

**ARCH BIOPARTNERS INC.**  
**Condensed Interim Consolidated**  
**Financial Statements**  
**Nine Months Ended June 30, 2018 and 2017**  
*(Unaudited - See Notice Of No Auditor Review)*

**ARCH BIOPARTNERS INC.**  
**Index to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2018**  
*(Unaudited - See Notice of No Auditor Review)*

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|                                                                            | Page   |
|----------------------------------------------------------------------------|--------|
| NOTICE OF NO AUDITOR REVIEW                                                | 1      |
| INTERIM FINANCIAL STATEMENTS                                               |        |
| Condensed Interim Consolidated Statement of Financial Position             | 2      |
| Condensed Interim Consolidated Statement of Comprehensive Loss and Deficit | 3      |
| Condensed Interim Consolidated Statement of Changes in Equity              | 4      |
| Condensed Interim Consolidated Statement of Cash Flows                     | 5      |
| Notes to Condensed Interim Consolidated Financial Statements               | 6 - 23 |

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## **NOTICE OF NO AUDITOR REVIEW**

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To the shareholders of Arch Biopartners Inc.

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

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed interim consolidated financial statements for the period ended June 30, 2018.

"Richard Muruve" CEO and Director

August 29, 2018

**ARCH BIOPARTNERS INC.**  
**Condensed Interim Consolidated Statement of Financial Position**  
**June 30, 2018 and September 30, 2017**  
*(Unaudited - See Notice of No Auditor Review)*

|                                           | <i>June 30,<br/>2018</i> | <i>September 30,<br/>2017<br/>(audited)</i> |
|-------------------------------------------|--------------------------|---------------------------------------------|
| <b>ASSETS</b>                             |                          |                                             |
| <b>CURRENT</b>                            |                          |                                             |
| Cash                                      | \$ 1,305,972             | \$ 42,580                                   |
| Prepaid expenses                          | 11,155                   | 8,421                                       |
| Deposits                                  | 500                      | 500                                         |
| Goods and services taxes receivable       | 69,195                   | 16,437                                      |
|                                           | <u>\$ 1,386,822</u>      | <u>\$ 67,938</u>                            |
| <b>LIABILITIES</b>                        |                          |                                             |
| <b>CURRENT</b>                            |                          |                                             |
| Accounts payable and accrued liabilities  | \$ 197,262               | \$ 281,900                                  |
| DEFERRED CONVERTIBLE DEBT <i>(Note 7)</i> | 1,128,790                | -                                           |
| DUE TO SHAREHOLDER <i>(Note 8)</i>        | 335,324                  | 349,448                                     |
|                                           | <u>1,661,376</u>         | <u>631,348</u>                              |
| <b>SHAREHOLDERS' EQUITY</b>               |                          |                                             |
| Share capital <i>(Note 9)</i>             | 11,791,273               | 10,223,131                                  |
| Contributed surplus <i>(Note 9)</i>       | 2,755,699                | 1,622,992                                   |
| Deficit                                   | (14,821,526)             | (12,409,533)                                |
|                                           | <u>(274,554)</u>         | <u>(563,410)</u>                            |
|                                           | <u>\$ 1,386,822</u>      | <u>\$ 67,938</u>                            |

**ON BEHALF OF THE BOARD**

"Richard Muruve" *Director*

"Andrew Bishop" *Director*

See notes to financial statements

**ARCH BIOPARTNERS INC.**  
**Condensed Interim Consolidated Statement of Comprehensive Loss and Deficit**  
**Nine months Ended June 30, 2018 and 2017**  
*(Unaudited - See Notice of No Auditor Review)*

