

Appili Therapeutics Inc.

Interim Condensed Financial Statements
(Unaudited)

September 30, 2020

November 12, 2020

Management's Responsibility for Financial Reporting

The accompanying unaudited interim condensed financial statements of Appili Therapeutics Inc. (the "Company") are the responsibility of management and have been approved by the Board of Directors. The unaudited interim condensed 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) "*Armand Balboni*"
Chief Executive Officer

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

Appili Therapeutics Inc.

Interim Condensed Statements of Financial Position (Unaudited)

As at September 30, 2020 and March 31, 2020

	September 30, 2020 \$	March 31, 2020 \$
Assets		
Current assets		
Cash	12,857,088	10,509,630
Short-term investments (note 4)	10,055,288	30,535
Amounts receivable (note 5)	208,584	175,141
Investment tax credit receivable	208,400	138,200
Prepaid expenses and deposits	332,811	217,949
Inventory (note 6)	-	39,198
	<u>23,662,171</u>	<u>11,110,653</u>
Property and equipment	<u>60,095</u>	<u>63,310</u>
	<u>23,722,266</u>	<u>11,173,963</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	1,668,148	1,323,495
Current portion of long-term debt (note 8)	54,500	54,500
	<u>1,722,648</u>	<u>1,377,995</u>
Long-term debt (note 8)	<u>958,900</u>	<u>950,500</u>
	2,681,548	2,328,495
Shareholders' equity	<u>21,040,718</u>	<u>8,845,468</u>
	<u>23,722,266</u>	<u>11,173,963</u>
Subsequent events (note 15)		

Approved by the Board of Directors

(signed) "Ian Mortimer"
Director

(signed) "Theresa Matkovits"
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, 2020 and 2019

	Share capital \$ (note 9)	Special warrants \$	Contributed surplus \$ (note 10)	Warrants \$ (note 11)	Deficit \$	Total \$
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
Issuance of common shares in public offering	7,947,683	-	-	-	-	7,947,683
Share issuance costs	(1,116,530)	-	-	-	-	(1,116,530)
Issuance of warrants	-	-	-	2,694,953	-	2,694,953
Warrant issuance costs	-	-	-	(323,441)	-	(323,441)
Exercise of warrants	(432)	-	-	433	-	1
Expired warrants	-	-	33,730	(33,730)	-	-
Employee share options						
Value of services recognized	-	-	123,097	-	-	123,097
Modification of stock options	-	-	140,732	-	-	140,732
Net loss for the period	-	-	-	-	(2,467,664)	(2,467,664)
Balance – March 31, 2020	20,991,655	-	1,813,550	2,666,044	(16,625,781)	8,845,468
Issuance of common shares in public offering	11,959,708	-	-	-	-	11,959,708
Issuance of common shares in private placement	1,109,306	-	-	-	-	1,109,306
Share issuance costs	(1,490,720)	-	-	-	-	(1,490,720)
Issuance of warrants	-	-	-	4,430,894	-	4,430,894
Warrant issuance costs	-	-	-	(444,397)	-	(444,397)
Shares to be issued	12,000	-	-	-	-	12,000
Exercise of warrants	1,065,432	-	-	(237,418)	-	828,014
Employee share options						
Exercise of options	260,599	-	(62,465)	-	-	198,134
Value of services recognized	-	-	665,982	-	-	665,982
Net loss for the period	-	-	-	-	(5,073,671)	(5,073,671)
Balance – September 30, 2020	33,907,980	-	2,417,067	6,415,123	(21,699,452)	21,040,718

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, 2020 and 2019

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
		Amended (see note 14)		Amended (see note 14)
Income				
Interest income	46,116	13,380	67,667	25,799
	<u>46,116</u>	<u>13,380</u>	<u>67,667</u>	<u>25,799</u>
Expenses				
Research and development	1,115,278	562,836	2,686,260	1,135,599
General and administrative	1,406,660	698,411	2,444,577	1,574,328
Business development	176,201	135,840	322,562	630,774
Accreted interest	9,300	37,156	8,400	(50,163)
Government assistance	(185,790)	(271,043)	(320,461)	(315,907)
	<u>2,521,649</u>	<u>1,163,200</u>	<u>5,141,338</u>	<u>2,974,631</u>
Net loss and comprehensive loss for the period	<u>(2,475,533)</u>	<u>(1,149,820)</u>	<u>(5,073,671)</u>	<u>(2,948,832)</u>
Basic and diluted loss per share (note 9)	<u>(0.04)</u>	<u>(0.03)</u>	<u>(0.09)</u>	<u>(0.09)</u>
Weighted-average shares outstanding (note 9)	<u>61,608,661</u>	<u>33,588,947</u>	<u>55,945,960</u>	<u>32,191,931</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, 2020 and 2019

