



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal year Ended March 31, 2024

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 25, 2024, and 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, 2024 and 2023, 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 as issued by the International Accounting Standards Board ("IFRS Accounting Standards"), 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 continue as a going concern;
- 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;
- 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 continued existence of priority review voucher ("PRV") programs and the eligibility of certain of our programs for a PRV;
- our ability to obtain funding from the US Department of Defense ("USDOD") and US Air Force Academy ("USAFA") at all and in a timely manner;
- our intention to secure certain regulatory designations, such as Fast-Track status, for our development programs;
- expectations relating to the timing of future milestone payments from Saptalis (as defined herein)
- 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) our ability to continue to partner with the USDOD and USAFA with respect to the funding of ATI-1701-; (ii) the availability of financing on reasonable terms; (iii) the Company's ability to initiate and complete its proposed clinical trials in a timely manner; (iv) the Company's ability to enter into the requisite clinical trial agreements relating to any proposed clinical trials; (v) obtaining positive results of clinical trials; (vi) obtaining regulatory approvals; (vii) general business and economic conditions; (viii) the Company's ability to successfully out-license or sell its current products and in-license and develop new products; (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) the company's ability to secure the requisite level of patient and site enrollment; .

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

- working capital and capital resources, including the Company's ability to secure the full anticipated funding from the USAFA for its ATI-1701 program;
- 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;
- the Company's ability to meet certain debt obligation covenants;
- employee matters and managing growth;
- ownership of the Company's securities;
- the possibility of the US government shutting down for some period of time which could effect the timing of reimbursements;
- ability to attract and retain key personnel;
- the Company's existing credit facility with Long Zone Holdings ("LZH");
- ability to complete the proposed transaction with Aditxt, Inc. in a timely manner or at all;
- periodic renewal of the LZH waiver for maintaining a minimum cash balance of \$360,000 until March 2024;
- 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 25, 2024.

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 product development portfolio currently includes three programs, described below: LIKMEZ™ (ATI-1501), ATI-1701 and ATI-1801.

Subject to the renewal of certain legislation, 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 or biologic license application. PRVs are transferrable and the secondary market for PRVs is well established with over 35 transactions reported publicly and recent transactions typically yielding around or exceeding US\$100 million.

LIKMEZ™ (ATI- 1501)

LIKMEZ (ATI-1501) is Appili's most advanced commercial stage asset, a liquid oral reformulation of the antibiotic metronidazole, which has been licensed to Saptalis Pharmaceuticals LLC ("**Saptalis**") for commercialization in the U.S., and other selected territories.

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 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 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. 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 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.

Saptalis submitted a 505(b)2 NDA in December 2022 and in September 2023, Saptalis received approval from the FDA for Metronidazole Oral Suspension 500mg/5mL (ATI-1501) in the United States. The FDA also approved LIKMEZ as the brand name for ATI-1501. LIKMEZ is the first and only FDA approved ready made suspension of metronidazole for the treatment of antimicrobial infections that addresses the unmet need in patients with dysphagia to avoid risks associated with drug compounding, and discontinuation related anti-microbial resistance. Saptalis launched LIKMEZ in November 2023 and commercial sales in the United States are ongoing.

Appili earned US\$600,000 in milestone payments from Saptalis in fiscal 2024. Appili expects to receive sales-based milestone payments and royalties from Saptalis based on sale of the product.

In May 2023, United States Patent and Trademark Office ("**USPTO**") 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-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*, the bacterium 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 U.S. 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 countermeasures for *F. tularensis* are a top biodefense priority for the United States and allied governments around the world. There is currently no approved vaccine for the prevention of tularemia in the United States or other major global markets. Historical evidence of tularemia outbreaks on Eastern European battlefields suggest that tularemia may be a threat to warfighters in Ukraine.

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). Vaccine manufacturing activities have been initiated and animal work commenced in 2019. A non-human primate ("**NHP**") study showed that vaccination with ATI-1701 provided >88% survival protection when animals were challenged with a lethal dose of *F. tularensis* at either 28 or 90 days after vaccination. Some of the NHP data have been replicated by a second laboratory, with 87.5% of NHPs surviving a lethal dose of *F. tularensis* 28 days after vaccination. The Company 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. Ongoing potency assay development studies have found that as few as 6 colony forming units of ATI-1701 can provide 100% protection against intradermal challenge in mice. 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 has had interactions with the FDA in the form of a pre-IND meeting, confirming the development pathway for the majority of our efforts and is incorporating suggested changes in the development effort.

In September 2023, Appili sponsored and presented data at the 10th International Conference on Tularemia. The conference hosted the top tularemia physicians and scientists in the world, discussing topics of bacteriology, epidemiology, host immune response, human infections, pathogenesis, and vaccines. Progress on ATI-1701 was presented and was well received by the scientific community.

