

Appili Therapeutics Inc.

Interim Condensed Financial Statements
(Unaudited)

September 30, 2019

November 27, 2019

Management's Responsibility for Financial Reporting

The accompanying unaudited interim condensed financial statements of Appili Therapeutics Inc. (the "Company" or "Appili") are the responsibility of management and have been approved by the Board of Directors. The unaudited interim condensed 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 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 financial statements. The Board of Directors reviewed and approved the Company's unaudited interim condensed financial statements.

(signed) "*Kevin Sullivan*"
Chief Executive Officer

(signed) "*Kimberly Stephens*"
Chief Financial Officer

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Appili Therapeutics Inc.

Interim Condensed Statements of Financial Position (Unaudited)

As at September 30, 2019 and March 31, 2019

	September 30, 2019 \$	March 31, 2019 \$
Assets		
Current assets		
Cash	3,041,077	5,421,097
Short-term investments (note 4)	30,554	30,481
Amounts receivable (note 5)	202,200	570,669
Investment tax credit receivable	166,400	346,400
Prepaid expenses and deposits	118,872	281,942
Inventory (note 6)	104,448	104,448
Deferred financing expense (note 7)	52,016	-
	<u>3,715,567</u>	<u>6,755,037</u>
Property and equipment	<u>72,045</u>	<u>79,980</u>
	<u>3,787,612</u>	<u>6,835,017</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	933,575	1,296,690
Current portion of long-term debt (note 9)	63,700	52,900
	<u>997,275</u>	<u>1,349,590</u>
Long-term debt (note 9)	<u>943,700</u>	<u>1,065,700</u>
	1,940,975	2,415,290
Shareholders' equity	<u>1,846,637</u>	<u>4,419,727</u>
	<u>3,787,612</u>	<u>6,835,017</u>
Subsequent events (note 14)		

Approved by the Board of Directors

Signed "*Ian Mortimer*"
Director

Signed "*Stephen Nicolle*"
Director

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

Appili Therapeutics Inc.

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

For the periods ended September 30, 2019 and 2018

	Share capital \$ (note 10)	Special warrants \$	Contributed surplus \$ (note 11)	Warrants \$ (note 12)	Deficit \$	Total \$
Balance – March 31, 2018	11,063,411	-	608,766	73,392	(6,878,301)	4,867,268
Employee share options Value of services recognized	-	-	451,568	-	-	451,568
Net loss for the period	-	-	-	-	(1,816,607)	(1,816,607)
Balance – September 30, 2018	11,063,411	-	1,060,334	73,392	(8,694,908)	3,502,229
Issuance of special warrants in private placements	-	3,586,813	-	-	-	3,586,813
Special warrants issuance costs	-	(556,894)	-	-	-	(556,894)
Exercise of warrants	8,617	-	-	(1,228)	-	7,389
Issuance of warrants	-	-	-	136,528	-	136,528
Employee share options Value of services recognized	-	-	253,039	-	-	253,039
Exercise of options	9,625	-	(4,625)	-	-	5,000
Net loss for the period	-	-	-	-	(2,514,377)	(2,514,377)
Balance – March 31, 2019	11,081,653	3,029,919	1,308,748	208,692	(11,209,285)	4,419,727
Exercise of special warrants	3,029,919	(3,029,919)	-	-	-	-
Exercise of warrants	49,362	-	-	(7,166)	-	42,196
Expired warrants	-	-	14,368	(14,368)	-	-
Issuance of warrants	-	-	-	140,671	-	140,671
Employee share options Value of services recognized	-	-	192,875	-	-	192,875
Net loss for the period	-	-	-	-	(2,948,832)	(2,948,832)
Balance – September 30, 2019	14,160,934	-	1,515,991	327,829	(14,158,117)	1,846,637

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

Appili Therapeutics Inc.

