



ARCH BIOPARTNERS INC.

MANAGEMENT DISCUSSION AND ANALYSIS:

FOR THE QUARTER ENDED DECEMBER 31, 2016

DATED MARCH 1, 2017

The following Management Discussion and Analysis (“MD&A”) should be read in conjunction with Arch Biopartners Inc’s (the “Company”) unaudited condensed interim consolidated financial statements and related notes for the three months ended December 31, 2016 which were prepared in accordance with International Financial Reporting Standards (“IFRS”).

The unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to a going concern that contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern. In other than the normal course of business, the Company may be required to realize its assets and liquidate its liabilities and commitments at amounts different from those in the accompanying consolidated financial statements. The Company's viability as a going concern is dependent upon its ability to obtain adequate financing, the on-going support of its shareholders, affiliates and any creditors, and to achieve profitable levels of operation. It is not possible to predict whether financing efforts shall be successful or if the Company will attain profitable levels of operations.

These financial statements, along with additional information relating to Arch Biopartners Inc, may be found on SEDAR at www.SEDAR.com.

Disclosure Regarding Forward-Looking Statements

This Management Discussion and Analysis contains forward-looking statements that involve various risks and uncertainties, including, without limitation, statements regarding the future plans and objectives of the Company. There can be no assurance that such statements will prove to be accurate. Actual results and future events could differ materially from those anticipated in such statements. These and all subsequent written and oral forward-looking statements are based on the estimates and opinions of management on the dates they are made and are expressly qualified in their entirety by this notice. The Company assumes no obligation to update forward-looking statements should circumstances or management's estimates or opinions change; however, these risks may be detailed from time to time in Arch Biopartners Inc.'s public disclosures.

Arch Biopartners Inc.
Management Discussion and Analysis
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ITEM 1 - Overview

Company Profile

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 technology platforms in its portfolio under development (each within its own subsidiary):

- **AB569** – a new drug candidate for treating antibiotic resistant bacterial infections, primarily in the lungs and urinary tract. AB569 has a mechanism of action that differs from the mechanism of action of antibiotics. AB569 has orphan drug status in the U.S. and in Europe for the treatment of *Pseudomonas aeruginosa* infections in the respiratory tracts of patients with cystic fibrosis;
- **MetaBlok™** - a new drug candidate targeting sepsis, cancer metastasis and inflammation based diseases;
- **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™** - 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.

Formation of Arch Biopartners

Arch Biopartners Inc. is incorporated under the Business Corporation Act (Ontario) with continuance under the Canadian Business Corporations Act. On May 7, 2010, the Company was restructured into a biotechnology firm following a reverse takeover transaction (“RTO”) involving three private Canadian biotechnology firms: Arch Biotech Inc, Arch Biophysics Ltd. and Arch Cancer Therapeutics Ltd. The Company formed Arch Bio Ohio Inc. in 2014 and Arch Bio Ireland Ltd. in 2016 to facilitate future activity in the U.S. and Europe respectively. These five companies continue to operate as separate, 100% owned subsidiaries of the Company.

The listing of the Company's common shares moved from the Canadian Securities Exchange ("CSE") to the TSX Venture Exchange ("TSXV") on February 23, 2015 under the ticker "ACH".

The Company had 47,360,179 Common Shares outstanding as of May 7, 2010. As of the date hereinabove, the Company has 54,849,679 common shares outstanding. Please see ITEM 14 below for more information on the Company's outstanding shares, warrants and options

Technology Overview

I. AB569: Treatment for Drug Resistant Bacterial infections

AB569 is a new drug candidate for treating antibiotic resistant bacterial infections, primarily in the lungs and urinary tract. It also has potential to be modified for use as a topical cream for bacterial skin infections.

AB569 has a mechanism of action that differs from the mechanism of action of antibiotics. AB569 has orphan drug status in the U.S. for the treatment of *Pseudomonas aeruginosa* infections in the respiratory tracts of patients with cystic fibrosis. AB569 has orphan medicinal product designation in Europe for the treatment of cystic fibrosis.

Respiratory *Pseudomonas aeruginosa* Infections

Two deadly diseases, cystic fibrosis (CF) and chronic obstructive pulmonary disease (COPD), are exacerbated by airway bacterial infections that significantly impact the overall quality of patient's lives. There are approximately 40,000 CF patients and over 14 million individuals diagnosed with COPD in the United States. In both diseases, antibiotic resistant Gram-negative bacteria, such as *Pseudomonas aeruginosa* (*P. aeruginosa*), often constitute a significant and problematic cause of the pulmonary exacerbations that result in frequent hospitalizations of these patients.

