ARCH BIOPARTNERS INC.

Consolidated Financial Statements

Years Ended September 30, 2021 and September 30, 2020

ARCH BIOPARTNERS INC.

Index to Consolidated Financial Statements

Year Ended September 30, 2021 and September 30, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders
Arch Biopartners Inc.

Opinion

We have audited the consolidated financial statements of Arch Biopartners Inc. and its subsidiaries, (the Company), which comprise the consolidated statements of financial position as at September 30, 2021 and September 30, 2020 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary or significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at September 30, 2021 and September 30, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 – Going Concern of Operations in the financial statements which highlights the existence of a material uncertainty relating to conditions that cast significant doubt on the Company's ability to continue as a going concern.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the consolidated financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Dion C. Bird.

Baker Tilly HMA LLP

Chartered Professional Accountants

Winnipeg, Manitoba
January 28, 2022

ARCH BIOPARTNERS INC.

Consolidated Statements of Financial Position

September 30, 2021 and September 30, 2020

	2021	2020
ASSETS		
CURRENT		
Cash	**$ 448,242**	$ 653,685
Amounts receivable from the Department of Innovation, Science, and Economic Development *(Note 14)*	**1,851,776**	-
Harmonized sales tax receivable	**348,922**	60,999
Prepaid expenses	**19,315**	26,617
	$ 2,668,255	$ 741,301
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**$ 962,019**	$ 949,227
Promissory note *(Note 15)*	**1,802,233**	-
Interest payable on deferred convertible debt *(Note 7)*	**424,767**	269,767
	3,189,019	1,218,994
DEFERRED CONVERTIBLE DEBT *(Note 7)*	**3,100,000**	3,100,000
DUE TO SHAREHOLDER *(Note 8)*	**261,644**	290,411
	6,550,663	4,609,405
SHAREHOLDERS' DEFICIENCY		
Share capital *(Note 9)*	**14,758,352**	13,712,552
Contributed surplus *(Note 9)*	**4,675,602**	4,565,998
Deficit	**(23,316,362)**	(22,146,654)
	(3,882,408)	(3,868,104)
	$ 2,668,255	$ 741,301

See notes to financial statements

ARCH BIOPARTNERS INC.
Consolidated Statements of Comprehensive Loss
Years Ended September 30, 2021 and September 30, 2020

	2021	2020
REVENUE		
Industry grants *(Note 14)*	**$ 3,886,620**	$ 67,886
EXPENSES		
Communication	**7,639**	14,926
Interest and bank charges (refund)	**1,410**	(450)
Interest on long-term debt *(Notes 7, 8)*	**171,733**	176,412
Interest on short-term debt *(Note 15)*	**100,164**	-
Insurance	**26,328**	9,721
Marketing	**41,055**	60,497
Office	**18,078**	20,131
Patent *(Note 6)*	**258,666**	205,412
Professional fees	**271,634**	222,476
Regulatory and exchange fees	**46,205**	43,495
Research *(Notes 4, 6)*	**3,777,744**	1,958,513
Stock based compensation *(Note 9)*	**109,604**	1,727,194
Transfer agent fee	**25,950**	35,960
Travel	**1,955**	6,784
University foundation support	**-**	26,514
Wages and employee benefits	**193,300**	194,385
	5,051,465	4,701,970
LOSS FROM OPERATIONS	**(1,164,845)**	(4,634,084)
FOREIGN EXCHANGE GAIN (LOSS)	**(4,863)**	5,426
NET AND COMPREHENSIVE LOSS	**$ (1,169,708)**	$ (4,628,658)
BASIC AND FULLY DILUTED LOSS PER SHARE	**$ (0.019)**	$ (0.077)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	**61,323,206**	59,922,466

See notes to financial statements

ARCH BIOPARTNERS INC.

