

Appili Therapeutics Inc.

Consolidated Financial Statements

March 31, 2022

June 29, 2022

Management's Responsibility for Financial Reporting

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

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

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

(signed) "*Kenneth Howling*"
Acting Chief Financial Officer



Independent auditor's report

To the Shareholders of Appili Therapeutics Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Appili Therapeutics Inc. and its subsidiary (together, the Company) as at March 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at March 31, 2022 and 2021;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to note 1 to the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

PricewaterhouseCoopers LLP
Cogswell Tower, 2000 Barrington Street, Suite 1101, Halifax, Nova Scotia, Canada B3J 3K1
T: +1 902 491 7400, F: +1 902 422 1166



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended March 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p>Initial accounting and measurement of convertible security arrangement</p> <p><i>Refer to note 2 - Summary of significant accounting policies and basis of preparation, note 3 - Critical accounting estimates and judgments, note 10 - Convertible security, and note 14 - Warrants to the consolidated financial statements</i></p> <p>On August 18, 2021, the Company closed a convertible security funding arrangement with Lind Global Fund II, LP (Lind) for gross proceeds of \$3,500,000 (the Lind Convertible Security). The Company paid Lind a commitment fee of \$105,000, resulting in net proceeds of \$3,395,000. The Company also issued 2,209,874 common share purchase warrants in connection with the Lind Convertible Security that management valued at \$614,604 on the date of issuance based on a Black-Scholes model. The Lind Convertible Security included a Buy-Back-Option that, if exercised, triggers a Conversion Buy-Back option, which was considered a beneficial conversion feature at the option of the lender.</p> <p>In assessing the accounting for the Lind Convertible Security, management concluded that the Buy-Back-Option and the Conversion Buy-Back option were embedded derivatives and that the Lind Convertible Security had to be accounted for as a hybrid financial instrument with a liability component and an embedded derivative component. On issuance, management determined that the combined fair value of the liability</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none">• Read the underlying agreement and evaluated management's accounting analysis, which included the initial identification of the embedded derivatives associated with the Lind Convertible Security.• Professionals with specialized skill and knowledge in the field of valuation assisted in assessing the reasonableness of the fair values of the warrants, the liability component, as well as the associated embedded derivatives of the Lind Convertible Security as at August 18th, 2021 by developing independent point estimates and by comparing these independent point estimates to management's estimates.• Tested the disclosures in the consolidated financial statements with regard to the Lind Convertible Security.



Key audit matter

How our audit addressed the key audit matter

component and the embedded derivative component amounted to \$3,909,981, which along with the warrants valued at \$614,604, resulted in a day-one loss of \$1,129,585, taking into consideration the net proceeds of \$3,395,000. On March 27, 2022, the Lind Convertible Security was paid back in full.

We considered this a key audit matter due to the complexity in determining the appropriate accounting treatment for the Lind Convertible Security, and the significant judgment made by management in the initial valuations associated with it. This in turn resulted in significant audit effort and subjectivity in performing audit procedures to assess management's accounting treatment and to evaluate the reasonableness of the fair values of the warrants, the liability component and the associated embedded derivatives of the Lind Convertible Security. Professionals with specialized skills and knowledge in the field of valuation assisted us in performing our procedures.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or



conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Alexander Christianson.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Halifax, Nova Scotia
June 29, 2022

Appili Therapeutics Inc.

Consolidated Statements of Financial Position

As at March 31, 2022 and 2021

	2022	2021
	\$	\$
Assets		
Current Assets		
Cash	6,664,855	11,062,938
Short-term Investment (note 4)	-	5,061,853
Amounts receivable (note 5)	466,678	1,034,957
Investment tax credit receivable	924,400	651,200
Prepaid expenses and deposits	183,546	451,014
	<u>8,239,479</u>	<u>18,261,962</u>
Non-current Assets		
Property and equipment (note 6)	42,247	54,993
	<u>8,281,726</u>	<u>18,316,955</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (notes 7 & 8)	6,455,958	4,531,495
Deferred credit (note 11)	117,627	-
Current portion of long-term debt (note 11)	95,555	85,300
	<u>6,669,140</u>	<u>4,616,795</u>
Non-current liabilities		
Long-term debt (note 11)	4,883,128	947,300
	<u>11,552,268</u>	<u>5,564,095</u>
Shareholders' equity		
	<u>(3,270,542)</u>	<u>12,752,860</u>
Total Liabilities and Shareholder's Equity		
	<u>8,281,726</u>	<u>18,316,955</u>

Going concern (note 1)

Commitments (note 19)

Subsequent event (note 21)

See accompanying notes to the Consolidated Financial Statements

Approved by the Board of Directors

Signed "Ian Mortimer"
Director

Signed "Theresa Matkovits"
Director

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

Appili Therapeutics Inc.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended March 31, 2022 and 2021

	Share Capital \$ (note 12)	Contributed Surplus \$ (note 13)	Warrants \$ (note 14)	Deficit \$	Total \$
Balance- March 31, 2020	20,991,655	1,813,550	2,666,044	(16,625,781)	8,845,468
Issuance of Class A common shares in public offering	11,959,708	-	-	-	11,959,708
Issuance of Class A common shares in private placement	1,109,306	-	-	-	1,109,306
Share issuance costs	(1,490,720)	-	-	-	(1,490,720)
Issuance of warrants	-	-	4,430,894	-	4,430,894
Warrant issuance costs	-	-	(444,397)	-	(444,397)
Exercise of warrants	1,759,562	-	(461,882)	-	1,297,680
Expired Warrants	-	1,254	(1,254)	-	-
Employee share options:					
Exercise of options	632,584	(434,451)	-	-	198,133
Value of services recognized	-	1,171,900	-	-	1,171,900
Net loss and comprehensive loss for the period	-	-	-	(14,325,112)	(14,325,112)
Balance- March 31, 2021	34,962,095	2,552,253	6,189,405	(30,950,893)	12,752,860
Issuance of Class A common shares in public offering	5,344,254	-	-	-	5,344,254
Share issuance costs	(720,669)	-	-	-	(720,669)
Issuance of warrants	-	-	2,636,156	-	2,636,156
Warrant issuance costs	-	-	(248,587)	-	(248,587)
Exercise of warrants	67,634	-	(23,913)	-	43,721
Expired Warrants	-	421,124	(421,124)	-	-
Employee share options:					
Value of services recognized	-	2,040,022	-	-	2,040,022
Net loss and comprehensive loss for the period	-	-	-	(25,118,299)	(25,118,299)
Balance- March 31, 2022	39,653,314	5,013,399	8,131,937	(56,069,192)	(3,3270,542)

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

Appili Therapeutics Inc.