	September 30, 2020 \$	September 30, 2019 \$
Operating activities		
Net loss and comprehensive loss for the period	(5,073,671)	(2,948,832)
Changes to operations not involving cash:		
Amortization of property and equipment	4,096	8,869
Accreted interest	8,400	(50,163)
Share-based compensation	665,981	192,875
Warrants issued for services	-	140,671
Loss on disposal of property and equipment	3,606	-
Unrealized loss from changes in foreign currency	11,504	9,793
	<u>(4,380,084)</u>	<u>(2,646,787)</u>
Net changes in non-cash operating working capital		
Decrease (increase) in amounts receivable	(35,608)	125,969
Decrease (increase) in investment tax credits receivable	(70,200)	180,000
Decrease (increase) in prepaid expenses and deposits	(114,861)	163,070
Decrease in inventory	39,198	-
Increase (decrease) in accounts payable and accrued liabilities	343,390	(362,984)
	<u>(4,218,165)</u>	<u>(2,540,732)</u>
Financing activities		
Proceeds from the issuance of common shares in a public offering	11,959,708	-
Proceeds from the issuance of common shares in a private placement	1,109,306	-
Share issuance costs	(1,078,654)	(52,016)
Proceeds from the issuance of warrants	3,895,986	-
Warrant issuance costs	(321,556)	-
Proceeds from shares to be issued	12,000	-
Proceeds from the exercise of warrants	828,014	42,196
Proceeds from the exercise of stock options	198,134	-
Proceeds from long-term debt	-	242,175
Repayment of long-term debt	-	(25,107)
Accreted interest involving cash	-	(35,605)
	<u>16,602,938</u>	<u>171,643</u>
Investing activities		
Acquisition of property and equipment	(4,487)	(934)
Increase in short-term investments	(10,024,753)	(73)
	<u>(10,029,240)</u>	<u>(1,007)</u>
Net change in cash during the period	2,355,533	(2,370,096)
Cash – Beginning of period	10,509,630	5,421,097
Changes due to foreign exchange	(8,075)	(9,924)
Cash – End of period	<u>12,857,088</u>	<u>3,041,077</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, 2020

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 Toronto Stock Exchange (“TSX”) under the symbol “APLI”. On June 15, 2020, the Company began trading in the United States on the OTCQX Exchange. The address of its principal place of business is #21-1344 Summer Street, Halifax, Nova Scotia, Canada.

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 unaudited 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, 2020, the Company reported a loss of \$5,073,671 (September 30, 2019 - \$2,948,832) and an accumulated deficit of \$21,699,452 (September 30, 2019 - \$14,158,117). 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, including the multiple clinical trials for Avigan® favipiravir, that are planned for the next twelve months. 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 unaudited interim condensed 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, 2020

1 Nature of operations and going concern (continued)

Going concern (continued)

The World Health Organization declared the outbreak of the novel coronavirus SARS-CoV-2 (“COVID-19”) 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.

2 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, 2020.

The policies applied in these unaudited interim condensed financial statements are based on IFRS issued and outstanding as at November 12, 2020, the date the Board of Directors approved the 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, 2020

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, 2021, 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 unaudited interim condensed 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 unaudited interim condensed 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 still in the development stage for this infectious disease product and accordingly, determination of the amount and timing of revenue, if any, requires significant judgment by management. Management’s estimates of future revenues 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, 2020

