



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Interim Period Ended September 30, 2020

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 November 12, 2020 provides information concerning the Company's financial condition and results of operations. This MD&A should be read in conjunction with our audited annual financial statements for the fiscal years ended March 31, 2020 and 2019, and our unaudited interim condensed financial statements for the three and six months ended September 30, 2020 and 2019, including the related notes thereto. The preparation of financial information included in the MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, unless otherwise noted. Unless stated otherwise, all references to "\$" are to Canadian dollars.

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 in light of our experience and perception of historical trends, current conditions and expected future developments, as well as the factors we believe are appropriate. Forward-looking statements in this MD&A include, but are not limited to, statements relating to:

- our ability to maintain the listing of the Company's Class A common shares (the "Common Shares") on the Toronto Stock Exchanges (the "TSX");
- our strategy;
- our ability to continue as a going concern;
- the sufficiency of our financial resources to support our activities;
- potential sources of funding;
- the effect of the novel SARS-CoV-2 ("COVID-19") on the Company's business and operations;
- 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;
- our strategy for protecting our intellectual property;
- our ability to identify licensable products or research suitable for licensing and commercialization;
- our ability to obtain licenses on commercially reasonable terms;
- our plans for generating revenue;
- our plans for future clinical trials;
- our ability to hire and retain skilled staff; and
- our intention with respect to updating any forward-looking statements after the date on which such statement is made or to reflect the occurrence of unanticipated events;

Such statements reflect our current views with respect to future events, are subject to risks and uncertainties and are necessarily based upon a number of estimates and assumptions that, while considered reasonable by Appili as of the date of such statements, are inherently subject to significant medical, scientific, business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements. In making the forward-looking statements included in this MD&A, the Company has made various material assumptions, including but not limited to (i) the Company's ability to initiate

and complete its proposed clinical trials in a timely manner; (ii) the ability of the Company to secure the requisite level of patient and site enrollment; (iii) the Company's ability to enter into the requisite clinical trial agreements relating to any proposed clinical trials; (iv) obtaining positive results of clinical trials; (v) obtaining regulatory approvals; (vi) general business and economic conditions; (vii) the Company's ability to successfully out-license or sell its current products and in-license and develop new products; (viii) the availability of financing on reasonable terms; (ix) the Company's ability to attract and retain skilled staff; (x) market competition; (xi) the products and technology offered by the Company's competitors; (xii) the Company's ability to protect patents and proprietary rights; and (xiii) the effect of COVID-19 infections ("COVID-19") on the Company's business and operations.

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

- limited operating history and early stage of development;
- identifying, developing and commercializing product candidates;
- regulatory risks;
- market competition;
- the Company's dependence on third parties;
- clinical trial risks;
- third party manufacturing and supplier risks;
- the effect of COVID-19 on the Company's business and operations;
- the Company's potential redeployment of resources;
- the ownership and protection of intellectual property;
- litigation and product liability risks;
- employee matters and managing growth;
- ownership of the Company's securities;
- working capital and capital resources
- ability to retain key personnel;
- implementation and development delays;
- product deficiencies
- volatility of share price; and
- the other risks discussed under the heading "*Risk Factors*" in the Company's annual information form dated June 24, 2020.

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.

BUSINESS OVERVIEW

Appili is a pharmaceutical company focused on the acquisition and development of novel medicines targeting unmet needs in infectious disease. Since incorporation in 2015, the Company has been focused on building and advancing a diverse portfolio of anti-infective programs. Key activities have included the acquisition and development of novel technologies, the development of strategic partnerships, targeted hiring and building out drug development capabilities, securing intellectual property, and raising funds through equity capital raises and non-dilutive funding mechanisms.

The Company's anti-infective portfolio currently includes five programs, described below: ATI-2307, ATI-1701, ATI-1503, ATI-1501, and a recently announced global partnership on COVID-19 antiviral candidate Avigan[®] (favipiravir).

Avigan®

On October 30, 2020, Appili announced a partnership agreement to join Dr. Reddy's Laboratories ("DRL"), FUJIFILM Toyama Chemical Co., Ltd. ("FFTC") and Global Response Aid ("GRA") in the global development of Avigan® for treatment and prevention of COVID-19, excluding Japan, China and Russia. Under the terms of the agreement and in collaboration with its partners, Appili is designing, overseeing, and funding pivotal clinical trials to support global regulatory submissions. Partners DRL, GRA, and FFTC will be responsible manufacturing, distribution, and commercialization worldwide outside of Japan, China and Russia. Appili will receive a profit share on Canadian and US commercial sales and is eligible to receive royalties on rest of world sales realized by DRL and GRA, including in Europe and Latin America.

Avigan® is a novel broad-spectrum antiviral originally developed by FFTC and approved in 2014 in Japan for stockpiling and use in an outbreak setting of pandemic influenza (PMDA 2014). Avigan® is active against a wide range of RNA viruses (viruses that have ribonucleic acid as its genetic material) including many for which there are limited or no approved therapies (Furuta 2017). Avigan® has been extensively studied and shown to be well-tolerated in humans and a very well established safety profile at dose levels studied for influenza. Over 3,000 subjects had received at least one dose of Avigan® prior to the COVID-19 pandemic with additional trials initiated and completed since (Pilkington 2020). The drug is available in an oral dose format, stable at room temperature, and amenable to use in a wide range of care settings (PMDA 2014; Furuta 2017).

Multiple studies suggest favipiravir may also have potential utility for COVID-19. As of November 4, 2020, there were over 20 active clinical studies listed on clinicaltrials.gov evaluating favipiravir for COVID-19. Researchers in China were the first to report in February 2020 that favipiravir exhibited antiviral activity *in vitro* against SARS-CoV-2, the virus that causes COVID-19 (Wang 2020). Small-scale clinical trials conducted in China, Russia, Japan, and India have also provided early indications that favipiravir may provide clinical benefit to patients with COVID-19 (Cai 2020; Chen 2020; Glenmark Jul 22 2020 PR; Ivashchenko 2020; FFTC Sept 23 2020). Following promising clinical studies, Russia and India have approved favipiravir-based antiviral medications for the emergency treatment of COVID-19. However, additional clinical investigation is needed. Researchers are conducting additional trials evaluating favipiravir for COVID-19 in various countries including the United States, China, and the United Kingdom. In a recently completed Phase III study (October, 2020) conducted by FFTC, Avigan® showed a statistically significant improvement in the primary endpoint of eliminating COVID-19-related symptoms, defined as no fever, SpO₂ >95%, improvement on chest imaging, and undetectable SARS COV-2 by PCR. This randomized, placebo-controlled study was conducted in 156 COVID-19 patients (n=107 on favipiravir; n=49 on placebo). The median time to recovery from signs and symptoms was reduced by 2.8 days compared to the control group (p= 0.0136). FFTC has announced that Avigan® is being reviewed for marketing approval for the treatment of COVID19 by the Pharmaceuticals and Medical Devices Agency ("PMDA"), the agency responsible for ensuring the safety, efficacy and quality of pharmaceuticals and medical devices in Japan.

Working with its partners, Appili is working to generate the pivotal clinical dataset required to define Avigan®'s potential role in COVID-19 care and support regulatory submissions. Appili's clinical focus is on early administration with Avigan® to limit the spread and treatment of COVID-19 in high-risk patients outside of the hospital.

