

# **Appili Therapeutics Inc.**

Interim Condensed Consolidated Financial  
Statements  
(Unaudited)  
**September 30, 2021**

November 12, 2021

### **Management's Responsibility for Financial Reporting**

The accompanying unaudited interim condensed consolidated financial statements of Appili Therapeutics Inc. (the "Company") are the responsibility of management and have been approved by the Board of Directors. The unaudited interim condensed consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The unaudited interim condensed consolidated financial statements include some amounts and assumptions based on management's best estimates, which have been derived with careful judgment.

In fulfilling its responsibilities, management has developed and maintained a system of internal accounting controls. These controls are designed to ensure that the financial records are reliable for preparation of the unaudited interim condensed consolidated financial statements. The Board of Directors reviewed and approved the Company's unaudited interim condensed consolidated financial statements.

(signed) "*Armand Balboni*"  
Chief Executive Officer

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

# Appili Therapeutics Inc.

## Interim Condensed Consolidated Statements of Financial Position

(Unaudited)

As at September 30, 2021 and March 31, 2021

	September 30, 2021 \$	March 31, 2021 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	9,984,586	11,062,938
Short-term investments (note 4)	20,295	5,061,853
Amounts receivable (note 5)	973,362	1,034,957
Investment tax credit receivable	533,500	651,200
Prepaid expenses and deposits	331,083	451,014
	<u>11,842,826</u>	<u>18,261,962</u>
<b>Property and equipment</b>	<u>49,764</u>	<u>54,993</u>
	<u>11,892,590</u>	<u>18,316,955</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 6)	10,991,032	4,531,495
Current portion of long-term debt (note 7)	90,555	85,300
Deferred revenue (note 8)	1,265,520	-
Current portion of convertible security (note 9)	2,783,002	-
	<u>15,130,109</u>	<u>4,616,795</u>
<b>Non-current liabilities</b>		
Long-term debt (note 7)	<u>927,700</u>	<u>947,300</u>
	16,057,809	5,564,095
<b>Shareholders' equity</b>	<u>(4,165,219)</u>	<u>12,752,860</u>
	<u>11,892,590</u>	<u>18,316,955</u>

**Going concern** (note 1)

**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 consolidated financial statements.

# Appili Therapeutics Inc.

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

For the six months ended September 30, 2021 and 2020

	Share capital \$ (note 10)	Contributed surplus \$ (note 11)	Warrants \$ (note 12)	Deficit \$	Total \$
<b>Balance – March 31, 2020</b>	20,991,655	1,813,550	2,666,044	(16,625,781)	8,845,468
Issuance of Class A common shares in public offering	11,959,708	-	-	-	11,959,708
Issuance of Class A 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 and comprehensive loss for the period	-	-	-	(5,073,671)	(5,073,671)
<b>Balance – September 30, 2020</b>	33,907,980	2,417,067	6,415,123	(21,699,452)	21,040,718
Exercise of warrants	682,130	-	(224,464)	-	457,666
Expired warrants	-	1,254	(1,254)	-	-
Employee share options:					
Exercise of options	371,985	(371,986)	-	-	(1)
Value of services recognized	-	505,918	-	-	506,918
Net loss and comprehensive loss for the period	-	-	-	(9,251,441)	(9,251,441)
<b>Balance – March 31, 2021</b>	34,962,095	2,552,253	6,189,405	(30,950,893)	12,752,860
Issuance of warrants	-	-	614,604	-	614,604
Warrant issuance costs	-	-	(30,534)	-	(30,534)
Exercise of warrants	67,634	-	(23,913)	-	43,721
Expired warrants	-	140,867	(140,867)	-	-
Employee share options:					
Value of services recognized	-	999,984	-	-	999,984
Net loss and comprehensive loss for the period	-	-	-	(18,545,854)	(18,545,854)
<b>Balance – September 30, 2021</b>	35,029,729	3,693,104	6,608,695	(49,496,747)	(4,165,219)

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

# Appili Therapeutics Inc.

## Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)

