MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Interim Period Ended December 31, 2022

APPILI THERAPEUTICS INC.

The following Management's Discussion and Analysis ("**MD&A**") of Appili Therapeutics Inc. ("**Appili**", the "**Company**", "**we**", "**us**" or "**our**") is prepared as of February 13, 2023, provides information concerning the Company's financial condition and results of operations. This MD&A should be read in conjunction with our audited annual consolidated financial statements for the fiscal years ended March 31, 2022, and 2021 and our unaudited interim condensed consolidated financial statements for the nine months ended December 31, 2022, and 2021, including the related notes thereto. The preparation of financial information included in the MD&A has been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board, unless otherwise noted. Unless stated otherwise, all references to "$" are to Canadian dollars ("**CAD**").

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements or forward-looking information (collectively, "**forward-looking statements**") under applicable Canadian securities legislation including, without limitation, statements containing the words "believe," "may," "plan," "will," "estimate," "continue," "anticipate," "intend," "expect," "predict," "project," "potential," "continue," "ongoing" or the negative or grammatical variations of these terms or other comparable terminology, although not all forward-looking statements contain these words and similar expressions. Forward-looking statements are necessarily based on estimates and assumptions made by us based on our experience and perception of historical trends, current conditions and expected future developments, as well as the factors we believe are appropriate. Forward-looking statements in this MD&A include, but are not limited to, statements relating to:

- our ability to maintain the listing of the Company's Class A common shares (the "**Common Shares**") on the Toronto Stock Exchange (the "**TSX**");
- our strategy;
- our ability to continue as a going concern;
- the sufficiency of our financial resources to support our activities;
- potential sources of funding;
- the effect of the coronavirus disease 2019 ("**COVID-19**") on the Company's business and operations;
- our deployment of resources;
- our ability to obtain necessary funding on favourable terms or at all;
- our expected expenditures and accumulated deficit level;
- our outcomes from ongoing and future research and research collaborations;
- our exploration of opportunities through collaborations, strategic partnerships, and other transactions with third parties;
- our plans for the research and development ("**R&D**") of certain product candidates;
- the eligibility of certain of our programs for a priority review voucher ("**PRV**");
- our ability to finalize our partnership with the United States Air Force Academy ("**USAFA**") and obtain funding from the Defense Threat Reduction Agency ("**DTRA**"), collectively the United States Department of Defense ("**DoD**") for our ATI-1701 program;
- our intention to secure certain regulatory designations, such as Fast-Track status, for our development programs;
- our strategy for protecting our intellectual property;
- our ability to identify licensable products or research suitable for licensing and commercialization;
- our ability to obtain licences on commercially reasonable terms;
- our plans for generating revenue;
- our plans for future clinical trials;
- our ability to hire and retain skilled staff; and
- our intention with respect to updating any forward-looking statements after the date on which such statement is made or to reflect the occurrence of unanticipated events;

Such statements reflect our current views with respect to future events, are subject to risks and uncertainties and are necessarily based upon a number of estimates and assumptions that, while considered reasonable by Appili as of the date of such statements, are inherently subject to significant medical, scientific, business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause our actual results, performance or achievements to be materially different from any

future results, performance, or achievements that may be expressed or implied by such forward-looking statements. In making the forward-looking statements included in this MD&A, the Company has made various material assumptions, including but not limited to (i) the Company's ability to initiate and complete its proposed clinical trials in a timely manner; (ii) the Company's ability to enter into the requisite clinical trial agreements relating to any proposed clinical trials; (iii) obtaining positive results of clinical trials; (iv) obtaining regulatory approvals; (v) general business and economic conditions; (vi) the Company's ability to successfully out-license or sell its current products and in-license and develop new products; (vii) the availability of financing on reasonable terms; (viii) the Company's ability to attract and retain skilled staff; (ix) market competition; (x) the products and technology offered by the Company's competitors; (xi) the Company's ability to protect patents and proprietary rights; (xii) the effect of COVID-19 infections on the Company's business and operations; and (xiii) the Company's ability to finalize its partnership with and secure full anticipated funding from the DoD for its ATI-1701 program.

In evaluating forward-looking statements, current and prospective shareholders should specifically consider various factors, including risks related to:

- limited operating history and early stage of development;
- identifying, developing and commercializing product candidates;
- regulatory risks;
- market competition;
- the Company's dependence on third parties;
- clinical trial risks;
- third party manufacturing and supplier risks;
- the effect of COVID-19 on the Company's business and operations;
- the Company's potential redeployment of resources;
- the ownership and protection of intellectual property;
- litigation and product liability risks;
- employee matters and managing growth;
- ownership of the Company's securities;
- working capital and capital resources, including the Company's ability to finalize its partnership with and secure the full anticipated funding from the DoD for its ATI-1701 program;
- ability to attract and retain key personnel;
- implementation and development delays;
- product deficiencies
- volatility of share price; and
- the other risks discussed under the heading "*Risk Factors*" in the Company's annual information form dated June 29, 2022.

Should one or more of these risks or uncertainties, or a risk that is not currently known to us, materialize, or should assumptions underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein. These forward-looking statements are made as of the date of this MD&A and we do not intend, and do not assume any obligation, to update these forward-looking statements, except as required by applicable securities laws. Investors are cautioned that forward-looking statements are not guarantees of future performance and are inherently uncertain. Accordingly, investors are cautioned not to put undue reliance on forward-looking statements.

MARKET DATA

Certain market and industry data (including study results) used in this MD&A were obtained from market research, publicly available information and industry publications. Appili believes that these sources are generally reliable, but the accuracy and completeness of this information is not guaranteed. Appili has not independently verified this information and does not make any representation or warranty as to the accuracy of this information.

BUSINESS OVERVIEW

Appili is a pharmaceutical company focused on the acquisition and development of novel treatments targeting unmet needs in infectious disease. Since incorporation in 2015, the Company has been focused on building and advancing a diverse portfolio of anti-infective programs. Key activities have included the acquisition and development of novel technologies, the development of strategic partnerships, targeted hiring and building out drug development capabilities, securing intellectual property, and raising funds through equity capital raises and non-dilutive funding mechanisms.

Going forward, the Company's product development portfolio will include three programs, described below: ATI-1701, ATI-1801, and ATI-1501. The Company has discontinued development of its remaining portfolio programs ATI-2307 and ATI-1503 as part of its strategic review and reprioritization. The Company had also been engaged in a global partnership to develop COVID-19 antiviral candidate REEQONUS™/Avigan®/favipiravir ("**favipiravir**"); however, activities related to this program were discontinued in November 2021.

