

Appili Therapeutics Inc.

Interim Condensed Consolidated Financial
Statements
(Unaudited)
December 31, 2022

February 13, 2023

Management's Responsibility for Financial Reporting

The accompanying unaudited interim condensed consolidated financial statements of Appili Therapeutics Inc. (the "Company") are the responsibility of management and have been approved by the Board of Directors. The unaudited interim condensed consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The unaudited interim condensed consolidated financial statements include some amounts and assumptions based on management's best estimates, which have been derived with careful judgment.

In fulfilling its responsibilities, management has developed and maintained a system of internal accounting controls. These controls are designed to ensure that the financial records are reliable for preparation of the unaudited interim condensed consolidated financial statements. The Board of Directors reviewed and approved the Company's unaudited interim condensed consolidated financial statements.

(signed) "*Don Cilla*"
President & Chief Executive Officer

(signed) "*Kenneth Howling*"
Acting Chief Financial Officer

Appili Therapeutics Inc.

Interim Condensed Consolidated Statements of Financial Position (Unaudited)

As at December 31, 2022 and March 31, 2022

	December 31, 2022	March 31, 2022
	\$	\$
Assets		
Current Assets		
Cash	1,427,155	6,664,855
Accounts receivable (note 4)	580,379	466,678
Investment tax credit receivable	285,200	924,400
Prepaid expenses and deposits	282,170	183,546
	<u>2,574,904</u>	<u>8,239,479</u>
Non-Current Assets		
Property and equipment	13,060	42,247
Total Assets	<u>2,587,964</u>	<u>8,281,726</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (note 5)	2,468,179	6,455,958
Deferred credit	-	117,627
Current portion of long-term debt (note 6)	103,455	95,555
Corporate taxes payable	34,132	-
	<u>2,605,766</u>	<u>6,669,140</u>
Non-Current liabilities		
Long-term debt (note 6)	5,337,805	4,883,128
Total Liabilities	<u>7,943,571</u>	<u>11,552,268</u>
Shareholders' equity	(5,355,607)	(3,270,542)
Total Liabilities and Shareholder's Equity	<u>2,587,964</u>	<u>8,281,726</u>
Going concern (note 1)		

Approved by the Board of Directors

Signed “*Rochelle Stenzler*”
Director

Signed “*Theresa Matkovits*”
Director

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

Appili Therapeutics Inc.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

For the nine months ended December 31, 2022 and 2021

	Share Capital	Contributed Surplus	Warrants	Deficit	Total
	\$	\$	\$	\$	\$
	(note 8)	(note 9)	(note 10)		
Balance- March 31, 2021	34,962,095	2,552,253	6,189,405	(30,950,893)	12,752,860
Issuance of common shares in public offering	5,344,254	-	-	-	5,344,254
Share issuance costs	(720,669)	-	-	-	(720,669)
Issuance of warrants	-	-	2,518,529	-	2,518,529
Warrant issuance costs	-	-	(247,843)	-	(247,843)
Exercise of warrants	67,634	-	(23,913)	-	43,721
Expired Warrants	-	140,867	(140,867)	-	-
Employee share options:					
Value of services recognized	-	1,659,852	-	-	1,659,852
Net loss and comprehensive loss for the period	-	-	-	(21,784,849)	(21,784,849)
Balance- December 31, 2021	39,653,314	4,352,972	8,295,311	(52,735,742)	(434,145)
Issuance of warrants	-	-	117,627	-	117,627
Warrant issuance costs	-	-	(744)	-	(744)
Expired Warrants	-	280,257	(280,257)	-	-
Employee share options:					
Value of services recognized	-	380,170	-	-	380,170
Net loss and comprehensive loss for the period	-	-	-	(3,333,450)	(3,333,450)
Balance- March 31, 2022	39,653,314	5,013,399	8,131,937	(56,069,192)	(3,270,542)
Issuance of common shares in public offering	3,214,286	-	-	-	3,214,286
Share issuance costs	(544,241)	-	-	-	(544,241)
Issuance of warrants	-	-	1,543,341	-	1,543,341
Warrant issuance costs	-	-	(217,714)	-	(217,714)
Expired Warrants	-	524,440	(524,440)	-	-
Employee share options:					
Value of services recognized	-	501,631	-	-	501,631
Net loss and comprehensive loss for the period	-	-	-	(6,582,368)	(6,582,368)
Balance- December 31, 2022	42,323,359	6,039,470	8,933,124	(62,651,560)	(5,355,607)

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

Appili Therapeutics Inc.