|                                                          | <b>3 months ended<br/>June 30,<br/>2018</b> | <b>3 months ended<br/>June, 30<br/>2017</b> | <b>9 months ended<br/>June 30,<br/>2018</b> | <b>9 months ended<br/>June 30,<br/>2017</b> |
|----------------------------------------------------------|---------------------------------------------|---------------------------------------------|---------------------------------------------|---------------------------------------------|
| <b>EXPENSES</b>                                          |                                             |                                             |                                             |                                             |
| Communication                                            | \$ 1,704                                    | \$ 884                                      | \$ 3,158                                    | \$ 2,315                                    |
| Insurance                                                | 1,467                                       | 1,550                                       | 3,132                                       | 3,989                                       |
| Interest and bank charges <i>(Note 8)</i>                | 19,034                                      | 4,948                                       | 44,906                                      | 15,232                                      |
| Marketing                                                | 28,106                                      | 18,074                                      | 43,246                                      | 50,546                                      |
| Office                                                   | 3,320                                       | 2,719                                       | 11,650                                      | 8,110                                       |
| Patent                                                   | 43,257                                      | 58,652                                      | 139,398                                     | 85,120                                      |
| Professional fees                                        | 31,791                                      | 15,244                                      | 70,471                                      | 58,372                                      |
| Research                                                 | 204,121                                     | 156,836                                     | 854,575                                     | 334,989                                     |
| Share based payments <i>(Note 9)</i>                     | 1,132,707                                   | 1,016,749                                   | 1,132,707                                   | 1,016,749                                   |
| Transfer agent fee                                       | 5,990                                       | 2,532                                       | 64,269                                      | 15,983                                      |
| Travel                                                   | 4,900                                       | 413                                         | 13,026                                      | 6,928                                       |
| Wages and employee benefits                              | 23,547                                      | 26,883                                      | 75,552                                      | 83,811                                      |
|                                                          | <b>1,499,944</b>                            | <b>1,305,484</b>                            | <b>2,456,090</b>                            | <b>1,682,144</b>                            |
| <b>LOSS FROM OPERATIONS</b>                              | <b>(1,499,944)</b>                          | <b>(1,305,484)</b>                          | <b>(2,456,090)</b>                          | <b>(1,682,144)</b>                          |
| <b>FOREIGN EXCHANGE GAIN<br/>(LOSS)</b>                  | <b>13,813</b>                               | <b>(867)</b>                                | <b>44,097</b>                               | <b>(2,045)</b>                              |
| <b>NET COMPREHENSIVE LOSS</b>                            | <b>\$ (1,486,131)</b>                       | <b>\$ (1,306,351)</b>                       | <b>\$ (2,411,993)</b>                       | <b>\$ (1,684,189)</b>                       |
| <b>BASIC AND FULLY DILUTED<br/>LOSS PER SHARE</b>        | <b>\$ (0.026)</b>                           | <b>\$ (0.024)</b>                           | <b>\$ (0.043)</b>                           | <b>\$ (0.031)</b>                           |
| <b>WEIGHTED AVERAGE NUMBER<br/>OF SHARES OUTSTANDING</b> | <b>57,888,726</b>                           | <b>54,849,679</b>                           | <b>56,524,416</b>                           | <b>54,298,208</b>                           |

See notes to financial statements

**ARCH BIOPARTNERS INC.**  
**Condensed Interim Consolidated Statement of Changes in Equity**  
**Nine Months Ended June 30, 2018 and 2017**  
*(Unaudited - See Notice of No Auditor Review)*

|                                      | Share Capital        | Contributed<br>Surplus | Deficit                | Total               |
|--------------------------------------|----------------------|------------------------|------------------------|---------------------|
| <b>BALANCE AT OCTOBER 1, 2016</b>    | <b>\$ 9,619,229</b>  | <b>\$ 606,243</b>      | <b>\$ (10,482,384)</b> | <b>\$ (256,912)</b> |
| Loss for the period                  | -                    | -                      | (1,684,189)            | (1,684,189)         |
| Stock options issued <i>(Note 9)</i> | -                    | 1,016,748              | -                      | 1,016,748           |
| Common shares issued <i>(Note 9)</i> | 396,750              | -                      | -                      | 396,750             |
| <b>BALANCE AT JUNE 30, 2017</b>      | <b>\$ 10,015,979</b> | <b>\$ 1,622,991</b>    | <b>\$ (12,166,573)</b> | <b>\$ (527,603)</b> |
| <b>BALANCE AT OCTOBER 1, 2017</b>    | <b>\$ 10,223,131</b> | <b>\$ 1,622,992</b>    | <b>\$ (12,409,533)</b> | <b>\$ (563,410)</b> |
| Loss for the period                  | -                    | -                      | (2,411,993)            | (2,411,993)         |
| Stock options issued <i>(Note 9)</i> | -                    | 1,132,707              | -                      | 1,132,707           |
| Common shares issued <i>(Note 9)</i> | 1,568,142            | -                      | -                      | 1,568,142           |
| <b>BALANCE AT JUNE 30, 2017</b>      | <b>\$ 11,791,273</b> | <b>\$ 2,755,699</b>    | <b>\$ (14,821,526)</b> | <b>\$ (274,554)</b> |

