

Consolidated Financial Statements

Quest PharmaTech Inc.

Three months ended April 30, 2022
(Unaudited)

Quest PharmaTech Inc.

National Instrument 51 – 102
Continuous Disclosure Obligations

Notice

Pursuant to Part 4.3 (3) of National Instrument 51 – 102, these unaudited interim consolidated financial statements of Quest PharmaTech Inc. for the three-month period ended April 30, 2022 have not been reviewed by the Company's auditors.

Quest PharmaTech Inc.

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

As at

	April 30	January 31
	2022	2022
	\$	\$
ASSETS		
Current		
Cash	764,951	264,340
Accounts receivable	3,945	320
Prepaid expenses	13,862	23,490
	782,758	288,150
Non current		
Property and equipment <i>[note 4]</i>	6,965	16,457
Non-current prepaid expenses	10,420	10,420
Investment in OQP Bio bonds <i>[note 13]</i>	80,218,210	80,218,210
Investment in OncoQuest <i>[note 13]</i>	9,523,652	10,495,335
	89,759,247	90,740,422
	90,542,005	91,028,572
LIABILITIES		
Current		
Accounts payable and accrued liabilities	84,708	108,599
Short term loan <i>[note 8]</i>	1,000,000	500,000
Lease obligation <i>[note 4]</i>	3,526	13,998
	1,088,234	622,597
SHAREHOLDERS' EQUITY		
Common shares <i>[note 5]</i>	30,685,716	30,616,716
Contributed surplus	11,091,397	11,064,397
Accumulated other comprehensive loss <i>[note 13]</i>	(50,335)	(50,335)
Retained earnings	47,726,993	48,775,197
	89,453,771	90,405,975
	90,542,005	91,028,572

See accompanying notes

Quest PharmaTech Inc.

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

	For the three months ended April 30	
	2022	2021
	\$	\$
EXPENSES		
General and administrative	111,511	69,975
Research and development, including amortization	20,088	50,556
	131,599	120,531
Loss before the undernoted	(131,599)	(120,531)
Other income (expenses)		
Financial income	—	—
Financial expenses	(4,318)	(1,261)
Equity loss - OncoQuest <i>[note 13]</i>	(971,683)	(524,346)
Cost recoveries <i>[note 8]</i>	60,000	61,255
Foreign exchange gain / (loss)	(604)	(1,045)
	(916,605)	(465,397)
Net and comprehensive income (loss) for the year	(1,048,204)	(585,928)
Basic income (loss) per share <i>[note 5]</i>	\$ (0.006)	\$ (0.003)
Fully diluted income (loss) per share <i>[note 5]</i>	\$ (0.006)	\$ (0.003)

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital - common shares	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity
	\$	\$	\$	\$	\$
Balance, January 31, 2022	30,616,716	11,064,397	(50,335)	48,775,197	90,405,975
Share issuance <i>[note 5]</i>	69,000	—	—	—	69,000
Share based payments <i>[note 7]</i>	—	27,000	—	—	27,000
Net loss for the period	—	—	—	(1,048,204)	(1,048,204)
Balance, April 30, 2022	30,685,716	11,091,397	(50,335)	47,726,993	89,453,771

See accompanying notes

Quest PharmaTech Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended April 30	
	2022	2021
	\$	\$
CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES		
Net income (loss) for the period	(1,048,204)	(585,928)
Items that do not involve cash		
Amortization	9,492	9,677
Share based compensation	27,000	—
Net change in working capital <i>[note 9]</i>	(17,888)	73,581
Allocation of loss from OncoQuest <i>[note 13]</i>	971,683	524,346
NET CASH FROM (USED IN) OPERATING ACTIVITIES	(57,917)	21,676
CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES		
Share issuance - exercise of share options <i>[note 5]</i>	69,000	—
Short term working capital loan <i>[note 8]</i>	500,000	—
NET CASH FROM / (USED IN) FINANCING ACTIVITIES	569,000	—
CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES		
Lease obligation reduction	(10,472)	(9,869)
NET CASH FROM / (USED IN) INVESTING ACTIVITIES	(10,472)	(9,869)
Net increase (decrease) in cash	500,611	11,807
Cash, beginning of period	264,340	199,114
Cash, end of period	764,951	210,921

