
# MANAGEMENT'S DISCUSSION AND ANALYSIS

*For the Fiscal Year Ended March 31, 2022*

**APPILI THERAPEUTICS INC.**

The following Management's Discussion and Analysis ("**MD&A**") of Appili Therapeutics Inc. ("**Appili**", the "**Company**", "**we**", "**us**" or "**our**") is prepared as of June 29, 2022, provides information concerning the Company's financial condition and results of operations. This MD&A should be read in conjunction with our audited annual consolidated financial statements for the fiscal years ended March 31, 2022, and 2021, 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 ("**CAD**").

## FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements or forward-looking information (collectively, "**forward-looking statements**") under applicable Canadian securities legislation including, without limitation, statements containing the words "believe," "may," "plan," "will," "estimate," "continue," "anticipate," "intend," "expect," "predict," "project," "potential," "continue," "ongoing" or the negative or grammatical variations of these terms or other comparable terminology, although not all forward-looking statements contain these words and similar expressions. Forward-looking statements are necessarily based on estimates and assumptions made by us 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 Exchange (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 coronavirus disease 2019 ("**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;
- the eligibility of certain of our programs for a priority review voucher ("**PRV**");
- our ability to obtain funding from the Joint Science and Technology Office of the US Defense Threat Reduction Agency ("**DTRA**");
- our intention to secure certain regulatory designations, such as Fast-Track status, for our development programs;
- our strategy for protecting our intellectual property;
- our ability to identify licensable products or research suitable for licencing 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 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 attract and 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 29, 2022.

Should one or more of these risks or uncertainties, or a risk that is not currently known to us, materialize, or should assumptions underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein. These forward-looking statements are made as of the date of this MD&A and we do not intend, and do not assume any obligation, to update these forward-looking statements, except as required by applicable securities laws. Investors are cautioned that forward-looking statements are not guarantees of future performance and are inherently uncertain. Accordingly, investors are cautioned not to put undue reliance on forward-looking statements.

## MARKET DATA

Certain market and industry data (including study results) used in this MD&A were obtained from market research, publicly available information and industry publications. Appili believes that these sources are generally reliable, but the accuracy and completeness of this information is not guaranteed. Appili has not independently verified this information and does not make any representation or warranty as to the accuracy of this information.

## BUSINESS OVERVIEW

Appili is a pharmaceutical company focused on the acquisition and development of novel treatments targeting unmet needs in infectious disease. Since incorporation in 2015, the Company has been focused on building and advancing a diverse portfolio of anti-infective programs. Key activities have included the acquisition and development of novel technologies, the

development of strategic partnerships, targeted hiring and building out drug development capabilities, securing intellectual property, and raising funds through equity capital raises and non-dilutive funding mechanisms.

The Company's anti-infective portfolio currently includes five programs, described below: ATI-1701, ATI-2307, ATI-1801, ATI-1503, and ATI-1501. The Company had also been engaged in a global partnership to develop COVID-19 antiviral candidate REEQONUS™/Avigan®/favipiravir ("**favipiravir**"), however, activities related to this program were recently discontinued.

Appili expects that two of its programs (ATI-2307 and ATI-1701) may be eligible for a PRV if approved by the United States Food and Drug Administration ("**FDA**"). The Company also believes that ATI-1801 may be eligible for a PRV and is actively evaluating its eligibility. The PRV program was developed to incentivize drug development in US government priority areas including tropical disease and medical countermeasures. Once issued, a PRV can be used by its holder to accelerate the review of a subsequent drug submission. PRVs are transferrable and the secondary market for PRVs is well established with over 20 transactions reported publicly and recent transactions often exceeding US$100 million.

*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 (PHAC PSDS Anthrax 2011, PHAC PSDS Tularemia 2011). Category A pathogens are those organisms/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 approval 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). Drug manufacturing activities have been initiated and additional animal work commenced in 2019. Preliminary data from a recently completed 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. The Company recently disclosed results from the last cohort of animals challenged 365 days after vaccination, with survival rates of 29% (n = 2/7) reported in the ATI-1701 vaccinated cohort, compared to 0% (n = 0/5) in mock vaccinated controls. Results are preliminary and additional analysis of data is ongoing. The Company expects to start Phase 1 studies in 2023, with timing to be finalized based on DTRA contracting discussions as described immediately below.

ATI-1701 activities have been, and are continuing to be, funded with Appili's current resources and grant funding received from DTRA. In February 2022, the Joint Science and Technology Office of the DTRA selected the Company's proposal for additional funding to advance ATI-1701. The new funding is designed to replace and expand upon a prior contract awarded to one of the Company's development partners. The Company will serve as prime contractor and oversee a comprehensive development program for ATI-1701 that includes nonclinical, manufacturing, and regulatory activities to support an investigational new drug ("**IND**") submission to the FDA. The expected total funding amount of over US$10 million will fund this expanded scope of work. The award is subject to successful negotiations between the DTRA contracting division and Appili with the total funding amount to be confirmed upon contract execution.

*ATI-2307*

Appili acquired the novel antifungal product candidate ATI-2307 (formerly T-2307) from FUJIFILM Toyama Chemical Co., Ltd. ("**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 entered into between the Company and FFTC dated November 21, 2019.

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. Subject to funding, 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 healthy human subjects as part of three Phase 1 Single Ascending Dose and Multiple Ascending Dose clinical studies conducted in the United States. ATI-2307 has been found to be 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 and pharmacokinetics/pharmacodynamics ("**PK/PD**") 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 has also evaluated 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 has been supported by the U.S. National Institute of Allergy and Infectious Diseases. The Company held advisory meetings with key opinion leaders in Q1 2021 to discuss potential development pathways and Phase 2 trial designs for *Cryptococcus*.

The Company is also currently evaluating options to advance ATI-2307 as a therapeutic for invasive *Candida* infections 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 Centres for Disease Control and Prevent ("**CDC**") (CDC 2019). The Company has also held advisory meetings with key opinion leaders to discuss potential development strategy and regulatory pathways for *Candida* and has initiated additional nonclinical studies to further evaluate ATI-2307 efficacy against Candida species.

In anticipation of the successful completion of ongoing PK/PD studies in H1 2022 and to support a potential Phase 2 trial start, the Company has transferred the analytical methods and manufacturing process for ATI-2307 drug product to a contract development and manufacturing organization and expects to be in a position to initiate GMP manufacturing of clinical trial material, and to initiate clinical and regulatory activities later in 2022, subject to funding.

Depending on the indication(s) pursued in the clinic, ATI-2307 may be eligible for registration 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 and registration 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 certain forms of invasive candidiasis. This would qualify ATI-2307 for seven years of regulatory exclusivity upon FDA approval of the ODD. *Candida* and *Cryptococcus* are also both qualifying pathogens for the Qualified Infectious Disease Product designation and the Company believes ATI-2307 would be eligible for an additional five-year exclusivity extension if approved for the treatment of either pathogen. In addition, the Company expects to apply for Fast-Track status as soon as it has developed data which will support the application. Being assigned Fast-Track status will aid in more interactions with the FDA, a priority review, and a rolling submission.

*ATI-1801*

Appili licensed the exclusive worldwide rights to topical antiparasitic product ATI-1801 from the US Army Medical Materiel Development Activity ("**USAMMDA**") in August 2019.

ATI-1801 is a novel topical formulation of paromomycin (15% w/w) under advanced clinical development for the treatment of cutaneous leishmaniasis, a disfiguring infection of the skin that affects hundreds of thousands of people around the world annually and is characterized by the formation of lesions and ulcers that often lead to scarring, disfigurement, disability, and stigmatization of the infected individual (CDC 2020. WHO 2022, Okwor 2016). The disease is a serious impediment to socioeconomic development, especially for women, and a priority for governments and non-governmental organizations ("**NGOs**") around the word (NIAID 2021, DNDi 2021). Current treatments are often invasive, toxic and/or require hospitalization, limiting access. (Aronson 2016, DNDi 2018).