Consolidated Statements of Loss and Comprehensive Loss For the years ended March 31, 2022 and 2021

	2022	2021
	\$	\$
Income		
Revenue (note 9)	1,390,684	-
Interest income	33,730	116,953
	<u>1,424,414</u>	<u>116,953</u>
Expenses		
Research and development costs	20,744,405	10,221,965
General and administrative	4,556,015	4,787,777
Business development	711,932	650,193
Financing costs (note 11)	1,554,941	69,836
Government assistance	(1,063,039)	(1,287,706)
	<u>26,504,254</u>	<u>14,442,065</u>
Loss before income taxes	(25,079,840)	(14,325,112)
Provision for income taxes	38,459	-
	<u>(25,118,299)</u>	<u>(14,325,112)</u>
Net loss and comprehensive loss for the year	<u>(25,118,299)</u>	<u>(14,325,112)</u>
Basic and diluted loss per share	<u>(0.38)</u>	<u>(0.24)</u>
Weighted-average shares outstanding	<u>66,731,000</u>	<u>59,178,590</u>

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

Appili Therapeutics Inc.
Consolidated Statements of Cash Flows
For the years ended March 31, 2022 and 2021

	2022	2021
	\$	\$
Cash provide by (used in)		
Operating activities		
Net loss and comprehensive loss for the period	(25,118,299)	(14,325,112)
Changes to operations not involving cash:		
Amortization of property and equipment	12,643	14,836
Non-cash financing costs	1,554,903	69,836
Share-based compensation	2,040,022	1,171,900
Loss on disposal of property and equipment	103	1,929
Unrealized (gain) loss from changes in foreign currency	(57,564)	20,770
Accrued interest on short-term investments	-	(46,814)
	<u>(21,568,192)</u>	<u>(13,092,655)</u>
Net changes in non-cash operating working capital		
Decrease (increase) in amounts receivable	568,279	(859,816)
Increase in investment tax credits receivable	(273,200)	(513,000)
Decrease (increase) in prepaids expenses and deposits	267,468	(233,065)
Decrease in inventory	-	39,198
Increase in accounts payable and accrued liabilities	1,924,463	3,208,688
	<u>(19,081,182)</u>	<u>(11,450,650)</u>
Financing activities		
Proceeds from the issuance of Class A common shares in a public offering	5,344,254	11,959,708
Proceeds from the issuance of Class A common shares in a private placement	-	1,109,306
Share issuance costs	(526,786)	(1,078,654)
Proceeds from the issuance of warrants	1,655,966	3,895,986
Warrant issuance costs	(193,762)	(321,556)
Proceeds from exercise of warrants	43,721	1,297,680
Proceeds from exercise of stock options	-	198,133
Proceeds from long-term debt (note 11)	4,500,000	-
Costs associated with issue of long term debt	(301,818)	-
Repayment of long-term security	(75,900)	(17,610)
Accreted interest involving cash	(93,005)	(24,626)
Proceeds from convertible debt (note 10)	3,500,000	-
Costs associated with issuance of convertible debt	(193,241)	-
Repayment of convertible security (note 10)	(4,095,000)	-
	<u>9,564,429</u>	<u>17,018,367</u>
Investing activities		
Acquisition of property and equipment	-	(8,448)
Purchase of short-term investments	-	(20,010,000)
Proceeds from disposal of short-term investments	5,061,853	15,025,496
	<u>5,061,853</u>	<u>(4,992,952)</u>
Net change in cash during the year	(4,454,900)	574,765
Cash - Beginning of period	11,062,938	10,509,630
Changes due to foreign exchange	56,817	(21,457)
Cash - End of period	<u>6,664,855</u>	<u>11,062,938</u>
Supplementary cash flow		
Interest paid	93,005	24,626

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

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

1 Nature of operations and liquidity risk

Appili Therapeutics Inc. (the “Company” or “Appili”) is a biopharmaceutical company dedicated to advancing the global fight against infectious diseases by matching clearly defined patient needs with drug development programs that provide solutions to existing challenges patients, doctors and society face. Appili has one wholly owned subsidiary, Appili Therapeutics Inc. USA. The Company is domiciled in Halifax, Nova Scotia. The Company exists under the Canada Business Corporations Act, and its Class A common shares (“common shares”) are listed for trading on the Toronto Stock Exchange (“TSX”) under the symbol “APLI”. The Company also trades in the United States on the OTCQX Exchange. The address of its principal place of business is #21-1344 Summer Street, Halifax, Nova Scotia, Canada.

Going concern

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

For the year ended March 31, 2022, the Company reported a loss of \$25,118,299 (March 31, 2021 - \$14,325,112) and an accumulated deficit of \$56,069,192 (March 31, 2021 - \$30,950,893). In addition to its ongoing working capital requirements, the Company must secure sufficient funding through financing activities to cover research and development expenditures to advance the programs in its pipeline that are planned for the next twelve months. These circumstances lend significant doubt as to the ability of the Company to fund planned expenditures and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

The ability of the Company to advance its programs in its pipeline is dependent on raising additional financing through equity and non-dilutive funding and partnerships. There can be no assurance that additional financing will be available on acceptable terms or at all. If the Company is unable to obtain additional financing when required, Appili may have to substantially reduce or eliminate planned expenditures. Management is evaluating alternatives to secure additional financing so that the Company can continue to operate as a going concern. Nevertheless, there is no assurance that these initiatives will be successful.

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

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

2 Summary of significant accounting policies and basis of preparation

Basis of presentation

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

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of June 29, 2022, the date the Board of Directors approved the consolidated financial statements.

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

Consolidation

The financial statements of the Company consolidate the accounts of Appili Therapeutics Inc. and its subsidiary. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation. There are no non-controlling interests, therefore, all loss and comprehensive loss is attributable to the shareholders of the Company.

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in (note3).