Appili expects that one of its programs (ATI-1701) may be eligible for a PRV if approved by the United States Food and Drug Administration ("**FDA**"). The Company also believes that ATI-1801 may be eligible for a PRV and is actively evaluating its eligibility. The PRV program was developed to incentivize drug development in US government priority areas including tropical disease and medical countermeasures. Once issued, a PRV can be used by its holder to accelerate the review of a subsequent drug submission. PRVs are transferrable and the secondary market for PRVs is well established with over 30 transactions reported publicly and recent transactions typically exceeding US$100 million.

ATI-1701

Appili licensed the exclusive worldwide rights to biodefense vaccine candidate ATI-1701 from the National Research Council of Canada ("**NRC**") in December 2017.

ATI-1701 is a novel, live-attenuated vaccine for *Francisella tularensis* ("***F. tularensis***"). *F. tularensis*, which causes tularemia, is a Category A pathogen which can be aerosolized and is over 1,000 times more infectious than anthrax (PHAC PSDS Anthrax 2011, PHAC PSDS Tularemia 2011). Category A pathogens are those organisms/biological agents that according to the National Institutes of Health ("**NIH**") pose the highest risk to National Security and public health (NIH website). The signs, symptoms, and prognosis of tularemia depends on the route of infection. Pneumonic tularemia, caused by inhalation of *F. tularensis*, is among the most severe forms of tularemia, causing respiratory issues and difficulty breathing in patients and can be fatal if untreated, (CDC 2018, WHO 2007). Since it is a highly infectious pathogen capable of causing severe illness, medical counter measures for *F. tularensis* are a top biodefense priority for the United States and governments around the world. There is currently no approved vaccine for the prevention of tularemia in the United States or other major global markets.

Preliminary studies in mice conducted by the NRC and colleagues have demonstrated 100% survival of ATI-1701 immunized mice compared to no survival in unvaccinated mice out to 1-year post-vaccination (Conlan 2010; Shen 2010). Drug manufacturing activities have been initiated and additional animal work commenced in 2019. Preliminary data from a recently completed non-human primate study showed a protective effect from ATI-1701 when animals were challenged with a lethal dose of *F. tularensis* 28 days after vaccination, and complete (100% survival) protection from lethal challenge 90 days after vaccination. The Company previously disclosed results from the last cohort of animals challenged 365 days after vaccination, with survival rates of 29% (n = 2/7) reported in the ATI-1701 vaccinated cohort, compared to 0% (n = 0/5) in mock vaccinated controls. These data demonstrated a statistically significant increase in time to death for animals challenged 365 days after vaccination. The Company expects to better understand the timing for starting Phase 1 studies once the DoD contracting discussions are finalized as described immediately below.

ATI-1701 activities have been, and are continuing to be, funded with Appili's current resources and funding previously received from DTRA, an agency of the DoD. In February 2022, the Joint Science and Technology Office of DTRA selected the Company's proposal for additional funding to advance ATI-1701. The new funding is designed to replace and expand upon a prior contract awarded to one of the Company's development partners. USAFA will serve as the prime contractor for this program, while the Company, subject to finalizing an agreement with USAFA, will serve as a top tier contractor overseeing the comprehensive development activities for ATI-1701 that includes all nonclinical, manufacturing, and regulatory activities necessary to support an investigational new drug ("**IND**") submission to the FDA. The expected total funding amount of approximately US$14 million is expected to support this scope of work through IND submission. Access to this funding by the Company is subject to successful negotiations of definitive documentation governing the partnership between the Company

and USAFA, with the total funding amount to be confirmed upon contract execution. Upon successful execution of the contract, the Company's plans to execute all of the work described above, submit the IND in 2024, and subject to funding, implement a Phase 1 study shortly thereafter. The Company's strategy is to follow the FDA's Guidance on Animal Rule submissions by conducting a Phase 1 study to identify potential clinical correlates and an appropriate dose to use in a subsequent Phase 2 study to confirm the effect on clinical correlates, assuming that appropriate funding can be secured. Depending on the timing of that funding, the Company intends to initiate a Phase 2 study and conduct pivotal animal studies beginning in 2026 and leading to filing a biologics license application ("**BLA**") with the FDA in 2028.

ATI-1801

Appili licensed the exclusive worldwide rights to topical antiparasitic product ATI-1801 from the US Army Medical Materiel Development Activity ("**USAMMDA**") in August 2019.

ATI-1801 is a novel topical formulation of paromomycin (15% w/w) under advanced clinical development for the treatment of cutaneous leishmaniasis, a disfiguring infection of the skin that affects hundreds of thousands of people around the world annually and is characterized by the formation of lesions and ulcers that often lead to scarring, disfigurement, disability, and stigmatization of the infected individual (CDC 2020. WHO 2022, Okwor 2016). The disease is a serious impediment to socioeconomic development and a priority for governments and non-governmental organizations ("**NGOs**") around the word (NIAID 2021, DNDi 2021). Current treatments are often invasive, toxic and/or require hospitalization, limiting clinical utility. (Aronson 2016, DNDi 2018).

ATI-1801 has the potential to significantly reduce the burden of the disease by providing patients with a safe and effective therapy that can be used at home. Appili has licensed the full clinical dossier for ATI-1801 from USAMMDA, including the results of a randomized, vehicle-controlled Phase 3 study which evaluated the safety and efficacy of ATI-1801 for the treatment of cutaneous leishmaniasis in Tunisia. The study met its primary endpoint, with ATI-1801 administered topically once daily for 20 days demonstrating a significant improvement in the rate of clinical cure of the index lesion compared to vehicle (82% vs 58%; p-value < 0.001) at 6 months.

Appili plans to select a Contract Drug Manufacturing Organization ("**CDMO**") to produce the topical cream and then meet with the FDA later this year to discuss the previously generated Phase 3 data, the topical cream formulation, and agree on the necessary registration package to support a new drug application ("**NDA**") submission, which the Company expects will include available nonclinical, manufacturing, and clinical data generated to date, along with additional non-clinical data necessary to update the IND and, pending alignment with the FDA, an additional clinical bridging study to demonstrate the comparability of the product produced by the new manufacturer to the prior manufacturer. Appili expects to pursue non-dilutive funding and partnership opportunities with NGOs and government agencies which share the Company's focus on tropical diseases to help complete the remaining development work. The Company's current plans, subject to the availability of non-dilutive funding, would be to complete the additional work indicated above and submit an NDA by 2029.

ATI-1801 has received an orphan drug designation ("**ODD**") from the FDA for the treatment of certain forms of cutaneous leishmaniasis.

ATI- 1501

ATI-1501 is a taste-masked liquid oral suspension formulation of an antibiotic, metronidazole. Metronidazole is a front-line antibiotic for the treatment of anaerobic bacterial and parasitic infections (Quintiles 2016, Solomkin 2010, Flagyl® FDA Label 2018). In many jurisdictions including the United States and Canada, the only approved oral metronidazole products are in solid dose formats. Elderly and pediatric patients with difficulty swallowing typically have to crush the tablets to ingest them. Metronidazole has a strong bitter and metallic taste that is exacerbated by crushing and can reduce patient adherence to treatment. ATI-1501 is aimed at making it easier for patients with difficulties swallowing and sensitivity to taste to take metronidazole, improving compliance and supporting clinical outcomes.