See notes to financial statements

**ARCH BIOPARTNERS INC.**  
**Condensed Interim Consolidated Statement of Cash Flows**  
**Nine Months Ended June 30, 2018 and 2017**  
*(Unaudited - See Notice of No Auditor Review)*

|                                               | <b>3 months ended<br/>June 30,<br/>2018</b> | 3 months ended<br>June 30,<br>2017 | <b>9 months ended<br/>June 30,<br/>2018</b> | 9 months ended<br>June 30,<br>2017 |
|-----------------------------------------------|---------------------------------------------|------------------------------------|---------------------------------------------|------------------------------------|
| <b>OPERATING ACTIVITIES</b>                   |                                             |                                    |                                             |                                    |
| Cash paid to suppliers and employees          | \$ (342,351)                                | \$ (244,373)                       | \$ (1,374,510)                              | \$ (553,213)                       |
| Interest paid                                 | (106)                                       | (79)                               | (892)                                       | (440)                              |
| Cash flow used by operating activities        | <u>(342,457)</u>                            | <u>(244,452)</u>                   | <u>(1,375,402)</u>                          | <u>(553,653)</u>                   |
| <b>FINANCING ACTIVITIES</b>                   |                                             |                                    |                                             |                                    |
| Advances to shareholders                      | (4,950)                                     | (19,178)                           | (29,348)                                    | (25,125)                           |
| Proceeds from convertible debt                | -                                           | -                                  | 1,100,000                                   | -                                  |
| Issuance of share capital                     | 332,750                                     | -                                  | 1,568,142                                   | 396,750                            |
| Cash flow from (used by) financing activities | <u>327,800</u>                              | <u>(19,178)</u>                    | <u>2,638,794</u>                            | <u>371,625</u>                     |
| <b>INCREASE (DECREASE) IN CASH FLOW</b>       | <b>(14,657)</b>                             | <b>(263,630)</b>                   | <b>1,263,392</b>                            | <b>(182,028)</b>                   |
| <b>CASH - BEGINNING OF PERIOD</b>             | <b>1,320,629</b>                            | <b>281,449</b>                     | <b>42,580</b>                               | <b>199,847</b>                     |
| <b>CASH - END OF PERIOD</b>                   | <b>\$ 1,305,972</b>                         | <b>\$ 17,819</b>                   | <b>\$ 1,305,972</b>                         | <b>\$ 17,819</b>                   |

See notes to financial statements

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**Nine Months Ended June 30, 2018 and 2017**  
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1. DESCRIPTION OF OPERATIONS

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

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

- MetaBlok <sup>TM</sup> - a new drug candidate targeting sepsis, cancer metastasis and inflammation based diseases;

AB569 - a new drug candidate for treating antibiotic resistant bacterial infections, primarily in the lungs and urinary tract;

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

- Borg: Peptide - solid surface interface - binding of proprietary peptides to solid metal and plastic surfaces to inhibit biofilm formation and reduce corrosion; and

- MetaMx <sup>TM</sup> - proprietary synthetic molecules that target brain tumor initiating cells and invasive glioma cells.

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

The corporate headquarters are located in Toronto, Ontario.

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**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2018 and 2017**  
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2. BASIS OF PREPARATION

Statement of Compliance

The financial statements of the Company for the year ended September 30, 2017 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, 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on August 29, 2018.