Foreign currency translation

i) Functional and presentation currency

Items included in the consolidated financial statements of each consolidated entity of the Company are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). Primary and secondary indicators are used to determine the functional currency (primary indicators have priority over secondary indicators). The primary indicator that applies to the Company is the currency that mainly influences revenues and expenses. Secondary indicators include the currency in which funds from financing activities are generated. The Company operates one subsidiary with the currency jurisdiction of the US dollar. An assessment of the primary and secondary indicators for the subsidiary is performed to determine the functional currency of the subsidiary, which is then translated into Canadian dollars, the Company’s presentation currency. The financial statements of the consolidated entity that has a functional currency other than Canadian dollars (“foreign operations”) are translated into Canadian

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

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

dollars as follows:

- a) assets and liabilities – at the closing rate at the date of the consolidated balance sheet; and
- b) income and expenses – at the transaction date.

All resulting exchange differences are recognized in other comprehensive income (loss) as foreign currency translation adjustments.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the dates of these transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than the Company's functional currency are recognized in the consolidated statements of loss and comprehensive loss, within general and administrative expenses.

Investment tax credits

The benefits of investment tax credits ("ITCs") for scientific research and experimental development ("SR&ED") expenditures are recognized in the year the qualifying expenditure is made providing there is reasonable assurance of recoverability. The ITCs recorded are based on management's estimates of amounts expected to be recovered and are subject to audit by taxation authorities. The ITCs are recorded as government assistance in the consolidated statements of loss and comprehensive loss.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Recognition of day one gain or loss on derivative financial instruments

The fair value of an investment at initial recognition is often the transaction price, unless there is evidence that the fair value of the instrument is different when compared with other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets. Such financial instruments are initially recognized at the transaction price which is the best indicator of fair value, although the market value derived by independent valuers may differ. The difference between the

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

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

Financial instruments (continued)

transaction price and the market value (the day one gain or loss), is not recognized immediately for accounting purposes in the consolidated statements of loss and comprehensive loss and is instead recognized through the consolidated statements of loss and comprehensive loss progressively as the instrument is settled. Any subsequent measurement of the instrument excludes the balance of the deferred day one gain or loss.

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised as the proceeds received, net of direct issue costs.

Compound instruments

The component parts of loan arrangements entered by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar instrument. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished.

Transaction costs that relate to obtaining the loan are allocated to the liability and compound instruments in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible loan notes using the effective interest method.

Classification and subsequent measurement

Financial instruments are classified into the following specified categories: amortized cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVTPL”). The classification depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition. Financial instruments do not include amounts due to or from government entities.

Derivatives embedded in contracts where the host is a financial liability are separated from the host debt contract and accounted for separately at FVOCI, unless an election is made to account for the whole debt instrument at FVTPL or if they are not closely related to the host contract.

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

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

Classification and subsequent measurement (continued)

The Corporation has implemented the following classifications:

- Cash, short-term investments and amounts receivable are classified as amortized cost. After their initial fair value measurement, they are measured at amortized cost using the effective interest method; and
- Accounts payable and accrued liabilities, deferred income and long-term debt are classified as amortized cost. After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

Inventory

Inventory is valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. Inventory costs include expenditures incurred in acquiring the inventory.

Impairment of financial assets

The Company applies the simplified method of the expected credit loss model required under IFRS 9. Under this method, the Company estimates a lifetime expected loss allowance for all receivables. Receivables are written off when there is no reasonable expectation of recovery.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statements of loss and comprehensive loss during the year in which they are incurred.

The major categories of property and equipment are depreciated per year as follows:

Office furniture	20%
Laboratory furniture	20%
Laboratory equipment	20%
Computers	30%

Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate. Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of general and administrative expenses in the consolidated statements of loss and comprehensive loss.

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

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

Impairment of non-financial assets

Property and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (“cash-generating units” or “CGUs”). The recoverable amount is the higher of an asset’s fair value less the costs to sell, and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount.

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

Income tax

Income tax is comprised of current and deferred income tax. Income tax is recognized in the consolidated statements of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred income tax is recognized in respect of temporary differences including non-refundable ITCs arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the consolidated statements of financial position dates and are expected to apply when the deferred income tax asset or liability is settled. Deferred income tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Share-based compensation

The Company grants equity-settled share options periodically to certain employees, directors, officers and advisors.

The majority of the stock options vest over 3 years and have a contractual life of ten years. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes valuation model. Compensation expense is recognized over the tranche’s vesting period by increasing contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately in the consolidated statements of loss and comprehensive loss.

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

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

Share capital and warrants

Common shares and warrants are classified as equity. Incremental costs directly attributable to the issuance of common shares and warrants are recognized as a reduction from the proceeds in equity in the period that the transaction occurs.

The Company has adopted a relative fair value method with respect to the measurement of shares and warrants issued as public offering units. The relative fair value method allocates value to each component on a pro rata basis, based on the fair value of the components calculated independently of one another. The Company measures the fair value of the warrant component of the unit using the Black-Scholes valuation model. The unit value is then allocated, pro rata, between the two components.

Research and development

All research costs are expensed in the period incurred. Development costs are expensed in the period incurred, unless they meet the criteria for capitalization, in which case they are capitalized and then amortized over the useful life. Development costs are written off when there is no longer an expectation of future benefits. No development costs have been capitalized to date.

Clinical trial expenses result from obligations under contracts with vendors, consultants and clinical site agreements in connection with conducting clinical trials. The financial terms of these contracts are subject to negotiations, which vary from contract to contract and may result in payment flows that do not match the periods in which materials or services are provided to the Company. The appropriate level of clinical trial expenses is reflected in the Company's consolidated financial statements by matching period expenses with period services and efforts expended. These expenses are recorded according to the progress of the clinical trial as measured by subjects progression and the timing of various aspects of the clinical trial. Clinical trial accrual estimates are determined through discussions with internal clinical personnel and outside service providers as to the progress or state of completion of clinical trials, or the services completed. Service provider status is then compared to the contractually obligated fees to be paid for such services. During the course of a clinical trial, the Company may adjust the rate of the clinical expense recognized if actual results differ from management's initial estimates.