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 signed a license agreement for the US development and commercialization rights for ATI-1501, with pharmaceutical company Saptalis Pharmaceuticals Inc. (“Saptalis”) in December 2019, which included an upfront payment, future milestone payments and future royalty payments. The Company performed the following sensitivity analysis on the basis that each change in the assumption being analyzed is made assuming the other assumptions remain the same. If the forecasted revenue was 10% higher or lower, the carrying value of the long-term debt would be \$14,100 higher or \$14,000 lower, respectively. If the total forecasted revenue were reduced to \$nil, no amounts would be forecasted to be repaid on the ACOA AIF loan and the ACOA AIF loan payable as at September 30, 2020 would be recorded at \$nil, which would be a reduction in the ACOA AIF loan payable of \$211,100. 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 as at September 30, 2020 would have been an estimated \$54,200 higher or \$44,900 lower, respectively.

Any changes in the amounts recorded on the unaudited interim condensed statements of financial position for the ACOA AIF loan result in an offsetting charge to accreted interest after initial recognition in the unaudited interim condensed 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 the 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 either 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 difference between the book value and the initial fair value of the ACOA BDP loans are recorded in the unaudited interim condensed statements of loss and comprehensive loss as government assistance on initial recognition. Any changes in the amounts recorded on the unaudited interim condensed statements of financial position for the ACOA BDP loans result in an offsetting charge to accreted interest after initial recognition in the unaudited interim condensed statements of loss and comprehensive loss.

Appili Therapeutics Inc.

Notes to Interim Condensed Financial Statements

(Unaudited)

For the six months ended September 30, 2020

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 valuation model. The model takes into account the estimate of the expected life of the option, the current price of the underlying share, the expected volatility, an estimate of future dividends on the underlying common share, the risk-free rate of return expected for an instrument with a term equal to the expected life of the option and the expected forfeiture rate.

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, 2020 \$	March 31, 2020 \$
Amounts due from government assistance and government loans	83,169	87,340
Amounts due from the sale of inventory	84,611	-
Allowance for doubtful accounts	(42,305)	-
Sales tax receivable	83,109	79,123
Other	-	8,678
	<hr/> 208,584	<hr/> 175,141

6 Inventory

	September 30, 2020 \$	March 31, 2020 \$
Raw materials	-	39,198

During the six months ended September 30, 2020, the Company sold remaining inventory to its partner Saptalis and recorded the cost recovery and the expense in research and development expenses in the unaudited interim condensed statements of loss and comprehensive loss.

7 Due to related party and 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. As 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).

Appili Therapeutics Inc.

Notes to Interim Condensed Financial Statements

(Unaudited)

For the six months ended September 30, 2020

7 Due to related party and related party transactions (continued)

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 Public Offering.

8 Long-term debt

	September 30, 2020 \$	March 31, 2020 \$
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, 2020, the principal outstanding was \$400,000 (March 31, 2020 - \$400,000).	248,800	248,800
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, 2020, the principal outstanding was \$410,720 (March 31, 2020 - \$410,720).	286,900	286,900
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, 2020, the principal outstanding was \$470,880 (March 31, 2020 - \$470,880).	266,600	266,600
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, 2020, the principal outstanding was \$2,662,990 (March 31, 2020 - \$2,662,990).	211,100	202,700
	1,013,400	1,005,000
Less: Current portion	(54,500)	(54,500)
	<u>958,900</u>	<u>950,500</u>

Total contributions received, less amounts that have been repaid as at September 30, 2020, is \$3,944,590 (March 31, 2020 - \$3,944,590). 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. As a result of COVID-19, ACOA granted a nine-month payment deferral starting April 1, 2020.

Appili Therapeutics Inc.

Notes to Interim Condensed Financial Statements

(Unaudited)

For the six months ended September 30, 2020

8 Long-term debt (continued)

Net debt reconciliation

	September 30, 2020 \$	March 31, 2020 \$
Balance, Beginning of period	1,005,000	1,118,600
Proceeds	-	-
Accreted interest, cash	-	(72,425)
Accreted interest, non-cash	57,200	158,985
Change in fair value as the result of changes in estimates of future cash flows associated with the ACOA AIF loan	-	(122,700)
Changes in fair value as the result of debt modification of the ACOA BDP loans	(48,800)	(24,501)
Repayment of debt	-	(52,959)
Balance, End of period	1,013,400	1,005,000
Less: Current portion	(54,500)	(54,500)
Non-current portion	958,900	950,500

