Appili Therapeutics Inc.

Interim Condensed Consolidated Financial Statements
(Unaudited)
June 30, 2023

August 11, 2023

Management's Responsibility for Financial Reporting

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

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

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

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

Appili Therapeutics Inc.

Interim Condensed Consolidated Statements of Financial Position
(Unaudited)
As at June 30, 2023 and March 31, 2023

	June 30, 2023 $	March 31, 2023 $
Assets		
Current Assets		
Cash	520,589	2,465,882
Accounts receivable (note 4)	1,014,652	119,984
Investment tax credit receivable	308,800	300,800
Prepaid expenses and deposits	285,764	231,099
	2,129,805	3,117,765
Non-Current Assets		
Property and equipment	40,885	14,610
Total Assets	2,170,690	3,132,375
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (note 5)	3,197,520	2,823,001
Current portion of long-term debt (note 6)	216,589	113,125
Corporate taxes payable	52,620	41,008
	3,466,729	2,977,134
Non-Current liabilities		
Long-term debt (note 6)	7,470,853	7,552,220
Total Liabilities	10,937,582	10,529,354
Shareholders' equity	(8,766,892)	(7,396,979)
Total Liabilities and Shareholder's Equity	2,170,690	3,132,375

Going concern (note 1)

Approved by the Board of Directors

Signed "*Rochelle Stenzler*"
Director

Signed "*Theresa Matkovits*"
Director

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

Appili Therapeutics Inc.

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

For the three months ended June 30, 2023 and 2022

	Share Capital **$** (note 7)	**Contributed Surplus** **$** (note 8)	**Warrants** **$** (note 9)	**Deficit** **$**	**Total** **$**
Balance- March 31, 2022	39,653,314	5,013,399	8,131,937	(56,069,192)	(3,270,542)
Issuance of class A Common shares in public offering	3,214,286	-	-	-	3,214,286
Share issuance costs	(544,241)	-	-	-	(544,241)
Issuance of warrants	-	-	1,425,714	-	1,425,714
Warrant issuance costs	-	-	(217,714)	-	(217,714)
Expired Warrants	-	524,440	(524,440)	-	-
Employee share options: Value of services recognized	-	132,284	-	-	132,284
Net loss and comprehensive loss for the period	-	-	-	(2,324,760)	(2,324,760)
Balance- June 30, 2022	42,323,359	5,670,123	8,815,497	(58,393,952)	(1,584,973)
Issuance of warrants	-	-	397,006	-	397,006
Warrant issuance costs	-	-	(33,598)	-	(33,598)
Employee share options: Value of services recognized	-	742,840	-	-	742,840
Net loss and comprehensive loss for the period	-	-	-	(6,918,254)	(6,918,254)
Balance- March 31, 2023	42,323,359	6,412,963	9,178,905	(65,312,206)	(7,396,979)
Employee share options: Value of services recognized	-	147,346	-	-	147,346
Fair value of the loan from related party	-	31,300	-	-	31,300
Net loss and comprehensive loss for the period	-	-	-	(1,548,559)	(1,548,559)
Balance- June 30, 2023	42,323,359	6,591,609	9,178,905	(66,860,765)	(8,766,892)

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

Appili Therapeutics Inc.

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

For the three months ended June 30, 2023 and 2022

	June 30, 2023	June 30, 2022
	$	$
Income		
Interest income	8,327	4,841
	8,327	4,841
Expenses		
Research and development	1,231,787	1,007,100
General and administrative	932,711	1,077,164
Business development	66,568	(20,442)
Financing costs	381,286	173,057
Government assistance	(922,576)	(55,226)
Exchange (gain)/loss	(145,390)	137,386
	1,544,386	2,319,039
Loss before income taxes	(1,536,059)	(2,314,198)
Provision for income taxes	12,500	10,562
Net loss and comprehensive loss for the period	(1,548,559)	(2,324,760)
Basic and diluted loss per share	(0.01)	(0.03)
Weighted-average shares outstanding	121,266,120	91,046,340

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

Appili Therapeutics Inc.

