

**ARCH BIOPARTNERS INC.**  
**Condensed Interim Consolidated**  
**Financial Statements**  
**Six Months Ended March 31, 2020 and 2019**  
*(Unaudited - See Notice Of No Auditor Review)*

**Index to Condensed Interim Consolidated Financial Statements**  
**Six Months Ended March 31, 2020 and 2019**  
*(Unaudited - See Notice Of No Auditor Review)*

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## **NOTICE OF NO AUDITOR REVIEW**

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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 March 31, 2020.

"Richard Muruve" CEO and Director  
June 1, 2020

## Condensed Interim Consolidated Statement of Financial Position

March 31, 2020 and September 30, 2019

(Unaudited - See Notice To Reader)

	March 31, 2020	September 30, 2019
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 223,066	\$ 400,368
Prepaid expenses	19,457	27,892
Amounts receivable from the National Research Council	29,571	33,234
Australian research and development credit (Note 4)	292,798	-
Goods and services taxes receivable	83,365	106,487
	<u>\$ 648,257</u>	<u>\$ 567,981</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 468,934	\$ 473,924
Interest payable on convertible debt (Note 7)	181,731	110,628
	650,665	584,552
DEFERRED CONVERTIBLE NOTE (Note 7)	3,100,000	2,600,000
DUE TO SHAREHOLDERS (Note 8)	293,779	285,137
	<u>4,044,444</u>	<u>3,469,689</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9)	12,353,452	12,027,452
Contributed surplus (Note 9)	2,861,716	2,838,804
Deficit	(18,611,355)	(17,782,964)
Prepaid share subscription	-	15,000
	<u>(3,396,187)</u>	<u>14,881,256</u>
	<u>\$ 648,257</u>	<u>\$ 567,981</u>

### ON BEHALF OF THE BOARD

"Richard Muruve" Director

"Andrew Bishop" Director

See notes to financial statements

**ARCH BIOPARTNERS INC.**  
**Condensed Interim Consolidated Statement of Comprehensive Loss and Deficit**  
**Six Months Ended March 31, 2020 and 2019**  
*(Unaudited - See Notice To Reader)*

	<b>3 months ended</b> <i>March 31,</i> <b>2020</b>	3 months ended <i>March 31,</i> 2019	<b>6 months ended</b> <i>March 31,</i> <b>2020</b>	6 months ended <i>March 31,</i> 2019
<b>REVENUE</b>				
Industry grants	\$ 29,571	\$ -	\$ 55,652	\$ -
<b>EXPENSES</b>				
Communication	2,261	2,533	3,702	3,841
Insurance	1,813	2,081	3,838	4,275
Interest and bank charges <i>(Notes 7, 8)</i>	47,348	25,947	82,921	45,737
Marketing	10,450	16,853	19,786	18,323
Office	5,154	6,254	10,181	11,715
Patent <i>(Note 6)</i>	94,166	16,231	124,487	47,066
Professional fees	55,190	56,801	82,638	101,725
Research <i>(Note 4)</i>	(194,920)	252,187	380,913	944,631
Share based payments <i>(Note 9)</i>	11,456	36,195	22,911	36,195
Transfer agent fee	42,548	61,468	51,006	64,078
Travel	1,608	5,402	6,352	11,626
Wages and employee benefits	49,600	26,712	96,626	53,479
	<b>126,674</b>	508,664	<b>885,361</b>	1,342,691
<b>LOSS FROM OPERATIONS</b>	<b>(97,103)</b>	(508,664)	<b>(829,709)</b>	(1,342,691)
<b>FOREIGN EXCHANGE GAIN (LOSS)</b>	<b>1,760</b>	(5,085)	<b>1,318</b>	10,669
<b>NET COMPREHENSIVE LOSS</b>	<b>\$ (95,343)</b>	\$ (513,749)	<b>\$ (828,391)</b>	\$ (1,332,022)
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	<b>\$ (0.002)</b>	\$ (0.009)	<b>\$ (0.014)</b>	\$ (0.023)
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	<b>60,393,661</b>	58,556,858	<b>59,433,950</b>	58,529,963

