ARCH BIOPARTNERS INC.

Condensed Interim ConsolidatedFinancial Statements

Nine Months Ended June 30, 2016 and 2015

(Unaudited - See Notice Of No Auditor Review)

ARCH BIOPARTNERS INC.

Index to Interim Financial Statements

Nine Months Ended June 30, 2016

(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 condensed interim consolidated financial statements for the period ended June 30, 2016.

"Richard Muruve" CEO and Director

August 29, 2016

ARCH BIOPARTNERS INC.

Condensed Interim Consolidated Statement of Financial Position

June 30, 2016 and September 30, 2015

(Unaudited - See Notice Of No Auditor Review)

	June 30, 2016	September 30, 2015 (audited)
ASSETS		
CURRENT		
Cash	**$ 422,460**	$ 620,822
Prepaid expenses	**2,865**	540
Deposits	**500**	500
Goods and services taxes receivable	**21,804**	27,642
	$ 447,629	$ 649,504
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**$ 161,418**	$ 179,747
DUE TO SHAREHOLDERS *(Note 8)*	**332,837**	328,277
	494,255	508,024
SHAREHOLDERS' EQUITY		
Share capital *(Note 9)*	**9,619,229**	9,291,979
Contributed surplus *(Note 9)*	**471,680**	325,313
Deficit	**(10,137,535)**	(9,475,812)
	(46,626)	141,480
	$ 447,629	$ 649,504

ON BEHALF OF THE BOARD

"Richard Muruve" Director

"Andrew Bishop" Director

See notes to financial statements

ARCH BIOPARTNERS INC.

Condensed Interim Consolidated Statement of Loss and Deficit

Nine months Ended June 30, 2016 and 2015

(Unaudited - See Notice Of No Auditor Review)

	3 months ended *June 30,* **2016**	3 months ended *June, 30* 2015	**9 months ended** *June 30,* **2016**	9 months ended *June 30,* 2015
EXPENSES				
Communication	**$ 6,363**	$ 832	**$ 14,745**	$ 1,595
Marketing	**10,450**	15,220	**62,371**	24,885
Interest and bank charges *(Note 8)*	**4,877**	4,414	**15,101**	11,174
Office	**4,772**	2,458	**14,733**	10,729
Patent	**88,213**	47,352	**161,642**	125,924
Professional fees	**10,416**	13,227	**25,643**	46,504
Regulatory and exchange fees	**-**	-	**-**	97,402
Research	**32,012**	33,569	**114,332**	104,903
Share based payments *(Note 9)*	**-**	1,501	**146,367**	210,493
Transfer agent fee	**4,504**	8,820	**21,962**	20,803
Travel	**537**	3,836	**5,476**	13,004
Wages and employee benefits	**20,282**	26,852	**74,129**	48,787
	182,426	158,081	**656,501**	716,203
LOSS FROM OPERATIONS	**(182,426)**	(158,081)	**(656,501)**	(716,203)
FOREIGN EXCHANGE LOSS	**(384)**	(7,788)	**(5,222)**	23,305
NET LOSS	**$ (182,810)**	$ (165,869)	**$ (661,723)**	$ (692,898)
EARNINGS PER SHARE	**$ (0.003)**	$ (0.003)	**$ (0.012)**	$ (0.013)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	**53,240,448**	53,189,679	**53,206,602**	52,323,219

See notes to financial statements

ARCH BIOPARTNERS INC.

Condensed Interim Consolidated Statement of Changes in Equity

Nine Months Ended June 30, 2016 and 2015

(Unaudited - See Notice Of No Auditor Review)

	Share Capital	Contributed Surplus	Deficit	Total
BALANCE AT OCTOBER 1, 2014	**$ 8,516,904**	**$ 113,319**	**$ (8,636,808)**	**$ (6,585)**
Loss for the period	-	-	(692,898)	(692,898)
Stock options issued *(Note 9)*	-	210,493	-	210,493
Shares issued *(Note 9)*	813,502	-	-	813,502
BALANCE AT JUNE 30, 2015	**$ 9,330,406**	**$ 323,812**	**$ (9,329,706)**	**$ 324,512**
BALANCE AT OCTOBER 1, 2015	**$ 9,291,979**	**$ 325,313**	**$ (9,475,812)**	**$ 141,480**
Loss for the period	-	-	(661,723)	(661,723)
Stock options issued *(Note 9)*	-	146,367	-	146,367
Shares issued *(Note 9)*	330,000	-	-	330,000
Share issue costs *(Note 9)*	(2,750)	-	-	(2,750)
BALANCE AT JUNE 30, 2016	**$ 9,619,229**	**$ 471,680**	**$ (10,137,535)**	**$ (43,876)**

See notes to financial statements

ARCH BIOPARTNERS INC.