For the three and six months ended September 30, 2021 and 2020

	Three months ended September 30,		Six months ended September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
<b>Income</b>				
Interest income	4,937	46,116	21,436	67,667
	<u>4,937</u>	<u>46,116</u>	<u>21,436</u>	<u>67,667</u>
<b>Expenses</b>				
Research and development	10,028,364	1,115,278	16,129,809	2,686,260
General and administrative	1,114,877	1,406,660	2,245,740	2,444,577
Business development	191,498	176,201	572,160	322,562
Accreted interest	136,182	9,300	160,973	8,400
Government assistance	(297,823)	(185,790)	(570,991)	(320,461)
	<u>11,173,098</u>	<u>2,521,649</u>	<u>18,537,691</u>	<u>5,141,338</u>
<b>Loss and comprehensive loss for the period before taxes</b>	<u>(11,168,161)</u>	<u>(2,475,533)</u>	<u>(18,516,255)</u>	<u>(5,073,671)</u>
<b>Income taxes</b>				
Income tax expense	8,501	-	29,599	-
	<u>(11,176,662)</u>	<u>(2,475,533)</u>	<u>(18,545,854)</u>	<u>(5,073,671)</u>
<b>Net loss and comprehensive loss for the period</b>				
	<u>(11,176,662)</u>	<u>(2,475,533)</u>	<u>(18,545,854)</u>	<u>(5,073,671)</u>
<b>Basic and diluted loss per share</b> (note 10)	<u>(0.18)</u>	<u>(0.04)</u>	<u>(0.30)</u>	<u>(0.09)</u>
<b>Weighted-average shares outstanding</b> (note 10)	<u>62,832,120</u>	<u>61,608,661</u>	<u>62,819,799</u>	<u>55,945,960</u>

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

# Appili Therapeutics Inc.

## Interim Condensed Consolidated Statements of Cash Flows

(Unaudited)

For the six months ended September 30, 2021 and 2020

	September 30, 2021 \$	September 30, 2020 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss and comprehensive loss for the period	(18,545,854)	(5,073,671)
Changes to operations not involving cash		
Amortization of property and equipment	6,323	4,096
Accreted interest	160,973	8,400
Share-based compensation	999,984	665,981
Loss on disposal of property and equipment	-	3,606
Unrealized loss from changes in foreign currency	10,862	11,504
	<u>(17,367,712)</u>	<u>(4,380,084)</u>
Net changes in non-cash operating working capital		
Decrease (increase) in amounts receivable	61,595	(35,608)
Decrease (increase) in investment tax credits receivable	117,700	(70,200)
Decrease (increase) in prepaid expenses and deposits	119,931	(114,861)
Decrease in inventory	-	39,198
Increase in accounts payable and accrued liabilities	6,461,725	343,390
Increase in deferred revenue	1,265,520	-
	<u>(9,341,241)</u>	<u>(4,218,165)</u>
<b>Financing activities</b>		
Proceeds from the issuance of Class A common shares in a public offering	-	11,959,708
Proceeds from the issuance of Class A common shares in a private placement	-	1,109,306
Share issuance costs	-	(1,078,654)
Proceeds from the issuance of warrants	-	3,895,986
Warrant issuance costs	(30,534)	(321,556)
Proceeds from shares to be issued	-	12,000
Proceeds from the exercise of warrants	43,721	828,014
Proceeds from the exercise of stock options	-	198,134
Repayment of long-term debt	(36,836)	-
Accreted interest involving cash	(47,636)	-
Proceeds from convertible debt	3,500,000	-
Costs associated with the issuance of convertible debt	(193,241)	-
	<u>3,235,474</u>	<u>16,602,938</u>
<b>Investing activities</b>		
Acquisition of property and equipment	(1,094)	(4,487)
Purchase of short-term investments	-	(10,024,753)
Proceeds from disposal of short-term investments	5,041,558	-
	<u>5,040,464</u>	<u>(10,029,240)</u>
<b>Net change in cash during the period</b>	<b>(1,065,303)</b>	<b>2,355,533</b>
<b>Cash – Beginning of period</b>	<b>11,062,938</b>	<b>10,509,630</b>
Changes due to foreign exchange	(13,049)	(8,075)
<b>Cash – End of period</b>	<b><u>9,984,586</u></b>	<b><u>12,827,088</u></b>

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

# Appili Therapeutics Inc.

## Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended September 30, 2021 and 2020

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### 1 Nature of operations and liquidity risk

Appili Therapeutics Inc. (the “Company” or “Appili”) is a biopharmaceutical company dedicated to advancing the global fight against infectious diseases by matching clearly defined patient needs with drug development programs that provide solutions to existing challenges patients, doctors and society face. Appili has one wholly owned subsidiary, Appili Therapeutics Inc. USA. The Company is domiciled in Halifax, Nova Scotia, Canada. The Company exists under the Canada Business Corporations Act, and its Class A common shares (“common shares”) are listed for trading on the Toronto Stock Exchange (“TSX”) under the symbol “APLI”. 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.

