ARCH BIOPARTNERS INC.

Condensed Interim Consolidated Financial Statements

Three Months Ended December 31, 2012 and 2011

(Unaudited - See Notice Of No Auditor Review)

ARCH BIOPARTNERS INC.

Index to Condensed Interim Consolidated Financial Statements

Three Months Ended December 31, 2012

(Unaudited - See Notice Of No Auditor Review)

NOTICE OF NO AUDITOR REVIEW

To the Shareholders of Arch Biopartners Inc.

The accompanying unaudited condensed interim consolidated financial statements have been prepared by and are the responsibility of the management of the Company.

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim financial statements for the period ended December 31, 2012.

"*Richard Muruve*" Director
March 1, 2013

ARCH BIOPARTNERS INC.

Condensed Interim Consolidated Statement of Financial Position

December 31, 2012

(Unaudited - See Notice Of No Auditor Review)

	December 31 2012	September 30 2012
ASSETS		
CURRENT		
Cash	**$ 23,808**	$ 71,745
Amounts receivable from the National Research Council *(Note 6)*	**10,000**	16,742
Prepaid expenses	**2,903**	5,326
	36,711	93,813
NON-CONTROLLING INTEREST *(Notes 1, 7)*	**1**	1
	$ 36,712	$ 93,814
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**$ 50,476**	$ 78,105
Due to shareholders *(Note 9)*	**374,278**	371,127
	424,754	449,232
SHAREHOLDERS' EQUITY		
Share capital *(Note 10)*	**7,636,704**	7,636,704
Contributed surplus *(Note 10)*	**113,319**	113,319
Deficit	**(8,138,065)**	(8,105,441)
	(388,042)	(355,418)
	$ 36,712	$ 93,814

COMMITMENTS *(Note 12)*

ON BEHALF OF THE BOARD

_"Richard Muruve"________________ *Director*

_"Andrew Bishop"_________________ *Director*

ARCH BIOPARTNERS INC.

Condensed Interim Consolidated Statement of Comprehensive Loss and Deficit

Three Months Ended December 31, 2012

(Unaudited - See Notice Of No Auditor Review)

	December 31, 2012	December 31, 2011
EXPENSES		
Advertising and promotion	**$ 1,270**	$ 9,527
Interest and bank charges *(Note 9)*	**3,429**	3,663
Communication	**854**	230
Office	**2,719**	2,431
Transfer agent fee	**2,495**	3,135
Patent expense	**10,778**	37,784
Professional fees	**2,718**	13,389
Wages and employee benefits *(Note 6)*	**1,539**	-
Research *(Notes 6, 12)*	**3,575**	13,525
Travel	**3,147**	2,643
	32,524	86,327
LOSS FROM OPERATIONS	**(32,524)**	(86,327)
FOREIGN EXCHANGE GAIN(LOSS)	**(100)**	(899)
LOSS BEFORE OTHER ITEMS	**(32,624)**	(87,226)
OTHER ITEMS		
Non-controlling interest impairment *(Note 7)*	**4,271**	4,909
Non-controlling interest	**(4,271)**	(4,909)
	-	-
NET LOSS	**$ (32,624)**	$ (87,226)
BASIC AND DILUTED LOSS PER SHARE	**$ (0.001)**	$ (0.002)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	**47,760,179**	47,360,179

ARCH BIOPARTNERS INC.

Condensed Interim Consolidated Statement of Changes in Equity

Three Months Ended December 31, 2012

(Unaudited - See Notice Of No Auditor Review)

	Share Capital	Contributed Surplus	Deficit	Total
BALANCE AT OCTOBER 1, 2011	**$ 7,476,704**	**$ 113,319**	**$ (7,776,122)**	**$ (186,099)**
Loss for the period	-	-	(87,226)	(87,226)
BALANCE AT DECEMBER 31, 2011	**$ 7,476,704**	**$ 113,319**	**$ (7,863,347)**	**$ (273,325)**
BALANCE AT OCTOBER 1, 2012	**$ 7,636,704**	**$ 113,319**	**$ (8,105,441)**	**$ (355,418)**
Loss for the period	-	-	(32,624)	(32,624)
BALANCE AT DECEMBER 31, 2012	**$ 7,476,704**	**$ 113,319**	**$ (8,138,065)**	**$ (388,042)**

ARCH BIOPARTNERS INC.