Condensed Interim Consolidated Statement of Cash Flows

Nine Months Ended June 30, 2016 and 2015

(Unaudited - See Notice Of No Auditor Review)

	3 months ended *June 30,* **2016**	3 months ended *June 30,* 2015	**9 months ended** *June 30,* **2016**	9 months ended *June 30,* 2015
OPERATING ACTIVITIES				
Cash receipts from grants	**$ -**	$ -	**$ -**	$ 71,723
Cash paid to suppliers and employees	**(171,021)**	(161,857)	**(515,071)**	(495,496)
Interest paid	**(42)**	(263)	**(343)**	(602)
Cash flow used by operating activities	**(171,063)**	(162,120)	**(515,414)**	(424,375)
FINANCING ACTIVITIES				
Advances to shareholders	**(10,198)**	-	**(10,198)**	(42,500)
Issuance of share capital	**327,250**	**-**	**327,250**	813,502
Cash flow from financing activities	**317,052**	-	**317,052**	771,002
INCREASE (DECREASE) IN CASH FLOW	**145,989**	(162,120)	**(198,362)**	346,627
CASH - BEGINNING OF PERIOD	**276,471**	873,860	**620,822**	365,113
CASH - END OF PERIOD	**$ 422,460**	$ 711,740	**$ 422,460**	$ 711,740

See notes to financial statements

1. DESCRIPTION OF OPERATIONS

Arch Biopartners Inc. (the "Company") is a portfolio based biotechnology company focused on the development of innovative technologies that have the potential to make a significant medical or commercial impact. Arch works closely with the scientific community, universities and research institutions to advance and build the value of select preclinical technologies, develop the most promising intellectual property, and create value for its investors.

At present, the Company has five technologies in its portfolio under development (each within its own subsidiary):

•AB569 - a new drug candidate for treating antibiotic resistant bacterial infections in both the lungs and urinary tract. AB569 has orphan drug status in the U.S. and in Europe for the treatment of Pseudomonas aeruginosa infections in the respiratory tracts of patients with cystic fibrosis;

• MetaMx ™ - proprietary synthetic molecules that target brain tumor initiating cells and invasive glioma cells;

• MetaBlok ™ - A new drug candidate for the potential treatment of sepsis and cancer metastasis;

• Borg: Peptide-Solid Surface Interface - binding of proprietary peptides to solid surfaces to inhibit biofilm formation and reduce corrosion; and

• Arch Inflammation - Novel treatments for chronic kidney and bowel diseases caused by non-infectious inflammation.

Continuing product development work is ongoing at various third party facilities. The Company owns, or has exclusive licensing rights on, the intellectual property (“IP”) emanating from the programs listed above. Both of the Universities of Alberta and Calgary became shareholders of the Company in return for their rights to future revenue from certain IP upon formation of Arch Biopartners.

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 third parties. The company has not accumulated any material liabilities to date as a result of its research activities. The corporate headquarters are located in Toronto, Ontario.

The Company presently has an exclusive license on the patents pertaining to AB569 from the University of Cincinnati.

In August 2014, the Company incorporated Arch Bio Ohio Inc., a U.S. based corporation incorporated in the State of Delaware. As of June 30, 2016 Arch Bio Ohio Inc. has not performed any operations to note. Total expenses for the entity were the incorporation costs.

In February 2016, the Company incorporated Arch Bio Ireland Ltd., a subsidiary formed for the purpose of applying for Orphan Medicinal Product status for AB569 from the European Medicines Agency. As of June 30, 2016 Arch Bio Ireland Ltd. has not performed any operations to note.

2. BASIS OF PREPARATION

Statement of Compliance

The financial statements of the Company for the period ended June 30, 2016 were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These condensed interim consolidated financial statements for the nine month period ended June 30, 2015 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 August 29, 2016.

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.

