

Appili Therapeutics Inc.

Interim Condensed Consolidated Financial
Statements
(Unaudited)
December 31, 2023

February 13, 2024

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 Office

Appili Therapeutics Inc.

Interim Condensed Consolidated Statements of Financial Position

(Unaudited)

As at December 31, 2023 and March 31, 2023

	December 31,	March 31,
	2023	2023
	\$	\$
Assets		
Current Assets		
Cash	602,884	2,465,882
Accounts receivable (note 5)	1,058,163	119,984
Investment tax credit receivable	43,500	300,800
Prepaid expenses and deposits	229,839	231,099
	<u>1,934,386</u>	<u>3,117,765</u>
Non-Current Assets		
Property and equipment	34,050	14,610
Total Assets	<u>1,968,436</u>	<u>3,132,375</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (note 6)	3,748,868	2,823,001
Current portion of long-term debt (note 7)	420,133	113,125
Corporate taxes payable	38,906	41,008
	<u>4,207,907</u>	<u>2,977,134</u>
Non-Current liabilities		
Long-term debt (note 7)	7,591,897	7,552,220
Total Liabilities	<u>11,799,804</u>	<u>10,529,354</u>
Shareholders' equity	(9,831,368)	(7,396,979)
Total Liabilities and Shareholder's Equity	<u>1,968,436</u>	<u>3,132,375</u>

Going concern (note 1)

Subsequent event (note 12)

Approved by the Board of Directors

Signed "*Prakash Gowd*"
Director

Signed "*Theresa Matkovits*"
Director

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

Appili Therapeutics Inc.

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

For the nine months ended December 31, 2023 and 2022

	Share Capital	Contributed Surplus	Warrants	Deficit	Total
	\$ (note 8)	\$ (note 9)	\$ (note 10)	\$	\$
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	-	-	1,543,341	-	1,543,341
Warrant issuance costs	-	-	(217,714)	-	(217,714)
Expired Warrants	-	524,440	(524,440)	-	-
Employee share options: Value of services recognized	-	501,631	-	-	501,631
Net loss and comprehensive loss for the period	-	-	-	(6,582,368)	(6,582,368)
Balance- December 31, 2022	42,323,359	6,039,470	8,933,124	(62,651,560)	(5,355,607)
Issuance of warrants	-	-	279,379	-	279,379
Warrant issuance costs	-	-	(33,598)	-	(33,598)
Employee share options: Value of services recognized	-	373,493	-	-	373,493
Net loss and comprehensive loss for the period	-	-	-	(2,660,646)	(2,660,646)
Balance- March 31, 2023	42,323,359	6,412,963	9,178,905	(65,312,206)	(7,396,979)
Expired Warrants	-	6,203,902	(6,203,902)	-	-
Employee share options: Value of services recognized	-	181,296	-	-	181,296
Fair value of related party loan	-	61,764	-	-	61,764
Net loss and comprehensive loss for the period	-	-	-	(2,677,449)	(2,677,449)
Balance- December 31, 2023	42,323,359	12,859,925	2,975,003	(67,989,655)	(9,831,368)

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

Appili Therapeutics Inc.

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)

For the three and nine months ended December 31, 2023 and 2022

	Three months ended December 31,		Nine months ended December 31,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Income				
Revenue (note 4)	478,397	-	815,710	-
Interest income	5,578	9,349	16,250	23,274
	<u>483,975</u>	<u>9,349</u>	<u>831,960</u>	<u>23,274</u>
Expenses				
Research and development	1,773,316	937,446	4,031,371	2,160,475
General and administrative	564,705	1,424,647	2,229,650	3,396,476
Business development	60,000	61,367	188,189	125,300
Financing costs	438,623	272,433	1,248,087	645,845
Government assistance	(2,069,116)	(46,840)	(4,056,473)	(122,866)
Exchange (gain)/loss	(137,306)	(54,444)	(192,041)	370,895
	<u>630,222</u>	<u>2,594,609</u>	<u>3,448,783</u>	<u>6,576,125</u>
Loss before income taxes	(146,247)	(2,585,260)	(2,616,823)	(6,552,851)
Provision for income taxes	6,089	34,133	60,626	29,517
Net loss and comprehensive loss for the period	<u>(152,336)</u>	<u>(2,619,393)</u>	<u>(2,677,449)</u>	<u>(6,582,368)</u>
Basic and diluted loss per share	<u>(0.00)</u>	<u>(0.02)</u>	<u>(0.02)</u>	<u>(0.06)</u>
Weighted-average shares outstanding	<u>121,266,120</u>	<u>121,266,120</u>	<u>121,266,120</u>	<u>111,266,120</u>