ATI-1801 has the potential to significantly reduce the burden of the disease by providing patients with a safe and effective therapy that can be used at home. Appili has licensed the full clinical dossier for ATI-1801 from USAMMDA, including the results of a randomized, vehicle-controlled Phase 3 study which evaluated the safety and efficacy of ATI-1801 for the treatment of cutaneous leishmaniasis in Tunisia. The study met its primary endpoint, with ATI-1801 administered topically once daily for 20 days demonstrating a significant improvement in the rate of clinical cure of the index lesion compared to vehicle (82% vs 58%; p-value $< 0.001$).

Appili plans to meet with the FDA later this year to discuss the previously generated Phase 3 data and agree on the necessary registration package to support a new drug application ("NDA") submission, which the Company expects will include available nonclinical, manufacturing, and clinical data generated to date. Appili expects to pursue non-dilutive funding and partnership opportunities with NGOs and government agencies which share the Company's focus on tropical diseases to help complete remaining development work. The Company is actively engaged in discussions with prospective manufacturing partners to support development and commercialization.

ATI-1801 has received an ODD from the FDA for the treatment of certain forms of cutaneous leishmaniasis.

*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. The molecule has activity against a wide range of Gram-negative bacteria, has a low frequency of resistance, high solubility, and favourable pharmacokinetic properties (Guo 2015; McKinney 2015; Olivier 2014; Polikanov 2014) that support further development of the ATI-1503 program.

The ATI-1503 development team has identified two novel and 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 against many Gram-negative bacteria, including carbapenem-resistant *Enterobactericiae* and *Acinetobacter*, both of which are top priorities for the CDC. These analogues have demonstrated *in vivo* proof-of-concept against *Klebsiella* and *Escherichia*. The most promising compounds continue to advance

through Appili's structured preclinical screening and evaluation, including 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 IND enabling studies. In order to support IND enabling studies, the manufacturing route had to be optimized as the original synthetic route was only capable of generating milligram to gram quantities of material. The newly developed manufacturing process is now amenable to scale up to 100-gram amounts. While Appili has been investigating the characteristics of one of the structural analogs, the Company recognizes that the negamycin compound 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 value. The Company aims to nominate a preclinical lead for ATI-1503 in 2022. The Company has updated its previous guidance as a result of delays related to COVID-19 and reprioritization of internal resources toward ATI-1701.

The Company aims to nominate a preclinical lead for ATI-1503 in 2022. 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 United States government's Peer Reviewed Medical Research Program.

*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 typically have to crush the tablets to ingest them. Metronidazole also has a strong bitter and metallic taste that is exacerbated by crushing and can reduce patient adherence to treatment. ATI-1501 is aimed at making it easier for patients with difficulties swallowing and sensitivity to taste to take metronidazole, supporting adherence and clinical outcomes.

In December 2019, Appili entered into a development and commercialization agreement with Saptalis Pharmaceuticals LLC ("**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 is responsible for overseeing the regulatory review, manufacturing and preparation for the filing of an NDA with the FDA, 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 US$150,000 that was recognized as revenue in December 2019. As of November 2020, Saptalis requested and obtained several Type C meetings with the FDA to discuss potential adjustments to the formulation. The FDA accepted the changes in the formulation on condition of characterization in an additional bioequivalence study, which per the terms of the licence agreement will be partially funded by the Company. The study is expected to be completed in the H1 2022 followed by an NDA submission later in the year. Appili recently invoiced a milestone payment of USD $100,000 for the successful manufacture and stability of ATI-1501 registration batches and expects to receive additional development milestone payments in 2022 based on Saptalis' proposed NDA submission timeline.

In February 2022, Appili announced an amendment to its license with Saptalis to expand the territories in which Saptalis will commercialize ATI-1501 to include Europe and Latin America. Under the terms of the amended agreement, Saptalis will assume all responsibilities related to the development and commercialization of ATI-1501 for European and Latin American markets and Appili will be eligible to receive royalties on sales for a specified term.

**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

The Company has no product 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-1701, ATI-2307, ATI-1801, ATI-1503, and ATI-1501.

The Company had the following recent key developments and achievements since April 1, 2021:

- On May 26, 2022, the Company completed a prospectus offering ("**May 2022 Public Offering**") of 50,000,000 units at a price of $0.09 per unit, for aggregate gross proceeds of $4,500,000. Each unit consisted of Common Share and one-half of one Common Share purchase warrant, with each whole warrant entitling the holder to acquire Common Share of the Company at an exercise price of $0.15 for a period of five years, expiring on May 26, 2027.
  Total costs associated with the May 2022 Public Offering are approximately $745,000, including cash costs for commissions of $315,000, professional fees and regulatory costs of approximately $255,000 plus 3,500,000 compensation warrants issued as commissions to the agents valued at approximately $175,000. Each compensation warrant entitles the holder to acquire one Common Share at an exercise price of $0.095 for a period of two years, expiring on May 26, 2024.

- On March 28, 2022, the Company executed a senior secured loan agreement (the "**LZH Agreement**") with Long Zone Holding Inc. ("**LZH**") providing for a secured loan for gross proceeds of US$3,600,000 (CAD$4,500,000). Under the terms of the LZH Agreement, LZH obtained a secured loan of US$3.6 million bearing a minimum interest rate of 8.5% or the US Prime Lending rate plus 5.25% per year, compounded quarterly and paid in arrears, maturing on March 28, 2025. The loan is secured by a general security over all the assets of the Company, including intellectual property. The Agreement provides for early prepayment option and various default events which trigger a default penalty interest of an additional 5% to be paid. The Company received net proceeds of US$3,438,117 (CAD$4,297,646) after deducting fees paid to LZH for origination fee, work fee and other costs totaling US$161,883 (CAD$202,354). The Company also paid legal, professional, and other costs amounting to $99,464. Total costs of $301,818 relating directly to the acquisition of the loan have been capitalized and deducted from the initial carrying value of the loan. Concurrently with the loan, the Company issued 1,500,000 common share purchase warrants, exercisable over seven years at an exercise price of $0.115. The warrants are subject to anti-dilution clauses and if exercised before July 29, 2022, are restricted from trading the common shares before July 29, 2022. $3,095,000 of the proceeds of this senior secured loan were used to retire a previous debt facility with Lind Global Fund II, LP ("**Lind**").

- On March 28, 2022, the Company entered into a licencing agreement which entitled LZH an exclusive licence to commercialize the Company's future approved products in Latin America, Canada, and Israel (collectively, the "**Territory**"), excluding ATI-1501 in Latin America, which was recently licenced to existing partner Saptalis. The Company will receive a supply price for products sold by LZH or its sublicensees, as well as royalties on net sales. The license is subject to the Company obtaining certain consents. If the consents are not obtained within 9 months commencing March 28, 2022, the Company will be required to issue up to 1,500,000 additional warrants to LZH. If the Company is not able to obtain approval from the TSX for the issuance of the additional warrants then the Company is required to pay in cash the fair value of the additional warrants.

- On February 28, 2022, the Company announced that DTRA selected the Company's proposal for funding which would provide over US$10 million to advance the Company's biodefense vaccine candidate ATI-1701.

- On February 8, 2022, the Company announced that it had amended its agreement with Saptalis to expand the territories in which Saptalis will commercialize ATI-1501. Under the terms of the amended agreement, Saptalis will assume responsibility for development and commercialization of ATI-1501 in Europe and Latin America (collectively, the

"**Expanded Territories**"). The Company will be eligible to receive royalties on the sale of ATI-1501 in the Expanded Territories for a specified term.