In particular, the mucoid form of *P. aeruginosa* is a very challenging infection to treat due to its high resistance to both antibiotics and phagocyte-mediated killing. Once patients present with the mucoid form of *P. aeruginosa*, their overall lung function precipitously declines resulting in a poor prognosis.

CF patients are predisposed to lung infections due to abnormal mucus production in the lungs and airways. *P. aeruginosa* infects 40% of CF patients between the ages of 6 and 10 years of age. By the age of 17, the frequency of infection increases to 60% and reaches approximately 75% of all CF patients between the ages of 25 and 34. Thus, there is an urgent clinical need for the development of novel effective treatments in this area.

AB569 constitutes an innovative, bactericidal method to treat mucoid and nonmucoid *P. aeruginosa* pulmonary infections, as well as other types of bacterial pulmonary infections, that are resistant to traditional antibiotics.

Exclusive License with University Of Cincinnati on Patents relating to AB569

In March 2016, the Company entered into an exclusive license agreement with the University of Cincinnati (UC) for the commercial rights to the U.S. patent and patent applications protecting AB569 as an antimicrobial treatment of bacterial infections, including antibiotic resistant infections in the lungs and urinary tract.

Pursuant to the license with UC, the maintenance of issued patents and new patent applications relating to AB569 are being prosecuted by the Company's patent attorneys in the U.S. at the Company's expense.

Orphan Drug Designation for AB569 for *P. aeruginosa* lung infections in Cystic Fibrosis

In November, 2015, Arch Biopartners received Orphan Drug Designation on AB569 from the U.S. Food and Drug Administration for the treatment of *P. aeruginosa* lung infections in cystic fibrosis (CF) patients.

The Orphan Drug Designation has been granted for the combination of two active ingredients of AB569: sodium nitrite and ethylenediaminetetraacetic acid. AB569 is to be administered to patients as a nebulized (inhaled) solution. AB569 was invented at the University of Cincinnati in the lab of Dr. Daniel Hassett.

The FDA Office of Orphan Products Development grants Orphan Drug Designation to drugs and biologics to encourage the development of new medicines for the safe and effective treatment of underserved, rare diseases or disorders that affect less than 200,000 patients in the U.S.

The Orphan Drug Designation qualifies Arch for a seven-year term of market exclusivity to sell AB569 in the U.S. following FDA approval of the drug. Additionally, as Arch takes AB569 through the regulatory and human trial process, the Orphan Drug Designation provides an accelerated review and approval process, potential grant funding, tax benefits and an exemption from certain user fees.

Earlier in February 2016, Arch formed an Irish based subsidiary named Arch Bio Ireland Ltd to sponsor and submit an orphan medicinal product application for AB569 to the European Medicines Authority (EMA). In April, 2016, the EMA Committee for Orphan Medicinal Products (COMP) issued a positive opinion recommending AB569 for designation as an orphan medicinal product for the treatment of patients with CF. Final approval from the European Commission for designation of AB569 as an orphan medicinal product in Europe was received by Arch in early June, 2016.

Human Trial Plans

Arch Biopartners and Dr. Hassett's team at the University of Cincinnati are preparing to conduct a human trial to test the safety and efficacy of AB569 for the treatment of *P. aeruginosa* lung infections in CF and/or COPD patients.

During 2015, AB569 successfully completed pre-clinical *in vivo* and *in vitro* validation studies. In all studies, AB569 has demonstrated significant efficacy against *P. aeruginosa* and other antibiotic resistant bacteria. This includes a recent study involving a chronic pulmonary infection model in mice.

The Arch team believes these results provide the scientific rationale for pursuing a human trial to test the safety and efficacy of AB569 for CF and/or COPD patients whose airways are chronically infected with *P. aeruginosa* and other types of bacteria.

In this regard, Arch management formed a clinical and medical advisory board for AB569. The advisory board will provide guidance and expertise on obtaining regulatory approvals, human trial design and patient enrolment to enable first-in-human trials for AB569 in patients with chronic lung infections.

The new members of the clinical and medical advisory board are:

For Cystic Fibrosis (CF):

Dr. Bruce Trapnell, MD, Director, Translational Pulmonary Science Center, Cincinnati Children's Hospital Medical Center (CCHMC), Professor of Medicine and Pediatrics, University of Cincinnati (UC).

Dr. Patricia Joseph, MD, Professor of Medicine and Pediatrics, UC College of Medicine and Director of the Adult CF Center at the UC Medical Center.

Dr. John P. Clancy, MD, Professor, Cincinnati Children's Hospital Medical Center, **Director of the Pediatric CF Center**.

For Chronic Obstructive Pulmonary Disease (COPD):

Dr. Ralph J. Panos, MD, Chief of Medicine, Cincinnati Veterans Affairs Medical Center (CVAMC).

