

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 8-K/A**

(Amendment No. 1)

**CURRENT REPORT  
Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported): August 26, 2021**

**AADI BIOSCIENCE, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction  
of incorporation)

**001-38560**  
(Commission  
File Number)

**61-1547850**  
(I.R.S. Employer  
Identification No.)

**17383 Sunset Boulevard, Suite A250  
Pacific Palisades, California**  
(Address of principal executive offices)

**90272**  
(Zip code)

**Registrant's telephone number, including area code: (424) 473-8055**

**Aerpio Pharmaceuticals, Inc.  
9987 Carver Road, Suite 420  
Cincinnati, OH 45242**  
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

<b>Title of each class</b>	<b>Trading Symbol(s)</b>	<b>Name of each exchange on which registered</b>
<b>Common Stock, par value \$0.0001 per share</b>	<b>AADI</b>	<b>The Nasdaq Stock Market LLC</b>

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

## Explanatory Note

This Current Report on Form 8-K/A (this “**Amendment**”) is being filed by Aadi Bioscience, Inc. (f/k/a Aerpio Pharmaceuticals, Inc.), a Delaware corporation (the “**Company**”), to amend its Current Report on Form 8-K (the “**Prior 8-K**”) filed with the U.S. Securities and Exchange Commission (the “**SEC**”) on August 27, 2021, in connection with the consummation on August 26, 2021 of the transactions contemplated by that certain Agreement and Plan of Merger, dated May 16, 2021 (the “**Merger Agreement**”), by and between the Company, Aspen Merger Subsidiary, Inc. (“**Merger Sub**”), and Aadi Subsidiary, Inc. (f/k/a Aadi Bioscience, Inc., or “**Old Aadi**”).

The Company is filing this Amendment solely to provide (i) the historical audited financial statements of Old Aadi as of and for the years ended December 31, 2020 and 2019, and the unaudited condensed financial statements as of June 30, 2021 and for the six month periods ended June 30, 2021 and 2020, referred to in Item 9.01(a) below, and (ii) the unaudited pro forma condensed combined financial statements of the Company and Old Aadi as of and for the six month period ended June 30, 2021 and for the year ended December 31, 2020, referred to in Item 9.01(b) below. Except for the foregoing, this Amendment does not modify or update any other disclosure contained in the Prior 8-K. Such financial information was excluded from the Prior 8-K in reliance on the instructions to such items.

### Item 9.01. Financial Statements and Exhibits.

#### (a) Financial Statements of Business Acquired

The audited financial statements of Old Aadi as of and for the years ended December 31, 2020 and 2019 and the related notes thereto, and the unaudited condensed financial statements as of June 30, 2021 and for the six month periods ended June 30, 2021 and 2020 and the related notes thereto, are filed herewith as Exhibits 99.1 and 99.2, respectively, and are incorporated herein by reference.

#### (b) Pro Forma Financial Information

The unaudited pro forma condensed combined financial statements of the Company and Old Aadi as of and for the six month period ended June 30, 2021 and for the year ended December 31, 2020 and the notes related thereto, filed herewith as Exhibit 99.3, and are incorporated herein by reference.

#### (d) Exhibits

<b>Exhibit Number</b>	<b>Description</b>
23.1	<a href="#">Consent of Independent Registered Public Accounting Firm</a>
99.1	<a href="#">Audited financial statements of Aadi Bioscience, Inc. as of and for the years ended December 31, 2020 and 2019</a>
99.2	<a href="#">Unaudited condensed financial statements of Aadi Bioscience, Inc. as of June 30, 2021 and for the six-month periods ended June 30, 2021 and 2020</a>
99.3	<a href="#">Unaudited pro forma condensed combined financial statements of the Company and Old Aadi as of and for the six-month period ended June 30, 2021 and for the year ended December 31, 2020</a>
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: September 24, 2021

/s/ Neil Desai, Ph.D.

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Neil Desai, Ph.D.

President and Chief Executive Officer

Consent of Independent Registered Public Accounting Firm

Aadi Bioscience, Inc.

Pacific Palisades, California

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-220057, 333-224189, 333-229089, 333-230114 and 333-237210) and Form S-3 (Nos. 333-223113, 333-217320, 333-229087 and 333-255129) of Aadi Bioscience, Inc. (formerly known as Aerpio Pharmaceuticals, Inc.) of our report dated June 21, 2021, relating to the financial statements of Aadi Bioscience, Inc. (the "Company") appearing in this Form 8-K/A. Our report contains an explanatory paragraph regarding the Company's ability to continue as a going concern.