The primary focus for commercializing ATI-1701 is targeted towards the United States market, where approval from the FDA is necessary. However, rare and severe diseases such as tularemia present unique challenges during clinical development. \ These challenges include the inherent risks associated with experimental infection studies in humans, and the impracticality of conducting field efficacy studies due to the low natural attack rate of the disease.

The conventional path for drug development often involves human efficacy studies, which can be impractical for rare diseases like tularemia. The FDA has provided guidance known as the "Animal Rule," (21 CFR 601.90-95) which offers a clear path to approval by relying on well-designed animal studies, potentially expediting the development and availability of this important vaccine. The Animal Rule is an alternative product development path for rare and severe diseases like tularemia. According to regulatory guidance 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 designed to mitigate or prevent serious or life-threatening conditions caused by exposure to toxic substances. This route becomes applicable when human efficacy studies are neither ethical nor feasible, and field trials are impractical. Under the Animal Rule, drugs must still undergo safety evaluation as per existing requirements for establishing the safety of new drugs.

Appili and its strategic partners are currently assessing the feasibility of seeking approval for ATI-1701 under the FDA Animal Rule. This assessment involves developing of appropriate experimental models to demonstrate the efficacy of ATI-1701. Appili aims to complete the necessary preclinical and clinical testing required under the Animal Rule. The objective 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 a cooperative agreement with USAFA (the “**USAFA Cooperative Agreement**”), who is working in partnership with the Defense Threat Reduction Agency (“**DTRA**”). The initial funding was US\$7.3 million for the ATI-1701 program. On October 25, 2023, Appili secured a commitment for an additional stage of funding for ATI-1701 from USAFA. With this additional US\$6.6 million award Appili's ATI-1701 program has been awarded a total US\$14 million in USAFA funding commitments.

Appili will continue to oversee a comprehensive development program for ATI-1701, which includes nonclinical studies, CMC/manufacturing, clinical preparatory, and regulatory activities to support an IND submission in 2025. This adjustment in the timeline for ATI-1701's IND submission was due to the timing of the recent USAFA additional funding agreement which now allows Appili to onboard certain subcontractors to the project. Under the terms of the agreement with USAFA, Appili will be reimbursed for the subcontractor and vendor costs necessary to carry out the technical tasks. Additionally, Appili will be reimbursed for direct labour costs associated with budgeted program activities, and a portion of its overhead costs. Appili successfully completed a knowledge transfer and a technology transfer for the ATI-1701 drug substance manufacturing process to our Phase 1 contract manufacturing organization. Engineering and GMP batches are planned for 2024.

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 world (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. ATI-1801's active ingredient, paromomycin, disrupts protein synthesis within *Leishmania* parasites, effectively stopping their growth and multiplication. Appili 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 at 6 months (82% vs 58%; p-value < 0.0001).

Appili is currently engaging with the FDA and submitted a type-B meeting request with the FDA in 2024 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.

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*”.

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 constantly searching for additional antiviral, antibacterial, antifungal, antiparasitic and vaccine assets for acquisition or partnership.

RECENT DEVELOPMENTS

Overall Performance

The Company has no commercial product revenues. Accordingly, its ability to ensure continuing operations is dependent on obtaining the necessary financing to complete the development or commercial support of the Company’s development product portfolio, which includes three active programs (LIKMEZ (ATI-1501), ATI-1701, and ATI-1801).

The Company had the following recent key developments and achievements since April 1, 2023:

On April 26, 2024, the Company announced it had secured additional bridge financing in the amount of C\$300,000 from Bloom Burton & Co. (“**Bloom Burton**”) Inc. maturing the earlier of April 26, 2025 or certain corporate events.

- On April 2, 2024, the Company announced it had entered into a definitive arrangement agreement pursuant to which Aditxt Inc. (“**Aditxt**”)(NASDAQ: ADTX), a Richmond, Virginia- based company dedicated to discovering, developing, and deploying promising health innovation, through its wholly-owned subsidiary, Adivir, Inc. (“**Adivir**”), agreed to acquire all of the issued and outstanding Common Shares of Appili by way of a court-approved plan of arrangement under the *Canada Business Corporations Act*.
- On March 12, 2024, the Company announced a publication in the journal *Frontiers in Bacteriology* on the prevention of tularemia. Appili’s Director of Non-Clinical Research, Dr. Carl Gelhaus, Ph.D., together with medical doctors from the United States Uniformed Services University of the Health Sciences and Ukrainian researchers published a perspective manuscript “*Considerations for prevention of and emergency response to tularemia outbreaks in Ukraine: vaccine involvement*”.
- On December 15, 2023, the Company announced the issuance of patent for ATI-1701 biodefense vaccine candidate to protect against tularemia. This patent covers the composition and preparation methods for ATI-1701 through 2039.
- On November 13, 2023, the Company announced that it had appointed Prakash Gowd, MBA, BSc. Pharm, C.Dir., to its Board of Directors. The Company also appointed Mr. Gowd as Chair of its Audit Committee.
- On October 25, 2023, the Company announced that it had secured a commitment for the second stage of funding for ATI-1701 from USAFA.