Appili's focus on the community setting is based both on need and the specific attributes of Avigan®. There remains an clear unmet need for effective oral COVID-19 therapies suitable for use in the community. The only approved COVID-19 antiviral in the United States, remdesivir, is available in an intravenous format (Veklury® FDA Label). As a result, patients typically require hospitalization in order to access therapy. This both delays initiation of antiviral therapy in patients that may require it and places a significant burden on the healthcare system via increased hospitalization rates. In contrast, Avigan® is an orally bioavailable agent and may be rapidly administered in the community to treat infected patients or those recently exposed to COVID-19, as a prophylactic agent. This has the potential to significantly reduce the burden of disease of patients, lower rates of hospitalization, and costs to the healthcare system, and limit spread of the virus to the community. Previous clinical experience with other acute viral infections such as influenza also suggests that the potential clinical benefit of antivirals is highest when administered either prior to or early during infection, before widespread tissue damage and progression to severe illness (Fiore 2011, Welliver 2001, Romagnoli 2020).

Appili's additional focus on high risk patients is also driven by clinical need. According to the Centers for Disease Control and Prevention ("CDC"), risk of hospitalization and death increases dramatically with advanced age, and approximately 80% of all COVID-19 deaths in the US have been in those 65 years and older (CDC 2020). No vaccine is currently available for COVID-19 and vaccine candidates in development may not be effective in the elderly or other high-risk groups (Doherty 2016). The Company expects the clinical need for oral antivirals will continue even if a vaccine is approved. Oseltamivir, an oral antiviral for influenza, is regularly prescribed despite widespread influenza vaccine availability, underscoring the importance of oral agents for the treatment and containment of acute respiratory virus infections.

Appili's announced clinical trials are summarized below:

- ***PRESECO: Phase 3 Early Treatment of Mild-to-Moderate COVID-19***

PRESECO is a double-blinded, randomized, placebo-controlled Phase 3 trial designed to evaluate the utility of favipiravir for the early treatment of mild-to-moderate COVID-19 in the outpatient setting. The study is expected to enroll 826 patients at COVID-19 testing sites in the US. The study population also is expected to be enriched for elderly patients and those with known risk factors for COVID-19 complications. The primary endpoint will be time to sustained clinical recovery, with additional secondary endpoints assessing impact on hospitalization rates and more severe outcomes. PRESECO will also include a viral shedding study involving a subset of study participants.

The Phase 3 protocol has been submitted to the IND and enrollment is targeted to commence in 2020.

Along with partners DRL, FFTC, and GRA, Appili continues to monitor the clinical and commercial landscape for COVID-19 therapies, and may elect to initiate additional trials or development activities to accelerate or expand market access for Avigan® in the US, Canada, and globally.

- ***CONTROL-COVID: Phase 2 COVID-19 Outbreak Control in Long-Term Care***

CONTROL-COVID is an ongoing, partially-blinded, placebo-controlled, cluster randomized controlled trial evaluating the utility of Avigan® as a preventative measure against COVID-19 outbreaks in long-term care facilities. Under the trial protocol, upon confirmation of a COVID-19 outbreak in a long-term care unit, all consenting residents in that unit, including those with confirmed COVID-19, receive either Avigan® or placebo. The study design calls for enrollment of 16 long-term care units across Canada and the US. The study population is expected to include elderly subjects with co-morbidities and front-line healthcare workers with recent COVID-19 exposure or confirmed infection. The primary endpoint will be outbreak control, defined as no new cases of COVID-19 in residents for 24 consecutive days up to day 40 after the start of prophylaxis. Secondary objectives include measures of safety, rates of infection, disease progression, and fatality rates. Allison McGeer, MD, FRCPC, MSc, Department of Microbiology, Mount Sinai Hospital, Sinai Health System, Toronto, Ontario, is the trial's primary investigator.

Appili first announced clinical trial application ("CTA") clearance for CONTROL-COVID from Health Canada in May 2020. The Company subsequently filed and received Health Canada approval for protocol amendments in June 2020 and October 2020. First enrollment was announced in October 2020 and is ongoing. Enrollment is expected to be completed in 2021. Appili also received clearance from the US Food and Drug Administration ("FDA") to expand the study to include US LTC facilities.

The Company has applied for non-dilutive government assistance from both Canadian and US government departments to help fund part of the above clinical trials evaluating Avigan®.

ATI-2307

Appili acquired novel antifungal ATI-2307 (formerly T-2307) from FFTC in November 2019. Appili holds worldwide rights to the program with the exception of Japan, which was licensed back to FFTC as part of the Asset Purchase Agreement (as defined herein).

ATI-2307 is a novel small molecule antifungal with a highly differentiated mechanism of action and broad-spectrum activity against fungal pathogens, including *Candida*, *Aspergillus*, and *Cryptococcus* (Mitsuyama et al., 2008). ATI-2307 interferes with fungal mitochondria, making it cidal (deadly) against *Cryptococcus* (Mitsuyama et al., 2008; Nishikawa et al., 2017; Shibata et al., 2012). The compound has demonstrated *in vivo* efficacy in multiple animal models of fungal infection, including 100% survival in a lethal mouse lung *Cryptococcus* infection model. The Company is planning on evaluating the potential effectiveness of ATI-2307 for the treatment of a variety of invasive fungal infections, including those caused by *Cryptococcus* and *Candida* species. The target patient population is proposed to consist of severely ill and hospitalized, highly comorbid patients with suspected or confirmed invasive fungal infection, in which ATI-2307 will be administered via intravenous infusion.

The safety and pharmacokinetics of ATI-2307 have been evaluated in 80 human subjects as part of three Phase 1 Single Ascending Dose (“**SAD**”) and/or Multiple Ascending Dose (“**MAD**”) clinical studies conducted in the United States. ATI-2307 has been safe and well tolerated at all doses tested in humans.

The Company is developing ATI-2307 for the treatment of invasive fungal infections with a near-term focus on those caused by *Cryptococcus* and *Candida*. Generally regarded as an opportunistic infection, *Cryptococcus* infections occur most commonly in immunosuppressed patients, such as those undergoing chemotherapy for cancer treatment, immunosuppression for transplant, or HIV-positive patients (May 2016). *Cryptococcus* is often invasive and infections frequently progress to the central nervous system, resulting in a disease known as cryptococcal meningitis. Cryptococcal meningitis is a life-threatening disease despite current therapies (Pyrgos 2013, Pappas 2013). The current standard of care for cryptococcal meningitis, which is amphotericin B in combination with flucytosine (Perfect 2010), is also associated with significant toxicity, including the potential for kidney failure (Saliba 2008, Hamill 2013, AmBisome® FDA Label 2012).

The Company is conducting proof of concept, nonclinical studies evaluating the therapeutic effect of ATI-2307 in rabbit and mouse intracranial *Cryptococcus* infection models. These studies are being conducted in collaboration with leading *Cryptococcus* researchers, including Dr. John Perfect at Duke University and Drs. Thomas Patterson and Nathan Wiederhold at the University of Texas Health Science Center at San Antonio. The Company is also evaluating ATI-2307 activity *in vitro* against a panel of clinical isolates, including drug-resistant *Cryptococcus* strains. The proposed and ongoing nonclinical studies will guide the Company’s development strategy. A portion of the work described above is being supported by the U.S. National Institute of Allergy and Infectious Diseases (“**NIAD**”).