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss (Unaudited)

For the three and nine months ended December 31, 2022 and 2021

	Three months ended December 31,		Nine months ended December 31,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Income				
Revenue (note 7)	-	1,390,684	-	1,390,684
Interest income	9,349	6,825	23,274	28,261
	9,349	1,397,509	23,274	1,418,945
Expenses				
Research and development (note 4)	937,446	3,294,928	2,160,475	19,424,737
General and administrative	1,424,647	1,237,812	3,396,476	3,506,170
Business development	61,367	122,857	125,300	695,016
Financing costs	272,433	242,950	645,845	403,923
Government assistance	(46,840)	(236,464)	(122,866)	(807,455)
Exchange (gain)/loss	(54,444)	(34,751)	370,895	(57,469)
	2,594,609	4,627,332	6,576,125	23,164,922
Loss before Income taxes	(2,585,260)	(3,229,823)	(6,552,851)	(21,745,977)
Provision for income taxes	34,133	9,273	29,517	38,872
Net loss and comprehensive loss for the period	(2,619,393)	(3,239,096)	(6,582,368)	(21,784,849)
Basic and diluted loss per share	(0.02)	(0.05)	(0.06)	(0.33)
Weighted-average shares outstanding	121,266,120	70,074,359	111,266,120	65,246,779

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

Appili Therapeutics Inc.

Interim Condensed Consolidated Statements of Cash Flows (Unaudited)

For the nine months ended December 31, 2022 and 2021

	December 31, 2022	December 31, 2021
	\$	\$
Cash provide by (used in)		
Operating activities		
Net loss and comprehensive loss for the period	(6,582,368)	(21,784,849)
Changes to operations not involving cash:		
Amortization of property and equipment	4,642	9,239
Non-cash finance costs	253,048	403,923
Share-based compensation	501,631	1,659,852
Loss on disposal of property and equipment	21,045	-
Unrealized loss from changes in foreign currency	1,067	52,306
Unrealized foreign exchange translation (LZH)	336,330	
	(5,464,605)	(19,659,529)
Net changes in non-cash operating working capital		
Decrease (increase) in amounts receivable	(113,701)	38,539
Decrease (increase) in investment tax credits receivable	639,200	(58,300)
Decrease (increase) in prepaids expenses and deposits	(98,624)	213,231
Increase (decrease) in accounts payable and accrued liabilities	(3,950,868)	4,248,299
	(8,988,598)	(15,217,760)
Financing activities		
Proceeds from the issuance of Class A common shares in a public offering	3,214,286	5,344,254
Share issuance costs	(444,241)	(531,367)
Proceeds from the issuance of warrants	1,285,714	1,655,966
Warrant issuance costs	(177,714)	(189,186)
Proceeds from exercise of warrants	-	43,721
Proceeds from long-term debt	-	(56,096)
Repayment of long-term debt	(63,300)	
Accreted interest involving cash	(63,501)	(70,612)
Proceeds from convertible Debt	-	3,500,000
Repayment of convertible Debt	-	(1,000,000)
Costs associated with issuance of convertible debt	-	(193,241)
	3,751,244	8,503,439
Investing activities		
Proceeds from disposal of property and equipment	3,500	(811)
Proceeds from disposal of short-term investments	-	5,061,853
	3,500	5,061,042
Net change in cash during the period	(5,233,854)	(1,653,279)
Cash - Beginning of period	6,664,855	11,062,938
Changes due to foreign exchange	(3,846)	(37,397)
Cash - End of period	1,427,155	9,372,262

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

Appili Therapeutics Inc.