See accompanying notes

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2022

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 42.52% 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. In August 2021, the reorganization was implemented, and OQP Korea’s biotechnology business assets were transferred to OQP Bio, Inc. (Korea), a private Korean company. In January 2022, OncoQuest issued an in-kind dividend of OQP Bio bonds to its shareholders, including to Quest. The dividend received by Quest has a value of KRW129.1 billion and an estimated fair value on April 30, 2022, of Cdn\$80.2 million.

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

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2022

1. CORPORATE INFORMATION AND GOING CONCERN UNCERTAINTY [CONTINUED]

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 Canadian dollar. The Company is publicly traded on the TSX Venture Exchange under the symbol “QPT”.

These consolidated financial statements have been authorized for issue by the Company’s Board of Directors on June 27, 2022.

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 a net loss of \$1,048,204 for the three months ended April 30, 2022 (year ended January 31, 2022 - net loss of \$85,088,910) and a shareholders’ equity of \$89,453,771 (January 31, 2022 – shareholders’ equity of \$90,405,975), the Company has consolidated cash reserves of only \$764,951 at April 30, 2022 (January 31, 2022 - \$264,340) and as at April 30, 2022 had a working capital deficiency of \$319,338 (January 31, 2022 – working capital deficiency \$357,937). 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

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2022

1. CORPORATE INFORMATION AND GOING CONCERN UNCERTAINTY [CONTINUED]

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

The unaudited consolidated financial statements of the Company were prepared following the same accounting policies as disclosed in note 3 in the audited consolidated financial statements for the years ended January 31, 2022 and 2021. These unaudited consolidated financial statements for the three months ended April 30, 2022 should be read in conjunction with the consolidated financial statements for the years ended January 31, 2022 and 2021 and the notes thereto. These unaudited consolidated financial statements for the three months ended April 30, 2022 do not include all of the required disclosures for annual consolidated financial statements.

Statement of Compliance

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

Basis of measurement

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

3. INTANGIBLE ASSETS

All intangible assets have been fully amortized.

Targeted Cancer Therapy Technologies

The Company is developing a novel approach for cancer therapy using a combinatorial approach for optimal efficacy. Lead product (MAb AR9.6) under development is for a novel target (truncated O-glycans on MUC16) for cancer therapy discovered at University of Nebraska Medical Center. MAb AR 9.6 binds to MUC16 and blocks the activation of growth factor receptors and thereby inhibit phosphorylation of Akt, which leads to reduced cell proliferation, in vivo tumor growth and metastasis. MAb AR9.6 is licensed to OncoCare Therapeutics Inc. for development and commercialization of this technology in the U.S. Quest is entitled to receive 45% of the equity in OncoCare Therapeutics when US\$1 million of funding has been raised per the licensing agreement.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2022

3. INTANGIBLE ASSETS [CONTINUED]

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.

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

Out License of Sonolight Technology

In fiscal 2015, the Company out-licensed its Sonolight Technology for Dermatology and Oncology applications to Bioceltran in return for future royalty income. Bioceltran is working with Quest to develop the Sonolight Technology for various applications.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2022

4. PROPERTY AND EQUIPMENT

	Computer Equipment	Furniture and Fixtures	Office Equipment	Manufacturing and Research and Development Equipment	Leasehold Improvements	Leased Assets – 8123 Roper Road	Totals April 30, 2022
Cost, February 1, 2022	96,397	12,114	31,494	457,983	10,224	183,484	791,696
Additions	—	—	—	—	—	—	—
Deletions	—	—	—	—	—	—	—
Cost, April 30, 2022	96,397	12,114	31,494	457,983	10,224	183,484	791,696
Accumulated amortization, February 1, 2022	94,495	12,114	31,494	455,662	10,224	171,250	775,239
Adjustments	—	—	—	—	—	—	—
Amortization	142	—	—	176	—	9,174	9,492
Accumulated amortization, April 30, 2022	94,637	12,114	31,494	455,838	10,224	180,424	784,731
Net book value	1,760	—	—	2,145	—	3,060	6,965

