

Consolidated Financial Statements

**Quest PharmaTech Inc.**

January 31, 2021 and 2020

(Expressed in Canadian Dollars)



KINGSTON  
ROSS  
PASNAK LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Suite 1500, 9888 Jasper Avenue NW  
Edmonton, Alberta T5J 5C6  
T. 780.424.3000 | F. 780.429.4817 | W. krpgroup.com

May 26, 2021  
Edmonton, Alberta

## **INDEPENDENT AUDITOR'S REPORT**

---

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, 2021 and 2020, and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity (deficiency) 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, 2021 and 2020, 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 reported net income exclusive of non-controlling interest of of \$190,064,469 during the year ended January 31, 2021 and, as of that date, had consolidated cash reserves of only \$199,114 and a working capital deficiency of \$103,230. 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.

(continues)

## 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.

*(continues)*

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

	January 31 2021	January 31 2020
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash <i>[note 6]</i>	199,114	2,153,184
Short term investments <i>[note 6]</i>	—	300,000
Accounts receivable	32,730	10,932
Prepaid expenses	49,606	424,514
	<b>281,450</b>	<b>2,888,630</b>
<b>Non current</b>		
Property and equipment <i>[note 8]</i>	55,019	99,206
Non-current prepaid expenses	10,420	1,463,962
Investment in OncoQuest <i>[note 22]</i>	175,266,938	—
	<b>175,332,377</b>	<b>1,563,168</b>
	<b>175,613,827</b>	<b>4,451,798</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	85,074	5,859,738
Short term loan <i>[note 15]</i>	250,000	2,646,600
Common share instrument	—	12,349,446
	<b>335,074</b>	<b>20,855,784</b>
<b>Non current</b>		
Lease obligation <i>[note 8]</i>	54,368	92,411
Commitments and contingencies <i>[note 10]</i>		
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
Common shares <i>[note 11]</i>	30,616,716	30,567,716
Non-controlling interest <i>[note 11]</i>	—	(1,160,713)
Contributed surplus	10,793,897	10,347,297
Accumulated other comprehensive income	—	844,689
Retained earnings (deficit)	133,813,772	(57,095,386)
	<b>175,224,385</b>	<b>(16,496,397)</b>
	<b>175,613,827</b>	<b>4,451,798</b>

See accompanying notes

On behalf of the Board:

(signed)  
Shawn Lu  
Director

(signed)  
Madi R. Madiyalakan  
Director

# Quest PharmaTech Inc.

## CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	For the year ended January 31	
	2021	2020
	\$	\$
<b>EXPENSES</b>		
General and administrative	857,841	2,370,375
Research and development including amortization, net <i>[note 17]</i>	212,505	11,264,235
	<b>1,070,346</b>	<b>13,634,610</b>
<b>Loss before the undernoted</b>	<b>(1,070,346)</b>	<b>(13,634,610)</b>
<b>Other income (expenses)</b>		
Financial income	1,825	46,930
Financial expenses	(7,766)	(13,740)
Equity loss OncoVent <i>[note 21]</i>	—	(31,301)
Equity income - OncoQuest <i>[note 22]</i>	164,169,820	—
Gain on deconsolidation of a subsidiary <i>[note 4]</i>	128,321,402	—
FV adjustment - investment in OncoQuest <i>[note 22]</i>	(101,564,533)	—
Cost recoveries <i>[note 15]</i>	213,820	—
Foreign exchange gain / (loss)	247	378,255
	<b>191,134,815</b>	<b>380,144</b>
<b>Income (loss) from continuing operations</b>	<b>190,064,469</b>	<b>(13,254,466)</b>
Income (loss) from discontinued operations <i>[note 14]</i>	—	(22,870)
<b>Net income (loss) for the year</b>	<b>190,064,469</b>	<b>(13,277,336)</b>
<b>Other comprehensive income (loss)</b>	<b>—</b>	<b>(349,028)</b>
<b>Comprehensive income (loss)</b>	<b>190,064,469</b>	<b>(13,626,364)</b>
<b>Attributable to:</b>		
Equity holders of the parent	190,064,469	(6,183,540)
Non-controlling interest	—	(7,093,796)
Totals	<b>190,064,469</b>	<b>(13,277,336)</b>
<b>Basic income (loss) per share <i>[note 19]</i></b>	<b>\$ 1.133</b>	<b>\$ (0.037)</b>
<b>Fully diluted income (loss) per share <i>[note 19]</i></b>	<b>\$ 1.112</b>	<b>\$ (0.037)</b>