Interim Condensed Statements of Loss and Comprehensive Loss

(Unaudited)

For the three and six months ended September 30, 2019 and 2018

	Three months ended September 30,		Six months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Expenses				
Research and development	562,836	1,023,954	1,135,599	1,946,502
General and administrative	685,031	641,692	1,548,529	1,127,872
Business development	135,840	167,214	630,774	370,559
Accreted interest	37,156	33,400	(50,163)	(163,100)
Government assistance	(271,043)	(533,419)	(315,907)	(1,465,226)
	<u>1,149,820</u>	<u>1,332,841</u>	<u>2,948,832</u>	<u>1,816,607</u>
Net loss and comprehensive loss for the period	<u>(1,149,820)</u>	<u>(1,332,841)</u>	<u>(2,948,832)</u>	<u>(1,816,607)</u>
Basic and diluted loss per share (note 10)	<u>(0.03)</u>	<u>(0.04)</u>	<u>(0.09)</u>	<u>(0.06)</u>
Weighted-average shares outstanding (note 10)	<u>33,588,947</u>	<u>30,246,329</u>	<u>32,191,931</u>	<u>30,246,329</u>

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

Appili Therapeutics Inc.

Interim Condensed Statements of Cash Flows

(Unaudited)

For the six months ended September 30, 2019 and 2018

	September 30, 2019 \$	September 30, 2018 \$
Operating activities		
Net loss and comprehensive loss for the period	(2,948,832)	(1,816,607)
Changes to operations not involving cash:		
Amortization of property and equipment	8,869	10,365
Accreted interest	(50,163)	(163,100)
Share-based compensation	192,875	451,568
Warrants issued for services	140,671	-
Loss on disposal of property and equipment	-	645
Unrealized loss (gains) from changes in foreign currency	9,793	(28,053)
	<u>(2,646,787)</u>	<u>(1,545,182)</u>
Net changes in non-cash operating working capital		
Decrease in amounts receivable	125,969	416,139
Decrease (increase) in investment tax credits receivable	180,000	(79,900)
Decrease (increase) in prepaid expenses and deposits	163,070	(40,487)
Decrease in accounts payable and accrued liabilities	(362,984)	(205,536)
Increase in deferred expense recovery	-	13,473
	<u>(2,540,732)</u>	<u>(1,441,493)</u>
Financing activities		
Proceeds from the exercise of warrants	42,196	-
Share and warrant issuance costs	(52,016)	(47,494)
Proceeds from long-term debt	242,175	73,400
Repayment of long-term debt	(25,107)	(7,767)
Accreted interest involving cash	(35,605)	(17,233)
	<u>171,643</u>	<u>906</u>
Investing activities		
Acquisition of property and equipment	(934)	(12,436)
Acquisition of short-term investments	(73)	(46)
	<u>(1,007)</u>	<u>(12,482)</u>
Net change in cash during the period	(2,370,096)	(1,453,069)
Cash – Beginning of period	5,421,097	5,721,504
Changes due to foreign exchange	(9,924)	14,533
Cash – End of period	<u>3,041,077</u>	<u>4,282,968</u>

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

Appili Therapeutics Inc.

Notes to Interim Condensed Financial Statements

(Unaudited)

For the six months ended September 30, 2019

1 Nature of operations and going concern

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. The Company has one reportable and geographic segment and is domiciled in Halifax, Nova Scotia. Incorporated under the Canada Business Corporations Act, the shares of the Company are listed on the TSX Venture Exchange under the symbol “APLI”. The address of its principal place of business is #21-1344 Summer Street, Halifax, Nova Scotia, Canada.

On May 3, 2019, the Company effected a 3.86 to one stock split (“Stock Split”) of its common stock. The share, per share data, options, Special Warrants and warrants presented in the unaudited interim condensed statements of loss and comprehensive loss and the notes to the interim condensed financial statements have been retroactively adjusted for the Stock Split.

Going concern

These unaudited interim condensed 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 become due.

For the six month period ended September 30, 2019, the Company reported a loss of \$2,948,832 (September 30, 2018 - \$1,816,607) and an accumulated deficit of \$14,158,117 (September 30, 2018 - \$8,694,908). 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. 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 upon 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 upon its ability to fund its research and development programs and generate future positive cash flows from operations. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

Appili Therapeutics Inc.

