ARCH BIOPARTNERS INC.

Consolidated Financial Statements

Years Ended September 30, 2019 and September 30, 2018

ARCH BIOPARTNERS INC.

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Year Ended September 30, 2019

CHARTERED PROFESSIONAL ACCOUNTANTS
BUSINESS & TECHNOLOGY CONSULTANTS
EXCHANGE GROUP

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Arch Biopartners Inc.

Opinion

We have audited the consolidated financial statements of Arch Biopartners Inc. (the Company), which comprise the consolidated balance sheet as at September 30, 2019 and September 30, 2018, and the consolidated statements of loss and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2019, and Septemer 30, 2018, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 c) - Basis of Preparation in the financial statements which highlights the existence of a material uncertainty relating to conditions that cast significant doubt on the Company's ability to continue as a going concern.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Michael Stevens.

Exchange

Chartered Professional Accountants LLP
Winnipeg, Manitoba

ARCH BIOPARTNERS INC.
Consolidated Balance Sheet
September 30, 2019 and September 30, 2018

	2019	2018 *Restated*
ASSETS		
CURRENT		
Cash	**$ 400,368**	$ 544,324
Industry grants receivable	**33,234**	-
Deposit receivable *(Note 14)*	**-**	182,398
Prepaid expenses	**27,892**	18,955
Goods and services taxes receivable	**106,487**	109,413
	$ 567,981	$ 855,090
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities *(Notes 7, 10)*	**$ 473,924**	$ 235,217
Interest payable on convertible debt *(Note 7)*	**110,628**	42,900
	584,552	278,117
DEFERRED CONVERTIBLE DEBT *(Note 7)*	**2,600,000**	1,100,000
DUE TO SHAREHOLDER *(Note 8)*	**285,137**	340,354
	3,469,689	1,718,471
SHAREHOLDERS' DEFICIENCY		
Share capital *(Note 9)*	**12,027,452**	11,806,273
Contributed surplus *(Note 9)*	**2,838,804**	2,755,699
Deficit	**(17,782,964)**	(15,425,353)
Prepaid share subscriptions *(Note 15)*	**15,000**	-
	(2,901,708)	(863,381)
	$ 567,981	$ 855,090

ON BEHALF OF THE BOARD

____*"Richard Muruve"*_______ *Director*

____*"Andrew Bishop"*________ *Director*

See notes to financial statements

ARCH BIOPARTNERS INC.

Consolidated Statement of Comprehensive Loss

Years Ended September 30, 2019 and September 30, 2018

	2019	2018 *(Restated)*
REVENUE		
Industry grants	**$ 93,876**	$ -
EXPENSES		
Communication	**12,008**	5,235
Interest and bank charges	**2,225**	892
Interest on long-term debt *(Notes 7, 8)*	**108,062**	63,154
Insurance	**16,416**	8,400
Marketing	**26,085**	45,166
Office	**16,416**	12,193
Patent	**173,496**	216,787
Professional fees	**163,764**	110,251
Regulatory and exchange fees	**53,048**	35,366
Research *(Note 14)*	**1,574,946**	1,251,949
Stock based compensation *(Note 9)*	**83,105**	1,132,707
Transfer agent fee	**17,780**	13,882
Travel	**20,898**	16,185
University foundation support	**15,568**	33,557
Wages and employee benefits	**172,089**	104,025
	2,455,906	3,049,749
LOSS FROM OPERATIONS	**(2,362,030)**	(3,049,749)
FOREIGN EXCHANGE GAIN (LOSS)	**4,419**	33,929
NET AND COMPREHENSIVE LOSS	**$ (2,357,611)**	$ (3,015,820)
BASIC AND FULLY DILUTED LOSS PER SHARE	**$ (0.040)**	$ (0.053)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	**58,646,338**	57,025,966

See notes to financial statements

ARCH BIOPARTNERS INC.
Consolidated Statement of Change in Equity
Years Ended September 30, 2019 and September 30, 2018

