MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended March 31, 2023

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 June 22, 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, 2023, and 2022, 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;
- 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 obtain funding from the US Department of Defense ("**USDOD"**) and US Air Force Academy ("**USAFA"**);
- 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 secure the requisite level of patient and site enrollment; (iii) the Company's ability to enter into the requisite clinical

trial agreements relating to any proposed clinical trials; (iv) obtaining positive results of clinical trials; (v) obtaining regulatory approvals; (vi) general business and economic conditions; (vii) the Company's ability to successfully out-license or sell its current products and in-license and develop new products; (viii) the availability of financing on reasonable terms; (ix) the Company's ability to attract and retain skilled staff; (x) market competition; (xi) the products and technology offered by the Company's competitors; (xii) the Company's ability to protect patents and proprietary rights; and (xiii) our ability to continue to partner with the USDOD and USAFA.

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 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 secure the full anticipated funding from the USAFA 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 22 2023.

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.

The Company's anti-infective portfolio currently includes 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 in November 2022.

Appili expects that two of its programs (ATI-1801 and ATI-1701) may be eligible for a PRV if approved by the United States Food and Drug Administration ("**FDA**"). 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 when inhaled (PHAC PSDS Anthrax 2011, PHAC PSDS Tularemia 2011). Category A pathogens are organisms or 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 (Conlan 2010, Shen 2010). Drug manufacturing activities have been initiated and 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 recently 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. Results are preliminary and additional analysis of data is ongoing. The Company expects to start Phase 1 studies in 2025, with timing to be finalized based on USDOD contracting discussions as described further below.

Appili Therapeutics is sponsoring the 10th International Conference on Tularemia and plans on presenting data at this conference.

The primary focus for commercializing ATI-1701 is the United States market, where approval from the FDA is necessary. However, rare and severe diseases like tularemia present unique challenges during clinical development. These challenges include limited patient availability for clinical trials, unreasonable risks associated with experimental infection studies, and the impracticality of conducting field studies.

The FDA has provided guidance known as the "Animal Rule," which offers an alternative product development path for rare and severe diseases like tularemia. According to a report from October 2015 titled "Product Development Under the Animal Rule," the FDA may grant marketing approval based on adequate and well-controlled animal efficacy studies for drugs developed to ameliorate or prevent serious or life-threatening conditions caused by exposure to toxic substances. This approach is applicable when human efficacy studies are not ethical or feasible, and field trials are not practical. Under the Animal Rule, drugs must still undergo safety evaluation according to existing requirements for establishing the safety of new drugs.

Appili and its strategic partners are currently evaluating the feasibility of developing ATI-1701 under the FDA Animal Rule. This evaluation includes the development of appropriate experimental models to demonstrate the efficacy of ATI-1701. Appili intends to collaborate with the NRC and existing partners to complete the necessary preclinical and clinical testing required

under the Animal Rule. The goal is to evaluate the immunogenicity, efficacy, and safety of the ATI-1701 vaccine and ultimately submit a Biological License Application to the FDA.

Appili's activities related to ATI-1701 have been and continue to be funded through its current resources and USDOD funding. On May 5th, 2023, Appili signed an initial contract with USAFA (the "**USAFA Cooperative Agreement")** for the previously announced funding of the ATI-1701 program. This contract represents the first stage of funding from the USDOD award. The initial funding amounts to US$7.3 million and will be used to initiate early-stage development and regulatory activities for ATI-1701. As progress is made, Appili plans to engage USAFA for additional funding tranches to continue development through Investigation New Drug ("**IND**") submission.

Under the terms of its agreement with USAFA, Appili will be reimbursed for direct costs and labour associated with budgeted program activities, plus will recover a portion of its overhead costs. Appili has submitted its first invoice for such cost and anticipates receiving payment by the end of June 2023.

USAFA serves as the prime contractor to the Defense Threat Reduction Agency ("**DTRA**") for this program, as USDOD agency. The USAFA Cooperative Agreement with USAFA establishes Appili as the top-tier performer responsible for managing development activities through the IND stage. The anticipated total program funding is expected to be approximately US$14 million, depending on US federal budget funding activities. The initial tranche of US$7.3 million is authorized by the contract. These funds, along with other planned funding tranches, are expected to advance the ATI-1701 program toward an IND submission to the FDA in 2024. Appili will oversee a comprehensive development program for ATI-1701, which includes nonclinical studies, manufacturing, and regulatory activities to support the IND submission.

It is important to note that the milestones mentioned are based on management's current expectations regarding the development and advancement of ATI-1701. However, they are subject to certain assumptions and general risks. Due to the nature of the company's business and stage of operations, there is no guarantee that these objectives will be achieved, and uncertainties remain regarding the required time and resources. Please refer to the "*Risk Factors*" section for further information.

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 (CDC 2020. WHO 2022, Okwor 2016). The disease is a serious impediment to socioeconomic development, especially for women, 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 access. (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).