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

For the nine months ended December 31, 2022 and 2021

1 Nature of operations and liquidity risk

Appili Therapeutics Inc. (the “Company” or “Appili”) is a biopharmaceutical company dedicated to advancing the global fight against infectious diseases by matching clearly defined patient needs with drug development programs that provide solutions to existing challenges patients, doctors and society face. Appili has one wholly owned subsidiary, Appili Therapeutics Inc. USA. The Company is domiciled in Halifax, Nova Scotia. The Company exists under the Canada Business Corporations Act, and its Class A common shares (“common shares”) are listed for trading on the Toronto Stock Exchange (“TSX”) under the symbol “APLI”. The Company also trades in the United States on the OTCQX Exchange. The address of its principal place of business is #21-1344 Summer Street, Halifax, Nova Scotia, Canada.

Going concern

These unaudited interim condensed consolidated financial statements have been prepared using International Financial Reporting Standards (“IFRS”) applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due.

For the nine months ended December 31, 2022, the Company reported a loss of \$6,582,368 (December 31, 2021 - \$21,784,849) and an accumulated deficit of \$62,651,560 (March 31, 2022 - \$56,069,192). In addition to its ongoing working capital requirements, the Company must secure sufficient funding through financing activities to cover research and development expenditures to advance the programs in its pipeline that are planned for the next twelve months. These circumstances lend significant doubt as to the ability of the Company to fund planned expenditures and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

The ability of the Company to advance its programs in its pipeline is dependent on raising additional financing through equity and non-dilutive funding and partnerships. There can be no assurance that additional financing will be available on acceptable terms or at all. If the Company is unable to obtain additional financing when required, Appili may have to substantially reduce or eliminate planned expenditures. Management is evaluating alternatives to secure additional financing so that the Company can continue to operate as a going concern. Nevertheless, there is no assurance that these initiatives will be successful.

The Company's ability to continue as a going concern is dependent on its ability to fund its research and development programs and generate future positive cash flows from operations. These unaudited condensed consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

Appili Therapeutics Inc.

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

For nine months ended December 31, 2022 and 2021

2 Basis of preparation

The Company prepares its unaudited interim condensed consolidated financial statements in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”) and Part I of the Chartered Professional Accountants of Canada Handbook – Accounting.

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim condensed consolidated financial statements, including IAS 34, International Accounting Standards 34 “Interim Financial Reporting”. Accordingly, certain information normally included in annual consolidated financial statements prepared in accordance with IFRS, as issued by the IASB, have been omitted or condensed. The unaudited interim condensed consolidated financial statements should be read in conjunction with the Company’s annual audited financial statements for the year ended March 31, 2022. The accounting policies used are consistent with those used in the audited financial statements.

The policies applied in these unaudited interim condensed consolidated financial statements are based on IFRS issued and outstanding as of February 13, 2023, the date the Board of Directors approved the unaudited interim condensed consolidated financial statements.

3 Critical accounting estimates and judgments

These unaudited interim condensed consolidated financial statements for the nine months ended December 31, 2022 have been prepared using the same policies and methods as the annual audited consolidated financial statements of the Company. Refer to note 3 of the Company’s annual audited consolidated financial statements for the year ended March 31, 2022 for more information on accounting estimates and judgements applied.

4 Amounts receivable

	December 31, 2022	March 31, 2022
	\$	\$
Sales tax receivable	-	425,940
Amounts due from government assistance	90,147	40,738
Other receivable	490,232	-
	<u>580,379</u>	<u>466,678</u>

Appili Therapeutics Inc.

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

For nine months ended December 31, 2022 and 2021

4 Amounts receivable (continued)

As at December 31, 2022, other receivable of \$490,232 (December 31, 2021- \$nil) represents a refund due from Pharmaceutical Research Associates (“PRA”) as a result of the final reconciliation of the close-out costs related to the services provided by PRA on a clinical trial. During the nine months ended December 31, 2022, the Company updated its estimate of close-out costs associated with the trial based on information obtained from PRA and reduced its previously recorded invoiced amounts and accruals by \$ 1,182,967 (December 31, 2021-\$nil) and recognized the related credit in research and development costs.