The Company is also currently evaluating options to advance ATI-2307 as a therapeutic for invasive *Candida* infections through discussions with key opinion leaders and is exploring potential government grant sources to fund such activities. Multiple *Candida* species are capable of human infection, including the most commonly observed *Candida albicans* and the newly emerging pathogen *Candida auris* (Jeffery-Smith 2017). *Candida* species are generally treated with an echinocandin or an azole (Pappas 2015), but growing antifungal resistance is threatening the existing antifungal drugs on the market (Pristov 2019). Physicians often rely on toxic amphotericin B in cases of refractory and highly resistant *Candida* infections (Pappas 2015). In the case of *C. auris*, infections resistant to all three major classes have been reported (Ostrowsky 2020, Ostrowsky 2018, Lockhart 2017). Drug-resistant *Candida* and *C. auris* in particular are now priority pathogens for the CDC (CDC 2019).

Appili has also initiated parallel preclinical, manufacturing, clinical, and regulatory activities to support initiation of a Phase 2 clinical trial targeted to commence in 2022.

Depending on the indication(s) pursued in the clinic, ATI-2307 may be eligible for development under the Limited Population Pathway for Antibacterial and Antifungal Drugs (“**LPAD**”). Introduced in 2016 as part of the 21st Century Cures Act, the LPAD provides a mechanism for accelerated clinical development for antibiotics and antifungals that treat serious or life-threatening conditions in a limited population, by potentially allowing for smaller, shorter, or fewer clinical trials (FDA, 2018). Additional conditions may need to be met in order to be eligible for development and approval under the LPAD. The Company is evaluating the eligibility and appropriateness of applying the LPAD to ATI-2307 development.

The Company believes that ATI-2307 would be eligible for an Orphan Drug Designation (“**ODD**”) from the FDA if developed for either the treatment of cryptococcal meningitis or invasive candidiasis. This would qualify ATI-2307 for seven years of regulatory exclusivity upon FDA approval of the ODD.

ATI-1701

Appili licensed the exclusive worldwide rights to biodefense vaccine candidate ATI-1701 from the National Research Council of Canada (“**NRC**”) in December 2017.

ATI-1701 is a novel, live-attenuated vaccine for *Francisella tularensis* (“**F. tularensis**”). *F. tularensis*, which causes tularemia, is a Category A pathogen which can be aerosolized and is over 1,000 times more infectious than anthrax via the inhaled route (PHAC PSDS Anthrax 2011, PHAC PSDS Tularemia 2011). Category A pathogens are organisms or biological agents that according to the National Institutes of Health (“**NIH**”) pose the highest risk to National Security and public health (NIH website). The signs, symptoms, and prognosis of tularemia depends on the route of infection. Pneumonic tularemia, caused by inhalation of *F. tularensis*, is among the most severe forms of tularemia, causing respiratory issues and difficulty breathing in patients and can be fatal if untreated, (CDC 2018, WHO 2007). Since it is a highly infectious pathogen capable of causing severe illness, medical counter measures for *F. tularensis* are a top biodefense priority for the United States and governments around the world. There is currently no approved vaccine for the prevention of tularemia in the United States or other major global markets.

Preliminary studies in mice conducted by the NRC and colleagues have demonstrated 100% survival of ATI-1701-immunized mice compared to no survival in unvaccinated mice (Conlan 2010, Shen 2010). Appili and its strategic partners, including Ology Bioservices (“**Ology**”) and MRI Global, are evaluating the feasibility of developing ATI-1701 under the FDA Animal Rule, including the development of suitable experimental models to demonstrate ATI-1701 efficacy. Appili intends to work with the NRC and existing partners to complete the preclinical and clinical testing required under the Animal Rule to evaluate the immunogenicity, efficacy, and safety of the ATI-1701 vaccine and ultimately support the Company’s submission of a Biological License Application for ATI-1701 to the FDA. Drug manufacturing activities have been initiated and animal work commenced in 2019, with preliminary, non-human primate efficacy studies ongoing and data evaluating the vaccines efficacy up to 365 days after vaccination expected in 2020. This will be followed by pivotal animal studies as well as a human safety Phase 1 study targeted to start in 2022. Preliminary data from the ongoing preclinical non-human primate study showed a protective effect from ATI-1701 when animals were challenged with a lethal dose of *F. tularensis* 28 days after vaccination, and complete (100% survival) protection from lethal challenge 90 days after vaccination.

ATI-1701 activities have been, and are continuing to be, funded with Appili’s current resources and grant funding received from the US Defense Threat Reduction Agency (“**DTRA**”), including a recently announced award of \$6.3M USD in additional funding to support advanced development and manufacturing of the vaccine.

ATI-1503

The ATI-1503 program objectives include the development of a new class of Gram-negative targeting antibiotics. The ATI-1503 program is building off the molecular structure of negamycin, a naturally-occurring compound that can kill Gram-negative bacteria, with multiple attractive drug-like properties that support its development. Negamycin has a novel, well-characterized mechanism of action, activity against a wide range of Gram-negative bacteria, including CDC priority pathogens, *Enterobacteriaceae*, *Acinetobacter* and *Pseudomonas*, with favourable pharmacokinetic properties (Guo 2015, McKinney 2015, Olivier 2014, Polikanov 2014).

The ATI-1503 development team is now working on two novel, structurally-distinct lead series based on the negamycin scaffold, each of which has exhibited over 10-fold increases in antibiotic activity compared to the original negamycin compound. These lead compounds now have low, single-digit minimum inhibitory concentrations (“**MICs**”) against multiple species of *Enterobacteriaceae*, including CDC top priority pathogen carbapenem-resistant *Enterobacteriaceae* and *Acinetobacter*. Multiple negamycin analogues have demonstrated *in vivo* proof of concept against *Klebsiella* and *Escherichia*. These most promising compounds continue to advance through Appili’s structured preclinical screening and evaluation, which includes multiple *in vivo* efficacy animal models, safety screening, and pharmacokinetic profiling.

Characterization of *in vivo* toxicology is currently ongoing. Compounds that successfully complete this preclinical development process may be nominated as clinical candidates for investigational new drug (“**IND**”) enabling studies. To support IND-enabling studies, the manufacturing route has been optimized and is now amenable to scale-up to 100-gram amounts. The previous synthetic route was only capable of generating milligram to gram quantities of material. While Appili aims to identify a preclinical lead in 2021, the Company recognizes that the negamycin molecular structure may have the potential to yield multiple derivative compounds with distinct efficacy, safety, and pharmacokinetic profiles suitable for parallel development. The Company may elect to continue pursuing additional optimization activities to produce follow-on compounds with additional clinical potential and value.

ATI-1503 activities have been, and are continuing to be, funded with Appili’s current resources and grant funding received from the NRC Industrial Research Assistance Program and the U.S. government’s Peer Reviewed Medical Research Program (“**PRMRP**”).

ATI-1501

ATI-1501 is a taste-masked liquid oral suspension formulation of an antibiotic, metronidazole. Metronidazole is a front-line antibiotic for the treatment of anaerobic bacterial and parasitic infections (Quintiles 2016, Solomkin 2010, Flagyl® FDA Label 2018). In many jurisdictions, including the United States and Canada, the only approved oral metronidazole products are in solid dose formats. Elderly and pediatric patients with difficulty swallowing must typically crush the tablets to ingest them. Metronidazole also has a strong bitter, metallic taste that is exacerbated during 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, supporting adherence and clinical outcomes.