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

- On November 9, 2021, the Company announced positive one year challenge results from its preclinical study evaluating the efficacy of biodefense vaccine candidate ATI-1701 in a lethal model of tularemia. A survival rate of 29% (n = 2/7) was reported in the ATI-1701 vaccinated cohort, compared to 0% (n = 0/5) in mock vaccinated controls in animals challenged one year post vaccination.

- On October 14, 2021, the Company completed a prospectus offering ("**October 2021 Public Offering**") of 8,434,000 units (each, a "**October 2021 Unit**") at a price of $0.83 per unit, for aggregate gross proceeds of $7,000,220. Each October 2021 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 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 $937,975, including cash costs for commissions of $490,015, professional fees and regulatory costs of approximately $200,000 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 at an exercise price of $0.83 for a period of 2 years, expiring on October 14, 2023.

- On September 29, 2021, the Company announced a strategic alliance (the "AiPharma Strategic Alliance") with AiPharma to advance the global development of Avigan®/Reeqonus™ (favipiravir). Under the terms of the equity transaction, AiPharma was entitled to receive that number of Common Shares as is equal to 24% of the issued and outstanding Common Shares immediately prior to the entering into of the strategic alliance agreement between the Company and AiPharma (the "**Definitive Agreement**") (calculated on a non-diluted basis). AiPharma had also been granted certain investor rights, including pre-emptive rights, certain consent rights and registration rights. In exchange, Appili was entitled to receive approximately 6% of issued and outstanding AiPharma shares, calculated as of the date of the Definitive Agreement on a non-diluted basis. As of February 4, 2022, certain closing conditions of the Definitive Agreement pertaining to the AiPharma Strategic Alliance had not been met. As a result, and in accordance with the terms of the Definitive Agreement, the Company issued a notice of termination of the Definitive Agreement and does not expect any transfer of equity between the two organizations. On February 14, 2022, the Company announced that it had discontinued further investment in development activities related to COVID-19 antiviral candidate favipiravir and issued notice of termination of the strategic alliance and equity transaction to AiPharma.

- On September 17, 2021, and September 23, 2021, the Company announced it had completed patient enrollment in the viral shedding sub-study portion of its Phase 3 PRESECO and enrolled the last patient in the Phase 3 PRESECO clinical trial, respectively.

- On August 9, 2021, the Company announced that it had entered into a $3.5 million convertible security funding agreement (the "**Lind Funding Agreement**") with Lind, which is an investment entity managed by The Lind Partners, a New York based institutional fund manager ("**The Lind Partners**"). On August 18, 2021, the Company announced the closing of the financing with Lind, pursuant to which Lind made a $3.5 million investment in exchange for the issuance by the Company of a secured convertible security (the "**Lind Convertible Security**") with a principal amount of $4.095 million and a 24- month maturity date. The Company received net proceeds of $3.395 million from the transaction (excluding transaction expenses).

  On December 22, 2021, the Company announced an amendment to certain terms of the Lind Funding Agreement. Under the revised terms, the Company agreed to make a voluntary prepayment of $1 million towards the principal amount outstanding under the Lind Funding Agreement. In exchange, Lind agreed to a standstill period expiring on March 18, 2022, during which Lind was not entitled to convert any of the remaining principal amount outstanding into Common Shares. On March 28, 2022, the Company paid the remaining face value amount of $3,095,000 under the Lind Convertible Security, on receipt of funding from LZH.

**SELECTED FINANCIAL INFORMATION**

| | | Year ended March 31, 2022 ($) | Year ended March 31, 2021 ($) | Year ended March 31, 2020 ($) |
|---|---|---|---|---|
| Net loss and comprehensive loss for the period | | (25,118,299) | (14,325,112) | (5,416,496) |
| Basic and diluted loss per share | | (0.38) | (0.24) | (0.16) |
| Cash and short-term investments | | 6,664,855 | 16,124,791 | 10,540,165 |
| Total assets | | 8,281,726 | 18,316,955 | 11,173,963 |
| Long-term liabilities | | 4,978,683 | 1,032,600 | 1,005,000 |

**RESULTS FOR THE YEAR ENDED MARCH 31, 2022 ("FY 2022"), COMPARED TO THE YEAR ENDED MARCH 31, 2021 ("FY 2021")**

| | Year ended March 31, 2022 ($) | Year ended March 31, 2021 ($) |
|---|---|---|
| **Income** | | |
| Revenue | 1,390,684 | - |
| Interest income | 33,730 | 116,953 |
| | 1,424,414 | 116,953 |
| **Expenses** | | |
| R&D | 20,744,405 | 10,221,965 |
| General and administrative ("**G&A**") | 4,556,015 | 4,787,777 |
| Business development ("**BD**") | 711,932 | 650,193 |
| Financing costs | 1,554,941 | 69,836 |
| Government assistance | (1,063,039) | (1,287,706) |
| | 26,504,254 | 14,442,065 |
| **Loss before taxes** | (25,079,840) | (14,325,112) |
| **Income Taxes** | | |
| Income tax expense | 38,459 | - |
| **Net loss and comprehensive loss** | (25,118,299) | (14,325,112) |

**Income**

**i. Revenue**

Revenue income increased by $1,390,684 in FY 2022 due to $1,265,520 (US $1million) received from FFTC for data licencing fees and $125,164 in other licencing fees. No licencing fee revenue was received in FY 2021.

**ii. Interest income**

Interest income decreased by $83,223 to $33,730 during FY 2022 as compared to $116,953 in FY 2021, due to a lower cash and short-term investments balance during FY 2022.

**Operating expenses**

Overall operating expenses increased by $12,062,189 to $26,504,254 during FY 2022 compared to $14,442,065 in FY 2021 due mainly to an increase of $10,522,440 in R&D costs, increase of $1,485,105 in financing costs, increase of $61,739 in BD costs and a decrease of $224,667 in government assistance. This was offset by a decrease of $231,762 in G&A costs. Explanations of the nature of costs incurred, along with explanations for those changes in costs are discussed below.

**i. R&D expenses**

The Company's R&D expenses have related primarily to costs incurred in performing research and development activities that include non-clinical, clinical manufacturing, regulatory and clinical trial expenses of its product candidates. The R&D expenses for the period relate to costs incurred for the development of all five product candidates, including favipiravir, ATI-1501, ATI-1503, ATI-1701, ATI-2307, and general R&D.

Specifically, the Company's R&D expenses for favipiravir include clinical site expenses, fees paid to the contract research organizations ("**CROs**") associated with the ongoing clinical trials, clinical manufacturing, consulting costs, clinical trial insurance and regulatory fees. ATI-2307 expenses include clinical manufacturing costs, clinical consultants and Phase 2 clinical trial preparation activities. For ATI-1701, expenses include license fees, patent costs, stability testing, clinical manufacturing costs 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 for optimizing the pre-clinical manufacturing process. Finally, the ATI-1501 R&D activities include intellectual property management costs. R&D costs also include the salaries and benefits and stock-based compensation expenses of the CDO, CMO and the regulatory, clinical, preclinical, manufacturing and research staff. General R&D includes consulting fees paid to various independent contractors with specific research and development expertise required by the Company, as well as rental of laboratory facilities, insurance and non-material research projects.