	Share Capital	Contributed Surplus	Deficit	Prepaid Share Subscriptions	Total
BALANCE OCTOBER 1, 2017	$ 10,223,131	$ 1,622,992	$ (12,409,533)	$ -	$ (563,410)
Loss for the period	-	-	(3,015,820)	-	(3,015,820)
Common shares issued *(Note 9)*	1,583,142	-	-	-	1,583,142
Stock options issued *(Note 9)*	-	1,132,707	-	-	1,132,707
BALANCE SEPTEMBER 30, 2018	$ 11,806,273	$ 2,755,699	$ (15,425,353)	$ -	$ (863,381)
BALANCE OCTOBER 1, 2018 - AS PREVIOUSLY STATED	$ 11,806,273	$ 2,755,699	$ (15,607,751)	$ -	$ (1,045,783)
CORRECTION OF AN ERROR *(Note 14)*	-	-	182,398	-	182,398
BALANCE OCTOBER 1, 2018 - AS RESTATED	**11,806,273**	**2,755,699**	**(15,425,353)**	**-**	**(863,381)**
Loss for the period	**-**	**-**	**(2,357,611)**	**-**	**(2,357,611)**
Stock options issued *(Note 9)*	**-**	**83,105**	**-**	**-**	**83,105**
Prepaid share subscriptions	-	-	-	**15,000**	**15,000**
Common shares issued *(Note 9)*	**221,179**	**-**	**-**	**-**	**221,179**
BALANCE SEPTEMBER 30, 2019	**$ 12,027,452**	**$ 2,838,804**	**$ (17,782,964)**	**$ 15,000**	**$ (2,901,708)**

See notes to financial statements

ARCH BIOPARTNERS INC.

Consolidated Statement of Cash Flows

Years Ended September 30, 2019 and September 30, 2018

	2019	2018
OPERATING ACTIVITIES		
Cash receipts from industry grants	**$ 60,642**	$ -
Cash paid to suppliers and employees	**(1,775,274)**	(2,151,158)
Interest paid	**(89,953)**	(892)
Cash flow used by operating activities	**(1,804,585)**	(2,152,050)
FINANCING ACTIVITIES		
Prepaid share subscriptions	**15,000**	-
Repayments of advances from shareholders	**(75,550)**	(29,348)
Proceeds from convertible debt	**1,500,000**	1,100,000
Issuance of share capital	**221,179**	1,583,142
Cash flow from financing activities	**1,660,629**	2,653,794
INCREASE (DECREASE) IN CASH	**(143,956)**	501,744
CASH - BEGINNING OF YEAR	**544,324**	42,580
CASH - END OF YEAR	**$ 400,368**	$ 544,324

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 four technology platforms in its portfolio under development (each with it's own subsidiary):

• **Dipeptidase-1 (DPEP-1) Inhibitors** - currently the Company's lead platform targeting the enzyme DPEP-1. Lead drug candidate Metablok has the potential to treat or prevent DPEP-1 mediated organ inflammation which often results in organ damage or failure, including in the case of sepsis;

• **AB569** - a new drug candidate for treating or preventing antibiotic resistant bacterial infections, primarily in the lungs, and wounds;

• **Borg: Peptide-Solid Surface Interface** - Binding of proprietary peptides to solid metal and plastic surfaces to inhibit biofilm formation and reduce corrosion; and,

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

The Company owns, or has exclusive licensing rights on, the intellectual property ("IP") emanating from the programs listed above.

The corporate headquarters are located in Toronto, Ontario.

2. BASIS OF PREPARATION

Statement of Compliance

These financial statements of the Company for the year ending September 30, 2019 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were authorized for issue by the Board of Directors on January 28, 2020.

Basis of Measurement

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

The 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.

Management believes the additional financing as described in Note 7 & 15 will provide adequate cash flow to maintain operations for the next twelve months.

Basis of Consolidation

These 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., Arch Clinical Party Ltd., and Arch Bio Ireland Ltd.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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 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.