Condensed Interim Consolidated Statement of Cash Flows

Three Months Ended December 31, 2012

(Unaudited - See Notice Of No Auditor Review)

	December 31, 2012	December 31, 2011
OPERATING ACTIVITIES		
Cash paid to suppliers and employees	**$ (47,659)**	$ (70,093)
Interest paid	**(278)**	(289)
DECREASE IN CASH	**(47,937)**	(70,382)
CASH - BEGINNING OF PERIOD	**71,745**	205,567
CASH - END OF PERIOD	**$ 23,808**	$ 135,185

1. DESCRIPTION OF OPERATIONS

Arch Biopartners Inc., formerly “Foccini International Inc” prior to May 3, 2010 (the “Company”), is incorporated under the Business Corporation Act (Ontario) with continuance under the CBCA. On May 7, 2010, the Company was restructured into a biotechnology firm following a reverse take over transaction (“RTO”) involving three private Canadian biotechnology firms: Arch Biotech Inc, Arch Biophysics Ltd (formerly “1495628 Alberta Ltd”) and Arch Cancer Therapeutics Ltd (formerly “1502440 Alberta Ltd”), collectively, the “Acquirers”. In September, 2010, the Company became two-thirds owner of Colorado Cancer Therapeutics, a U.S. based corporation incorporated in the state of Delaware.

Arch Biopartners Inc. is a portfolio based biotechnology company established to develop new products and technology for sale to pharmaceutical and industrial companies.

At present, the Company has three areas of focus:

- Novel treatments for brain tumours (the focus of Arch Cancer Therapeutics Ltd.);

- Novel treatments for chronic kidney and bowel diseases caused by non-infectious inflammation (the focus of Arch Biotech Inc.);

- Binding of peptides to solid surfaces (the focus of Arch Biophysics); and.

The Company owns, or has exclusive license on, intellectual property emanating from the first three research programs listed above. Continuing research work is being conducted at the Universities of Calgary, Alberta and Colorado. Both of the Canadian universities became shareholders of the Company upon formation of Arch Biopartners Inc. on May 7, 2010. The University of Colorado has a pending minority stake in the Company subject to a licensed product reaching certain commercial milestones.

The current balance sheet of the Company does not show a build up of material assets such as buildings and equipment as any facilities used for continuing research have been owned by the universities. Nor has the Company accumulated any material liabilities to date as a result of its research activities. In the future, scientific research may also be conducted in private labs. The corporate headquarters are located in Toronto, Ontario.

2. BASIS OF PREPARATION

a) Statement of Compliance

The financial statements of the Company for the year-ended September 30, 2012 were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These condensed interim financial statements for the three month period ended December 31, 2012 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on March 1, 2013.

b) Basis of Measurement

The condensed interim consolidated financial statements have been prepared on a historical cost basis.

The condensed interim consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

c) Going Concern of Operations

The Company is in the process of performing further research and development, and has not yet determined whether costs incurred are economically recoverable. The Company's continuing operations are dependent upon any one of:

1. the existence of economically recoverable medical or industrial solutions;

2. the ability of the Company to obtain the necessary financing to complete the research; or

3. future profitable production from, or proceeds from the disposition of intellectual property.

Although there are no assurances that management's plan will be realized, management believes the Company will be able to secure the necessary financing to continue operations into the future. The financial statements do not include any adjustments to the recoverability and classification of recorded assets, or the amounts of, and classification of liabilities that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

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2. BASIS OF PREPARATION *(continued)*

d) Basis of Consolidation

Effective May 7, 2010 the Company completed a transaction with Foccini International Inc., Arch Biotech Inc., 1495628 Alberta Ltd. and 1502440 Alberta Ltd. This transaction was accounted for as a RTO as the control of the Company was acquired by the former management of Arch Biotech Inc. In connection to this transaction, the Company's name was changed to Arch Biopartners Inc. These consolidated financial statements include the accounts of the Company and its subsidiaries from May 7, 2010. Prior period results and comparatives are those of Arch Biotech Inc. Although legally, Arch Biopartners Inc. (formerly Foccini International) is regarded as the parent or continuing company, Arch Biotech Inc., whose management have control of the Company, was treated as the acquirer under Canadian generally accepted accounting principles.

Consequently, Arch Biopartners Inc. (formerly Foccini International Inc) is deemed a continuation of Arch Biotech and control of the assets and business of Arch Biopartners Inc. (formerly Foccini International Inc) is deemed to have been acquired in consideration for the issuance of the shares.