#### Going concern

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

For the six-month period ended September 30, 2021, the Company reported a loss of \$18,545,854 (September 30, 2020 - \$5,073,671) and an accumulated deficit of \$49,496,747 (September 30, 2020 - \$21,699,452). In addition to its current 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 clinical trial costs for favipiravir (note 15), 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 meet its current working capital requirements and to advance its programs in its pipeline is dependent on raising additional financing through equity and non-dilutive funding and partnerships. There can be no assurance that additional financing will be available on acceptable terms or at all. If the Company is unable to obtain additional financing when required, Appili may have to substantially reduce or eliminate planned expenditures. Management is evaluating alternatives to secure additional financing so the Company can continue to operate as a going concern. There is no assurance that these initiatives will be successful.

The Company's ability to continue as a going concern is dependent on its ability to fund its current working capital requirements, its research and development programs and generate future positive cash flows from operations. These unaudited interim condensed consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

The World Health Organization declared the outbreak of the novel coronavirus SARS-CoV-2 (“COVID-19”) a global pandemic and as 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, some of the development activities on 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.

# **Appili Therapeutics Inc.**

## Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

**For the six months ended September 30, 2021 and 2020**

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### **2 Basis of preparation**

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

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim condensed consolidated financial statements, including IAS 34, International Accounting Standards 34 “Interim Financial Reporting”. Accordingly, certain information normally included in annual consolidated financial statements prepared in accordance with IFRS, as issued by the IASB, have been omitted or condensed. The unaudited interim condensed consolidated financial statements should be read in conjunction with the Company’s annual audited financial statements for the year ended March 31, 2021. The accounting policies used are consistent with those used in the audited financial statements, except for the newly adopted policies as described below.

The policies applied in these unaudited interim condensed consolidated financial statements are based on IFRS issued and outstanding as of November 12, 2021, the date the Board of Directors approved the unaudited interim condensed consolidated financial statements.

#### **Financial liabilities**

##### Initial recognition and measurement

Financial liabilities are measured at amortized cost, unless they are required to be measured at fair value through profit and loss (“FVPL”) as is the case for derivative instruments. The Company’s financial liabilities include accounts payable and accrued liabilities, the liability component of the convertible security and the embedded derivative of the convertible security. Accounts payable and accrued liabilities, and the liability component of the convertible security are each measured at amortized cost, while the embedded derivative portion of the convertible security is measured at FVPL.

##### Subsequent measurement – financial liabilities at amortized cost

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the effective interest rate. The amortization of the liability component, including the deferred loss are recognized in accreted interest expense in the consolidated statements of loss and comprehensive loss.

##### Subsequent measurement – financial liabilities at FVPL

Financial liabilities measured at FVPL are carried at fair value in the interim condensed consolidated statements of financial position with changes in the fair value recognized in accreted interest expense in the consolidated statements of loss and comprehensive loss.

# **Appili Therapeutics Inc.**

## Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended September 30, 2021 and 2020

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### **2 Basis of preparation (continued)**

Recognition of day one gain or loss on derivative financial instruments

The fair value of an investment at initial recognition is often the transaction price, unless there is evidence that the fair value of the instrument is different when compared with other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets. Such financial instruments are initially recognized at the transaction price which is the best indicator of fair value, although the market value derived by independent valuers may differ. The difference between the transaction price and the market value (the day one gain or loss), is not recognized immediately for accounting purposes in the consolidated statements of loss and comprehensive loss and is instead recognized through the consolidated statements of loss and comprehensive loss progressively as the instrument is settled. Any subsequent measurement of the instrument excludes the balance of the deferred day one gain or loss.

### **3 Critical accounting estimates and judgments**

These unaudited interim condensed consolidated financial statements for the six months ended September 30, 2021 have been prepared using the same policies and methods as the annual audited consolidated financial statements of the Company, with the exception of the additional disclosure in note 2. Refer below and note 3 of the Company's annual audited consolidated financial statements for the year ended March 31, 2021 for more information on accounting estimates and judgements applied.

#### **Calculation of initial fair value and carrying amount of convertible security**

##### *Lind Convertible Security*

Refer to note 9 for the details of the Lind Convertible Security and definitions. The initial fair value of the Lind Convertible Security was determined by valuing the components of the hybrid financial instrument, including the liability component and the embedded derivative components, which required a number of assumptions and unobservable inputs. The significant assumptions used in determining the value of the Lind Convertible Security include the assumption that the Lind Conversion Buy-Back Option would be exercised, and the discount rate used in the discounted cash flow analysis for the liability component. In determining the appropriate discount rate, the Company considered the interest rates of comparable debt. Management used a discount rate of 12.10% to discount the liability component. The fair value of the embedded derivatives was calculated by subtracting the fair value of the total Lind Convertible Security, less the fair value of the stand-alone liability component.