Government grants and assistance

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. All grants are recorded as government assistance in the consolidated statements of loss and comprehensive loss. The Company currently has a Peer Reviewed Medical Research Program government grant from the U.S. Department of Defense for a total of US\$3.2 million to be used toward research and development activities over a three-year period for a particular product candidate, of which the Company had only drawn down approximately US\$0.8 million as of March 31, 2022 (March 31, 2021- US\$0.67 million). The Company also has a contract with the U.S. Department of Defense, through the Joint Science and Technology Office of Defense Threat Reduction Agency ("DTRA") of US\$1.7 million for manufacturing and development work for a particular product candidate. As of March 31, 2022, the Company had drawn down US\$0.07 million (March 31, 2021-US\$0.05 million) of this funding.

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

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

Government grants and assistance (continued)

Loans received from government entities are recognized initially at fair value, with the difference between the fair value of the loan and the amount received, being recorded as government assistance in the consolidated statements of loss and comprehensive loss to the extent that the loan reimburses previously incurred expenses.

Revenue recognition

In general, when applicable, revenues will be recognized as the Company satisfies its performance obligations under the terms of the contract. Performance obligations are considered to be satisfied when the customer obtains control of the related asset. Revenue streams may include: (i) milestone payments generated on entering into potential contractual partnerships and achieving development and sales milestones; (ii) future royalties or profit share generated from the eventual commercialization of the Company's products; and (iii) amounts generated for providing formulation and research support services related to existing licensing and research agreements with partners.

The Company currently has one licence agreement that includes an upfront payment, milestone payments and royalty payments. The Company also has a collaboration, development and supply agreement, in which the Company will receive a profit share on Canadian and US commercial sales for a specified term and is eligible to receive royalties on the rest of world sales. Revenues associated with those multiple element arrangements are allocated to the various elements based on each unit's fair value or using the residual method, and the applicable revenue recognition criteria are applied to each of the separate units.

Licence fees representing non-refundable payments received on the execution of licence agreements are recognized as revenue on execution of the licence agreements when the Company has no significant future performance obligations and collectability of the fees is assured.

Leases

Under IFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset, specified either explicitly or implicitly, that is physically distinct and usage represents substantially all of the capacity of the asset;
- the Company has the right to obtain substantially all of the economic benefits from the use of the asset; and
- the Company has the right to direct use of the asset, which is evidenced by decision-making rights to direct how and for what purpose the asset is used.

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

The asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any incentives received. The asset is subsequently depreciated using the declining balance method from the

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

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

Leases (continued)

commencement date to the earlier of the end of the useful life of the asset or the end of the lease term. The estimated useful lives of leased assets are determined on the same basis as those of property and equipment.

The carrying amount of the leased asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability, if any.

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

The Company has elected not to recognize assets and lease liabilities for short-term leases with a term of 12 months or less and leases of low value assets. The lease payments associated with these leases will be recognized as an expense in the consolidated statements of loss and comprehensive loss over the lease term.

3 Critical accounting estimates and judgments

The Company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results.

The following 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

Atlantic Canada Opportunities Agency ("ACOA") Atlantic Innovation Fund ("AIF") loan

The Company has an interest-free AIF government loan from ACOA with a maximum contribution of \$2,803,148. The annual repayments, commencing December 1, 2022, are calculated as 5% of gross revenue

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

3 Critical accounting estimates and judgments (continued)

Calculation of carrying amounts of long-term debt (continued)

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 Pharmaceuticals Inc. ("Saptalis") in December 2019, which included an upfront payment, future milestone payments and future royalty payments. The Company performed the following sensitivity analysis on the basis that each change in the assumption being analyzed is made assuming the other assumptions remain the same.

- If the forecasted revenue was 10% higher or lower, the carrying value of the long-term debt would be \$28,300 higher or \$28,300 lower, respectively.

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

3 Critical accounting estimates and judgments (continued)

Calculation of carrying amounts of long-term debt (continued)

- 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

Refer to note 10 for the details of the Lind Convertible Security and definitions. The initial fair value of the Lind Convertible Security was determined by valuing the components of the hybrid financial instrument, including the liability component and the embedded derivative components, which required a number of assumptions and unobservable inputs. The significant assumptions used in determining the value of the Lind Convertible Security include the assumption that the Lind Conversion Buy-Back Option would be exercised, and the discount rate used in the discounted cash flow analysis for the liability component. In determining the appropriate discount rate, the Company considered the interest rates of comparable debt. Management used a discount rate of 12.10% to discount the liability component. The fair value of the embedded derivatives was calculated by subtracting the fair value of the total Lind Convertible Security, less the fair value of the stand alone liability component.

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

The discount rate used in determining the fair value and the carrying value of the embedded derivative portion at each reporting date is based on the Company's credit spread rate, plus the risk free rate on the reporting date. 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 portion would have been \$75,700 higher or \$79,300 lower respectively.

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

3 Critical accounting estimates and judgments (continued)

Calculation of carrying amounts of long-term debt (continued)

Any changes in the amounts recorded in the consolidated statements of financial position for the 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.

4 Short-term investments

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

5 Amounts receivable

	2022	2021
	\$	\$
Sales tax receivable	425,940	687,369
Amounts due from government assistance	40,738	347,588
	<u>466,678</u>	<u>1,034,957</u>

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

6 Property and equipment

Property and equipment consist of the following:

	Office Furniture \$	Laboratory Furniture \$	Laboratory Equipment \$	Computers \$	Total \$
Opening net book value ("NBV") - March 31, 2021	6,693	891	45,000	10,726	63,310
Additions	-	-	-	8,448	8,448
Disposals	-	-	-	-	-
Cost	(2,400)	-	-	(3,606)	(6,006)
Accumulated depreciation	1,033	-	-	3,044	4,077
Depreciation	(1,258)	(178)	(9,000)	(4,400)	(14,836)
	4,068	713	36,000	14,212	54,993
At March 31, 2021					
Cost	9,296	2,176	86,597	39,220	137,289
Accumulated depreciation	(5,228)	(1,463)	(50,597)	(25,008)	(82,296)
	4,068	713	36,000	14,212	54,993
Opening NBV - March 31, 2022					
Disposals	-	-	-	-	-
Cost	(600)	-	-	(7,042)	(7,642)
Accumulated depreciation	496	-	-	7,043	7,539
Depreciation	(986)	(143)	(7,200)	(4,314)	(12,643)
	2,978	570	28,800	9,899	42,247
At March 31, 2022					
Cost	7,663	2,176	86,597	29,133	125,569
Accumulated depreciation	(4,685)	(1,606)	(57,797)	(19,234)	(83,322)
	2,978	570	28,800	9,899	42,247

Depreciation expense of \$7,343 (2021 - \$9,134) is included in research and development expenses and depreciation expense of \$5,300 (2021 - \$5,702) is included in general and administrative expenses.