See accompanying notes

## Quest PharmaTech Inc.

### CONSOLIDATED STATEMENTS 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)
	\$	\$	\$	\$	\$	\$
<b>Balance, January 31, 2019</b>	<b>30,531,716</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>
Shares issued <i>[note 11]</i>	36,000	—	—	—	—	36,000
Other comprehensive income	—	—	—	(349,028)	—	(349,028)
Retained earnings IFRS 16 adjustment <i>[note 8]</i>	—	—	—	—	(5,940)	(5,940)
Fiscal 2020 non-controlling interest <i>[note 11]</i>	—	(7,093,796)	—	—	—	(7,093,796)
Share based payments <i>[note 13]</i>	—	—	1,434,257	—	—	1,434,257
Net loss for the year	—	—	—	—	(6,183,540)	(6,183,540)
<b>Balance, January 31, 2020</b>	<b>30,567,716</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>
Shares issued <i>[note 11]</i>	49,000	—	—	—	—	49,000
Adjust other comprehensive income <i>[note 4]</i>	—	—	—	(844,689)	844,689	—
Adjust non-controlling interest <i>[note 4]</i>	—	1,160,713	—	—	—	1,160,713
Share based payments <i>[note 13]</i>	—	—	446,600	—	—	446,600
Net income for the year	—	—	—	—	190,064,469	190,064,469
<b>Balance, January 31, 2021</b>	<b>30,616,716</b>	<b>—</b>	<b>10,793,897</b>	<b>—</b>	<b>133,813,772</b>	<b>175,224,385</b>

See accompanying notes

# Quest PharmaTech Inc.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended January 31	
	2021	2020
	\$	\$
<b>CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES</b>		
Net income (loss) for the period	190,064,469	(13,277,336)
Items that do not involve cash		
Amortization	39,307	42,778
Loss on Adjustment of Property and Equipment	4,880	—
Share-based payments <i>[note 13]</i>	446,600	1,434,257
Allocation of loss from OncoVent <i>[note 21]</i>	—	31,301
Other comprehensive (income) loss	—	(349,028)
Foreign exchange adjustment - common share instrument	—	(10,222)
Net change in working capital <i>[note 16]</i>	(52,221)	5,751,956
Net change in non-current pre-paid expenses	(4,883)	—
Items related to deconsolidation of OncoQuest: <i>[note 4]</i>		
Allocation of income from OncoQuest <i>[note 22]</i>	(164,169,820)	—
Initial fair value assessment - OncoQuest <i>[note 22]</i>	(112,661,651)	—
Fair value adjustment - investment in OncoQuest <i>[note 22]</i>	101,564,533	—
Change in common share instrument	(12,349,446)	—
Reduction in non-controlling interest	1,160,713	—
Working Capital	(5,369,333)	—
Short term loan	(2,646,600)	—
Non-current prepaid expenses	1,458,425	—
<b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>	<b>(2,515,027)</b>	<b>(6,376,295)</b>
<b>CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES</b>		
Exercise of options into common shares	49,000	94,681
Private placement proceeds - common shares	—	2,663,400
Short term working capital loan	250,000	2,646,600
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>299,000</b>	<b>5,404,681</b>
<b>CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES</b>		
Redemption of short term investments, net	300,000	2,813,349
Lease obligation reduction	(38,043)	(35,852)
<b>NET CASH FROM / (USED IN) INVESTING ACTIVITIES</b>	<b>261,957</b>	<b>2,777,497</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,954,070)</b>	<b>1,805,883</b>
Cash and cash equivalents, beginning of period	2,153,184	347,301
<b>Cash and cash equivalents, end of period</b>	<b>199,114</b>	<b>2,153,184</b>