- On October 25, 2023, the Company announced with great sadness that one of its Directors, Rochelle Stenzler passed away.
- On October 13, 2023, the Company's recently issued U.S. patent related to LIKMEZ (ATI-1501), U.S. Application No. 18/072,154 was listed in the FDA publication, "Approved Drug Products with Therapeutic Equivalence Evaluations", commonly known as the "Orange Book".
- On September 27, 2023, the Company presented an update on non-clinical data for ATI-1701 during the International Tularemia Conference.
- On September 25, 2023, the Company announced that its partner, Saptalis received approval from the FDA for Metronidazole Oral Suspension 500mg/5mL (ATI-1501). The FDA also approved LIKMEZ as the brand name for ATI-1501.
- On June 29, 2023, the Company announced that it had entered into an unsecured \$300,000 bridge loan from Bloom Burton. Pursuant to the terms of the agreement, this bridge loan matures on the earlier of September 28, 2024, or the date on which Appili receives aggregate reimbursements from USAFA of not less than C\$2,500,000.
- 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.

SELECTED FINANCIAL INFORMATION

	Year ended March 31, 2024 (\$)	Year ended March 31, 2023 (\$)	Year ended March 31, 2022 (\$)
Net loss and comprehensive loss for the period	(3,780,910)	(9,243,014)	(25,118,299)
Basic and diluted loss per share	(0.03)	(0.08)	0.38
Cash and short-term investments	94,493	2,465,882	6,664,855
Total assets	1,490,403	3,132,375	8,281,726
Long-term liabilities	8,184,857	7,665,345	4,978,683

RESULTS FOR YEAR ENDED MARCH 31, 2024 (“FY 2024”), COMPARED TO YEAR ENDED MARCH 31, 2023 (“FY 2023”)

	Year ended March 31, 2024 \$	Year ended March 31, 2023 \$
Income		
Revenue	827,407	334,177
Interest income	16,812	29,882
	<u>844,219</u>	<u>364,059</u>
Expenses		
R&D	5,622,274	3,623,869
General and administrative (“G&A”)	3,047,135	4,438,750
Business development (“BD”)	208,189	185,839
Financing costs	1,631,005	1,096,083
Government assistance	(5,887,401)	(138,466)
Exchange gain	(65,656)	364,606
	<u>4,555,546</u>	<u>9,570,681</u>
Loss before Income taxes	(3,711,327)	(9,206,623)
Income tax expense	69,583	36,392
Net loss and comprehensive loss for the period	<u>(3,780,910)</u>	<u>(9,243,014)</u>

Income

i. Revenue

Revenue income increased by \$493,230 to \$827,407 in FY 2024 compared to \$334,177 in FY2023, due to milestone revenue for ATI-1501 program and \$11,697 from royalties on the sale of ATI-1501 (LIKMEZ).

ii. Interest income

Interest income decreased by \$13,070 to \$16,812 during FY 2024 compared to \$29,882 in the FY 2023, due to a lower cash balance during FY 2024.

Operating expenses

Overall operating expenses decreased by \$5,015,135 to \$4,555,546 during FY 2024 compared to \$9,570,681 in the FY 2023, due mainly to a decrease of \$1,391,615 in G&A cost due to lower employment cost, a decrease of \$430,262 to foreign exchange loss and an increase of \$5,748,935 in government assistance due to reimbursement stemming from the contract with USAFA to support the ATI-1701 program. These decreases were partially offset by an increase of \$1,998,405 in R&D costs mainly due to the ATI-1701 program, an increase of \$22,350 in business development costs due to consulting charges and an increase of \$534,922 in financing costs due to accretion of interest and cash interest paid on LZH secured loans. Explanations of the nature of costs incurred, along with explanations for those changes in costs are discussed below.

i. R&D expenses

The Company's R&D expenses have related primarily to costs incurred in performing research and development activities that include non-clinical, clinical manufacturing, regulatory and clinical trial expenses of its product candidates. The R&D expenses for the period relate to costs incurred for the development of the two product candidates, including ATI-1701 and LIKMEZ (ATI-1501), general R&D and close-out-costs for Favipiravir clinical study and discontinuation costs associated with ATI-2307.