See notes to financial statements

**ARCH BIOPARTNERS INC.**  
**Condensed Consolidated Interim Statement of Changes in Equity**  
**Six Months Ended March 31, 2020 and 2019**  
*(Unaudited - See Notice To Reader)*

	Share Capital	Contributed Surplus	Deficit	Prepaid Share Subscriptions	Total
<b>BALANCE AT OCTOBER 1, 2018</b>	<b>\$ 11,806,273</b>	<b>\$ 2,755,699</b>	<b>\$ (15,425,353)</b>	<b>\$ -</b>	<b>\$ (1,045,780)</b>
Loss for the period	-	-	(1,332,022)	-	(1,332,022)
Stock options vested <i>(Note 9)</i>	-	36,195	-	-	36,195
Shares issued <i>(Note 9)</i>	71,197	-	-	-	71,197
<b>BALANCE AT MARCH 31, 2019</b>	<b>\$ 11,877,470</b>	<b>\$ 2,791,894</b>	<b>\$ (16,757,375)</b>	<b>\$ -</b>	<b>\$ (2,270,410)</b>
<b>BALANCE AT OCTOBER 1, 2019</b>	<b>\$ 12,027,452</b>	<b>\$ 2,838,804</b>	<b>\$ (17,782,964)</b>	15,000	<b>\$ (2,901,708)</b>
Loss for the period	-	-	(828,391)	-	(828,391)
Stock options vested <i>(Note 9)</i>	-	22,912	-	-	22,912
Shares issued <i>(Note 9)</i>	326,000	-	-	-	326,000
Prepaid share subscriptions	-	-	-	15,000	-
<b>BALANCE AT MARCH 31, 2020</b>	<b>\$ 12,353,452</b>	<b>\$ 2,861,716</b>	<b>\$ (18,611,355)</b>	<b>-</b>	<b>\$ (3,396,187)</b>

See notes to financial statements

**ARCH BIOPARTNERS INC.**  
**Condensed Interim Consolidated Statement of Cash Flows**  
**Six Months Ended March 31, 2020 and 2019**  
*(Unaudited - See Notice To Reader)*

	<b>3 months ended</b> <i>March 31,</i> <b>2020</b>	3 months ended <i>March 31,</i> 2019	<b>6 months ended</b> <i>March 31,</i> <b>2020</b>	6 months ended <i>March 31,</i> 2019
<b>OPERATING ACTIVITIES</b>				
Cash receipts from grants	\$ 26,081	\$ -	\$ 59,315	\$ -
Cash paid to suppliers and employees	(494,324)	(681,990)	(973,339)	(996,713)
Interest paid	(38,983)	(20,806)	(70,278)	(35,491)
Cash flow used by operating activities	<u>(507,226)</u>	<u>(702,796)</u>	<u>(984,302)</u>	<u>(1,032,204)</u>
<b>FINANCING ACTIVITIES</b>				
Advances from (to) related parties	15,000	-	(15,000)	-
Advances from shareholder	(4,000)	10,500	(4,000)	10,500
Proceeds from convertible note <i>(Note 7)</i>	500,000	500,000	500,000	500,000
Issuance of share capital	176,000	39,000	326,000	71,197
Cash flow from financing activities	<u>687,000</u>	<u>549,500</u>	<u>807,000</u>	<u>581,697</u>
<b>INCREASE (DECREASE) IN CASH</b>	<b>179,774</b>	<b>(153,296)</b>	<b>(177,302)</b>	<b>(450,507)</b>
CASH - BEGINNING OF PERIOD	<u>43,293</u>	<u>247,113</u>	<u>400,368</u>	<u>544,324</u>
<b>CASH - END OF PERIOD</b>	<b>\$ 223,066</b>	<b>\$ 93,817</b>	<b>\$ 223,066</b>	<b>\$ 93,817</b>

**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Six Months Ended March 31, 2020**  
*(Unaudited - See Notice To Reader)*

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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. The Company 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 technologies in its portfolio under development:

- **Metablok** – currently the Company’s lead program and primary focus. Lead drug candidate Metablok (or ‘LSALT peptide’) has the potential to treat or prevent dipeptidase-1 (DPEP-1) mediated organ inflammation in the lungs, liver or kidneys which often results in organ damage or failure, including in the case of sepsis;
- **AB569** – a new drug candidate for treating 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.

