

**ARCH BIOPARTNERS INC.**  
**Condensed Interim Consolidated**  
**Financial Statements**  
**Nine Months Ended June 30, 2021 and 2020**  
*(Unaudited - See Notice Of No Auditor Review)*

**ARCH BIOPARTNERS INC.**  
**Index to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2021 and 2020**  
*(Unaudited - See Notice of No Auditor Review)*

---

	Page
NOTICE OF NO AUDITOR REVIEW	1
INTERIM FINANCIAL STATEMENTS	
Condensed Interim Consolidated Statement of Financial Position	2
Condensed Interim Consolidated Statement of Comprehensive Income (Loss)	3
Condensed Interim Consolidated Statement of Changes in Equity	4
Condensed Interim Consolidated Statement of Cash Flow	5
Notes to Condensed Interim Consolidated Financial Statements	6 - 24

---

## **NOTICE OF NO AUDITOR REVIEW**

---

To the shareholders of Arch Biopartners Inc.

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

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed interim consolidated financial statements for the period ended June 30, 2021.

"Richard Muruve" CEO and Director

**ARCH BIOPARTNERS INC.**  
**Condensed Interim Consolidated Statement of Financial Position**  
**June 30, 2021 and September 30, 2020**  
*(Unaudited - See Notice of No Auditor Review)*

	<i>June 30, 2021</i>	<i>September 30, 2020</i>
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 62,649	\$ 653,685
Amounts receivable from the Department of Innovation, Science, and Economic Development <i>(Note 13)</i>	1,997,078	-
Australian research and development credit <i>(Note 4)</i>	366,098	-
Prepaid expenses	6,653	26,617
Harmonized sales tax receivable	268,329	60,999
	<b>\$ 2,700,807</b>	<b>\$ 741,301</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 1,493,727	\$ 949,227
Short term debt <i>(Note 14)</i>	2,251,836	-
Interest payable on convertible debt <i>(Note 7)</i>	385,699	269,767
	4,131,262	1,218,994
DEFERRED CONVERTIBLE DEBT <i>(Note 7)</i>	3,100,000	3,100,000
DUE TO SHAREHOLDER <i>(Note 8)</i>	290,821	290,411
	7,522,083	4,609,405
<b>SHAREHOLDERS' EQUITY</b>		
Share capital <i>(Note 9)</i>	14,485,052	13,712,552
Contributed surplus <i>(Note 9)</i>	4,663,114	4,565,998
Deficit	(23,969,442)	(22,146,654)
	(4,821,276)	(3,868,104)
	<b>\$ 2,700,807</b>	<b>\$ 741,301</b>

**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 Income (Loss)**

**Nine Months Ended June 30, 2021 and 2020**

*(Unaudited - See Notice of No Auditor Review)*

	3 months ended <i>June 30,</i> <b>2021</b>	3 months ended <i>June 30,</i> <b>2020</b>	9 months ended <i>June 30,</i> <b>2021</b>	9 months ended <i>June 30,</i> <b>2020</b>
<b>REVENUE</b>				
Industry grants	\$ 1,997,078	\$ 29,572	\$ 2,018,163	\$ 85,223
<b>EXPENSES</b>				
Communication	3,050	1,998	7,639	5,700
Insurance	7,030	3,608	22,838	7,446
Interest and bank charges	441	57	769	710
Interest on long-term debt <i>(Note 8)</i>	42,989	47,402	128,642	129,669
Interest on short-term debt	51,836	-	51,836	-
Marketing	10,557	27,429	19,160	47,214
Office	4,766	4,818	12,702	14,999
Patent	75,767	70,411	137,170	194,897
Professional fees	72,559	76,078	232,126	158,715
Regulatory and exchange fees	4,273	-	47,478	-
Research <i>(Note 4)</i>	771,616	297,938	2,909,477	678,851
Share based payments <i>(Note 9)</i>	12,488	1,619,655	97,116	1,642,566
Transfer agent fee	12,433	24,208	36,097	75,214
Travel	331	128	1,064	6,480
Wages and employee benefits	49,698	49,609	145,124	146,234
	<b>1,119,834</b>	<b>2,223,339</b>	<b>3,849,238</b>	<b>3,108,695</b>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>877,244</b>	<b>(2,193,767)</b>	<b>(1,831,075)</b>	<b>(3,023,472)</b>
<b>FOREIGN EXCHANGE GAIN (LOSS)</b>	<b>4,725</b>	<b>3,508</b>	<b>8,287</b>	<b>4,827</b>
<b>NET COMPREHENSIVE INCOME (LOSS)</b>	<b>\$ 881,969</b>	<b>\$ (2,190,259)</b>	<b>\$ (1,822,788)</b>	<b>\$ (3,018,645)</b>
<b>BASIC EARNINGS (LOSS) PER SHARE</b>	<b>\$ 0.014</b>	<b>\$ (0.037)</b>	<b>\$ (0.030)</b>	<b>\$ (0.051)</b>
<b>DILUTED EARNINGS (LOSS) PER SHARE</b>	<b>\$ 0.013</b>	<b>\$ (0.037)</b>	<b>\$ (0.030)</b>	<b>\$ (0.051)</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	<b>61,462,302</b>	<b>59,950,780</b>	<b>61,202,118</b>	<b>59,603,181</b>