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 additional financing as described in Note 7 will provide adequate cash flow 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., and Arch Bio Ireland Ltd.

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

**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2018 and 2017**  
*(Unaudited - See Notice of No Auditor Review)*

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Foreign Currency Transactions

Foreign currency accounts are translated into Canadian dollars as follows:

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

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

Temporal Method of Consolidating Foreign Subsidiaries

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

Loss per share

The Company uses the treasury stock method to calculate earnings (loss) per share. Basic earnings (loss) per common share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding for the period. To calculate diluted earnings per share, all options and warrants whose average exercise price is less than or equal to the average share price for the year are assumed to be exercised. Also under this method, certain shares are considered contingently issuable, such as escrowed shares subject to release based on performance criteria, are excluded from the calculation of weighted average common shares. For the quarter ended June 30, 2018, potentially dilutive common shares (relating to options and warrants outstanding at year end) totaling 5,510,000 (June 30, 2017 - 4,615,500) were not included in the computation of loss per share because their effect was anti-dilutive. Therefore, diluted loss per share is the same as basic loss per share.

Revenue recognition

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

Interest income is recognized as earned.

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**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2018 and 2017**  
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Patent fees

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

Financial instruments

*Financial Assets*

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

*Loans and Receivables*

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

*Fair value through profit or loss assets*

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

*Impairment on Financial Assets*

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

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**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2018 and 2017**  
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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 trade payables and accrued liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carrying in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

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.

Share-based payments

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

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

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

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

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

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

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

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**Nine Months Ended June 30, 2018 and 2017**  
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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 future results and financial position:

*IFRS 2 Share-based Payment*

In June 2016, the IASB issued amendments to IFRS 2, clarifying how to account for certain types of share-based payments transactions, including the accounting effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, and accounting for modifications to the terms and conditions of a share-based payment that changes the classification of the share-based payment transactions from the cash-settled to equity-settled. The IFRS 2 amendments are effective for annual periods beginning on or after January 1, 2018. The Corporation is in the process of evaluating the impact of adopting these amendments to its financial statements.

*IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final amendments to IFRS 9, replacing IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets, and new requirements related to hedge accounting. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple category and measurement models in IAS 39. The categorization approach in IFRS 9 focuses on how an entity manages its financial instruments in the context of its business model, as well as the contractual cash flow characteristics of the financial assets. New hedge accounting requirements incorporated into IFRS 9 increase the scope of items that may qualify as a hedged item and changes the requirements of hedge effectiveness testing that must be met in order to apply hedge accounting. The requirements of IFRS 9 are effective for annual periods beginning on or after January 1, 2018 and are available for earlier adoption. The Corporation does not expect that the implementation of IFRS 9 will have a material effect on the Company's financial statements.

*IFRS 16 Leases*

On January 13, 2016, the IASB issued IFRS 16 Leases to replace IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that also apply IFRS 15 Revenue from Contracts with Customers. The Company is currently assessing the impact of this standard on its financial statements.

*IAS 12 Income Taxes*

Amendments to IAS 12 to clarify the recognition of a deferred tax asset for unrealized losses. The Company does not expect that the implementation of IAS 12 will have a material effect on the Company's financial statements.

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**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2018 and 2017**  
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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the condensed interim 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.

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**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2018 and 2017**  
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5. FINANCIAL INSTRUMENTS

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

- Market Risk
- Credit Risk
- Liquidity Risk

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

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

**General Objectives, Policies and Processes:**

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

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

Market Risk

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

*Interest Rate Risk:*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash and cash equivalents held with chartered Canadian financial institutions. Had the interest rate been +/- 1% higher/lower during the nine month period ended June 30, 2018 the Company's operations for the period would have changed by \$6,801.

*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, 2018, the resulting change to the net loss would have been \$27,683.