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.

Basis of Consolidation

These condensed interim consolidated financial statements include the assets and liabilities and results of operations of the Company and its wholly-owned subsidiaries, Arch Biotech Inc., Arch Biophysics Inc., Arch Cancer Therapeutics Inc., Arch Bio Ohio Inc., and Arch Bio Ireland Ltd.

Arch Bio Ohio Inc. and Arch Bio Ireland Ltd. are considered to be an integrated foreign subsidiary and are consolidated using the temporal method as described in Note 3.

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:

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 period-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the period-end date and the related translation differences are recognized in net income.

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.

Temporal Method of Consolidating Foreign Subsidiaries:

Monetary assets and liabilities are translated at year end using the year end exchange rate. Non-monetary assets are translated at the rate of exchange prevailing at the date of transaction. Revenues and expenses are translated at the average rates of exchange during the year, except for amortization, which is translated at the same rate as the related asset.

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 June 30, 2016, potentially dilutive common shares (relating to options and warrants outstanding at year end) totaling 2,110,000 (June 30, 2015 - 1,450,000) 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.

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

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.

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.

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

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.

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.

Standards, Amendments and Interpretations Not Yet Effective

The following new standards, amendments and interpretations, that have not been early adopted in these financial statements, are not expected to have an effect on the company's future results and financial position:

Amendments to IFRS 15: Revenue from Contracts with Customers (Effective for periods beginning on or after January 1, 2017)

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:

<u>Income Taxes</u>

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.

<u>Share -based Payment Transactions</u>

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, policies 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.

<u>Market Risk</u>

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 and currency 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 June 30, 2016 the Company's operations for the period would have changed by $826.

Currency Risk:
Currency risk is the risk to the company's earning that arise from fluctuations of foreign exchange rates and the degree of volatility of those rates. The Company is exposed to foreign currency exchange risk on cash and accounts payable and accrued liabilities. Had the currency rate been +/- 5% higher/lower at June 30, 2016, the resulting change to the net loss would have been $1,092.

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5. FINANCIAL INSTRUMENTS *(continued)*

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 and goods and services taxes receivable from the Government of Canada.

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 June 30, 2016, the Company has a cash balance of $422,460 (2015 - $711,740) to settle current liabilities due in twelve months or less of $161,419 (2015 - $90,030). 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.

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5. FINANCIAL INSTRUMENTS *(continued)*

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, accounts payable and accrued liabilities, and short term debt 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.

	June 30, 2016		September 30, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash	**$ 422,460**	**$ 422,460**	$ 620,822	$ 620,822
Goods and services tax recoverable	**21,804**	**21,804**	27,642	27,642
Accounts payable and accrued liabilities	**(161,419)**	**(161,419)**	(179,747)	(179,747)
	$ 282,845	**$ 282,845**	$ 468,717	$ 468,717

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 $91,030 in reimbursements for specified costs.

NRC agrees to reimburse the Company for costs related to the "Macroscale Characterization of Bio-organic Metal Surfaces" project as follows:

- 80% of supported Salary Costs (Excluding benefits, incentives and bonuses);
- 50% of supported Contractor Fees.

During the nine months ended June 30, 2016, the Company recorded $NIL (2015 - $37,598) in reimbursements from NRC.

7. PATENTS

As at June 30, 2016 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.

8. DUE TO SHAREHOLDERS

The amount reflected as due to shareholders is demand promissory note payable to a director of the company.

During the nine month period ended June 30, 2016, interest expense of $14,758 (2015 - $10,571) has been recorded as a result of this loan. During the period ended June 30, 2016, $10,198 of the loan was repaid to the shareholder

On January 14, 2015 the company extended the term of the outstanding shareholder's demand promissory notes. The shareholder's loan has been extended to January 15, 2017 at a fixed rate of 6% per annum paid (or accrued) semi-annually. The consolidated principal together with any accrued interest will become due and will be paid in full on demand so long as such payment does not reduce the company's ability to complete its product development work plan for any given 12 month period from the date of repayment.

The shareholder has indicated that they will not be calling the loan in the next twelve months, therefore the loan has been treated as a long-term liability.

