year ended January 31, 2019	(324,877)
Balance, January 31, 2019	31,301
Equity method loss for the year ended January 31, 2020	(31,301)
Balance, January 31, 2020 and July 31, 2020	—

16. INVESTMENT IN ONCOQUEST INC.

During the six-month period ended July 31, 2020, the Company changed the method of accounting for its investment in OncoQuest Inc. For the year ended January 31, 2020, OncoQuest was treated as a subsidiary and consolidated into the financial statements of the Company. Subsequent to year end, commencing on February 1, 2020, Quest deconsolidated OncoQuest as a result of a loss of control (refer to Note 3) and OncoQuest is being treated as an equity investment using the equity method of accounting.

Quest's owns 4,250,100 common shares of OncoQuest. Under IFRS, Quest is required to fair value these common shares at the time of the loss of control of OncoQuest. Based on a private placement of 17,393 common shares of OncoQuest to third parties during the period at a price of USD 20 per common share, Quest determined that the fair value of its investment in OncoQuest was \$112,840,155 (USD85,002,000) at the time of the loss of control.

OncoQuest recorded a net loss for the 6-month period ended July 31, 2020 of \$10,345,857 (USD7,831,279). Quest, with approximately a 44% ownership interest in OncoQuest at July 31, 2020, recorded an Equity Method loss of \$4,552,177 for the 6-month period ended July 31, 2020.

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For the six months ended July 31, 2020

16. INVESTMENT IN ONCOQUEST INC. [CONTINUED]

The Company's equity investment in OncoQuest is as follows for the 6-month period ended July 31, 2020:

	\$
Investment in OncoQuest at fair value, February 1, 2020	112,840,155
Equity Method loss for the 6 months ended July 31 2020	(4,552,177)
Investment in OncoQuest at July 31, 2020	108,287,978

17. SUBSEQUENT EVENTS

Since January 1, 2020, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada and the USA, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

At this time, there is no material impact on the Company's operations and financial results. The Company has determined that these events are non-adjusting subsequent events. Accordingly, the consolidated balance sheet and results of operations as of and for the six months ended July 31, 2020 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, including the closure of non-essential businesses for an undetermined period of time, remains unclear. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the consolidated financial position and results of the Company for future periods.