*(continues)*

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**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2018 and 2017**  
*(Unaudited - See Notice of No Auditor Review)*

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5. FINANCIAL INSTRUMENTS *(continued)*

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company's credit risk is also attributable to its receivables. The amounts disclosed in the balance sheet are net of allowances for bad debts, estimated by the Company's management based on prior experience and their assessment of the current economic environment. The Company believes the credit risk of its receivables is limited due to the fact that the amounts owing, for which no allowance for bad debts was recorded, consists of goods and services taxes receivable from the Government of Canada.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages liquidity risk by maintaining adequate cash and restricted cash balances. The Company continuously monitors both actual and forecasted cash flows and matches the maturity profile of financial assets and liabilities.

As at June 30, 2018, the Company has a cash balance of \$1,305,972 (2017 - \$17,819) to settle current liabilities due in twelve months or less of \$197,262 (2017 - \$242,151). Management seeks additional financing through the issuance of equity instruments to continue its operations, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

*(continues)*

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**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2018 and 2017**  
*(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, 2018      |                  | September 30, 2017  |                     |
|------------------------------------------|--------------------|------------------|---------------------|---------------------|
|                                          | Carrying<br>amount | Fair value       | Carrying<br>amount  | Fair value          |
| Cash                                     | \$ 1,305,972       | \$ 1,305,972     | \$ 42,580           | \$ 42,580           |
| Goods and services tax recoverable       | 69,195             | 69,195           | 16,437              | 16,437              |
| Accounts payable and accrued liabilities | (197,262)          | (197,262)        | (281,900)           | (281,900)           |
| Deferred convertible note                | (1,128,790)        | (1,128,790)      | -                   | -                   |
|                                          | <u>\$ 49,115</u>   | <u>\$ 49,115</u> | <u>\$ (222,883)</u> | <u>\$ (222,883)</u> |

6. PATENTS

As at June 30, 2018 it was difficult to determine the value and the future recoverability of patents owned by the Company. The Company has chosen to take a conservative approach, and expense all costs relating to patents. The total patent fee expense reflected in the interim income statement relates to professional fees incurred to obtain and file patents. Future patent costs may be capitalized if future recoverability is readily estimable.

7. DEFERRED CONVERTIBLE NOTE FINANCING

During the period, the Company closed non-brokered, unsecured convertible note financing for gross proceeds of \$500,000 and \$600,000, respectively.

The \$500,000 Note matures on October 31, 2020 and will be convertible, at the option of the holder, into Common Shares of the Company at a price per share of \$0.50, in the thirty-day period prior to maturity of the Note. The Note bears interest of 5% per annum, which is payable in kind by the Company with Common Shares to be issued at the then market price for the Common Shares and subject to TSX Venture Exchange approval in each instance.

The holder has the option until July 31, 2020 to extend the term of the Note another 2 years to October 31, 2022.

The \$600,000 Note matures on February 28, 2021 and will be convertible, at the option of the holder, into Common Shares of the Company at a price per share of \$0.60, in the thirty-day period prior to maturity of the Note. The Note bears interest of 5% per annum, which is payable in-kind by the Company with Common Shares to be issued at the then market price for the Common Shares and subject to TSX Venture Exchange approval in each instance.

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

**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2018 and 2017**  
*(Unaudited - See Notice of No Auditor Review)*

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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, 2018, interest expense of \$15,224 (2017 - \$14,791 ) has been recorded as a result of this loan. During the nine month period ended June 30, 2018 \$29,348 (2017 - \$10,334) of the loan interest and principal was repaid to the shareholder.

On January 15, 2018 the company extended the term of the outstanding shareholder's demand promissory notes. The shareholder's loan has been extended to January 15, 2020 at a fixed rate of 6% per annum paid (or accrued) semi-annually. The consolidated principal together with any accrued interest will become due and will be paid in full on demand so long as such payment does not reduce the company's ability to complete its product development work plan for any given 12 month period from the date of repayment.