See accompanying notes



## **Quest PharmaTech Inc.**

# **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2021

## **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 45% equity interest in OncoQuest Inc. (“OncoQuest”), a private Canadian biotechnology company developing next generation of combinatorial immunotherapy products for the treatment of cancer. OncoQuest’s technology platform included 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. On April 22, 2020, OncoQuest announced a definitive agreement to sell its drug portfolio to Dual Industrial Co., Ltd. (renamed as OncoQuest Pharmaceuticals, Inc or “OQP Korea” in May, 2020) in exchange for OQP Korea bonds and cash with a notional value of US\$308.4 million and a commitment to fund the Oregovamab Phase 3 Clinical Trial. The asset transfer agreement (“ATA”) transaction completed its second closing in February 2021 and as a result all legal title and registrations for OncoQuest’s immunotherapy assets were transferred to OQP Korea. In return, OncoQuest received US\$125 million of OQP Korea bonds convertible into OQP Korea shares, US\$8.4 million in cash, and an OQP Korea unsecured 1% interest bearing corporate bond for USD\$175 million, exchangeable into 65,229,709 shares of OQP Korea with an ascribed notional value of US\$175 Million subject to regulatory approval. As the requisite approvals have not yet been received and the trading in the shares of OQP Korea has been suspended on the KOSDAQ Exchange in March 2021, OncoQuest management are working with OQP Korea management to resolve these issues as quickly as possible and monetize the consideration received in the transaction with OQP Korea. In May 2021, OQP Korea determined to spin out the biotechnology business, comprised of the immunotherapy assets, into a separate company that will pursue a public listing on a different exchange. See Note 24, Subsequent Events.

Other equity investments for Quest include an 11% interest in 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. (“Bioceltran”), 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

## **Quest PharmaTech Inc.**

# **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2021

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

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 May 26, 2021.

### **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 cash outflows from operations since its inception.

While the Company has reported net income exclusive of non-controlling interest of \$190,064,469 for the year ended January 31, 2021 (2020 Net Loss - \$6,183,540) and a shareholders’ equity of \$175,224,385 (January 31, 2020 – shareholders’ deficiency of \$16,496,397), the Company has consolidated cash reserves of only \$199,114 at January 31, 2021 (January 31, 2020 - \$2,453,184) and as at January 31, 2021 had a working capital deficiency of \$103,230 (January 31, 2020 – working capital deficiency \$18,391,668). In addition, in March 2021, trading in the shares of OQP Korea was suspended on the KOSDAQ exchange which impacts the ability of OncoQuest to monetize the OQP Korea share and bond consideration received by OncoQuest under the ATA, to pay for the costs of the ATA transaction including Canadian income tax and to distribute any ATA net proceeds to its shareholders, including Quest. 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, and upon the ability and timing for OncoQuest to monetize the consideration received in the transaction with OQP Korea. 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, or to the amounts reported as earnings per share, 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**

During the year ended January 31, 2021, 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

## **Quest PharmaTech Inc.**

# **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2021

## **2. BASIS OF PREPARATION [CONTINUED]**

is recognized at fair value (refer to Notes 4 and 22).

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 May 26, 2021, 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, 2021:

- Madenco BioSciences Inc., incorporated December 31, 2015 (100%)
- 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.

## **Quest PharmaTech Inc.**

# **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2021

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

#### **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.

#### **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 are expected to be repaid along with accrued interest, if any, within the term. The interest rate on such borrowings vary based on the term of such deposit. For the year ended January 31, 2021, the Company had a CAD\$250,000 short-term borrowing outstanding from OncoQuest, for which no interest was paid during fiscal 2021. During the year ended January 31, 2020, OncoQuest borrowed CAD\$1 million and repaid the same within the year, of which interest of approximately \$3,600 was paid during the year ended January 31, 2020.

#### **Deposits**

OncoQuest received a deposit from a potential purchaser of assets of OncoQuest to be used for working capital purposes. This deposit was short term in nature and to be repaid within a 12-month term, the deposit accrued no interest. The deposit was outstanding as of January 31, 2020.

#### **Investments**

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

The Company has an investment comprised of shares of Bioceltran, a private company based in South Korea that specializes on transdermal delivery of drugs for cosmetics and pharmaceuticals. The investment was originally recorded at cost and has subsequently been designated, through an irrevocable election, as measured at fair value through other comprehensive income upon adoption of IFRS 9. 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 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; and there is no interchange of

## Quest PharmaTech Inc.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2021

### 3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

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 2021 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.

#### *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 former 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%
Right-of-use asset	Over the term of the lease
Leasehold improvements	Straight-line - lease term

#### **Leases**

The Company assesses whether a contract is a lease, at inception of the contract. The Company recognizes a

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

January 31, 2021

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

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 leases, the Company recognizes 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 measured 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, 2021 and 2020, respectively.

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 amortized cost less accumulated depreciation and impairment losses.

#### **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.

#### **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 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

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

January 31, 2021

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

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 within the scope of IFRS 9 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 and short-term investments.

Financial assets and liabilities are off set 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 derecognized 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 derecognized when it is extinguished, discharged, cancelled or expires.

#### *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 Company 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 Company 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.