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, unless anti-dilutive. Also under this method, certain shares 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 year ended September 30, 2019, potentially dilutive common shares (relating to outstanding options and warrants) totaling 5,490,000 (September 30, 2018 - 5,860,000) 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, transfer of rights of patents and industry grants 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 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.

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

Financial Liabilities

Other financial liabilities are based on the purpose for which the liability was incurred, and comprise accounts payables and accrued liabilities and deferred convertible debt. 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.

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

Share-based compensation

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.

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 consolidated financial statements within the next financial year are discussed below:

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.

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 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 risk is 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. 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 year ended September 30, 2019 the Company's operations for the year would have changed by $21,628.

Currency Risk:
Currency risk is the risk to the company's earnings 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 September 30, 2019, the resulting change to the net loss would have been $15,718.

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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 goods and services taxes receivable from the Government of Canada, and a deposit receivable that was subsequently paid.

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 September 30, 2019, the Company has a cash balance of $400,368 (2018 - $544,324) to settle current liabilities due in twelve months or less of $473,924 (2018 - $235,217). 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. Please refer to Note 7, Deferred Convertible Note Financing, for details of an issuance of convertible debt which took place during the period.

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.

	September 30, 2019		September 30, 2018	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Cash	**$ 400,368**	**$ 400,368**	$ 544,324	$ 544,324
Goods and services taxes receivable	**106,487**	**106,487**	109,413	109,413
IRAP receivable	**33,234**	**33,234**	-	-
Deposit receivable	**-**	**-**	182,398	182,398
Accounts payable and accrued liabilities	**(473,924)**	**(473,924)**	(235,217)	(235,217)
Interest on convertible debt	**(110,628)**	**(110,628)**	(42,900)	(42,900)
Deferred convertible debt	**(2,600,000)**	**(2,600,000)**	(1,100,000)	(1,100,000)
	$ (2,677,697)	**$ (2,677,697)**	$ (541,982)	$ (541,982)

6. PATENT AND RESEARCH EXPENSES

As at September 30, 2019 it was difficult to determine the value and the future recoverability of patents by the Company and research expenses incurred. The Company has chosen to take a conservative approach, and expense all costs relating to patents and research. Future patent and research costs may be capitalized if future recoverability is readily estimable.

7. DEFERRED CONVERTIBLE NOTE FINANCING

During the period, the Company closed a non-brokered, unsecured convertible note financing for gross proceeds of $500,000 ("Note C") and $1,000,000 ("Note D") respectively. The Company had previously closed non-brokered, unsecured convertible note financing for which they received gross proceeds of $500,000 ("Note A"), $600,000 ("Note B") respectively.

Note A matures on October 31, 2020 and will be convertible, at the option of the holder, into Common Shares of the Company at a price per share of $0.50, in the thirty-day period prior to maturity of the Note. The Note bears interest of 5% per annum, which is payable in kind by the Company with Common Shares to be issued at the then market price for the Common Shares and subject to TSX Venture Exchange approval in each instance.

The holder has the option until July 31, 2020 to extend the term of Note A another two years to October 31, 2022.

Note B matures on February 28, 2021 and will be convertible, at the option of the holder, into Common Shares of the Company at a price per share of $0.60, in the thirty-day period prior to maturity of the Note. The Note bears interest of 5% per annum, which is payable in-kind by the Company with Common Shares to be issued at the then market price for the Common Shares and subject to TSX Venture Exchange approval in each instance.

The holder has the option until November 30, 2020 to extend the term of Note B another 2 years to February 28, 2023.

Note C matures on January 24, 2022 and will be convertible, at the option of the holder, into Common Shares in the capital of the Company at a price per common share of $1.27, in the thirty-day period prior to the maturity of the Note. The Note bears interest at 5% per annum, which is payable in-kind by the Company with Common Shares to be issued at then market prices for the Common Shares and subject to TSX Venture Exchange approval in each instance.