R&D expenses consist of the following:

The increase in R&D expenses of \$1,998,405 from \$3,623,869 in FY 2023 to \$5,622,274 in FY 2024 is mainly attributable to \$1,060,664 increase in the ATI-1701 program expenses, an increase of \$106,826 in general R&D expenses, an increase of \$835,802 in salaries and benefits, a reduction in Favipiravir clinical close out cost credits and an immaterial increase in amortization of property and equipment. These increases were offset by a decrease of \$287,556 in stock based compensation, a decrease of \$19,409 in ATI-1503 expenses, a \$59,341 decrease in ATI-1501 program expenses, a \$425,686 decrease in ATI-2307 program expenses.

	Year ended March 31, 2024	Year ended March 31, 2023
	(\$)	(\$)
Favipiravir expenses	2,869	(779,687)
ATI-2307 expenses	36,972	462,658
ATI-1701 expenses	2,684,281	1,623,617
ATI-1503 expenses	-	19,409
ATI-1501 expenses	90,217	149,558
General R&D expenses	316,609	209,783
Amortization of property and equipment	5,797	1,248
Salaries and benefits	2,435,855	1,600,053
Stock-based compensation	49,674	337,230
Total	\$5,622,274	\$3,623,869

Favipiravir

The Company had immaterial expenses for the FY 2024 since the completion of clinical trial in November 2021.

ATI-2307

The decrease in ATI-2307 program expenses is due to the discontinuation of the development of this program as part of the strategic review and reprioritization.

ATI-1701

The increase in ATI-1701 program expenses is due to increase in consultant expenses to support planned activity under the USAFA agreement for FY 2024 in comparison to FY 2023. These expenses are primarily being reimbursed by USAFA as part of the agreement with the reimbursement of such expenses being recorded as government assistance.

ATI-1503

During the FY 2024, the Company had no expenses as this program was discontinued as part of the strategic review and reprioritization.

LIKMEZ (ATI-1501)

The reduction in expenses associated with the LIKMEZ (ATI-1501) program, which was approved by the FDA in September 2023, is due reduced activity.

General R&D Expenses

The increase in expenses related to general R&D expenses is due to increased R&D rent due to the establishment of a lab and employee benefit costs in FY 2024 in comparison to FY 2023. This is partially offset by a decrease in travel and conference costs.

Salaries and Benefits and Stock-based compensation

Increase 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, 2024	Year ended March 31, 2023
	(\$)	(\$)
G&A expenses, excluding salaries	2,588,205	2,850,877
Salaries and benefits	309,561	942,917
Stock-based compensation	141,671	619,118
Amortization of property and equipment	7,698	25,838
Total	3,047,135	4,438,750

G&A expenses decreased \$1,391,615 from \$4,438,750 in FY 2023 to \$3,047,135 in FY 2024 due to a decrease of \$633,356 in salaries and benefits, a decrease of \$477,447 in stock-based compensation given the reduction in headcount, a decrease of \$262,672 in G&A expenses, excluding salaries and a decrease of \$18,140 in depreciation of property and equipment.

Stock-based compensation

The decrease in stock-based compensation in FY 2024 by \$477,447 in comparison to FY 2023, is due to a reduction in headcount in FY 2024 versus FY 2023.

G&A expenses, excluding salaries

G&A expenses, excluding salaries, for FY 2024 decreased mainly due to decrease in public relation firms, insurance, regulatory fees, business advisory fees, travel related charges, IR conferences and investor relation firms given the Company's plan to reduce costs. These decreases are partially offset by increases in legal fees, subscription fees, audit fees, accounting services, advertising & promotion and information technology related charges.

Salaries and Benefits

Salaries and benefits decreased in FY 2024 mainly due to headcount reductions.

iii. BD expenses

Business development (“**BD**”) expenses consist of new program acquisition research costs. BD expenses increased by \$22,350 in FY 2024 as compared to FY 2023 due to increased consulting charges from a related party which was partially offset by a decrease in BD salaries, as a result of staffing changes in FY 2024 as compared to FY 2023.

iv. Financing costs

Financing costs relate to the valuation of zero interest bearing government loans, LZH secured loans and bridge loans from Bloom Burton.

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

The increase of financing costs by \$534,922 in FY 2024 as compared to FY 2023, is due mainly to the accretion LZH secured loans, Bloom Burton June 2023 bridge loan and ACOA loans, as well as the increase in cash interest paid to LZH due to additional secured loan obtained from LZH in March 2023 and higher interest rate.

v. Government assistance

Government assistance consists of investment tax credits, conditionally repayable government loans, repayable government loans, government grants and the reimbursement of certain expenses related to the development of ATI-1701.

Government assistance increased by \$5,748,935 in in FY 2024 as compared to FY 2023, mainly due to the cost reimbursement from the USAFA Cooperative Agreement to support the development of ATI-1701 for the FY 2024.

vi. Income tax expense

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

vii. Net loss and comprehensive loss

The net loss and comprehensive loss was \$3,780,910 for FY 2024, a decrease of \$5,462,104 compared to the net loss and comprehensive loss of \$9,243,014 for FY 2023.