## Quest PharmaTech Inc.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2021

### 3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

The Company 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 Company has designated cash and short-term investments 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 Company designates its investment in Bioceltran at fair value through other comprehensive income.

Financial liabilities within the scope of IFRS 9 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. 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 Company has designated accounts payable, and accrued liabilities as measured at amortized cost.

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



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

January 31, 2021

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

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. Nothing is designated here in this classification.

#### Financial guarantee contracts

Financial guarantee contracts issued by the Company 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 Company 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.

#### **Impairment of long-lived assets**

Assets that are subject to amortization are reviewed at the end of each reporting period for indications that the asset may be impaired. 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. Long-lived 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 in note 13 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

## **Quest PharmaTech Inc.**

# **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2021

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

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 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 income (loss) per share**

Basic income (loss) per share is calculated using the weighted average number of common shares outstanding during the period. Diluted income (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 income (loss) per share computation. See Income (Loss) Per Share in note 19.

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

January 31, 2021

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

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

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 amounts recorded for the Company's investment in OncoQuest, share based compensation, right-of-use asset and liability, estimates of future licensing fees and whether the Company controls OncoQuest 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, including using a Black-Scholes option pricing model to estimate the fair value of options and using third party evidence to value and support the Company's investment in OncoQuest, which, in management's opinion, are within reasonable limits of materiality and conform to the significant accounting policies summarized in these consolidated financial statements.

#### **Non-controlling interest**

Non-controlling interest represents the portion of the Company's former subsidiary, OncoQuest Inc., that is not owned by the Company, measured to be 54.35% at January 31, 2020 (See Share Capital - note 11). 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.

## Quest PharmaTech Inc.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2021

#### 4. 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.
- b. Analysis of assets, liabilities and equity over which the Company lost control and determination of gain:

	\$
<b>Current assets</b>	
Cash	1,786,490
Short term investments	300,000
Other	403,852
<b>Non-current assets</b>	
Other	1,458,425
<b>Current liabilities</b>	
Accounts payable and accrued liabilities	(8,419,785)
Common share instrument	(12,349,446)
<b>Equity</b>	
Non-controlling interest	1,160,713
<b>Investment in OncoQuest</b>	(112,661,651)
<b>Gain on deconsolidation of a subsidiary</b>	<b>128,321,402</b>

Gain on deconsolidation of subsidiary was included in other income and expenses for the year ended January 31, 2021.

## Quest PharmaTech Inc.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2021

#### 5. PARENT CONTROL OF SUBSIDIARY

During the year ended January 31, 2021, the Company determined that its ownership interest in OncoQuest was not sufficient to allow the Company to control the affairs of OncoQuest, therefore, for fiscal 2021, OncoQuest is being treated for accounting purposes using the equity method of accounting.

As at January 31, 2021 OncoQuest had an ownership structure as follows:

	Number of shares held	Percentage ownership
Quest PharmaTech Inc.	4,250,100	45.02
Hepalink USA Inc.	3,606,167	38.20
Others	1,463,726	15.51
Quest insider	120,000	1.27
<b>Total</b>	<b>9,439,993</b>	<b>100.00</b>

As as January 31, 2020, OncoQuest, has an ownership structure 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>

Ownership – Hepalink USA Inc. (“Hepalink”) owned 3,606,167 voting common shares of OncoQuest, representing a 38.20% ownership interest. Hepalink also owned 25,000,000 common shares of the Company representing a 14.86% ownership interest, which represents a 5.68% ownership interest in OncoQuest. Hepalink’s combined direct and indirect ownership interest in OncoQuest was therefore 43.88%.

Board and Management - The Board of OncoQuest was 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 determined that the Company did not have control over OncoQuest for purposes of the January 31, 2021 consolidated financial statements.

## Quest PharmaTech Inc.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2021

#### 6. CASH AND SHORT-TERM INVESTMENTS

At January 31, 2021, consolidated cash and short term investments were held as follows:

##### January 31, 2021:

	Quest	Total
Cash	199,114	199,114
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

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%) 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.

#### 7. INTANGIBLE ASSETS

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

##### 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.

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

January 31, 2021

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

#### **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.

#### **Mutant EGF – Wound Healing Technology**

The Company is also developing products utilizing proprietary transdermal delivery technologies with a focus on dermatology and wound healing applications and has an exclusive worldwide license from Stanford University to develop and commercialize patented EGF wound healing technology. This patented mutant EGF wound healing technology is jointly owned by Stanford University and Massachusetts Institute of Technology.