Notes to Interim Condensed Financial Statements

(Unaudited)

For the six months ended September 30, 2019

1 Nature of operations and going concern (continued)

Basis of presentation

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

These unaudited interim condensed financial statements have been prepared in accordance with IFRS applicable to the preparation of financial statements, including IAS 34, International Accounting Standards 34 “Interim Financial Reporting”. Accordingly, certain information normally included in annual financial statements prepared in accordance with IFRS, as issued by the IASB, have been omitted or condensed. The unaudited interim condensed financial statements should be read in conjunction with the Company’s annual audited financial statements for the year ended March 31, 2019.

The policies applied in these unaudited interim condensed financial statements are based on IFRS issued and outstanding as of November 26, 2019, the date the Board of Directors approved the unaudited interim condensed financial statements.

2 Summary of significant accounting policies and basis of preparation

Adoption of new accounting standards

IFRS 16 – Leases (“IFRS 16”)

The Company has adopted IFRS 16, Leases, effective April 1, 2019. IFRS 16 was applied using the modified retrospective approach, under which the cumulative effect if initial application would have been recognized in retained earnings at April 1, 2019, if applicable. The details of the change in accounting policy are disclosed below.

The Company recognizes an asset and a lease liability at the lease commencement date.

The asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any incentives received. The asset is subsequently depreciated using the declining balance method from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term. The estimated useful lives of leased assets is determined on the same basis as those of property and equipment. The carrying amount of the leased asset will be periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability, if any.

The lease liability is initially measured at the present value of future lease payments, discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. If the lease liability is remeasured in this way, a corresponding adjustment will be made to the carrying amount of the leased asset or recorded in the statements of loss and comprehensive loss if the carrying value of the leased asset is zero.

Appili Therapeutics Inc.

Notes to Interim Condensed Financial Statements

(Unaudited)

For the six months ended September 30, 2019

2 Summary of significant accounting policies and basis of preparation (continued)

Adoption of new accounting standards (continued)

IFRS 16 – Leases (“IFRS 16”) (continued)

The Company has elected not to recognize assets and lease liabilities for short-term leases with a term of 12 months or less, and leases of low value assets. The lease payments associated with these leases are recognized as an expense in the statements of loss and comprehensive loss over the lease term. Low value assets consist primarily of computers and IT equipment.

This policy has been applied for contracts entered into, or changed, on or after April 1, 2019. For contracts entered into before April 1, 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfillment of the arrangement was dependent on the use of specific assets; and
- the arrangement conveyed a right to use the asset. An arrangement conveyed the right to use the asset if the Company has the ability to control physical access to the asset and how and for what purpose the asset is used.

Under IAS 17, leases that transferred substantially all the risks and rewards of ownership were classified as finance leases. If this is the case, the leased asset is measured initially at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. IFRS 16 was applied only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 were not reassessed for whether there is a lease. Management assessed the impact of the transition to IFRS 16 and determined it did not have a material impact on the Company’s unaudited interim condensed financial statements.

3 Critical accounting estimates and judgments

The Company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates and judgments applied by management that most significantly affect the Company’s unaudited interim condensed financial statements. 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.

Appili Therapeutics Inc.

Notes to Interim Condensed Financial Statements

(Unaudited)

For the six months ended September 30, 2019

3 Critical accounting estimates and judgments (continued)

Calculation of initial fair value and carrying amount 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, 2020, are calculated as 5% of gross revenue from a specific product for the preceding fiscal year.

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 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 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 products 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 in the early stages of research for its infectious disease products and accordingly, determination of the amount and timing of revenue, if any, requires significant judgment by management. If the Company expected no future revenues, no repayments would be required on the ACOA AIF loan and the amounts recorded for the ACOA AIF loan would be \$nil. Management’s estimates of future revenues assumes 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 rate, 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 loans.

Appili Therapeutics Inc.

Notes to Interim Condensed Financial Statements

(Unaudited)

For the six months ended September 30, 2019

3 Critical accounting estimates and judgments (continued)

Calculation of initial fair value and carrying amount of long-term debt (continued)

Atlantic Canada Opportunities Agency (“ACOA”) Atlantic Innovation Fund (“AIF”) loan (continued)

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 \$16,600 higher or \$16,600 lower, respectively. If the total forecasted revenue was reduced to \$nil, no amounts would be forecasted to be repaid on the ACOA AIF loan and the ACOA AIF loan payable at September 30, 2019 would be recorded at \$nil, which would be a reduction in the ACOA AIF loan payable of \$166,200. 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 September 30, 2019 would have been an estimated \$42,200 higher or \$35,200 lower, respectively.