Consolidated Statements of Changes in Equity

Years Ended September 30, 2021 and September 30, 2020

	Share Capital	Contributed Surplus	Deficit	Prepaid Share Subscriptions	Total
BALANCE OCTOBER 1, 2019	$ 12,027,452	$ 2,838,804	$ (17,517,996)	$ 15,000	$ (2,636,740)
Loss for the year	-	-	(4,628,658)	-	(4,628,658)
Share based compensation *(Note 9)*	-	1,727,194	-	-	1,727,194
Prepaid share subscriptions	-	-	-	(15,000)	(15,000)
Common shares issued *(Note 9)*	1,685,100	-	-	-	1,685,100
BALANCE SEPTEMBER 30, 2020	$ 13,712,552	$ 4,565,998	$ (22,146,654)	$ -	$ (3,868,104)
BALANCE OCTOBER 1, 2020	$ 13,712,552	$ 4,565,998	$ (22,146,654)	$ -	$ (3,868,104)
Loss for the year	-	-	(1,169,708)	-	(1,169,708)
Share based compensation *(Note 9)*	-	109,604	-	-	109,604
Common shares issued *(Note 9)*	1,045,800	-	-	-	1,045,800
BALANCE SEPTEMBER 30, 2021	$ 14,758,352	$ 4,675,602	$ (23,316,362)	$ -	$ (3,882,408)

See notes to financial statements

ARCH BIOPARTNERS INC.

Consolidated Statements of Cash Flows

Years Ended September 30, 2021 and September 30, 2020

	2021	2020
OPERATING ACTIVITIES		
Cash receipts from industry grants	**$ 2,034,844**	$ 101,120
Cash paid to suppliers and employees	**(4,941,236)**	(2,005,903)
Interest paid	**(74,351)**	-
Cash flow used by operating activities	**(2,980,743)**	(1,904,783)
FINANCING ACTIVITIES		
Repayments of advances from shareholders	**(45,500)**	(12,000)
Proceeds from convertible debt	**-**	500,000
Proceeds from short term debt	**2,200,000**	-
Repayments of short term debt	**(425,000)**	-
Issuance of share capital	**1,045,800**	1,670,100
Cash flow from financing activities	**2,775,300**	2,158,100
INCREASE (DECREASE) IN CASH	**(205,443)**	253,317
CASH - BEGINNING OF YEAR	**653,685**	400,368
CASH - END OF YEAR	**$ 448,242**	$ 653,685

See notes to financial statements

1. DESCRIPTION OF OPERATIONS

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

At present, the Company 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 an additional technology platform in its portfolio under active development:

• **AB569** - a new drug candidate for treating or preventing antibiotic resistant bacterial infections, primarily as a topical treatment for wounds.

The Company has the following technology platforms in its portfolio and is not actively developing them commercially:

• **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.

2. BASIS OF PREPARATION

Statement of Compliance

The financial statements of the Company for the year ending September 30, 2021 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issue by the Board of Directors on January 28, 2022.

Basis of Measurement

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

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

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

Going Concern of Operations

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

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

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

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

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

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

Basis of Consolidation

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Foreign currency transactions

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated.

Temporal Method of Consolidating Foreign Subsidiaries

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

Loss per share

The Company uses the treasury stock method to calculate earnings (loss) per share. Basic earnings (loss) per common share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding for the period. To calculate diluted earnings per share, all options and warrants whose average exercise price is less than or equal to the average share price for the year are assumed to be exercised, unless anti-dilutive. Also under this method, certain shares considered contingently issuable, such as escrowed shares subject to release based on performance criteria, are excluded from the calculation of weighted average common shares.

For the year ended September 30, 2021, potentially dilutive common shares (relating to outstanding options and warrants) totaling 4,900,000 (September 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.

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 government.

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

Patent fees

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

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 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.

(continues)

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

Financial Liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprise accounts payable, accrued liabilities, deferred convertible debt and amounts due to shareholder. 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 carried 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 payable and accrued liabilities represent liabilities for goods and services provided to the Company prior to the end of the period which are unpaid. Accounts payable and accrued liabilities amounts are unsecured and are usually paid within one month of recognition.

Leases

Leases are accounted for by recognizing a right-of-use assets 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.

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

Share-based compensation

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive loss 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 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 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, unless they are related to the issuance of shares, in which case they are recorded as a reduction of share capital.