Subject to completing a successful tech transfer to the Company's contract manufacturing organization, Appili plans to request a meeting with the FDA later this year to discuss the previously generated Phase 3 data 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. 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 remaining development work.

In September 2022, Appili submitted a new protocol titled "A Randomized, Double-blind, Pivotal Phase 3 Study of ATI-1801 (Paromomycin Topical Cream) vs. oral Miltefosine for the Treatment of Cutaneous Leishmaniasis in Panama for Paromomycin Topical Cream." This submission was made in response to the funding opportunity announcement number RFA-FD-23-001: Clinical Studies of Orphan Products Addressing Unmet Needs of Rare Diseases (R01) grant application. The objective of this RO1 grant application is to provide support for clinical trials of orphan drug products, encompassing all phases of product evaluation, including efficacy and/or safety assessments. The aim is to address unmet needs in rare diseases or conditions, leading to new indications or changes in labeling. By funding collaborative, efficient, and innovative clinical trials, the FDA aims to enhance the number of approved treatments for rare diseases and make a significant positive impact on rare disease drug development. As of June 22, 2023, Appili is awaiting a R01 grant decision from the FDA.

ATI-1801 has received an Orphan Drug Designation ("**ODD**") from the FDA for the treatment of certain forms of cutaneous leishmaniasis.

The milestones set out above are based on management's current expectations with respect to the development and advancement of ATI-1801 and are subject to certain underlying assumptions, future funding requirements and general risks. Due to the nature of the Company's business and stage of operations, there is no assurance that these objectives will be achieved, and there can be no assurance with respect to the time or resources that may be required. See *"Risk Factors*".

ATI- 1501

ATI-1501 is a taste-masked liquid oral suspension formulation of the 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 patient adherence to therapy and 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 overseeing the regulatory review, manufacturing, and preparation for the filing of an NDA with the FDA, as well as the anticipated commercialization of ATI-1501 in the United States, which are the next major development milestones for ATI-1501. Upon signing the commercialization agreement with Saptalis, the Company received the initial upfront payment of US$150,000 that was recognized as revenue in December 2019. In November 2020, Saptalis requested and obtained several Type C meetings with the FDA to discuss potential adjustments to the formulation. The FDA accepted the changes in the formulation on condition of characterization in an additional bioequivalence study, which per the terms of the licence agreement were partially funded by the Company. The bioequivalence study was completed-followed by an NDA submission in December 2022. In February 2023, the Company announced that the FDA accepted the ATI-1501 NDA. The FDA established a Prescription Drug User Fee ("**PDUFA**") action date of September 23, 2023. Appili received US$250,000 in milestone payments from Saptalis in 2023.

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.

In May 2023, United States Patent and Trademark Office ("**USPTO**") has published patent claims for ATI-1501 under the US Application No. 18/072,154 filed on November 30, 2022, and titled "Oral Formulations of Metronidazole and Methods of Treating an Infection Using Same". The patent covers the composition and preparation methods for the drug through 2039.

The milestones set out above are based on management's current expectations with respect to the development and advancement of ATI-1501 and are subject to certain underlying assumptions and general risks. Due to the nature of the Company's business and stage of operations, there is no assurance that these objectives will be achieved, and there can be no assurance with respect to the time or resources that may be required. See *"Risk Factors*".

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).

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. Accordingly, 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).

The Company had the following recent key developments and achievements since April 1, 2022:

- On May 24, 2023, the Company announced Issuance of Patent for ATI-1501 Liquid Oral Reformulation of Metronidazole. This patent covers the composition and preparation methods for ATI-1501 through 2039.

- On May 5, 2023, the Company announced that it had entered into the USAFA Cooperative Agreement with respect to the development of ATI-1701.

- On April 3, 2023, the Company announced the appointment of Dr. Gary Nabors, Ph.D., as Chief Development Officer. Dr. Nabors will lead the advancement of programs through development, regulatory submission and key commercialization milestones.

- On March 20, 2023, the Company announced that it entered into an amended and restated secured loan agreement (the "**Amended Loan Agreement**") with Long Zone Holdings Inc. ("**LZH**"), amending and restating the original secured loan agreement by and between Appili and LZH dated March 28, 2022 (the "**Original Loan Agreement**"). Pursuant to the terms of the Amended Loan Agreement, Appili received a second tranche loan (the "**Second Tranche Loan**") in the amount of CAD$2.5 million ("**Second Tranche Loan**") which supplements the first tranche of US$3.6 million advanced pursuant to the Original Loan Agreement. The Second Tranche Loan will be used by Appili for working capital purposes. LZH was also be issued 6,930,000 common share purchase warrants, exercisable for seven years, with a warrant exercise price of $0.045.

- 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.