In December 2019, Appili entered into a development and commercialization agreement with Saptalis Pharmaceuticals LLC ("**Saptalis**") for the manufacturing development and commercialization of ATI-1501. Under the terms of the agreement Appili is eligible to receive multiple milestone and royalty payments on the development and sale of ATI-1501 in the United States. In addition, Saptalis is responsible for (i) manufacturing (ii) the preparation and filing an NDA with the FDA, supporting the

regulatory review, and (iii) the anticipated commercialization of ATI-1501 in the United States, which are the next major development milestones for ATI-1501.

Saptalis held several Type C meetings with the FDA to discuss the formulation and approach to demonstrating comparability. The FDA accepted plans to conduct fasted and fed bioequivalence comparisons between ATI-1501 and a solid oral tablet formulation. Those studies demonstrated that the suspension formulation is bioequivalent to the solid oral dosage form in both fasted and fed conditions, supporting a 505 (b)(2) pathway NDA submission. The FDA accepted the NDA application for review and stated that the Prescription Drug User Fee ("**PDUFA**") date for completing their review will be September 23, 2023. Commercialization would commence shortly after approval.

The Company expects to receive milestone payments in Q3 2024 based on Saptalis' NDA submission and commercialization plans.

In February 2022, Appili announced an amendment to its licence with Saptalis to expand the territories in which Saptalis will commercialize ATI-1501 to include Europe and Latin America. Under the terms of the amended agreement, Saptalis will assume all responsibilities related to the development and commercialization of ATI-1501 for European and Latin American markets and Appili will be eligible to receive royalties on sales for a specified term.

ATI-1503

The ATI-1503 program objectives included the development of a new class of Gram-negative targeting antibiotics. The ATI-1503 program was building off the molecular structure of negamycin, a naturally occurring compound that can kill Gram-negative bacteria, with multiple attractive drug-like properties that support its development. The Company has discontinued development of this program as part of its strategic review and reprioritization.

ATI-2307

ATI-2307 is a novel small molecule antifungal with a highly differentiated mechanism of action and broad-spectrum activity against fungal pathogens, including Candida, Aspergillus, and Cryptococcus (Mitsuyama et al., 2008).

Appili acquired ATI-2307 from FUJIFILM Toyama Chemical Co., Ltd. ("**FFTC**") in November 2019. Appili holds worldwide rights to the program with the exception of Japan, which was licensed back to FFTC as part of the asset purchase agreement entered into between the Company and FFTC dated November 21, 2019.

The Company has discontinued development of this program as part of its strategic review and reprioritization. On December 27, 2022, the Company notified FFTC that it is returning ownership of ATI-2307 to FFTC for no additional consideration.

Our Business Strategy

The Company was founded to acquire, develop and commercialize novel therapeutics in the area of infectious disease. The strategic decision to focus on infectious disease was driven by the large unmet clinical need in the therapeutic area, as well as the increasing number of regulatory and financial incentives available to support anti-infective R&D. The Company has recruited a team of experienced drug development and commercialization professionals to, among other things: (i) identify high value commercial and R&D anti-infective assets, (ii) leverage available incentive programs to accelerate development, and (iii) maximize market access, reimbursement, and partnerships and alliances to realize stakeholder value. The Appili team has built a portfolio of anti-infective assets through internal innovation and acquisition from partners, and is actively evaluating additional antiviral, antibacterial, antifungal, antiparasitic and vaccine assets for acquisition or partnership.

RECENT DEVELOPMENTS

Overall Performance

The Company has no product revenues, so its ability to ensure continuing operations is dependent on obtaining the necessary financing to complete the development of the Company's product development portfolio, which includes three active programs (ATI-1701, ATI-1801, and ATI-1501) and two additional programs which have been discontinued as part of the Company's strategic review and reprioritization (ATI-1503 and ATI-2307).

The Company had the following recent key developments and achievements during and after Q3 2023:

- On October 20, 2022, Appili presented a poster on the efficacy and pharmacokinetics-pharmacodynamics of ATI-2307 in a rabbit model of cryptococcal meningoencephalitis during ID Week in Washington, D. C.

- On November 10, 2022, Appili announced plans to focus its resources on advancing its portfolio of infectious disease and biodefense assets, including ATI-1701, ATI-1801 and ATI-1501. The Company has discontinued development of its remaining portfolio programs ATI-2307 and ATI-1503

- Appili presented an overview of ATI-1801 at the World Leish meeting and Appili leadership published the World Leish meeting summary (A. Balboni, Lancet, October 2022, https://www.thelancet.com/action/showPdf?pii=S2666-5247%2822%2900263-4)

- On November 14, 2022, Appili announced a commitment from the DoD for its ATI-1701 program of approximately US$14M, subject to finalizing definitive documentation with the DoD. Once received, such funding is expected to support the advancement of the program through IND submission. At the same time, Appili announced leadership changes, promoting Don Cilla to President and CEO and appointing Armand Balboni to Chairman of Appili's Board of Directors.

- On December 6, 2022, Appili leadership attended the Chemical and Biological Defense Science & Technology (CBD S&T) Conference.

- On January 4, 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.

- On February 8, 2023, the Company received notification from the FDA that it had accepted ATI-1501 New Drug Application. The FDA established a PDUFA action date of September 23, 2023.

SELECTED FINANCIAL INFORMATION

		Three Months ended December 31, 2022 ($)	Three Months ended December 31, 2021 ($)
Net loss and comprehensive loss for the period		(2,619,393)	(3,239,096)
Basic and diluted loss per share		(0.02)	(0.05)

		As at December 31, 2022	As at March 31, 2022
Cash and short-term investments		1,427,155	6,664,855
Total assets		2,587,964	8,281,726
Long-term liabilities		5,441,260	4,978,683

RESULTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2022 ("Q3 2023"), COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2021 ("Q3 2022")

	Three Months ended December 31, 2022 $	Three Months ended December 31, 2021 $
Income		
Revenue	-	1,390,684
Interest income	9,349	6,825
	9,349	1,397,509
Expenses		
Research and development costs ("**R&D**")	937,446	3,294,928
General and administrative ("**G&A**")	1,424,647	1,237,812
Business development ("**BD**")	61,367	122,857
Financing costs	272,433	242,950
Government assistance	(46,840)	(236,464)
Exchange gain	(54,444)	(34,751)
	2,594,609	4,627,332
Loss before Income taxes	(2,585,260)	(3,229,823)
Income tax expense	34,133	9,273
Net loss and comprehensive loss for the period	(2,619,393)	(3,239,096)

Income

i. Interest income

Interest income increased by $2,524 to $9,349 during Q3 2023 as compared to $6,825 in Q3 2022, due to higher interest rates in Q3 2023.