7 Amounts due to directors

During the year ended March 31, 2022, the Company incurred \$314,484 (2021 - \$255,364) of directors' fees earned by the independent members of the Board of Directors who are not employees, officers or greater than 10% shareholders of the Company. As at March 31, 2022, \$73,500 (2021 - \$69,167) was due to those individuals. These costs are included in accounts payable and accrued liabilities in the consolidated statements of financial position.

8 Due to related party and related transactions

The Company's Chief Executive Officer is a partner of Bloom Burton & Co., which is a principal shareholder of the Company. 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.

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

8 Due to related party and related transactions (continued)

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 Public Offerings (note 12).

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.

9 Revenue

The Company entered into a data licensing agreement (“Dataset Transfer Agreement”) with FUJIFILM Toyama Chemical Co., LTD (“FFTC”), to provide FFTC the data from the Company’s Phase 3 double-blinded, randomized, placebo-controlled clinical trial evaluating favipiravir for the treatment of COVID-19 in the community setting (“PRESECO clinical trial”). Pursuant the Dataset Transfer Agreement, FFTC paid the Company US\$1,000,000 to receive direct access to PRESECO clinical trial data in support of local regulatory submissions in Japan when it becomes available.

The non-refundable payment of US\$1,000,000 received from FFTC has been recognized into income for the year ended March 31, 2022, as the data transfer to FFTC is complete.

The revenue for the year ended March 31, 2022, includes the data licensing fees of \$1,265,520 (2020 - \$nil) received from FFTC and other licensing fees of \$125,164 (2020 - \$nil).

10 Convertible security

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

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

In accordance with the Lind Funding Agreement, the Company also issued to Lind 2,209,874 common share purchase warrants exercisable for a term of 48 months at an exercise price of \$0.95 per share, valued at \$614,604 on the date of issuance (note 14).

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

10 Convertible security (continued)

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

The Lind Convertible Security is accounted for as a hybrid financial instrument with a liability component and an embedded derivative component classified as two separate liabilities.

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

The fair value of the liability component was calculated using the discounted cashflow method using a discount rate of 12.10% based on the estimated discount rate of comparable debt. The discount on the liability component was accreted over the term of the Convertible Security, utilizing the effective interest rate method at a 12.10% discount rate.

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

On issuance, the fair value of the convertible security, determined with the use of a valuation technique that includes unobservable inputs, was \$3,909,981, which along with the warrants valued at \$614,604, resulted in a loss of \$1,129,585 compared to the funding proceeds received of \$3,395,000, net of Lind commitment fees of \$105,000. 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 Convertible Security in the financing costs, as factors that a market participant would include in pricing the instrument, including time, become observable.

On November 12, 2021, the market capitalization of Appili fell below \$36 million. In accordance with the terms of the Lind Funding Agreement, the outstanding amount of the Lind Convertible Security could be converted into common shares at the discretion of Lind at any time (subject to the share conversion maximum limit set out in the Lind Funding Agreement). Accordingly, the convertible security was classified under current liabilities. There were no conversions to shares during the period.

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 (note 11). A loss of \$1,357,014 was recognized on the liability component and \$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.

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

10 Convertible security (continued)

	Amount \$
Liability component balance – March 31, 2021	-
Issuance	3,363,687
Costs associated with issuance	(193,241)
Deferred loss	(1,129,585)
Repayment	(4,095,000)
Accretion	697,125
Loss on repayment	1,357,014
	<hr/>
Liability component balance – March 31, 2022	<hr/> -

	Amount \$
Conversion option derivative balance – March 31, 2021	-
Issuance	651,294
Change in fair value	(404,664)
Loss on repayment	(246.629)
	<hr/>
Conversion option derivative balance – March 31, 2022	<hr/> -

Appili Therapeutics Inc.
Notes to Consolidated Financial Statements
March 31, 2022 and 2021

11 Long-term debt

	2022	2021
	\$	\$
ACOA Business Development Program interest-free loan with a maximum contribution of \$500,000 repayable in 120 equal monthly payments of \$4,167 beginning April 1, 2018. As at March 31, 2022, the principal outstanding was \$337,500 (March 31, 2021- \$387,500)	230,600	251,500
ACOA Business Development Program interest-free loan with a maximum contribution of \$500,000 repayable in 84 equal monthly payments of \$5,952 beginning January 1, 2019. As at March 31, 2022, the principal outstanding was \$321,440 (March 31, 2021- \$392,864)	247,400	286,600
ACOA Business Development Program interest-free loan with a maximum contribution of \$474,839 repayable in 120 equal monthly payments of \$3,960 beginning March 1, 2020. As at March 31, 2022, the principal outstanding was \$411,480 (March 31, 2021- \$459,000)	255,200	271,000
ACOA Atlantic Innovation Fund interest-free loan with a maximum contribution of \$2,803,148. Annual repayments, commencing December 1, 2021 are calculated as 5% of gross revenue from resulting products for the preceding fiscal year. As at March 31, 2022, the amount drawn down on the loan is \$2,662,990 (March 31, 2021- \$2,662,990)	282,555	223,500
Long Zone Holdings Inc. secured loan bearing a minimum interest rate of 8.25% per year, compounded quarterly, with a maturity date of March 28, 2025. As at March 31, 2022 the principal outstanding was \$4,500,000.	3,962,928	-
	<hr/>	<hr/>
	4,978,683	1,032,600
Less: Current Portion	(95,555)	(85,300)
	<hr/>	<hr/>
	4,883,128	947,300
	<hr/>	<hr/>

ACOA Loans

Total contributions received, less amounts that have been repaid as at March 31, 2022 for ACOA loans, were \$3,733,410 (March 31, 2021 - \$3,902,354). Certain ACOA loans require approval by ACOA before the Company can pay dividends or other distributions, or before there is any change in ownership of the Company. As a result of COVID-19, ACOA granted a nine-month payment deferral starting April 1, 2020, with payments resuming January 1, 2021.