- 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 November 14, 2022, Appili announced that the ATI-1701 program expects to receive approximately US$14M from the USDOD to fund the program through IND submission. At the same time, Appili announced leadership changes, promoting Don Cilla, Pharm.D., M.B.A., to President and CEO, and appointing Armand Balboni, M.D., Ph.D., J.D., to Chairman of Appili's Board of Directors and Theresa Matkovits, Ph.D., to Lead Independent Director.

- On November 10, 2022, Appili completed a strategic review and reprioritization, and 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 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).

- 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 September 9, 2022, Appili presented an update on non-clinical data for ATI-2307 during the MSGERC biannual meeting in New Mexico.

- On August 2, 2022, Appili presented an update on the effectiveness and safety of the topical formulation of paromomycin ATI-1801 in the treatment of cutaneous leishmaniasis.

- 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.

  Total costs associated with the May 2022 Public Offering were approximately $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 at an exercise price of $0.095 for a period of two years, expiring on May 26, 2024.

SELECTED FINANCIAL INFORMATION

		Year ended March 31, 2023 ($)	Year ended March 31, 2022 ($)	Year ended March 31, 2021 ($)
Net loss and comprehensive loss for the period		(9,243,014)	(25,118,299)	(14,325,112)
Basic and diluted loss per share		(0.08)	(0.38)	(0.24)
Cash and short-term investments		2,465,882	6,664,855	16,124,791
Total assets		3,132,375	8,281,726	18,316,955
Long-term liabilities		7,665,345	4,978,683	1,032,600

RESULTS FOR THE YEAR ENDED MARCH 31, 2023 ("FY 2023"), COMPARED TO THE YEAR ENDED MARCH 31, 2022 ("FY 2022")

	Year ended March 31, 2023 $	Year ended March 31, 2022 $
Income		
Revenue	334,177	1,390,684
Interest income	29,882	33,730
	364,059	1,424,414
Expenses		
Research and development costs ("**R&D**")	3,623,869	20,744,405
General and administrative ("**G&A**")	4,438,750	4,612,832
Business development ("**BD**")	185,839	711,932
Financing costs	1,096,083	1,554,941
Government assistance	(138,466)	(1,063,039)
Exchange loss/(gain)	364,606	(56,817)
	9,570,681	26,504,254
Loss before Income taxes	(9,206,622)	(25,079,840)
Income tax expense	36,392	38,459
Net loss and comprehensive loss for the year	(9,243,014)	(25,118,299)

Income

i. Revenue

Revenue income decreased by $1,056,507 in FY 2023 to $334,177 during FY 2023 compared to $1,390,684 in FY 2022, due mainly to one-time receipt of $1,265,520 (US $1 million) from FUJIFILM Toyama Chemical Co. Ltd. for data licencing fee in FY 2022. Revenue of $344,177 for FY2023 represents milestone payments received from Saptalis in respect of ATI-1501 program.

ii. Interest income

Interest income decreased by $3,848 to $29,882 during FY 2023 compared to $33,730 in FY 2022, due to a lower cash balance during FY 2023.

Operating expenses

Overall operating expenses decreased by $16,933,573 to $9,570,681 during FY 2023 compared to $26,504,254 in FY 2022, due mainly to a decrease of $17,120,536 in R&D costs, due to the completion of favipiravir clinical trial in November 2021, a decrease of $526,093 in BD costs due to lower salaries and stock based compensation expense, a decrease of $458,858 in financing costs and a decrease of $174,082 in G&A cost due to lower employment cost partially offset by higher general expense. This was offset by a decrease of $924,573 in government assistance due to lower R&D expense resulting in lower investment tax credits and an increase of $421,423 in 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-1701, ATI-1503, ATI-2307, ATI-1501 and general R&D. The R&D expenses have been favorably impacted by a reduction in the final close-out expenses associated with the favipiravir clinical study.

R&D expenses consist of the following:

	Year ended March 31, 2023 ($)	**Year ended March 31, 2022 ($)**
Favipiravir expenses	(779,687)	17,090,213
ATI-2307 expenses	462,658	1,126,438
ATI-1701 expenses	1,623,617	286,454
ATI-1503 expenses	19,409	32,916
ATI-1501 expenses	149,558	(14,970)
General R&D expenses	209,783	125,251
Amortization of property and equipment	1,248	7,343
Salaries and benefits	1,600,053	1,699,333
Stock-based compensation	337,230	391,427
Total	**$3,623,869**	**$20,744,405**

The decrease in R&D expenses of $17,120,536 from $20,744,405 in FY 2022 to $3,623,869 in FY 2023 is mainly attributable to a $17,869,900 decrease in the favipiravir clinical trials, a $663,780 decrease in ATI-2307 program expenses, a decrease of $99,280 in salaries and benefits, a decrease of $54,197 in stock based compensation, a decrease of $13,507 in ATI-1503 expenses and a decrease of $6,095 in depreciation of property and equipment. These decreases were offset by a $1,337,163 increase in the ATI-1701 program expenses, a $164,528 increase in ATI-1501 program expenses, and an increase of $84,532 in general R&D 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 a reduction of previously recorded accruals of $768,535 and a refund of $426,289 for FY 2023.