The holder has the option starting October 24, 2021 until December 24, 2021 to extend the term of Note C another two years to January 24, 2024.

Note D was scheduled to mature on November 22, 2019 but the term of the Note was extended for 3 years to November 22, 2022. The Note will be convertible at the option of the holder, into common shares in the Company at a price per share of $1.21, in the thirty-day period prior to maturity of the Note. The note bears simple interest at a rate of 5% per annum, which is payable in kind by the Company with Common Shares to be issued at then market price for the Common Shares, subject to TSX Venture Exchange approval.

Accrued interest at year end relating to these Notes is $110,628 (2018 - $42,900).

8. DUE TO SHAREHOLDER

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

During the year ending September 30, 2019, interest expense of $19,869 (2018 - $20,254) has been recorded as a result of this loan. During the year ending September 30, 2019, $75,500 (2018 - $29,348) of the loan was repaid to the shareholder.

The company extended the term of the outstanding shareholder's demand promissory notes. The shareholder's loan has been extended to January 15, 2022 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 12 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, 2017	55,299,679	$	10,223,131
Shares issued	3,195,500		1,597,750
Share issuance costs	-		(14,608)
Balance, September 30, 2018	**58,495,179**	**$**	**11,806,273**
Shares issued	**467,123**	**$**	**223,982**
Share issuance costs	**-**		**(2,803)**
Balance, September 30, 2019	**58,962,302**	**$**	**12,027,452**

The Company had 320,000 common share warrants exercised during the year ended September 30, 2019. The exercise price was $0.50 per common share, for net proceeds of $159,982.

The Company had 130,000 common share options exercised on March 19, 2019. The exercise price was $0.30 per Unit, for gross total proceeds of $39,000.

The Company settled an annual interest payment owing to the arm's length holder of an unsecured, deferred convertible note. The interest payment of $25,000 was settled by an issuance of 17,123 common shares at a price of $1.46 per share.

Share issuance costs during the year totaled $2,803.

The Company had 695,500 common share warrants exercised during the year ended September 30, 2018. The exercise price was $0.50 per common share, for net proceeds of $347,750.

The Company closed a private placement on March 9, 2018. The Company issued 2,500,000 common shares priced at $0.50 per common share for net proceeds of $1,250,000 (The "Offering"). The Offering closed in two equal tranches of $625,000 on February 2, 2018 and $625,000 on March 9, 2018. Private placement fees paid in connection with the offering totaled $14,608.

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 have shares reserved for issuance in excess of 5% of the outstanding number of shares in any 12 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.

(continues)

9. SHARE CAPITAL *(continued)*

	Number of Stock Options	Weighted Average Exercise Price	Expiry date
Balance, September 30, 2017	3,900,000	0.45	*
Granted	1,550,000	0.74	**
Exercised	-	-	
Expired	-	-	
Balance, September 30, 2018	5,450,000	0.53	
Granted	120,000	-	***
Exercised	(130,000)	-	
Expired	-	-	
Balance, September 30, 2019	5,490,000	0.54	

All issued options other than 50,000 have fully vested and are exercisable as at September 30, 2019. The remaining 50,000 will vest if certain future events occur.

* 900,000 of these options have an exercise price of $0.30 and were to expire in October 2019, 100,000 of these options have an exercise price of $0.40 and were to expire in October 2019, 200,000 of these options have an exercise price of $0.50 and were to expire in October 2019. This group of options originally expiring October 2019 was extended and are still valid as of the date hereinabove, pursuant to TSX Venture Exchange Policy 4.4 - Incentive Stock Options. 300,000 options have an exercise price of $0.45 and will expire in January 2021, and 300,000 options have an exercise price of $0.50 and will expire in September 2021. The remaining 2,100,000 options have an exercise price of $0.50 and expire April 2024. During the year ended, 130,000 of these options were exercised.

** 100,000 of these options have an exercise price of $0.60 and will expire in March 2023, 250,000 of these options have an exercise price of $0.60 and will expire in March 2025 and 1,200,000 of these options have an exercise price of $0.78 and expire in May 2028.