/s/ BDO USA, LLP

San Diego, California  
September 24, 2021

**Aadi Bioscience, Inc.**  
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**For the years ended December 31, 2020 and 2019**

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## **Independent Auditor’s Report**

Stockholders and Board of Directors  
Aadi Bioscience, Inc.  
Pacific Palisades, California

### ***Opinion***

We have audited the financial statements of Aadi Bioscience, Inc. (the “Company”), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations and comprehensive loss, stockholders’ equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Substantial Doubt About the Company’s Ability to Continue as a Going Concern***

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 1 to the financial statements, the Company has suffered recurring losses from operations, has a net capital deficiency, and has stated that substantial doubt exists about the Company’s ability to continue as a going concern. Management’s evaluation of the events and conditions and management’s plans regarding these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

### ***Auditor’s Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the 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 absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. 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. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- 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. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

/s/ BDO USA, LLP

San Diego, California  
June 21, 2021

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## **Financial Statements**

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Aadi Bioscience, Inc.

Balance Sheets

<i>December 31,</i>	2020	2019
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 4,454,730	\$ 15,961,923
Accounts receivable	14,148,829	284,896
Prepaid expenses and other current assets	81,429	58,873
<b>Total current assets</b>	<b>18,684,988</b>	<b>16,305,692</b>
Property and equipment, net	20,773	29,736
Other non-current assets	—	36,958
Operating lease right-of-use assets	119,007	286,236
<b>Total assets</b>	<b>\$ 18,824,768</b>	<b>\$ 16,658,622</b>
<b>Liabilities and stockholders' deficit</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 2,391,996	\$ 3,177,459
Accrued liabilities	4,098,899	2,234,519
Payable to related party	14,314,473	11,853,678
Convertible promissory notes payable at fair value to related party	9,029,032	8,164,885
Operating lease liabilities, current portion	124,723	188,272
Other current liabilities	98,816	—
<b>Total current liabilities</b>	<b>30,057,939</b>	<b>25,618,813</b>
Convertible promissory notes payable at fair value	1,101,627	—
Operating lease liabilities	—	133,475
Other long-term liabilities	96,810	—
<b>Total liabilities</b>	<b>31,256,376</b>	<b>25,752,288</b>
<b>Commitments and contingencies (Note 9)</b>		
<b>Stockholders' equity (deficit)</b>		
Series Seed preferred stock, \$0.0001 par value, 734,218 shares authorized, issued, and outstanding at December 31, 2020 and 2019; aggregate liquidation preference of \$1,101,327 at December 31, 2020 and 2019	73	73
Series A preferred stock, \$0.0001 par value; 7,211,948 shares authorized; 7,211,652 shares issued and outstanding; aggregate liquidation preference of \$28,432,867 and \$27,446,313 at December 31, 2020 and 2019, respectively	721	721
Common stock, \$0.0001 par value; 20,000,000 shares authorized; 8,015,000 shares issued and outstanding at December 31, 2020 and 2019	802	802
Additional paid-in capital	20,161,306	20,021,776
Accumulated deficit	(32,594,510)	(29,117,038)
<b>Total stockholders' deficit</b>	<b>(12,431,608)</b>	<b>(9,093,666)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 18,824,768</b>	<b>\$ 16,658,622</b>

See accompanying notes to financial statements.

Aadi Bioscience, Inc.

Statements of Operations and Comprehensive Loss

<i>Year ended December 31,</i>	2020	2019
<b>Revenue</b>		
License revenue	\$ 14,000,000	\$ —
Grant revenue	580,014	749,000
<b>Total revenue</b>	<b>14,580,014</b>	<b>749,000</b>
<b>Operating expenses</b>		
Research and development (includes related party amounts of \$2,460,795 and \$1,325,871, respectively)	15,008,376	11,064,467
General and administrative	2,121,018	1,854,378
<b>Total operating expenses</b>	<b>17,129,394</b>	<b>12,918,845</b>
<b>Loss from operations</b>	<b>(2,549,380)</b>	<b>(12,169,845)</b>
<b>Other income (expense)</b>		
Change in fair value of convertible promissory notes	(152,519)	—
Interest income	40,744	5,950
Interest expense (includes related party amounts of \$734,241 and \$89,885, respectively)	(814,517)	(89,885)
<b>Total other expense, net</b>	<b>(926,292)</b>	<b>(83,935)</b>
Loss before income tax expense	(3,475,672)	(12,253,780)
Income tax expense	(1,800)	(1,300)
<b>Net loss and comprehensive loss</b>	<b>(3,477,472)</b>	<b>(12,255,080)</b>
Convertible preferred stock cumulative and undeclared dividends	(986,554)	(986,554)
<b>Net loss attributable to common stockholders</b>	<b>\$ (4,464,026)</b>	<b>\$ (13,241,634)</b>
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.56)	\$ (1.65)
Weighted-average shares of common stock outstanding, basic and diluted	<b>8,015,000</b>	<b>8,015,000</b>

See accompanying notes to financial statements.

Aadi Bioscience, Inc.