9. SHARE CAPITAL

Authorized:
Unlimited Common voting shares

	# of shares		Amount
Issued and fully paid, common shares			
Balance October 1, 2014	**50,975,179**	$	8,516,904
Shares issued	**2,214,500**		775,075
Options exercised	**-**		-
Balance September 30, 2015	**53,189,679**		9,291,979
Shares issued	**660,000**		330,000
Share issuance costs	**-**		(2,750)
Balance June 30, 2016	**53,849,679**	**$**	**9,619,229**

The Company closed a private placement on June 23, 2016. The Company issued 660,000 Units at a price of $0.50 per Unit, for gross total proceeds of $330,000. 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 $0.50 until 5:00PM EST on June 22, 2018. The common shares and any common shares issued from the exercise of warrants will be subject to a hold period expiring on October 23, 2016. Finder's fees paid in connection with the first tranche of the Offering totaled $2,750 plus 5,500 broker warrants with the same terms as the Warrants.

On December 1, 2014 the Company entered into a Sponsorship Agreement with Euro Pacific Canada Inc. ("Europac") that obliges Europac to deliver a Sponsor Report to the TSXV. The Company paid a lump sum of $30,000 plus HST upon the signing of the agreement and issued 71,500 common shares, on March 13, 2015, at a deemed price of $0.35. These shares will be held in escrow for one year from the date of issue.

During January and February 2015 the Company raised net proceeds of $750,000 by completing a non-brokered private placement of 2,143,000 Units at a price of $0.35 per Unit, issued as follows:

Issue Date	Number of Units issued
January 12, 2015	1,881,500
January 26, 2015	143,000
January 30, 2015	116,000
February 9, 2015	2,500

Each Unit consists of one common share of the Company and one common share purchase Warrant. Each Warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.70 per common share until 5PM EST on January 13, 2017. All common shares issued with this offering are subject to a statutory four month holding period from the time of issuance.

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9. SHARE CAPITAL *(continued)*

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.

	Number of Stock Options	Weighted Average Exercise Price	Expiry date
Balance September 30, 2014	$ 250,000	0.90	April 2016
Granted	1,200,000	0.34	*
Exercised	-	-	
Expired	-	-	
Balance September 30, 2015	1,450,000	0.44	
Granted	350,000	-	**
Exercised	-	-	
Expired	(250,000)	0.90	April 2016
Balance June 30, 2016	**1,550,000**	**0.36**	

All issued options have fully vested and are exercisable as at June 30, 2016.

* 900,000 of these options have an exercise price of $0.30, 100,000 of these options have an exercise price of $0.40, and 200,000 of these options have an exercise price of $0.50; the total amount of 1,200,000 will expire in October 2019.

** 50,000 of these options have an exercise price of $0.30 and will expire in October 2018; 300,000 of these options have an exercise price of $0.45 and will expire in January of 2021.

b) Stock-based compensation

During the nine month period ended June 30, 2016, the Company granted 350,000 (2015 - 1,200,000) incentive stock options to its directors, officers, and consultant for compensation pursuant to its 2016 stock option plan. Each stock option is exercisable into a common share of the company for a period of five years. The total compensation expense, as calculated using the Black-Scholes option pricing model, for the stock options granted was $146,367 (2015 - $208,992). The expense relating to the issuance of these options is recorded in the Statement of Loss with an offsetting increase to contributed surplus.

(continues)

9. SHARE CAPITAL *(continued)*

The fair value of options that have vested during year is estimated on the date of grant using the Black-Scholes Option Pricing Model, with the following weighted average assumptions:
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.

Risk free interest rate	1.50%
Expected dividend yield	NIL
Expected stock price volatility	180% - 204%
Expected option life in years	3 - 5 years
Option exercise price	\$0.30 - \$0.50
Fair value of options granted	\$0.17 - \$0.18

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.

	Number of Warrants	Weighted Average Price	Expiry Date
Balance September 30, 2014	**3,115,000**	0.50	*
Granted	**2,143,000**	0.70	January 2017
Exercised			
Expired	**(400,000)**	0.40	August 2015
Balance September 30, 2015	**4,858,000**	0.59	
Granted	**665,500**	0.50	June 2018
Exercised			
Expired	**(1,374,500)**		**
June 30, 2016	**4,149,000**	0.60	

There have been 665,500 warrants granted during the nine months ended June 30, 2016.