R&D expenses consist of the following:

| | Year ended March 31, 2022 ($) | Year ended March 31, 2021 ($) |
|---|---|---|
| Favipiravir expenses | 17,090,213 | 7,276,046 |
| ATI-2307 expenses | 1,126,438 | 875,414 |
| ATI-1701 expenses | 286,454 | 90,424 |
| ATI-1503 expenses | 32,916 | 228,683 |
| ATI-1501 expenses | (14,970) | 65,838 |
| General R&D expenses | 125,251 | 85,262 |
| Amortization of property and equipment | 7,343 | 9,134 |
| Salaries and benefits | 1,699,333 | 1,387,338 |
| Stock-based compensation | 391,427 | 203,826 |
| **Total** | **20,744,405** | **10,221,965** |

The increase in R&D expenses of $10,522,440 from $10,221,965 in FY 2021 to $20,744,405 in FY 2022 is mainly attributable to a $9,814,167 increase in the favipiravir clinical trials, a $251,024 increase in ATI-2307 program, a $196,030 increase in the ATI-1701 program, an increase of $311,995 in salaries and benefits, an increase of $187,601 in stock-based compensation and an increase of $39,989 in general R&D expenses. These increases were offset by a $195,767 decrease in ATI-1503 program, a decrease of $80,808 in ATI-1501 program and an immaterial decrease in depreciation of property and equipment.

*Favipiravir*

The increase in favipiravir expenses is due to the increased clinical expenses paid to the CROs for the PRESECO trial in FY2022 due to the increased number of sites and patients enrolled in the US and expanding the study to Brazil and Mexico during the first three quarters of the year. The increase is also due to the increased clinical trial insurance, increased statistician costs and increased costs for the quality assurance audits and DSMB meetings. The Company has discontinued the program and as a result, overall program expense for last quarter has decreased along with reduced clinical manufacturing cost.

*ATI-2307*

The increase in ATI-2307 expenses is due to increased clinical manufacturing costs and consultant costs in FY 2022 as compared to FY 2021. This is offset by an decrease in pre-clinical costs and other related costs.

*ATI-1701*

The increase in expenses related to the ATI-1701 program is due to increased pre-clinical manufacturing, clinical manufacturing costs, and regulatory costs in FY 2022 in comparison to FY 2021. This is offset by decrease in IP management costs.

*ATI-1503*

The decrease in expenses related to the ATI-1503 program is due to decreased pre-clinical manufacturing costs and research consulting costs in FY 2022 in comparison to FY 2021.

*ATI-1501*

The decrease in expenses related to the ATI-1501 program is due to lower IP management and regulatory costs.

*General R&D Expenses*

The increase in expenses related to general R&D expenses is due to related party consulting in FY 2022 in comparison to FY 2021. This is offset by a decrease in research and development consulting costs.

*Salaries and Benefits and Stock-based compensation*

Increases in salaries and benefits in FY 2022 are mainly due to staff changes. The increase in stock-based compensation expenses is due to stock options being issued since FY 2021.

**ii. G&A expenses**

The Company's G&A expenses include salaries and benefits of the senior executive team and the finance and administrative staff, stock-based compensation expenses, professional fees including legal, auditing and tax, costs associated with the public listing on the TSX, regulatory, investor relations and public relations costs, travel expenses, office rent, operating and information technology costs, director compensation, and directors' and officers' insurance premiums.
G&A expenses consist of the following:

| | Year ended March 31, 2022 ($) | Year ended March 31, 2021 ($) |
|---|---|---|
| G&A expenses, excluding salaries | 2,065,439 | 2,730,779 |
| Salaries and benefits | 905,321 | 1,147,846 |
| Stock-based compensation | 1,578,755 | 903,450 |
| Amortization of property and equipment | 6,500 | 5,702 |
| **Total** | **4,556,015** | **4,787,777** |

G&A expenses decreased by $231,762 in FY 2022 due to a $665,340 decrease in G&A expenses, a decrease of $242,525 in salaries and benefits, offset by an increase of $675,305 in stock-based compensation and an immaterial increase in depreciation of property and equipment.

*Stock-based compensation*

The increase in stock-based compensation in FY 2022 by $675,305 in comparison to FY 2021 is due to stock options granted since FY 2021.

*G&A expenses, excluding salaries*

G&A expenses, excluding salaries, for FY 2022 decreased mainly due to decreases in business advisory costs, regulatory fees, government grants consulting costs, public relations costs and investor relations costs. These decreases are offset by increases in insurance costs, investor relation costs and audit fees.

*Salaries and Benefits*

Salaries and benefits decreased in FY 2022 mainly due to staffing changes.

**iii. BD expenses**

BD expenses consist of new program acquisition research costs and business development office rent. BD expenses increased by $61,739 to $711,932 in FY 2022 as compared to $650,193 due to increased legal costs associated with evaluating strategic partnership opportunities in FY 2022 as compared to FY 2021.

**iv. Financing costs**

Financing costs relate 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, as well as the valuation of the Lind Convertible Security.

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

Also, under IFRS, the Lind Convertible Security is accounted for as a compound financial instrument with a liability component and an embedded derivative component classified as two separate liabilities. 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 Lind Convertible Security, utilizing the effective interest rate method at a 12.10% discount rate. 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, 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 consolidated statements of loss and comprehensive loss, but rather should be deferred against the liability components and realized over the term of the Lind Convertible Security in the financing costs, as factors that a market participant would include in pricing the instrument, including time, become observable. In addition, the change in the valuation of the embedded derivative is also included in financing costs.

On December 22, 2021, the Company announced an amendment to certain terms of the Lind Funding Agreement. Under the revised terms, the Company agreed to make a voluntary prepayment of $1 million towards the principal amount outstanding under the Lind Funding Agreement. In exchange, Lind agreed to a standstill period expiring on March 18, 2022, during which period it was not entitled to convert any of the remaining principal amount outstanding into common shares. On March 28,

2022, the Company paid the remaining face value amount of $3,095,000 under the Lind Convertible Security, on receipt of funding from LZH. A loss of $1,357,014 was recognized on the liability component and a credit of $246,629 was released from the carrying value of the conversion option derivative to financing costs in the consolidated statements of loss and comprehensive loss

The increase of financing costs by $1,485,105 in FY 2022 is due mainly to the loss associated with the repayment of the convertible security, as well as the accretion of the ACOA loans.

**v. Government assistance**

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

Government assistance decreased by $224,667 in FY 2022. This is due mainly to decreased R&D costs incurred in FY 2022, which has decreased the value of the investment tax credits, compared to FY 2021.

**vi. Income tax expense**

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

**vii. Net loss and comprehensive loss**

The net loss and comprehensive loss were $25,118,299 for FY 2022, a difference of $10,793,187 compared to the net loss and comprehensive loss of $14,325,112 for FY 2021.

## SUMMARY OF QUARTERLY RESULTS

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

| Quarterly Ended In | | Total Income ($) | Total Expenses ($) | Loss ($) | Basic and Diluted Loss Per Share ($) |
|---|---|---|---|---|---|
| Q4 – March 31, 2022 | | 5,469 | 3,339,661 | (3,334,192) | (0.07) |
| Q3 – December 31, 2021 | | 1,397,509 | 4,627,332 | (3,229,823) | (0.05) |
| Q2 – September 30, 2021 | | 4,937 | 11,181,599 | (11,176,662) | (0.18) |
| Q1 – June 30, 2021 | | 16,499 | 7,385,691 | (7,369,191) | (0.12) |
| Q4 - March 31, 2021 | | 19,140 | 5,004,239 | (4,985,099) | (0.08) |
| Q3 – December 31, 2020 | | 30,146 | 4,296,488 | (4,266,342) | (0.07) |
| 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) |

**RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2022, COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2021**

| | Three months ended March 31, 2022 ($) | Three months ended March 31, 2021 ($) |
|---|---|---|
| **Income** | | |
| Revenue | | |
| Interest income | 5,469 | 19,140 |
| | 5,469 | 19,140 |
| **Expenses** | | |
| R&D | 1,319,668 | 4,176,881 |
| G&A | 1,108,055 | 1,218,361 |
| BD | 16,916 | 204,085 |
| Financing costs | 1,151,018 | 36,136 |
| Government assistance | (255,583) | (631,224) |
| | 3,3340,074 | 5,004,239 |
| **Loss before taxes** | (3,334,605) | (4,985,099) |
| **Income Taxes** | | |
| Income tax expense | (413) | - |
| **Net loss and comprehensive loss** | **(3,334,192)** | **(4,985,099)** |

**Income**

Interest income decreased by $13,671 to $5,469 during the three months ended March 31, 2022, compared to $19,140 in three months ended March 31, 2021, due to a lower cash balance during the three months ended March 31, 2022.