Manufacturing Plan for AB569

During August, 2016, Arch engaged Catalent Inhalation, a division of Catalent Pharma Solutions (Catalent), to begin the manufacturing process for AB569 in preparation for the first human trials involving patients with antibiotic resistant lung infections.

Catalent Inhalation completed initial stability and formulation studies, which are both important production milestones in preparing a pharmaceutical product for human trials and eventual drug approval by the U.S. Food and Drug Administration and other health authorities.

When a human trial has been approved for AB569, Arch will engage Catalent Inhalation and its partners to manufacture a supply of AB569 that meets good manufacturing practice (GMP) standards to enable human trials to treat cystic fibrosis and/or chronic obstructive pulmonary disease patients with chronic bacterial lung infections.

II. MetaBlok™

MetaBlok™ is a new drug candidate and potential treatment for inflammation, sepsis and cancer metastasis. Arch is currently pursuing further clinical development of Metablok and expects to make additional disclosures as milestones toward a human trial are completed over the next few months.

Management of Arch believes Metablok has the potential to be a major breakthrough in the treatment of diseases where inflammation plays a major role, as well as in sepsis and cancer metastasis. Arch is currently pursuing further clinical development of Metablok and expects to make additional disclosures as milestones toward a human trial are completed over the next few months.

MetaBlok™ was invented by Arch scientists Dr. Stephen Robbins, Dr. Donna Senger, Dr. Jennifer Rahn and their University of Calgary colleague, Dr. Paul Kubes. The inventors have assigned the Metablok intellectual property to the Company.

U.S. Patent Issuance for Metablok

In October, 2016, the U.S. Patent and Trademark Office (USPTO) issued U.S. Patent 9,464,114 titled, “Peptides that Block Leukocyte Recruitment and Methods of Use”. This is the first patent issued protecting the composition and method of use for Metablok™

Inflammation Based Disease

Inflammation is a localized physical condition that involves the activation of the immune system in response to infection, tissue injury, or autoimmunity. Inflammation is involved in the pathogenesis of many diseases and contributes to organ dysfunction and failure.

Sepsis

Sepsis represents a large unmet medical need in the world today. Sepsis alone occurs in 1 to 2% of all hospitalizations in the US. It affects at least 700,000 individuals per year.

Sepsis is a serious illness caused by the body's immune response to an infection. White blood cells, or leukocytes, defend the body against toxins and infection. If the immune system activates too many white blood cells to fight the infection, there is a risk of widespread, life threatening inflammation termed "Sepsis".

Sepsis is known to cause organ damage. Blood clotting during sepsis inhibits blood flow to organs and thus reduces their intake of nutrients and oxygen. In severe cases, one or more organs fail. In the worst cases, infection leads to a dangerous drop in blood pressure, called septic shock. This can quickly lead to the failure of several organs such as lungs, kidneys and liver, causing death.

Permanent organ damage can occur in patients who survive sepsis. Under current standard of care, mortality rates are over 20% for sepsis and over 50% for septic shock.

Cancer Metastasis

Cancer is a life threatening disease because of its ability to spread from its original tumour site to other tissues and organs in the body. This process of metastasis occurs through the bloodstream or lymphatic system.

Metastasis is of great importance since most of the cancer deaths are caused by spread of the primary cancer to other sites in the body. Recent evidence shows that 60% to 70% of patients have started the metastatic process by the time of diagnosis. Additionally, patients that do not have tumor spread at diagnosis are at risk for metastatic disease. New therapeutic treatments that protect patients against metastasis would be a major breakthrough in the treatment of cancer.

ITEM 2 - Overall Performance

The Company has not yet generated operating revenue. During the three months ending December 31, 2016, the Company spent approximately \$80,000 per month on patents, product development, operations, professional fees and governance. The spending rate of the Company during the last year has been consistent with the growth of the Company and its platforms in recent years.

The current operations of the Company do not show a buildup of capital expenditures or significant research and development expenses, as any facilities used for research and development to date have been owned by third parties. Lab expenditures to date have been predominantly funded through various research grants.

Cash flow used by operating activities totaled \$142,188 during the first quarter and the Company reported a loss from operations of \$235,369 for the same period, compared with a loss from operations of \$165,883 for the same quarter a year earlier. The larger loss is mostly the result of an increase in drug development expenses related to AB569 as the Company prepares to sponsor the first in human trials for the new drug in the area of treating drug resistant bacterial lung infections.

Comment Regarding Operating Segments

The annual consolidated financial statements for the year ending September 30, 2016 and the interim consolidated financial statements for the three months ending December 31, 2016 include the accounts of the Company and its five subsidiaries. Each subsidiary is considered an operating segment. The Company and its subsidiaries represent one reporting segment as all activity is effectively in the same line of business.