Interim Condensed Consolidated Statements of Cash Flows

(Unaudited)

For the three months ended June 30, 2023 and 2022

	June 30, 2023	June 30, 2022
	$	$
Cash provide by (used in)		
Operating activities		
Net loss and comprehensive loss for the period	(1,548,559)	(2,324,760)
Changes to operations not involving cash:		
Amortization of property and equipment	3,442	1,549
Non-cash finance costs	381,474	173,112
Share-based compensation	147,346	132,284
Loss on disposal of property and equipment	-	20,821
Unrealized (gain) loss from changes in foreign currency	(690)	13,473
Unrealized foreign exchange translation (LZH)	(142,196)	123,913
	(1,159,183)	(1,859,608)
Net changes in non-cash operating working capital		
(Increase) decrease in amounts receivable	(894,668)	287,474
Increase in investment tax credits receivable	(8,000)	(5,800)
(Increase) decrease in prepaids expenses and deposits	(54,665)	(273,493)
Increase (decrease) in accounts payable and accrued liabilities	92,674	(3,085,856)
	(2,023,842)	(4,937,283)
Financing activities		
Proceeds from the issuance of Class A common shares in a public offering	-	3,214,286
Share issuance costs	-	(444,241)
Proceeds from the issuance of warrants	-	1,285,714
Warrant issuance costs	-	(177,714)
Proceeds from long-term debt	150,000	-
Repayment of long-term debt	(23,225)	(20,500)
Accreted interest involving cash	(19,199)	(21,791)
	107,576	3,835,754
Investing activities		
Proceeds from disposal of property and equipment	-	3,725
Additions to property and equipment	(29,717)	
	(29,717)	3,725
Net change in cash during the period	(1,945,983)	(1,097,804)
Cash - Beginning of period	2,465,882	6,664,855
Changes due to foreign exchange	690	(13,473)
Cash - End of period	520,589	5,553,578
Supplementary cash flow		
Interest paid	422,135	93,005

1 Nature of operations and liquidity risk

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

Going concern

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

For the three months ended June 30, 2023, the Company reported a loss of $1,548,559 (June 30, 2022 - $2,324,760) and an accumulated deficit of $66,860,765 (June 30, 2023 - $58,393,952). In addition to its ongoing working capital requirements, the Company must secure sufficient funding through financing activities to cover research and development expenditures to advance the programs in its pipeline that are planned for the next twelve months. In addition, the Company’s ability to remain in compliance with minimum cash balance requirements to its lenders are dependent on receiving all funding from the US Air Force Academy (“USAFA”) in a timely manner (note 4_. Management believes the Company will remain in compliance with its covenants, however if the receipt of funding is delayed the Company could be in breach of these requirements. These circumstances lend significant doubt as to the ability of the Company to fund planned expenditures and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

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

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

2 Basis of preparation

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

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim condensed consolidated financial statements, including IAS 34, International Accounting Standards 34 "Interim Financial Reporting". Accordingly, certain information normally included in annual consolidated financial statements prepared in accordance with IFRS, as issued by the IASB, have been omitted or condensed. The unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's annual audited financial statements for the year ended March 31, 2023. The accounting policies used are consistent with those used in the audited financial statements.

The policies applied in these unaudited interim condensed consolidated financial statements are based on IFRS issued and outstanding as of August 11, 2023, the date the Board of Directors approved the unaudited interim condensed consolidated financial statements.

3 Critical accounting estimates and judgments

These unaudited interim condensed consolidated financial statements for the three months ended June 30, 2023 have been prepared using the same policies and methods as the annual audited consolidated financial statements of the Company. Refer to note 3 of the Company's annual audited consolidated financial statements for the year ended March 31, 2023 for more information on accounting estimates and judgements applied.