Operating expenses

Overall operating expenses decreased by $2,032,723 to $2,594,609 during Q3 2023 compared to $4,627,332 in Q3 2022 as a result of a decrease of $2,357,482 in R&D costs due to the completion of the favipiravir clinical trial in November 2021, a decrease of $61,490 in BD costs due to lower salaries and stock-based compensation expense and increase of $19,693 in foreign exchange gains. This was offset by an increase of $186,835 in G&A cost due to higher employment cost partially offset by lower general expenses, a decrease of $189,624 in government assistance due to lower R&D expense resulting in lower investment tax credit and an increase of $29,483 in financing costs. Explanations of the nature of costs incurred, along with explanations for those changes in costs are discussed below.

i. R&D expenses

The Company's R&D expenses have related primarily to costs incurred in performing research and development activities that include non-clinical, clinical manufacturing, regulatory and clinical trial expenses of its product candidates. The R&D expenses for the period relate to costs incurred for the development of the three product candidates, including ATI-1701, ATI-1501 (prior to discontinuation), ATI-2307 (prior to discontinuation), and general R&D. The R&D expenses have been favourably impacted by a reduction in the close-out expenses associated with the favipiravir clinical study. During the quarter, the Company received the final close-out costs associated with the trial and recorded the pending refund as a reduction of R&D expenses in the quarter.

Specifically, the Company's R&D expenses for ATI-2307 (prior to discontinuation) included clinical manufacturing costs, clinical consultants, and Phase 2 clinical trial preparation activities. For ATI-1701, expenses include licence fees, patent costs, stability testing, clinical manufacturing costs and regulatory costs. Finally, the ATI-1501 R&D activities (prior to discontinuation) included intellectual property management costs. R&D costs also include the salaries and benefits and stock-based compensation expenses of the CDO, CMO and the regulatory, clinical, preclinical, manufacturing and research staff. General R&D includes consulting fees paid to various independent contractors with specific research and development expertise required by the Company, as well as rental of laboratory facilities, insurance, and non-material research projects.

R&D expenses consist of the following:

	Three Months ended December 31, 2022 ($)	Three Months ended December 31, 2021 ($)
Favipiravir expenses	(351,353)	2,182,323
ATI-2307 expenses	98,920	379,797
ATI-1701 expenses	574,850	102,101
ATI-1501 expenses	23,052	435
General R&D expenses	102,617	26,061
Amortization of property and equipment	312	1,836
Salaries and benefits	441,166	467,389
Stock-based compensation	47,882	134,986
Total	937,446	3,294,928

The decrease in R&D expenses of $2,357,482 from $3,294,928 in Q3 2022 to $937,446 in Q3 2023 is mainly attributable to a $2,533,676 decrease in the favipiravir clinical trials, a refund of $490,232 resulting from the clinical trial close-out

reconciliation for favipiravir, a decrease of $26,223 in salaries and benefits, a decrease of $87,104 in stock based compensation, a $280,877 decrease in ATI-2307 program expenses, and an immaterial decrease in depreciation of property and equipment. These decreases were offset by an increase of $76,556 in general R&D expenses, a $22,617 increase in ATI-1501 program expenses and a $472,749 increase in the ATI-1701 program expenses.

Favipiravir

The decrease in favipiravir expenses is due to the completion of the clinical trial in November 2021 and as a result, overall program expenses have decreased. The final reconciliation of the investigator grants, and pass-through costs was received in Q3 2023, which resulted in a refund receivable of $490,232 (including sales tax).

ATI-2307

The decrease in ATI-2307 expenses is due to decreased clinical expenses and consultant costs in Q3 2023 as compared to Q3 2022. The Company has discontinued the development of this program as part of its strategic review and reprioritization.

ATI-1701

The increase in expenses related to the ATI-1701 program is due to increased clinical expenses and consultant costs in Q3 2023 in comparison to Q3 2022. This is offset by decrease in IP management costs.

ATI-1501

The increase in expenses related to the ATI-1501 program is due to increased regulatory costs in Q3 2023 in comparison to Q3 2022.

General R&D Expenses

The increase in expenses related to general R&D expenses is due to increased consulting costs. This is offset by a decrease in related party consulting costs, R&D rent, and R&D conferences in Q3 2023 in comparison to Q3 2022.

Salaries and Benefits and Stock-based compensation

Decrease in salaries and benefits and stock-based compensation in Q3 2023 are mainly due to staff changes.

ii. G&A expenses

The Company's G&A expenses include salaries and benefits of the senior executive team and the finance and administrative staff, stock-based compensation expenses, professional fees including legal, auditing and tax, costs associated with the public listing on the TSX, regulatory, investor relations and public relations costs, travel expenses, office rent, operating and information technology costs, director compensation, and directors' and officers' insurance premiums.
G&A expenses consist of the following:

	Three Months ended December 31, 2022 ($)	Three Months ended December 31, 2021 ($)
G&A expenses, excluding salaries	676,843	532,709
Salaries and benefits	595,919	198,560
Stock-based compensation	150,651	505,179
Amortization of property and equipment	1,234	1,364
Total	**1,424,647**	**1,237,812**

G&A expenses increased by $186,835 from $1,237,812 in Q3 2022 to $1,424,647 in Q3 2023 due to an increase of $397,359 in salaries and benefits and an increase of $144,134 in other G&A expenses. This is offset by a decrease of $354,528 in stock-based compensation given the reduction in headcount, and an immaterial decrease in depreciation of property and equipment.

Stock-based compensation

The decrease in stock-based compensation in Q3 2023 by $354,528 in comparison to Q3 2022 is due to staff changes in Q3 2023.

G&A expenses, excluding salaries

G&A expenses, excluding salaries, for Q3 2023 increased mainly due to increased business advisory costs, insurance D&O, accounting services, public relations firms, audit fees, regulatory fees and travel related charges. These increases are offset by a decrease in legal fees, advertising & promotion, board fees, investor relation firms and information technology related charges.

Salaries and Benefits

Salaries and benefits increased in Q3 2023 mainly due to the accrual associated with the former CEO in accordance with his employment contract which was terminated due to his change in role.

iii. BD expenses

BD expenses consist of new program acquisition research costs and business development office rent. BD expenses decreased by $61,490 in Q3 2023 as compared to Q3 2022 due to decreased stock-based compensation, and BD salaries, as a result of staffing changes and a decrease in program acquisition costs in Q3 2023.

iv. Financing costs

Financing costs relate to the valuation of zero interest bearing government loans which are repayable based on a percentage of future gross revenue or are repayable over 84 or 120 months.