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

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**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2018 and 2017**  
*(Unaudited - See Notice of No Auditor Review)*

9. SHARE CAPITAL

Authorized:

Unlimited Common voting shares

|                                      | <u># of shares</u> | <u>Amount</u>        |
|--------------------------------------|--------------------|----------------------|
| Issued and fully paid, common shares |                    |                      |
| Balance October 1, 2016              | 53,849,679         | \$ 9,619,229         |
| Shares issued                        | 1,450,000          | 615,000              |
| Share issuance costs                 | -                  | (11,098)             |
| Balance September 30, 2017           | 55,299,679         | 10,223,131           |
| Shares issued                        | 3,165,500          | 1,582,750            |
| Share issuance costs                 | -                  | (14,608)             |
| <b>Balance June 30, 2018</b>         | <b>58,465,179</b>  | <b>\$ 11,791,273</b> |

The Company had 665,500 common share warrants exercised during the quarter ended June 30, 2018. The exercise price was \$0.50 per common share, for net proceeds of \$332,750.

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

The Company had 50,000 common share options exercised on August 22, 2017. The exercise price was \$0.30 per Unit, for gross total proceeds of \$15,000.

The Company closed a private placement on August 10, 2017. The Company issued 400,000 Units at a price of \$0.50 per Unit, for gross total proceeds of \$200,000. Each Unit comprises of one common share and one common share purchase warrant. Each warrant allows the holder to purchase an additional common share at \$0.50 during the 24 month period following the close of the private placement. Finder's fees paid in connection with the offering totaled \$5,000 plus 10,000 broker warrants with the same terms as the warrants. Private placement fees paid in connection with the offering totaled \$2,848.

The Company closed a private placement on February 28, 2017. The Company issued 1,000,000 common shares at a price of \$0.40 per share, for gross total proceeds of \$400,000. Private placement fees paid in connection with the offering totalled \$3,250.

The Company has a discretionary stock option plan under which the Company may grant options to its directors, officers, employees and consultants. The option plan is a rolling plan whereby the maximum number of common shares that may be reserved for issuance under the plan is a rolling amount fixed at 10% of the issued and outstanding common shares of the Company from time to time with no one optionee having shares reserved for issuance in excess of 5% of the outstanding number of shares in and twelve month period. The options granted under the plan are valid for a period not to exceed five years from the date of their grant and may be subject to certain vesting conditions as determined by the Board of Directors. The options are exercisable at the price determined by the Company which must not be less than the last closing price of the listed shares of the Company before the date of their grant, less any applicable discount.

*(continues)*

**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2018 and 2017**  
*(Unaudited - See Notice of No Auditor Review)*

9. SHARE CAPITAL *(continued)*

|                                   | Number of<br>Stock Options | Weighted<br>Average<br>Exercise Price | Expiry date    |
|-----------------------------------|----------------------------|---------------------------------------|----------------|
| <b>Balance September 30, 2016</b> | <b>1,850,000</b>           | 0.38                                  | *              |
| Granted                           | 2,100,000                  | 0.50                                  | April 2024     |
| Exercised                         | (50,000)                   | 0.30                                  | October 2018 * |
| Expired                           | -                          | -                                     |                |
| <b>Balance September 30, 2017</b> | <b>3,900,000</b>           | 0.45                                  |                |
| Granted                           | 1,550,000                  | 0.74                                  | **             |
| Exercised                         | -                          | -                                     |                |
| Expired                           | -                          | -                                     |                |
| <b>Balance June 30, 2018</b>      | <b>5,450,000</b>           | 0.53                                  |                |

All issued options have fully vested and are exercisable as at June 30, 2018.

\* 900,000 of these options have an exercise price of \$0.30 and will expire in October 2019, 100,000 of these options have an exercise price of \$0.40 and will expire in October 2019, 200,000 of these options have an exercise price of \$0.50 and will expire in October 2019, 300,000 of these options have an exercise price of \$0.45 and will expire in January 2021, and the remaining 300,000 of these options have an exercise price of \$0.50 and will expire in September 2021. 50,000 of these options have been exercised.

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

**b) Stock-based compensation**

During the nine month period ended June 30, 2018, the Company granted 1,550,000 incentive stock options to its directors, officers, and consultant for compensation pursuant to its 2017-2018 stock option plan. Each stock option is exercisable immediately into a common share of the company for a period of ten years. The total compensation expense, as calculated using the Black-Scholes option pricing model, for the stock options granted was \$1,132,707. The expense relating to the issuance of these options is recorded in the Statement of Loss with an offsetting increase to contributed surplus.