5 Due to related party and related transactions

The Company’s Chair of the Board of Directors (formerly Chief Executive Officer) is a partner of Bloom Burton & Co., which is a principal shareholder of the Company. For the nine months ended December 31, 2022, the Company was charged \$270,612 (December 31, 2021 - \$269,377) for services performed by the former Chief Executive Officer and accrued \$513,055 (December 31, 2021 -\$nil) in accordance with his employment contract which was terminated due to his change in role. As at December 31, 2022, \$473,108 (December 31, 2021-\$nil) is included in accounts payable and accrued liabilities owing to the former Chief Executive Officer in accordance with his employment contract. The Company has not granted any stock options (December 31, 2021– 850,000) to the former Chief Executive Officer during the nine months ended December 31, 2022.

During the nine months ended December 31, 2022, the Company was charged \$144,839 (December 31, 2021 - \$nil) for consulting services in relation to business development activities by Bloom Burton Securities Inc., an affiliate of Bloom Burton. The Company also issued 1,189,579 (December 31, 2021 - 128,674) compensation warrants valued at \$50,057 (December 31, 2021 - \$54,043) and paid \$315,000 (December 31, 2021- \$490,015) in cash commissions to Bloom Burton Securities Inc., an affiliate of Bloom Burton, resulting from the May 2022 Public Offering (as defined in note 8).

During the nine months ended December 31, 2022 the Company was charged \$nil (December 31, 2021- \$73,776) for consulting services by a member of the Board of Directors in relation to research and development activities.

Appili Therapeutics Inc.

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

For nine months ended December 31, 2022 and 2021

6 Long-term debt

	December 31, 2022 \$	March 31, 2022 \$
ACOA Business Development Program interest-free loan with a maximum contribution of \$500,000 repayable in 120 equal monthly payments of \$4,167 beginning April 1, 2018. As at December 31, 2022, the principal outstanding was \$300,000 (March 31, 2022- \$337,500)	213,100	230,600
ACOA Business Development Program interest-free loan with a maximum contribution of \$500,000 repayable in 84 equal monthly payments of \$5,952 beginning January 1, 2019. As at December 31, 2022, the principal outstanding was \$267,872 (March 31, 2022- \$321,440)	214,800	247,400
ACOA Business Development Program interest-free loan with a maximum contribution of \$474,839 repayable in 120 equal monthly payments of \$3,960 beginning March 1, 2020. As at December 31, 2022, the principal outstanding was \$375,840 (March 31, 2022- \$411,480)	242,000	255,200
ACOA Atlantic Innovation Fund interest-free loan with a maximum contribution of \$2,803,148. Annual repayments, commencing December 1, 2021 are calculated as 5% of gross revenue from resulting products for the preceding fiscal year. As at December 31, 2022, the amount drawn down on the loan is \$2,662,990 (March 31, 2022- \$2,662,990)	337,400	282,555
Long Zone Holdings Inc. (LZH) secured loan bearing an interest rate of the higher of 8.25% or the US prime lending rate plus 5.25% per year (average rate during the nine months was 10.6%), compounded quarterly, with a maturity date of March 28, 2025. As at December 31, 2022, the principal outstanding was \$4,500,000 (March 31, 2022- \$4,500,000)	4,433,960	3,962,928
	5,441,260	4,978,683
Less: Current Portion	(103,455)	(95,555)
	<u>5,337,805</u>	<u>4,883,128</u>

ACOA Loans

Total contributions received, less amounts that have been repaid as at December 31, 2022 for ACOA loans, were \$3,606,702 (March 31, 2022 - \$3,733,410). Certain ACOA loans require approval by ACOA before the Company can pay dividends or other distributions, or before there is any change in ownership of the Company.

The fair value of the LZH secured loan is as follows:

	\$
LZH secured loan - March 31, 2021	-
Proceeds from loan	4,500,000
Costs associated with acquisition of the loan	(301,818)
Fair value of the warrants issued	(117,627)
Fair value of the distribution agreement	(117,627)
LZH secured loan - March 31, 2022	<u>3,962,928</u>
Accreted interest, non-cash	134,702
Unrealized foreign exchange loss	<u>336,330</u>
LZH secured loan - December 31, 2022	<u>4,433,960</u>

Appili Therapeutics Inc.