#### **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, 2021

**8. PROPERTY AND EQUIPMENT**

**For the year ended January 31, 2021:**

	Computer Equipment	Furniture and Fixtures	Office Equipment	Manufacturing and Research and Development Equipment	Leasehold Improvements	Leased Assets	Totals 2021	Totals 2020
Cost, beginning of year	97,526	12,114	31,494	457,983	20,576	183,484	803,177	619,693
Additions	—	—	—	—	—	—	—	183,484
Deletions	(1,129)	—	—	—	(10,352)	—	(11,481)	—
Cost, end of year	96,357	12,114	31,494	457,983	10,224	183,484	791,696	803,177
Accumulated amortization, beginning of year	93,598	12,089	31,457	453,235	15,734	97,858	703,971	600,032
Adjustments	(1,091)	—	—	—	(5,510)	—	(6,601)	61,161
Amortization	1160	8	16	1427	—	36,696	39,307	42,778
Accumulated amortization, end of year	93,667	12,097	31,473	454,662	10,224	134,554	736,677	703,971
<b>Net book value</b>	<b>2,730</b>	<b>17</b>	<b>21</b>	<b>3,321</b>	<b>—</b>	<b>48,930</b>	<b>55,019</b>	<b>99,206</b>



**Quest PharmaTech Inc.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2021

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

**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
Additions	—	—	—	—	—	61,161	61,161	—
Amortization	2,020	15	25	2,040	1,981	36,697	42,778	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>

**Right-of-Use Leased Assets** - Effective February 1, 2019, on adoption of IFRS 16, 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 Company chose 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 5-year 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 and accumulated amortization of \$61,161. At January 31, 2021, the lease obligation is estimated to be \$54,368. The Company recorded \$4,472 of interest expense for the right-of-use liability for fiscal 2021 (2020 - \$6,664) which is included in Financial Expenses on the Consolidated Statements of Operations.

**Quest PharmaTech Inc.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2021

**9. INCOME TAXES**

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

	<b>2021</b>	<b>2020</b>
	\$	\$
Income (loss) from operations	<b>190,064,469</b>	(13,277,336)
Statutory tax rate	<b>23.80%</b>	26.00%
Income tax payable (recovery) at Canadian statutory tax rate	<b>45,235,344</b>	(3,452,107)
Adjustment in income taxes resulting from:		
Non-deductible expenses	<b>106,464</b>	387,960
Impact on deferred tax assets resulting from statutory rate increase	<b>(82,332)</b>	111,583
Potential deferred tax assets not recognized	<b>(45,259,476)</b>	2,952,564
Deferred tax recovery	—	—

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

	<b>2021</b>	<b>2020</b>
	\$	\$
<b>Deferred tax assets</b>		
Non-capital loss carryforwards	<b>2,961,848</b>	9,493,562
Tax cost of property and equipment in excess of book values	<b>112,460</b>	311,217
Tax cost of intangible assets in excess of book values	—	76,343
Share issuance costs	—	830
Scientific research and experimental development expenditure pool	<b>668,070</b>	701,755
	<b>3,742,378</b>	10,583,707
Valuation allowance	<b>(3,742,378)</b>	(10,583,707)
	—	—

The Company and its subsidiaries have non-capital losses for income tax purposes of approximately \$12,444,739 at January 31, 2021 (2020 – \$37,974,247), and scientific research and experimental development expenses of approximately \$2,807,018 at January 31, 2021 (2020 – \$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, 2021

#### 9. INCOME TAXES [CONTINUED]

investment tax credits (“ITCs”) of \$701,426 (2020 – \$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 \$242,228 at January 31, 2021 (2020 - \$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>Expiry</b>	<b>Non-capital losses</b>	<b>ITC</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	32,826
2036	48	—
2037	1,381,038	—
2038	1,156,433	—
2039	467,426	—
2040	1,007,607	—
2041	833,260	—
<b>Totals</b>	<b>12,444,739</b>	<b>701,426</b>

#### 10. COMMITMENTS AND CONTINGENCIES

##### a) Lease obligations

The company entered into a 5-year lease for its office building in May 2017. The net carrying amount of this lease obligation is:

January 31, 2021

Current portion of lease obligation	40,370
Non-current portion of lease obligation	13,998

## Quest PharmaTech Inc.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2021

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

The Company recognized \$22,563 of lease expense in the consolidated statements of loss in fiscal 2021 (2020 – \$22,448). See Note 15 – Related Party Transactions.