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

11 Long-term debt (continued)

Secured Loan

On March 28, 2022, the Company executed a senior secured loan (the “Agreement”) with Long Zone Holding Inc. (“LZH”) providing for a secured loan for gross proceeds of \$4,500,000 (US\$3,600,000).

Under the terms of the Agreement, LZH obtained a secured loan of \$4.5 million (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. These features represent embedded derivatives requiring bifurcation. The Company has determined the fair value of these embedded derivatives to be nominal at inception.

The Company received net proceeds of \$4,297,646 (US\$3,438,117) after deducting fees paid to LZH for origination fee, work fee and other costs totaling \$202,354 (US\$161,883). 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. The fair value of the warrants on the date of issuance was \$117, 627 (note 14).

Concurrently with the loan, the Company entered into an agreement which, subject to obtaining certain consents by the due date, entitled LZH an exclusive license 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 licensed to existing partner Saptalis Pharmaceuticals. The Company will receive a supply price for products sold by LZH or its sublicensees, as well as royalties on net sales. 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.

The fair value of the agreement at inception was estimated at \$117, 627, with the respective portion of the loan proceeds allocated to the transaction and recorded as deferred credit in the consolidated statements of financial position.

Appili Therapeutics Inc.
Notes to Consolidated Financial Statements
March 31, 2022 and 2021

11 Long-term debt (continued)

The fair value of the LZH secured loan is as follows:

	2022
	\$
LZH secured loan - March 31, 2021	-
Proceeds from loan	4,500,000
Costs associated with acquisition of the loan	(301,818)
Fair value of the warrants issued	(117,627)
Fair value of the agreement	(117,627)
LZH secured loan - March 31, 2022	<u>3,962,928</u>

Minimum annual repayments of long-term debt over the next five years (listed below), do not include potential AIF repayments beyond 2023, since these are not determinable at this time:

	\$
Year ending March 31, 2023	168,948
2024	168,948
2025	4,668,948
2026	168,948
2027	133,268
	<u>5,309,060</u>

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

11 Long-term debt (continued)

Net debt reconciliation

	2022	2021
Balance - Beginning of period	1,032,600	1,005,000
Accreted interest, cash	(93,005)	(24,626)
Accreted interest, non-cash	152,060	122,036
Change in fair value as the result of changes in estimates of future cashflows associated with the ACOA AIF loan	-	(3,400)
Change in fair value as the result of debt modification of the ACOA BDP loans	-	(48,800)
Fair value of LZH secured loan	3,962,928	-
Repayment of debt	(75,900)	(17,610)
Balance - End of period	4,978,683	1,032,600
Less: Current Portion	(95,555)	(85,300)
Non-current portion	4,883,128	947,300

Financing costs consist of the following for the year ending March 31, 2022:

	2022	2021
	\$	\$
Accreted interest and loss on extinguishment of convertible security	1,402,881	-
Accreted interest on government loans	152,060	122,036
Change in fair value of government loans	-	(52,200)
	1,554,941	69,836

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

12 Share capital

Authorized

Unlimited number of Class A common shares

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

Unlimited number of preferred shares (nil outstanding)

Issued

Class A common shares

	Number of Shares #	Amount \$
Balance - March 31, 2020	46,401,447	20,991,655
Issued for cash	14,137,500	13,069,014
Less: share issuance costs	-	(1,490,720)
Warrants exercised	1,132,699	1,759,562
Options exercised	906,548	632,584
Balance - March 31, 2021	<u>62,777,469</u>	<u>34,962,095</u>
Issued for cash	8,434,000	5,344,254
Less: share issuance costs	-	(720,669)
Warrants exercised	54,651	67,634
Balance - March 31, 2022	<u>71,266,120</u>	<u>39,653,314</u>

On October 14, 2021, the Company completed a prospectus offering (“October 2021 Public Offering”) of 8,434,000 units at a price of \$0.83 per unit, for aggregate gross proceeds of \$7,000,220. Each unit consisted of one common share and one-half of one common share purchase warrant, with each whole warrant entitling the holder to acquire one common share of the Company at an exercise price of \$1.10 for a period of 3 years, expiring on October 14, 2024. The Company allocated the net proceeds of the October 2021 Public Offering to the common share and the common share purchase warrants on a reasonable basis, proportionately based on their relative stand-alone fair values of the instruments. Based on the proportionate relative fair values, \$5,344,254 was allocated to the common shares and \$1,655,966 to the common share purchase warrants.

Total costs associated with the October 2021 Public Offering are approximately \$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 of the Company at an exercise price of \$0.83 for a period of 2 years, expiring on October 14, 2023. The Company allocated the net proceeds of the October 2021 Public Offering to the common share and the common share purchase warrants on a reasonable basis, proportionately based on their relative stand-alone fair values of the instruments. Based on the proportionate relative fair values, \$720,669 was allocated to the common shares and \$217,306 to the common share purchase warrants.

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

12 Share capital (continued)

On June 10, 2020, the Company completed a prospectus offering (“June Public Offering”) of 12,937,500 units at a price of \$1.20 per unit, for aggregate proceeds of \$15,525,000. Each unit consisted of one common share and one-half of a common share purchase warrant, with each whole warrant entitling the holder to acquire one common share of the Company at an exercise price of \$1.50 for a period of 3 years, expiring on June 10, 2023.

Total costs associated with the June Public Offering were \$1,919,054, including cash costs for commissions of \$1,083,390, professional fees and regulatory costs of \$300,757 and 902,825 compensation warrants issued as commissions to the agents valued at \$534,907. Each compensation warrant entitles the holder to acquire one common share of the Company at an exercise price of \$1.20 for a period of 2 years, expiring on June 10, 2022. The Company has allocated the net proceeds of the June Public Offering to the common share and the common share purchase warrants on a reasonable basis, proportionately based on the relative stand-alone fair values of the instruments. Based on the proportionate relative fair values, \$1,478,346 of the total costs was allocated to the common shares and \$440,708 to the common share purchase warrants.