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**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Six Months Ended March 31, 2020**  
*(Unaudited - See Notice To Reader)*

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2. BASIS OF PREPARATION

Statement of Compliance

The financial statements of the Company for the year ended September 30, 2019 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 six month period ended March 31, 2020 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 June 1, 2020.

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.

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

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**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Six Months Ended March 31, 2020**  
*(Unaudited - See Notice To Reader)*

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2. BASIS OF PREPARATION *(continued)*

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., Arch Bio Ireland Ltd and Arch Clinical Pty Ltd.

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

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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.

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**ARCH BIOPARTNERS INC.**  
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3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

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 March 31, 2020, potentially dilutive common shares (relating to options and warrants outstanding at year end) totaling 4,420,000 (September 30, 2019 - 4,965,000) were not included in the computation of loss per share because their effect was anti-dilutive. Therefore, diluted loss per share is the same as basic loss per share.

Revenue recognition

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

Interest income is recognized as earned.

Patent fees

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

Research and development credits

The Company incurs costs on activities that relate to the research and development of new products. Some of the research and development costs incurred are eligible for refundable tax credits and these tax credits are accounted for on a net basis, with the credits reducing the reported research expenses.

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**ARCH BIOPARTNERS INC.**  
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**Six Months Ended March 31, 2020**  
*(Unaudited - See Notice To Reader)*

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

Financial instruments

*Financial Assets*

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

*Loans and Receivables*

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

*Fair value through profit or loss assets*

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

*Impairment on Financial Assets*

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

*Financial Liabilities*

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprise 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.

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**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments

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

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

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

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

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

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

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

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**ARCH BIOPARTNERS INC.**  
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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 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.

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**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Six Months Ended March 31, 2020**  
*(Unaudited - See Notice To Reader)*

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

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.

Australian Research and Development Credit

The Company has applied for Australian research and development tax credits relating to the research expenses they are incurring with their Australian subsidiary, Arch Clinical Pty Ltd.. The Australian research and development tax credit encourages companies to engage in such activities by providing an offset of up to 43.5% of eligible research and development expenses.

The Company has estimated their credit based on what they believe to be eligible expenditures, however, there is judgement used in calculating the credit amount and no funds have been received to date.

The expenses that the Company believes are eligible for this credit have been setup as receivables in the period with a reduction to the Company's research expense equal to the credit amount. To date, all claimed expenses relate to the Company's Phase I trial of their lead drug candidate, Metablok.

Included in the Company's research expense for the six month period ending March 31, 2020, is a reduction of \$292,798 relating to these research and development credits.

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**ARCH BIOPARTNERS INC.**  
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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.

Market Risk

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

*Interest Rate Risk:*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. 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 six-month period ended March 31, 2020 the Company's operations for the period would have changed by \$20,933.

*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 March 31, 2020, the resulting change to the net loss would have been \$3,718.

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**ARCH BIOPARTNERS INC.**  
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**Six Months Ended March 31, 2020**  
*(Unaudited - See Notice To Reader)*

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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.

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 March 31, 2020, the Company has a cash balance of \$223,066 (March 31, 2019 - \$72,817) to settle current liabilities due in twelve months or less of \$650,665 (March 31, 2019 - \$539,254). 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.

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**ARCH BIOPARTNERS INC.**  
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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.