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 Accounting Standards basis.

Quarterly Ended In		Total Income (\$)	Total Expenses (\$)	Loss (\$)	Basic and Diluted Loss Per Share (\$)
Q4 - March 31, 2024		12,259	1,115,719	(1,103,460)	(0.01)
Q3 - December 31, 2023		483,975	636,311	(152,336)	(0.01)
Q2 - September 30, 2023		339,658	1,316,213	(976,555)	(0.01)
Q1 - June 30, 2023		8,327	1,556,886	(1,548,559)	(0.01)
Q4 - March 31, 2023		340,784	2,498,821	(2,158,037)	(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)

RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2024 (“Q4 2024”), COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2023 (“Q4 2023”)

	Three months ended March 31, 2024	Three months ended March 31, 2023
	\$	\$
Income		
Revenue	11,697	334,177
Interest income	562	6,607
	<u>12,259</u>	<u>340,784</u>
Expenses		
R&D	1,590,903	1,463,391
G&A	817,479	1,042,270
BD	20,000	60,540
Financing costs	382,918	450,237
Government assistance	(1,830,928)	(15,600)
Exchange (gain)/loss	126,390	(6,286)
	<u>1,106,762</u>	<u>2,994,552</u>
Loss before Income taxes	(1,094,503)	(2,653,768)
Income tax expense	8,957	6,877
Net loss and comprehensive loss for the period	<u><u>(1,103,460)</u></u>	<u><u>(2,660,645)</u></u>

Income

i. Revenue

Revenue income decreased by \$322,480 to \$11,697 in Q4 2024 as compared to \$334,177 in Q4 2023, primarily due to the recognition of a one-time milestone revenue in the prior year.

ii. Interest income

Interest income decreased by \$6,045 to \$562 during Q4 2024 as compared to \$6,607 in Q4 2023, due to lower available cash balance in Q4 2024.

Operating expenses

Overall operating expenses decreased by \$1,887,790 to \$1,106,762 during Q4 2024 as compared to \$2,994,552 in Q4 2023 as a result of a decrease of \$224,791 in G&A costs due to lower employment costs, an increase of \$1,815,328 in government assistance due to reimbursement stemming from the contract with USAFA to support the ATI-1701 program, a decrease of \$40,540 in BD costs primarily due to decreased consulting fees from related party and an increase of \$132,676 in foreign exchange gain resulting from revaluation of LZH secured loan, and a decrease of \$67,319 in financing costs, due to accretion of interest. This was offset by an increase of \$127,512 in R&D costs mainly due to ATI-1701 program costs. Explanations of the nature of costs incurred, along with explanations for those changes in costs are discussed below.

i. R&D expenses

The Company's R&D expenses have related primarily to costs incurred in performing R&D activities that include non-clinical, clinical manufacturing, regulatory and clinical trial expenses of its product candidates. The R&D expenses for the period relate to costs incurred for the development of the two product candidates, including ATI-1701 and LIKMEZ (ATI-1501), general R&D and close-out-costs for Favipiravir clinical study and, discontinuation costs associated with ATI-2307.

R&D expenses consist of the following:

	Three months ended March 31, 2024	Three months ended March 31, 2023
	(\$)	(\$)
Favipiravir expenses	-	888
ATI-2307 expenses	-	14,245
ATI-1701 expenses	1,005,131	726,719
ATI-1503 expenses	-	290
ATI-1501 expenses	38,286	22,441
General R&D expenses	140,935	55,466
Amortization of property and equipment	1,434	312
Salaries and benefits	401,405	430,933
Stock-based compensation	3,712	212,097
Total	1,590,903	1,463,391

The increase in R&D expenses of \$127,512 from \$1,463,391 in Q4 2023 to \$1,590,903 in Q4 2024 is mainly attributable to an increase of \$278,412 in ATI-1701, an increase of \$15,845 in ATI-1501 program research expenses, an increase of \$85,469 in general R&D expenses and an immaterial increase in amortization of property and equipment. These increases were offset by a decrease of \$29,528 in salaries and benefits, a \$14,245 decrease in ATI-2307 due to discontinuation of these programs, a decrease in Favipiravir costs due to the discontinuation of this program, and a decrease of \$208,385 in stock-based compensation.

Favipiravir

This program was discontinued in November 2021.

ATI-2307

The ATI-2307 program was discontinued last year as part of a strategic review and reprioritization.

ATI-1701

The increase in ATI-1701 program expenses is due to increased consultant expenses, to support the planned activity under the USAFA agreement, in Q4 2024 in comparison to Q4 2023. These are primarily being reimbursed by USAFA as part of the agreement and recorded as government assistance.

LIKMEZ (ATI-1501)

The increase in ATI-1501 program expenses is due to regulatory fees related to the commercialization activity in Q4 2024 in comparison to Q4 2023.