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

ACOA Business Development Program (“BDP”) loans

The ACOA BDP loans are interest-free government loans that are repayable over either 84 or 120 months, which is below the market rate for a commercial loan with similar terms. The initial fair values of the ACOA BDP loans are determined by using a discounted cash flow analysis for each loan.

The only significant assumption used in determining the discounted cash flow is the discount rate. Any changes in the discount rate would impact the amount recorded as initial fair value of the long-term debt and the carrying value of the long-term debt at each reporting date. In determining the appropriate discount rate, the Company considers the interest rates of similar long-term debt arrangements with similar terms. As ACOA BDP loans are government loans with principal payments over 84 or 120 months, finding financing arrangements with similar terms is difficult and management was required to use significant judgment in determining the appropriate discount rates. Management used a discount rate of 12% to discount the ACOA BDP loans.

The Company performed the following sensitivity analysis, on the basis that each change in the assumption is done assuming the other assumptions remain the same.

If the discount rate used for the ACOA BDP loans had been determined to be higher or lower by 5%, resulting in discount rates of 17% or 7%, respectively, the carrying value of the long-term debt at September 30, 2019 would have been an estimated \$130,900 lower or \$170,300 higher, respectively. The difference between the book value and the initial fair value of the ACOA BDP loans are recorded in the statements of loss and comprehensive loss as government assistance on initial recognition. Any changes in the amounts recorded on the statements of financial position for the ACOA BDP loans result in an offsetting charge to accreted interest after initial recognition in the statements of loss and comprehensive loss.

Appili Therapeutics Inc.

Notes to Interim Condensed Financial Statements

(Unaudited)

For the six months ended September 30, 2019

3 Critical accounting estimates and judgments (continued)

Equity-settled share-based compensation

The Company estimates the cost of equity-settled share-based compensation using the Black-Scholes option-pricing 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.

4 Short-term investments

Short-term investments consist of guaranteed investment certificates with maturities of one year and are subject to insignificant risk of changes in value.

5 Amounts receivable

	September 30, 2019 \$	March 31, 2019 \$
Amounts due from government assistance and government loans	145,631	479,500
Sales tax receivable	56,569	91,169
	<u>202,200</u>	<u>570,669</u>

6 Inventory

	September 30, 2019 \$	March 31, 2019 \$
Raw materials	<u>104,448</u>	<u>104,448</u>

7 Deferred financing expense

During the six months ended September 30, 2019, the Company incurred \$52,016 (March 31, 2019 - \$nil) of transaction costs relating to the filing of a shelf prospectus that will enable the Company to complete prospectus financings in the future. As of September 30, 2019, no prospectus financings had been completed. These transaction costs will subsequently be reclassified as a deduction from equity when equity instruments are issued in a prospectus financing.

Appili Therapeutics Inc.

Notes to Interim Condensed Financial Statements

(Unaudited)

For the six months ended September 30, 2019

8 Due to related party and related party transactions

The Company's Chief Development Officer is a partner of Bloom Burton & Co., which is a principal shareholder of the Company. At September 30, 2019, the Company owed \$nil (March 31 2019 - \$9,165) and during the six months ended September 30, 2019, the Company was charged \$109,977 (September 30, 2018 - \$nil) for services performed by the Chief Development Officer. At September 30, 2019, the Company also owed \$45,000 (March 31, 2019 - \$nil) and during the six months ended September 30, 2019, was charged \$75,000 (September 30, 2018 - \$nil) for consulting services in relation to business development activities by Bloom Burton Securities Inc.