ATI-2307

The decrease in ATI-2307 program expenses is due to decreased clinical manufacturing costs and other related costs in FY 2023 as compared to FY 2022. This is offset by an increase in pre-clinical manufacturing costs and consultant costs. The Company 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 decrease in clinical manufacturing and IP management costs, in FY 2023, in comparison to FY 2022.

ATI-1503

The decrease in expenses related to the ATI-1503 program in FY 2023, in comparison to FY 2022, is due to decreased testing costs. This is offset by an increase in research chemical cost and consulting costs. The Company discontinued 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 FY 2023, in comparison to FY 2022.

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 FY 2023, in comparison to FY 2022. This is offset by a reduction in related party consulting fees and R&D rent.

Salaries and Benefits and Stock-based compensation

The 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:

	Year ended March 31, 2023 ($)	**Year ended March 31, 2022 ($)**
G&A expenses, excluding salaries	2,850,877	2,122,256
Salaries and benefits	942,917	905,321
Stock-based compensation	619,118	1,578,755
Amortization of property and equipment	25,838	6,500
Total	**4,438,750**	**4,612,832**

G&A expenses decreased by $174,082 from $4,612,832 in FY 2022 to $4,438,750 in FY 2023 mainly due to a decrease of $959,637 in stock-based compensation given the reduction in headcount, offset by an increase of $728,621 in G&A expenses, an increase of $37,596 in salaries and benefits, and an increase of $19,338 in depreciation of property and equipment.

Stock-based compensation

The decrease in stock-based compensation in FY 2023 by $959,637 in comparison to FY 2022, is due to staff changes in FY 2023.

G&A expenses, excluding salaries

G&A expenses, excluding salaries, for FY 2023 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 consulting costs, investor relation conferences and information technology related charges.

Salaries and benefits

Salaries and benefits increased in FY 2023 in comparison to FY 2022, mainly due to the severance costs associated with the former Chief Executive Officer in accordance with his employment contact 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 $526,093 in FY 2023 as compared to FY 2022 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 an 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 and LZH secured loans, cash interest on LZH secured loans and loss on modification of the terms relating to LZH first tranche secured loan.

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 decrease of financing costs by $458,858 in FY 2023 is due mainly to the loss of $1,110,385 on repayment of the Lind Convertible Security ("**Lind**") in FY 2022. This is offset by the increase in accretion of the LZH loans of $330,658, accretion of the ACOA loans of $199,407 and $144,241 loss recognized on the debt modification of the LZH Original Loan Agreement by the Amended Loan Agreement on March 20, 2023.

v. Government assistance

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

Government assistance decreased by $924,573 in FY 2023. This is due mainly to decreased R&D costs incurred in FY 2023, which has decreased the value of the investment tax credits, as well as completion of the Peer Review Medical Research Program ("**PRMRP**") grant, as compared to FY 2022.

vi. Income tax expense

Income tax expense is due on taxable income recognized in the US subsidiary.

vii. Net loss and comprehensive loss

The net loss and comprehensive loss was $9,243,014 for FY 2023, a difference of $15,875,285 compared to the net loss and comprehensive loss of $25,118,299 for FY 2022.

SUMMARY OF QUARTERLY RESULTS

The following consolidated quarterly data was drawn from audited annual financial statements and the unaudited interim condensed consolidated financial statements. The information is reported on an IFRS basis.

Quarterly Ended In		**Total Income ($)**	**Total Expenses ($)**	**Loss ($)**	**Basic and Diluted Loss Per Share ($)**
Q4 - March 31, 2023		340,784	3,001,429	(2,660,645)	(0.02)
Q3 - December 31, 2022		9,349	2,628,742	(2,619,393)	(0.02)
Q2 - September 30, 2022		9,085	1,647,301	(1,638,216)	(0.01)
Q1 - June 30, 2022		4,841	2,329,601	(2,324,760)	(0.03)
Q4 - March 31, 2022		5,469	3,339,661	(3,334,192)	(0.07)
Q3 - December 31, 2021		1,397,509	4,627,332	(3,229,823)	(0.05)
Q2 - September 30, 2021		4,937	11,181,599	(11,176,662)	(0.18)
Q1 - June 30, 2021		16,499	7,385,691	(7,369,191)	(0.12)

RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2023 ("Q4 2023"), COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2022 ("Q4 2022")