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

For nine months ended December 31, 2022 and 2021

6 Long-term debt (continued)

Minimum annual repayments of long-term debt over the next five years (listed below), do not include potential ACOA Atlantic Innovation Fund repayments beyond 2023, since these are not determinable at this time:

	\$
Remainder of the fiscal year ended	
March 31, 2023	42,237
2024	168,948
2025	4,668,948
2026	151,124
2027	97,524
	<u>5,128,781</u>

Net debt reconciliation

	December 31, 2022	March 31, 2022
	\$	\$
Balance - Beginning of period	4,978,683	1,032,600
Accreted interest, cash	(63,501)	(93,005)
Accreted interest, non-cash	253,048	152,060
Unrealized foreign exchange translation (LZH)	336,330	-
Fair value of LZH secured loan, on receipt of funds	-	3,962,928
Repayment of debt	<u>(63,300)</u>	<u>(75,900)</u>
Balance - End of period	5,441,260	4,978,683
Less: Current Portion	<u>(103,455)</u>	<u>(95,555)</u>
Non-current portion	<u>5,337,805</u>	<u>4,883,128</u>

7 Revenue

The Company entered into a data licensing agreement with FUJIFILM Toyama Chemical Co., LTD (“FFTC”), to provide FFTC the data from the Company’s Phase 3 double-blinded, randomized, placebo-controlled clinical trial evaluating favipiravir for the treatment of COVID-19 in the community setting.

During the nine months ended December 31, 2022, the Company earned no licensing fees (December 31, 2021 - \$1,390,684, which included -\$1,265,520 for the data licensing fees received from FFTC and \$125,164 for other licencing fees).

Appili Therapeutics Inc.

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

For nine months ended December 31, 2022 and 2021

8 Share capital

Authorized

Unlimited number of Class A common shares

Unlimited number of Class B non-voting common shares (nil outstanding)

Unlimited number of preferred shares (nil outstanding)

Issued

Class A common shares

	Number of Shares #	Amount \$
Balance - March 31, 2021	62,777,469	34,962,095
Issued for cash	8,434,000	5,344,254
Less: share issuance costs	-	(720,669)
Warrants exercised	54,651	67,634
Balance - December 31, 2021 and March 31, 2022	71,266,120	39,653,314
Issued for cash	50,000,000	3,214,286
Less: share issuance costs	-	(544,241)
Balance - December 31, 2022	121,266,120	42,323,359

On May 26, 2022, the Company completed a prospectus offering (“May 2022 Public Offering”) of 50,000,000 units at a price of \$0.09 per unit, for aggregate gross proceeds of \$4,500,000. Each unit consisted of one common share and one-half of one common share purchase warrant, with each whole warrant entitling the holder to acquire one common share of the Company at an exercise price of \$0.15 for a period of five years, expiring on May 26, 2027. The Company allocated the gross proceeds of the May 2022 Public Offering to the common share and the common share purchase warrants on a reasonable basis, proportionately based on their relative stand-alone fair values of the instruments. Based on the proportionate relative fair values, \$3,214,286 was allocated to the common shares and \$1,285,714 to the common share purchase warrants.

Total costs associated with the May 2022 Public Offering are \$761,955, including cash costs for commissions of \$315,000, professional fees and regulatory costs of approximately \$306,955 and 3,500,000 compensation warrants issued as commissions to the agents valued at approximately \$140,000. Each compensation warrant entitles the holder to acquire one common share of the Company at an exercise price of \$0.095 for a period of two years, expiring on May 26, 2024. The Company allocated the total costs of the May 2022 Public Offering to the common share and the common share purchase warrants on a reasonable basis, proportionately based on their relative stand-alone fair values of the instruments. Based on the proportionate relative fair values, \$544,241 was allocated to the common shares and \$217,714 to the common share purchase warrants.

On November 13, 2022 the Company granted 1,000,000 stock options, to the President & Chief Executive Officer on appointment, under Appili’s Stock Option Plan. The stock options will be exercisable at \$0.04 per share and will have a term of ten years and will vest over a period of three years.

Appili Therapeutics Inc.