Right-of-Use Leased Assets

Effective February 1, 2019, the Company has recorded leased assets related to the Company's right-of-use for its lease space at 8123 Roper Road NW Edmonton. The lease is effective until May 31, 2022 with no renewal provisions in the lease agreement. The Company has a minimum annual lease payment obligation of \$42,516. Based on an estimated incremental borrowing rate of 5.95%, the Company has recorded leased assets of \$183,484. At April 30, 2022, the lease obligation is estimated to be \$3,526.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2022

5. SHARE CAPITAL

Authorized

Unlimited number of common shares without nominal or par value

Unlimited number of first preferred shares

Unlimited number of second preferred shares

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

Issued

	Number of common shares	Amount \$
Common shares		
At January 31, 2021 and 2022	168,239,247	30,616,716
Shares issued pursuant to the exercise of options	690,000	69,000
At April 30, 2022	168,929,247	30,616,716

The following options to purchase common shares were outstanding at April 30, 2022:

Exercise price \$	Options outstanding #	Weighted average remaining life (years)	Options exercisable #
0.10	7,000,000	0.92	7,000,000
1.115	2,050,000	1.01	2,050,000
0.15	3,225,000	0.84	3,225,000
0.18	1,250,000	0.48	1,250,000
0.23	1,720,000	0.84	1,720,000
0.25	3,110,000	0.62	3,110,000
\$0.15	18,355,000	0.83	18,355,000

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2022

5. SHARE CAPITAL [CONTINUED]

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

	Shares issuable on exercise of			
	Warrants		Share options	
	Number of shares #	Weighted average exercise price \$	Number of shares #	Weighted average exercise price \$
Balance, January 31, 2021	—	—	18,295,000	0.15
Granted	—	—	2,500,000	0.11
Expired	—	—	(2,050,000)	0.10
Exercised	—	—	—	—
Balance, January 31, 2022	—	—	18,745,000	0.15
Granted	—	—	300,000	0.10
Expired	—	—	—	—
Exercised	—	—	690,000	0.10
Balance, April 30, 2022	—	—	18,355,000	0.15

Share options

For the three months ended April 30, 2022, the Company granted 300,000 share options, as per the Company's Share Option Plan to 1 employee at an exercise price of \$0.10, vesting immediately on date of grant (see Note 7 – Share Based Payments).

There were no share options granted for the 3-month periods ended April 30, 2020.

On November 27, 2015, the Company obtained shareholder approval to amend its Share Option Plan such that the aggregate number of common shares eligible for issuance under the Share Option Plan shall not exceed 25,000,000. At April 30, 2022, 6,645,000 options are available for issue.

Basic and diluted income / (loss) per share

Basic and diluted income / (loss) per share has been calculated using the weighted average number of common shares outstanding during the period (2022 – 168,381,747; 2021 – 168,239,247).

6. 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

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2022

6. CAPITAL DISCLOSURES [CONTINUED]

program and strive to maximize shareholder value. Capital is defined by the Company as shareholders' equity (primarily comprising of share capital, contributed surplus and retained earnings). 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.

7. SHARE-BASED PAYMENTS

For the three-month period ended April 30, 2022, the Company granted a total of 300,000 (2021 – nil) share options under the Company's Share Option Plan. The fair value of options vesting in 2022 of \$27,000 (2021 - \$nil) was recognized as a share-based payment expense and credited to contributed surplus for the three-month periods ended April 30, 2022. There were no forfeitures of Company's share options during the three-month periods ended April 30, 2022, and 2021.

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.