9 Long-term debt

	September 30, 2019 \$	March 31, 2019 \$
ACOA BDP 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 September 30, 2019, the principal outstanding was \$425,000 (March 31, 2019 - \$450,000).	265,700	274,400
ACOA BDP 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 September 30, 2019, the principal outstanding was \$446,432 (March 31, 2019 - \$482,144).	313,000	329,400
ACOA BDP interest-free loan with a maximum contribution of \$476,000, repayable in 120 equal monthly payments of \$3,960 beginning March 1, 2020. As at September 30, 2019, the principal outstanding was \$474,840 (March 31, 2019 - \$476,000).	262,500	242,500
ACOA 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 September 30, 2019, the principal outstanding was \$2,662,990 (March 31, 2019 - \$2,662,990).	166,200	272,300
	<u>1,007,400</u>	<u>1,118,600</u>
Less: Current portion	(63,700)	(52,900)
	<u>943,700</u>	<u>1,065,700</u>

Total contributions received, less amounts that have been repaid as at September 30, 2019, are \$4,009,262 (March 31, 2019 - \$4,071,134). Certain ACOA loans require approval by ACOA before the Company can pay dividends or other distributions, or before there is any change of ownership of the Company.

Appili Therapeutics Inc.

Notes to Interim Condensed Financial Statements

(Unaudited)

For the six months ended September 30, 2019

9 Long-term debt (continued)

Net debt reconciliation

	September 30, 2019 \$	March 31, 2019 \$
Balance, Beginning of period	1,118,600	1,111,400
Proceeds	-	242,600
Accreted interest, cash	(35,605)	(44,056)
Accreted interest, non-cash	72,713	171,156
Change in fair value as the result of changes in estimates of future cash flows associated with the ACOA AIF loan and ACOA BDP loan revaluation	(123,201)	(338,700)
Repayment of debt	(25,107)	(23,800)
Balance, End of period	1,007,400	1,118,600
Less: Current portion	(63,700)	(52,900)
Non-current portion	943,700	1,065,700

During the six months ending September 30, 2019, proceeds of \$474,840 were received by the Company pursuant to a claim on the ACOA BDP made and recorded in the previous period.

10 Share capital

Authorized

Common shares

Unlimited number of common shares without nominal par value

	Number of shares #	Amount \$
Balance, March 31, 2018	30,246,329	11,063,411
Balance, September 30, 2018	30,246,329	11,063,411
Warrants exercised	10,524	8,617
Stock option exercised	9,650	9,625
Balance, March 31, 2019	30,266,503	11,081,653
Special warrants exercised	3,257,667	3,029,919
Warrants exercised	64,777	49,362
Balance, September 30, 2019	33,588,947	14,160,934

On November 21, 2018, December 20, 2018 and March 19, 2019, the Company completed a special warrant ("Special Warrant") private placement (the "Offering") of 843,954 warrants (post Stock Split - 3,257,667) at a price of \$4.25 per Special Warrant (post Stock Split - \$1.10), for aggregate proceeds of \$3,586,813. Each Special Warrant was exercised for one common share of the Company (the "Underlying Share") concurrently with Company's direct listing on the TSX-V on June 17, 2019.

Appili Therapeutics Inc.

Notes to Interim Condensed Financial Statements

(Unaudited)

For the six months ended September 30, 2019

10 Share capital (continued)

The Special Warrants were originally classified as a financial liability, as the Company was potentially obligated to deliver a variable number of common shares if the Company did not retain a receipt from the Securities Commissions for a preliminary prospectus qualifying the distribution of the Underlying Shares (the "Receipt"), on or before March 21, 2019. The Company obtained the Receipt on March 21, 2019 and reclassified the Special Warrants to equity on this date.

The costs associated with the Offering were approximately \$682,959, including commission of \$278,445, professional fees of \$267,987 and compensation warrants issued as commission to the agents valued at \$136,527. Each compensation warrant entitles the holder to acquire one common share of the Company at an exercise price of \$4.25 (post Stock Split - \$1.10) until November 21, 2020. These incremental costs directly attributable to the issuance of Special Warrants were recognized as a deduction from Special Warrants and amortized over the term of the warrants until the Special Warrants were classified as equity. The Company recognized \$126,065 of accreted interest over the term the Special Warrants were classified as a financial liability.

On May 3, 2019, the Company effected a 3.86 to one Stock Split of its common stock. The share, per share data, options, Special Warrants and warrants presented in the interim condensed statements of loss and comprehensive loss and the notes to the unaudited interim condensed financial statements have been retroactively adjusted for the Stock Split.