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

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

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

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

Standards, Amendments and Interpretations Not Yet Effective

The following new standards, amendments and interpretations, that have not been early adopted in these financial statements, are not expected to have an effect on the company's short-term results and financial position. Given the nature of operations for the company, management is continuing to review the following standards and will apply them if there will be any impact.

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.

*IFRS 9 Financial Instrument*s

Amendments to IFRS 9 clarify the accounting for an exchange of debt instruments between a borrowers and lenders. The Company does not expect that the implementation of IFRS 9 will have a material affect on the Company's financial statements.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Amendments to IAS 37 clarify the costs of fulfilling onerous contracts. The Company does not expect that the implementation of IAS 37 will have a material affect on the Company's financial statements.

IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgments

Amendments to IAS 1 and IFRS Practice Statement 2 clarify the rules regarding disclosure of accounting policy information in financial statements. The Company does not expect that the implementation of IAS 1 and IFRS Practice Statement 2 will have a material affect on the Company's financial statements.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Amendments to IAS 8 clarify accounting for estimates. The Company does not expect that the implementation of IAS 8 will have a material affect on the Company's financial statements.

IAS 12 Income Taxes

Amendments to IAS 12 clarify the accounting for deferred tax assets and liabilities. The Company does not expect that the implementation of IAS 12 will have a material affect on the Company's financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

Income Taxes

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

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

Share-based Payment Transactions

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

Australian Research and Development Credit

The Company applied for Australian research and development tax credits relating to the research expenses they incurred through their Australian subsidiary, Arch Clinical Pty Ltd. for the Phase I trial for Metablok during 2019 and 2020. The Australian research and development tax credit encourages companies to engage in such research activities by providing an offset of up to 43.5% of eligible research and development expenses.

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

The Company estimated their credit based on what they believed to be eligible expenditures based on the eligibility rules of the Australian Tax Office (ATO), however, there is judgment used in calculating the credit amount until the final amount is confirmed and received from the ATO.

Expenses that are eligible for this credit were set up as receivables in the given period that the ATO confirmed the amount of the refund for each of 2019 and 2020 with a reduction to the Company's research expense equal to the credit amount. No amounts have been recorded as receivable at year end. To date, all claimed expenses were related to the Company's Phase I trial of their lead drug candidate, Metablok ™. At September 30, 2021, no further amounts are expected to be received on past expenses. Now that the company has a history of claims, any future receivables will be less speculative on how much will be reimbursed, and management will record receivables as eligible expenses are incurred rather than on when the ATO confirms the amount.

Included in the Company's research expense for the year ended September 30, 2021 is a reduction of CAD equivalent $467,450 relating to these research and development credits filed and claimed in prior periods, but were not recorded within net comprehensive loss until the amounts to be received had been approved.

5. FINANCIAL INSTRUMENTS

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

- Market Risk
- Credit Risk
- Liquidity Risk

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

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

General Objectives, Policies and Processes:

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

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

<u>Market Risk</u>:

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

Interest Rate Risk:
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. 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 earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of those rates. The Company is exposed to foreign currency exchange risk on cash and accounts payable and accrued liabilities. Had the currency rate been +/- 5% higher/lower at September 30, 2021, the resulting change to the net loss would have been $9,297.

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5. FINANCIAL INSTRUMENTS *(continued)*

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company's credit risk is also attributable to its receivables. The amounts disclosed in the balance sheet are net of allowances for bad debts, estimated by the Company's management based on prior experience and their assessment of the current economic environment. The Company believes the credit risk of its receivables is limited due to the fact that the amounts owing, for which no allowance for bad debts was recorded, consists of goods and services taxes receivable from the Government of Canada and grants receivable from the Department of Innovation, Science, and Economic Development 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 September 30, 2021, the Company has a current assets of $2,668,255 (2020 - $741,301) to settle current liabilities due in twelve months or less of $3,189,019 (2020 - $1,218,994). Additional amounts to be received under the Innovation, Science and Economic Development contribution as described in note 14 will be used to reduce current liabilities.