**Operating expenses**

Overall operating expenses decreased by $1,664,165 to $3,340,074 during the three months ended March 31, 2022, compared to $5,004,239 for three months ended March 31, 2021. This is mainly due to a decrease in R&D expenses by $2,857,213, a decrease of $110,306 in G&A expenses and a decrease of $187,169 in BD costs. These are offset by an increase in financing costs by $1,114,882 and a decrease of $375,641 in government assistance. Explanations of the nature of costs incurred, along with explanations for those changes in costs are discussed below.

**i. R&D expenses**

The Company's R&D expenses have related primarily to costs incurred in performing R&D activities that include non-clinical, clinical manufacturing, regulatory and clinical trial expenses of its product candidates. The R&D expenses for the period relate to costs incurred for the development of all five product candidates, including favipiravir, ATI-1501, ATI-1503, ATI-1701, ATI-2307, and general R&D.

R&D expenses consist of the following:

| | Three months ended March 31, 2022 ($) | Three months ended March 31, 2021 ($) |
|---|---|---|
| Favipiravir expenses | 500,605 | 3,401,593 |
| ATI-2307 expenses | 425,312 | 126,004 |
| ATI-1701 expenses | 93,710 | (2,872) |
| ATI-1503 expenses | 8,872 | 36,511 |
| ATI-1501 expenses | (19,630) | 3,574 |
| General R&D expenses | 17,736 | 37,435 |
| Amortization of property and equipment | 1,836 | 2,295 |
| Salaries and benefits | 252,119 | 542,620 |
| Stock-based compensation | 39,108 | 29,721 |
| **Total** | **1,319,668** | **4,176,881** |

The decrease in R&D expenses by $2,857,213 from $4,176,881 in three months ended March 31, 2021, to $1,319,668 in three months ended March 31, 2022 is mainly attributable to a $2,900,988 decrease in the favipiravir program, a $27,639 decrease in ATI-1503 program, a decrease of $23,204 in the ATI-1501 program, a decrease of $19,700 in general R&D expenses and a decrease of $290,501 in salary and benefits. These decreases were offset by a $299,308 increase in the ATI-2307 program, a $96,582 increase in the ATI-1701 program and a $9,387 increase in stock-based compensation and immaterial change in amortization of property and equipment.

*Favipiravir*

The decrease in favipiravir costs is due mainly to decreased clinical expenses paid to the CROs for the PRESECO trial which did not achieve statistical significance on the primary end point of time to sustained clinical recovery. There were also decreased clinical manufacturing costs, regulatory and other related costs. These decreases were offset by increases in statistician costs and clinical consulting costs. The current quarter costs mostly relate to the final passthrough costs which the CROs are finalizing.

*ATI 1503*

The decrease in the ATI-1503 costs is due to a decrease in pre-clinical manufacturing costs, offset by increased biological testing for the three months ended March 31, 2022, as compared to the three months ended March 31, 2021.

*ATI-1501*

The decreased costs in the ATI-1501 program for the three months ended March 31, 2022, in comparison to the three months ended March 31, 2021, is due to a decrease in intellectual property management costs.

*ATI-2307*

The increase in the ATI-2307 costs is due to pre-clinical costs, consulting costs, clinical expenses and regulatory costs, offset by clinical manufacturing costs for the three months ended March 31, 2022, in comparison to the three months ended March 31, 2021.

*ATI-1701*
The increase in the ATI-1701 costs is due to an increase in pre-clinical manufacturing costs, clinical manufacturing costs and regulatory costs, offset by a reduction in intellectual property management costs for the three months ended March 31, 2022, compared to the three months ended March 31, 2021.

*General R&D Expenses*

The decrease in general R&D expenses is mainly due to reduced R&D consulting fees, pre-clinical costs and regulatory costs incurred during the three months ended March 31, 2022, as compared to three months ended March 31, 2021.

*Salary and Benefits and Stock based compensation*

Salary and benefits decreased in the three months ended March 31, 2022, due mainly to staff changes.
The increase in stock-based compensation expense is due to stock options being granted in the three months ended March 31, 2022.

**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 Venture Exchange 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:

| | Three months ended March 31, 2022 ($) | Three months ended March 31, 2021 ($) |
|---|---|---|
| G&A expenses, excluding salaries | 565,010 | 784,549 |
| Salaries and benefits | 214,341 | 277,714 |
| Stock-based compensation | 326,222 | 154,612 |
| Amortization of property and equipment | 2,482 | 1,486 |
| **Total** | **1,108,055** | **1,218,361** |

G&A expenses decreased by $110,306 from $1,218,361 in three months ended March 31, 2021, to $1,108,055 in three months ended March 31, 2022, mainly due to a $219,539 decrease in G&A expenses, excluding salaries and a decrease of $63,373 in salaries and benefits. This was offset by an increase of $171,610 in stock-based compensation and immaterial change in amortization of property and equipment.

*G&A expenses, excluding salaries*

G&A expenses, excluding salaries for the three months ended March 31, 2022, decreased mainly due to decreases in investor relation conferences, public relations costs, investor relations, business advisory costs, regulatory costs, government grants and relations consulting costs. These decreases are offset by increases in insurance costs, accounting fees and legal costs.

*Salary and Benefits and Stock-based compensation*

Salaries and benefits decreased in three months ended March 31, 2022, due mainly to staffing changes.
The increase in stock-based compensation in in three months ended March 31, 2022, by $171,610 is due to options being granted in three months ended March 31, 2022.

### iii. BD expenses

BD expenses consist of new program research and associated legal costs, and business development office rent.

BD expenses decreased by $187,169 due to decreased costs associated with evaluating strategic partnerships.

### iv. Financing costs

Financing costs relates 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, as well as the valuation of the Company's convertible security with Lind.

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.

Also, under IFRS, the Lind Convertible Security is accounted for as a compound financial instrument with a liability component and an embedded derivative component classified as two separate liabilities. 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 Lind Convertible Security, utilizing the effective interest rate method at a 12.10% discount rate. 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, 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 consolidated statements of loss and comprehensive loss, but rather should be deferred against the liability components and realized over the term of the Lind Convertible Security in the financing costs, as factors that a market participant would include in pricing the instrument, including time, become observable. In addition, the change in the valuation of the embedded derivative is also included in financing costs.

On December 22, 2021, the Company announced an amendment to certain terms of the Lind Funding Agreement. Under the revised terms, the Company agreed to make a voluntary prepayment of $1 million towards the principal amount outstanding under the Lind Funding Agreement. In exchange, Lind agreed to a standstill period expiring on March 18, 2022, during which period it was not entitled to convert any of the remaining principal amount outstanding into common shares. On March 28, 2022, the Company paid the remaining face value amount of $3,095,000 under the Lind Convertible Security, on receipt of funding from LZH. A loss of $1,357,014 was recognized on the liability component and a credit of $246,629 was released from the carrying value of the conversion option derivative to financing costs in the consolidated statements of loss and comprehensive loss

The increase of financing costs by $1,14,882 for the three months ended March 31, 2022, was due mainly to the loss associated with the repayment of the convertible security, as well as the accretion of the ACOA loans.