The Company performed the following sensitivity analysis on the basis that each change in assumption being analyzed is made assuming the other assumptions remain the same. If the discount rate used in determining the initial fair value and carrying value of the liability portion at the inception date had been determined to be higher by 2%, or lower by 2% resulting in a discount rate of 14.10% or 10.10%, the present value of the liability portion at August 18, 2021 would have been \$113,200 lower or \$119,500 higher, respectively and the value of the embedded derivative at August 18, 2021 would have been \$113,200 higher or \$119,500 lower, respectively.

The discount rate used in determining the fair value and the carrying value of the embedded derivative portion at each reporting date is based on the Company's credit spread rate, plus the risk free rate on the reporting date. On September 30, 2021, the discount rate used was 10.05%.

# Appili Therapeutics Inc.

## Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended September 30, 2021 and 2020

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### 3 Critical accounting estimates and judgments (continued)

#### Calculation of initial fair value and carrying amount of convertible security (continued)

##### *Lind Convertible Security (continued)*

If the discount rate used in determining the fair value and carrying value at each reporting date of the embedded derivative portion had been determined to be higher by 2%, or lower by 2% resulting in a discount rate of 12.05% or 8.05%, the fair value of the embedded derivative portion at September 30, 2021 would have been \$113,600 higher or \$119,800 lower respectively.

Any changes in the amounts recorded in the interim condensed consolidated statements of financial position for the Convertible Security result in an offsetting charge to accreted interest after initial recognition in the interim condensed statement of loss and comprehensive loss.

### 4 Short-term investments

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

### 5 Amounts receivable

	September 30, 2021 \$	March 31, 2021 \$
Sales tax receivable	885,160	687,369
Amounts due from government assistance	88,202	347,588
	<u>973,362</u>	<u>1,034,957</u>

### 6 Due to related party and related transactions

The Company's Chief Executive Officer is a partner of Bloom Burton & Co., which is a principal shareholder of the Company. For the six months ended September 30, 2021, the Company was charged salary expenses of \$171,743 (September 30, 2020 - \$187,699) for services performed by the Chief Executive Officer. The Company also granted 500,000 stock options (September 30, 2020 - 200,000) to the Chief Executive Officer during the six months ended September 30, 2021.

There were no compensation warrants or cash commission to Bloom Burton Securities Inc. during the six months ended September 30, 2021. During the six months ended September 30, 2020, the Company issued 280,777 compensation warrants valued at \$166,625 and paid \$294,395 in cash commissions to Bloom Burton Securities Inc. resulting from the June Public Offering (as defined in note 10).

As at September 30, 2021, the Company owed \$7,946 (March 31, 2021 - \$13,084) to a member of the Board of Directors and during the six months ended September 30, 2021, the Company was charged \$57,898 (September 30, 2020 - \$nil) for consulting services by the Board member in relation to research and development activities.

# Appili Therapeutics Inc.

## Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended September 30, 2021 and 2020

### 7 Long-term debt

	September 30, 2021 \$	March 31, 2021 \$
Atlantic Canada Opportunities Agency (“ACOA”) business development program (“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, 2021, the principal outstanding was \$362,500 (March 31, 2021 - \$387,500).	241,300	251,500
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, 2021, the principal outstanding was \$357,152 (March 31, 2021 - \$392,864).	267,600	286,600
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, 2021, the principal outstanding was \$435,240 (March 31, 2020 - \$459,000).	263,300	271,000
ACOA Atlantic Innovation Fund (“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, 2021, the principal outstanding was \$2,662,990 (March 31, 2021 - \$2,662,990).	246,055	223,500
	<u>1,018,255</u>	<u>1,032,600</u>
Less: Current portion	(90,555)	(85,300)
	<u>927,700</u>	<u>947,300</u>

Total contributions received, less amounts that have been repaid as at September 30, 2021, are \$3,817,882 (March 31, 2021 - \$3,902,354). Certain ACOA loans require approval by ACOA before the Company can pay dividends or other distributions, or before there is any change in ownership of the Company.