Determination of Fair Value:

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

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

	September 30, 2021		September 30, 2020	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Cash	**$ 448,242**	**$ 448,242**	$ 653,685	$ 653,685
Amounts receivable from the Department of Innovation, Science, and Economic Development	**$ 1,851,776**	**$ 1,851,776**	$ -	$ -
Harmonized sales tax receivable	**348,922**	**348,922**	60,999	60,999
Accounts payable and accrued liabilities	**(962,019)**	**(962,019)**	(949,227)	(949,227)
Promissory note	**(1,802,233)**	**(1,802,233)**	-	-
Interest payable on convertible debt	**(424,767)**	**(424,767)**	(269,767)	(269,767)
Deferred converible debt	**(3,100,000)**	**(3,100,000)**	(3,100,000)	(3,100,000)
Due to shareholder	**(261,644)**	**(261,644)**	(290,411)	(290,411)
	$ (3,901,723)	**$ (3,901,723)**	$ (3,894,721)	$ (3,894,721)

6. PATENT AND RESEARCH EXPENSES

As at September 30, 2021 it was difficult to determine the value and the future recoverability of patents by the Company and research expenses incurred. The Company has chosen to take a conservative approach, and expense all costs relating to patents and research. Future patent and research costs may be capitalized if future recoverability is readily estimable.

7. DEFERRED CONVERTIBLE DEBT

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) was scheduled to mature on January 24, 2022, but subsequent to the date of the financial statements, the term of the note was extended two years to January 24, 2024. The note 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.

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 September 30, 2021 relating to these notes is $424,767 (2020 - $269,767).

8. DUE TO SHAREHOLDER

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

During the year ended September 30, 2021, interest expense of $16,733 (2020 - $17,323) has been recorded as a result of this loan. During the year ending September 30, 2021, $45,500 (2020 - $12,000) of the loan was repaid to the shareholder.

The company extended the term of the outstanding shareholder's demand promissory notes. The shareholder's loan has been extended to January 15, 2022 at a fixed rate of 6% per annum paid (or accrued) semi-annually. The consolidated principal together with any accrued interest will become due and will be paid in full on demand so long as such payment does not reduce the Company's ability to complete its product development work plan for any given 12 month period from the date of repayment.

The shareholder has indicated that they will not be calling the loan in the next 12 months, therefore the loan has been treated as a long-term liability.

9. SHARE CAPITAL

Authorized:
Unlimited Common voting shares

	# of shares		Amount
Issued and fully paid, common shares			
Balance, October 1, 2019	58,962,302	$	12,027,452
Shares issued	1,820,000		1,685,100
Balance, September 30, 2020	**60,782,302**	**$**	**13,712,552**
Shares issued	**1,180,000**	**$**	**1,045,800**
Share issuance costs	**-**		**-**
Balance, September 30, 2021	**61,962,302**	**$**	**14,758,352**

During the year ended September 30, 2021, the Company had a private placement which resulted in the issuance of 430,000 common shares for net proceeds of $500,000 US ($640,300 CAD).

The company also had a total of 750,000 common share options exercised during the year the details of which are described in the following table.

(continues)

9. SHARE CAPITAL *(continued)*

The Company has a discretionary stock option plan under which the Company may grant options to its directors, officers, employees and consultants. The option plan is a rolling plan whereby the maximum number of common shares that may be reserved for issuance under the plan is a rolling amount fixed at 10% of the issued and outstanding common shares of the Company from time to time where no one Optionee has shares reserved for issuance in excess of 5% of the outstanding number of shares in any 12 month period. The options granted under the plan are valid for a period not to exceed 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.

	Number of Options at Oct. 1, 2019	**Options exercised**	**Options expired**	**Options issued**	**Options remaining at Sep. 30, 2020**
	5,490,000	920,000	150,000	1,430,000	5,850,000
Weighted average exercise price	$0.54	$0.35	$0.30	$1.48	$0.82

Expiry Date	**Exercise Price**	**Vesting Period**	**Number of options at Oct. 1, 2020**	**Options exercised**	**Options expired**	**Options issued**	**Options remaining at Sep. 31, 2021**
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	300,000	50,000	-	-
Jan-2022	$1.24	Fully vested	50,000	-	-	-	50,000
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	100,000	-	-	1,950,000
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	100,000	-	-	1,100,000
May-2029	$1.25	Fully vested	20,000	-	-	-	20,000
Jun-2030	$1.48	Fully vested	980,000	-	-	-	980,000
			5,850,000	750,000	300,000	100,000	4,900,000
Weighted average exercise price			$0.82	$0.54	$0.73	$1.36	$0.88

* 50,000 of these options have vested as of September 30, 2021. The unvested options will vest in 25,000 increments on December 1, 2021 and March 1, 2022.