9 Share capital

Authorized

Common shares

Unlimited number of common shares without nominal par value

	Number of shares #	Amount \$
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
Issued for cash	12,812,500	7,947,683
Less: share issuance costs	-	(1,116,530)
Warrants exercised	-	(432)
Balance, March 31, 2020	46,401,447	20,991,655
Issued for cash	14,137,500	13,069,014
Less: share issuance costs	-	(1,490,720)
Shares to be issued	-	12,000
Warrants exercised	853,420	1,065,432
Options exercised	381,175	260,599
Balance, September 30, 2020	61,773,542	33,907,980

On June 10, 2020, the Company completed a prospectus offering (“Public Offering”) of 12,937,500 units at a price of \$1.20 per unit, for aggregate proceeds of \$15,525,000. Each unit consisted of one common share and one-half of a common share purchase warrant, with each whole warrant entitling the holder to acquire one common share of the Company at an exercise price of \$1.50 for a period of three years, expiring on June 10, 2023.

Appili Therapeutics Inc.

Notes to Interim Condensed Financial Statements

(Unaudited)

For the six months ended September 30, 2020

9 Share capital (continued)

Total costs associated with the Public Offering were \$1,919,054, including cash costs for commissions of \$1,083,390, professional fees and regulatory costs of \$300,757 and 902,825 compensation warrants issued as commissions to the agents valued at \$534,907. Each compensation warrant entitles the holder to acquire one common share of the Company at an exercise price of \$1.20 for a period of two years, expiring on June 10, 2022. The Company has allocated the net proceeds of the Public Offering to the common share and the common share purchase warrants on a reasonable basis, proportionately based on the relative stand-alone fair values of the instruments. Based on the proportionate relative fair values, \$1,478,346 of the total costs were allocated to the common shares and \$440,708 to the common share purchase warrants.

On June 10, 2020, the Company also concurrently closed 1,200,000 units, on a non-brokered private placement basis, at the Offering Price for gross proceeds of \$1,440,000 (the “Concurrent Private Placement”). No fees or commissions will be payable to the agents in connection with the Concurrent Private Placement. Each unit consisted of one common share and one-half of a common share purchase warrant, with each whole warrant entitling the holder to acquire one common share of the Company at an exercise price of \$1.50 for a period of three years, expiring on June 10, 2023.

Total costs associated with the Concurrent Private Placement were professional fees and regulatory costs of \$16,062. The Company allocated the net proceeds of the Concurrent Private Placement to the common share and the common share purchase warrants on a reasonable basis, proportionately based on their relative stand-alone fair values of the instruments. Based on the proportionate relative fair values, \$12,374 to the common shares and \$3,688 to the common share purchase warrants.

On February 20, 2020, the Company completed a prospectus offering (“Prospectus Offering”) of 12,812,500 units at a price of \$0.80 per unit, for aggregate proceeds of \$10,250,000. Each unit consisted of one common share and one-half of the common share purchase warrant, with each whole warrant entitling the holder to acquire one common share of the Company at an exercise price of \$1.10 for a period of three years, expiring on February 20, 2023.

Total costs associated with the Prospectus Offering were \$1,439,971, including cash costs for commissions of \$717,500, professional fees and regulatory costs of \$330,031 and 896,875 compensation warrants issued as commissions to the agents valued at approximately \$392,440. Each compensation warrant entitles the holder to acquire one common share of the Company at an exercise price of \$0.80 for a period of two years, expiring on February 20, 2022. The Company has allocated the net proceeds of the Prospectus Offering to the common shares and the common share purchase warrants on a reasonable basis, proportionately based on the relative stand-alone fair values of the instruments. Based on the proportionate relative fair values, \$1,116,530 of the total costs were allocated to the common shares and \$323,441 to the common share purchase warrants.

On November 21, 2018, December 20, 2018 and March 19, 2019, the Company completed a special warrant (the “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, 2020

9 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 unaudited 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.