On September 21, 2010 the Company formed a new American subsidiary, Colorado Cancer Therapeutics ("CCT"). This company is considered to be an integrated foreign subsidiary and is consolidated using the temporal method. Under this method, monetary assets and liabilities have been translated at the year-end exchange rate. Non-monetary assets have been translated at the rate of exchange prevailing at the date of the transaction. Revenues and expenses have been translated at the average rates of exchange during the year, except for amortization, which has been translated at the same rate as the related asset. This foreign subsidiary is two thirds owned by Arch Biopartners, with the remaining one third accounted for as a non-controlling interest.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgment. The financial statements have, in management's opinion, been properly prepared within the reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign Currency Transactions

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Exchange gains and losses arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net income. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive loss consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

Loss per share

The Company uses the treasury stock method to calculate earnings (loss) per share. Basic earnings (loss) per common share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding for the period. To calculate diluted earnings per share, all options and warrants whose average exercise price is less than or equal to the average share price for the year are assumed to be exercised. Also under this method, certain shares are considered contingently issuable, such as escrowed shares subject to release based on performance criteria, are excluded from the calculation of weighted average common shares. For the quarter ended December 31, 2012, potentially dilutive common shares (relating to options and warrants outstanding at year end) totaling 350,000 (September 30, 2012 - 350,000) were not included in the computation of loss per share because their effect was anti-dilutive. Therefore, diluted loss per share is the same as basic loss per share.

Revenue recognition

Revenue and cost recoveries on the sales, assignment and transfer of rights of patents are recorded in the period in which the agreement relates.

Interest income is recognized as earned.

Patent fees

The Company has expensed all costs incurred with the review of patentability of intellectual property. Patent fees paid for approved patent applications are expensed, since recoverability is uncertain. Future patent costs may be capitalized if future recoverability is readily estimable.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial Assets

Financial assets are classified as into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

Loans and Receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Fair value through profit or loss assets

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Fair value through profit or loss assets are measured at fair value with changes in those fair values recognized in the statement of comprehensive loss. Transaction costs are expensed when incurred.

Impairment on Financial Assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets..

Financial Liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprise trade payables and accrued liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carrying in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the period which are unpaid. Trade payable amounts are unsecured and are usually paid within one month of recognition.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive loss/income over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted.

Where the terms and conditions of options are modified before they vest, any increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive loss/income over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in comprehensive loss/income over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive loss/income, unless they are related to the issuance of shares, in which case they are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, the shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Standards, Amendments and Interpretations Not Yet Effective

The following new standards and interpretations have been issued but are not yet effective:

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on an entity's business model and the contractual cash flow of the financial asset. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. IFRS 9 must be applied starting January 1, 2013 with early adoption permitted. The Company has not yet determined the impact, if any, of adoption of IFRS 9 on its financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Company has yet to assess the full impact of IFRS 13 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the condensed interim financial statements within the next financial year are discussed below:

i) Income Taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

ii) Share -based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 9.

5. FINANCIAL INSTRUMENTS

The company is exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with all other businesses, the company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, polices and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in the note.

General Objectives, Policies and Processes:
The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The Board of Directors receives monthly reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of interest rate risk.

Interest Rate Risk:
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash and cash equivalents held with chartered Canadian financial institutions. Had the interest rate been +/- 1% higher/lower during the period ended December 31, 2012 the Company's operations for the year would have changed by $932.

b) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company's credit risk is also attributable to its receivables. The amounts disclosed in the balance sheet are net of allowances for bad debts, estimated by the Company's management based on prior experience and their assessment of the current economic environment. The Company believes the credit risk of its receivables is limited due to the fact that the amounts owing, for which no allowance for bad debts was recorded, consists of reimbursements from the National Research Council.

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5. FINANCIAL INSTRUMENTS *(continued)*

c) 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 manages liquidity risk by maintaining adequate cash and restricted cash balances. The Company continuously monitors both actual and forecasted cash flows and matches the maturity profile of financial assets and liabilities.