Statements of Stockholders' Equity (Deficit)

	<u>Series Seed Preferred Stock</u>		<u>Series A Preferred Stock</u>		<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity (Deficit)</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Balance as of January 1, 2019	734,218	\$ 73	7,211,652	\$ 721	8,015,000	\$ 802	\$19,915,634	\$ (16,861,958)	\$ 3,055,272
Share-based compensation expense	—	—	—	—	—	—	106,142	—	106,142
Net loss	—	—	—	—	—	—	—	(12,255,080)	(12,255,080)
Balance as of December 31, 2019	734,218	\$ 73	7,211,652	\$ 721	8,015,000	\$ 802	\$20,021,776	\$ (29,117,038)	\$ (9,093,666)
Share-based compensation expense	—	—	—	—	—	—	139,530	—	139,530
Net loss	—	—	—	—	—	—	—	(3,477,472)	(3,477,472)
<b>Balance as of December 31, 2020</b>	<b>734,218</b>	<b>\$ 73</b>	<b>7,211,652</b>	<b>\$ 721</b>	<b>8,015,000</b>	<b>\$ 802</b>	<b>\$20,161,306</b>	<b>\$ (32,594,510)</b>	<b>\$ (12,431,608)</b>

See accompanying notes to financial statements.

Aadi Bioscience, Inc.

Statements of Cash Flows

<i>Year ended December 31,</i>	2020	2019
<b>Cash flows from operating activities</b>		
Net loss	\$ (3,477,472)	\$ (12,255,080)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation expense	139,530	106,142
Non-cash interest expense (includes related party amounts of \$734,241 and \$89,885, respectively)	814,517	89,885
Non-cash lease expense	167,230	105,431
Change in fair value of convertible promissory notes (includes related party amounts of \$129,906 and \$0, respectively)	152,519	—
Depreciation expense	8,960	5,976
Changes in operating assets and liabilities:		
Accounts receivable	(13,863,933)	(39,703)
Prepaid expenses and other current assets	(22,556)	(44,706)
Operating lease liability	(197,024)	(69,920)
Other non-current assets	36,958	(36,958)
Accounts payable and accrued liabilities	1,078,917	3,238,986
Payable to related party	2,460,795	1,315,871
<b>Net cash used in operating activities</b>	<b>(12,701,559)</b>	<b>(7,584,076)</b>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	—	(35,712)
<b>Net cash used in investing activities</b>	<b>—</b>	<b>(35,712)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of convertible promissory notes	1,000,000	8,075,000
Proceeds from Payroll Protection Program loan	194,366	—
<b>Net cash provided by financing activities</b>	<b>1,194,366</b>	<b>8,075,000</b>
Net increase (decrease) in cash and cash equivalents	(11,507,193)	455,212
Cash and cash equivalents as of beginning of year	15,961,923	15,506,711
<b>Cash and cash equivalents as of end of year</b>	<b>\$ 4,454,730</b>	<b>\$ 15,961,923</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for taxes	\$ 1,800	\$ 1,300
<b>Supplemental disclosure of non-cash activity:</b>		
Right-of-use assets obtained in exchange for operating lease liabilities	\$ —	\$ 391,668

See accompanying notes to financial statements.

**1. Business and Business Organization*****Description of Business***

Aadi LLC was originally formed in the State of Delaware on September 29, 2011. Aadi LLC converted to Aadi Bioscience, Inc. (“Aadi” or the “Company”) and was incorporated in the State of Delaware on February 27, 2017. The Company is a privately-held, clinical stage biopharmaceutical company focused on development and commercialization of precision medicines targeted to rare mutation-driven diseases. Aadi’s initial focus is on the development of nab-sirolimus (sirolimus albumin-bound nanoparticles for injectable suspension, or “ABI-009”) for diseases driven by mTOR pathway activation through mutations or deletions of specific genes such as TSC1, TSC2 or PTEN. ABI-009 has a markedly different pharmacological and pharmacokinetic profile compared to any other mTOR inhibitor. ABI-009 is licensed to Aadi by Abraxis BioScience, LLC, a wholly owned subsidiary of Celgene Corporation, now Bristol Myers Squibb (“Celgene”), for all therapeutic areas including oncology, cardiovascular, and metabolic related diseases.

The Company commenced operations in 2014. Those operations have consisted principally of performing research and development activities and raising capital. The Company’s activities are subject to significant risks and uncertainties, including failing to secure additional funding before sustainable revenues and profit from operations are achieved.

***Going Concern***

Management is required to perform a two-step analysis over its ability to continue as a going concern. Management must first evaluate whether there are conditions and events that raise substantial doubt about the Company’s ability to continue as a going concern (step 1). If management concludes that substantial doubt is raised, management is also required to consider whether its plans alleviate that doubt (step 2).

The Company has experienced net losses and negative cash flows from operating activities since its inception and expects to continue to incur net losses into the foreseeable future. The Company had an accumulated deficit of \$32.6 million as of December 31, 2020 and used \$12.7 million of cash in operations during the year ended December 31, 2020. To date, these operating losses have been funded primarily from outside sources of invested capital through the issuance of convertible promissory notes, grant funding, the sale of securities, and proceeds from license agreements. As of December 31, 2020, the Company had cash and cash equivalents of \$4.5 million. Management expects operating losses and negative cash flows to continue for the foreseeable future as the Company continues to incur costs related to research and development efforts. Management has prepared cash flow forecasts which indicate that based on the Company’s expected operating losses and negative cash flows, there is substantial doubt about the Company’s ability to continue as a going concern within twelve months after the date that the financial statements are issued.