See notes to financial statements

**ARCH BIOPARTNERS INC.**  
**Condensed Interim Consolidated Statement of Changes in Equity**  
**Nine Months Ended June 30, 2021 and 2020**

*(Unaudited - See Notice of No Auditor Review)*

	Share Capital	Contributed Surplus	Deficit	Prepaid Share Subscriptions	Total
<b>BALANCE AT OCTOBER 1, 2019</b>	<b>\$ 12,027,452</b>	<b>\$ 2,838,804</b>	<b>\$ (17,782,964)</b>	<b>\$ 15,000</b>	<b>\$ (2,916,708)</b>
Loss for the period	-	-	(3,018,645)	-	(3,018,645)
Stock options issued <i>(Note 9)</i>	-	1,642,567	-	-	1,642,567
Common shares issued <i>(Note 9)</i>	1,685,100	-	-	-	1,685,100
Prepaid share subscriptions <i>(Note 9)</i>	-	-	-	(15,000)	-
<b>BALANCE AT JUNE 30, 2020</b>	<b>\$ 13,712,552</b>	<b>\$ 4,481,371</b>	<b>\$ (20,801,609)</b>	<b>\$ -</b>	<b>\$ (2,607,686)</b>
<b>BALANCE AT OCTOBER 1, 2020</b>	<b>\$ 13,712,552</b>	<b>\$ 4,565,998</b>	<b>\$ (22,146,654)</b>	<b>\$ -</b>	<b>\$ (3,868,104)</b>
Loss for the period	-	-	(1,822,788)	-	(1,822,788)
Stock options issued <i>(Note 9)</i>	-	97,116	-	-	97,116
Common shares issued <i>(Note 9)</i>	772,500	-	-	-	772,500
<b>BALANCE AT JUNE 30, 2021</b>	<b>\$ 14,485,052</b>	<b>\$ 4,663,114</b>	<b>\$ (23,969,442)</b>	<b>\$ -</b>	<b>\$ (4,821,276)</b>

See notes to financial statements

**ARCH BIOPARTNERS INC.**  
**Condensed Interim Consolidated Statement of Cash Flow**  
**Nine Months Ended June 30, 2021 and 2020**  
*(Unaudited - See Notice of No Auditor Review)*

	<b>3 months ended</b> <i>June 30,</i> <b>2021</b>	3 months ended <i>June 30,</i> 2020	<b>9 months ended</b> <i>June 30,</i> <b>2021</b>	9 months ended <i>June 30,</i> 2020
<b>OPERATING ACTIVITIES</b>				
Cash receipts from grants	\$ -	\$ 29,572	\$ 21,085	\$ 88,886
Cash paid to suppliers and employees	<b>(2,258,042)</b>	(188,660)	<b>(3,571,552)</b>	(1,161,997)
Interest paid	<b>(441)</b>	(43,052)	<b>(769)</b>	(113,331)
Cash flow used by operating activities	<b>(2,258,483)</b>	(202,140)	<b>(3,551,236)</b>	(1,186,442)
<b>FINANCING ACTIVITIES</b>				
Advances to related parties	-	-	-	(15,000)
Advances to shareholders	<b>(4,300)</b>	-	<b>(12,300)</b>	(4,000)
Proceeds from short-term debt	<b>2,200,000</b>	-	<b>2,200,000</b>	-
Proceeds from convertible debt	-	-	-	500,000
Issuance of share capital	-	1,359,100	<b>772,500</b>	1,685,100
Cash flow from financing activities	<b>2,195,700</b>	1,359,100	<b>2,960,200</b>	2,166,100
<b>INCREASE (DECREASE) IN CASH FLOW</b>	<b>(62,783)</b>	1,156,960	<b>(591,036)</b>	979,658
CASH - BEGINNING OF PERIOD	<b>125,432</b>	223,066	<b>653,685</b>	400,368
<b>CASH - END OF PERIOD</b>	<b>\$ 62,649</b>	\$ 1,380,026	<b>\$ 62,649</b>	\$ 1,380,026