Appili has licensed United States development and commercialization rights to the New York-based specialty pharmaceutical company Saptalis Pharmaceuticals LLC (“**Saptalis**”).

The primary commercialization focus for ATI-1501 is the United States market. To be marketed in the United States, ATI-1501 must be approved by the FDA. Since ATI-1501 is a reformulation of an approved pharmaceutical product, the Company expects it to qualify for FDA approval pursuant to Section 505(b)(2) of the FDA Act (the “**FDCA**”). The 505(b)(2) regulatory pathway allows companies to use previously published clinical data about the approved active ingredient as part of its application package, a feature that reduces clinical costs and time to approval. The quantity of new clinical data required for a 505(b)(2) application is dependent on the reformulation in question and is determined in consultation with the FDA. If the application via the 505(b)(2) pathway is successful, ATI-1501 is expected to be approved for the same approved indications for which metronidazole is currently approved.

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. In addition, Saptalis will be responsible for overseeing the regulatory review, manufacturing and preparation for the filing of an NDA with the FDA expected in 2021, as well as the anticipated commercialization of ATI-1501 in the United States, which are the next major development milestones for ATI-1501. Upon signing the commercialization agreement with Saptalis, the Company received the initial upfront payment of USD\$150,000 that was recognized as revenue in December 2019.

The milestones set out above are based on management’s current expectations with respect to the development and advancement of the Company’s products 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 objective will be achieved, and there can be no assurance with respect to the time or resources that may be required.

COVID-19

The World Health Organization declared the outbreak of the novel coronavirus SARS-CoV-2 a global pandemic and a result, governmental authorities had to introduce measures to limit the impact of the pandemic, which resulted in a disruption and collapse of business activities. As a result of COVID-19, currently, some of the development activities

in Appili's product candidates have been delayed. The extent to which COVID-19 will continue to impact the Company's operations will depend on future developments which are highly uncertain and cannot be predicted with confidence. The continued spread of COVID-19 globally could adversely impact the Company's operations, including among others, manufacturing supply chain and clinical trial activities and timelines, which could have an impact on business and financial results.

Our Business Strategy

The Company was founded to acquire, develop and commercialize novel therapeutics in the area of infectious disease. The strategic decision to focus on infectious disease was driven by the large unmet clinical need in the therapeutic area, as well as the increasing number of regulatory and financial incentives available to support anti-infective R&D. The Company has recruited a team of experienced drug development and commercialization professionals to, among other things: (i) identify high value commercial and R&D anti-infective assets, (ii) leverage available incentive programs to accelerate development, and (iii) maximize market access, reimbursement, and partnerships and alliances to realize stakeholder value. The Appili team has built a portfolio of anti-infective assets through internal innovation and acquisition from partners, and is actively evaluating additional antiviral, antibacterial, antifungal, antiparasitic and vaccine assets for acquisition or partnership.

RECENT DEVELOPMENTS

Overall Performance

In March 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. We continue to monitor the COVID-19 situation, which is rapidly evolving. In addition to adhering to directives from public health officials, we have implemented a pandemic contingency plan to guide our employees, contractors, visitors, facilities and operations. Our plan includes identifying essential business activities to help ensure continuity of business, restricting access to our offices and operation sites and encouraging all employees to work from home to the extent possible, asking business partners to engage us by telephone or video conference where possible, eliminating business travel and requiring self-isolation for employees travelling outside of Canada and increasing the frequency and emphasis on cleaning and sanitizing. As the COVID-19 health crisis further develops, we will continue to rely on guidance and recommendations from local health authorities and the Centers for Disease Control and Prevention to update our policies.

The Company has limited revenues, so its ability to ensure continuing operations is dependent on obtaining necessary financing to complete the development of the Company's anti-infective portfolio, which includes five major programs: ATI-2307, ATI-1701, ATI-1503, and ATI-1501 in addition to the Company's sponsored clinical trials of Avigan®.

The Company had the following recent key developments and achievements:

- On October 30, 2020, the Company announced that it has signed a collaboration, development and supply agreement with DRL and GRA. This agreement follows on and is harmonized with the previously announced global licensing transaction (excluding Japan, Russia, and China) between DRL, GRA and FFTC, the originator of Avigan® tablets. The agreements work together to coordinate and accelerate the worldwide development, commercialization, and distribution of Avigan® for the potential treatment and prevention of COVID-19.
- On October 29, 2020, the Company announced that it has recruited Don Cilla, PharmD, MBA, to serve as the Company's new Chief Development Officer (CDO), effective November 1, 2020.
- On October 27, 2020, the Company announced it had entered into an agreement with Ology, a biologics contract development and manufacturing organization (CDMO), under which Ology will manufacture the Company's ATI-1701 vaccine candidate. The U.S. Department of Defense (DOD), through the Joint Science and Technology Office of the DTRA, awarded Ology \$6.3MM USD for ATI-1701 manufacturing and development work under contract # MCDC18-04-13-006. DTRA-funded manufacturing work will be used to provide vaccine supply for future development of Appili's ATI-1701 program.

- On October 20, 2020, the Company announced that investigators enrolled and dosed the first cluster of participants in Appili’s CONTROL COVID-19 clinical trial.
- On September 16, 2020, the Common Shares began trading on the TSX under the trading symbol “APLI”.
- On September 11, 2020, the Company announced that it has submitted a new protocol to its open IND with the FDA to conduct a Phase 3 clinical study evaluating Avigan® in the early treatment outpatient setting for adult COVID-19 infections.
- On August 10, 2020, the Company announced that the FDA had granted the Company clearance to proceed after Appili’s filing of an IND application for broad-spectrum antiviral favipiravir. Appili is expanding its Phase 2 clinical trial into the U.S. to evaluate the safety and efficacy of favipiravir tablets in controlling outbreaks following exposure to COVID-19 in long-term care (“LTC”) facilities.
- On July 30, 2020, the Company announced that it had initiated site screening of LTC facilities in Ontario for its Phase 2 study evaluating Avigan® as a post-exposure outbreak control measure against COVID-19. Residents at screened sites will be eligible for enrollment and randomization into the trial upon confirmation of a COVID-19 outbreak. The trial is expected to ultimately enroll approximately 760 participants at 16 LTC facilities. Appili may increase the number of LTC facilities screened depending on the trajectory of the COVID-19 pandemic.

SELECTED FINANCIAL INFORMATION

	Three months ended September 30, 2020 (\$)	Three months ended September 30, 2019 (\$)
Net loss and comprehensive loss for the period	(2,475,533)	(1,149,820)
Basic and diluted loss per share	(0.04)	(0.03)

	As at September 30, 2020	As at March 31, 2020
Cash and short-term investments	22,912,376	10,540,165
Total assets	23,722,266	11,173,963
Long-term debt	1,013,400	1,005,000

RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020 (“Q2 2021”), COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2019 (“Q2 2020”)

	<u>Three months ended September 30, 2020</u> (\$)	<u>Three months ended September 30, 2019</u> (\$)
Income		
Interest income	46,116	13,380
	<u>46,116</u>	<u>13,380</u>
Expenses		
Research and development (“R&D”)	1,115,278	562,836
General and administration (“G&A”)	1,406,660	698,411
Business development (“BD”)	176,201	135,840
Accreted interest	9,300	37,156
Government assistance	(185,790)	(271,043)
	<u>2,521,649</u>	<u>1,163,200</u>
Net loss and comprehensive loss	<u>(2,475,533)</u>	<u>(1,149,820)</u>

Income

Interest income increased by \$32,736 to \$46,116 during Q2 2021 compared to \$13,380 in Q2 2020, due to a higher cash balance during Q2 2021.