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

Appili Therapeutics Inc.

Interim Condensed Consolidated Statements of Cash Flows (Unaudited)

For the nine months ended December 31, 2023 and 2022

	December 31, 2023	December 31 2022
	\$	\$
Cash provide by (used in)		
Operating activities		
Net loss and comprehensive loss for the period	(2,677,449)	(6,582,368)
Changes to operations not involving cash:		
Amortization of property and equipment	10,277	4,642
Non-cash finance costs	401,410	253,048
Share-based compensation	181,296	501,631
Loss on disposal of property and equipment	-	21,045
Unrealized (gain) loss from changes in foreign currency	(1,042)	1,067
Unrealized foreign exchange translation (LZH)	(148,365)	336,330
	<u>(2,233,873)</u>	<u>(5,464,605)</u>
Net changes in non-cash operating working capital		
(Increase) decrease in amounts receivable	(938,179)	(113,701)
Decrease in investment tax credits receivable	257,300	639,200
Decrease (increase) in prepaids expenses and deposits	1,260	(98,624)
Increase (decrease) in accounts payable and accrued liabilities	905,754	(3,950,868)
	<u>(2,007,738)</u>	<u>(8,988,598)</u>
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	300,000	-
Repayment of long-term debt	(71,104)	(63,300)
Accreted interest involving cash	(55,481)	(63,501)
	<u>173,415</u>	<u>3,751,244</u>
Investing activities		
Proceeds from disposal of property and equipment	-	3,500
Additions to property and equipment	(29,717)	-
	<u>(29,717)</u>	<u>3,500</u>
Net change in cash during the period	(1,864,040)	(5,233,854)
Cash - Beginning of period	2,465,882	6,664,855
Changes due to foreign exchange	1,042	(3,846)
Cash - End of period	602,884	1,427,155
Supplementary cash flow		
Interest paid	798,160	151,124

Appili Therapeutics Inc.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For the nine months ended December 31, 2023 and 2022

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 OTC Pink Exchange. The address of its principal place of business is #21-1344 Summer Street, Halifax, Nova Scotia, Canada.

Going concern

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

For the nine months ended December 31, 2023, the Company reported a loss of \$2,677,449 (December 31, 2022 - \$6,582,368) and an accumulated deficit of \$67,989,655 (December 31, 2022 - \$62,651,560). 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). As a result of certain delays in funding, management has requested and obtained a waiver from the lender with respect to the minimum cash balance requirements. Such waiver may be extended from time to time until March 2024. However, future delays in USAFA funding may cause the company to be in breach of the minimum cash balances requirements and there is no certainty that additional waivers from such requirements would be available beyond March 2024. 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

Appili Therapeutics Inc.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For nine months ended December 31, 2023 and 2022

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 February 13, 2024, the date the Board of Directors approved the unaudited interim condensed consolidated financial statements.

3 Critical accounting estimates and judgments

These unaudited interim condensed consolidated financial statements for the nine months ended December 31, 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 Revenue

During the nine months ended December 31, 2023, the Company earned \$815,710 in milestone revenue on approval of the commercialization in U.S and other selected territories for Metronidazole Oral Suspension (ATI-1501 program) for the U.S Food and Drug Administration.