**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2021 and 2020**  
*(Unaudited - See Notice of No Auditor Review)*

---

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 is focused on the clinical development of its lead drug candidate Metablok™.

- **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 and COVID-19;

The Company has three additional technology platforms in its portfolio under development:

- **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 tumour 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.

---



**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2021 and 2020**  
*(Unaudited - See Notice of No Auditor Review)*

---

2. BASIS OF PREPARATION

Statement of Compliance

The financial statements of the Company for the year ended September 30, 2020 were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These condensed interim consolidated financial statements for the nine month period ended June 30, 2021 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on August 30, 2021.

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 Company will have sufficient capital to maintain operations for the next twelve months.

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.

---

**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2021 and 2020**  
*(Unaudited - See Notice of No Auditor Review)*

---

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.

Earnings (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 three months ended June 30, 2021, potentially dilutive common shares (relating to options and warrants outstanding at period end) totaling 1,530,000 (June 30, 2020 - 5,850,000) were not included in the computation of loss per share because their exercise price was less than the average market price and their effect is anti-dilutive. Potentially dilutive common shares (relating to options and warrants outstanding at period end) totalling 3,920,000 (June 30, 2020 - NIL) were included in the calculation of diluted earnings per share as their exercise price is below the average market price for the period and their effect is dilutive.

For the nine months ended June 30, 2021, potentially dilutive common shares (relating to options and warrants outstanding at year end) totaling 5,450,000 (June 30, 2020 - 5,850,000) 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.

*(continues)*

---

**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2021 and 2020**  
*(Unaudited - See Notice of No Auditor Review)*

---

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

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.

Amounts relating to industry grants are recognized as income when received, or known to have been received subsequent to the fiscal period, due to uncertainty regarding the acceptance of the filing by

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

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.

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.

*(continues)*

---

**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2021 and 2020**  
*(Unaudited - See Notice of No Auditor Review)*

---

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

*Impairment on Financial Assets*

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

*Financial Liabilities*

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprise trade payables and accrued liabilities, 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 are unsecured and are usually paid within one month of recognition.

Leases

Leases are accounted for by recognizing a right-of-use asset and corresponding lease liability when the asset is ready for use, except for when the lease is of low value or has a duration of twelve months or less. In these instances, amounts are expensed in the financial statements when incurred.

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.

*(continues)*

---

**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2021 and 2020**  
*(Unaudited - See Notice of No Auditor Review)*

---

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

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

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

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

Standards, Amendments and Interpretations Not Yet Effective

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

*IAS 8 Accounting policies, changes in accounting estimates and errors*

The amendment to IAS 8 provides additional guidance on the definition of material. The Company does not expect that the implementation of IAS 8 will have a material effect on the Company's financial statements..

*IAS 1 Presentation of Financial Statements*

Amendments to IAS 1 clarify the classification of current and non-current liabilities. The Company does not expect that the implementation of IAS 1 will have a material affect on the Company's financial statements.

---

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

*(continues)*

---

**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2021 and 2020**  
*(Unaudited - See Notice of No Auditor Review)*

---

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

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.

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 judgment used in calculating the credit amount.

Expenses that the Company believes are eligible for this credit have been set up as receivables in the period with a reduction to the Company's research expense equal to the credit amount. An amount of \$366,098 has been set up as receivable as this amount was received after year end. 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 nine month period ending June 30, 2021 is a reduction of \$467,451 (2020 - \$344,925) relating to these research and development credits filed and claimed in prior periods, but not recorded within net comprehensive loss until the amounts to be received had been approved.

---

**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2021 and 2020**  
*(Unaudited - See Notice of No Auditor Review)*

---

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 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. There is currently no interest rate risk as all outstanding debts have fixed interest rates.

*Currency Risk:*

Currency risk is the risk to the company's earning that arise from fluctuations of foreign exchange rates and the degree of volatility of those rates. The Company is exposed to foreign currency exchange risk on cash and accounts payable and accrued liabilities. Had the currency rate been +/- 5% higher/lower at June 30, 2021, the resulting change to the net loss for the nine month period then ended would have been \$10,475.