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

For nine months ended December 31, 2022 and 2021

9 Contributed surplus

The change in contributed surplus as presented in the unaudited interim condensed consolidated statements of changes in shareholders' equity is as follows:

	Amount \$
Balance -March 31, 2021	2,552,253
Vesting of stock options	1,659,852
Warrants expired	<u>140,867</u>
Balance- December 31, 2021	4,352,972
Vesting of stock options	380,170
Warrants expired	<u>280,257</u>
Balance- March 31, 2022	5,013,399
Vesting of stock options	501,631
Warrants expired	<u>524,440</u>
Balance- December 31, 2022	<u>6,039,470</u>

The Board of Directors of the Company has established a stock option plan (the "Plan") under which options to acquire common shares of the Company are granted to directors, employees and other advisors of the Company. The maximum number of common shares issuable under the Plan shall not exceed 10% of the issued and outstanding common shares at the date of such grant. If any option expires or otherwise terminates for any reason without having been exercised in full, or if any option is exercised in whole or in part, the number of shares in respect of which option is expired, terminated or was exercised shall again be available for the purposes of the Plan.

Stock options are granted with an exercise price determined by the Board of Directors, which is the market price of the shares on the day preceding the award. The term of the option is determined by the Board of Directors, not to exceed ten years from the date of grant. The vesting of the options is determined by the Board and is typically 33 1/3% every year after the date of grant.

In the event that the option holder should die while he or she is still a director, employee or other advisor of the Company, the expiry date shall be one (1) year from the date of death of the option holder, not to exceed the original expiry date of the option. In the event that the option holder ceases to be a director, employee or other advisor of the Company other than by reason of death or termination, the expiry date of the option shall be three (3) months following the date the option holder ceases to be a director, employee or other advisor of the Company, not to exceed the original expiry date of the option.

Appili Therapeutics Inc.

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

For nine months ended December 31, 2022 and 2021

9 Contributed surplus (continued)

The fair value of stock options is estimated using the Black-Scholes valuation model. Due to the absence of company specific volatility rates, the Company determined the expected volatility of these stock options using the average volatility of biotechnology companies traded on the Toronto Stock Exchange and the TSX Venture Exchange.

During the nine months ended December 31, 2022, 1,000,000 stock options (December 31, 2021– 5,668,750) with a weighted average exercise price of \$0.04 (December 31, 2021 - \$0.62) and a term of 10 years were granted to the President & Chief Executive officer. The value of these stock options was estimated at \$40,000 (December 31, 2021 - \$2,396,968) which is a weighted average grant date value per option of \$0.04 (December 31, 2021 - \$0.45) using Black – Scholes valuation model and following weighted average assumptions:

	December 31, 2022	December 31, 2021
Risk-free interest rate	3.15%	1.40%
Expected volatility	110%	121%
Expected life (years)	10	3
Dividend yield	-	-

Option activity for the nine months ended December 31, 2022 and December 31, 2021 was as follows:

	Number #	December 31, 2022 Weighted average exercise price \$	Number #	December 31, 2021 Weighted average exercise price \$
Outstanding - Beginning of period	9,276,490	0.67	4,526,871	0.79
Granted	1,000,000	0.04	5,668,750	0.62
Forfeited	(726,253)	0.52	(275,003)	1.09
Expired	(1,468,465)	0.80	(175,379)	0.74
Outstanding - End of period	8,081,772	0.59	9,745,239	0.69

Appili Therapeutics Inc.

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

For nine months ended December 31, 2022 and 2021

10 Warrants

Warrant activity for the nine months ended December 31, 2022 and December 31, 2021 were as follows:

	Number	Weighted average exercise price
	#	\$
Outstanding - March 31, 2021	14,680,644	1.29
Granted	7,017,254	1.03
Exercised	(54,651)	0.8
Expired	(299,717)	1.5
Outstanding - December 31, 2021	21,343,530	1.2
Granted	1,500,000	0.87
Expired	(640,493)	1.02
Outstanding - March 31, 2022	22,203,037	1.14
Granted	30,000,000	0.14
Expired	(885,158)	1.20
Outstanding - December 31, 2022	51,317,879	0.56

The Company completed the May 2022 Public Offering (see note 8) and issued 25,000,000 common share purchase warrants exercisable for a period of 5 years at an exercise price of \$0.15 per share, valued at \$1,285,714 on May 26, 2022.