# Appili Therapeutics Inc.

## Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended September 30, 2021 and 2020

### 7 Long-term debt (continued)

	September 30, 2021 \$	March 31, 2021 \$
<b>Balance, Beginning of period</b>	1,032,600	1,005,000
Accreted interest, cash	(47,636)	(24,626)
Accreted interest, non-cash	67,172	122,036
Change in fair value as the result of changes in estimates of future cash flows associated with the ACOA AIF loan	2,955	(3,400)
Change in fair value as the result of debt modification of the ACOA BDP loans	-	(48,800)
Repayment of debt	(36,836)	(17,610)
<b>Balance, End of period</b>	1,018,255	1,032,600
Less: Current portion	(90,555)	(85,300)
Non-current portion	927,700	947,300

### 8 Deferred revenue

The Company entered into a data licensing agreement (“Dataset Transfer Agreement”) with FUJIFILM Toyama Chemical Co., LTD (“FFTC”), to provide FFTC the data from the Company’s Phase 3 double-blinded, randomized, placebo-controlled clinical trial evaluating favipiravir for the treatment of COVID-19 in the community setting (“PRESECO clinical trial”). Pursuant the Dataset Transfer Agreement, FFTC paid the Company US \$1,000,000 to receive direct access to PRESECO clinical trial data in support of local regulatory submissions in Japan when it becomes available. The non-refundable payment of US \$1,000,000 was received from FFTC during the six months ended September 30, 2021 and is recorded in deferred revenue until the data transfer to FFTC is completed.

### 9 Convertible security

On August 9, 2021, the Company executed a convertible security funding agreement (the “Lind Funding Agreement”) with Lind Global Fund II, LP (“Lind”) providing for a secured convertible debenture financing for gross proceeds of \$3,500,000. The transaction was completed on August 18, 2021.

Pursuant to the Lind Funding Agreement the Company issued to Lind a convertible security (the “Lind Convertible Security”). The Lind Convertible Security has a face value of \$4,095,000, representing \$3,500,000 in funding plus an implied 8.5% interest rate per annum for the term of the Lind Convertible Security. The Company has the option to buy back the Lind Convertible Security in the first 180 days at a value of \$3,794,000 (the “Buy-Back Option”). If the Company chooses the Buy-Back Option, Lind has the option of converting 25% of \$3,794,000 into common shares of the Company (“Lind Conversion Buy-Back Option”) at a price equal to 85% of the volume weighted average price per share for the five consecutive trading days immediately prior to the conversion date.

# Appili Therapeutics Inc.

## Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended September 30, 2021 and 2020

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### 9 Convertible security (continued)

The Lind Convertible Security is secured by all of the assets and property of the Company. The Lind Funding Agreement includes certain restrictive covenants including (i) a restriction Company's ability to issue (A) certain debt, equity or equity linked securities at a floating price or at a price that may be reset at some future date or upon the occurrence of certain events, or (B) securities in a capital or debt raising transaction which grant an investor the right to receive additional securities based upon the occurrence of future transactions on more favourable terms than the initial investment, (ii) restrictions on the use of proceeds (including to pay dividends or repay debts owing to related parties). The Lind Funding Agreement also includes various events of default which accelerate the Company's repayment obligations, including in connection with the occurrence of certain events deemed to result in a change of control (which events include certain changes in management and the board of directors). In addition, the Company's representations, warranties and covenants are subject to bring-down upon each conversion of the Lind Convertible Security and each warrant exercise by Lind. Failure of the Company to satisfy such bring-down obligation constitutes an event of default that triggers an acceleration of the Company's repayment obligation.

In accordance with the Lind Funding Agreement, the Company also issued to Lind 2,209,874 common share purchase warrants exercisable for a term of 48 months at an exercise price of \$0.95 per share, valued at \$614,604 on the date of issuance (as disclosed in note 12).

The Company paid Lind a commitment fee of \$105,000 and legal fees and regulatory costs associated with the Convertible Security of \$118,774. Based on the proportionate relative fair values, \$193,241 of the total costs were allocated to the convertible security and \$30,533 to the common share purchase warrants.

The Lind Convertible Security is accounted for as a hybrid financial instrument with a liability component and an embedded derivative component classified as two separate liabilities. Concurrently issued common share purchase warrants have been classified as an equity instrument (as disclosed in note 12).

The Lind Convertible Security may be converted to common shares of the Company at a rate of no more than 1/20th of the face value of the Convertible Security in any given month and at a price equal to 85% of the volume weighted average price per share for the five consecutive trading days immediately prior to the conversion date. Lind reserves the right to increase the conversion limit from 1/20th of the face value of the first closing to \$490,000 per month, provided that such increased amount does not exceed 20% of the aggregate trading volume of the Shares for the immediately preceding 20 days. The Lind Convertible Security has a term of 24 months from the closing date of August 18, 2021. There were no conversions to shares during the period ended September 30, 2021.