### v. Government assistance

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

Government assistance decreased by $375,641 from $631,224 for the three months ended March 31, 2021, to $225,583 for the three months ended March 31, 2022. This is due mainly to decreased R&D costs incurred in the three months ended March 31, 2022, which has decreased the value of the investment tax credits, compared to the three months ended March 31, 2021.

### vi. Income tax expense

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

### vii. Net loss and comprehensive loss

The net loss and comprehensive loss were $3,334,192 for the three months ended March 31, 2022, which was $1,650,907 lower than the net loss and comprehensive loss of $4,985,099 for the three months ended March 31, 2021.

## CASH FLOWS

As at March 31, 2022, the Company had cash and short-term investments of $6,664,855 and positive working capital of $1,570,339 compared to $16,124,791 and $13,645,167, respectively as at March 31, 2021.

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

*Operating activities*

During the year ended March 31, 2022, $19,081,182 was used in operating activities, including a reported net loss of $25,118,299 prior to being decreased by $3,550,107 for non-cash items which include stock-based compensation, financing costs, unrealized loss from changes in foreign currency, and amortization of property and equipment. This was offset by a net increase of $2,487,010 in cash as a result of changes in working capital.

*Financing activities*

During the year ended March 31, 2022, the Company raised $7,000,220 in connection with the October 2021 Public Offering (as defined herein) through the issue of shares and warrants less issuance costs of $720,548. The Company received proceeds of $4,500,000 from the LZH secured loan and warrants less issuance costs of $301,818. The Company received proceeds of $3,500,000 from the issuance of a convertible security less issuance costs of $193,241and repaid $4,095,000 on settlement of the convertible security. The Company also received proceeds of $43,721 through the exercise of warrants. This is offset by $75,900 and $93,005 for the payment of accreted interest involving cash and the repayment of long- term debt, respectively for FY 2022.

*Investing activities*

During the year ended March 31, 2022, the Company received proceeds of $5,061,853 when multiple guaranteed investment certificates matured.

## 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 clinical trials for 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 March 31, 2022, the Company had approximately $8.0 million of existing and identified potential sources of cash including:

- cash of $6.6 million; and
- amounts receivable and investment tax credits receivable of $1.4 million.

The Company was previously granted a three-year U.S. PRMRP award for up to USD$3.2 million to fund the Company's ATI-1503 program, of which the Company had only drawn down approximately USD$0.856 million as of March 31, 2022 and has less than one year left to draw down on the remaining amount. The Company also has a USD$6.3 million DTRA grant, of which USD$1.7 million should be received directly by the Company and the remaining will fund the development costs for the ATI-1701 program indirectly. The DTRA grant is currently in the process of being moved to a new CDMO and the Company is in the process of submitting a new statement of work. As of March 31, 2022, the Company had drawn down USD$0.076 million of the previously announced funding.

**Going Concern**

While the Company has cash resources of $8.0 million as at March 31, 2022, as well as access to the remaining PRMRP government grant and potentially the remaining DTRA grant, management does not believe these resources will be sufficient to fund operations and current working capital requirements, for the next twelve months, unless further financing is obtained in the near term. The ability of the Company to continue as a going concern and finance its current working capital requirements in the near term is dependent upon raising additional capital to fund the Company's R&D activities, general and administration expenses and any expansion of operations through equity financings, non-dilutive funding and partnerships. As there can be no assurance that the Company will be successful in its efforts to raise additional financing 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 recent results of the PRESECO trial 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 favourable or at all may require the Company to significantly change or curtail the current or planned operations in order to conserve cash until such time, if ever, that sufficient proceeds from operations are generated, and could result in the Company not taking advantage of business opportunities, 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. In addition, failure to secure additional financing as required to fund current working capital requirements may result in the Company defaulting under its existing long term debt arrangements, which may result in the acceleration of obligations under such arrangements.

## EQUITY OFFERINGS

On October 14, 2021, the Company completed the October 2021 Public Offering pursuant to which the Company issued 8,434,000 October 2021Units at a price of $0.83 per October 2021 Unit, for aggregate proceeds of $7,000,220. The Company intended to use the net proceeds of the October 2021 Public Offering: (a) for clinical activities relating to the Phase 3 PRESECO clinical trial evaluating favipiravir for the treatment of COVID-19; (b) to manufacture the clinical trial material for ATI-2307; (c) to conduct business development activities with respect to out-licensing and partnering of existing programs; (d) for working capital purposes.

| Intended use of proceeds | Estimated amount | Approximate amount to March 31, 2022 | Variance |
|---|---|---|---|
| | $ | $ | $ |
| Phase 3 PRESECO clinical trial and evaluating Favipiravir | 5,393,000 | 5,393,000 | - |
| ATI-2307 expenses | 630,000 | 630,000 | - |
| Business Development | 150,000 | 140,000 | 10,000 |
| Working Capital | 50,205 | 50,205 | - |
| **Total** | 6,223,205 | 6,213,205 | 10,000 |

**RELATED PARTY TRANSACTIONS**

The Company's Chief Executive Officer is a partner of Bloom Burton & Co., which is a principal shareholder of the Company. At March 31, 2022, the Company owed $56,633 (March 31, 2021 - $32,242) to the Chief Executive Officer. During the year ended March 31, 2022, the Company was charged $349,361 (March 31, 2021 - $364,922) for services performed by the Chief Executive Officer. The Company also granted 850,000 stock options (March 31, 2021 – 200,000) to the Chief Executive Officer during the year.

During the year ended March 31, 2022, the Company was charged $nil (March 31, 2021 - $15,000) for consulting services in relation to business development activities by Bloom Burton Securities Inc. Also, during the year ended March 31, 2022, the Company issued 128,674 compensation warrants (March 31, 2021 – 280,777) valued at $54,043 (March 31, 2021 - $166,625) and paid $490,015 (March 31, 2021 - $294,395) in cash commissions to Bloom Burton Securities Inc. resulting from the May 2022 Public Offering and October 2021 Public Offering.

At March 31, 2022, the Company owed $nil (March 31, 2021 - $13,084) to a member of the Board of Directors and during the year ended March 31, 2022, the Company was charged $73,715 (March 31, 2021 - $13,084) for consulting services by the Board member in relation to research and development activities.

**CONTRACTUAL OBLIGATIONS**

On November 21, 2019, the Company signed an asset purchase agreement (the "**Asset Purchase Agreement**") with FFTC receiving exclusive worldwide rights, excluding Japan, to acquire and develop a novel broad-spectrum antifungal drug candidate, ATI-2307. Under the terms of the Asset Purchase Agreement if a payment of US$500,000 associated with the Asset Purchase Agreement is not made by January 2022 (the "**Payment Deadline**"), FFTC retains the right to terminate the Asset Purchase Agreement. Additional payments are due on the achievement of additional milestones, including approval from the FDA and other various performance thresholds. If the Company met 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. The parties are currently in the process of extending the Payment Deadline to December 2022, subject to finalizing the requisite legal documentation. No payments have been accrued or made to date.

On October 30, 2020, the Company signed the Collaboration Agreement with DRL and GRA. Under the terms of the Collaboration Agreement, Appili is obligated to design, oversee, and fund pivotal clinical trials to support global regulatory submissions. Partners DRL, GRA, and FFTC are responsible for manufacturing, distribution, and commercialization worldwide outside of Japan, China and Russia. The Company is entitled to 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.