(continues)

9. SHARE CAPITAL *(continued)*

Stock-based compensation

During the year ended September 30, 2021 the Company granted 100,000 (2020 - 1,430,000) incentive stock options. 112,500 of previously granted options vested during the year. 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 $109,604 (2020 - $1,727,194). 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 100,000 options that have vested during the 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	0.51%
Expected dividend yield	NIL
Expected stock price volatility	55.2%
Expected option life in years	3 years
Option exercise price	$1.36
Fair value of options granted	$0.4995

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

		2021		2020
Key management:				
Compensation	**$**	**100,000**	$	100,000
Interest accrued on note payable		**16,733**		17,323
Directors of the Company options exercised		**120,000**		326,000
	$	**236,733**	$	443,323

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 notes 9 and 11. As this compensation is not readily measurable, these expenses and the related services revenue have not been recorded. For the year ended September 30, 2021 there have been no such transactions, nor were there for the comparative period in the previous fiscal year.

11. EXECUTIVE COMPENSATION

COMPENSATION OF NAMED EXECUTIVE OFFICERS

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

Summary Compensation

		Compensation			Long-Term Compensation
Name and principle position	**October 1 to September 30**	**Salary**	**Bonus**	**Other annual compensation**	**Securities under options granted**
Richard Muruve	2021	$100,000	$NIL	$NIL	NIL
Chief Executive Officer	2020	$100,000	$NIL	$NIL	250,000
	2019	$100,000	$NIL	$NIL	NIL
Andrew Bishop	2021	$NIL	$NIL	$NIL	NIL
Chief Financial Officer	2020	$NIL	$NIL	$NIL	250,000
	2019	$NIL	$NIL	$NIL	NIL
Daniel Muruve	2021	$NIL	$NIL	$NIL	NIL
Chief Science Officer	2020	$NIL	$NIL	$NIL	150,000
	2019	$NIL	$NIL	$NIL	NIL

(continues)

11. EXECUTIVE COMPENSATION *(continued)*

Options

During the year ended September 30, 2021, NIL (2020 - 650,000) stock options were granted to the Named Executive Officers and no options were repriced during the reporting year. The Chief Executive Officer and Chief Financial Officer exercised previously granted options within the year. The following table sets out the value of unexercised incentive stock options, if any, as at September 30, 2021.

Named Executive Officers	Securities acquired on exercise	Aggregate value realized	Unexercised options as at September 30, 2021 Exercisable/Unexercisable	Value of unexercised in-the-money options at September 30, 2021 Exercisable/Unexercisable
Richard Muruve *Chief Executive Officer*	NIL	N/A	1,100,000/0	$1,002,000/$NIL
Andrew Bishop *Chief Financial Officer*	NIL	N/A	875,000/0	$750,750/$NIL
Daniel Muruve *Chief Science Officer*	NIL	N/A	625,000/0	$560,250/$NIL

COMPENSATION OF DIRECTORS

Due to the Company's early stage of development and small size of the board, the Board's Nominating and Compensation Committee has maintained the Corporation's recent practice of not compensating board members, other than the share based payments noted in note 9.

Options

During the year ended September 30, 2021, NIL (2020 - 300,000) stock options were granted to the Directors and no options were repriced during the reporting period, nor were any options exercised by the Directors. The following table sets out the value of unexercised incentive stock options, if any, as at September 30, 2021.