The Company also issued 3,500,000 compensation warrants as commissions to the agents exercisable for a term of 2 years at an exercise price of \$0.10 per value, valued at \$140,000 on May 26, 2022.

Concurrently with the LZH secured loan (note 6), the Company entered into an agreement which, subject to obtaining certain consents by December 28, 2022, entitled LZH an exclusive license to commercialize the Company's future approved products in Latin America, Canada and Israel. If consents were not obtained by December 28, 2022, the Company would be required to issue up to 1,500,000 additional warrants to LZH or pay in cash the fair value of the additional warrants.

The fair value of the agreement at inception was estimated at \$117,627 and recorded as a deferred credit in the consolidated statements of financial position.

As the Company was not able to secure the required consents prior to December 28, 2022, an additional 1,500,000 warrants were issued to LZH and the deferred credit was recognized as the fair value of the additional warrants in the consolidated statements of changes in shareholders' equity.

Appili Therapeutics Inc.

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

For nine months ended December 31, 2022 and 2021

10 Warrants (continued)

The weighted average value per warrant issued for the nine months ended December 31, 2022 was \$0.05 (December 31, 2021 - \$0.36) and was determined using the Black-Scholes valuation model and following weighted average assumptions:

	December 31, 2022	December 31, 2021
Risk-free interest rate	2.74%	1.40%
Expected volatility	110%	121%
Expected life (years)	4.18	3
Dividend yield	-	-

11 Financial instruments

Financial instruments are defined as a contractual right or obligation to receive or deliver cash on another financial asset. The following table sets out the approximate fair values of financial instruments as at the unaudited interim condensed consolidated statements of financial position dates with relevant comparatives:

	December 31, 2022		March 31, 2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	\$	\$	\$	\$
Cash	1,427,155	1,427,155	6,664,855	6,664,855
Amounts Receivable	580,379	580,379	40,738	40,738
Accounts Payable and accrued liabilities	2,468,179	2,468,179	6,455,958	6,455,958
Long-term debt	5,441,260	5,441,260	4,978,683	4,978,683

Assets and liabilities, such as commodity taxes, that are not contractual and arise as a result of statutory requirements imposed by governments, do not meet the definition of financial assets or financial liabilities and are, therefore, excluded from amounts receivable and accounts payable and accrued liabilities in this table.

Fair value of items, which are short-term in nature, has been deemed to approximate their carrying value. The above-noted fair values, presented for information only, reflect conditions that existed only at December 31, 2022, and do not necessarily reflect future value or amounts, which the Company might receive if it were to sell some or all of its assets to a willing buyer in a free and open market.

The fair value of the long-term debt is estimated based on the expected interest rates for similar borrowings by the Company as at the unaudited interim condensed consolidated statements of financial position dates. At December 31, 2022, the fair value is estimated to be equal to the carrying amount. The inputs into the determination of the fair value of the long-term debt, including the discount rate, are classified as Level 3 in the fair value hierarchy.

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11 Financial instruments (continued)

The following table outlines the contractual repayments for long-term debt, which includes loans with a set repayment schedule, as well as loans that are repayable based on a percentage of revenues, for the Company's financial liabilities. The long-term debt is comprised of the contributions received described in note 6 as at December 31, 2022:

	Total	Year 1	Years 2 to 3	Years 4 to 5	After 5 Years
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	2,468,179	2,468,179	-	-	-
Long-term debt	8,106,702	195,828	4,901,074	378,895	2,630,905
	<u>10,574,881</u>	<u>2,664,007</u>	<u>4,901,074</u>	<u>378,895</u>	<u>2,630,905</u>

12 Subsequent event

On January 04, 2023, the Company terminated and cancelled 4,305,990 options with a strike price in excess of \$0.13 to purchase Class A common shares of the Company, resulting in an additional stock-based compensation expense of \$368,777.

On February 8, 2023, the Company received notification from the Food and Drug Administration ("FDA") that it had accepted ATI-1501 New Drug Application. ATI-1501 is the Company's liquid oral reformulation of the antibiotic metronidazole, which has been licensed to Saptalis Pharmaceuticals LLC. The FDA established a Prescription Drug User Fee action date of September 23, 2023.