##### 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:

	\$
2022	32,170
2023	44,730
2024	44,730
2025	57,510
2026 and thereafter	57,510
	<u>236,650</u>

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, 2021 and 2020 is as follows and is included in the prepaid assets and non-current prepaid assets on the balance sheets:

	January 31, 2021			January 31, 2020		
	Total	R&D	Admin	Total	R&D	Admin
Current	49,602	34,702	14,900	424,514	397,533	26,981
Non-current	10,420	—	10,420	1,463,962	1,453,542	10,420

#### 11. 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, 2021

#### 11. SHARE CAPITAL [CONTINUED]

##### Issued

	Number of common shares	Amount \$
<b>Common shares</b>		
<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>	167,749,247	30,567,716
Shares issued pursuant to the exercise of options	490,000	49,000
<b>At January 31, 2021</b>	<b>168,239,247</b>	<b>30,616,716</b>

During the year ended January 31, 2021, 490,000 share options were exercised into 490,000 common shares for proceeds of \$49,000 from 2 former directors, 1 officer and a consultant of the Company.

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.

The Company's former 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, OncoQuest 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, 2021

#### 11. SHARE CAPITAL [CONTINUED]

On May 23, 2019, OncoQuest 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.

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

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

The following options to purchase common shares were outstanding as at January 31, 2021:

Exercise price \$	Options outstanding #	Weighted average remaining life (years)	Options exercisable #
0.10	8,990,000	1.06	8,990,000
0.15	3,225,000	1.06	3,225,000
0.18	1,250,000	0.56	1,250,000
0.23	1,720,000	0.93	1,720,000
0.25	3,110,000	0.83	3,110,000
0.15	18,295,000	0.97	18,295,000

**Quest PharmaTech Inc.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2021

**11. 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, 2019</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>17,775,000</b>	<b>0.14</b>
Granted	—	—	2,020,000	0.23
Expired	—	—	(1,010,000)	0.10
Exercised	—	—	(490,000)	0.10
<b>Balance, January 31, 2021</b>	—	—	<b>18,295,000</b>	<b>0.15</b>

**Company share options**

For the year ended January 31, 2021, the Company granted 2,020,000 share options, as per the Company’s Share Option Plan to 2 employees and 4 non-employees at exercise prices ranging from \$0.23 - \$0.25, vesting immediately on date of grant (see Note 13 – Share Based Payments).

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, all vesting immediately on date of grant (see Note 13 – Share Based Payments).

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, 2021, 6,705,000 options are available for issue (January 31 2020 – 7,225,000).

## Quest PharmaTech Inc.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2021

## 11. SHARE CAPITAL [CONTINUED]

### 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.

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, 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.

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

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

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.



## Quest PharmaTech Inc.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2021

#### 11. SHARE CAPITAL [CONTINUED]

The following assumptions were used:

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

#### Non-controlling interest

##### January 31, 2021:

For the year ended January 31, 2021, the Company deconsolidated its ownership of OncoQuest from Quest's consolidated financial statements, therefore non-controlling is determined to be \$nil as at January 31, 2021 (refer to Note 4 – Loss of Control and Deconsolidation of Subsidiary).

##### January 31, 2020:

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>

## Quest PharmaTech Inc.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2021

#### 11. SHARE CAPITAL [CONTINUED]

<b>OncoQuest Financial information at:</b>	<b>January 31, 2020</b>
OncoQuest fiscal year net loss, after elimination of intercompany transactions	(\$13,108,515)
Non-controlling interest percentage	54.35
Non-controlling interest portion	(\$7,124,478)
OncoQuest current assets	
- Cash	\$1,786,490
- Short term investments	\$300,000
- Other current assets	\$403,852
Total current assets	\$2,490,342
OncoQuest non-current assets	\$1,458,425
OncoQuest current liabilities	\$8,419,785

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, 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>

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
	\$
<b>Non-controlling interest</b>	<b>7,093,796</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.

#### 12. 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 (deficiency) (primarily comprising

## Quest PharmaTech Inc.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2021

## 12. CAPITAL DISCLOSURES [CONTINUED]

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.

## 13. SHARE-BASED PAYMENTS

For the year ended January 31, 2021, the Company granted a total of 2,020,000 (2020 – 200,000) share options under the Company's Share Option Plan. Options vested immediately. The fair value of options vesting in 2021 of \$446,600 (2020 - \$32,000) was recognized as a share-based payment expense and credited to contributed surplus for the years ended January 31, 2021 and 2020. There were no forfeitures of Company's share options during the years ended January 31, 2021 and 2020.