Operating expenses

Overall operating expenses increased by \$1,358,449 to \$2,521,649 during Q2 2021 compared to \$1,163,200 in Q2 2020 due mainly to an increase of \$708,249 in G&A costs, an increase of \$552,442 in R&D activities, an increase of \$40,361 in BD costs and a reduction in government assistance of \$85,253. This was offset by a decrease in accreted interest of \$27,856. 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 preparation of its product candidates. The R&D expenses for the period relate to costs incurred for the development of all four product candidates, including ATI-1501, ATI-1503, ATI-1701, ATI-2307, as well as costs incurred to sponsor the clinical trials of Avigan®, and general R&D.

Specifically, the Company’s R&D expenses for Avigan® include clinical site expenses, fees paid to the Contract Research Organizations (“CROs”), clinical manufacturing and regulatory fees. ATI-2307 expenses include pre-clinical animal studies, manufacturing technology transfer costs, clinical consultants and Phase 2 clinical trial preparation activities. For ATI-1701, expenses include license fees, patent costs, stability testing and regulatory costs. For ATI-1503, R&D expenses include non-clinical costs which include laboratory materials, chemicals and supplies, pre-clinical biological studies, out-sourced manufacturing, and costs to optimizing the pre-clinical manufacturing process. Finally, the ATI-1501 R&D activities include clinical manufacturing costs, technology transfer and

supporting regulatory activities. All programs, as well as general R&D, also include allocation of salaries and benefits, consulting fees paid to various independent contractors with specific research and development expertise required by the Company. General R&D expenses also include rental of laboratory facilities, insurance, as well non-material research projects.

R&D expenses consist of the following:

	<u>Three months ended September 30, 2020</u> (\$)	<u>Three months ended September 30, 2019</u> (\$)
Avigan [®] expenses	484,386	-
ATI-2307 expenses	116,027	-
ATI-1701 expenses	70,446	57,513
ATI-1503 expenses	19,638	81,677
ATI-1501 expenses	29,590	88,725
General R&D expenses	17,866	104,933
Amortization of property and equipment	2,250	2,868
Salary and benefits	272,392	184,176
Stock-based compensation	102,683	42,944
Total	<u>1,115,278</u>	<u>562,836</u>

The increase in R&D expenses by \$552,442 from \$562,836 in Q2 2020 to \$1,115,278 in Q2 2021 is mainly attributable to a \$484,386 increase in the Avigan[®] clinical trials, a \$116,027 increase in the ATI-2307 program, a \$88,215 increase in salaries and benefits, a \$59,739 increase in stock-based compensation, and a \$12,933 increase in the ATI-1701 program. This was offset by a \$87,067 decrease in general R&D expenses, a \$59,135 decrease in the ATI-1501 program and immaterial fluctuations in amortization.

Avigan[®]

The expenses related to the Avigan[®] clinical trials include clinical site expenses, including the protocol development and initiation of site screening, fees paid to the CROs, consulting costs and regulatory costs in association with the preparation and publishing of an IND application with the FDA.

ATI-2307

The expenses related to the ATI-2307 program are mainly patent fees in various jurisdictions and biological testing performed in Q2 2021.

ATI-1701

The increase in expenses related to the ATI-1701 program is due to the increase in IP management costs in Q2 2021 in comparison to Q2 2020.

ATI-1503

The significant decreased costs in the ATI-1503 program are a result of the change of development activities the Company undertook in Q2 2021 in comparison to Q2 2020. Q2 2021 costs consisted of research consulting, and

structure toxicity relationship studies. In Q2 2020, costs consisted of biological testing, pre-clinical manufacturing, research chemicals and research consulting.

ATI-1501

The decreased costs in the ATI-1501 program are a result of the Company out-licensing the development and commercialization rights to Saptalis in December 2019. During Q2 2021, the Company incurred expenses for the development of the pediatric study plan, as part of the agreement with Saptalis, as well as IP management. Q2 2020 costs consisted mainly of formulation development.

General R&D Expenses

The decrease in general R&D expenses is mainly related to the decrease of consulting fees paid to the Chief Development Officer once he became the full time CEO in December of 2019.

Salary and Benefits and Stock-based compensation

Salary and benefits increased in Q2 2021 due mainly due to staff changes.

The increase in stock-based compensation expenses is due to stock options being issued in Q2 2021.

ii. G&A expenses

The Company's G&A expenses include salary 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 and the graduation to the TSX, regulatory, investor relations and public relations, 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 September 30, 2020</u> (\$)	<u>Three months ended September 30, 2019</u> (\$)
G&A expenses, excluding salaries	750,430	402,344
Salary and benefits	292,539	202,548
Stock-based compensation	362,243	91,931
Amortization of property and equipment	1,448	1,588
Total	<u>1,406,660</u>	<u>698,411</u>

G&A expenses increased by \$708,249 from \$698,411 in Q2 2020 to \$1,406,660 in Q2 2021 due to an increase of \$348,086 in G&A expenses excluding salaries and benefits, \$270,312 increase in stock based compensation and \$89,991 increase in salaries and benefits, offset by an immaterial decrease in amortization.

G&A expenses, excluding salaries

G&A expenses, excluding salaries, for Q2 2021 increased by \$348,086 mainly due to increased filing fees as a result of graduating to the TSX from the TSX Venture Exchange (the "TSX-V"), public relations costs, investor relations costs and regulatory fees as a publicly listed company as well as increases in audit and legal fees. These increases were offset by decreases in travel costs due to travel restrictions in place as a result of COVID-19.

Salary and Benefits and Stock-based compensation

Salaries and benefits increased in Q2 2021 by \$89,991 due mainly to staffing changes.

The increase in stock-based compensation in Q2 2021 in comparison to Q2 2020 by \$270,312 is due to stock options granted in Q2 2021.

iii. BD expenses

BD expenses consist of business development travel expenses, office rent, and consulting and services fees paid to various independent contractors with specific business development expertise required by the Company.

BD expenses increased by \$40,361 mainly due to an increase in stock based compensation, and legal costs associated with securing the rights to Avigan[®], offset by decreased salaries and benefits as the allocation of salaries has changed since Q2 2020, as well as decreased BD advisory services.

iv. Accreted Interest

Accreted interest relates entirely to the valuation of zero interest bearing government loans which are repayable based on a percentage of future gross revenue or are repayable over 84 or 120 months. Under IFRS, these zero-interest bearing government loans from the Atlantic Canada Opportunities Agency 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 accreted interest by \$27,856 from \$37,156 in Q2 2020 to \$9,300 in Q2 2021 is due mainly to the accreted interest associated with the revaluations of the zero interest bearing government loans that are repayable over 84 or 120 months as a result of a 9 month payment deferral granted in response to COVID-19.

v. Government assistance

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

Government assistance decreased by \$85,253 from \$271,043 in Q2 2020 to \$185,790 in Q2 2021. This is due mainly to different government grants and loans the Company had in Q2 2020 versus Q2 2021.

vi. Net loss and comprehensive loss

The net loss and comprehensive loss was \$2,475,533 for Q2 2021, a difference of \$1,325,713 compared to the net loss and comprehensive loss of \$1,149,820 for Q2 2020.

RESULTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2020, COMPARED TO THE SIX MONTHS ENDED SEPTEMBER 30, 2019

	Six months ended September 30, 2020 (\$)	Six months ended September 30, 2019 (\$)
Net loss and comprehensive loss for the period	(5,073,671)	(2,948,832)
Basic and diluted loss per share	(0.09)	(0.09)

	<u>Six months ended September 30, 2020 (\$)</u>	<u>Six months ended September 30, 2019 (\$)</u>
Income		
Interest income	67,667	25,799
	<u>67,667</u>	<u>25,799</u>
Expenses		
R&D	2,686,260	1,135,599
G&A	2,444,577	1,574,328
BD	322,562	630,774
Accreted interest	8,400	(50,163)
Government assistance	(320,461)	(315,907)
	<u>5,141,338</u>	<u>2,974,631</u>
Net loss and comprehensive loss	<u>5,073,671</u>	<u>2,948,832</u>

Income

Interest income increased by \$41,868 to \$67,667 during the six months ended September 30, 2020 compared to \$25,799 in the six months ended September 30, 2019 due to a higher cash balance during the six months ended September 30, 2020.

Operating expenses

Overall operating expenses increased by \$2,166,707 to \$5,141,338 during the six months ended September 30, 2020 compared to \$2,974,631 in the six months ended September 30, 2019 due to an increase in R&D expenses by \$1,550,661, an increase in G&A expenses by \$870,249, an increase in accreted interest of \$58,563. These increases were offset by a decrease of \$308,212 in BD expenses and an increase of government assistance of \$4,554. 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 preparation of its product candidates. The R&D

expenses for the period relate to costs incurred for the development of all four product candidates, including ATI-1501, ATI-1503, ATI-1701, ATI-2307, as well as costs incurred to sponsor the clinical trials of Avigan[®], and general R&D.

R&D expenses consist of the following:

	<u>Six months ended September 30, 2020</u> (\$)	<u>Six months ended September 30, 2019</u> (\$)
Avigan [®] expenses	1,508,085	-
ATI-2307 expenses	366,793	-
ATI-1701 expenses	92,550	94,674
ATI-1503 expenses	39,714	203,330
ATI-1501 expenses	43,363	120,532
General R&D expenses	30,688	190,021
Amortization of property and equipment	4,544	5,736
Salary and benefits	482,543	454,642
Stock-based compensation	117,980	66,664
Total	<u>2,686,260</u>	<u>1,135,599</u>

The increase in R&D expenses by \$1,550,661 from \$1,135,599 in the six months ended September 30, 2019 to \$2,686,260 in the six months ended September 30, 2020 is mainly attributable to a \$1,508,058 increase in the Avigan[®] program, the \$366,793 increase in ATI-2307 program, a \$51,316 increase in stock based compensation and a \$27,901 increase in salary and benefits. These increases were offset by \$163,616 decrease in the ATI-1503 program, a \$159,333 decrease in general R&D expenses, a \$77,169 decrease in the ATI-1501 program, a \$2,124 decrease in the ATI-1701 program as well as immaterial fluctuations in amortization.

Avigan[®]

The expenses related to the Avigan[®] clinical trials include clinical site start up expenses, including the protocol development and initiation of site screening, fees paid to the CROs, clinical manufacturing of the placebo required for the clinical trials, consulting costs and regulatory costs in association with filing the Clinical Trial Application with Health Canada and the IND with the FDA.

ATI-2307

The expenses related to the ATI-2307 program are mainly patent fees in various jurisdictions, biological testing performed and manufacturing technology transfer costs and analysis in the six months ended September 30, 2020.

ATI-1701

The decrease in the ATI-1701 costs is due to a decrease in regulatory expenses, offset by an increase in intellectual property management work in the six months ended September 30, 2020 in comparison to the six months ended September 30, 2019.

ATI 1503

The significant decreased costs in the ATI-1503 program are a result in the change of activities the Company undertook in the six months ended September 30, 2020 in comparison to the six months ended September 30, 2019. Costs for the six months ended September 30, 2020 consist mainly of research consulting and the costs for the six months ended September 30, 2019 consist of biological testing, pre-clinical manufacturing, research consulting and research consulting.

ATI-1501

The decreased costs in the ATI-1501 program are a result of the Company out-licensing the development and commercialization rights to Saptalis in December 2019. During the six months ended September 30, 2020, the Company sold the remaining inventory related to ATI-1501 to Saptalis and as a result recorded a cost recovery to the extent Saptalis reimbursed the Company for the costs of the inventory, offset by a bad debt provision as partial payment is dependent on the condition of the inventory at a future date. Costs for the six months ended September 30, 2019 consisted mainly of formulation development.

General R&D Expenses

The decrease in general R&D expenses is mainly related to the decrease in other R&D research projects the Company is exploring.

Salary and Benefits and Stock base compensation

Salary and benefits increased in the six months ended September 30, 2020 due mainly due to staff changes.

The increase in stock-based compensation expense is due to stock options being granted in the six months ended September 30, 2020.

ii. G&A expenses

The Company's G&A expenses include salary 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-V and graduation to the TSX, regulatory, investor relations and public relations, 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>Six months ended September 30, 2020</u> (\$)	<u>Six months ended September 30, 2019</u> (\$)
General and administrative expenses, excluding salaries	1,351,610	981,497
Salary and benefits	579,900	413,350
Stock-based compensation	510,472	176,348
Amortization of property and equipment	2,595	3,133
Total	<u>2,444,577</u>	<u>1,574,328</u>

G&A expenses increased by \$870,249 from \$1,574,328 in the six months ended September 30, 2019 to \$2,444,577 in the six months ended September 30, 2020 due to a \$370,113 increase in G&A expenses, excluding salaries, a

\$334,124 increase in stock based compensation and a \$166,550 increase in salaries and benefits and an immaterial fluctuation in amortization.

G&A expenses, excluding salaries

G&A expenses, excluding salaries, for the six months ended September 30, 2020 increased mainly due to (i) a \$180,365 increase in public and media relations due to the new Avigan[®] program; (ii) a \$131,570 increase in public filings as a result of listing the Company on the OTCQX and graduating to the TSX from the TSX-V; (iii) a \$98,917 increase in business advisory fees as a result of financial advisory services and recruiting fees; and (iv) a \$73,566 increase in government grant and relations consulting as a result of receiving increased funding from the PRMRP grant in the six months ended September 30, 2020 versus the six months ended September 30, 2019.

Salary and Benefits and Stock-based compensation

Salaries and benefits increased in the six months ended September 30, 2020 by \$166,550 due mainly to the increase in salaries, as well as other changes in staff.

The increase in stock-based compensation in the six months ended September 30, 2020 in comparison to the six months ended September 30, 2019 by \$334,124 is due to options being granted in the six months ended September 30, 2020.

iii. BD expenses

BD expenses consist of business development travel expenses, office rent, and consulting and services fees paid to various independent contractors with specific business development expertise required by the Company.