*** 50,000 of these options have an exercise price of $1.24 and will expire in January 2022 and 20,000 options have an exercise price of $1.25 and will expire in May 2029. The remaining 100,000 options have an exercise price of $1.24 and will expire June 2021. Of these 100,000, only 50,000 have vested.

Stock-based compensation

During the year ended September 30, 2019, the Company granted 70,000 (2018 - 1,550,000) incentive stock options to its directors, officers, and consultants for compensation pursuant to its 2018-2019 stock option plan. Each stock option is exercisable into a common share of the company for a period of three to ten years. The total compensation expense, as calculated using the Black-Scholes option pricing model, for the stock options granted was $83,105 (2018 - $1,132,707). This stock-based compensation of $83,105 (2018 - $1,132,707) represents the current period change in the Company's Contributed Surplus. 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 have vested during year is estimated on the date of grant using the Black-Scholes Option Pricing Model, with the following weighted average assumptions:

Risk free interest rate	1.50%
Expected dividend yield	NIL
Expected stock price volatility	71,79% - 256.64%
Expected option life in years	2 - 10 years
Option exercise price	$1.24 - $1.25
Fair value of options granted	$1.25

(continues)

9. SHARE CAPITAL *(continued)*

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, 2017	1,075,500	0.50	
Granted	-	-	
Exercised	(665,500)	0.50	June 2018
Expired	-	-	
Balance, September 30, 2018	410,000	0.50	August 2019
Granted	-	-	
Exercised	(320,000)	0.50	August 2019
Expired	(90,000)	-	August 2019
Balance, September 30, 2019	-	-	

10. RELATED PARTY TRANSACTIONS

	2019	2018
Key management compensation	**$ 100,000**	$ 100,000
Director of the Company Share purchase	**$ 39,000**	$ -
	$ 139,000	$ 100,000

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 9 and 11. As this compensation is not readily measurable, these expenses and the related services revenue have not been recorded. For the year ended September 30, 2019 there have been no such transactions, nor were there for the comparative period in the previous fiscal year.

Included in accounts payable and accrued liabilities is $6,033 (2018 - $8,333) owed to key management for the transactions described above.

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 September 30**	**Salary**	**Bonus**	**Other annual compensation**	**Securities under options granted**
Richard Muruve	2019	$100,000	$NIL	$NIL	$NIL
Chief Executive Officer	2018	$100,000	$NIL	$NIL	$NIL
	2017	$100,000	$NIL	$NIL	$NIL
Andrew Bishop	2019	$NIL	$NIL	$NIL	$NIL
Chief Financial Officer	2018	$NIL	$NIL	$NIL	$NIL
	2017	$NIL	$NIL	$NIL	$NIL
Daniel Muruve	2019	$NIL	$NIL	$NIL	$NIL
Chief Science Officer	2018	$NIL	$NIL	$NIL	$NIL
	2017	$NIL	$NIL	$NIL	$NIL

(continues)

11. EXECUTIVE COMPENSATION *(continued)*

Options

During the year ended September 30, 2019, no stock options were granted to the Named Executive Officers 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 September 30, 2019.

Named Executive Officers	Securities acquired on exercise	Aggregate value realized	Unexercised options as at September 30, 2019 Exercisable/Unexercisable	Value of unexercised in-the-money options at September 30, 2019 Exercisable/Unexercisable
Richard Muruve *Chief Executive Officer*	NIL	N/A	1,370,000/0	$623,800/$NIL
Andrew Bishop *Chief Financial Officer*	NIL	N/A	1,075,000/0	$536,250/$NIL
Daniel Muruve *Chief Science Officer*	NIL	N/A	525,000/0	$218,250/$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 in Note 9. As this compensation is not readily measurable, these expenses and the related services revenue have not been recorded.

Options

During the year ended September 30, 2019, no stock options were granted to the Directors and 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 September 30, 2019.