10 Contributed surplus

	Amount \$
Balance, March 31, 2019	1,308,748
Vesting of stock options	192,875
Warrants expired	14,368
	<hr/>
Balance, September 30, 2019	1,515,991
Vesting of stock options	123,097
Stock-based compensation – modification of existing options	140,732
Warrants expired	33,730
	<hr/>
Balance, March 31, 2020	1,813,550
Vesting of stock options	665,982
Options exercised	(62,465)
	<hr/>
Balance, September 30, 2020	<u>2,417,067</u>

Appili Therapeutics Inc.

Notes to Interim Condensed Financial Statements

(Unaudited)

For the six months ended September 30, 2020

10 Contributed surplus (continued)

The fair value of share-based compensation is estimated using the Black-Scholes valuation model. During the six months ended September 30, 2020, 200,000 stock options and 910,000 stock options vesting over a period of two and three years, respectively, all with a weighted average exercise price of \$1.09 and a term of 10 years, were granted to employees and directors. During the six months ended September 30, 2019, no stock options were granted. 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 \$1,092,405, which is a weighted average grant date value per option of \$0.98, using the Black-Scholes valuation model and the following weighted average assumptions:

	September 30, 2020 \$
Risk-free interest rate	0.48%
Expected volatility	122%
Expected life (years)	6.97
Dividend yield	0%

Option activity for the six months ended September 30, 2020 and September 30, 2019 was as follows:

	September 30, 2020		September 30, 2019	
	Number	Weighted average	Number	Weighted average
	#	exercise price	#	exercise price
		\$		\$
Outstanding – Beginning of period	4,402,932	0.63	3,054,418	0.69
Granted	1,110,000	1.09	-	-
Forfeited	-	-	(211,013)	0.69
Expired	-	-	(105,507)	0.69
Exercised	(381,175)	0.52	-	-
Outstanding – End of period	5,131,757	0.73	2,737,898	0.69

Appili Therapeutics Inc.

Notes to Interim Condensed Financial Statements

(Unaudited)

For the six months ended September 30, 2020

11 Warrants

Warrant activity for the six months ended September 30, 2020 and the year ended March 31, 2020 was as follows:

	Number #	Weighted average exercise price \$
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
Granted	7,303,125	1.02
Expired	(224,125)	1.01
Outstanding – March 31, 2020	8,043,243	1.07
Granted	7,971,575	1.47
Exercised	(853,420)	0.97
Outstanding – September 30, 2020	15,161,398	1.28

The weighted average value per warrant issued for the six months ended September 30, 2020 was \$0.56 (September 30, 2019 - \$0.47) and was determined using the Black-Scholes valuation model and the following weighted average assumptions:

	September 30, 2020
Risk-free interest rate	0.32%
Expected volatility	110.43%
Expected life (years)	2.89
Dividend yield	0%

Appili Therapeutics Inc.

Notes to Interim Condensed Financial Statements

(Unaudited)

For the six months ended September 30, 2020

12 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:

	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 as 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 fair value of the long-term debt is estimated based on the expected interest rates for similar borrowings by the Company at the unaudited interim condensed statements of financial position dates. As at September 30, 2020, 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 8 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
	<u>5,612,738</u>	<u>1,794,856</u>	<u>347,923</u>	<u>372,033</u>	<u>3,097,926</u>

Appili Therapeutics Inc.

Notes to Interim Condensed Financial Statements

(Unaudited)

For the six months ended September 30, 2020

13 Contingency

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 Asset Purchase 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.

14 Reclassification and comparative figures

Certain reclassifications have been made to the prior period’s financial statements to enhance comparability with the current period’s unaudited interim condensed financial statements. As a result, certain line items have been amended in the unaudited interim condensed statements of loss and comprehensive loss for the three and six month periods ended September 30, 2019.

The items were reclassified as follows:

	Three months ended September 30, 2019		Six months ended September 30, 2019	
	Previously reported \$	After reclassification \$	Previously reported \$	After reclassification \$
Statement of loss and comprehensive loss				
Interest income	-	13,380	-	25,799
General and administrative	(685,031)	(698,411)	(1,548,529)	(1,574,328)

15 Subsequent events

On October 30, 2020, the Company announced a collaboration, development and supply agreement (the “Collaboration, Development and Supply 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 China and Russia. Under the terms of the Collaboration, Development and Supply Agreement and in collaboration with its partners, the Company 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 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.