BD expenses decreased by \$308,212 the six months ended September 30, 2020 mainly due a decrease in salaries and benefits and stock based compensation as a result of turnover of staff and a reallocation of salaries and a decrease in BD advisory services. These decreases were offset by an increase in BD legal costs associated with securing the rights to Avigan[®].

iv. Accreted Interest

Accreted interest relates entirely to the valuation of zero interest bearing government loans which are repayable based on a percentage of future gross revenue or are repayable over 84 or 120 months. Under IFRS, these 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 then 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 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 negative accreted interest by \$58,563 from \$50,163 in the six months ended September 30, 2019 to positive \$8,400 in the six months ended September 30, 2020 is due mainly to the accreted interest associated with the revaluations of the zero interest bearing government loans that are repayable over 84 or 120 months as a result of a nine month payment deferral granted in response to COVID-19.

v. Government assistance

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

Government assistance increased by \$4,554 from \$315,907 in the six months ended September 30, 2019 to \$320,461 in the six months ended September 30, 2020. This is due mainly to different government grants and loans the Company had in the six months ended September 30, 2019 versus the six months ended September 30, 2020

vi. Net loss and comprehensive loss

The net loss and comprehensive loss was \$5,073,671 for the six months ended September 30, 2020 which was \$2,124,839 higher than the net loss and comprehensive loss of \$2,948,832 for the six months ended September 30, 2019.

SUMMARY OF QUARTERLY RESULTS

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

Quarterly Ended In	Total Income (\$)	Total Expenses (\$)	Loss (\$)	Basic and Diluted Loss Per Share (\$)
Q2 – September 30, 2020	46,116	2,521,649	(2,475,533)	(0.04)
Q1 – June 30, 2020	21,551	2,619,689	(2,598,138)	(0.05)
Q4 - March 31, 2020	7,394	1,294,467	(1,287,073)	(0.04)
Q3 – December 31, 2019	206,079	1,386,670	(1,180,591)	(0.04)
Q2 – September 30, 2019	13,380	1,163,200	(1,149,820)	(0.03)
Q1 – June 30, 2019	12,419	1,811,431	(1,799,012)	(0.06)
Q4 - March 31, 2019	13,095	1,319,552	(1,306,457)	(0.04)
Q3 – December 31, 2018	7,541	1,215,461	(1,207,920)	(0.04)

Certain reclassifications have been made to the prior quarter's financial results to enhance comparability with the current year's financial statements. As a result, interest income and general and administrative expenses have been amended to remove interest income from general and administrative expenses to be presented as income.

CASH FLOWS

At September 30, 2020, the Company had cash and short-term investments of \$22,912,376 and working capital of \$21,939,523 compared to \$10,540,165 and \$9,732,658, respectively as at March 31, 2020.

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

Operating activities

During the six months ended September 30, 2020, \$4,218,165 was used in operating activities, including a reported net loss of \$5,073,671 prior to being decreased by \$665,981, \$11,504, \$8,400, \$4,096, \$3,606 and \$3,429 for non-cash items including stock-based compensation, unrealized loss from changes in foreign currency, accreted interest, amortization, and loss on disposal of property and equipment. This was offset by a net increase of cash of \$161,919 as a result of changes in working capital.

Financing activities

The Company raised \$16,965,000 in connection with the June 2020 Offering and the Concurrent Private Placement, less share and warrant issuance costs of \$1,400,210. The Company also received proceeds of \$828,014 through the exercise of warrants, \$198,134 through the exercise of stock options and \$12,000 for the exercise of warrants in which the Common Shares will be issued subsequent to September 30, 2020.

Investing activities

During the six months ended September 30, 2020, the Company invested \$10,024,753 in multiple guaranteed investment certificates with maturities of one year or less and are subject to insignificant risk of changes in value.

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: clinical trial costs, including regulatory, third-party CRO's and manufacturing for the Phase 2 and Phase 3 clinical trials for Avigan[®]; regulatory, clinical manufacturing, non-clinical studies and Phase 2 clinical trial preparation for ATI-2307; supportive activities for pre-IND and IND-enabling activity costs for ATI-1701 including regulatory, manufacturing and non-clinical activities; chemistry and biological testing expenses to identify a clinical candidate for ATI-1503; 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 September 30, 2020, the Company had approximately \$23.33 million of existing and identified potential sources of cash including:

- cash and short-term investments of \$22.91 million; and
- amounts receivable and investment tax credits receivable of \$0.42 million.

The Company completed the February 2020 Offering (as defined herein), the June 2020 Offering and the Concurrent Private Placement for aggregate proceeds of \$27,215,000 and net proceeds of \$24,767,260. Additionally, the Company also has been granted an U.S. PRMRP award for up to USD\$3.0 million over the next two years to fund the Company's ATI-1503 program, of which the Company had only drawn down approximately USD\$0.47 million as of September 30, 2020. Finally, the Company also recently announced the USD\$6.3 million DTRA funding, however while this grant is funding part of the development costs for the ATI-1701 program, only partial funding will be received directly by the Company.

Going Concern

While the Company has cash resources of \$23.33 million as well as access to the \$2.58 million USD remaining PRMRP government grant, management does not believe it will be sufficient to fund operations, including the multiple clinical trials for Avigan[®], for the next twelve months, while maintaining adequate working capital unless significant reduction of the Company's discretionary expenditures are made and further financing is obtained. The ability of the Company to continue as a going concern is dependent upon raising additional capital to fund the Company's current clinical trials for Avigan[®], R&D activities for the other programs, 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 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, and/or new strategic partnership agreements to fund some or all costs of development. There can be no assurance that the Company will be able to obtain the capital sufficient to meet any or all of the Company needs. The availability of equity or debt

financing will be affected by, among other things, the results of the clinical trials and other 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 favorable or at all may require the Company to significantly change or curtail the current or planned operations in order to conserve cash until such time, if ever, that sufficient proceeds from operations are generated, and could result in the Company not taking advantage of business opportunities, in the termination or delay of clinical trials for our products, in curtailment of the product development programs designed. Such adjustments or delays could be material.

FEBRUARY 2020 EQUITY OFFERING AND USE OF PROCEEDS

On February 20, 2020, the Company completed an offering of 12,812,500 units (each a "February 2020 Unit") at a price of \$0.80 per February 2020 Unit, for aggregate proceeds of \$10,250,000 (the "February 2020 Offering"). The Company intended to use the net proceeds of the February 2020 Offering to fund planned R&D activities for the Company's four product candidates including the recently acquired ATI-2307 antifungal program, the ATI-1701 tularemia vaccine program, and the antibiotic ATI-1503 program, as well as for working capital and general corporate purposes.