5 Amounts receivable

	December 31, 2023	March 31, 2023
	\$	\$
Sales tax receivable	64,754	50,978
Amounts due from USAFA	993,409	-
Other receivable	-	69,006
	<u>1,058,163</u>	<u>119,984</u>

Appili Therapeutics Inc.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For nine months ended December 31, 2023 and 2022

5 Amounts receivable (continued)

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 be 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 contract period of performance is May 5, 2023 to September 30, 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 nine months ended December 31, 2023, the Company recognized the reimbursement of costs of \$3,123,634 (December 31, 2022 - \$nil) and for the three months ended December 31, 2023, the Company recognized the reimbursement of costs of \$2,059,311 (December 31, 2022 - \$nil), as government assistance.

6 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 nine months ended December 31, 2023, the Company was charged \$nil (December 31, 2022 - \$270,612) for services performed by the former Chief Executive Officer. For the three months ended December 31, 2023, the Company was charged \$nil (December 31, 2022 - \$81,455) for services performed by the former Chief Executive Officer.

As at December 31, 2023, \$nil (December 31, 2022 - \$473,108) 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.

For the nine months ended December 31, 2023, the Company was charged \$188,189 (December 31, 2022 - \$144,839) for consulting services in relation to business development activities by Bloom Burton Securities Inc., an affiliate of Bloom Burton. For the three months ended December 31, 2023, the Company was charged \$60,000 (December 31, 2022 - \$60,647) for consulting services in relation to business development activities by Bloom Burton Securities Inc.

For the nine months ended December 31, 2023, no compensation warrants were issued. For the nine months ended December 31, 2022, the Company issued 1,189,579 compensation warrants valued at \$50,057 and paid \$315,000 in cash commission to Bloom Burton Securities Inc. For the three months ended December 31, 2023 and 2022, no compensation warrants were issued.

On June 28, 2023, the Company obtained an unsecured bridge loan amounting to \$300,000 from Bloom Burton (see note 7). As at December 31, 2023, \$300,000 (December 31, 2022 - \$nil) is outstanding and the fair value of the loan was determined to be \$236,148 and is included in the current portion of long-term debt.

Appili Therapeutics Inc.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For nine months ended December 31, 2023 and 2022

7 Long-term debt

	December 31, 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 December 31, 2023, the principal outstanding was \$250,000 (March 31, 2023- \$287,500)	187,300	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 December 31, 2023, the principal outstanding was \$196,448 (March 31, 2023- \$250,016)	166,600	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 December 31, 2023, the principal outstanding was \$328,320 (March 31, 2023- \$363,960)	222,500	237,300
ACOA Atlantic Innovation Fund (“AIF”) interest-free loan with a maximum contribution of \$2,803,148. Annual repayments, commencing December 1, 2021 are calculated as 5% of gross revenue from resulting products for the preceding fiscal year. As at December 31, 2023, the amount drawn down on the loan is \$2,662,990 (March 31, 2023- \$2,662,990)	458,600	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 (December 31, 2022 - higher of 8.25% or the US prime lending rate plus 5.25% per year (average rate during the period was 11.75%), compounded quarterly, with a maturity date of March 15, 2025. As at December 31, 2023, the principal outstanding was US\$3,600,000 (March 31, 2023- US\$3,600,000)	4,606,531	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 11.50%), compounded quarterly, with a maturity date of March 15, 2025. As at December 31, 2023, the principal outstanding was \$2,500,000 (March 31, 2023- \$2,500,000)	2,088,966	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 2%) and matures the earlier of March 31, 2024 or certain corporate events. As at December 31, 2023, the principal outstanding was \$300,000 (March 31, 2023- \$nil)	281,533	-
	8,012,030	7,665,345
Less: Current Portion	(420,133)	(113,125)
	<u>7,591,897</u>	<u>7,552,220</u>

Appili Therapeutics Inc.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For nine months ended December 31, 2023 and 2022

7 Long-term debt (continued)

ACOA Loans

Total contributions received, less amounts that have been repaid as at December 31, 2023 for ACOA loans, were \$3,437,758 (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 6) 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.