	Three months ended March 31, 2023 $	Three months ended March 31, 2022 $
Income		
Revenue	334,177	-
Interest income	6,607	5,469
	340,784	5,469
Expenses		
R&D	1,463,391	1,319,668
G&A	1,042,270	1,107,403
BD	60,540	16,916
Financing costs	450,237	1,151,018
Government assistance	(15,600)	(255,583)
Exchange (gain)/loss	(6,286)	652
	2,994,552	3,340,074
Loss before Income taxes	(2,653,768)	(3,334,605)
Income tax expense	6,877	(413)
Net loss and comprehensive loss for the period	(2,660,645)	(3,334,192)

Income

i. Revenue

Revenue income was increased by $334,177 during the three months ended, March 31, 2023 as compared to nil during the three months ended March 31, 2022 due to the receipt of milestone payments from Saptalis in connection with ATI-1501 program .

ii. Interest income

Interest income increased by $1,138 to $6,607 during the three months ended March 31, 2023 as compared to $5,469 in the three months ended March 31, 2022, due to higher interest rates during the three months ended March 31, 2023.

Operating expenses

Overall operating expenses decreased by $345,522 to $2,994,552 during the three months ended March 31, 2023, compared to $3,340,074 for the three months ended March 31, 2022 as a result of a decrease of $65,133 in G&A cost and a decrease of $700,781 in financing costs. This was offset by an increase of $143,723 in R&D costs, an increase of $43,624 in BD costs due to staffing changes and a decrease of $239,983 in government assistance due to lower R&D expense resulting in lower investment tax credit. 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 mainly relate to costs incurred for the development of three product candidates, including ATI-1701, ATI-1501, ATI-2307, and general R&D.

R&D expenses consist of the following:

	Three months ended March 31, 2023 ($)	**Three months ended March 31, 2022 ($)**
Favipiravir expenses	888	500,606
ATI-2307 expenses	14,245	425,312
ATI-1701 expenses	726,719	93,710
ATI-1503 expenses	290	8,872
ATI-1501 expenses	22,441	(19,630)
General R&D expenses	55,466	17,736
Amortization of property and equipment	312	1,836
Salaries and benefits	430,933	252,119
Stock-based compensation	212,097	39,108
Total	**1,463,391**	**1,319,668**

The increase in R&D expenses of $143,723 from $1,319,668 in the three months ended March 31, 2022 to $1,463,391 in the three months ended March 31, 2023 is mainly attributable to an increase of $178,814 in salaries and benefits, an increase of $172,989 in stock based compensation, an increase of $37,730 in general R&D expenses, a $42,071 increase in ATI-1501 program expenses and a $633,009 increase in the ATI-1701 program expenses. These increases were offset by a $499,718 decrease in the favipiravir clinical trials, a $411,067 decrease in ATI-2307 program expenses and an immaterial decrease in depreciation of property and equipment.

Favipiravir

The decrease in favipiravir expenses is due to the completion of the clinical trial in November 2021.

ATI-2307

The decrease in ATI-2307 expenses is due to decreased clinical expenses and consultant costs in Q4 2023 as compared to Q4 2022. The Company 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 Q4 2023 in comparison to Q4 2022. This is offset by a decrease in IP management costs.

ATI-1501

The increase in expenses related to the ATI-1501 program is due to increased regulatory costs in Q4 2023 in comparison to Q4 2022.

General R&D Expenses

The increase in expenses related to general R&D expenses is due to increased employee benefits, consulting and conference costs. This is offset by a decrease in R&D rent in Q4 2023 in comparison to Q4 2022.

Salaries and benefits and Stock-based compensation

Increase in salaries and benefits and stock-based compensation in Q4 2023 in comparison to Q4 2022 is mainly due to staff changes and acceleration of the stock-based compensation expense relating to options cancelled in Q4 2023.

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 March 31, 2023 ($)	**Three months ended March 31, 2022 ($)**
G&A expenses, excluding salaries	784,053	564,358
Salaries and benefits	95,507	214,341
Stock-based compensation	161,397	326,222
Amortization of property and equipment	1,313	2,482
Total	**1,042,270**	**1,107,403**

G&A expenses decreased by $65,133 from $1,107,403 in the three months ended March 31, 2022 to $1,042,270 in the three months ended March 31, 2023, due to a decrease of $118,834 in salaries and benefits and a decrease of $164,825 in stock-based compensation, and an immaterial decrease in depreciation of property and equipment. This is offset by an increase of $219,695 in other G&A expenses.

Stock-based compensation

The decrease in stock-based compensation in Q4 2023 by $164,825 in comparison to Q4 2022 is due to a reduction in headcount in Q4 2023.

G&A expenses, excluding salaries

G&A expenses, excluding salaries, for Q4 2023 increased mainly due to increase in 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 decreased in Q4 2023 mainly due to staffing changes, as compared to Q4 2022.

iii. BD expenses

BD expenses consist of new program acquisition research costs and business development office rent. BD expenses increased by $43,624 in Q4 2023 as compared to Q4 2022 due to related party consulting services.

iv. Financing costs

Financing costs relate to the valuation of zero interest bearing government loans and LZH secured loans, cash interest on LZH secured loans and loss on modification of the terms relating to LZH first tranche secured loan.