The fair value of the total Lind Convertible Security was determined by the valuation of the Buy-Back Option, including the assumption the Lind Conversion Buy-Back Option would be exercised, using the following formula:  $FV = 75\% \times Face\ Value + 25\% \times Face\ Value \times Spot\ Stock\ Price / Conversion\ Price$

The fair value of the liability component was calculated using the discounted cashflow method using a discount rate of 12.10% based on the estimated discount rate of comparable debt. The discount on the liability component is being accreted over the term of the Convertible Security, utilizing the effective interest rate method at a 12.10% discount rate. For the period ended September 30, 2021, accretion of the discount totalled \$46,860.

# Appili Therapeutics Inc.

## Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended September 30, 2021 and 2020

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### 9 Convertible security (continued)

The fair value of the embedded derivatives was calculated by subtracting the fair value of the total Lind Convertible Security, less the fair value of the stand-alone liability component.

On issuance, the fair value of the convertible security, determined with the use of a valuation technique that includes unobservable inputs, was \$3,909,981, which along with the warrants valued at \$614,604 as described in note 12, resulted in a loss of \$1,129,585 compared to the funding proceeds received of \$3,395,000. The Company determined that this loss cannot be recognized immediately in the interim condensed consolidated statement of loss and comprehensive loss, but rather should be deferred against the liability components and realized over the term of the Convertible Security in the accreted interest expense, as factors that a market participant would include in pricing the instrument, including time, become observable. As at September 30, 2021, the unamortized balance of this loss is \$1,082,519.

	Amount \$
<b>Liability component balance – March 31, 2021</b>	-
Issuance	3,363,687
Costs associated with issuance	(193,241)
Deferred loss	(1,129,585)
Accretion	101,979
	<hr/>
<b>Liability component balance – September 30, 2021</b>	2,142,840

In the period ended September 30, 2021, accretion of \$47,066 was recognized on the deferred loss.

	Amount \$
<b>Conversion option derivative balance – March 31, 2021</b>	-
Issuance	651,294
Change in fair value	(11,132)
	<hr/>
<b>Conversion option derivative balance – September 30, 2021</b>	640,162

At September 30, 2021, the fair value of the conversion option derivative was \$640,162 and the carrying value of the liability component was \$2,142,840.

# Appili Therapeutics Inc.

## Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended September 30, 2021 and 2020

### 10 Share capital

#### Authorized

Unlimited number of Class A common shares

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

Unlimited number of preferred shares (nil outstanding)

#### Issued

Class A common shares

	Number of shares #	Amount \$
<b>Balance – March 31, 2020</b>	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
	<hr/>	<hr/>
<b>Balance – September 30, 2020</b>	61,773,542	33,907,980
Warrants exercised	478,554	682,130
Options exercised	525,373	371,985
	<hr/>	<hr/>
<b>Balance – March 31, 2021</b>	62,777,469	34,962,095
Warrants exercised	54,651	67,634
	<hr/>	<hr/>
<b>Balance – September 30, 2021</b>	62,832,120	35,029,729

On June 10, 2020, the Company completed a prospectus offering (“June 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 June 10, 2023.

Total costs associated with the June 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 June 10, 2022. The Company has allocated the net proceeds of the June 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 was 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 were paid 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 June 10, 2023.

# Appili Therapeutics Inc.

## Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended September 30, 2021 and 2020

### 10 Share capital (continued)

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 was allocated to the common shares and \$3,688 to the common share purchase warrants.

### 11 Contributed surplus

	<b>Amount</b> <b>\$</b>
<b>Balance – March 31, 2020</b>	1,813,550
Vesting of stock options	665,982
Options exercised	<u>(62,465)</u>
<b>Balance – September 30, 2020</b>	2,417,067
Vesting of stock options	505,918
Options exercised	(371,986)
Warrants expired	<u>1,254</u>
<b>Balance – March 31, 2021</b>	2,552,253
Vesting of stock options	999,984
Warrants expired	<u>140,867</u>
<b>Balance – September 30, 2021</b>	<u>3,693,104</u>

The Board of Directors of the Company has established a stock option plan (the "Plan") under which options to acquire common shares of the Company are granted to directors, employees and other advisors of the Company. The maximum number of common shares issuable under the Plan shall not exceed 10,000,000 (September 30, 2020 – 10,000,000). If any option expires or otherwise terminates for any reason without having been exercised in full, or if any option is exercised in whole or in part, the number of shares in respect of which option is expired, terminated or was exercised shall again be available for the purposes of the Plan.