General R&D Expenses

The increase in expenses related to general R&D expenses are due to increased R&D benefits, rent and R&D consulting which was partially offset by decrease in travel and conference.

Salaries and Benefits and Stock-based compensation

The decrease in salaries and benefits in Q4 2024 are mainly due to reduced time spent on discontinued programs. The decrease in stock-based compensation is due a reduction in option grants to staff.

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:

	<u>Three months ended</u> <u>March 31, 2024</u> <u>(\$)</u>	<u>Three months ended</u> <u>March 31, 2023</u> <u>(\$)</u>
G&A expenses, excluding salaries	675,295	784,053
Salaries and benefits	134,061	95,507
Stock-based compensation	6,338	161,397
Amortization of property and equipment	1,785	1,313
Total	817,479	1,042,270

G&A expenses decreased by \$224,791 to \$817,479 in Q4 2024 from \$1,042,270 in Q4 2023 and is mainly attributed to a decrease of \$155,059 in stock-based compensation, and a decrease of \$108,758 in G&A expenses excluding salaries. These decreases were partially offset by an increase of \$38,554 in salaries and benefits and an immaterial increase of \$472 in amortization of property and equipment.

G&A expenses, excluding salaries

G&A expenses, excluding salaries, for Q4 2024 decreased by \$108,758 in comparison to Q4 2023, and is mainly due to a decrease in public relation costs, insurance costs, business advisory costs, audit fees and travel related charges. These decreases were offset by an increase in advertising & promotion, legal fees and subscription charges.

Salaries and Benefits

Salaries and benefits increased by \$38,554 in Q4 2024 in comparison to Q4 2023, mainly due to change in headcount.

Stock-based compensation

The decrease in stock-based compensation in Q4 2024 by \$155,059 in comparison to Q4 2023, is mainly due to headcount reductions.

iii. BD expenses

BD expenses consist of new program acquisition research costs and business development office rent. BD expenses decreased by \$40,540 in Q4 2024 as compared to Q4 2023, due to decreased consulting charges.

iv. Financing costs

Financing costs relate to the valuation of zero interest bearing government loans, LZH loans and bridge loan secured from Bloom Burton, a principal shareholder of the Company.

Under IFRS Accounting Standards, the zero-interest bearing government loans from 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 \$67,319 in Q4 2024 as compared to Q4 2023, is due mainly to the lower accretion of LZH secured loans, bridge loan and ACOA loans since comparative quarter includes the one-time fair value adjustment.

v. Government assistance

Government assistance consists of investment tax credits, conditionally repayable government loans, repayable government loans, government grants and reimbursement of certain costs from government agreements.

Government assistance increased by \$1,815,328 in Q4 2024 as compared to Q4 2023, mainly due to the cost reimbursement from the USAFA Cooperative Agreement to support the development of ATI-1701 in Q4 2024.

vii. Income tax expense

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

viii. Net loss and comprehensive loss

The net loss and comprehensive loss was \$1,103,460 for Q4 2024 a decrease of \$1,557,185 compared to the net loss and comprehensive loss of \$2,660,645 for Q4 2023.

CASH FLOWS

As at March 31, 2024, the Company had cash of \$94,493 and negative working capital of \$10,079,721 compared to a cash balance of \$2,465,882 and positive working capital of \$140,631, as at March 31, 2023.

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

Operating activities

During the year ended March 31, 2024, \$2,464,425 was used in operating activities, including a reported net loss of \$(3,780,910) prior to being adjusted for add-backs of \$485,576 (non-cash finance costs), \$191,346 (stock-based compensation), \$(35,356) (unrealized foreign exchange translation (LZH)), \$13,662 (amortization of property equipment), \$(54) (unrealized gain from changes in foreign currency) and a net decrease of \$661,442 in cash as a result of changes in working capital.

Financing activities

During the year ended March 31, 2024, the Company received \$300,000 from an unsecured bridge loan, which was offset by repayment of long-term debt of \$96,423, \$72,521 for the payment of accreted interest involving cash and \$9,011 of costs associated with issuance of long-term debt.

Investing activities

During the year ended March 31, 2024, the Company purchased lab equipment and computers amounting to \$29,717.

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, 2024, the Company had approximately \$1.3 million of existing and identified potential sources of cash including:

- cash of \$0.1 million; and
- amounts receivable and investment tax credits receivable of \$1.2 million.

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

Appili's activities related to ATI-1701 have been and continue to be funded through its current resources and government funding. On May 5, 2023, Appili signed the USAFA Cooperative Agreement for initial funding of US\$7.3 million for the ATI-1701 program. On October 23, 2023, Appili secured a further commitment for ATI-1701 from USAFA, who is working in partnership with DTRA. With this additional US\$6.6 million award, Appili's ATI-1701 program has been awarded a total of

US\$14 million in USAFA commitments. As progress is made, Appili plans to engage USAFA for additional funding tranches to continue development through IND submission.