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 decrease of financing costs by $700,781 in Q4 2023 is mainly to the loss recognized on repayment of Lind in Q4 2022.

v. Government assistance

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

Government assistance decreased by $239,983 in Q4 2023. This is due mainly to decreased R&D costs incurred in Q4 2023, which has decreased the value of the investment tax credits, as well as completion of PRMRP grant.

vi. Income tax expense

Income tax expense is due on taxable income recognized in the US subsidiary.

vii. Net loss and comprehensive loss

The net loss and comprehensive loss was $2,660,645 for Q4 2023, a decrease of $673,547 compared to the net loss and comprehensive loss of $3,334,192 for Q4 2022.

CASH FLOWS

As at March 31, 2023, the Company had cash of $2,465,882 and positive working capital of $140,631 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 year ended March 31, 2023, $10,097,836 was used in operating activities, including a reported net loss of $9,243,014 prior to being adjusted for add-backs of $1,096,082 (non-cash finance costs), $875,124 (stock-based compensation), $372,366 (unrealized foreign exchange translation – Long-term debt), $24,546 (loss on disposal of property and equipment), $6,266 (amortization of property and equipment) and $6,381 (unrealized loss/(gain) from changes in foreign currency). This was offset by a net decrease of $3,235,587 in cash as a result of changes in working capital.

Financing activities

During the year ended March 31, 2023, the Company raised $4,500,000 , through the issue of shares and warrants less issuance costs of $621,955 and received $2,500,000 as long-term debt less costs associated with debt issuance of $300,652. This is offset by $83,377 for the payment of accreted interest involving cash and the repayment of long- term debt of $85,600.

Investing activities

During the year ended March 31, 2023, the Company purchased computers amounting to $3,175.

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 March 31, 2023, the Company had approximately $2.9 million of existing and identified potential sources of cash including:

- cash of $2.5 million; and
- amounts receivable and investment tax credits receivable of $0.4 million.

The Company was previously granted a three-year US PRMRP award for up to US$3.2 million to fund the Company's ATI-1503 program, of which the Company had only drawn down approximately US$0.894 million as of June 30, 2022, which was the last period the Company could draw down funds from this grant.

Appili's activities related to ATI-1701 have been and continue to be funded through its current resources and USDOD funding. On May 5, 2023, Appili signed the USAFA Cooperative Agreement for the previously announced funding of the ATI-1701

program. This contract represents the first stage of funding from the USDOD award. The initial funding amounts to US$7.3 million and will be used to initiate early-stage development and regulatory activities for ATI-1701. As progress is made, Appili plans to engage USAFA for additional funding tranches to continue development through IND submission.

Under the terms of its agreement with USAFA, Appili will be reimbursed for direct costs and labour associated with budgeted program activities, plus will recover a portion of its overhead costs. Appili has submitted its first invoice for such cost and anticipates receiving payment by the end of June 2023.

USAFA serves as the prime contractor to DTRA for this program as USDOD Agency. The USAFA Cooperative Agreement with USAFA establishes Appili as the top-tier performer responsible for managing development activities through the IND stage. The anticipated total program funding is expected to be approximately US$14 million, depending on US federal budget funding activities. The initial tranche of US$7.3 million is authorized by the contract. These funds, along with other planned funding tranches, are expected to advance the ATI-1701 program toward an IND submission to the FDA in 2024. Appili will oversee a comprehensive development program for ATI-1701, which includes nonclinical studies, manufacturing, and regulatory activities to support the IND submission.

Going Concern

While the Company has potential sources of cash of approximately $2.9 million as at March 31, 2023, as well as expected access to USAFA funding (including potential access to the remaining future 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 or secure alternative funding 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, government or other non-dilutive funding 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, including accessing all expected USDOD funding pursuant to the USAFA Cooperative Agreement in a timely manner or at all. 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. In particular, any delays in the reimbursement by USAFA of previously submitted expenses pursuant to the USAFA Cooperative Agreement in the near term may, in the absence of the Company securing satisfactory alternative funding arrangements, result in the Company not being able to satisfy its covenants to maintain a minimum cash balance pursuant to the Amended Loan Agreement with LZH. Such default under the Amended Loan Agreement may result in the acceleration of all obligations owing to LZH under such agreement. Delays in future expense reimbursements by USAFA in the near term may also materially and adversely impact the Company's working capital requirements in the absence of securing satisfactory alternative funding 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 year ended March 31, 2023, the Company was charged $269,975 (2022 -

$349,361) for services performed by the former Chief Executive Officer and accrued $513,055 (2022 - $nil) in accordance with his employment contract, which was terminated on November 12, 2022, due to his change in role. As at March 31, 2023, $342,346 (2022 -$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 (2022– 850,000) to the former Chief Executive Officer during the year ended March 31, 2023.