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:

	<u>2021</u>	<u>2020</u>
Dividend yield	0.00 %	0.00 %
Volatility	272 %	378 %
Risk-free interest rate	0.64 %	1.91 %
Expected life (years)	8.96	10.0
Fair value per option	<u>\$0.22</u>	<u>\$0.16</u>

For share options issued to non-employees, the Company has determined that the fair value of the share options issued, \$101,600 in 2021 (\$32,000 in 2020) 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 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 was recognized as a share-based payment expense and credited to contributed surplus for the years ended January 31, 2020. There were no forfeitures of OncoQuest's share options during the years ended January 31, 2020.

## Quest PharmaTech Inc.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2021

#### 13. SHARE-BASED PAYMENTS [CONTINUED]

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
Dividend yield	0.00 %
Volatility	81.00 %
Risk-free interest rate	2.19 %
Expected life (years)	5.75
Fair value per option	\$11.63

#### 14. 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, 2021 and 2020:

Discontinued operations	For the years ended January 31	
	2021	2020
	\$	\$
Revenue	-	10,132
Direct Costs	-	(4,292)
Gross Margin	-	5,840
General and administrative and other expenses	-	(28,710)
Income / (loss) from discontinued operations	-	(22,870)

## Quest PharmaTech Inc.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2021

#### 15. 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.

Cost Recovery - 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.

During the year ended January 31, 2021, the Company received noninterest bearing debt funding of \$250,000 from OncoQuest Inc. The funding is for drug development and operational purposes, is short term and repayable within 12 months.

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, 2021, an officer of the Company exercised 250,000 share options to acquire 250,000 common shares of the Company at an exercise price of \$0.10 per common share.

During the year ended January 31, 2021, the Company recorded a forgiveness of intercompany advances between the Company and Sonolight in the amount of \$277,617.

These transactions were recorded at the exchange amount which is the amount agreed to by the related parties.

#### 16. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2021	2020
	\$	\$
Accounts receivable	(21,798)	3,367
Prepaid expenses	(28,944)	395,543
Accounts payable and accrued liabilities	(1,479)	5,353,046
	<u>(52,221)</u>	<u>5,751,956</u>

During the year ended January 31, 2021, the Company paid \$7,766 of interest (2020 - \$13,740) and income taxes of \$nil (2020 - \$nil).

## Quest PharmaTech Inc.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2021

## 17. GOVERNMENT ASSISTANCE

During the year ended January 31, 2021, the Company recognized \$nil (2020 - \$nil) of government assistance related to scientific research and development claims made for research and development expenditures.

	<b>2021</b>	<b>2020</b>
	\$	\$
Gross research and development expenditures	<b>212,505</b>	11,264,235
Less: government assistance	—	—
<b>Research and development expenditures, net</b>	<b>212,505</b>	11,264,235

## 18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments include cash, short term investments, accounts receivable, long-term investment in Bioceltran, long term investment in OncoQuest, 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 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 years ended January 31, 2021 and 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 affect 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:

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

January 31, 2021

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

#### **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, 2021 the Company's exposure to foreign currency risk is US\$18,168 in cash and US\$10,000 in accounts payable. The year-end rate of conversion of U.S. to Canadian dollars is 1.278. Based on the foreign currency exposures noted above, a 10 percent strengthening of the Canadian dollar would have increased the net income by \$2,817, assuming all other variables remain unchanged. A 10 percent weakening of the Canadian dollar would have an equal but opposite effect, assuming all other variables remain unchanged.

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 all other variables remain unchanged. A 10 percent weakening of the Canadian dollar would have an equal but opposite effect, assuming 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 12). The Company only has cash reserves of \$199,114 at January 31, 2021 (January 31, 2020 - \$2,453,184). As such, there is a liquidity risk for the Company at January 31, 2021.

#### **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, 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. 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

## Quest PharmaTech Inc.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2021

#### 18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

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.

#### 19. INCOME (LOSS) PER SHARE

Basic and diluted net income (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, 2021 and 2020 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, 2021 and 2020 because to do so would be anti-dilutive.