Director	Securities acquired on exercise	Aggregate value realized	Unexercised options as at September 30, 2018 Exercisable/Unexercisable	Value of unexercised in-the-money options at September 30, 2018 Exercisable/Unexercisable
Claude Allary	NIL	N/A	350,000/0	$156,000/$NIL
Conor Gunne	NIL	N/A	350,000/0	$156,000/$NIL
Adrian Haigh	NIL	N/A	350,000/0	$156,000/$NIL
Richard Rossman	NIL	N/A	350,000/0	$156,000/$NIL
Patrick Vink	NIL	N/A	250,000/0	$94,500/$NIL
Arthur Dixon	NIL	N/A	20,000/0	$115,500/$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 and convertible debt, 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 September 30, 2019 was $567,894 (2018 - $855,089). 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 year ended September 30, 2019.

13. INCOME TAXES

The difference between tax expense for the year and the expected income taxes based on the statutory tax rate arises as follows:

		2019		2018
Statutory tax rates		**26.50 %**		26.60 %
Loss before income taxes	**$**	**(2,357,611)**	$	(3,015,820)
Expected income tax recovery	**$**	**(624,767)**	$	(779,989)
Increase (decrease) resulting from:				
Stock based compensation		**22,023**		301,270
Expense adjustments		**6,198**		10,257
Patent expenses added back		**45,976**		57,660
Share issue cost		**(1,626)**		(1,222)
Capital cost allowance		**(13,937)**		(13,451)
Non-capital loss carried forward - Canadian entities		**483,949**		425,475
Non-capital loss carried forward - Foreign entities		**82,184**		-
Effective tax expense	**$**	**-**	$	-

The nature and tax effect of the temporary differences giving rise to the deferred tax assets and liabilities at September 30, 2019 and 2018 are summarized below:

	October 1, 2018	**Recognized in net income**	**Expired as at September 30, 2019**	**September 30, 2019**
Tax effect of Non-capital losses carried forward	$ 4,829,981	$ 1,826,224	$ -	$ 6,656,205
Unrecognized deferred tax assets	(4,829,981)	(1,826,224)	-	(6,656,205)
Deferred tax assets	$ -	$ -	$ -	$ -

	October 1, 2017	**Recognized in net income**	**Expired as at September 30, 2018**	**September 30, 2018**
Tax effect of Non-capital losses carried forward	$ 3,230,292	$ 1,599,689	$ -	$ 4,829,981
Unrecognized deferred tax assets	(3,230,292)	(1,599,689)	-	(4,829,981)
Deferred tax assets	$ -	$ -	$ -	$ -

The Company has incurred losses of $6,656,205 for tax purposes which are available to reduce future taxable income. Due to the going-concerns of operations outlined in Note 2, no future income taxes recoverable have been recorded in respect of these losses. Such benefits will be recorded as an adjustment to the tax provision in the year realized. The losses will expire as follows:

2026	$	215,112
2027		90,277
2028		138,852
2029		81,405
2030		127,753
Thereafter		6,002,806
	$	6,656,205

14. CORRECTION OF AN ERROR

During the year, the Company received a reimbursement for research amounts previously expensed during the September 2018 fiscal year. This resulted in an increase in net income and deposit receivable, and a reduction in the retained deficit of $182,398 for the September 2018 fiscal year.

15. SUBSEQUENT EVENTS

During the year ended, a director exercised stock options to purchase common shares. This amount was paid in advance of the shares being issued, resulting in a prepaid share subscription of $15,000. In October 2019, certain directors of the Company and a non-insider consultant exercised a total of 150,000 stock options to purchase 150,000 common shares of the company. The transaction resulted in proceeds of $45,000.

On December 2, 2019, a director of the Company exercised a total of 350,000 stock options to buy 350,000 common shares of the Company for proceeds of $105,000.

On January 24, 2020, a director of the Company exercised a total of 420,000 stock options to buy 420,000 common shares of the Company for proceeds of $176,000.

16. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current year's presentation.