On June 10, 2020, the Company also concurrently closed 1,200,000 units, on a non-brokered private placement basis, at the Offering Price for gross proceeds of \$1,440,000 (the “Concurrent Private Placement”). No fees or commissions were paid to the agents in connection with the Concurrent Private Placement. Each unit consisted of one common share and one-half of a common share purchase warrant, with each whole warrant entitling the holder to acquire one common share of the Company at an exercise price of \$1.50 for a period of 3 years, expiring on June 10, 2023.

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

13 Contributed surplus

The change in contributed surplus as presented in the consolidated statements of changes in shareholders’ equity is as follows:

	Amount
	\$
Balance - March 31, 2020	1,813,550
Employee share options	1,171,900
Options exercised	(434,451)
Warrants expired	1,254
	<hr/>
Balance -March 31, 2021	2,552,253
Employee share options	2,040,024
Warrants expired	421,124
	<hr/>
Balance- March 31, 2022	5,013,401
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Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

13 Contributed surplus (continued)

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

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

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

On May 7, 2021, the Company granted 2,405,000 stock options under Appili's Stock Option Plan. The stock options will be exercisable at \$1.22 per share and will have a term of ten years and will vest over a period of three years.

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

On November 16, 2021, the Company granted 200,000 stock options under Appili's Stock Option Plan. The stock options will be exercisable at \$0.23 per share and will have a term of ten years and will vest over a period of twelve months.

On December 8, 2021, the Company granted 2,923,750 stock options under Appili's Stock Option Plan. 980,000 stock options will be exercisable at \$0.13 per share and vest immediately and 1,942,750 will be exercisable at \$0.13 per share, for a term of ten years and will vest over a period of three years.

The fair value of stock options is estimated using the Black-Scholes valuation model. During the year ended March 31, 2022, a total of 5,668,750 stock options (March 31, 2021 - 1,450,000) with a weighted average exercise price of \$0.61 (March 31, 2021 - \$1.10) and a term of 10 years (March 31, 2021 - 10 years) were granted to employees and consultants. Due to the absence of company specific volatility rates, the Company determined the expected volatility of these stock options using the average volatility of biotechnology companies traded on the Toronto Stock Exchange and the TSX Venture Exchange. The value of these stock options was estimated at \$3,098,943 (March 31, 2021 - \$1,434,620), which is a weighted average grant date value per option of \$0.57 (March 31, 2021 - \$0.99), using the Black-Scholes valuation model and the following weighted average assumptions:

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

13 Contributed surplus (continued)

	2022	2021
Risk-free interest rate	1.49%	0.53%
Expected volatility	122%	122%
Expected life (years)	7.34	7.02
Dividend yield	-	-

Option activity for the years ended March 31, 2022 and 2021 was as follows:

	Number #	2022 Weighted average exercise price \$	Number #	2021 Weighted average exercise price \$
Outstanding - Beginning of period	4,526,871	0.79	4,402,933	0.63
Granted	5,668,750	0.61	1,450,000	1.1
Exercised	-	-	(1,314,395)	0.59
Forfeited	(704,308)	0.89	(11,667)	0.78
Expired	(214,824)	0.74	-	0
Outstanding - End of period	9,276,490	0.67	4,526,871	0.79

During the year ended March 31, 2022, nil stock options were exercised (March 31, 2021 – 933,220) using the cashless exercise option resulting in the issuance of nil shares (March 31, 2021 – 525,373).

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

13 Contributed surplus (continued)

The weighted average exercise price of options exercisable at March 31, 2022 is \$0.67 (March 31, 2021 - \$0.68).

As at March 31, 2022, the following options were outstanding:

Exercise price	Opening	Issued	Exercised	Expired	Forfeited	Closing	Exercisable	Expiry	Average remaining
0.52	154,400	-	-	-	-	154,400	154,400	November 15, 2022	0.63
0.60	395,650	-	-	(77,200)	-	318,450	318,450	May 10, 2027	5.11
0.88	77,200	-	-	-	-	77,200	77,200	February 20, 2028	5.89
0.88	223,108	-	-	(64,848)	-	158,260	158,260	April 1, 2028	6.00
1.10	243,180	-	-	-	-	243,180	243,180	March 26, 2029	6.99
0.55	1,848,333	-	-	(47,777)	(93,890)	1,706,666	1,154,444	December 2, 2029	7.67
0.82	140,000	-	-	-	-	140,000	93,333	January 24, 2030	7.82
1.09	1,105,000	-	-	(24,999)	(71,668)	1,008,333	369,444	September 16, 2030	8.46
1.22	200,000	-	-	-	-	200,000	66,667	December 7, 2030	8.69
1.00	140,000	-	-	-	-	140,000	46,667	January 31, 1931	8.84
1.22	-	2,405,000	-	-	(395,000)	2,010,000	-	May 7, 2031	9.10
0.74	-	140,000	-	-	-	140,000	-	October 15, 2031	9.54
0.23	-	200,000	-	-	-	200,000	-	November 16, 2031	9.63
0.13	-	2,923,750	-	-	(143,750)	2,780,000	980,000	December 8, 2031	9.69
	<u>4,526,871</u>	<u>5,668,750</u>	<u>-</u>	<u>(214,824)</u>	<u>(704,308)</u>	<u>9,276,490</u>	<u>3,662,045</u>		

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

14 Warrants

Warrant activity for the years ended March 31, 2022 and 2021 was as follows:

	Number #	2022 Weighted average exercise price \$	Number #	2021 Weighted average exercise price \$
Outstanding - Beginning of period	14,680,644	1.29	8,043,243	1.07
Granted	8,517,254	0.87	7,971,575	1.47
Exercised	(54,651)	0.80	(1,331,974)	0.97
Expired	(940,210)	1.02	(2,200)	1.1
Outstanding - End of period	<u>22,203,037</u>	<u>1.14</u>	<u>14,680,644</u>	<u>1.29</u>

The Company issued to Lind 2,209,874 common share purchase warrants exercisable for a term of 48 months at an exercise price of \$0.95 per share, valued at \$614,604 on August 18, 2021.

The Company completed the October 2021 Public Offering (note 10) and issued 4,217,000 common share purchase warrants exercisable for a period of 3 years at an exercise price of \$1.10 per share, valued at \$1,655,966 on October 14, 2021.

The Company also issued 590,380 compensation warrants as commissions to the agents exercisable for a term of 2 years at an exercise price of \$0.83 per value, valued at \$247,960 on October 14, 2021.