ITEM 3 - Selected Annual Information

This section is not applicable to the interim MD&A pursuant to Form 51-102F1 contained in National Instrument 51-102. To view selected annual information, please refer to the Company's annual financial statements for the year ended September 30, 2016 and MD&A filed on SEDAR at www.sedar.com

ITEM 4 - Results of Operations

The Company reported a *loss from operations* of \$235,369 for the three months ended December 31, 2016 versus a *loss from operations* of \$165,883 for the same period last year.

The increased losses during the quarter compared with the same quarter last year were mostly the result of an increase in research expense in the quarter to \$147,566 up from \$44,928 a year earlier. The increase in research expense results from the costs relating to the preparation and manufacturing of AB569 for use in an upcoming human trial. Such costs were not incurred in the same period last year.

Professional fees and patent expenses were \$5,426 and \$27,613 respectively and were little changed from a year earlier as activity in both categories has not changed during the year.

Share based compensation was nil for the quarter ending December 31, 2016 compared with an expense of \$18,506 a year earlier. Marketing expenses were lower by \$8.093 from the same quarter last year due to decreased travel during the quarter compared to the year before.

The remaining losses for the current quarter include the sum total of all general and administrative expenses, including wages, governance and operations associated with managing the Company. These costs were not materially different than the prior year as the Company continued a stable, low cost of operations.

The result for the quarter is a *Net loss* of \$235,357 or a loss of \$0.004 per common share based on a weighted average number of 53,849,679 common shares outstanding as at December 31, 2016. Management expects an increased pace of expenditures during the remainder of 2017 in order to advance certain proprietary technologies toward clinical trials and viable commercial products. Management of the Company is considering accessing capital markets to raise more funds to complement existing resources. Please see ITEM 6 – Liquidity for more information.

ITEM 5 - Summary of Quarter Results

The following table sets forth, for each quarter ended on the date indicated, information relating to the Company's revenue, net income (loss) per common share as prepared under IFRS.

<i>All values in CAD</i>								
Quarter Ending:	Dec 31 2016 Q1	Sept 30 2016 Q4	Jun 30 2016 Q3	Mar 31 2016 Q2	Dec 31 2015 Q1	Sept 30 2015 Q4	Jun 30 2015 Q3	Mar 31 2015 Q2
Revenue	-	-	-	-	-	-	37,641	51,125
Income (loss) BEFORE discontinued operations	(235,357)	(344,849)	(182,810)	(322,866)	(156,047)	(146,107)	(165,869)	(168,163)
Income (loss) BEFORE other items	(235,357)	(344,849)	(182,810)	(322,866)	(156,047)	(146,107)	(165,869)	(168,163)
Per share	(0.004)	(0.006)	(0.003)	(0.006)	(0.003)	(0.003)	(0.003)	(0.003)
Results Surrounding Extraordinary/Other Items:								
Discontinued Operations	-	-	-	-	-	-	-	-
Extraordinary/Other Items	-	-	-	-	-	-	-	-
Income (Loss)	(235,357,)	(344,849)	(182,810)	(322,866)	(156,047)	(146,107)	(165,869)	(168,163)
Per share	(0.004)*	(0.006)*	(0.003)*	(0.006)#	(0.003)#	(0.003)#	(0.003)#	(0.003)#

*Based on 53,849,679 shares outstanding since June 2016

#Based on 53,189,679 shares outstanding since March, 2015

ITEM 6 - Liquidity

The Company's primary source of cash flow is from the issuance of its own securities, as it has not yet generated positive cash flows from its operations. Economic downturn, a weak stock market, restriction of global capital similar to the global financial crisis of 2008-09 are examples that could make it more difficult for the Company to raise money in the future if it so requires. In 2016, management of the Company will consider accessing capital markets to raise more funds to complement existing resources and improve its cash position.

The Company's working capital deficit as at December 31, 2016, was \$158,105. This working capital deficit is a calculated number and does not have a formal definition according to IFRS but management feels it provides useful information to the user of the financial statements.