4 Amounts receivable

	June 30, 2023 $	March 31, 2023 $
Sales tax receivable	46,991	50,978
Amounts due from USAFA	898,621	-
Other receivable	69,040	69,006
	1,014,652	119,984

On May 5, 2023, the Company signed an initial contract with USAFA to fund the early-stage development and regulatory activities for ATI-1701 amounting to US$7,332,804 (C$9,845,756). Of this amount, US$3,440,578 (C$4,619,664) is allotted and currently available. USAFA anticipates additional amounts will be available to meet the total performance award of US$7,332,804. If additional funds are not made available by USAFA, then the agreement will the terminated and the Company is not obligated to continue with the related research activities or incur costs in excess of the amount allotted.

Under the terms of its contract with USFA, the Company will be reimbursed for direct costs and labour costs associated with budgeted program activities, plus will recover a portion of its overhead costs. The agreement will expire on May 4, 2025. In the event of a termination, USAFA will have a paid-up USAFA purpose licence for the invention, copyright work, and data made or developed under the contract.

For the three months ended June 30, 2023, the Company recognized the reimbursement of costs of $914,576 (June 30, 2022 - $nil), as government assistance.

5 Due to related party and related transactions

The Company's Chair of the Board of Directors (formerly Chief Executive Officer) is a partner of Bloom Burton & Co. (''Bloom Burton''), which is a principal shareholder of the Company. For the three months ended June 30, 2023, the Company was charged $nil (June 30, 2022 - $88,913) for services performed by the former Chief Executive Officer. As at June 30, 2023, $212,572 (June 30, 2022 -$nil) is included in accounts payable and accrued liabilities owing to the former Chief Executive Officer in accordance with his employment contract, which was terminated on November 12, 2022 due to his change in role.

During the three months ended June 30, 2023, the Company was charged $66,568 (June 30, 2022 - $nil) for consulting services in relation to business development activities by Bloom Burton Securities Inc., an affiliate of Bloom Burton & Co. For the three months ended June 30, 2022, the company issued 1,189,579 compensation warrants valued at $46,666 and paid $315,000 in cash commission to Bloom Burton Securities Inc. No Compensation warrants were issued for the three months ended June 30, 2023.

On June 28, 2023, the Company obtained an unsecured bridge loan amounting to $300,000 from Bloom Burton (see note 6). As at June 30, 2023, $150,000 (June 30, 2022 - $nil) is outstanding and the fair value of the loan was determined to be $100,689, included in current portion of long-term debt.

6 Long-term debt

	June 30, 2023 $	March 31, 2023 $
ACOA Business Development Program interest-free loan with a maximum contribution of $500,000 repayable in 120 equal monthly payments of $4,167 beginning April 1, 2018. As at June 30, 2023, the principal outstanding was $275,000 (March 31, 2023- $287,500)	200,600	207,000
ACOA Business Development Program interest-free loan with a maximum contribution of $500,000 repayable in 84 equal monthly payments of $5,952 beginning January 1, 2019. As at June 30, 2023, the principal outstanding was $232,160 (March 31, 2023- $250,016)	191,400	203,300
ACOA Business Development Program interest-free loan with a maximum contribution of $474,839 repayable in 120 equal monthly payments of $3,960 beginning March 1, 2020. As at June 30, 2023, the principal outstanding was $352,080 (March 31, 2023- $363,960)	232,500	237,300
ACOA Atlantic Innovation Fund interest-free loan with a maximum contribution of $2,803,148. Annual repayments, commencing December 1, 2021 are calculated as 5% of gross revenue from resulting products for the preceding fiscal year. As at June 30, 2023, the amount drawn down on the loan is $2,662,990 (March 31, 2023- $2,662,990)	411,400	398,225
Long Zone Holdings Inc. (LZH) secured loan bearing an interest rate of the higher of 11% or the US prime lending rate plus 3.25% per year plus 4% per year fixed maintenance fee (June 30, 2022 – higher of 8.25% or the US prime lending rate plus 5.25% per year (average rate during the period was 11.41%), compounded quarterly, with a maturity date of March 15, 2025. As at June 30, 2023, the principal outstanding was US$3,600,000 (March 31, 2023- US$3,600,000)	4,548,507	4,659,128
Long Zone Holdings Inc. (LZH) secured loan bearing an interest rate of the higher of 11% or the Canadian prime lending rate plus 4.3% per year, plus 4% per year fixed maintenance fee (average rate during the period was 11.08%), compounded quarterly, with a maturity date of March 15, 2025. As at June 30, 2023, the principal outstanding was $2,500,000 (March 31, 2023- $2,500,000)	2,002,346	1,960,392
Bloom Burton unsecured bridge loan bearing an interest rate of 1% per annum for the first month increasing to 2% thereafter (average rate during the period was 1%) and matures the earlier of September 28, 2024, and the date on which the Company receives aggregate reimbursements from USAFA of not less than $2,500,000. As at June 30, 2023, the principal outstanding was $150,000 (March 31, 2023- $nil)	100,689	-
	7,687,442	7,665,345
Less: Current Portion	(216,589)	(113,125)
	7,470,853	7,552,220