The Company issued 1,500,000 common share purchase warrants to LZH, for a term of 7 years at an exercise price of \$0.115 per share, valued at \$117,627 on March 28, 2022.

The weighted average value per warrant issued for the year ended March 31, 2022 was \$0.31 (March 31, 2021 - \$0.56) and was determined using the Black-Scholes valuation model and the following weighted average assumptions:

	2022	2021
Risk-free interest rate	1.59%	0.32%
Expected volatility	121%	110%
Expected life (years)	3.89	2.89
Dividend yield	-	-

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

15 Deferred income taxes

Income tax expense differs from the tax recovery amount that would be obtained by applying the statutory income tax rate to the respective year's net loss before income taxes as follows:

	2022	2021
	\$	\$
Net Loss before income taxes	(25,079,840)	(14,325,112)
Recovery based on combined federal and provincial rate of 28%	(7,150,262)	(4,030,599)
Change in deferred tax assets not recognized	6,434,600	4,319,119
Tax rate change on opening unrecognized deferred tax asset	170,800	(617,155)
Non-deductible share-based compensation	581,523	328,600
Other non-deductible items	1,798	35
Net income tax expense	38,459	-

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profit is probable. The Company did not recognize deferred tax assets that can be carried forward against future taxable income.

The following reflects the balance of temporary differences of which no deferred income tax asset has been recognized:

	2022	2021
	\$	\$
Property and equipment	(5,806)	(5,967)
Non-capital losses	44,087,823	27,236,961
Share Issuance Costs	3,642,013	2,706,635
Scientific research and experimental development expenditures	11,175,719	5,704,611
Long-term debt	1,015,755	1,032,600
Net deferred tax assets	59,915,505	36,674,840

The Company has non-capital loss carry-forwards of approximately \$44,087,823 as at March 31, 2022 (2021 - \$27,236,961) that expire in varying amounts from 2037 to 2041.

The Company has SR&ED expenditures for both 2021 and 2022 and will also have federal and provincial tax credits that will be available to be applied against federal and provincial taxes otherwise payable in future years. As at March 31, 2022, \$924,400 (March 31, 2021 -\$651,200) of ITCs are receivable.

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

16 Financial instruments

Financial instruments are defined as a contractual right or obligation to receive or deliver cash on another financial asset. The following table sets out the approximate fair values of financial instruments as at the consolidated statements of financial position dates 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	40,738	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, has 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.

The fair value of the long-term debt is estimated based on the expected interest rates for similar borrowings by the Company at the consolidated statements of financial position dates. At March 31, 2022, the fair value is estimated to be equal to the carrying amount. The inputs into the determination of the fair value of the long-term debt, including the discount rate, are classified as Level 3 in the fair value hierarchy.

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.

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

16 Financial instruments (continued)

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, 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.

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

16 Financial instruments (continued)

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 as at March 31, 2022:

	Total \$	Year 1 \$	Years 2 to 3 \$	Years 4 to 5 \$	After 5 Years \$
Accounts payable and accrued liabilities	6,455,958	6,455,958	-	-	-
Long-term debt	8,233,410	178,903	4,861,950	341,338	2,851,219
	<u>14,689,368</u>	<u>6,634,861</u>	<u>4,861,950</u>	<u>341,338</u>	<u>2,851,219</u>

17 Capital management

The Company's capital management objectives are to safeguard its ability to continue as a going concern, and to provide returns for shareholders and benefits for other stakeholders by ensuring it has sufficient cash resources to fund its research and development activities, to pursue its eventual commercialization efforts and to maintain its ongoing operations. The Company includes its share capital, deficit and long-term debt in the definition of capital.

A summary of the Company's capital structure is as follows:

	2022 \$	2021 \$
Common Shares	39,653,314	34,962,095
Deficit	(56,069,192)	(30,950,893)
Long-term debt	<u>4,978,683</u>	<u>1,032,600</u>
	<u>(11,437,195)</u>	<u>5,043,802</u>

18 Compensation of key management

Key management includes the Company's directors and senior management team. The remuneration of directors and the senior management team was as follows during the years ended March 31, 2022 and 2021:

	2022 \$	2021 \$
Salary and employee benefits	1,955,621	1,423,080
Share-based compensation	<u>1,894,206</u>	<u>658,888</u>
	<u>3,849,827</u>	<u>2,081,968</u>

Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

19 Commitments

The minimum annual payments under lease agreements for office premises, equipment and software subscriptions expiring over the next five fiscal years are as follows:

	\$
2023	32,993
2024	5,218
	<hr/>
	38,211
	<hr/>

20 Expenses by nature

	2022	2021
	\$	\$
Research and development costs	18,540,258	8,479,188
Salaries, wages and benefits	3,160,075	2,960,380
Professional and consulting fees	1,383,503	2,049,309
Stock-based compensation	2,040,023	1,171,900
Marketing, communications and investor relations	433,303	676,618
Insurance	311,463	130,856
Office and telecommunications	144,291	103,259
Lease expense	38,878	71,970
Financing costs	1,554,941	69,836
Depreciation	12,643	14,836
Travel	869	7,708
Other	1,199	1,929
Foreign exchange gain	(54,154)	(8,018)
Research and development tax credits	(800,021)	(627,892)
Government assistance	(263,017)	(659,814)
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	26,504,254	14,442,065
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Appili Therapeutics Inc.

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

21 Subsequent events

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 one class A common share and one-half of one common share purchase warrant, with each whole warrant entitling the holder to acquire one common share of the Company at an exercise price of \$0.15 for a period of five years, expiring on May 26, 2027. The Company allocated the net proceeds of the May 2022 Public Offering to the common share and the common share purchase warrants on a reasonable basis, proportionately based on their relative stand-alone fair values of the instruments. Based on their relative stand-alone fair values, \$3,226,415 was allocated to the common shares and \$1,273,585 to the common share purchase warrants.

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 of the Company at an exercise price of \$0.095 for a period of two years, expiring on May 26, 2024. The Company allocated the net proceeds of the May 2022 Public Offering to the common share and the common share purchase warrants on a reasonable basis, proportionately based on their relative stand-alone fair values of the instruments. Based on the proportionate relative fair values, \$534,151 was allocated to the common shares and \$210,849 to the common share purchase warrant.