As at December 31, 2012, the Company has a cash balance of $23,808 (2011 - $135,185) to settle current liabilities due in twelve months or less of $50,476 (2011 - $51,096). Management seeks additional financing through the issuance of equity instruments to continue its operations, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

Determination of Fair Value:

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The consolidated balance sheet carrying amounts for cash, accounts receivable and accounts payable and accrued liabilities approximate fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

	December 31, 2012		September 31, 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash	**$ 23,808**	**$ 23,808**	$ 71,745	$ 71,745
Accounts receivable	**10,000**	**10,000**	16,742	16,742
Accounts payable and accrued liabilities	**(50,476)**	**(50,476)**	(78,105)	(78,105)
	$ (16,668)	**$ (16,668)**	$ 10,382	$ 10,382

6. AMOUNTS RECEIVABLE FROM THE NATIONAL RESEARCH COUNCIL CANADA

The Company has entered into a Contribution Agreement with National Research Council Canada (NRC), whereby the Company can receive up to a maximum of $107,000 in reimbursements for specified costs.

NRC agrees to reimburse the Company for costs related to the "Targeting Brain Tumour Disease Reservoirs" project as follows:

- 100% of supported Salary Costs (Excluding benefits, incentives and bonuses);
- 75% of supported Contractor Fees.

Expenses related to this project are recorded net of any recoveries under this Contribution Agreement in the consolidated statement of consolidated loss. During the quarter ended December 31, 2012, the Company recognized $15,000 (2011 - $NIL) in reimbursements from NRC.

7. NON-CONTROLLING INTEREST IMPAIRMENT

Non-controlling interest assets have arisen on the accumulated losses incurred in Colorado Cancer Therapeutics, a company owned two-thirds by Arch Biopartners Inc. Based on the fact that Colorado Cancer Therapeutics has not generated revenue to date, and based on the number of variables in determining the value of any potential recoverability, management has valued the non-controlling interest assets at a nominal value of $1 and has record any resulting change in value for each quarter to the consolidate interim statement of loss.

8. PATENTS

As at December 31, 2012 it was difficult to determine the value and the future recoverability of patents owned by the Company. The Company has chosen to take a conservative approach, and expense all costs relating to patents. The total patent fee expense reflected in the interim income statement relates to professional fees incurred to obtain and file patents. Future patent costs may be capitalized if future recoverability is readily estimable

9. DUE TO SHAREHOLDER

The amount reflected as due to shareholder is payable to a director of the company. $2,805 of this balance does not bear interest or have any terms of repayment. The remaining amount of this balance bears interest at the Canadian prime lending rate plus 1%.

During the three month period ended December 31, 2012, interest expense of $3,150 (2011 - $3,029) has been recorded as a result of this loan.

10. SHARE CAPITAL

Authorized:
Unlimited Common voting shares

	# of shares		Amount
Issued and fully paid common shares:			
Balance September 30, 2010 and 2011	**47,360,179**	$	7,476,704
Issued for cash - private placement	**400,000**		160,000
	-		
Balance September 30, 2012 and December 31, 2012	**47,760,179**	**$**	**7,636,704**

No shares were issued during the three months ended December 31, 2012.

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10. SHARE CAPITAL *(continued)*

The Company closed off the first tranche of the private placement on April 16, 2012. The Company issued 300,000 Units at a price of $0.40 per Unit, for gross total proceeds of $120,000. Each Unit comprises of one common share and one common share purchase warrant. Each warrant allows the holder to purchase an additional common share at $0.60 during the 24 month period following the close of the private placement. The proceeds will be used for the Company's working capital and general corporate purposes. The common shares and any common shares issued from the exercise of the warrants will be subject to a hold period of 4 months from the closing date.

On June 26, 2012, the Company announced an increase to the first tranche of the private placement which closed on April 16, 2012. The Company issued an additional 100,000 Units at a price of $0.40 per Unit, for additional gross proceeds of $40,000 increasing the size of the total proceeds of the private placement to $160,000. Each Unit comprises of one common share and one common share purchase warrant. Each warrant allows the holder to purchase an additional common share at $0.60 during the 24 month period following the close of the private placement. The proceeds will be used for the Company's working capital and general corporate purposes. The common shares and any common shares issued from the exercise of the warrants will be subject to a hold period of 4 months from the closing date.

The Company did not pay finder's fees in connection with this transaction.

The Company has also reserved for issuance one million common shares in the event that it exercises its option to acquire the remaining one third interest in Colorado Cancer Therapeutics it does not already own. The option is exercisable after November 20, 2011 and no later than May 20, 2013.