On December 1, 2023, the Company and Bloom Burton agreed to amend the terms of the Bridge Loan. Under the amended terms, the Bridge Loan will now mature on March 31, 2024, subject to acceleration in connection with certain corporate events. The change in the fair value of the loan as a result of the modification was \$23,091 and recognized as additional financing costs in the consolidated statement of loss and comprehensive loss.

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.

The second 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 \$119,536 and the discount of \$30,464 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.

Appili Therapeutics Inc.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For nine months ended December 31, 2023 and 2022

7 Long-term debt (continued)

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. 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 the higher of 11% or the US prime lending rate plus 3.25%;
- Second Tranche Loan, the higher of 11% or the Canadian prime lending rate plus 4.3%;
- Loans include a prepayment feature at the option of the Company, which requires interest to be paid to the maturity date from the payment date;
- Loans include a default interest feature whereby the Company will owe 5% in additional interest if an event of default occurs.

Appili Therapeutics Inc.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For nine months ended December 31, 2023 and 2022

7 Long-term debt (continued)

- Loans require the Company to maintain a minimum cash balance of US\$360,000 at all times, unless a waiver is obtained from LZH. On September 27, 2023, the Company entered into an agreement with LZH whereby the Company obtained a temporary waiver of the minimum cash balance requirement. Such waiver may be renewed from time to time until March 2024. As at December 31, 2023, the Company obtained a temporary waiver of the minimum cash balance requirement.
- Loans also require that the Company obtain certain additional funding of not less than \$10 million on or before March 31, 2024.
- 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.

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, non- cash	134,702
Unrealized foreign exchange loss	336,330
LZH secured loan - December 31, 2022	4,433,960
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	51,715
Unrealized foreign exchange loss	36,036
LZH secured loan - March 31, 2023	6,619,520
Accreted interest	224,342
Unrealized foreign exchange gain	(148,365)
LZH secured loan - December 31, 2023	6,695,497

Appili Therapeutics Inc.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For nine months ended December 31, 2023 and 2022

7 Long-term debt (continued)

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	42,238
March 31, 2025	7,468,948
March 31, 2026	168,948
March 31, 2027	133,268
March 31, 2028	97,524
March 31, 2029	85,002
	<u>7,995,928</u>

Net debt reconciliation

	December 31, 2023 \$	March 31, 2023 \$
Balance - Beginning of period	7,665,345	4,978,683
Accreted interest, cash	(55,481)	(83,377)
Accreted interest	401,410	529,704
Unrealized foreign exchange translation (LZH)	(148,365)	372,366
Net proceeds from LZH secured loans	-	1,953,568
Net proceeds from Bridge Loan	281,989	-
Fair value adjustment recorded of Bridge Loan	(61,764)	-
Repayment of debt	(71,104)	(85,599)
Balance - End of period	<u>8,012,030</u>	<u>7,665,345</u>
Less: Current Portion	(420,133)	(113,125)
Non-current portion	<u>7,591,897</u>	<u>7,552,220</u>

Appili Therapeutics Inc.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For nine months ended December 31, 2023 and 2022

8 Share capital

Authorized

Unlimited number of Class A common shares

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

Unlimited number of preferred shares (nil outstanding)

Issued

Class A common shares

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

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

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

Appili Therapeutics Inc.

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9 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	501,631
Warrants expired	524,440
Balance- December 31, 2022	6,039,470
Vesting of stock options	373,493
Balance- March 31, 2023	6,412,963
Vesting of stock options	181,296
Fair value adjustment of Bridge Loan	61,764
Warrants expired	6,203,902
Balance- December 31, 2023	12,859,925

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.

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.

Appili Therapeutics Inc.