The Company has taken the following steps to improve liquidity and working capital during 2015-2016 and subsequently:

- On February 28, 2017, the Company raised \$400,000 with the closing of the non-brokered private placement the Company announced in a press release February 21, 2017 (The "Offering"). Pursuant to the Offering, Arch issued 1,000,000 common shares priced at \$0.40 per common share (the "Common Shares"). All Common Shares issued in connection with the Offering will be subject to a hold period of four months and one day from the closing date.
- During June 2016, the Company raised \$330,000 by closing a non-brokered private placement it announced in a press release June 14, 2016. Pursuant to the terms of the private placement, Arch issued 660,000 Units at a price of \$0.50 per unit (the "Units"). Each Unit consists of one common share of the Company and one common share purchase warrant (the "Warrant"). Each Warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.50 per common share until 5:00PM EST on June 22, 2018.
- During January 2015, the Company raised \$750,050 by closing a non-brokered private placement it announced in a press release January 8, 2015. Pursuant to the terms of the private placement, Arch issued 2,143,000 Units at a price of \$0.35 per unit (the "Units"). Each Unit consists of one common share of the Company and one common share purchase warrant (the "Warrant"). Each Warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.70 per common share until 5:00PM EST on January 13, 2017.
- Company management has secured loans from a director and a shareholder of the Company. The outstanding amount is approximately \$334,164 as at September 30, 2016. During January, 2015 the Company agreed to pay 6% per annum paid semi-annually on these funds. These funds were used when the Company had insufficient working capital at various times to settle payables and ongoing expenses of the Company's operations.

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.

ITEM 7 - Capital Resources

The Company does not currently have any commitments to capital expenditures nor does it have any externally imposed capital requirements at this time.

Management expects during the next 12 months to make additional expenditures of at least \$200,000 in the area of protecting intellectual property emanating from its subsidiaries. Management views this as vital to maintaining the Company's competitive position in developing new technologies for commercial use and to be able to fund development activities in the future. Exact amounts of future patent expense will depend on future success of technology development within the Company's subsidiaries.

Presently, the Company does not have sources of capital other than issuing new equity.

ITEM 8 - Off-Balance Sheet Arrangement

Intellectual Property Transfer Agreements

University of Calgary policy dictates that all scientific intellectual property is 100%-owned by the inventor. In 2010, the University of Calgary scientists in Arch contractually assigned ownership of current and future intellectual property relating to the Arch Biotech and Arch Cancer Therapeutics' research projects to the Company.

The scientists of Arch Biophysics Ltd, the University of Alberta and the Company executed a similar intellectual property assignment to the Company for the rights to the Peptide-Solid Surface Interface.

This intellectual property represents one of the key assets of the Company.

Scientist Engagement Contracts

Scientists managing the Company's technology development within the Company's subsidiaries have executed scientist engagement contracts with the Company. Pursuant to the contracts, the scientists are obliged, among other things, to work on the Company's respective research programs exclusively for the Company without detracting from their responsibilities as members of the university faculty.

ITEM 9 - Transactions with Related Parties

The following were transactions with Related Parties subsequent to, and during, the year ending September 30, 2016 and the quarter ending December 31, 2016:

- On August 29, 2016, the Company granted a total of 300,000 incentive stock options to its directors as the only compensation for serving as a director for the year which began on March 30, 2016, the day of the company's last annual meeting of shareholders. Each stock option grant is for 50,000 options to each of the Board's six directors. Each stock option is exercisable into a common share of the company for a period of five years, exercisable at \$0.50 per share.
- On January 28, 2016, the Company granted a total of 300,000 incentive stock options to its directors as the only compensation for serving as a director for the year which began on March 30, 2015, the day of the company's last annual meeting of shareholders. Each stock option grant is for 50,000 options to each of the Board's six directors. Each stock option is exercisable into a common share of the company for a period of five years, exercisable at \$0.45 per share.
- On October 24, 2014 the Company announced that it had granted 1,200,000 incentive stock options to its directors, officers, and consultants pursuant to its 2014 stock option plan. Each stock option is exercisable into a common share of the company for a period of five years. A total of 900,000 options exercisable at \$0.30 per share; 100,000 are exercisable at \$0.40 per share and 200,000 are exercisable at \$0.50 per share.
- Company management has secured loans from a director and a shareholder of the Company. The outstanding amount is approximately \$334,164 as at December 31, 2016. During January, 2015 the Company agreed to pay 6% per annum paid semi-annually on these funds. These funds were used when the Company had insufficient working capital at various times to settle payables and ongoing expenses of the Company's operations.

ITEM 10 - Proposed Transactions

The Company does not have any proposed transactions as at the date hereinabove.

For more information regarding past transactions, please consult the Company's public filings including the Management Information Circular at www.SEDAR.com

ITEM 11 - Critical Accounting Estimates

This section is not required as the Company is a Venture Issuer, as the term is defined in National Instrument 51-102. Comments on accounting estimates are disclosed in the notes to the annual financial statements.

ITEM 12 - Financial Instruments and Other Instruments

Please refer to Note 3 – “Summary of Significant Accounting policies - *Financial Instruments*” and Note 5 – “Financial Instruments” in the Company’s audited annual financial statements for the year ending September 30, 2016.