Under the terms of the USAFA Cooperative Agreement, Appili will be reimbursed for direct costs and labour associated with budgeted program activities, and will recover a portion of its overhead costs. During FY 2024, Appili submitted invoices for such costs amounting to US\$4,219,573 and have been reimbursed for US\$3,426,194 as at March 31, 2024.

USAFA serves as the prime contractor to DTRA for this program as USDOD agency. The USAFA Cooperative Agreement establishes Appili as the top-tier performer responsible for managing development activities through the IND stage. The anticipated total program budget is expected to be approximately US\$14 million, depending on US federal budget funding activities. The initial funding tranche of US\$3.4 million was authorized by the contract. On January 23, 2024, an additional US\$7.5 million funding tranche was authorized resulting in a total of US\$10.9 million of funds being 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 oversees 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 \$1.3 million as at March 31, 2024, as well as potential access to the remaining USAFA 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 successfully closing the proposed transaction with Aditxt or 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 capital sufficient to meet any or all of its 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, the termination or delay of clinical trials for our products, curtailment of product development programs. Such adjustments or delays could be material.

In addition, the Company is expending significant resources in connection with the proposed transaction with Aditxt, Inc. There can be no assurance that such transaction will be completed in a timely manner or at all. In the event that such transaction is not completed as currently contemplated, the Company's ability to continue as a going concern will be materially and adversely impacted.

RELATED PARTY TRANSACTIONS

During the year ended March 31, 2024, the Company incurred \$303,611 (2023 - \$302,855) of directors' fees earned by the independent members of the Board of Directors who are not employees, officers or are greater than 10% shareholders of the Company. As at March 31, 2024, \$75,750 (2023 - \$75,750) was due to those individuals. These costs are included in accounts payable and accrued liabilities in the consolidated statements of financial position.

The Company's Chair of the Board of Directors (formerly Chief Executive Officer) is a partner of Bloom Burton, which is a principal shareholder of the Company. For the year ended March 31, 2024, the Company was charged \$nil (2023 - \$269,975) for services performed by the former Chief Executive Officer. As at March 31, 2024, \$nil (2023 - \$342,346) 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. The Company granted 975,000 (2023– nil) to the former Chief Executive Officer during the year ended March 31, 2024.

For the year ended March 31, 2024, the Company was charged \$208,189 (2023 - \$205,345) for consulting services in relation to business development activities by Bloom Burton Securities Inc., an affiliate of Bloom Burton.

For the year ended March 31, 2024, no compensation warrants were issued. For the year ended March 31, 2023, the Company issued 1,189,579 compensation warrants valued at \$50,057 and paid \$315,000 in cash commission to Bloom Burton Securities Inc, resulting from the May 2022 prospectus offering.

CONTRACTUAL OBLIGATIONS

- On November 21, 2019, the Company signed an asset purchase agreement (the “**Asset Purchase Agreement**”) with FUJIFILM Toyama Chemical Co., Ltd. (“**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 (the “**Agreement**”) providing for a senior secured loan for gross proceeds of US\$3,600,000 (CAD\$4,500,000) (“**First Tranche Loan**”). 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 (the “**Amended Loan Agreement**”). Pursuant to the terms of the Amended Loan Agreement, LZH provided an additional loan of \$2,500,000 (“**Second Tranche Loan**”), 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%;
 - The interest rate on the Second Tranche Loan, is 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.
 - The 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, Appili entered into an agreement with LZH to temporarily waive the minimum cash balance requirement to April 1, 2024. On April 1, 2024, LZH waived 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. On April 1, 2024, LZH waived this requirement. 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 sublicensees, as well as royalties on net sales.

- On May 5, 2023, the Company signed the USAFA Cooperative Agreement. The initial commitment was US\$7.3 million for the ATI-1701 program. On October 25, 2023, the Company secured a further commitment for ATI-1701 from USAFA. With this additional US\$6.6 million award, the Company’s ATI-1701 program has been awarded a total US\$14 million in USAFA commitments.
- On June 28, 2023, the Company obtained an unsecured bridge loan from Bloom Burton, amounting to \$300,000. The bridge loan bears interest at 1% per annum for the first month increasing to 2% thereafter and matures on July 31, 2024, subject to acceleration in connection with certain corporate events. 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 was used by the Company for working capital purposes.
- On April 26, 2024 the Company obtained an additional unsecured bridge loan from Bloom Burton, amounting to \$300,000. The bridge loan bears interest at 10% per annum (to be accrued on a quarterly basis and capitalized against the principal loan amount). The loan together with all accrued and capitalized interest, will be due on the earlier of April 26, 2025, or the occurrence of a change in control of the Company.
- On April 1, 2024, the Company entered into a definitive arrangement agreement with Aditxt, Inc. pursuant to which Aditxt, Inc. through its wholly-owned subsidiary, Adivir, Inc., agreed to acquire all of the issued and outstanding Common Shares by way of a court-approved plan of arrangement (the “**Transaction**”). Under the terms of the agreement shareholders of the Company will receive (i) 0.002745004 of a share of common stock of Aditxt and (ii) US\$0.0467 cash for each Appili share held.