	March 31, 2020		September 30, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash	\$ 223,066	\$ 223,066	\$ 400,368	\$ 400,368
Goods and services taxes receivable	83,365	83,365	106,487	106,487
IRAP receivable	29,571	29,571	33,234	33,234
Australian research and development credit	292,798	292,798	-	-
Accounts payable and accrued liabilities	(468,934)	(468,934)	(473,924)	(473,924)
Interest on convertible debt	(181,731)	(181,731)	(110,628)	(110,628)
Deferred convertible note	(3,100,000)	(3,100,000)	(2,600,000)	(2,600,000)
	<b>\$ (3,316,297)</b>	<b>\$ (3,316,297)</b>	<b>\$ (2,640,322)</b>	<b>\$ (2,640,322)</b>

6. PATENTS AND RESEARCH EXPENSES

As at March 31, 2020 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.

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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 E").

Note E matures on February 1, 2025 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 \$0.89, in the thirty-day period prior to the maturity of the Note. The Note bears interest at 8.5% 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 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"), \$500,000 ("Note C") and \$1,000,000 ("Note D") 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 March 31, 2020 relating to these Notes is \$181,731 (2018 - \$52,436).

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8. DUE TO SHAREHOLDER

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

During the six month period ended March 31, 2020, interest expense of \$8,642 (March 2019 - \$10,246) has been recorded as a result of this loan. During the six month period ended March 31, 2020, \$NIL (March 2019 - \$10,500) 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 twelve months, therefore the loan has been treated as a long-term liability.

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9. SHARE CAPITAL

Authorized:

Unlimited Common voting shares

	# of shares	Amount
Issued and fully paid, common shares		
<b>Balance October 1, 2018</b>	<b>58,495,179</b>	\$ 11,806,273
Shares issued	467,123	223,982
Share issuance costs	-	(2,803)
	<b>58,962,302</b>	12,027,452
<b>Balance September 30, 2019</b>		
Shares issued	920,000	326,000
	<b>59,882,302</b>	<b>\$ 12,353,452</b>

During the six months ended March 31, 2020, the Company had 920,000 stock options exercised into 920,000 common shares of the Company for proceeds of \$326,000.

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.

The transaction costs during the three months ended totalled \$2,803.

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 ten years from the date of their grant and may be subject to certain vesting conditions as determined by the Board of Directors. The options are exercisable at the price determined by the Company which must not be less than the last closing price of the listed shares of the Company before the date of their grant, less any applicable discount.

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9. SHARE CAPITAL *(continued)*

	Number of Stock Options	Weighted Average Exercise Price	Expiry date
<b>Balance September 30, 2018</b>	\$ 5,450,000	\$ 0.53	*
Granted	120,000	0.74	**
Exercised	(130,000)	-	*
Expired	-	-	
<b>Balance September 30, 2019</b>	5,440,000	0.54	
Granted	50,000	-	**
Exercised	(920,000)	-	*
Expired	(150,000)	-	*
<b>Balance March 31, 2020</b>	<b>4,420,000</b>	<b>0.58</b>	

All issued options have fully vested and are exercisable as at March 31, 2020.

\* 900,000 of these options had 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. 300,000 options have an exercise price of \$0.45 and will expire in January 2021, 300,000 options have an exercise price of \$0.50 and will expire in September 2021, 2,100,000 options have an exercise price of \$0.50 and will expire April 2024, 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 March 2025 and 1,200,000 of these options have an exercise price of \$0.78 and will expire in May 2028.

130,000 of these options were exercised during the year ended September 30, 2019 and another 920,000 were exercised during the six months ended March 31, 2020. 150,000 of these options have also expired.

\*\* 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. All 100,000 of these options have vested at March 31, 2020 (50,000 - September 30, 2019).

Stock-based compensation

During the six month period ended March 31, 2020, the Company granted NIL (2019 - NIL) incentive stock options, however, 50,000 of previously granted options vested during the period. Each stock option is exercisable into a common share of the company for a period of two to ten years. The total compensation expense, as calculated using the Black-Scholes option pricing model, for the stock options granted was \$22,912 (2019 - \$NIL). The stock-based compensation of \$22,912 (2019 - \$NIL) 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.

*(continues)*

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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:

Risk free interest rate	1.50%
Expected dividend yield	NIL
Expected stock price volatility	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

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.