Stock options are granted with an exercise price determined by the Board of Directors, which is the market price of the shares on the day preceding the award. The term of the option is determined by the Board of Directors, not to exceed ten years from the date of grant. The vesting of the options is determined by the Board and is typically 33 1/3% every year after the date of grant.

In the event that the option holder should die while he or she is still a director, employee or other advisor of the Company, the expiry date shall be one (1) year from the date of death of the option holder, not to exceed the original expiry date of the option. In the event that the option holder ceases to be a director, employee or other advisor of the Company other than by reason of death or termination, the expiry date of the option shall be three (3) months following the date the option holder ceases to be a director, employee or other advisor of the Company, not to exceed the original expiry date of the option.

# Appili Therapeutics Inc.

## Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended September 30, 2021 and 2020

### 11 Contributed surplus (continued)

The fair value of stock options is estimated using the Black-Scholes valuation model. During the six months ended September 30, 2021, 2,405,000 stock options (September 30, 2020 – 1,110,000) with a weighted average exercise price of \$1.22 (September 30, 2020 - \$1.09) and a term of 10 years were granted to employees and consultants. Due to the absence of company specific volatility rates, the Company determined the expected volatility of these stock options using the average volatility of biotechnology companies traded on the TSX and the TSX Venture Exchange. The value of these stock options was estimated at \$2,741,700 (September 30, 2020 - \$1,092,405), which is a weighted average grant date value per option of \$1.14 (September 30, 2020 - \$0.98) using the Black-Scholes valuation model and the following weighted average assumptions:

	September 30, 2021	September 30, 2020
Risk-free interest rate	1.29%	0.48%
Expected volatility	123%	122%
Expected life (years)	7.34	6.97
Dividend yield	-	-

Option activity for the six months ended September 30, 2021 and September 30, 2020 was as follows:

	September 30, 2021 Weighted average exercise price	September 30, 2020 Weighted average exercise price		
	Number #	Number #	Number #	Weighted average exercise price \$
<b>Outstanding – Beginning of period</b>	4,526,871	0.79	4,402,932	0.63
Granted	2,405,000	1.22	1,110,000	1.09
Exercised	-	-	(381,175)	0.52
Forfeited	(170,002)	1.08	-	-
Expired	(175,379)	0.74	-	-
<b>Outstanding – End of period</b>	<b>6,586,490</b>	<b>0.94</b>	<b>5,131,757</b>	<b>0.73</b>

# Appili Therapeutics Inc.

## Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended September 30, 2021 and 2020

### 12 Warrants

Warrant activity for the six months ended September 30, 2021 and 2020 was as follows:

	Number #	Weighted average exercise price \$
<b>Outstanding – March 31, 2020</b>	8,043,243	1.07
Granted	7,971,575	1.47
Exercised	(853,420)	0.97
<b>Outstanding – September 30, 2020</b>	15,161,398	1.28
Exercised	(478,554)	0.8
Expired	(2,200)	1.10
<b>Outstanding – March 31, 2021</b>	14,680,644	1.29
Granted	2,209,874	0.95
Exercised	(54,651)	0.80
Expired	(299,717)	1.50
<b>Outstanding – September 30, 2021</b>	16,536,150	1.24

The Company issued to Lind 2,209,874 common share purchase warrants exercisable for a term of 48 months at an exercise price of \$0.95 per share, valued at \$614,604 on August 18, 2021. The weighted average value per warrant issued for the six months ended September 30, 2021 was \$0.28 and was determined using the Monte Carlo valuation model and the following weighted average assumptions:

	September 30, 2021
Expected volatility	72.28%
Expected life (years)	4
Dividend yield	-

The weighted average value per warrant issued for the six months ended September 30, 2020 was \$0.56 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%
Expected life (years)	2.89
Dividend yield	-

# Appili Therapeutics Inc.

## Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended September 30, 2021 and 2020

### 13 Financial instruments

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

	September 30, 2021		March 31, 2021	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
Cash	9,984,586	9,984,586	11,062,938	11,062,938
Short-term investments	20,295	20,295	5,061,853	5,061,853
Amounts receivable	88,202	88,202	347,588	347,588
Accounts payable and accrued liabilities	10,991,032	10,991,032	4,531,495	4,531,495
Long-term debt	1,018,255	1,018,255	1,032,600	1,032,600
Convertible security	2,783,002	4,062,103	-	-