In connection with the Transaction, Aditxt also agreed to: (i) repay no less than 50% in outstanding senior secured debt at the closing of the Transaction and to repay the remaining outstanding senior secured debt by no later than December 31, 2024; (ii) assume all of the Company’s remaining outstanding liabilities and indebtedness, and (iii) satisfy certain payables of the Company at closing of the Transaction.

The Transaction is subject to the approval of at least two-thirds of the votes cast by the Company shareholders.

The Transaction is conditional upon Aditxt raising at least US\$20 million in financing (the “Aditxt Financing”) prior to Closing.

The Transaction contains customary terms and conditions, including non-solicitation provisions which are subject to Appili’s right to consider and accept a superior proposal subject to a matching right in favour of Aditxt. The Transaction also provides for the payment of a termination fee of \$1.25 million in certain circumstances.

There is no other material change in the contractual obligations of the Company since the beginning of the 2024 fiscal year. Details on the contractual obligations of the Company can be found in the financial statements and related notes in the audited annual consolidated financial statements for the year ended March 31, 2024.

OFF-BALANCE SHEET ARRANGEMENTS

The Company was not party to any off-balance sheet arrangements as of March 31, 2024.

OUTSTANDING SECURITIES

As of June 25, 2024, the Company has 121,266,120 issued and outstanding Common Shares, 11,520,281 stock options and 44,856,874 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, 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, 2024. 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, 2024, 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, 2024, 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, 2024, 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 MATERIAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the IFRS Accounting Standards. The accounting policies, methods of computation and presentation applied in the consolidated financial statements are consistent with those of previous financial years, other than the adoption of the following new accounting standards in the current year:

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

The amendments require the disclosure of ‘material’, rather than ‘significant’, accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the consolidated financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2023.

Although adoption of the amendments did not result in any changes to accounting policies, they impacted the accounting policy information disclosed in the financial statements. Management reviewed the accounting policies and made updates to the information disclosed in Note 2 Material Accounting Policies (2022 – Significant Accounting Policies) in certain instances in line with the amendments.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors re: Definition of Accounting Estimates

The amendments introduce the definition of accounting estimates and include other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual periods beginning on or after January 1, 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The adoption of these amendments did not have a material impact on the consolidated financial statements.

The Company’s material accounting policies are detailed in the notes to the audited consolidated financial statements for March 31, 2024.

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, until the advances are repaid, are calculated as 5% of gross revenue from a specific product for the preceding fiscal year. As at March 31, 2024, \$33,700 (2023- \$16,725) is included in current liabilities in the consolidated statement 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 pharmaceutical company Saptalis Pharmaceuticals Inc. ("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 \$33,900 higher or \$34,100 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, 2024 would be recorded at \$nil, which would be a reduction in the ACOA AIF loan payable of \$466,400.
- 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, 2024 would have been an estimated \$60,700 higher or \$84,600 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, 2024		March 31, 2023	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	\$	\$	\$	\$
Cash	94,493	94,493	2,465,882	2,465,882
Amounts receivable	1,086,725	1,086,725	69,006	69,006
Accounts payable and accrued liabilities	4,183,176	4,183,176	2,823,001	2,823,001
Long-term debt	8,184,857	8,184,857	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, 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, 2024, 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, 2024, 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 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, 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, 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, 2024, the Company's cash included \$27,271 (2023 - \$63,776) denominated in United States dollars. In addition, the Company's accounts payable and accrued liabilities included \$1,013,262 (2023 - \$480,939) denominated in United States dollars. 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 \$ 70,496 higher or \$ 70,496 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, 2024, was 5% higher or lower, LZH secured loan would be \$ 237,595 higher or \$ 237,595 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, 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 as at March 31, 2024:

	Total	Year 1	Years 2 to 3	Years 4 to 5	After 5 Years
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	4,183,176	4,183,176	-	-	-
Long-term debt	11,206,671	7,880,616	378,181	347,803	2,600,071
	<u>15,389,847</u>	<u>12,063,792</u>	<u>378,181</u>	<u>347,803</u>	<u>2,600,071</u>

ADDITIONAL INFORMATION

Additional information relating to the Company, including the Company's annual information dated June 25, 2024, filed in respect of the fiscal year ended March 31, 2024, is available under the Company's profile on SEDAR+ at www.sedarplus.ca.