Management’s ability to continue as a going concern is dependent upon its ability to raise additional funding. Management has plans to raise additional capital to fulfill its operating and capital requirements for the next 12 months. The Company’s plans include continuing to fund its operating losses and capital funding needs through debt and equity financing, grant funding, or through collaborations or partnerships with other companies. These financing options may not be available on a timely basis or on terms acceptable to the Company. If the Company is not able to secure adequate additional funding in a timely manner or on favorable terms, the Company may be forced to make reductions in spending, extend payment terms with suppliers, liquidate assets where possible, suspend or curtail planned programs, or explore a sale of the Company. Any of these actions could have a material adverse effect on the Company’s business, results of operations and future prospects.

Notes to Financial Statements

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These financial statements have been prepared assuming the Company will continue as a going concern, which contemplates continuity of operations, the realization of assets and the satisfaction of liabilities in the normal course of business. These financial statements do not reflect any adjustments that might result if the Company is unable to continue as a going concern. Other than revenues from payments received under a license agreement, the Company has not generated any substantial revenues and has not yet achieved profitable operations, nor has it ever generated positive cash flows from operations. There is no assurance that profitable operations, if achieved, could be sustained on a continuing basis. Further, the Company's future operations are dependent on the success of the Company's efforts to raise additional capital, the timing and receipt of any regulatory approvals, and the market acceptance of the Company's products. There can be no assurance that these efforts will be successful.

**COVID-19**

In December 2019, a strain of coronavirus was reported in Wuhan, China and began to spread globally, including to the United States and Europe, in the following months. The World Health Organization has declared COVID-19 to be a global pandemic. The full impact of the COVID-19 pandemic is inherently uncertain at the time of this report. The COVID-19 pandemic has resulted in travel restrictions and, in some cases, prohibitions of non-essential activities, disruption and shutdown of businesses, and greater uncertainty in global financial markets. As COVID-19 has spread, it has significantly impacted the health and economic environment around the world, and many governments have closed most public establishments, including restaurants, workplaces, and schools. Aadi's ongoing clinical trials have been, and may continue to be, affected by the closure of offices, or country borders, among other measures being put in place around the world. The inability to travel and conduct face-to-face meetings can also make it more difficult to enroll new patients in ongoing or planned clinical trials. Any of these circumstances will potentially have a negative impact on our financial results and the timing of our clinical trials.

The COVID-19 pandemic has caused the Company to modify business practices (including but not limited to curtailing or modifying employee travel, moving to full remote work, and cancelling physical participation in meetings, events, and conferences), and may take further actions as may be required by government authorities or that are determined to be in the best interests of the Company's employees, patients, and business partners.

The extent of the impact of the COVID-19 pandemic on Aadi's future liquidity and operational performance will depend on certain developments, including the duration and spread of the outbreak, the availability and effectiveness of vaccines, the impact on our clinical trials, patients, and collaboration partners, and the effect on our suppliers.

**2. Related Party Transactions**

***Celgene License Agreement***

On April 9, 2014, the Company entered into a license agreement (the "Celgene License Agreement") with a wholly-owned subsidiary of Celgene, for exclusive rights for certain patents and a non-exclusive license for certain technology and know-how pertaining to ABI-009. The Celgene License Agreement will remain in effect from the effective date of April 9, 2014 until expiration of all milestone and royalty payment obligations under the agreement, unless terminated by either of the parties upon giving an advance notice as specified in the Celgene License Agreement. Under the terms of the Celgene License Agreement, Celgene agreed to supply the Company with licensed products of ABI-009 necessary for clinical or non-clinical development.

## Notes to Financial Statements

Celgene had the option to terminate the Celgene License Agreement and all of the Company's related rights and licenses upon the occurrence of each of the following: (a) successful completion of the first Phase 2 Trial for a licensed product ("First Trigger Event"), or (b) if Celgene elects not to exercise its option upon the First Trigger Event, then upon the acceptance by the Food and Drug Administration or the European Medicines Agency, as applicable, of the first New Drug Application either in the United States or European Union, whichever occurs first, for a licensed product ("Second Trigger Event"). Celgene could also terminate the Celgene License Agreement upon written notice to the Company at any time following the occurrence of the First Trigger Event and prior to the occurrence of the Second Trigger Event (an "Early Exercise"). In each case, the termination would be subject to a payment to the Company by Celgene equal to the valuation of the Company as per the terms of the Celgene License Agreement. On October 3, 2016, the Celgene License Agreement was amended to include an option extension payment that allowed Celgene the option of paying \$3.0 million to the Company to extend the period of time that Celgene had to Early Exercise. The Company has certain milestones that it is required to meet as specified in the Celgene License Agreement. If the Company fails to meet these milestones and cannot agree upon new terms and conditions, Celgene may terminate the Celgene License Agreement.