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, 2021, 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 and the convertible security are estimated based on the expected interest rates for similar borrowings by the Company as at the unaudited interim condensed consolidated statements of financial position dates. As at September 30, 2021, the fair value of the long-term debt is estimated to be equal to the carrying amount. As at September 30, 2021, the convertible debt is held at amortized cost and the embedded derivative portion is held at fair value through profit and loss. The inputs into the determination of the fair value of the long-term debt and the convertible security, including the discount rate and credit spread, 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 7 and the convertible security is comprised of the contributions received described in note 9 as at September 30, 2021:

	Total \$	Year 1 \$	Years 2 to 3 \$	Years 4 to 5 \$	After 5 years \$
Accounts payable and accrued liabilities	10,991,032	10,991,032	-	-	-
Long-term debt	3,817,882	178,899	344,245	377,541	2,917,197
Convertible security	4,095,000	4,095,000	-	-	-
	<u>18,903,914</u>	<u>15,264,931</u>	<u>344,245</u>	<u>377,541</u>	<u>2,917,197</u>

# **Appili Therapeutics Inc.**

## Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

**For the six months ended September 30, 2021 and 2020**

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### **14 Asset purchase agreement**

On November 21, 2019, the Company signed an asset purchase agreement (the “Asset Purchase Agreement”) with FUJIFILM Toyama Chemical Co., Ltd. (“seller”) receiving exclusive worldwide rights, excluding Japan, to acquire and develop a novel broad-spectrum antifungal drug candidate, ATI-2307. If a payment of US\$500,000 associated with the Asset Purchase Agreement is not made by January 2022, the seller has the right to terminate the Asset Purchase Agreement. Additional payments are due on the achievement of additional milestones, including approval from the United States Food and Drug Administration (“FDA”) and other various performance thresholds. If the Company meets all of the contractual FDA approval requirements, a total of US\$1,300,000 would be due under the contract prior to commercialization of the product. No payments have been accrued or made to date.

### **15 Subsequent events**

On October 14, 2021, the Company completed a prospectus offering (“October 2021 Public Offering”) of 8,434,000 units at a price of \$0.83 per unit, for aggregate gross proceeds of \$7,000,220. Each unit consisted of one common share and one-half of one common share purchase warrant, with each whole warrant entitling the holder to acquire one common share of the Company at an exercise price of \$1.10 for a period of 3 years, expiring on October 14, 2024. Total costs associated with the October 2021 Public Offering are estimated to be approximately \$943,975, including cash costs for commissions of \$490,015, professional fees and regulatory costs of approximately \$206,000 and 590,380 compensation warrants issued as commissions to the agents valued at approximately \$247,960. Each compensation warrant entitles the holder to acquire one common share of the Company at an exercise price of \$0.83 for a period of 2 years, expiring on October 14, 2023.

On October 15, 2021, the Company granted a new director 140,000 stock options under Appili’s Stock Option Plan. The stock options will be exercisable at \$0.74 per share and will have a term of ten years and will vest over a period of three years.

On September 28, 2021, the Company entered into a strategic alliance agreement (the “Definitive Agreement”) with AiPharma Global Holdings LLC (“AiPharma”) to establish minority positions in each other’s businesses, further align their goals and participate in each other’s respective economic interests (the “AiPharma Strategic Alliance”). Under the terms of the Definitive Agreement, AiPharma will receive that number of common shares as is equal to 24% of the issued and outstanding common shares immediately prior to the Definitive Agreement (calculated on a non-diluted basis). AiPharma has also been granted certain investor rights, including pre-emptive rights, certain consent rights and registration rights (which rights will be extinguished if the AiPharma holdings fall below 10% of the issued and outstanding common shares). Assuming no further equity issuances other than the October 2021 Public Offering, it is expected that AiPharma will hold approximately 17.5% of the issued and outstanding common shares immediately following closing. In exchange, Appili will receive approximately 6% of the issued and outstanding AiPharma shares (calculated as of the date of the Definitive Agreement on a non-diluted basis).

On November 12, 2021, the Company released topline results on the Phase 3 PRESECO clinical study evaluating oral favipiravir for the treatment of mild-to-moderate COVID-19. The clinical trial did not achieve statistical significance on the primary endpoint of time to sustained clinical resolution. Additional analyses of the trial data are ongoing.

# **Appili Therapeutics Inc.**

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

**For the six months ended September 30, 2021 and 2020**

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## **15 Subsequent events** (continued)

On November 12, 2021, the market capitalization of Appili fell below \$36 million. In accordance with the terms of the Lind Funding Agreement, the outstanding amount of the Lind Convertible Security may be converted into Common Shares at the discretion of Lind at any time (subject to the share conversion maximum limit set out in the Lind Funding Agreement). Any Common Shares acquired by Lind on conversion are subject to resale restrictions expiring on December 19, 2021.