*(continues)*

---

**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2021 and 2020**  
*(Unaudited - See Notice of No Auditor Review)*

---

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 June 30, 2021, the Company has current assets of \$2,700,807 (June 30, 2020 - \$1,807,674) to settle current liabilities due in twelve months or less of \$3,740,568 (June 30, 2020 - \$1,017,174). Additional amounts to be received under the Innovation, Science and Economic Development contribution described in note 13 will be used to reduce current liabilities.

*(continues)*

---



**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2021 and 2020**  
*(Unaudited - See Notice of No Auditor Review)*

5. FINANCIAL INSTRUMENTS *(continued)*

**Determination of Fair Value:**

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

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

	June 30, 2021		September 30, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash	\$ 62,649	\$ 62,649	\$ 653,685	\$ 653,685
Amounts receivable from the Department of Innovation, Science, and Economic Development	1,997,078	1,997,078		
Australian research and development credit	366,098	366,098		
Goods and services tax recoverable	268,329	268,329	60,999	60,999
Accounts payable and accrued liabilities	(1,493,727)	(1,493,727)	(949,227)	(949,227)
Interest payable on convertible debt	(385,699)	(385,699)	(269,767)	(269,767)
Deferred convertible note	(3,100,000)	(3,100,000)	(3,100,000)	(3,100,000)
Short-term debt	(2,251,836)	(2,251,836)	-	-
	<b>\$ (4,537,108)</b>	<b>\$ (4,537,108)</b>	<b>\$ (3,604,310)</b>	<b>\$ (3,604,310)</b>

6. PATENTS AND RESEARCH EXPENSES

As at June 30, 2021 it was difficult to determine the value and the future recoverability of patents owned 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 costs may be capitalized if future recoverability is readily estimable.

**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2021 and 2020**  
*(Unaudited - See Notice of No Auditor Review)*

---

7. DEFERRED CONVERTIBLE NOTE FINANCING

The Company had previously closed a 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"), \$1,000,000 ("Note D"), and \$500,000 ("Note E") respectively.

Note A (\$500,000) matures on October 31, 2022 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.

Note B (\$600,000) was scheduled to mature on February 28, 2021, but the term of the note was extended two years to February 28, 2023. The note 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.

Note C (\$500,000) 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 (\$1,000,000) matures on 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.

Note E (\$500,000) 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.

Accrued interest at June 30, 2021 relating to these Notes is \$385,699 (2020 - \$224,737).

---

**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2021 and 2020**  
*(Unaudited - See Notice of No Auditor Review)*

---

8. DUE TO SHAREHOLDER

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

During the nine month period ended June 30, 2021, interest expense of \$12,710 (June 30, 2020 - \$13,037) has been recorded as a result of this loan. During the nine month period ended June 30, 2021 \$12,300 (June 30, 2020 - \$NIL) of the loan interest and principal 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.

---

**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2021 and 2020**  
*(Unaudited - See Notice of No Auditor Review)*

9. SHARE CAPITAL

Authorized:

Unlimited Common voting shares

	<b># of shares</b>	<b>Amount</b>
Issued and fully paid, common shares		
<b>Balance October 1, 2019</b>	<b>58,962,302</b>	\$ 12,027,452
Shares issued	<b>1,820,000</b>	1,685,100
	-	
<b>Balance September 30, 2020</b>	<b>60,782,302</b>	13,712,552
Shares issued	<b>680,000</b>	772,500
	<b>61,462,302</b>	<b>\$ 14,485,052</b>

During the nine months ended June 30, 2021, the Company had a private placement which resulted in the issuance of 430,000 common shares for net proceeds of \$499,966 US (\$645,000 CAD).

The Company had 150,000 common share options exercised during the nine months ended June 30, 2021. The exercise price was \$0.45 per common share, for net proceeds of \$67,500 CAD.

The Company had 100,000 common shares options exercised during the nine months ended June 30, 2021. The exercise price was \$0.60 per common share, for net proceeds of \$47,082 US (\$60,000 CAD).

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.