11 Contributed surplus

	Amount
	\$
Balance, March 31, 2018	608,766
Share-based compensation – stock options vested	451,568
Balance, September 30, 2018	1,060,334
Share-based compensation – stock options vested	253,039
Exercise of stock-based compensation	(4,625)
Balance, March 31, 2019	1,308,748
Share-based compensation – stock options vested	192,875
Warrants expired	14,368
Balance, September 30, 2019	1,515,991

The fair value of stock options is estimated using the Black-Scholes option-pricing model. During the six months ended September 30, 2019, no stock options were granted. During the six months ended September 30, 2018, 813,688 stock options with a weighted average exercise price of \$0.88 and a term of 10 years, were granted to employees and consultants. 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. The value of these stock options was estimated at \$819,125, which is a weighted average grant date value per option of \$1.01, using the Black-Scholes valuation model and the following weighted average assumptions:

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Notes to Interim Condensed Financial Statements

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For the six months ended September 30, 2019

11 Contributed surplus (continued)

	September 30, 2018
	\$
Risk-free interest rate	2.06%
Expected volatility	134%
Expected life (years)	10
Dividend yield	-

Option activity for the six months ended September 30, 2019 and September 30, 2018 was as follows:

	September 30, 2019		September 30, 2018	
	Number	Weighted average	Number	Weighted average
	#	exercise price	#	exercise price
		\$		\$
Outstanding – Beginning of period	3,054,418	0.69	2,528,300	0.55
Granted	-	-	813,688	0.88
Forfeited	(211,013)	0.69	(9,650)	0.59
Expired	(105,507)	0.69	-	-
Outstanding – End of period	2,727,898	0.69	3,332,338	0.63

12 Warrants

Warrant activity for the six months ended September 30, 2019 and the year ended March 31, 2019 was as follows:

	Number	Weighted
	#	average
		exercise price
		\$
Outstanding – March 31, 2018	601,862	0.76
Outstanding – September 30, 2018	601,862	0.76
Granted	252,884	1.10
Exercised	(10,526)	0.70
Outstanding – March 31, 2019	844,220	0.86
Granted	299,717	1.50
Exercised	(64,777)	0.65
Expired	(114,917)	0.53
Outstanding – September 30, 2019	964,243	1.13

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For the six months ended September 30, 2019

12 Warrants (continued)

The weighted average value per warrant issued on the six months ended September 30, 2019 was \$1.50 (September 30, 2018 - \$nil) and was determined using the Black-Scholes valuation model and the following weighted average assumptions:

	September 30, 2019
Risk-free interest rate	1.67%
Expected volatility	94.53%
Expected life (years)	2
Dividend yield	-

13 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 date with relevant comparatives:

	<u>September 30, 2019</u>		<u>March 31, 2019</u>	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Cash	3,041,077	3,041,077	5,421,097	5,421,097
Short-term investments	30,554	30,554	30,481	30,481
Amounts receivable	145,631	145,631	479,500	479,500
Accounts payable and accrued liabilities	933,575	933,575	1,296,690	1,296,690
Long-term debt	1,007,400	1,007,400	1,118,600	1,118,600

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 September 30, 2019, 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.

Appili Therapeutics Inc.

Notes to Interim Condensed Financial Statements

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For the six months ended September 30, 2019

13 Financial instruments (continued)

The fair value of the long-term debt is estimated based on the expected interest rates for similar borrowings by the Company at the statements of financial position dates. At September 30, 2019, 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 9 as at September 30, 2019:

	Total	Year 1	Years 2 to 3	Years 4 to 5	After 5 years
Accounts payable and accrued liabilities	933,575	933,575	-	-	-
Long-term debt	4,009,262	149,144	347,816	364,530	3,147,772
Operating leases	52,245	50,139	2,106	-	-
	<u>4,995,082</u>	<u>1,132,858</u>	<u>349,922</u>	<u>364,530</u>	<u>3,147,772</u>

14 Subsequent events

On November 21, 2019, the Company signed an asset purchase agreement (the "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. The initial payment under the Agreement is only due upon future milestones being achieved, which the Company currently anticipates to be in 2021. If these milestones are not met, no amounts are due under the contract. Subsequent payments are due upon the achievement of additional milestones, including FDA approval and other various performance thresholds.