The Company paid Celgene a non-refundable initial fee of \$125,000 in cash during 2014. Celgene is entitled to receive certain development milestone payments, royalties on net sales from licensed products under the agreement and any sublicense fees. No payments were made related to milestone, royalties, or sublicense fees under this agreement in 2020 or 2019 and no milestone, royalty, or sublicense related obligations were outstanding as of December 31, 2019.

On May 1, 2019, Celgene terminated its rights to elect an option to terminate the Celgene License Agreement upon the occurrence of a First Trigger Event, Second Trigger Event or Early Exercise. As a result, the Company is free to negotiate and enter into any agreement with respect to an acquisition of all or substantially all of the business or assets of the Company whether by merger, sale of equity or assets, or otherwise and to consummate the same as it sees fit.

On November 15, 2019, Celgene and the Company entered into an amendment to the Celgene License Agreement (the "Amended Celgene License Agreement") to terminate certain of Celgene's ABI-009 product supply obligations and to transfer control over certain regulatory filings under the original Celgene License Agreement from Celgene to the Company. The Amended Celgene License Agreement also waived the obligations related to certain development milestone payments and waived the liability related to 2016 and 2017 licensed drug manufacturing costs of \$1.2 million and \$2.7 million, respectively. This elimination of the liability related to prior year CMC costs was recorded as a reduction to the research and development expense for the year ended December 31, 2019 in the statements of operations and comprehensive loss.

On December 8, 2020, the Company entered into a license agreement ("EOC License Agreement") with EOC Pharma (Hong Kong) Limited ("EOC Pharma") under which the Company will receive \$14.0 million in non-refundable upfront consideration as partial payment for the rights and licenses granted to EOC by the Company for the further development and commercialization of ABI-009 in the People's Republic of China, Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan (the "Licensed Territory"). In accordance with the Celgene License Agreement, the Company is required to pay 20% of all sublicense fees to Celgene. As such, the Company recognized \$2.8 million of license expense with a related party, which was recorded in research and development expense in the statements of operations and comprehensive loss for the year ended December 31, 2020, and a corresponding \$2.8 million sublicense payable in payable to related party in the balance sheet as of December 31, 2020. Refer to Note 4 for additional information on the EOC License Agreement.

Notes to Financial Statements

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The Company recognized \$1.0 million and \$5.2 million of product development related costs during the years ended December 31, 2020 and 2019, respectively. The \$5.2 million 2019 product development costs were partially offset by \$3.9 million waived costs from the Amended License Agreement for prior year product development costs. During the current period the Company recognized \$1.3 million reduction in product development costs resulting from a change in estimate. Aadi had a \$14.3 million payable to related party as of December 31, 2020, \$2.8 million of which relates to the sublicense fee for the EOC Pharma upfront payment, and \$11.9 million of which relates to a related party liability as of December 31, 2019, for amounts due to Celgene.

***Convertible Promissory Notes***

The Company issued convertible promissory notes to existing equity holders in October 2019 (refer to Note 5 for additional information regarding the convertible promissory notes).

**3. Summary of Significant Accounting Policies**

***Basis of Presentation***

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which is based on the accrual method of accounting.

***Segment Information***

Operating segments are defined as components of an enterprise about which separate discrete information is available for evaluation by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company views its operations and manages its business in one operating segment, which is the business of developing and commercializing proprietary therapeutics. All the assets and operations of the Company's sole operating segment are located in the United States.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that impact the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities in the Company's financial statements and accompanying notes. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Although these estimates are based on the Company's knowledge of current events and actions it may undertake in the future, actual results may materially differ from these estimates and assumptions.

***Concentration of Credit Risk***

Financial instruments, which potentially subject the Company to concentration of credit risk, consist primarily of cash and cash equivalents and certain investments in money market funds. The Company maintains deposits in federally insured financial institutions in excess of federally insured limits. Management believes that the Company is not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held. The Company has not experienced any losses on deposits since inception.



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**Cash and Cash Equivalents**

The Company considers all highly liquid marketable securities purchased with original maturities of three months or less at the purchase date to be cash equivalents. As of December 31, 2020 and 2019, cash equivalents included money market investments totaling \$3.0 million and \$12.0 million, respectively.

**Fair Value Option**

As permitted under the FASB Accounting Standards Codification (“ASC”) Topic 825, *Financial Instruments*, (“FASB ASC Topic 825”), the Company has elected the fair value option to account for its convertible promissory notes issued. In accordance with FASB ASC Topic 825, the Company records these convertible promissory notes at fair value with changes in fair value recorded in the statements of operations and comprehensive loss. As a result of applying the fair value option, direct costs and fees related to the convertible promissory notes were recognized in earnings as incurred and not deferred.