ITEM 13 - Other MD&A Requirements

The Company is authorized to issue an unlimited number of common shares, where each common share provides the holder to one vote. At of the date of this Management Discussion and Analysis there were 54,849,679 common shares issued and outstanding. In addition, the Company had the following convertible securities outstanding:

Type	Quantity	Exercise Price	Expiry Date
Stock Options			
	0	0.90	April 15, 2016*
	50,000	0.30	October 15, 2018
	900,000	0.30	October 24, 2019
	100,000	0.40	October 24, 2019
	200,000	0.50	October 24, 2019
	50,000	0.40	April 16, 2018
	300,000	0.45	January 28, 2021
	300,000	0.50	August 29, 2021
Warrants			
	0	0.50	August 6, 2015*
	0	0.50	August 19, 2015*
	0	0.50	February 25, 2016*
	0	0.50	March 25, 2016*
	0	0.50	July 7, 2016*
	0	0.50	August 5, 2016*
	0	0.70	January 13, 2017*

*Any warrants or stock options expired in the above table were not exercised by the holders. Please see ITEM 6 – Liquidity, for details regarding the warrants. Please see ITEM 9 – Transactions with Related Parties for more details on the options.

Summary of Significant Accounting Policies and Changes

Please refer to Note 3 of the Company's interim financial statements for the quarter ending December 31, 2016 for a summary of significant accounting policies and future accounting changes.

Discussion on Disclosure and Internal Controls

As a venture issuer, Arch Biopartners management is not required to certify or include representations about the design and maintenance of Disclosure Controls & Procedures or Internal Control over Financial Reporting and none of the following comments should be so interpreted; however, in the interest of full disclosure, management wishes to include the following comments on Internal Control over Financial Reporting and Disclosure Controls & Procedures.

In assessing Disclosure Controls and Procedures and Internal Control over Financial Reporting, readers are cautioned that a control system can only provide reasonable, not absolute, assurance that the objectives of the control system are achieved. Due to the inherent limitations in all control systems, an evaluation of controls cannot provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. Inherent limitations include the possibility that the assumptions and judgments of management could ultimately prove to be incorrect under varying conditions and circumstances; or that isolated errors could prove to have a significant impact on the reliability of information.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and it is not possible to provide complete assurance that a control system will succeed in achieving its stated goals under all potential future conditions.

Business Risks and Uncertainties

An investment in the common shares of the Company should be considered highly speculative due to the nature of the business of the Company, consisting of research, development and commercialization of patents for industrial products, pharmaceuticals or therapies for the treatment related of human diseases, as well the Company's present stage of its development and its lack of operating history. In evaluating the business of the Company, readers should carefully consider the following risk factors. Additional risks not currently known to the Company as of the date hereof may also impair future business operations of Company. The list below is not a definitive list of all risk factors associated with the business of the Company.

Debt and Interest Risk

The Company does not have any external debt at the moment. As previously mentioned, the Company has a loan of approximately \$334,100 outstanding from a director and a shareholder.

Management of the Company does not consider this debt exposure to have material sensitivity to changes in interest rates.

Current Global Financial and Economic Conditions

Current global financial and economic conditions remain extremely volatile. Several major international financial institutions and other large, international enterprises have either filed for bankruptcy or are being actively rescued by governmental intervention. Access to public and private capital and financing continues to be negatively impacted by many factors as a result of the global financial crisis and global recession. Such factors may impact the Company's ability to obtain financing in the future on favourable terms or obtain any financing at all. Additionally, global economic conditions may cause a long-term decrease in asset values. If such global volatility, market turmoil and the global recession continue, the Company's operations and financial condition could be adversely impacted.

Risks Related to Early Stage Development

The Company is currently at an early stage of development and subject to start up risks, including start up losses, lack and uncertainty of revenues, unproven markets for its products, risks in the commercialization process, lack of profitability and the need to raise additional funding.

Risks Associated with Biomedical Research, Development and Product Commercialization

The Company's growth and future success will be substantially dependent on its ability to develop, license or otherwise acquire new commercially viable patents and products and obtain related governmental approvals. Any failure in respect of the commercial viability of the Company's patents or failure to obtain related governmental approvals could result in a material adverse effect on the business, financial condition and results of operations of the Company. The business of the Company is subject to significant and material risks that cannot be eliminated or adequately mitigated, even with careful and prudent planning and evaluation, experience, knowledge and managerial and operational know-how. The Company will face a number of uncertainties. Development of intellectual property into commercially viable patents can oftentimes completely fail or be terminated at any stage in the research and development process, oftentimes after the expenditure of considerable financial resources.