During the year ended March 31, 2023, the Company was charged $205,345 (2022 - $nil) for consulting services in relation to business development activities by Bloom Burton Securities Inc., an affiliate of Bloom Burton & Co. The Company also issued 1,189,579 (2022 - 128,674) compensation warrants valued at $50,057 (2022 - $54,043) and paid $315,000 (2022- $490,015) in cash commissions to Bloom Burton Securities Inc., resulting from the May 2022 Public Offering (as defined in note 10 of the audited consolidated financial statements).

During the year ended March 31, 2023, the Company was charged $nil (2022- $73,715) 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.

  On December 27, 2022 the Company notified FFTC that it was 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 the Original Loan Agreement providing for a secured loan for gross proceeds of US$3,600,000 (CAD$4,500,000) (the "**First Tranche Loan**"). Under the terms of the Original Loan Agreement, LZH obtained a secured loan of US$3.6 million. The loan is secured by a general security over all the assets of the Company, including intellectual property.

  On March 17, 2023, the Company entered into an amended and restated secured loan agreement with LZH, amending and restating the Agreement. Pursuant to the terms of the Amended Loan Agreement, LZH provided an additional loan of $2,500,000, which supplements the First Tranche Loan (collectively with Second Tranche Loan, the "Loans"). The Loans mature on March 15, 2025, bearing the following terms:
  - Amending the interest rate on the First Tranche Loan, to be higher of 11% or the US prime lending rate plus 3.25%;
  - Second Tranche Loan, higher of 11% or the Canadian prime lending rate plus 4.3%;
  - The loans include a prepayment feature at the option of the Company, which bears penalty equal to the aggregate monthly interest payments remaining on the amount prepaid until maturity
  - The loan includes a default interest feature whereby the Company will owe 5% in additional interest if an event of default occurs; and
  - The loan requires at all times the Company to maintain a specifically defined minimum cash balance. The Company was in compliance with this requirement at the year end.

  Interest is compounded quarterly and paid in arrears. In addition, a 4% per year fixed maintenance fee is payable on the Loans to LZH.

- 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 in Latin America, Canada, and Israel, excluding ATI-1501 in Latin America, which was recently licenced to existing partner Saptalis. The Company will receive a supply price for products sold by LZH or its sublicencees, as well as royalties on net sales.

- On May 5, 2023, the Company entered into the USAFA Cooperative Agreement with respect to the development of ATI-1701.

There is no other material change in the contractual obligations of the Company since the beginning of the 2023 fiscal year.

Details on the contractual obligations of the Company can be found in the financial statements and related notes in the consolidated financial statements for the year ended March 31, 2023.

OFF-BALANCE SHEET ARRANGEMENTS

The Company was not party to any off-balance sheet arrangements as of March 31, 2023.

OUTSTANDING SECURITIES

As of June 22, 2023, the Company had 121,266,120 issued and outstanding Common Shares, 7,842,000 stock options and 58,247,879 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 22, 2023, filed in respect of the fiscal year ended March 31, 2023. 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.

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 year ended March 31, 2023, 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 year ended March 31, 2023, 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 year ended March 31, 2023, 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, 2023.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results.

The following estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Ability to continue as a going concern

In order to assess whether it is appropriate for the Company to continue as a going concern, management is required to apply judgment and make estimates with respect to future cash flow projections.

In arriving at this judgment, there are a number of assumptions and estimates involved in calculating these future cash flow projections. This includes making estimates regarding the timing and amounts of future expenditures and the ability and timing of raising additional financing.

Calculation of carrying amounts of long-term debt

*Atlantic Canada Opportunities Agency ("**ACOA**") Atlantic Innovation Fund ("**AIF**") loan*

The Company has an interest-free AIF government loan from ACOA with a maximum contribution of $2,803,148. The annual repayments, commencing December 1, 2022, are calculated as 5% of gross revenue from a specific product for the preceding fiscal year, until the advanced funds are repaid. As at March 31, 2023, $16,725 (March 31, 2022- $9,955) is included in current liabilities in the consolidated statements of financial position.

The initial fair value of the ACOA AIF loan is determined by using a discounted cash flow analysis for the loan, which requires a number of assumptions. The difference between the face value and the initial fair value of the ACOA AIF loan is recorded in the consolidated statements of loss and comprehensive loss as government assistance. The carrying amount of the ACOA AIF loan requires management to adjust the long-term debt to reflect actual and revised estimated cash flows whenever revised cash flow estimates are made or new information related to market conditions 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. Any

adjustments are recognized in the consolidated statements of loss and comprehensive loss as accreted interest after initial recognition.

The significant assumptions used in determining the discounted cash flows include estimating the amount and timing of future revenue for the Company and the discount rate. The Company's estimates of future revenues are derived from several significant assumptions including estimated time to market, expected future selling price, potential target market, estimated market penetration, the product's shelf-life, returns provision, number of years of exclusivity and estimated royalty rate.