	<b>Number of Warrants</b>	<b>Weighted Average Price</b>	<b>Expiry Date</b>
<b>Balance September 30, 2018</b>	<b>410,000</b>	0.50	August 2019
Granted	-	-	
Exercised	<b>(320,000)</b>	0.50	August 2019
Expired	<b>(90,000)</b>	-	August 2019
<b>Balance September 30, 2019</b>	-	-	
Granted	-	-	
Exercised	-	-	
Expired	-	-	
<b>Balance March 31, 2020</b>	-	-	

10. RELATED PARTY TRANSACTIONS

	<b>Six months ended</b>	Six months ended
	<b>March 31, 2020</b>	March 31, 2019
Key Management Compensation		
Compensation	\$ 25,000	\$ 25,000
Directors of the Company		
Share purchases	<b>326,000</b>	-
	<b>351,000</b>	

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 Company's management team and board, the Board's Nominating and Compensation Committee has maintained the Company's recent practice of not compensating other 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 three months ended March 31, 2020 there have been no such transactions, nor were there any for the comparative period in the previous fiscal year.

Included in accounts payable and accrued liabilities is \$8,333 (March 2019 - \$8,333) owed to key management for the transactions described above.

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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.

<b>Name and principle position</b>	<b>October 1 to March 31</b>	<b>Compensation</b>			<b>Long-Term Compensation</b>
		<b>Salary</b>	<b>Bonus</b>	<b>Other annual compensation</b>	<b>Securities under options granted</b>
Richard Muruve <i>Chief Executive Officer</i>	2020	\$50,000	\$NIL	\$NIL	\$NIL
	2019	\$50,000	\$NIL	\$NIL	\$NIL
	2018	\$50,000	\$NIL	\$NIL	\$NIL
Andrew Bishop <i>Chief Financial Officer</i>	2020	\$NIL	\$NIL	\$NIL	\$NIL
	2019	\$NIL	\$NIL	\$NIL	\$NIL
	2018	\$NIL	\$NIL	\$NIL	\$NIL
Daniel Muruve <i>Chief Science Officer</i>	2020	\$NIL	\$NIL	\$NIL	\$NIL
	2019	\$NIL	\$NIL	\$NIL	\$NIL
	2018	\$NIL	\$NIL	\$NIL	\$NIL

*(continues)*



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11. EXECUTIVE COMPENSATION *(continued)*

***Options***

During the period ended March 31, 2020, no 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 March 31, 2020.

<u>Named Executive Officers</u>	<u>Securities acquired on exercise</u>	<u>Aggregate value realized</u>	<u>Unexercised options as at March 31, 2020</u> <u>Exercisable/Unexercisable</u>	<u>Value of unexercised in-the-money options at March 31, 2020</u> <u>Exercisable/Unexercisable</u>
Richard Muruve <i>Chief Executive Officer</i>	NIL	N/A	925,000/0	\$323,250/\$NIL
Andrew Bishop <i>Chief Financial Officer</i>	NIL	N/A	725,000/0	\$251,250/\$NIL
Daniel Muruve <i>Chief Science Officer</i>	NIL	N/A	500,000/0	\$159,000/\$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 9. As this compensation is not readily measurable, these expenses and the related services revenue have not been recorded.

***Options***

During the period ended March 31, 2020, no 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 March 31, 2020.

<u>Director</u>	<u>Securities acquired on exercise</u>	<u>Aggregate value realized</u>	<u>Unexercised options as at March 31, 2020</u> <u>Exercisable/Unexercisable</u>	<u>Value of unexercised in-the-money options at March 31, 2020</u> <u>Exercisable/Unexercisable</u>
Claude Allary	NIL	N/A	250,000/0	\$79,500/\$NIL
Adrian Haigh	NIL	N/A	300,000/0	\$103,500/\$NIL
Richard Rossman	NIL	N/A	300,000/0	\$103,500/\$NIL

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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 March 31, 2020 was \$648,257 (March 31, 2019 - \$156,508).

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 March 31, 2020.

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