During the year ended September 31, 2017, the Company granted 2,100,000 incentive stock options to its directors, officers, and consultant for compensation pursuant to its 2016-2017 stock option plan. Each stock option is exercisable into a common share of the company for a period of seven years. The total compensation expense, as calculated using the Black-Scholes option pricing model, for the stock options granted was \$1,016,748. The expense relating to the issuance of these options is recorded in the Statement of Loss with an offsetting increase to contributed surplus.

*(continues)*

**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2018 and 2017**  
*(Unaudited - See Notice of No Auditor Review)*

9. SHARE CAPITAL *(continued)*

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

|                                 | <u><b>June 30, 2018</b></u> |
|---------------------------------|-----------------------------|
| Risk free interest rate         | 1.50%                       |
| Expected dividend yield         | NIL                         |
| Expected stock price volatility | 164% - 264%                 |
| Expected option life in years   | 5 - 10 years                |
| Option exercise price           | \$0.60 - \$0.78             |
| Fair value of options granted   | \$0.66 - \$0.75             |

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.

|                                   | <u><b>Number of Warrants</b></u> | <u>Weighted Average Price</u> | <u>Expiry Date</u> |
|-----------------------------------|----------------------------------|-------------------------------|--------------------|
| <b>Balance September 30, 2016</b> | <b>2,808,500</b>                 | 0.65                          | *                  |
| Granted                           | <b>410,000</b>                   | 0.50                          | August 2019        |
| Exercised                         | -                                | -                             |                    |
| Expired                           | <b>(2,143,000)</b>               | 0.70                          | January 2017       |
| <b>Balance September 30, 2017</b> | <b>1,075,500</b>                 | 0.50                          |                    |
| Granted                           | -                                | -                             |                    |
| Exercised                         | <b>(665,500)</b>                 | 0.50                          | June 2018          |
| Expired                           | -                                | -                             |                    |
| <b>Balance June 30, 2018</b>      | <b>410,000</b>                   | 0.60                          | August 2019        |

\* 2,143,000 of these warrants expired in January 2017. The remaining 665,500 warrants were exercised in May and June 2018.

**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2018 and 2017**  
*(Unaudited - See Notice of No Auditor Review)*

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10. RELATED PARTY TRANSACTIONS

|                                                                                                                                                                                   | <b>Nine months ended<br/>June 30, 2018</b> | <b>Nine months ended<br/>June 30, 2017</b> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|--------------------------------------------|
| Key management compensation                                                                                                                                                       |                                            |                                            |
| <i>(Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include executive and non-executive directors.)</i> |                                            |                                            |
| Compensation                                                                                                                                                                      | <b>\$ 75,552</b>                           | <b>\$ 83,811</b>                           |

The CEO, several principal scientists and directors have significant share holdings at this time that align their interests with those of all shareholders. Due to the Corporation's early stage of development and small size of the 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 current period ended June 30, 2018 there have been no such transactions, nor were there for the comparative period in the previous fiscal year.

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**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2018 and 2017**  
*(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<br>principle<br>position                    | October 1 to<br>June 30 | Compensation |       |                              | Long-Term<br>Compensation           |
|------------------------------------------------------|-------------------------|--------------|-------|------------------------------|-------------------------------------|
|                                                      |                         | Salary       | Bonus | Other annual<br>compensation | Securities under<br>options granted |
| Richard Muruve<br><i>Chief Executive<br/>Officer</i> | 2018                    | \$75,552     | \$NIL | \$NIL                        | \$NIL                               |
|                                                      | 2017                    | \$83,811     | \$NIL | \$NIL                        | \$NIL                               |
|                                                      | 2016                    | \$50,958     | \$NIL | \$NIL                        | \$NIL                               |
| Andrew Bishop<br><i>Chief Financial<br/>Officer</i>  | 2018                    | \$NIL        | \$NIL | \$NIL                        | \$NIL                               |
|                                                      | 2017                    | \$NIL        | \$NIL | \$NIL                        | \$NIL                               |
|                                                      | 2016                    | \$NIL        | \$NIL | \$NIL                        | \$NIL                               |
| Daniel Muruve<br><i>Chief Science<br/>Officer</i>    | 2018                    | \$NIL        | \$NIL | \$NIL                        | \$NIL                               |
|                                                      | 2017                    | \$NIL        | \$NIL | \$NIL                        | \$NIL                               |
|                                                      | 2016                    | \$NIL        | \$NIL | \$NIL                        | \$NIL                               |