Intended Use of Proceeds	Estimated amount	Approximate Amount to September 30, 2020	Variance
	(\$)	(\$)	(\$)
ATI-2307 expenses	4,783,000	528,000	4,255,000
ATI-1701 expenses	202,000	169,000	33,000
ATI-1503 expenses	706,000	133,000	573,000
Other R&D expenses	649,000	288,000	361,000
Business Development	756,000	423,000	333,000
G&A	2,009,000	672,000	1,337,000
Working Capital	182,500	-	182,500
Total	9,287,500	2,213,000	7,074,500

JUNE 2020 EQUITY OFFERING AND USE OF PROCEEDS

On June 10, 2020, the Company completed the June 2020 Offering issuing 12,937,500 June 2020 Units at a price of \$1.20 per June 2020 Unit, for aggregate proceeds of \$15,525,000. The Company intended to use the net proceeds of the June 2020 Offering to fund the sponsoring of Phase 2 Avigan® clinical trial for COVID-19, R&D activities for the Company's four product candidates including the recently acquired ATI-2307 antifungal program, the ATI-1701 tularemia vaccine program, and the antibiotic ATI-1503 program, as well as for working capital and general corporate purposes.

Intended Use of Proceeds	Estimated amount (\$)	Approximate Amount to September 30, 2020 (\$)	Variance (\$)
Avigan [®] expenses	7,445,000	1,707,000	5,738,000
ATI-2307 expenses	999,000	-	999,000
ATI-1701 expenses	599,000	-	599,000
ATI-1503 expenses	175,000	-	175,000
Other R&D expenses	840,000	-	840,000
Business Development	160,000	-	160,000
G&A	1,947,000	-	1,947,000
Working Capital	125,000	-	125,000
Total	12,290,000	1,707,000	10,583,000

RELATED PARTY TRANSACTIONS

The Company's Chief Executive Officer (formerly Chief Development Officer) is a partner of Bloom Burton & Co., which is a principal shareholder of the Company. At September 30, 2020, the Company owed \$9,384 (March 31, 2020 - \$nil) to the Chief Executive Officer (formerly Chief Development Officer) and during the six months ended September 30, 2020, the Company was charged \$187,699 (September 30, 2019 - \$109,977) for services performed by the Chief Executive Officer (formerly Chief Development Officer).

The Company also owed \$6,774 (March 31, 2020 - \$nil) and during the six months ended September 30, 2020, was charged \$15,000 (September 30, 2019 - \$75,000) for consulting services in relation to business development activities by Bloom Burton Securities Inc. Also, during the six months ended September 30, 2020, the Company issued 280,777 compensation warrants valued at \$166,625 (September 30, 2020 - \$nil) and paid \$294,395 (September 30, 2020 - \$nil) in cash commissions to Bloom Burton Securities Inc. resulting from the June 2020 Offering.

CONTRACTUAL OBLIGATIONS

On November 21, 2019, the Company signed an asset purchase agreement (the "Asset Purchase Agreement") with FUJIFILM Toyama Chemical Co., Ltd. receiving exclusive worldwide rights, excluding Japan, to acquire and develop a novel broad-spectrum antifungal drug candidate, ATI-2307. The initial payment under the Agreement is only due upon a future milestone being achieved, which the Company has anticipated to be in 2021. If this milestone is not met, no amounts would be due. Additional payments are due upon the achievement of additional milestones, including FDA approval and other various performance thresholds. If the Company meets all of the contractual FDA approval requirements, a total of USD\$1,300,000 would be due under the contract prior to commercialization of the product. No payments have been made to date.

On October 30, 2020, the Company announced a collaboration, development and supply agreement (the "Collaboration, Development and Supply Agreement") to join DRL, FFTC, and GRA in the global development of Avigan[®] for treatment and prevention of COVID-19, excluding Japan, China and Russia. Under the terms of the Agreement and in collaboration with its partners, Appili is designing, overseeing, and funding pivotal clinical trials to support global regulatory submissions. Partners DRL, GRA, and FFTC will be responsible for manufacturing, distribution, and commercialization worldwide outside of Japan, China and Russia. The Company will receive a profit share on Canadian and US commercial sales and is eligible to receive royalties on rest of world sales realized by DRL and GRA, including in Europe and Latin America.

There is no other material change in the contractual obligations of the Company since the beginning of the 2021 fiscal year. Details on the contractual obligations of the Company can be found in the audited financial statements and related notes in the audited annual financial statements for the year ended March 31, 2020 and unaudited interim condensed financial statements for the six months ended September 30, 2020.

OFF-BALANCE SHEET ARRANGEMENTS

The Company was not party to any off-balance sheet arrangements as of September 30, 2020.

OUTSTANDING SECURITIES

As of November 12, 2020, the Company had 62,284,216 issued and outstanding Common Shares, 4,548,949 stock options and 15,011,610 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. An investor should carefully consider the risks described under the heading “*Risk Factors*” in the Company’s annual information form dated June 24, 2020 filed in respect of the fiscal year ended March 31, 2020. 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.

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 to be a pandemic. The extent to which COVID-19 impacts the Company’s business, including its operations and the market for its securities, will depend on future developments, which are highly uncertain and cannot be predicted at this time, and include the duration, severity and scope of the pandemic and the actions taken to contain or treat the COVID-19 pandemic (including recommendations from public health officials). Currently, some of the development activities in Appili’s product candidates have been delayed. The continued spread of COVID-19 globally could adversely impact the Company’s operations, including among others, manufacturing supply chain and clinical trial activities and timelines, which could have an impact on business and financial results.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has implemented a system of internal controls that it believes adequately protects the assets of the Company and is appropriate for the nature of its business and the size of its operations. The internal control system was designed to provide reasonable assurance that all transactions are accurately recorded, that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that our assets are safeguarded. These internal controls include disclosure controls and procedures designed to ensure that information required to be disclosed by the Company is accumulated and communicated as appropriate to allow timely decisions regarding required disclosure. Internal control over financial reporting means a process designed by or under the supervision of the CEO and the CFO, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS as issued by the IASB. The internal controls are not expected to prevent and detect all misstatements due to error or fraud. Although the Company believes its financial reporting and financial statements are prepared with reasonable safeguards to ensure reliability, the Company cannot provide absolute assurance in this regard.

BASIS OF PRESENTATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the IFRS as issued by the IASB. The accounting policies, methods of computation and presentation applied in the financial statements are consistent with those of previous financial years except for the presentation of government assistance now presented as a separate item in the statements of loss and comprehensive loss. The Company's significant accounting policies are detailed in the notes to the audited financial statements for March 31, 2020.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The determination of estimates requires the exercise of judgement based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results could differ from those estimates. Critical judgements in applying the Company's accounting policies are detailed in the unaudited interim condensed financial statements for the six months ended September 30, 2020.

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:

	September 30, 2020		March 31, 2020	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
Cash	12,857,088	12,857,088	10,509,630	10,509,630
Short-term investments	10,055,288	10,055,288	30,535	30,535
Amounts receivable	125,475	125,475	96,018	96,018
Accounts payable and accrued liabilities	1,668,148	1,668,148	1,323,495	1,323,495
Long-term debt	1,013,400	1,013,400	1,005,000	1,005,000

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, 2020, 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 following table outlines the contractual maturities 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 8 of the unaudited interim condensed financial statements as at September 30, 2020:

	Total	Year 1	Years 2 to 3	Years 4 to 5	After 5 years
Accounts payable and accrued liabilities	1,668,148	1,668,148	-	-	-
Long-term debt	3,944,590	126,708	347,923	372,033	3,097,926
	5,612,738	1,794,856	347,923	372,033	3,097,926

ADDITIONAL INFORMATION

Additional information relating to the Company, including the Company's annual information dated June 24, 2020 filed in respect of the fiscal year ended March 31, 2020, is available under the Company's profile on SEDAR at www.sedar.com.