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

	<b>2021</b>	<b>2020</b>
	\$	\$
Net income (loss) exclusive of non-controlling interest	<b>190,064,469</b>	(6,183,540)
Number of weighted average common shares outstanding	<b>167,789,576</b>	167,404,069
Basic income (loss) per share	<b>\$1.133</b>	(\$0.037)
Fully diluted income (loss) per share	<b>\$1.112</b>	(\$0.037)

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>2021</b>	<b>2020</b>
Share-based payment transactions	—	17,775,000
	—	17,775,000



## Quest PharmaTech Inc.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2021

#### 20. 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:

	2021	2020
	\$	\$
Management compensation	487,500	824,104
Director compensation	20,000	357,254
Totals	507,500	1,181,358

#### 21. INVESTMENT IN ONCOVENT CO., LTD.

As part of the preferred share agreement, on March 4, 2016, the Company's former 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.

Investment in OncoVent Co., Ltd.	\$	\$
	Year ended Jan 31, 2021	Year ended Jan 31, 2020
Opening balance	—	31,301
Equity method share of loss for the year	—	(31,301)
Closing balance	—	—

#### 22. INVESTMENT IN ONCOQUEST INC.

During the year ended January 31, 2021, the Company determined that it had lost its control position of OncoQuest which triggered a change in the method of accounting for its investment in OncoQuest. For the year

## Quest PharmaTech Inc.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2021

## 22. INVESTMENT IN ONCOQUEST INC. [CONTINUED]

ended January 31, 2020, OncoQuest was treated as a subsidiary and consolidated into the financial statements of the Company. Commencing on February 1, 2020, Quest deconsolidated OncoQuest as a result of a loss of control (refer to Note 4) and OncoQuest is being treated as an equity investment using the equity method of accounting.

Quest 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 \$112,661,651 (USD85,002,000) at the time of the loss of control.

OncoQuest recorded net income for the year ended January 31, 2021 of \$364,821,822 (USD283,846,541). Quest, with approximately a 45% ownership interest in OncoQuest at January 31, 2021, recorded Equity Method income of \$164,169,820 for the year ended January 31, 2021.

Quest reduced the value of its investment in OncoQuest at January 31, 2021 by recording a fair value adjustment of \$101,564,533 so that Quest's investment in OncoQuest would not exceed \$175,266,938, Quest's percentage ownership interest in OncoQuest at year end of 45% multiplied by the after tax value of OncoQuest pursuant to the November 6, 2020 transfer of the OncoQuest immunotherapy assets to OQP for gross proceeds of USD\$308.4 million.

The Company's equity investment in OncoQuest is as follows for the year ended January 31, 2021:

	Year Ended
	January 31
	\$
Investment in OncoQuest at fair value, beginning of period	112,661,651
Equity Method income (loss) for the year ended January 31, 2021	164,169,820
Fair value adjustment at January 31 2021	(101,564,533)
<b>Investment in OncoQuest at January 31, 2021</b>	<b>175,266,938</b>

## 23. COMPARATIVE FIGURES

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

## 24. SUBSEQUENT EVENTS

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

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

January 31, 2021

### **24. SUBSEQUENT EVENTS [CONTINUED]**

or capital markets, all of which are highly uncertain and cannot be predicted. There was no perceived impact for the Company for the year ended January 31, 2021.

In February 2021, OncoQuest and OQP Korea completed the Second Close of the ATA transaction and OncoQuest received the final consideration under the ATA transaction in the form of a 1% interest bearing unsecured OQP Korea corporate bond with a face value of USD\$175 million which is due on February 24, 2022 and can be extended annually for up to 5 years. The bond can be exchanged for 65,229,709 shares of OQP Korea, subject to approval of the Korean regulatory authorities.

In March 2021, the trading in the shares of OQP Korea was suspended on the KOSDAQ Exchange due to a denial of audit opinion related to OQP Korea's December 31, 2020 annual financial statements. OncoQuest management continue to work diligently with OQP Korea management to resolve these issues as quickly as possible. It remains uncertain at this time as to whether regulatory approval will ultimately be received or the timing of any such approval. OncoQuest's ability to monetize the consideration received in the transaction with OQP Korea will be dependent upon OQP Korea's ability to fund the repayment of any bonds that become due or that could be redeemed and a liquid trading market being available for any shares of OQP Korea that are received as consideration or issued upon conversion of the bonds held. Monetization of some of the consideration will be necessary for OncoQuest to fund Canadian income tax obligations resulting from the transaction.

In May 2021, OQP Korea determined to spin out the biotechnology business, comprised of the immunotherapy assets, into a separate company that will pursue a public listing on a different exchange.

On May 26, 2021, the Company granted 1,250,000 share options to officers and 800,000 share options to consultants all at an exercise price of \$0.115 per common share, vesting immediately and with a 10 year expiry, subject to TSX Venture Exchange approval.