*(continues)*

**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2018 and 2017**  
*(Unaudited - See Notice of No Auditor Review)*

11. EXECUTIVE COMPENSATION *(continued)*

***Options***

During the nine month period ended June 30, 2018, 700,000 stock options were granted to the Named Executive Officer and no options were repriced during the reporting period, nor were any options exercised by the Named Executive Officers. The following table sets out the value of unexercised incentive stock options, if any, as at June 30, 2018.

| <b>Named Executive Officers</b>                  | <b>Securities acquired on exercise</b> | <b>Aggregate value realized</b> | <b>Unexercised options as at June 30, 2018<br/>Exercisable/Unexercisable</b> | <b>Value of unexercised in-the-money options at June 30, 2018<br/>Exercisable/Unexercisable</b> |
|--------------------------------------------------|----------------------------------------|---------------------------------|------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| Richard Muruve<br><i>Chief Executive Officer</i> | NIL                                    | N/A                             | 1,500,000/0                                                                  | \$953,500/\$NIL                                                                                 |
| Andrew Bishop<br><i>Chief Financial Officer</i>  | NIL                                    | N/A                             | 1,075,000/0                                                                  | \$708,250/\$NIL                                                                                 |
| Daniel Muruve<br><i>Chief Science Officer</i>    | NIL                                    | N/A                             | 525,000/0                                                                    | \$302,250/\$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 as described in Note 8. As this compensation is not readily measurable, these expenses and the related services revenue have not been recorded.

***Options***

During the nine month period ended June 30, 2018, 500,000 options were granted to the Directors. No options were repriced during the reporting period, nor were any options exercised by the Directors. The following table sets out the value of unexercised incentive stock options, if any, as at June 30, 2018.

| <b>Director</b> | <b>Securities acquired on exercise</b> | <b>Aggregate value realized</b> | <b>Unexercised options as at June 30, 2018<br/>Exercisable/Unexercisable</b> | <b>Value of unexercised in-the-money options at June 30, 2018<br/>Exercisable/Unexercisable</b> |
|-----------------|----------------------------------------|---------------------------------|------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| Claude Allary   | NIL                                    | N/A                             | 350,000/0                                                                    | \$212,000/\$NIL                                                                                 |
| Conor Gunne     | NIL                                    | N/A                             | 350,000/0                                                                    | \$212,000/\$NIL                                                                                 |
| Adrian Haigh    | NIL                                    | N/A                             | 350,000/0                                                                    | \$212,000/\$NIL                                                                                 |
| Richard Rossman | NIL                                    | N/A                             | 350,000/0                                                                    | \$212,000/\$NIL                                                                                 |
| Patrick Vink    | NIL                                    | N/A                             | 250,000/0                                                                    | \$124,500/\$NIL                                                                                 |



**ARCH BIOPARTNERS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended June 30, 2018 and 2017**  
*(Unaudited - See Notice of No Auditor Review)*

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**12. CAPITAL DISCLOSURES**

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

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

The Company monitors its capital and capital structure on an ongoing basis to ensure it is sufficient to achieve the Company's short-term and long-term strategic objectives. Management primarily funds the Company's operations and product development by issuing share capital, rather than using other capital sources that require fixed repayments of principal and interest. The Company closely watches its cash balances. The balance of current assets as at June 30, 2018 was \$1,386,822 (2017 - \$34,432).

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, 2018.

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**13. SUBSEQUENT EVENTS**

On August 9, 2018, 30,000 warrants were exercised for 30,000 common shares at \$0.50 per share.

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