The Company has a discretionary stock option plan under which the Company may grant options to its directors, officers, employees and consultants. The option plan is a rolling plan whereby the maximum number of common shares that may be reserved for issuance under the plan is a rolling amount fixed at 10% of the issued and outstanding common shares of the Company from time to time with no one optionee having shares reserved for issuance in excess of 5% of the outstanding number of shares in and twelve month period. The options granted under the plan are valid for a period not to exceed five years from the date of their grant and may be subject to certain vesting conditions as determined by the Board of Directors. The options are exercisable at the price determined by the Company which must not be less than the last closing price of the listed shares of the Company before the date of their grant, less any applicable discount.

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10. SHARE CAPITAL *(continued)*

	Number of Stock Options	Weighted Average Exercise Price	Expiry date
Balance, September 30, 2011	350,000	0.70	
Granted	-	-	
Exercised	-	-	
Forfeited	-	-	
Balance, September 30, 2012	350,000	0.70	
Granted	-	-	
Exercised	-	-	
Forfeited	-	-	
Balance, December 31, 2012	350,000	0.70	

All issued options have fully vested and are exercisable as at December 31, 2012.

b) Stock-based compensation

During the year ended September 30, 2011, the Company granted 250,000 options to a director pursuant to terms of the Company's stock option plan.

For the year ended September 30, 2011, the total compensation expense, as calculated using the Black-Scholes option pricing model, for stock options granted to this director is $113,319. The expense relating to the issuance of these options is recorded in the Statement of Loss with an offsetting increase to contributed surplus.

The fair value of options that vested during year ended September 30, 2011 are estimated on the date of grant using the Black-Scholes Option Pricing Model, with the following weighted average assumptions:

	September 30, 2011
Risk free interest rate	2.38 %
Expected dividend yield	NIL
Expected stock price volatility	1.03 %
Expected option life in years	3.5 years
Weighted average option exercise price	$ 0.90

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Change in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

No stock options for compensation were granted during the three month period ended December 31, 2012.

11. RELATED PARTY TRANSACTIONS

The CEO, several principal scientists and directors have siginificant share holdings at this time that align their interests with those of all shareholders. Due to the Coroporation's early stage of development and small size of the Corporation's management team and board, the Board's Nominating and Compensation Committee has maintained the Corporation's recent practice of not compensating executives or board members, other than the share based payments noted above in Note 10. As this compensation is not readily measurable, these expenses and the related services revenue have not been recorded. For the current period ended December 31, 2012 there have been no such transactions, nor were there any in the previous fiscal year.

12. COMMITMENTS

The Company entered into an agreement with the University of Alberta to contribute to the research project entitled "Enhancing the corrosion resistance of Mg alloys by optimum incorporation of rare earth elements and the use of a green bio-organic-metal coating for automotive applications". The Company has agreed to contribute $20,000 per year for the project which started April 1, 2012 and completes March 31, 2014. $5,000 was accrued for this agreement in research expense for the period ended December 31, 2012.

13. OPTION AGREEMENT

The Company has entered into an option agreement with Randall Irvin, Julia Liu and Elisabeth Davis ("Inventors") to acquire rights to intellectual property of technology which is described as a diagnostic for the identification of irritable bowel syndrome (IBS) and means of monitoring intestinal epithelial cell function in inflammatory bowel disease (IBD), and any treatments that arise from this diagnostic technology.

The option may be exercised by written notice given by the Company to the Inventors only if certain conditions are satisfied by the Company.

To date, a realistic assessment as to the potential recovery of these costs is indeterminable. Therefore no value has been assigned to this option and no assets have been recorded.

14. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to maintain a strong capital base in order to:

1. advance the Company's corporate strategies to create long-term value for its stakeholders; and

2. ensure compliance with the covenants of any applicable credit facility and other financing facilities used from time to time.

The Company monitors its capital and capital structure on an ongoing basis to ensure it is sufficient to achieve the Company's short-term and long-term strategic objectives. Management primarily funds the Company's exploration by issuing share capital, rather than using other capital sources that require fixed repayments of principal and interest. The Company closely watches its cash balances. During the year ended September 30, 2012, $160,000 in net cash was received on the issuance of shares. The balance of cash as at December 31, 2012 was $23,808 (2011 - $135,185). The Company does not currently have significant debt outstanding and there are presently no formal capital requirements with which the Company has not complied.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There were no changes in the Company's approach to capital management during the period ended December 31, 2012.

15. SUBSEQUENT EVENTS

On January 24, 2013, 100,000 outstanding stock options were exercised for total proceeds of $20,000.