* 3,115,000 of these warrants have an exercise price of \$0.50; 817,500 expire February 2016, 557,000 expire March 2016, 715,000 expire July 2016 and 625,500 expire August 2016.

** During the nine months ended June 30, 2016 1,374,500 warrants with an exercise price of \$0.50 expired. 817,500 expired February 2016 and 557,000 expired March 2016.

10. RELATED PARTY TRANSACTIONS

	2016	2015
Key management compensation		
(Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include executive and non-executive directors.)		
Compensation	**$ 50,958**	$ 41,667

The CEO, several principal scientists and directors have significant share holdings at this time that align their interests with those of all shareholders. Due to the Corporation'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 those noted in Note 10 and 14. As this compensation is not readily measurable, these expenses and the related services revenue have not been recorded. For the current period ended June 30, 2016 there have been no such transactions, nor were there for the comparative period in the previous fiscal year.

11. EXECUTIVE COMPENSATION

COMPENSATION OF NAMED EXECUTIVE OFFICERS

Richard Muruve served as Chief Executive Officer of the Company, Andrew Bishop served as Chief Financial Officer of the Company and Daniel Muruve served as Chief Science Officer of the Company throughout the reporting period (the “Named Executive Officers”). No executive officer of the Company was paid at a rate of $150,000 per annum in compensation during this period. The following table provides a summary of the compensation earned by the Named Executive Officers during the reporting period and in the same period of the preceding two financial years, as applicable.

Summary Compensation

		Compensation			Long-Term Compensation
Name and principle position	**October 1 to June 30**	**Salary**	**Bonus**	**Other annual compensation**	**Securities under options granted**
Richard Muruve *Chief Executive Officer*	2016	$50,958	$NIL	$NIL	$NIL
	2015	$41,667	$NIL	$NIL	$NIL
	2014	$NIL	$NIL	$NIL	$NIL
Andrew Bishop *Chief Financial Officer*	2016	$NIL	$NIL	$NIL	$NIL
	2015	$NIL	$NIL	$NIL	$NIL
	2014	$NIL	$NIL	$NIL	$NIL
Daniel Muruve *Chief Science Officer*	2016	$NIL	$NIL	$NIL	$NIL
	2015	$NIL	$NIL	$NIL	$NIL
	2014	$NIL	$NIL	$NIL	$NIL

(continues)

11. EXECUTIVE COMPENSATION *(continued)*

Options

During the nine month period ended June 30, 2016, 100,000 options were granted to the Named Executive Officer and no options were repriced during the reporting period, nor were any options exercised by the Named Executive Officers. The following table sets out the value of unexercised incentive stock options, if any, as at June 30, 2016.

Named Executive Officers	Securities acquired on exercise	Aggregate value realized	Unexercised options as at June 30, 2016 Exercisable/Unexercisable	Value of unexercised in-the-money options at June 30, 2016 Exercisable/Unexercisable
Richard Muruve *Chief Executive Officer*	NIL	N/A	600,000/0	$56,500/$NIL
Andrew Bishop *Chief Financial Officer*	NIL	N/A	400,000/0	$66,500/$NIL
Daniel Muruve *Chief Science Officer*	NIL	N/A	50,000/0	$9,250/$NIL

Compensation of Directors

Due to the Company's early stage of development and small size of the board, the Board's Nominating and Compensation Committee has maintained the Corporation's recent practice of not compensating 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.

Options

During the nine month period ended June 30, 2016, 200,000 options were granted to the Directors, 50,000 options were granted to each of the four Directors below. No options were repriced during the reporting period, nor were any options exercised by the Directors. The following table sets out the value of unexercised incentive stock options, if any, as at June 30, 2016.

Director	Securities acquired on exercise	Aggregate value realized	Unexercised options as at June 30, 2016 Exercisable/Unexercisable	Value of unexercised in-the-money options at June 30, 2016 Exercisable/Unexercisable
Claude Allary	NIL	N/A	100,000/0	$11,000/$NIL
Conor Gunne	NIL	N/A	100,000/0	$11,000/$NIL
Adrian Haigh	NIL	N/A	100,000/0	$11,000/$NIL
Richard Rossman	NIL	N/A	100,000/0	$11,000/$NIL

12. 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;

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 operations and product development 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. The balance of current assets as at June 30, 2016 was $447,629 (2015 - $736,088). 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 June 30, 2016.