*(continues)*

**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2021 and 2020**  
*(Unaudited - See Notice of No Auditor Review)*

9. SHARE CAPITAL *(continued)*

	<b>Number of Options at Oct. 1, 2019</b>	<b>Options exercised</b>	<b>Options expired</b>	<b>Options issued</b>	<b>Options remaining at Sep. 30, 2020</b>
Weighted average exercise price	5,440,000	920,000	150,000	1,430,000	5,800,000
	\$ 0.55	\$ 0.35	\$ 0.30	\$ 1.48	\$ 0.82

  

<b>Expiry Date</b>	<b>Exercise Price</b>	<b>Vesting Period</b>	<b>Number of options at Oct. 1, 2020</b>	<b>Options exercised</b>	<b>Options expired</b>	<b>Options issued</b>	<b>Options remaining at Jun. 30, 2021</b>
Jan-2021	\$ 0.45	Fully vested	300,000	150,000	150,000	-	-
Jun-2021	\$ 1.25	Fully vested	100,000	-	100,000	-	-
Aug-2021	\$ 0.50	Fully vested	350,000	-	-	-	350,000
Jun-2022	\$ 1.48	Fully vested	250,000	-	-	-	250,000
Mar-2023	\$ 0.60	Fully vested	100,000	100,000	-	-	-
Apr-2024	\$ 0.50	Fully vested	2,050,000	-	-	-	2,050,000
Jun-2024	\$ 1.36	*	-	-	-	100,000	100,000
Mar-2025	\$ 0.60	Fully vested	250,000	-	-	-	250,000
Jun-2025	\$ 1.48	Fully vested	200,000	-	-	-	200,000
May-2028	\$ 0.78	Fully vested	1,200,000	-	-	-	1,200,000
May-2029	\$ 1.25	Fully vested	20,000	-	-	-	20,000
Jun-2030	\$ 1.48	Fully vested	980,000	-	-	-	980,000
			<u>5,800,000</u>	<u>250,000</u>	<u>250,000</u>	<u>100,000</u>	<u>5,400,000</u>
Weighted average exercise price			\$ 0.82	\$ 0.51	\$ 0.77	\$ 1.36	\$ 0.85

\* 25,000 of these options have vested as of Jun. 30, 2021. The unvested options will vest in 25,000 increments on Sep. 1, 2021, Dec. 1, 2021, and Mar. 1, 2022.

*(continues)*

**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2021 and 2020**  
*(Unaudited - See Notice of No Auditor Review)*

9. SHARE CAPITAL *(continued)*

Stock-based compensation

During the nine month period ended June 30, 2021, the Company granted 100,000 (2020 – 1,430,000) incentive stock options. 112,500 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 \$97,116 (2020 - \$1,642,567). 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	0.5% - 1.50%
Expected dividend yield	NIL
Expected stock price volatility	55.2% - 256.64%
Expected option life in years	2 - 10 years
Option exercise price	\$1.24 - \$1.48
Fair value of options granted	\$1.25, \$1.36 & \$1.48

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.

10. RELATED PARTY TRANSACTIONS

	<b>Nine months ended</b>	<b>Nine months ended</b>
	<b>June 30, 2021</b>	<b>June 30, 2020</b>
Key management compensation		
Compensation	\$ 75,000	\$ 81,026
Interest accrued on note payable	12,710	-
Current Directors of the Company		
Share purchases	45,000	326,000
Former Directors of the Company		
Share purchases	22,500	-

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 nine months ended June 30, 2021 there have been no such transactions, nor were there for the comparative period in the previous fiscal year.

**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2021 and 2020**  
*(Unaudited - See Notice of No Auditor Review)*

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*

Name and principle position	October 1 to June 30	Compensation			Long-Term Compensation
		Salary	Bonus	Other annual compensation	Securities under options granted
Richard Muruve <i>Chief Executive Officer</i>	2021	\$75,000	\$NIL	\$NIL	NIL
	2020	\$81,026	\$NIL	\$NIL	250,000
	2019	\$82,633	\$NIL	\$NIL	NIL
Andrew Bishop <i>Chief Financial Officer</i>	2021	\$NIL	\$NIL	\$NIL	NIL
	2020	\$NIL	\$NIL	\$NIL	250,000
	2019	\$NIL	\$NIL	\$NIL	NIL
Daniel Muruve <i>Chief Science Officer</i>	2021	\$NIL	\$NIL	\$NIL	NIL
	2020	\$NIL	\$NIL	\$NIL	150,000
	2019	\$NIL	\$NIL	\$NIL	NIL

*(continues)*

**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2021 and 2020**  
*(Unaudited - See Notice of No Auditor Review)*

11. EXECUTIVE COMPENSATION *(continued)*

**Options**

During the nine month period ended June 30, 2021, no options were granted to the Named Executive Officers and no options were repriced during the reporting period. 50,000 options were exercised by Andrew Bishop at a price of \$0.45 per share. The following table sets out the value of unexercised incentive stock options, if any, as at June 30, 2021.