Director	Securities acquired on exercise	Aggregate value realized	Unexercised options as at September 30, 2021 Exercisable/Unexercisable	Value of unexercised in-the-money options at September 30, 2021 Exercisable/Unexercisable
Claude Allary	NIL	N/A	300,000/0	$237,000/$NIL
Richard Rossman	NIL	N/A	300,000/0	$237,000/$NIL

12. CAPITAL DISCLOSURES

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

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

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

The Company monitors its capital and capital structure on an ongoing basis to ensure it is sufficient to achieve the Company's short-term and long-term strategic objectives. Management primarily funds the Company's operations and product development by issuing share capital, rather than using other capital sources that require fixed repayments of principal and interest. The Company closely watches its cash balances. The balance of current assets as at September 30, 2021 was $2,668,255 (2020 - $741,301). There are presently no formal capital requirements with which the Company has not complied.

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

13. INCOME TAXES

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

		2021		2020
Statutory tax rates		**26.38 %**		25.98 %
Loss before income taxes	**$**	**(1,169,708)**	$	(4,628,658)
Expected income tax recovery	**$**	**(308,335)**	$	(1,202,525)
Increase (decrease) resulting from:				
Stock based compensation		**28,915**		448,765
Expense adjustments		**170**		7,636
Patent expenses added back		**68,241**		53,370
Share issue cost		**(1,607)**		(1,626)
Capital cost allowance		**(21,922)**		(19,319)
Non-capital loss carried forward - Canadian Entities		**350,467**		363,280
Non-capital loss carried forward (applied) - Foreign entities		**(115,929)**		350,419
Effective tax expense	**$**	**-**	$	-

The nature and tax effect of the temporary differences giving rise to the deferred tax assets and liabilities at September 30, 2021 and 2020 are summarized below:

	October 1, 2020	**Recognized in net income**	**Expired as at September 30, 2021**	**September 30, 2021**
Non-capital losses carried forward	$ 7,789,421	$ 1,328,443	$ -	$ 9,117,864
Unrecognised non-capital losses	(7,789,421)	(1,328,443)	-	(9,117,864)
	$ -	$ -	$ -	$ -

	October 1, 2019	**Recognized in net income**	**Expired as at September 30, 2020**	**September 30, 2020**
Non-capital losses carried forward	$ 6,391,240	$ 1,398,181	$ -	$ 7,789,421
Unrecognised non-capital losses	(6,391,240)	(1,398,181)	-	(7,789,421)
	$ -	$ -	$ -	$ -

The Company has incurred losses of $9,117,864 for tax purposes which are available to reduce future taxable income. Due to the going-concerns of operations outlined in note 2, no future income taxes recoverable have been recorded in respect of these losses. Such benefits will be recorded as an adjustment to the tax provision in the year realized. The losses will expire as follows:

2026	$	215,112
2027		90,277
2028		138,852
2029		81,405
2030		127,753
Thereafter		8,464,465
	$	9,117,864

14. 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.

An amount of approximately $1.997 million was received under the program during the year ended September 30, 2021.

An amount of approximately $1.852 million has been recongized in these financial statements as receivable at year end. Of that amount approx. $1.510 has been received subsequent to year end.

Any amounts received under the terms of this agreement are intended to first reduce the balance of the promissory note as described in note 15. Residual amounts received under this agreement are intended to reduce the balance in accounts payable.

15. PROMISSORY NOTE

On April 6, 2021 the Company entered into a short-term financing agreement with an arm's length party. The note was in the amount of $2.2 million and carried 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 14.

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 14.

During the year ended September 30, 2021, interest expense in the amount of $101,164 was incurred in relation to this note.

On September 30, 2021 the balance of short-term debt consists of the principal of this note in the amount of $1.775 million and accrued interest on this note in the amount of $27,233.

16. SEGMENT REPORTING

The Company is engaged in the development of innovative technologies that have the potential to make a significant medical or commercial impact. Each subsidiary is an operating segment, however, for segment reporting purposes, the Company and its subsidiaries are considered one reporting segment as all activity is effectively in the same line of business. All grant revenues were generated in Canada.

17. 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 clients and employees.

Operations in the historical financial statements, as presented, give rise to potential going-concern issues. However, given the uncertainties within the economy, management cannot predict the effect that this will have on their future operations or cash flows.