**Fair Value of Financial Instruments**

The accounting guidance defines fair value, establishes a consistent framework for measuring fair value, and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. Fair value is defined as an exit price representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the accounting guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs, such as quoted prices in active markets

Level 2: Inputs, other than the quoted prices in active markets that are observable either directly or indirectly

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions which reflect those that a market participant would use

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company’s assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

In determining the fair value of its financial instruments, the Company considers the source of observable market data inputs, liquidity of the instrument, the credit risk of the counterparty to the contract, and its risk of nonperformance. In the case fair value is not observable, for the items subject to fair value measurements, the Company applies valuation techniques deemed the most appropriate under the U.S. GAAP guidance based on the nature of the assets and liabilities being measured.

The carrying amounts of cash equivalents, accounts receivable, prepaid expenses, accounts payable, and accrued liabilities are reasonable estimates of their fair value because of the short maturity of these items.

## Notes to Financial Statements

The following table sets forth the fair value of the Company's financial assets and liabilities, allocated into the Level 1, Level 2 and Level 3 hierarchy that were measured at fair value on a recurring basis:

	Fair Value Measurements as of December 31, 2020			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Money market funds	\$ 3,040,583	\$ —	\$ —	\$ 3,040,583
<b>Liabilities:</b>				
Convertible promissory notes	\$ —	\$ —	\$ 10,130,659	\$ 10,130,659
	Fair Value Measurements as of December 31, 2019			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Money market funds	\$ 12,000,000	\$ —	\$ —	\$ 12,000,000
<b>Liabilities:</b>				
Convertible promissory notes	\$ —	\$ —	\$ 8,164,885	\$ 8,164,885

As further described in Note 5, the Company issued convertible promissory notes in October 2019 and January 2020 (collectively the "Convertible Notes"). The Company elected the fair value option to account for the Convertible Notes. The fair value was estimated using a scenario-based analysis based on the probability-weighted value of expected future investment returns, considering possible outcomes available to the noteholders including conversions in subsequent equity financings, change of control transactions, settlement, and dissolution. The Company adjusts the carrying value of its Convertible Notes to their estimated fair value at each reporting date, with any related increases or decreases in the fair value recorded as a change in fair value of convertible promissory notes in the statements of operations and comprehensive loss.

As of December 31, 2020 and 2019, the significant unobservable inputs used in the fair value measurement of the Convertible Notes included an expected settlement date in June 2021 and June 2020, respectively, and an estimated discount rate of 25%. Other significant unobservable inputs include the relative weighting applied to the possible outcomes available to the noteholders including conversions in subsequent equity financings, change of control transactions, settlement, and dissolution.

There are significant judgments, assumptions and estimates inherent in the determination of the fair value of the convertible promissory notes described above. These include determination of a valuation method and selection of the possible outcomes available to the Company, including the determination of timing and expected future investment returns for such scenarios, as well as the likelihood of repayment, conversion, and dissolution. The related judgments, assumptions and estimates are highly interrelated and changes in any one assumption could necessitate changes in another. Any changes in the probability of a particular outcome would require a related change to the probability of another outcome.

## Notes to Financial Statements

The following table provides a reconciliation of the Convertible Notes (refer to Note 5) measured at fair value using significant unobservable inputs (Level 3):

	Convertible Notes (Level 3)
Balance as of January 1, 2019	\$ —
Issuance of convertible notes	8,075,000
Accrual of interest	89,885
Change in fair value of convertible promissory notes	—
Balance as of December 31, 2019	<u>\$ 8,164,885</u>
Issuance of convertible notes	1,000,000
Accrual of interest	813,255
Change in fair value of convertible promissory notes	152,519
<b>Balance as of December 31, 2020</b>	<b><u>\$ 10,130,659</u></b>

There have been no transfers between levels during the reporting periods.

#### ***Property and Equipment, Net***

Property and equipment, which consist of computers, furniture and fixtures, and office equipment, are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets (generally five years).

#### ***Leases***

At the inception of a contractual arrangement, the Company determines whether the contract contains a lease by assessing whether there is an identified asset and whether the contract conveys the right to control the use of the identified asset in exchange for consideration over a period of time. If both criteria are met, the Company records the associated lease liability and corresponding right-of-use asset upon commencement of the lease using the implicit rate or a discount rate based on a credit-adjusted secured borrowing rate commensurate with the term of the lease. The Company does not recognize assets or liabilities for leases with lease terms of less than 12 months.

The Company additionally evaluates leases at their inception to determine if they are to be accounted for as an operating lease or a finance lease. A lease is accounted for as a finance lease if it meets one of the following five criteria: the lease has a purchase option that is reasonably certain of being exercised, the present value of the future cash flows is substantially all of the fair market value of the underlying asset, the lease term is for a significant portion of the remaining economic life of the underlying asset, the title to the underlying asset transfers at the end of the lease term, or if the underlying asset is of such a specialized nature that it is expected to have no alternative uses to the lessor at the end of the term. Leases that do not meet the finance lease criteria are accounted for as an operating lease. Operating lease assets represent a right to use an underlying asset for the lease term and operating lease liabilities represent an obligation to make lease payments arising from the lease. Operating lease liabilities with a term greater than one year and their corresponding right-of-use assets are recognized on the balance sheets at the commencement date of the lease based on the present value of lease payments over the expected lease term.