8. RELATED PARTY TRANSACTIONS

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

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, 2022, the Company received 2% interest bearing debt funding of \$250,000 from OncoQuest Inc. During the 3-month period ended April 30, 2022, the Company received a further \$500,000 of 2% interest bearing debt funding from OncoQuest. In total, the Company has received \$1,000,000 of 2% interest bearing debt funding from OncoQuest Inc. The funding is for drug development and operational purposes, is short term and repayable within 12 months. The Company has accrued \$10,256 of interest on this debt funding to April 30, 2022

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2022

8. RELATED PARTY TRANSACTIONS [CONTINUED]

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

9. SUPPLEMENTAL CASH FLOW INFORMATION

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

Three months ended April 30	2022 \$	2021 \$
Accounts receivable	(3,625)	27,518
Prepaid expenses	9,628	22,013
Accounts payable and accrued liabilities	(23,891)	24,050
	<u>(17,888)</u>	<u>73,581</u>

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments include cash, accounts receivable, the OQP Bio bonds, accounts payable and accrued liabilities and the short-term loan.

a) Carrying value and fair value

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities and the short-term loan 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 three-month period ended April 30, 2022, there were no transfers between levels of the fair value hierarchy. The OQP Bio bonds are designated as fair value through profit or loss and are categorized as a Level 2 financial instrument.

b) Risks

i) Foreign currency risk

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2022

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

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 April 30, 2022 the Company's exposure to foreign currency risk is US\$2,728 in cash and KRW 129.1 billion in OQP Bio bonds. The period-end rate of conversion of U.S. to Canadian dollars is 1.2792 and KRW to Canadian dollars is 0.001014. Based on the foreign currency exposures noted above, a 10 percent strengthening of the Canadian dollar would have increased the net loss by \$13,090,077, assuming that all other variables remain unchanged. A 10 percent weakening of the Canadian dollar would have an equal but opposite effect, assuming that all other variables remain unchanged.

At January 31, 2022 the Company's exposure to foreign currency risk was US\$5,023 in cash and KRW 129.1 billion in OQP Bio bonds. The year-end rate of conversion of U.S. to Canadian dollars is 1.2719 and KRW to Canadian dollars is 0.001054. Based on the foreign currency exposures noted above, a 10 percent strengthening of the Canadian dollar would have increased the net loss by \$13,619,636, assuming that all other variables remain unchanged. A 10 percent weakening of the Canadian dollar would have an equal but opposite effect, assuming that all other variables remain unchanged.

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

ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's exposure to liquidity risk is dependent on its ability to raise funds to meet its commitments and sustain its operations. The Company controls liquidity risk by managing its working capital and by securing additional funds through equity, debt or partnering transactions (see Capital Disclosures, note 6). The Company only has cash reserves of \$764,951 at April 30, 2022 (January 31, 2022 - \$264,340). As such, there is a liquidity risk for the Company at April 30, 2022.

iii) Credit risk

Financial instruments that subject the Company to credit risk consist primarily of cash and short-term investments and accounts receivable. To minimize its exposure to credit risk for cash and short-term investments, the Company invests surplus cash in short-term deposits that are fully guaranteed by the Company's financial banker, a major Canadian chartered bank. As the Company is a research and development company, the Company's exposure to credit risk related to accounts receivable is not considered to be significant. At period end, 100% of accounts receivable was due from a federal government agency.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2022

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

iv) Interest rate risk

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

11. COMPENSATION OF KEY MANAGEMENT

Key management includes directors and executives of the Company. The compensation paid or payable (including share-based payments) to key management for services during the three months ended April 30, 2022 and 2021 is shown below:

	2022 \$	2021 \$
Management compensation	72,417	27,500
Director compensation	—	—
	<u>72,417</u>	<u>27,500</u>