6 Long-term debt (continued)

ACOA Loans

Total contributions received, less amounts that have been repaid as at June 30, 2023 for ACOA loans, were $3,522,230 (March 31, 2023 - $3,564,466). Certain ACOA loans require approval by ACOA before the Company can pay dividends or other distributions, or before there is any change in ownership of the Company.

Bloom Burton unsecured bridge loan

On June 28, 2023, the Company obtained an unsecured bridge loan (the "Bridge Loan") from Bloom Burton, a related party (see note 7) amounting to $300,000. The Bridge Loan bears interest at 1% per annum for the first month increasing to 2% thereafter and matures on the earlier of September 28, 2024, or the date on which the Company receives aggregate reimbursements from USAFA of not less than $2,500,000. The Bridge Loan was funded in two equal tranches, with the first tranche advanced on June 29, 2023, and the second tranche advanced on July 10, 2023. The Bridge Loan is intended to be used by the Company for working capital purposes in the event that reimbursements from USAFA are delayed.

The first tranche of the Bridge Loan was recorded at fair value at inception. The fair value was calculated using the discounted cashflow method using a discount rate of 24% based on the estimated market interest rate of comparable debt. The fair value was determined to be $118,700 and the discount of $31,300 has been accounted for as a transaction with a shareholder and credited to equity as contributed surplus.

Interest on the Bridge Loan is payable monthly on the last business day of each successive month, commencing July 31, 2023. Prior to the maturity date, interest payable under the Bridge Loan is added to the principal amount.

The costs associated directly with the acquisition of the Bridge Loan for legal and other fees amounting to $18,011 were capitalized and deducted from the initial carrying value of the loan and will be amortized on a straight-line over the term of the Bridge Loan.

LZH *Secured Loans*

On March 28, 2022, the Company executed a senior secured loan agreement (the "Agreement") with LZH providing for a secured loan for gross proceeds of $4,500,000 (US$3,600,000) (the "First Tranche Loan").

Under the terms of the Agreement, LZH obtained the First Tranche Loan 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. These features represent embedded derivatives requiring bifurcation. The Company determined the fair value of these embedded derivatives to be nominal at inception.

The Company received net proceeds of $4,297,646 (US$3,438,117) after deducting fees paid to LZH for origination fee, work fee and other costs totaling $202,354 (US$161,883). The Company also paid legal, professional and other costs amounting to $99,464.

6 Long-term debt (continued)

Total costs of $301,818, relating directly to the acquisition of the loan were capitalized and deducted from the initial carrying value of the loan.

Concurrently with the loan, the Company issued 1,500,000 common share purchase warrants, exercisable over seven years at an exercise price of $0.115. The fair value of the warrants on the date of issuance was $117, 627.

Concurrently with the loan, the Company entered into an agreement which, subject to obtaining certain consents by the due date, entitled LZH an exclusive licence to commercialize the Company's future approved products in Latin America, Canada, and Israel. The fair value of the agreement at inception was estimated at $117, 627, with the respective portion of the loan proceeds allocated to the transaction and recorded as deferred credit in the consolidated statement of financial position. As the Company was not able to secure the required consents, additional 1,500,000 warrants were issued to LZH on December 28, 2022, and the deferred credit was recognized as the fair value of the additional warrants in the consolidated statement of changes in shareholders' equity.