Under IFRS, the zero-interest bearing government loans from the Atlantic Canada Opportunities Agency ("**ACOA**") must be initially valued at fair value and the difference between the fair value of the loans and the contribution received must be treated as government assistance. These loans are then accreted to their original value over time. For the loan repayable on a percentage of future gross revenue from ATI-1501, management is required to revise the estimated cash flows whenever new information related to ATI-1501 and its potential market, including time of entry, market size, etc., is made available. Management recalculates the carrying amount by computing the present value of the estimated future cash flows at the original effective interest rate and any adjustments are recognized in the statements of loss and comprehensive loss as accreted interest after initial recognition.

The increase of financing costs by $29,483 in Q3 2023 is due mainly to the accretion of the ACOA loans, as well as the accretion of the LZH Loan (as defined below).

v. Government assistance

Government assistance consists of investment tax credits, conditionally repayable government loans, repayable government loans and government grants.

Government assistance decreased by $189,624 in Q3 2023. This is due mainly to decreased R&D costs incurred in Q3 2023, which has decreased the value of the investment tax credits, as well as completion of the Peer Review Medical Research Program ("**PRMRP**") grant, compared to Q3 2022.

vi. Income tax expense

Income tax expense is due on profits recognized in the US subsidiary, which was created on October 8, 2020.

vii. Net loss and comprehensive loss

The net loss and comprehensive loss was $2,619,393 for Q3 2023, a decrease of $619,703 compared to the net loss and comprehensive loss of $3,239,096 for Q3 2022.

RESULTS FOR THE NINE MONTHS ENDED DECEMBER 31, 2022, COMPARED TO THE NINE MONTHS ENDED DECEMBER 31, 2021

		Nine Months ended December 31, 2022 ($)	Nine Months ended December 31, 2021 ($)
Net loss and comprehensive loss for the period		(6,582,368)	(21,784,849)
Basic and diluted loss per share		(0.06)	(0.33)

	Nine Months ended December 31, 2022 $	Nine Months ended December 31, 2021 $
Income		
Revenue	-	1,390,684
Interest income	23,274	28,261
	23,274	1,418,945
Expenses		
R&D	2,160,475	19,424,737
G&A	3,396,476	3,506,170
BD	125,300	695,016
Financing costs	645,845	403,923
Government assistance	(122,866)	(807,455)
Exchange (gain)/loss	370,895	(57,469)
	6,576,125	23,164,922
Loss before Income taxes	(6,552,851)	(21,745,977)
Income tax expense	29,517	38,872
Net loss and comprehensive loss for the period	(6,582,368)	(21,784,849)

Income

i. Interest income

Interest income decreased by $4,987 to $23,274 during the nine months ended December 31, 2022, compared to $28,261 in the nine months ended December 31, 2021, due to a lower cash balance during the nine months ended December 31, 2022.

Operating expenses

Overall operating expenses decreased by $16,588,797 to $6,576,125 during the nine months ended December 31, 2022 compared to $23,164,922 in the nine months ended December 31, 2021, due mainly to a decrease of $17,264,262 in R&D costs, due to the completion of the favipiravir clinical trial in November 2021, a decrease of $569,716 in BD costs due to lower salaries and stock based compensation expense, and a decrease of $109,694 in G&A cost due to lower employment cost partially offset by higher general expense. This was offset by an increase of $241,922 in financing costs, a decrease of $684,589 in government assistance due to lower R&D expense resulting in lower investment tax credits and an increase of $428,364 to foreign exchange loss. Explanations of the nature of costs incurred, along with explanations for those changes in costs are discussed below.

i. R&D expenses

The Company's R&D expenses have related primarily to costs incurred in performing research and development activities that include non-clinical, clinical manufacturing, regulatory and clinical trial expenses of its product candidates. The R&D expenses for the period relate to costs incurred for the development of four product candidates, including ATI-1501, ATI-1701, ATI-1503 (prior to discontinuation), ATI-2307 (prior to discontinuation), and general R&D. The R&D expenses have been favourably impacted by a reduction in the final close-out expenses associated with the favipiravir clinical study.

R&D expenses consist of the following:

	Nine Months ended December 31, 2022 ($)	Nine Months ended December 31, 2021 ($)
Favipiravir expenses	(780,580)	16,589,608
ATI-2307 expenses	448,414	701,126
ATI-1701 expenses	896,898	192,744
ATI-1503 expenses	19,119	24,044
ATI-1501 expenses	127,118	4,659
General R&D expenses	154,317	107,516
Amortization of property and equipment	936	5,507
Salaries and benefits	1,169,120	1,447,214
Stock-based compensation	125,133	352,319
Total	$2,160,475	$19,424,737

The decrease in R&D expenses of $17,264,262 from $19,424,737 in the nine months ended December 31, 2021 to $2,160,475 in the nine months ended December 31, 2022 is mainly attributable to a $17,370,188 decrease in the favipiravir clinical trials, a decrease of $278,094 in salaries and benefits, a decrease of $227,186 in stock based compensation, a $252,712 decrease in ATI-2307 program expenses, a decrease of $4,925 in ATI-1503 expenses and a decrease of $4,571 in depreciation of property and equipment. These decreases were offset by a $122,459 increase in ATI-1501 program expenses, an increase of $46,801 in general R&D expenses and a $704,154 increase in the ATI-1701 program expenses.

Favipiravir

The decrease in favipiravir expenses is due to the completion of a clinical trial in November 2021 and as a result, overall program expense has decreased along with reduced clinical manufacturing cost. The final reconciliation of the investigator grants, and pass-through costs resulted in a reduction of actual costs invoiced and reduction of previously recorded accruals of $756,699 and a refund receivable of $490,232 (including sales tax) for the nine months ended December 31, 2022.

ATI-2307

The decrease in ATI-2307 program expenses is due to decreased clinical manufacturing costs and other related costs in the nine months ended December 31, 2022, as compared to the nine months ended December 31, 2021. This is offset by an increase in pre-clinical manufacturing costs and consultant costs. The Company has discontinued the development of this program as part of its strategic review and reprioritization.

ATI-1701

The increase in expenses related to the ATI-1701 program is due to increased pre-clinical manufacturing, consultant costs, and regulatory costs, offset by a decrease in clinical manufacturing and IP management costs, in the nine months ended December 31, 2022, in comparison to the nine months ended December 31, 2021.

ATI-1503

The decrease in expenses related to the ATI-1503 program in the nine months ended December 31, 2022, in comparison to the nine months ended December 31, 2021, is due to decreased testing costs. This is offset by an increase in research chemical cost and consulting costs. The Company has discontinued the development of this program as part of its strategic review and reprioritization.

ATI-1501

The increase in expenses related to the ATI-1501 program is due to Phase1 clinical study expenses, IP management costs and regulatory costs, in the nine months ended December 31, 2022, in comparison to the nine months ended December 31, 2021.