Health Canada's Therapeutic Products Directorate (the “**TPD**”) is the Canadian federal authority that regulates pharmaceutical drugs and medical devices for human use. The United States Food and Drug Administration (the “**FDA**”) performs a similar function at the federal level in the United States. Prior to being given market authorization to sell products sold in the U.S. and Canada, respectively, the TPD and FDA must be presented with substantive scientific evidence of a product's safety, efficacy and quality. Member states of the European Union and other nations may impose similar regulatory pre-approvals before products can be brought to market. Obtaining FDA, TPD and other regulatory and governmental approvals is extremely time consuming, requires a material amount of capital and subjects products to thorough testing. The outcome of such regulatory applications can often times be unpredictable and yield unanticipated outcomes. The time involved, and the potential failure to obtain, FDA, TPD and other similar regulatory approvals could adversely affect the Company's business plan, product pipeline, financial condition and results of operations.

The Company may rely on the acquisition or licensing of other patents, products or technologies sourced from third parties. The use of such a strategy will draw down the Company's resources in connection with due diligence and expenses in identifying, evaluating and negotiating joint venture or acquisition agreements. In addition, the licensing of patents, products or technologies from third parties can involve significant counterparty contractual risk.

Significant Future Capital Requirements, Future Financing Risk and Dilution

No assurances can be provided that the Company's financial resources will be sufficient for its future needs. Current projections for revenues from operations are insufficient to meet the Company's future capital requirements. As such, the Company will be required to undertake future financings that may be in the form of a sale of equity, debt secured by assets or forward purchase payments. No assurances can be made that the Company will be able to complete any of these financing arrangements or that the Company will be able to obtain the capital that it requires. In addition, the Company cannot provide any assurances that any future financings will be obtained on terms that are commercially favourable to the Resulting Issuer.

Any such future sale of Common Shares or other securities convertible into Common Shares will lead to further dilution of the equity ownership of existing shareholders.

No Anticipated Dividends

The Company does not expect to pay dividends on its issued and outstanding Common Shares in the foreseeable future. If the Company generates any future earnings such cash resources will be retained to finance further growth and current operations. The board of directors of the Company will determine if and when dividends should be declared and paid in the future based on the financial position of the Company and other factors relevant at the particular time. Until the Company pays dividends, which it may never do, a shareholder will not be able to receive a

return on his or her investment in the Common Shares unless such Common Shares are sold. In such event, a shareholder may only be able to sell his or her Common Shares at a price less than the price the shareholder originally paid for them, which could result in a significant loss of such shareholder's investment.

Negative Cash Flow and Absence of Profits

The Company has not earned any profits to date and there is no assurance that it will earn any profits in the future. The Company expects to continue to incur significant operating losses as continued development and clinical trials occur. Such losses are anticipated to have an adverse effect on shareholders' equity and working capital. The Company will need to generate significant revenues in order to achieve and maintain profitability and there can be no guarantees that profitability, if ever achieved, will be sustained.

The Company's ability to generate revenue in the future is dependent, in large part, on completing product development, obtaining regulatory approvals and successful commercialization and marketing of the Company's patents for pharmaceuticals or therapies for the treatment related of human diseases. The Company cannot provide any assurances that the products it may develop or license will ever successfully commercialize or achieve revenues from sales. There can be no assurance that future revenues will be sufficient to generate the required funds to continue in the biotechnology industry.

Limited Operating History

The Company is in the early stage of development. As such, the Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources and the lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations.

Management of Growth

The Company may be subject to growth-related risks including pressure on its internal systems and controls. The Company's ability to manage its growth effectively will require it to continue to implement and improve its operational and financial systems. The inability of Company management to deal with this growth could result in a material adverse impact on its business, operations and prospects. While management believes that it will make the necessary investments in infrastructure to process anticipated volume increases in the short term, the Company may experience growth in the scope of its operating and financial systems, resulting in increased responsibilities for the Company's personnel, the hiring of additional personnel and, in general, higher levels of operating expenses. In order to manage its current operations and any future growth effectively, the Company will also need to continue to implement and improve its

operational, financial and management information systems and to hire, train, motivate, manage and retain its employees. There can be no assurance that the Company will be able to manage such growth effectively, that its management, personnel or systems will be adequate to support the Company's operations.

Risks Related to Pre-Clinical and Clinical Trials

Extensive preclinical and clinical trials (collectively “**Clinical Trials**”) are required to commercialize the Company's pipeline of products, which involves, among other things, demonstrating safety and efficacy. Clinical Trials are capital intensive undertakings, take years to complete and can oftentimes yield unintended outcomes, including, among other things, harmful side effects that may delay or bar regulatory approval or limit commercial use of the product, if approved. The Company's future success will depend, to a significant degree, on obtaining successful outcomes to Clinical Trials. In general, Clinical Trials are risky, time consuming endeavours and can oftentimes result in complete failure after material expenditures are made, especially where a novel use or chemical is proposed or tested, which can also increase the risk of harmful side effects. The Company's developmental pipeline may never evolve into commercially viable products if adverse outcomes or failures arise in connection with Clinical Trials. The scope, duration and number of Clinical Trials will vary according to the relevant governmental agency. Failure to obtain regulatory approval or successful commercialization of the product pipeline could result in a material adverse effect on the business and financial condition of the Company.