On August 9, 2021, the Company entered into the Lind Funding Agreement pursuant to which the Company agreed to issue to Lind, the Lind Convertible Security. The transaction was completed on August 18, 2021. The Lind Convertible Security had a face value of $4.095 million (representing $3.5 million in funding plus an implied 8.5% interest rate per annum for the term of the Lind Convertible Security). After deducting a $105,000 commitment fee as set forth in the Lind Funding Agreement, the Company received net proceeds of $3.395 million from the funding of the Lind Convertible Security. The Company also paid legal fees and regulatory costs associated with the Lind Convertible Security of $118,774. The Company used the proceeds from the funding of the Lind Convertible Security for general corporate purposes. The Lind Convertible Security had a term of 24 months, subject to earlier repayment and/or conversion in accordance with its terms. The Lind Convertible Security was secured by all of the assets and property of the Company. On December 22, 2021, the Company agreed to make a voluntary prepayment of $1 million towards the principal amount outstanding under the Funding Agreement. In exchange, Lind agreed to a standstill period expiring on March 18, 2022, during which Lind was not entitled to convert any of the remaining principal amount outstanding into Appili shares, which was then $3,095,000. On March 28, 2022, the Company paid the remaining face value amount of $3,095,000 under the Lind Convertible Security, on receipt of funding from LZH.

On September 20, 2021, the Company entered into a data licencing agreement ("**Dataset Transfer Agreement**") with FFTC, to provide FFTC the data from the PRESECO clinical trial. Pursuant to the Dataset Transfer Agreement, FFTC paid the Company US$1,000,000 (Cad $1,265,520) to receive direct access to PRESECO clinical trial data in support of local regulatory submissions in Japan when it becomes available. On November 30, 2021, the Company completed the data transfer and recorded the US$1,000,000 (CAD$1,265,520) as revenue in its consolidated financial statements for the year ended March 31, 2022.

On September 28, 2021, the Company entered into the Definitive Agreement with AiPharma to establish the AiPharma Strategic Alliance. Under the terms of the equity transaction, AiPharma was entitled to receive that number of Common Shares equal to 24% of the issued and outstanding Common Shares immediately prior to the Definitive Agreement (calculated on a non-diluted basis). AiPharma had also been granted certain investor rights, including pre-emptive rights, certain consent rights and registration rights. In exchange, Appili was entitled to receive approximately 6% of the issued and outstanding AiPharma shares (calculated as of the date of the Definitive Agreement on a non-diluted basis). As of February 4, 2022, certain closing conditions of the Definitive Agreement pertaining to the AIPharma Strategic Alliance had not been met. As a result, and in accordance with the terms of the Definitive Agreement, the Company issued a notice of termination of the Definitive Agreement and does not expect any transfer of equity between the two organizations.

On March 28, 2022, the Company executed LZH Agreement providing for a secured loan for gross proceeds of US$3,600,000 (CAD$4,500,000). Under the terms of the LZH Agreement, LZH obtained a secured loan of US$3.6 million bearing a minimum interest rate of 8.5% or the US Prime Lending rate plus 5.25% per year, compounded quarterly and paid in arrears, maturing on March 28, 2025. The loan is secured by a general security over all the assets of the Company, including intellectual property. The Agreement provides for early prepayment option and various default events which trigger a default penalty interest of an additional 5% to be paid.

On March 28, 2022, the Company entered into a licencing agreement which entitled LZH an exclusive licence to commercialize the Company's future approved products in the Territory, excluding ATI-1501 in Latin America, which was recently licenced to existing partner Saptalis. The Company will receive a supply price for products sold by LZH or its sublicensees, as well as royalties on net sales. The license is subject to the Company obtaining certain consents. If the consents are not obtained within 9 months commencing March 28, 2022, the Company will be required to issue up to 1,500,000 additional warrants to LZH. If the Company is not able to obtain approval from the TSX for the issuance of the additional warrants, then the Company is required to pay in cash the fair value of the additional warrants.
There is no other material change in the contractual obligations of the Company since the beginning of the 2022 fiscal year. Details on the contractual obligations of the Company can be found in the financial statements and related notes in the audited annual consolidated financial statements for the year ended March 31, 2022.

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company was not party to any off-balance sheet arrangements as of March 31, 2022.

## OUTSTANDING SECURITIES

As of June 29, 2022, the Company had 121,266,120 issued and outstanding Common Shares, 9,276,490 stock options and 50,703,037 warrants outstanding.

## RISKS AND UNCERTAINTIES

The Company is a clinical-stage company that operates in an industry that is dependent on a number of factors that include the capacity to raise additional capital on reasonable terms, obtain positive results of clinical trials without serious adverse or inappropriate side effects, and obtain market acceptance of its product by physicians, patients, healthcare payers and others in the medical community for commercial success, etc. An investment in the Common Shares is subject to a number of risks and uncertainties. In addition to the risks set out herein (including with respect to the COVID-19 pandemic), an investor should carefully consider the risks described under the heading "*Risk Factors*" in the Company's annual information form dated June 29, 2022, filed in respect of the fiscal year ended March 31, 2022. If any of such described risks occur, or if others occur, the Company's business, operating results and financial condition could be seriously harmed, and investors may lose a significant proportion of their investment. There are important risks which management believes could impact the Company's business.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

Disclosure controls and procedures ("**DC&P**") are intended to provide reasonable assurance that material information is gathered and reported to senior management to permit timely decisions regarding public disclosure and internal controls over financial reporting ("**ICFR**") are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

The Company maintains DC&P designed to ensure that information required to be disclosed in reports filed under applicable securities laws, is recorded, processed, summarized and reported within the appropriate time periods and that such information is accumulated and communicated to the Company's management, including the CEO and CFO, to allow for timely decisions regarding required disclosure.

The CEO and the CFO of the Company are responsible for establishing and maintaining the Company's disclosure controls and procedures, including adherence to the Disclosure Policy adopted by the Company. The CEO and CFO have evaluated whether there were changes to the disclosure controls and procedures during the year ended March 31, 2022, that have materially affected, or are reasonably likely to materially affect, the disclosure controls and procedures. No such changes were identified through their evaluation.

In designing and evaluating the DC&P, the Company recognizes that any disclosure controls and procedures, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met, and management is required to exercise its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Internal Control over Financial Reporting

The Company's management, including the CEO and the CFO, are responsible for establishing and maintaining adequate ICFR. The control framework used by the CEO and CFO of the Company to design the Company's ICFR is the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The CEO and CFO have evaluated whether there were changes to ICFR during the year ended March 31, 2022, that have materially affected, or are reasonably likely to materially affect, ICFR. No such changes were identified through their evaluation. In response to the COVID-19 pandemic, the Company asked its employees to work from home to the extent possible. This change requires certain processes and controls that were previously done or documented manually to be completed and retained in electronic form. Despite the changes required by the current environment, there have been no

significant changes in the Company's internal controls during the year ended March 31, 2022, that have materially affected, or are reasonably likely to materially affect, ICFR.

The Company's ICFR may not prevent or detect all misstatements because of inherent limitations. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because changes in conditions or deterioration in the degree of compliance with the Company's policies and procedures.

## BASIS OF PRESENTATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the IFRS as issued by the International Accounting Standards Board. The accounting policies, methods of computation and presentation applied in the consolidated financial statements are consistent with those of previous financial years. The Company's significant accounting policies are detailed in the notes to the audited consolidated financial statements for March 31, 2022.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Ability to continue as a going concern

In order to assess whether it is appropriate for the Company to continue as a going concern, management is required to apply judgment and make estimates with respect to future cash flow projections.
In arriving at this judgment, there are a number of assumptions and estimates involved in calculating these future cash flow projections. This includes making estimates regarding the timing and amounts of future expenditures and the ability and timing of raising additional financing.

### Calculation of carrying amounts of long-term debt

*ACOA Atlantic Innovation Fund ("AIF") loan*

The Company has an interest-free AIF government loan from ACOA with a maximum contribution of $2,803,148. The annual repayments, commencing December 1, 2022, are calculated as 5% of gross revenue from a specific product for the preceding fiscal year. As at March 31, 2022, $9,955 (March 31, 2021-$nil) is included in current liabilities in the consolidated statements of financial position.