**Notes to Financial Statements**

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Certain adjustments to the right-of-use asset may be required for items such as initial direct costs paid or incentives received. As the Company's leases do not typically provide an implicit rate, the Company utilizes the appropriate incremental borrowing rate, determined as the rate of interest that the Company would have to pay to borrow on a collateralized basis over a similar term and in a similar economic environment. For finance leases, depreciation expense is recognized for the leased asset acquired and interest expense is recognized related to the portion of the financing in the statements of operations. For operating leases, lease cost is recognized on a straight-line basis over the lease term and variable lease payments are recognized as operating expenses in the period in which the obligation for those payments is incurred. Variable lease payments primarily include common area maintenance, utilities, real estate taxes, insurance, parking, and other operating costs that are passed on from the lessor in proportion to the space leased by the Company. The Company has elected the practical expedient to not separate between lease and non-lease components.

**Accounts Receivable**

Accounts receivable as of December 31, 2020 and 2019 represents grant revenue recognized to date, but for which payment has not yet been received from the funding agency. The December 31, 2020 balance also includes \$14.0 million receivable related to the EOC Pharma upfront payment. Estimates for allowances for doubtful accounts are determined based on existing contractual obligations and historical payment patterns. No allowance for doubtful accounts was recorded as of December 31, 2020 and 2019.

**Revenue Recognition***Revenue Under License Agreement*

The Company generates revenues from payments received under a license agreement. Under such license agreements, the Company recognizes revenue when it transfers promised goods or services to partners in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. To determine revenue recognition for contracts with partners, the Company performs the following five steps: (i) identifies the promised goods or services in the contract; (ii) identifies the performance obligations in the contract, including whether they are distinct in the context of the contract; (iii) determines the transaction price, including the constraint on variable consideration; (iv) allocates the transaction price to the performance obligations in the contract; and (v) recognizes revenue when (or as) the Company satisfies the performance obligations.

For revenue from such license agreements, the Company generally collects an upfront license payment from the license partner and is also entitled to receive event-based payments subject to the license partner's achievement of specified development, regulatory and sales-based milestones. In addition, the Company is generally entitled to royalties if products under the license agreement are commercialized.

Transaction price for a contract represents the amount to which the Company is entitled in exchange for providing goods and services to the partner. Transaction price does not include amounts subject to uncertainties unless it is probable that there will be no significant reversal of revenue when the uncertainty is resolved. Apart from the upfront license payment, all other fees the Company may earn under such license agreements are subject to significant uncertainties of product development. Achievement of many of the event-based development and regulatory milestones may not be probable until such milestones are actually achieved. This generally relates to milestones such as obtaining regulatory approvals and successful completion of clinical trials. With respect to other development milestones, e.g. dosing of a first patient in a clinical trial, achievement could be considered probable prior to its actual occurrence, based on the progress towards commencement of the trial.

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The Company does not include any amounts subject to uncertainties into the transaction price until it is probable that the amount will not result in a significant reversal of revenue in the future. At the end of each reporting period, the Company re-evaluates the probability of achievement of such milestones and any related constraint, and if necessary, adjusts the estimate of the overall transaction price.

Because such agreements generally only have one type of performance obligation, a license, which is generally all transferred at the same time as agreement inception, allocation of the transaction price among multiple performance obligations is not required.

Upfront amounts allocated to licenses are recognized as revenue when the licenses are transferred to the partners. Development milestones and other fees are recognized in revenue when their occurrence becomes probable.

*Grant Revenue*

The Company's grant revenues are derived from federal grants, primarily with the National Institute of Health and the Food and Drug Administration. The Company has determined that the government agencies providing grants to the Company are not customers. Grant revenue is recognized when there is reasonable assurance of compliance with the conditions of the grant and reasonable assurance that the grant revenue will be received. The Company recognizes grant revenues as reimbursable grant costs are incurred. The costs associated with these reimbursements are reflected as a component of research and development expense in the accompanying statements of operations and comprehensive loss.

With respect to grant revenue derived from reimbursement of direct out-of-pocket expenses for research costs associated with federal contracts, where the Company acts as principal with discretion to choose suppliers, bears credit risk, and performs part of the services required in the transaction, the Company records revenue for the gross amount of the reimbursement. The costs associated with these reimbursements are reflected as a component of research and development expense in the accompanying statements of operations and comprehensive loss.