Risks Related to Marketplace Acceptance of the Resulting Issuer's Products

The Company's product pipeline may appear promising but may ultimately fail to reach a defined market. Additionally, the Company's products may have limited or no commercial success. Market acceptance of the Company's products will be impacted by several factors, none of which (collectively or individually) can necessarily be eliminated, adequately mitigated or managed, even with careful and prudent planning and evaluation, experience, knowledge and managerial and operational know-how. Such factors include, but are not limited to, the following (in no particular order): (i) timing of regulatory approvals, (ii) competition from more established firms, (iii) safety of the proposed product as compared to existing treatments, including the availability of alternatives, (iv) scope of approved use and marketing approval, (v) costs to produce the product and (vi) price.

Risks Related to Intellectual Property (Licenses, Patents and Proprietary Rights)

The patent positions of other persons are oftentimes uncertain and tend to involve an examination of increasingly complex legal and factual questions. The patent situation outside the U.S. and Canada is even more uncertain. The business of the Company will be characterized by a significant amount of potential litigation risk in relation to patent defence and patent

infringement claims. The success of the Company will depend upon its ability to protect its own intellectual property while simultaneously conducting its affairs in a manner that does not infringe upon the proprietary rights of others. Existing patent holders, or others, may seek to oppose or challenge some or the Company's entire portfolio of patents or may actively attempt to circumvent the Company's patents. Additionally, the Company may discover that existing patents may impede its ability to capitalize on the outcomes of its research projects. The Company can provide no assurances that it can successfully defend its patents and can provide no comfort that a court will ultimately uphold their validity. The costs of litigation, if any, may be material and may quickly strain the limited financial resources of the Company. In addition to cost any litigation could be time-consuming and place severe operational strains upon senior management team and technical personnel. The loss of actual litigation, if any, could result in monetary damages being levied against the Company or subject the Company to an interlocutory or permanent injunction.

Risks Related to Competition and Technological Change

The biotechnology industry is extremely competitive and is subject to rapid and significant technological change, which among other things, places immense pressure on the business of the Company. The Company competes against other, more established research teams and firms who may be examining the same subject matter being researched by the Company. A large number of the Company's competitors, which include, among others, major pharmaceutical and chemical companies, specialized contract research organizations, research-and-development firms, universities and other research institutions will have superior financial and operational resources and more experience in research and development. Competitors may develop new treatments or technologies that compete with the Company's products or even render the Company's technologies obsolete.

Risks Related to Product Liability Claims

Product liability claims may arise against the Company in connection with the testing and administration of pharmaceuticals, whether in Clinical Trials or commercially, and may arise regardless of whether the Company's product is actually at fault. In general, product liability claims may produce product recalls, result in protracted litigation and could cause adverse publicity, any of which outcomes could adversely affect the regulatory approval process and/or cause a long term decline in the value of the Common Shares. The defense of product liability claims (which oftentimes comes in the form of a class proceeding) can be extremely time consuming and costly, even against bogus claims, and may place significant strains on the financial resources of the Company. The Company does not carry any product liability insurance at this time but intends to do so as its business develops and its product pipeline is commercialized. However, product liability insurance coverage is very expensive, is oftentimes difficult to obtain, may not be available on commercially reasonable terms or may be capped at certain thresholds,

which may result in uninsurable risks to the Company. The Company can provide no assurances that product liability insurance, if any, will be obtained or if obtained will be adequate in scope.

Key Personnel

The Company's business involves a high degree of risk, which a combination of experience, knowledge and careful evaluation may not be able to be managed or overcome. As such, the Company's success is dependent on the services of its senior management and the members of its Scientific Advisory Board. The loss of one or more of the Company's key employees or consultants could have a material adverse effect on the Company's operations and business prospects. In addition, the Company's future success will depend on its ability to attract and retain skilled technical, management and marketing personnel. There can be no assurance that the Company will be successful in attracting and retaining such personnel and the failure to do so could have a material adverse effect on the Company's business, its operating results as well as its overall financial condition.

Foreign Exchange Risk

The majority of expenses are now in Canadian dollars only. Less than 30% of the Company's expenses are denominated in US dollars.

At the present time, the Company does not use any foreign exchange risk management tools such as currency forward or options contracts.