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For nine months ended December 31, 2023 and 2022

9 Contributed Surplus (continued)

During the nine months ended December 31, 2023, 4,813,250 stock options (December 31, 2022– 1,000,000) with a weighted average exercise price of \$0.04 (December 31, 2022 - \$0.04), a term of 10 years (December 31, 2022– 10 years) and vesting immediately were granted to the employees. The value of these stock options was estimated at \$191,830 (December 31, 2022 - \$40,000) which is a weighted average grant date value per option of \$0.04 (December 31, 2022 - \$0.04) using the Black -Scholes valuation model and the following weighted average assumptions:

	December 31, 2023	December 31, 2022
Risk-free interest rate	3.80%	3.15%
Expected volatility	120%	110%
Expected life (years)	10	10
Dividend yield	-	-

Option activity for the nine months ended December 31, 2023 and December 31, 2022 were as follows:

	Number #	December 31, 2023 Weighted average exercise price \$	Number #	December 31, 2022 Weighted average exercise price \$
Outstanding - Beginning of period	3,168,750	0.10	9,276,490	0.67
Granted	4,813,250	0.04	1,000,000	0.04
Forfeited	(25,000)	0.04	(726,253)	0.52
Expired	-	-	(1,468,465)	0.80
Outstanding - End of period	<u>7,957,000</u>	<u>0.06</u>	<u>8,081,772</u>	<u>0.59</u>

Appili Therapeutics Inc.

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(Unaudited)

For nine months ended December 31, 2023 and 2022

10 Warrants

Warrant activity for the six months ended December 31, 2023 and December 31, 2022 were as follows:

	Number	Weighted average exercise price
	#	\$
Outstanding - March 31, 2022	22,203,037	1.14
Granted	30,000,000	0.14
Expired	(885,158)	1.20
Outstanding - December 31, 2022	51,317,879	0.56
Granted	6,930,000	0.12
Outstanding - March 31, 2023	58,247,879	0.49
Expired	(13,391,005)	1.29
Outstanding - December 31, 2023	44,856,874	0.25

The Company completed the May 2022 Public Offering (see note 8) and issued 25,000,000 common share purchase warrants exercisable for a period of 5 years at an exercise price of \$0.15 per share, valued at \$1,285,714 on May 26, 2022. The Company also issued 3,500,000 compensation warrants as commissions to the agents exercisable for a term of 2 years at an exercise price of \$0.10 per 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 7).

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 8).

The weighted average value per warrant issued for the nine months ended December 31, 2023 was \$nil (December 31, 2022 - \$0.05) and was determined using the Black -Scholes valuation model and the following weighted average assumptions:

	December 31, 2023	December 31, 2022
Risk-free interest rate	-	2.74%
Expected volatility	-	110%
Expected life (years)	-	4.18
Dividend yield	-	-

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For nine months ended December 31, 2023 and 2022

11 Financial instruments

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

	December 31, 2023		March 31, 2023	
	Carrying Value \$	Fair Value \$	Carrying Value \$	Fair Value \$
Cash	602,884	602,884	2,465,882	2,465,882
Amounts Receivable	993,409	993,409	69,006	69,006
Accounts Payable and accrued liabilities	3,748,868	3,748,868	2,823,001	2,823,001
Long-term debt	8,012,030	8,012,030	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 December 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 unaudited interim condensed consolidated statements of financial position dates. At December 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.

The following table outlines the contractual repayments for long-term debt, which includes loans with a set repayment schedule, as well as loans that are repayable based on a percentage of revenues, for the Company's financial liabilities. The long-term debt is comprised of the contributions received described in note 6 as at December 31, 2023:

	Total \$	Year 1 \$	Years 2 to 3 \$	Years 4 to 5 \$	After 5 Years \$
Accounts payable and accrued liabilities	3,748,868	3,748,868	-	-	-
Long-term debt	10,737,758	502,049	7,435,276	329,230	2,471,203
	14,486,626	4,250,917	7,435,276	329,230	2,471,203

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12 Subsequent event

On January 23, 2024, an additional US\$7.5 million tranche was authorized by USAFA under the USAFA Cooperative Agreement for funding of the ATI-1701 program, resulting in a total of US\$10.9 million authorized by the contract.