The initial fair value of the ACOA AIF loan is determined by using a discounted cash flow analysis for the loan, which requires a number of assumptions. The difference between the face value and the initial fair value of the ACOA AIF loan is recorded in the consolidated statements of loss and comprehensive loss as government assistance. The carrying amount of the ACOA AIF loan requires management to adjust the long-term debt to reflect actual and revised estimated cash flows whenever revised cash flow estimates are made or new information related to market conditions is made available. Management recalculates the carrying amount by computing the present value of the estimated future cash flows at the original effective interest rate. Any adjustments are recognized in the consolidated statements of loss and comprehensive loss as accreted interest after initial recognition.

The significant assumptions used in determining the discounted cash flows include estimating the amount and timing of future revenue for the Company and the discount rate. The Company's estimates of future revenues are derived from several significant assumptions including estimated time to market, expected future selling price, potential target market, estimated market penetration, the product's shelf-life, returns provision, number of years of exclusivity and estimated royalty rate.

As the ACOA AIF loan is repayable based on a percentage of gross revenue from the Company's product, ATI-1501, if any, the determination of the amount and timing of future revenue significantly impacts the initial fair value of the loan, as well as the carrying value of the ACOA AIF loan at each reporting date. The Company is still in the development stage for this

infectious disease product and accordingly, determination of the amount and timing of revenue, if any, requires significant judgment by management. Management's estimates of future revenues assume revenue in the next five years.

The discount rate determined on initial recognition of the ACOA AIF loan is used to determine the present value of estimated future cash flows expected to be required to settle the debt. In determining the appropriate discount rates, the Company considered the weighted average cost of capital for the Company, risk adjusted based on the development risks of the Company's product. The ACOA AIF loan is repayable based on a percentage of gross revenue from the Company's product, ATI-1501, if any; accordingly, finding financing arrangements with similar terms is difficult. Management used a discount rate of 26.7% to discount the ACOA AIF loan.

The Company signed a licence agreement for the US development and commercialization rights for ATI-1501 with pharmaceutical company Saptalis 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 $28,300 higher or $28,300 lower, respectively.

If the total forecasted revenue were reduced to $nil, no amounts would be forecast to be repaid on the ACOA AIF loan and the ACOA AIF loan payable at March 31, 2022 would be recorded at $nil, which would be a reduction in the ACOA AIF loan payable of $282,555.

If the timing of the receipt of forecasted future revenue was earlier or later by one year, the carrying value of the long-term debt at March 31, 2022 would have been an estimated $71,400 higher or $56,300 lower, respectively.
Any changes in the amounts recorded on the consolidated statements of financial position for the ACOA AIF loan result in an offsetting charge to accreted interest after initial recognition in the consolidated statements of loss and comprehensive loss.

*Lind Convertible Security*

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 Company would exercise its option to buy back the Lind Convertible Security in the first 180 days at a value of $3,794,000 (the "Buy-Back Option") , 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. The discount rate used in determining the fair value and the carrying value before repayment was 10.48%.

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 12.48% or 8.48%, the fair value of the embedded derivative would have been $75,700 higher or $79,300 lower respectively.

Any changes in the amounts recorded in the consolidated statements of financial position for the Lind Convertible Security result in an offsetting charge to finance costs after initial recognition in the consolidated statements of loss and comprehensive loss.

*Equity-settled share-based compensation*

The Company estimates the cost of equity-settled share-based compensation using the Black-Scholes valuation model. The model takes into account the estimate of the expected life of the option, the current price of the underlying share, the expected volatility, an estimate of future dividends on the underlying common share, the risk-free rate of return expected for an instrument with a term equal to the expected life of the option and the expected forfeiture rate.

## FINANCIAL INSTRUMENTS

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

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | **Carrying Value** | **Fair Value** |
| | **$** | **$** | **$** | **$** |
| Cash | 6,664,855 | 6,664,855 | 11,062,938 | 11,062,938 |
| Short term investments | - | - | 5,061,853 | 5,061,853 |
| Amounts Receivable | 40,738 | 40,739 | 347,588 | 347,588 |
| Accounts Payable and accrued liabilities | 6,455,958 | 6,455,958 | 4,531,495 | 4,531,495 |
| Long-term debt | 4,978,683 | 4,978,683 | 1,032,600 | 1,032,600 |

Assets and liabilities, such as commodity taxes, that are not contractual and arise as a result of statutory requirements imposed by governments, do not meet the definition of financial assets or financial liabilities and are, therefore, excluded from amounts receivable and accounts payable and accrued liabilities in this table.

Fair value of items, which are short-term in nature, have been deemed to approximate their carrying value. The above noted fair values, presented for information only, reflect conditions that existed only at March 31, 2022, 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.

*Risk management*

The Company, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: credit risk; market risk; and liquidity risk. Management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary.

*Credit risk*

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company is exposed to credit risk on its cash and short-term investment balances. The Company's cash management policies include ensuring that the cash is deposited in Canadian chartered banks.

*Market risk*

Market risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, including interest rate risk and foreign currency risk.

*Interest rate price risk*

The Company has limited exposure to interest rate risk on its lending and borrowing activities. The Company has interest-free debt that is either repayable over 84 months or 120 months or becomes repayable when revenue is earned.

*Foreign currency risk*

Foreign currency risk occurs as a result of foreign exchange rate fluctuations between the time a transaction is recorded and the time it is settled. The Company purchases goods and services denominated in foreign currencies and, accordingly, is subject to foreign currency risk. As at March 31, 2022, the Company's cash included $914,994 (March 31, 2021 - $425,007) denominated in United States dollars. In addition, the Company's accounts payable and accrued liabilities included $665,654 (March 31, 2021 - $973,616) denominated in United States dollars and $299,040 (March 31, 2021 - $218,790) denominated in Japanese yen. The Company performed a sensitivity analysis on the foreign exchange rate. If the year-end foreign exchange rate was 5% higher or lower, the Company's cash and accounts payable and accrued liabilities denominated in United States dollars would be $114,991 higher or $109,515 lower, respectively.

The Company does not enter into derivative financial instruments to reduce exposure to foreign currency risk.

*Liquidity risk*

Liquidity risk is the risk the Company will encounter difficulties in meeting its financial liability obligations as they come due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis.

The Company controls liquidity risk through management of working capital, cash flows and the availability and sourcing of financing. As described in note 1 of the consolidated financial statements as at March 31, 2022, the Company's ability to accomplish all of its future strategic plans is dependent on obtaining additional financing or executing other strategic options; however, there is no assurance that the Company will achieve these objectives.

The following table outlines the contractual repayments for long-term debt, which includes loans with a set repayment schedule, as well as loans that are repayable based on a percentage of revenues, for the Company's financial liabilities. The long-term debt is comprised of the contributions received described in note 11 of the consolidated financial statements as at March 31, 2022:

| | Payments due by period: | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **Total** **$** | **Less than 1 year** **$** | **1-3 years** **$** | **4-5 years** **$** | **After 5 years** **$** |
| Accounts payable and accrued liabilities | 6,455,958 | 6,455,958 | - | - | - |
| Long-term debt [(1)] | 8,233,410 | 178,903 | 4,861,950 | 341,338 | 2,851,218 |
| Total Contractual Obligations | 14,689,368 | 6,634,861 | 4,861,950 | 341,338 | 2,851,218 |

(1) LZH secured loan of $4.5 million due on March 28, 2025

## ADDITIONAL INFORMATION

Additional information relating to the Company, including the Company's annual information dated June 29, 2022, filed in respect of the fiscal year ended March 31, 2022, is available under the Company's profile on SEDAR at www.sedar.com.