General R&D Expenses

The increase in expenses related to general R&D expenses is due to increased consulting cost, R&D conferences and travel related cost in the nine months ended December 31, 2022, in comparison to the nine months ended December 31, 2021. This is offset by a reduction in related party consulting fees and R&D rent.

Salaries and Benefits and Stock-based compensation

Decrease in salaries and benefits and stock-based compensation are mainly due to staff changes.

ii. G&A expenses

The Company's G&A expenses include salaries and benefits of the senior executive team and the finance and administrative staff, stock-based compensation expenses, professional fees including legal, auditing and tax, costs associated with the public listing on the TSX, regulatory, investor relations and public relations costs, travel expenses, office rent, operating and information technology costs, director compensation, and directors' and officers' insurance premiums.
G&A expenses consist of the following:

	Nine Months ended December 31, 2022 ($)	Nine Months ended December 31, 2021 ($)
G&A expenses, excluding salaries	2,064,061	1,555,403
Salaries and benefits	850,168	694,216
Stock-based compensation	457,722	1,252,533
Amortization of property and equipment	24,525	4,018
Total	**3,396,476**	**3,506,170**

G&A expenses decreased by $109,694 from $3,506,170 in the nine months ended December 31, 2021, to $3,396,476 in the nine months ended December 31, 2022, due to a decrease of $794,811 in stock-based compensation given the reduction in headcount, offset by an increase of $155,952 in salaries and benefits, an increase of $508,658 in G&A expenses and an increase of $20,507 in depreciation of property and equipment.

Stock-based compensation

The decrease in stock-based compensation in the nine months ended December 31, 2022, by $794,811 in comparison to the nine months ended December 31, 2021, is due to staff changes in the nine months ended December 31, 2022.

G&A expenses, excluding salaries

G&A expenses, excluding salaries, for the nine months ended December 31, 2022, increased mainly due to an increase in business advisory costs, insurance D&O, accounting services, interest charges, audit fees, legal fees, and travel related charges. These increases are offset by a decrease in advertising & promotion, regulatory fees, board fees, public relation firms, IR conferences, investor relation firms and information technology related charges.

Salaries and Benefits

Salaries and benefits increased in the nine months ended December 31, 2022, in comparison to the nine months ended December 31, 2021, mainly due to the accrual associated with the former CEO in accordance with his employment contract which was terminated due to his change in role.

iii. BD expenses

BD expenses consist of new program acquisition research costs and business development office rent. BD expenses decreased by $569,716 in the nine months ended December 31, 2022, as compared to the nine months ended December 31, 2021 due to decreased stock based compensation, and BD salaries, as a result of staffing changes and a decrease in program acquisition costs. This is offset by increase in BD consulting costs payable to a related party.

iv. Financing costs

Financing costs relate to the valuation of zero interest bearing government loans which are repayable based on a percentage of future gross revenue or are repayable over 84 or 120 months.

Under IFRS, the zero-interest bearing government loans from the ACOA must be initially valued at fair value and the difference between the fair value of the loans and the contribution received must be treated as government assistance. These loans are

then accreted to their original value over time. For the loan repayable on a percentage of future gross revenue from ATI-1501, management is required to revise the estimated cash flows whenever new information related to ATI-1501 and its potential market, including time of entry, market size, etc., is made available. Management recalculates the carrying amount by computing the present value of the estimated future cash flows at the original effective interest rate and any adjustments are recognized in the statements of loss and comprehensive loss as accreted interest after initial recognition.

The increase of financing costs by $241,922 in the nine months ended December 31, 2022, is due mainly to the accretion of the LZH loan, as well as the accretion of the ACOA loans.

v. Government assistance

Government assistance consists of investment tax credits, conditionally repayable government loans, repayable government loans and government grants.

Government assistance decreased by $684,589 in the nine months ended December 31, 2022. This is due mainly to decreased R&D costs incurred in the nine months ended December 31, 2022, which has decreased the value of the investment tax credits, as well as completion of the PRMRP grant as compared to the nine months ended December 31, 2021.

vi. Income tax expense

Income tax expense is due on profits recognized in the US subsidiary, which was created on October 8, 2020.

vii. Net loss and comprehensive loss

The net loss and comprehensive loss were $6,582,368 for the nine months ended December 31, 2022, a difference of $15,202,481 compared to the net loss and comprehensive loss of $21,784,849 for the nine months ended December 31, 2021.

CASH FLOWS

As at December 31, 2022, the Company had cash of $1,427,155 and positive working capital of $30,862 compared to $6,664,855 and $1,570,339, respectively as at March 31, 2022.

To date, operations have been financed through the issuance of equity securities, debt, interest income on funds available for investment, government loans and assistance and tax credits.

Operating activities

During the nine months ended December 31, 2022, $8,988,598 was used in operating activities, including a reported net loss of $6,582,368 prior to being decreased by $501,631(stock-based compensation), $4,642 (amortization), $21,045 (loss on disposal of assets), $253,048 (financing cost), $336,330 (revaluation of the LZH loan), and $1,067 ((foreign exchange rates, and unrealized loss on foreign exchange). This was offset by a net decrease of $3,523,993 in cash as a result of changes in working capital.

Financing activities

During the nine months ended December 31, 2022, the Company raised $4,500,000 through the issue of shares and warrants less issuance costs of $621,955. This is offset by $63,501 and $63,300 for the payment of accreted interest involving cash and the repayment of long- term debt, respectively for Q3 2023.

Investing activities

During the nine months ended December 31, 2022, the Company received proceeds of $3,500 from sale of lab equipment.

LIQUIDITY AND CAPITAL RESOURCES

The Company prepares and updates the cash flow forecasts on a regular basis to manage the Company's liquidity, ensuring that the Company has sufficient cash to meet operational needs.

The Company aims to maintain adequate cash and cash resources to support planned activities which include: supportive activities for pre-IND and IND-enabling activity costs for ATI-1701 including regulatory, manufacturing and non-clinical activities; other early-stage R&D activities on other exploratory programs; business development costs incurred relating to assessing and evaluating new drug product candidates that fit within the Company's strategic focus; administration costs, and intellectual property maintenance and expansion.

It is common for early-stage biotechnology companies to require additional funding to further develop product candidates until successful commercialization of at least one product candidate. Appili's product candidates are still in the development stage of the product cycle and therefore are not generating revenue to fund operations. The Company continuously monitors its liquidity position, the status of its development programs, including those of its partners, cash forecasts for completing various stages of development, the potential to license or co-develop each product candidate, and continues to actively pursue alternatives to raise capital, including the sale of its equity securities, debt and non-dilutive funding.

At December 31, 2022, the Company had approximately $2.3 million of existing and identified potential sources of cash including:

- cash of $1.4 million; and
- amounts receivable and investment tax credits receivable of $0.9 million.