12. INVESTMENT IN ONCOVENT CO., LTD.

On March 4, 2016, the Company's equity investee, OncoQuest, signed a joint venture contract with Shenzhen Hepalink. The agreement resulted in the creation of a new company in China called OncoVent Co., Ltd. ("OncoVent"), to focus on the research and development of Cancer Immunotherapy Products for the Chinese market. Under the agreement, OncoQuest licensed the greater China rights to the Immunotherapy Technologies and provided US\$1,000,000 for 46% of the shares of OncoVent. Shenzhen Hepalink contributed US\$5,000,000 for 54% of the shares of OncoVent. As part of the agreement, OncoQuest transferred a portion of its shares in OncoVent to Quest and to another party such that Quest owns 11% and the other party owns 6%, respectively, of the shares of OncoVent. Management believes the creation of OncoVent will provide additional resources for product development that equity investee OncoQuest can access to accelerate its worldwide product registration strategy. OncoVent will focus on the development, manufacturing and commercialization of Cancer Immunotherapy Products within China with pancreatic cancer as its first target. On October 31, 2016, Shenzhen Hepalink contributed US\$5,000,000 to OncoVent. On November 1, 2016, OncoQuest contributed \$1,337,900 (US\$1,000,000) to OncoVent.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2022

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

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

	\$
Balance, January 31, 2016	-
Investment in joint venture, November 1, 2016	1,337,900
Equity method share of loss for the year ended January 31, 2017	(475,771)
Transfer of 6% interest to third party	(174,509)
Balance, January 31, 2017	687,620
Equity method loss for the year ended January 31, 2018	(331,442)
Balance, January 31, 2018	356,178
Equity method loss for the year ended January 31, 2019	(324,877)
Balance, January 31, 2019	31,301
Equity method loss for the three-month period ended April 30, 2019	(31,301)
Balance, April 30, 2019 and onwards to April 30, 2022	—

13. INVESTMENT IN ONCOQUEST INC.

The Company owns 42.52% of the common shares of OncoQuest Inc. The Company accounts for this investment using the Equity Method of accounting. OncoQuest recorded a net loss for the year ended January 31, 2022 of \$135,828,030 (USD108,421,728). This loss resulted from OncoQuest writing down the value of the OQP Bio bonds by \$133,277,067 (USD106,384,787) due to the lack of liquidity and marketability of the bonds. Quest, with a 42.52% ownership interest in OncoQuest at January 31, 2022, recorded an Equity Method loss of \$57,754,078.

Quest reduced the value of its investment in OncoQuest at January 31, 2022 by recording a fair value adjustment of \$26,748,980, and a foreign exchange adjustment in other comprehensive loss of \$50,335 so that Quest's investment in OncoQuest would not exceed \$10,495,335, Quest's percentage ownership interest in OncoQuest at year end of 42.52% multiplied by OncoQuest's shareholders' equity at January 31, 2022 of \$24,683,289 (USD 19,406,627).

The January 2022 dividend received by Quest from OncoQuest reduced Quest's investment in OncoQuest by a further \$80,218,210.

The dividend was an in-kind dividend of OQP Bio bonds with a face value of KRW129.1 billion (Cdn\$136 million) and an estimated fair value on January 31, 2022, of Cdn\$80.2 million.

OncoQuest recorded a net loss for the 3-month period ended April 30, 2022 of \$2,285,238 (USD1,804,087). Quest, with a 42.52% ownership interest in OncoQuest at April 30, 2022, recorded an Equity Method loss of \$971,683.

Quest PharmaTech Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended April 30, 2022

13. INVESTMENT IN ONCOQUEST INC. [CONTINUED]

The Company's equity investment in OncoQuest is as follows for the year ended January 31, 2022 and for the three month period ended April 30, 2022:

	Year Ended
	January 31
	\$
Investment in OncoQuest at January 31, 2021	175,266,938
Equity Method income (loss) for the year ended January 31, 2022	(57,754,078)
Fair value adjustment at January 31, 2022	(26,748,980)
Other comprehensive loss – foreign exchange	(50,335)
January 2022 in-kind dividend from OncoQuest	(80,218,210)
Investment in OncoQuest at January 31, 2022	10,495,335
Equity Method income (loss) for the 3-month period ended April 30, 2022	(971,683)
Investment in OncoQuest at April 30, 2022	9,523,652

14. COMPARATIVE FIGURES

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

15. 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 or capital markets, all of which are highly uncertain and cannot be predicted. There was no perceived impact for the Company for the three-month period ended April 30, 2022 and for the period of time subsequent thereto.