On March 17, 2023, the Company entered into an amended and restated secured loan agreement (the "Amended Loan Agreement") with LZH, amending and restating the Agreement. Pursuant to the terms of the Amended Loan Agreement, LZH provided an additional loan (the "Second Tranche 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:

- The interest rate on the First Tranche Loan was amended, 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 interest of 5%; and
- The loan includes a default interest feature whereby the Company will owe 5% in additional interest if an event of default occurs.

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

Concurrently with the Second Tranche Loan, the Company issued 6,930,000 common share purchase warrants, exercisable over seven years at an exercise price of $0.045. The fair value of the warrants on the date of issuance was $279,378 (note 9).

The Company received net proceeds of $2,199,348 after deducting fees paid to LZH for origination fee, legal and other fees amounting to $300,652 on the Second Tranche Loan.

The Company allocated the net proceeds of the Second Tranche Loan to the Second Tranche Loan and the common share purchase warrants on a reasonable basis, proportionately based on their relative stand-alone fair values of the instruments. Based on the proportionate relative fair value, $1,953,568 was allocated to the Second Tranche Loan and $245,780 was allocated to the common share purchase warrants.

6 Long-term debt (continued)

Total costs associated with the Second Tranche Loan of $300,652 was allocated to the Second Tranche Loan and the common share purchase warrants on a reasonable basis, proportionately based on their relative stand-alone fair values of the instruments. Based on the proportionate relative fair value $267,054 was allocated to the Second Tranche Loan and deducted from the initial loan, and $33,598 to the common share purchase warrants.

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

	$
LZH secured loan - March 31, 2022	3,962,928
Accreted interest, cash	108,158
Accreted interest, non- cash	43,163
Unrealized foreign exchange loss	123,913
LZH secured loan - June 30, 2022	4,238,162
Proceeds from Second Tranche Loan	2,500,000
Costs associated with acquisition of the loan	(267,054)
Fair value of the warrants issued	(279,378)
Loss due to modified terms of First Tranche Loan	144,241
Accreted interest	35,096
Unrealized foreign exchange loss	248,453
LZH secured loan - March 31, 2023	6,619,520
Accreted interest	73,531
Unrealized foreign exchange gain	(142,198)
LZH secured loan - June 30, 2023	6,550,853

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

	$
Remaining of the fiscal year ending March 31, 2024	276,711
March 31, 2025	7,168,948
March 31, 2026	168,948
March 31, 2027	133,268
March 31, 2028	97,524
March 31, 2029	85,001
	7,930,400

6 Long-term debt (continued)

Net debt reconciliation

	June 30, 2023 $	March 31, 2023 $
Balance - Beginning of period	7,665,345	4,978,683
Accreted interest, cash	(19,199)	(83,377)
Accreted interest	106,030	529,704
Unrealized foreign exchange translation (LZH)	(142,198)	372,366
Net proceeds from LZH secured loans	-	1,953,568
Net proceeds from Bridge Loan	131,989	-
Fair value adjustment recorded at inception of Bridge Loan	(31,300)	
Repayment of debt	(23,225)	(85,599)
Balance - End of period	7,687,442	7,665,345
Less: Current Portion	(216,589)	(113,125)
Non-current portion	7,470,853	7,552,220

7 Share capital

Authorized

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

Issued

Class A common shares

	Number of Shares #	Amount $
Balance - March 31, 2022	71,266,120	39,653,314
Issued for cash	50,000,000	3,214,286
Less: share issuance costs	-	(544,241)
Balance - June 30, 2022, March 31, 2023 and June 30, 2023	121,266,120	42,323,359

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

7 Share capital (continued)

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

8 Contributed surplus

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

	Amount $
Balance- March 31, 2022	5,013,399
Vesting of stock options	132,284
Warrants expired	524,440
Balance- June 30, 2022	5,670,123
Vesting of stock options	742,840
Balance- March 31, 2023	6,412,963
Vesting of stock options	147,346
Balance- June 30, 2023	6,560,309

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

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

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

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

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

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

Option activity for the three months ended June 30, 2023 and June 30, 2022 were as follows:

	Number #	June 30, 2023 Weighted average exercise price $	Number #	June 30, 2022 Weighted average exercise price $
Outstanding - Beginning of period	3,168,750	0.10	9,276,490	0.67
Granted	4,673,250	0.04	-	-
Forfeited	-	-	(539,585)	0.34
Expired	-	-	(80,000)	0.64
Outstanding - End of period	7,842,000	0.06	8,656,906	0.69

8 Contributed Surplus (continued)

During the three months ended June 30,2023, 4,673,250 stock options (June 30, 2022– nil) with a weighted average exercise price of $0.04 (June 30, 2022 - $nil) and a term of 10 years (June 30, 2022–nil) were granted to the employees. The value of these stock options was estimated at $186,930 (June 30, 2022 - $nil) which is a weighted average grant date value per option of $0.04 (June 30, 2022 - $nil) using the Black - Scholes valuation model and the following weighted average assumptions:

	June 30, 2023
Risk-free interest rate	3.83%
Expected volatility	120%
Expected life (years)	10
Dividend yield	-

9 Warrants

Warrant activity for the three months ended June 30, 2023 and June 30, 2022 were as follows:

	Number **#**	**Weighted average exercise price** **$**
Outstanding - March 31, 2022	22,203,037	1.29
Granted	28,500,000	0.14
Expired	(885,158)	1.20
Outstanding - June 30, 2022	49,817,879	0.57
Granted	8,430,000	0.12
Outstanding - March 31, 2023 and June 30, 2023	58,247,879	0.49

The Company completed the May 2022 Public Offering (see note 7) and issued 25,000,000 common share purchase warrants exercisable for a period of 5 years at an exercise price of $0.15 per share, valued at $1,285,714 on May 26, 2022. The Company also issued 3,500,000 compensation warrants as commissions to the agents exercisable for a term of 2 years at an exercise price of $0.10 per share, valued at $140,000 on May 26, 2022.

On December 28, 2022, 1,500,000 warrants were issued to LZH as certain consents required by the licencing agreement were not obtained and the deferred credit was recognized as the fair value of the warrants in the consolidated statements of changes in shareholders' equity (note 6).

On March 17, 2023, the Company issued 6,930,000 common share purchase warrants to LZH for a term of seven years at an exercise price of $0.045 per share, valued at $279,378 on March 17, 2023 (note 6).

9 Warrants (continued)

The value of the warrants were estimated using the Black -Scholes valuation model and the following weighted average assumptions:

	June 30, 2023	June 30, 2022
Risk-free interest rate	-	2.71%
Expected volatility	-	110%
Expected life (years)	-	4.63
Dividend yield	-	-

10 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 consolidated statements of financial position dates with relevant comparatives:

	June 30, 2023		March 31, 2023	
	Carrying Value $	Fair Value $	Carrying Value $	Fair Value $
Cash	520,589	520,589	2,465,882	2,465,882
Amounts Receivable	967,661	967,661	69,006	69,006
Accounts Payable and accrued liabilities	3,197,520	3,197,520	2,823,001	2,823,001
Long-term debt	7,687,442	7,687,442	7,665,345	7,665,345

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

Fair value of items, which are short-term in nature, has been deemed to approximate their carrying value. The above-noted fair values, presented for information only, reflect conditions that existed only at June 30, 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 unaudited interim condensed consolidated statements of financial position dates. At June 30, 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.

10 Financial instruments (continued)

The following table outlines the contractual repayments for long-term debt, which includes loans with a set repayment schedule, as well as loans that are repayable based on a percentage of revenues, for the Company's financial liabilities. The long-term debt is comprised of the contributions received described in note 6 as at June 30, 2023:

	Total	**Year 1**	**Years 2 to 3**	**Years 4 to 5**	**After 5 Years**
	$	**$**	**$**	**$**	**$**
Accounts payable and accrued liabilities	3,197,520	3,197,520	-	-	-
Long-term debt	8,172,230	352,073	4,924,467	348,086	2,547,604
	11,369,750	3,549,593	4,924,467	348,086	2,547,604