The Company was previously granted a three-year U.S. PRMRP award for up to USD$3.2 million to fund the Company's ATI-1503 program, of which the Company had only drawn down approximately USD$0.894 million as of June 30, 2022, which was the last period the Company could draw down funds from this grant. The Company's ATI-1701 program was funded by a grant previously received from DTRA, an agency of DoD. As of December 31, 2022, the Company had drawn down USD$0.076 million of this funding. The Company is currently in the process of finalizing its partnership with the DoD for its ATI-1701 program and subject to finalizing definitive documentation expects to receive approximately US$14M additional funding (during calendar 2023 and 2024) to help advance the ATI-1701program to IND submission.

Going Concern

While the Company has potential sources of cash of approximately $2.3 million as at December 31, 2022, as well as access to potentially the remaining DTRA funding, management does not believe these resources will be sufficient to fund operations and current working capital requirements, for the next twelve months, unless further financing is obtained in the near term. The ability of the Company to continue as a going concern and finance its current working capital requirements in the near term is dependent upon raising additional capital to fund the Company's R&D activities, general and administration expenses, and any expansion of operations through equity financings, non-dilutive funding and partnerships. As there can be no assurance that the Company will be successful in its efforts to raise additional financing on terms satisfactory to the Company, there is substantial doubt about the Company's ability to continue as a going concern. The Company is currently analyzing financing alternatives that could include equity and/or debt financings, and/or new strategic partnership agreements to fund some or all costs of development. There can be no assurance that the Company will be able to obtain the capital sufficient to meet any or all of the Company needs. The availability of equity or debt financing will be affected by, among other things, R&D activity, the Company's ability to obtain regulatory approvals, the market acceptance of the Company's products, the state of the capital markets generally, strategic alliance agreements and other relevant commercial considerations. In addition, if the Company raises additional funds by issuing equity securities, the existing security holders will likely experience dilution, and any incurring of indebtedness would result in increased debt service obligations and could require the Company to agree to operating and financial covenants that would restrict the Company's operations. There can be no assurance that the Company will have sufficient capital to fund its ongoing operations, develop or commercialize any products without future financings. Any failure on Appili's part to raise additional funds on terms favourable or at all may require the Company to significantly change or curtail the current or planned operations in order to conserve cash until such time, if ever, that sufficient proceeds from operations are generated, and could result in the Company not taking advantage of business opportunities, in the termination or delay of clinical trials for our products, in curtailment of the product development programs designed. Such adjustments or delays could be material. In addition, failure to secure additional financing as required to fund current working

capital requirements may result in the Company defaulting under its existing long term debt arrangements, which may result in the acceleration of obligations under such arrangements.

RELATED PARTY 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 to the unaudited interim condensed consolidated financial statements for the nine months ended December 31, 2022).

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.

CONTRACTUAL OBLIGATIONS

On November 21, 2019, the Company signed an asset purchase agreement (the "**Asset Purchase Agreement**") with FFTC receiving exclusive worldwide rights, excluding Japan, to acquire and develop a novel broad-spectrum antifungal drug candidate, ATI-2307. Under the terms of the Asset Purchase Agreement if a payment of US$500,000 associated with the Asset Purchase Agreement was not made by January 2022, FFTC retains the right to terminate the Asset Purchase Agreement. Additional payments are due on the achievement of additional milestones, including approval from the FDA and other various performance thresholds. If the Company met all of the contractual FDA approval requirements, a total of US$1,300,000 would be due under the contract prior to commercialization of the product. On December 27, 2022, the Company notified FFTC that it is returning ownership of ATI-2307 to FFTC for no additional consideration. [No further payments are expected to be made to FFTC pursuant to the Asset Purchase Agreement].

On March 28, 2022, the Company executed a senior secured loan agreement (the "**LZH Agreement**") with Long Zone Holdings Inc. ("**LZH**") providing for a secured loan for gross proceeds of US$3,600,000 (CAD$4,500,000) (the "**LZH Loan**"). Under the terms of the LZH Agreement, LZH obtained a secured loan of US$3.6 million bearing a minimum interest rate of 8.5% or the US Prime Lending rate plus 5.25% per year, compounded quarterly and paid in arrears, maturing on March 28, 2025. The loan is secured by a general security over all the assets of the Company, including intellectual property. The Agreement provides for early prepayment option and various default events which trigger a default penalty interest of an additional 5% to be paid.

On March 28, 2022, the Company entered into a licencing agreement which entitled LZH an exclusive licence to commercialize the Company's future approved products in the Territory, excluding ATI-1501 in Latin America, which was recently licensed to existing partner Saptalis. The Company will receive a supply price for products sold by LZH or its sublicensees, as well as royalties on net sales. The licence was subject to the Company obtaining certain consents. If the consents were not obtained by December 28, 2022, the Company would be required to issue up to 1,500,000 additional warrants to LZH.

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.

There is no other material change in the contractual obligations of the Company since the beginning of the 2022 fiscal year. Details on the contractual obligations of the Company can be found in the financial statements and related notes in the audited annual consolidated financial statements for the year ended March 31, 2022.

OFF-BALANCE SHEET ARRANGEMENTS

The Company was not party to any off-balance sheet arrangements as of December 31, 2022.

OUTSTANDING SECURITIES

As of February 13, 2023, the Company had 121,266,120 issued and outstanding Common Shares, 3,682,448 stock options and 51,317,879 warrants outstanding.

RISKS AND UNCERTAINTIES

The Company is a clinical-stage company that operates in an industry that is dependent on a number of factors that include the capacity to raise additional capital on reasonable terms, obtain positive results of clinical trials without serious adverse or inappropriate side effects, and obtain market acceptance of its product by physicians, patients, healthcare payers and others in the medical community for commercial success, etc. An investment in the Common Shares is subject to a number of risks and uncertainties. In addition to the risks set out herein (including with respect to the COVID-19 pandemic), an investor should carefully consider the risks described under the heading "*Risk Factors*" in the Company's annual information form dated June 29, 2022, filed in respect of the fiscal year ended March 31, 2022, as well as the risks set out below. If any of such described risks occur, or if others occur, the Company's business, operating results and financial condition could be seriously harmed, and investors may lose a significant proportion of their investment. There are important risks which management believes could impact the Company's business.

Advancement of ATI-1701 is Dependent on Finalizing Definitive Contractual Arrangements with the DoD

In February 2022, the Joint Science and Technology Office of DTRA, an agency of the DoD, selected the Company's proposal for additional funding to advance ATI-1701. The new funding of approximately US$14 million is designed to replace and expand upon a prior contract awarded to one of the Company's development partners. Under this funding arrangement, USAFA, an agency of the DoD, has been appointed by DTRA as the prime contractor for this program and the Company is proposed to act as a top tier contractor overseeing the comprehensive development activities for ATI-1701.