<u>Named Executive Officers</u>	<u>Securities acquired on exercise</u>	<u>Aggregate value realized</u>	<u>Unexercised options as at June 30, 2021</u> <u>Exercisable/Unexercisable</u>	<u>Value of unexercised in-the-money options at June 30, 2021</u> <u>Exercisable/Unexercisable</u>
Richard Muruve <i>Chief Executive Officer</i>	NIL	NIL	1,125,000/0	\$623,000/\$NIL
Andrew Bishop <i>Chief Financial Officer</i>	NIL	N/A	925,000/0	\$477,000/\$NIL
Daniel Muruve <i>Chief Science Officer</i>	NIL	N/A	650,000/0	\$344,000/\$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 as described 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 June 30, 2021, no options were granted to current Directors and no options were repriced during the reporting period. Claude Allary exercised 50,000 options priced at \$0.45 per share. The following table sets out the value of unexercised incentive stock options, if any, as at June 30, 2021.

<u>Director</u>	<u>Securities acquired on exercise</u>	<u>Aggregate value realized</u>	<u>Unexercised options as at June 30, 2021</u> <u>Exercisable/Unexercisable</u>	<u>Value of unexercised in-the-money options at June 30, 2021</u> <u>Exercisable/Unexercisable</u>
Claude Allary	NIL	N/A	350,000/0	\$172,000/\$NIL
Richard Rossman	NIL	N/A	350,000/0	\$172,000/\$NIL



**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2021 and 2020**  
*(Unaudited - See Notice of No Auditor Review)*

---

12. CAPITAL DISCLOSURES

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

1. Advance the Company's corporate strategies to create long-term value for its stakeholders;
2. Ensure compliance with the covenants of any applicable credit facility and other financing facilities used from time to time.

The Company monitors its capital and capital structure on an ongoing basis to ensure it is sufficient to achieve the Company's short-term and long-term strategic objectives. Management primarily funds the Company's operations and product development by issuing share capital, rather than using other capital sources that require fixed repayments of principal and interest. The Company closely watches its cash balances. The balance of current assets as at June 30, 2021 was \$2,700,807 (2020 - \$1,807,674). There are presently no formal capital requirements with which the Company has not complied.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There were no changes in the Company's approach to capital management during the period ended June 30, 2021.

---

13. INNOVATION, SCIENCE AND ECONOMIC DEVELOPMENT CANADA CONTRIBUTION

On December 15, 2020, the Company was awarded a contribution of up to \$6.7 million from Innovation, Science and Economic Development Canada. Amounts are recorded into operations as received due to the contingent nature of the reimbursement. An amount of approximately \$1.997 million was received under the program after period end and has been recognized in the financial statements as a receivable. Any amounts received under the terms of this agreement are intended to first reduce the balance of the promissory note as described in note 14. Residual amounts received under this agreement are intended to reduce the balance in accounts payable.

---

14. PROMISSORY NOTE

On April 6, 2021, the Company entered into a short-term financing agreement with an arm's length party. The note is in the amount of \$2.2 million and carries interest at 10% per annum for a term of up to 90 days. The purpose of the note is to reduce accounts payable until amounts are received from the Innovation, Science and Economic Development Canada contribution as described in note 13.

Interest in the amount of \$51,836 was accrued on this note during the quarter.

The term of the note was subsequently extended to August 5, 2021. On August 5, 2021 the note was replaced by a new 90 day note in the amount of \$1.775 million. Principal on the original note of \$425,000 and interest was paid on that date with the use of the funds received under the program described in note 13.

---

15. COMPARATIVE FIGURES

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

---

**ARCH BIOPARTNERS INC.**

**Notes to Condensed Interim Consolidated Financial Statements**

**Nine Months Ended June 30, 2021 and 2020**

*(Unaudited - See Notice of No Auditor Review)*

---

16. COVID-19

Reactions and restrictions to Coronavirus (COVID-19) continue to evolve and change regularly. Management of the company continues to maintain operations where possible, while looking out for the needs and safety of their client and employees.

---