As the ACOA AIF loan is repayable based on a percentage of gross revenue from the Company's product, ATI-1501, if any, the determination of the amount and timing of future revenue significantly impacts the initial fair value of the loan, as well as the carrying value of the ACOA AIF loan at each reporting date. The Company is still in the development stage for this infectious disease product and accordingly, determination of the amount and timing of revenue, if any, requires significant judgment by management. Management's estimates of future revenues assume revenue in the next five years.

The discount rate determined on initial recognition of the ACOA AIF loan is used to determine the present value of estimated future cash flows expected to be required to settle the debt. In determining the appropriate discount rates, the Company considered the weighted average cost of capital for the Company, risk adjusted based on the development risks of the Company's product. The ACOA AIF loan is repayable based on a percentage of gross revenue from the Company's product, ATI-1501, if any; accordingly, finding financing arrangements with similar terms is difficult. Management used a discount rate of 26.7% to discount the ACOA AIF loan.

The Company signed a licence agreement for the US development and commercialization rights for ATI-1501 with Saptalis in December 2019, which included an upfront payment, future milestone payments and future royalty payments. The Company performed the following sensitivity analysis on the basis that each change in the assumption being analyzed is made assuming the other assumptions remain the same.

- If the forecasted revenue was 10% higher or lower, the carrying value of the long-term debt would be $29,200 higher or $29,200 lower, respectively.

- If the total forecasted revenue were reduced to $nil, no amounts would be forecast to be repaid on the ACOA AIF loan and the ACOA AIF loan payable at March 31, 2023 would be recorded at $nil, which would be a reduction in the ACOA AIF loan payable of $398,225.

- If the timing of the receipt of forecasted future revenue was earlier or later by one year, the carrying value of the long-term debt at March 31, 2023 would have been an estimated $82,600 higher or $78,500 lower, respectively.

Any changes in the amounts recorded on the consolidated statements of financial position for the ACOA AIF loan result in an offsetting charge to accreted interest after initial recognition in the consolidated statements of loss and comprehensive loss.

Equity-settled share-based compensation

The Company estimates the cost of equity-settled share-based compensation using the Black-Scholes valuation model. The model takes into account the estimate of the expected life of the option, the current price of the underlying share, the expected volatility, an estimate of future dividends on the underlying common share, the risk-free rate of return expected for an instrument with a term equal to the expected life of the option and the expected forfeiture rate.

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:

	March 31, 2023		March 31, 2022	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
	$	**$**	**$**	**$**
Cash	2,465,882	2,465,882	6,664,855	6,664,855
Amounts Receivable	69,006	69,006	40,738	40,738
Accounts Payable and accrued liabilities	2,823,001	2,823,001	6,455,958	6,455,958
Long-term debt	7,665,345	7,665,345	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 at March 31, 2023, 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 at the consolidated statements of financial position dates. At March 31, 2023, 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.

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 of $4,500,000 (US $3,600,000) based on minimum interest rate of 11% or the US prime lending rate plus

3.25% per year, compounded quarterly and paid in arrears, repayable over 24 months and a secured loan of $2,500,000 based on a minimum interest rate of 11% or the Canadian prime lending rate plus 4.3% per year, compounded quarterly and paid in arrears, repayable over 24 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 purchases goods and services denominated in foreign currencies and, accordingly, is subject to foreign currency risk. As at March 31, 2023, the Company's cash included $63,776 (March 31, 2022 - $914,994) denominated in United States dollars. In addition, the Company's accounts payable and accrued liabilities included $480,939 (March 31, 2022 - $665,654) denominated in United States dollars and ¥nil (March 31, 2022 - ¥299,040) denominated in Japanese yen. The Company performed a sensitivity analysis on the foreign exchange rate. If the year-end foreign exchange rate was 5% higher or lower, the Company's cash and accounts payable and accrued liabilities denominated in United States dollars would be $36,768 higher or $36,768 lower, respectively.

The Company also has exposure to foreign exchange on 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 March 31, 2023 was 5% higher or lower, the LZH secured loan 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 consolidated financial statements as at March 31, 2023, 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 9 of the consolidated financial statements as at March 31, 2023:

	Total	**Year 1**	**Years 2 to 3**	**Years 4 to 5**	**After 5 Years**
	$	**$**	**$**	**$**	**$**
Accounts payable and accrued liabilities	2,823,001	2,823,001	-	-	-
Long-term debt	10,564,466	202,598	7,421,326	361,039	2,579,503
	13,387,467	3,025,599	7,421,326	361,039	2,579,503

ADDITIONAL INFORMATION

Additional information relating to the Company, including the Company's annual information dated June 22, 2023, filed in respect of the fiscal year ended March 31, 2023, is available under the Company's profile on SEDAR at www.sedar.com.