The Company's appointment as a top tier contractor to USAFA, and the advancement to the Company of any funding relating to ATI-1701, remains subject to the negotiation and execution of definitive contractual arrangements governing the terms and conditions of such engagement. In addition, the final funding amount to which the Company will have access will be dependent on the terms and conditions of such definitive contractual arrangements. A portion of the funding also remains subject to receipt of certain requisite budget approvals from the United States congress in the ordinary course.

There is no guarantee that the Company and USAFA will agree on definitive agreements on terms satisfactory to the Company or at all. In addition, there is no certainty that the full expected amount of the DoD funding will be made available to the Company.

If the Company is unsuccessful in finalizing definitive agreements with USAFA on terms satisfactory to the Company or is ultimately unable to access the full expected amount of the DoD funding, Appili will either need to secure additional funding from alternate sources or postpone or abandon its current development plan with respect to ATI-1701. Additional sources of funding may include other non-dilutive sources of funding such as government grants, or securing alternate financing through issuing additional equity, debt financing or license arrangements with strategic partners or others that, if available, may require

the Company to surrender material rights to certain technologies or potential markets. There is no certainty that financing will be available in the amounts the Company requires to advance ATI-1701 as planned, or on acceptable terms, if at all.

Delays in Accessing the DoD Funding are expected to Negatively Impact the Company's Working Capital

If implemented, the arrangement with USAFA is expected to require that the Company incur upfront costs relating to the development of ATI-1701 and submit expenses for reimbursement by USAFA from the DTRA funding. Expenses are expected to be reimbursed within a prescribed period of time.

Any material delays in reimbursement are expected to negatively impact the Company's working capital position and may negatively impact the Company's ability to advance ATI-1701 or its other programs, absent securing additional financing. Any additional financing may not be obtained on favourable terms, if at all. If the Company cannot obtain sufficient funding on reasonably acceptable terms, it may terminate or delay clinical trials, decrease R&D costs, scale-back on regulatory plans, and/or sell or assign rights to its technologies, products, or product candidates. There may also be substantial doubt about Appili's ability to continue as a going concern and realize assets and pay liabilities as they become due if the Company is not successful in accessing additional capital. See also "Liquidity and Capital Resources – Going Concern".

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

Disclosure controls and procedures ("**DC&P**") are intended to provide reasonable assurance that material information is gathered and reported to senior management to permit timely decisions regarding public disclosure and internal controls over financial reporting ("**ICFR**") are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

The Company maintains DC&P designed to ensure that information required to be disclosed in reports filed under applicable securities laws, is recorded, processed, summarized, and reported within the appropriate time periods and that such information is accumulated and communicated to the Company's management, including the CEO and CFO, to allow for timely decisions regarding required disclosure.

The CEO and the CFO of the Company are responsible for establishing and maintaining the Company's disclosure controls and procedures, including adherence to the Disclosure Policy adopted by the Company. The CEO and CFO have evaluated whether there were changes to the disclosure controls and procedures during the period ended December 31, 2022, that have materially affected, or are reasonably likely to materially affect, the disclosure controls and procedures. No such changes were identified through their evaluation.

In designing and evaluating the DC&P, the Company recognizes that any disclosure controls and procedures, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met, and management is required to exercise its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Internal Control over Financial Reporting

The Company's management, including the CEO and the CFO, are responsible for establishing and maintaining adequate ICFR. The control framework used by the CEO and CFO of the Company to design the Company's ICFR is the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The CEO and CFO have evaluated whether there were changes to ICFR during the period ended December 31, 2022, that have materially affected, or are reasonably likely to materially affect, ICFR. No such changes were identified through their evaluation. There have been no significant changes in the Company's internal controls during the period ended December 31, 2022, that have materially affected, or are reasonably likely to materially affect, ICFR.

The Company's ICFR may not prevent or detect all misstatements because of inherent limitations. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because changes in conditions or deterioration in the degree of compliance with the Company's policies and procedures.

BASIS OF PRESENTATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the IFRS as issued by the International Accounting Standards Board. The accounting policies, methods of computation and presentation applied in the consolidated financial statements are consistent with those of previous financial years. The Company's significant accounting policies are detailed in the notes to the audited consolidated financial statements for March 31, 2022.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The determination of estimates requires the exercise of judgement based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results could differ from those estimates. Critical judgements in applying the Company's accounting policies are detailed in note 3 of the Company's annual audited consolidated financial statements for the year ended March 31, 2022. The unaudited interim condensed consolidated financial statements have been prepared using the same policies and methods as the annual audited consolidated financial statements of the Company for the fiscal year ended March 31, 2022.

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 statement of financial position date 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, have been deemed to approximate their carrying value. The above noted fair values, presented for information only, reflect conditions that existed only as 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.

Risk management

The Company, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: credit risk; market risk; and liquidity risk. Management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary.

Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company is exposed to credit risk on its cash and short-term investment balances. The Company's cash management policies include ensuring that the cash is deposited in Canadian chartered banks.

Market risk

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

Interest rate price risk

The Company has limited exposure to interest rate risk on its lending and borrowing activities. The Company has interest-free debt that is either repayable over 84 months or 120 months or becomes repayable when revenue is earned. The Company also has a secured loan based on minimum interest rate of 8.25% or the US Prime Lending rate plus 5.25% per year, compounded quarterly and paid in arrears, repayable over 36 months.

Foreign currency risk

Foreign currency risk occurs as a result of foreign exchange rate fluctuations between the time a transaction is recorded and the time it is settled.

The Company has limited exposure to foreign exchange other than the LZH secured loan of $3,600,000 denominated in US dollars. The Company performed a sensitivity analysis on the foreign exchange rate. If the foreign exchange rate as at December 31, 2022 was 5% higher or lower, the LZH Loan amount would be $221,700 higher or $221,700 lower, respectively.

The Company does not enter into derivative financial instruments to reduce exposure to foreign currency risk.

Liquidity risk

Liquidity risk is the risk the Company will encounter difficulties in meeting its financial liability obligations as they come due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis.

The Company controls liquidity risk through management of working capital, cash flows and the availability and sourcing of financing. As described in note 1 of the unaudited interim condensed consolidated financial statements as at December 31, 2022, the Company's ability to accomplish all of its future strategic plans is dependent on obtaining additional financing or executing other strategic options; however, there is no assurance that the Company will achieve these objectives.

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 of the unaudited interim condensed consolidated financial statements 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
	10,574,881	2,664,007	4,901,074	378,895	2,630,905

ADDITIONAL INFORMATION

Additional information relating to the Company, including the Company's annual information dated June 29, 2022, filed in respect of the fiscal year ended March 31, 2022, is available under the Company's profile on SEDAR at www.sedar.com.