***Research and Development Costs***

Research and development expenses consist of costs incurred in performing research and development activities, including salaries and benefits, materials and supplies, preclinical expenses, stock-based compensation expense, contract services, and other external development expenses. The Company records research and development activities conducted by third-party service providers, which include work related to preclinical studies, clinical trials, and contract manufacturing activities, to research and development expense as incurred. The Company is required to estimate the amount of services provided but not yet invoiced and include these expenses in accrued expenses in the balance sheet and within research and development expenses in the statements of operations and comprehensive loss. These expenses are a significant component of the Company's research and development expenses and require significant estimates and judgments. The Company accrues for these expenses based on factors such as estimates of the work completed and in accordance with agreements established with its third-party service providers. As actual expenses become known, the Company adjusts its accrued expenses.

***Commitments and Contingencies***

The Company recognizes a liability with regard to loss contingencies when it believes it is probable a liability has occurred, and the amount can be reasonably estimated. If some amount within a range of loss appears at the

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time to be a better estimate than any other amount within the range, the Company accrues that amount. When no amount within the range is a better estimate than any other amount the Company accrues the minimum amount in the range. The Company has not recorded any such liabilities as of December 31, 2020 and 2019.

***Income Taxes***

Income taxes have been accounted for using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded if, based upon the weight of all available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

***Share Based Compensation***

Share-based compensation expense represents the cost of the grant date fair value of employee, non-employee, officer, and director stock option grants, estimated in accordance with the applicable accounting guidance, recognized on a straight-line basis over the vesting period. The vesting period generally approximates the expected service period of the awards. Forfeitures are recognized and accounted for as they occur.

The fair value of stock options is estimated using a Black-Scholes-Merton valuation model on the date of grant. This method requires certain assumptions be used as inputs, such as the fair value of the underlying common stock, expected term of the option before exercise, expected volatility of the Company's common stock, expected dividend yield, and a risk-free interest rate. Options granted during the year have a maximum contractual term of ten years. The Company has limited historical stock option activity and therefore estimates the expected term of stock options granted to employees, officers, and directors using the simplified method, which represents the average of the contractual term of the stock option and its weighted-average vesting period. For options granted to non-employees, the Company uses the remaining contractual life. The expected volatility of stock options is based upon the historical volatility of a number of publicly traded companies in similar stages of clinical development. The Company has historically not declared or paid any dividends and does not currently expect to do so in the foreseeable future. The risk-free interest rates used are based on the U.S. Treasury yield in effect at the time of grant for zero-coupon U.S. treasury notes with maturities approximately equal to the expected term of the stock options.

***Common Stock Valuation***

Due to the absence of an active market for the Company's common stock, the Company utilized methodologies in accordance with the framework of Standards 9 and 10 of the Uniform Standards of Professional Appraisal Practice, the Statement on Standards for Valuation Services as set forth by the American Institute of Certified Public Accountants ("AICPA"), the Statement of U.S. GAAP Codification of Accounting Standards Codification Topic 820: *Fair Value Measurements and Disclosures*, and the AICPA Accounting and Valuation Guide for the Valuation of Privately-Held-Company Equity Securities Issued as Compensation, to estimate the fair value of its common stock. In determining the exercise prices for options granted, the Company has considered the fair value of the common stock as of the grant date. The fair value of the common stock has been

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determined based upon a variety of factors, including the illiquid nature of the common stock, arm's-length sales of the Company's common stock, the effect of the rights and preferences of the preferred stockholders, and the prospects of a liquidity event. Among other factors are the Company's financial position and historical financial performance, the status of technological developments within the Company's research, the composition and ability of the current research and management team, an evaluation or benchmark of the Company's competition, and the current business climate in the marketplace. Significant changes to the key assumptions underlying the factors used could result in different fair values of common stock at each valuation date.

**Net Loss Per Share**

Basic and diluted net loss attributable to common stock is presented in conformity with the two-class method required for participating securities as the Series A convertible preferred stock is considered a participating security. The Company's participating securities do not have a contractual obligation to share in the Company's losses. As such, the net loss was attributed entirely to common stock.

Basic net loss per share is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted net loss per share is computed by dividing the net loss attributable to common stockholders by the weighted average number of common shares and common share equivalents outstanding for the period. Common stock equivalents are only included when their effect is dilutive. The Company's potentially dilutive securities, which include convertible preferred stock and outstanding stock options under the Company's equity incentive plan have been excluded from the computation of diluted net loss per share as they would be anti-dilutive. For all periods presented, there is no difference in the number of shares used to calculate basic and diluted shares outstanding due to the Company's net loss position.

The following table sets forth the outstanding potentially dilutive securities that have been excluded in the calculation of diluted net loss per share because their inclusion would be anti-dilutive:

<u>December 31,</u>	<u>2020</u>	<u>2019</u>
Series Seed convertible preferred stock	734,218	734,218
Series A convertible preferred stock	7,211,652	7,211,652
Common stock options	1,232,500	1,040,000

**Recently Adopted Accounting Pronouncements**

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement* (FASB ASC Topic 820): *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"), which eliminates, modifies, and adds disclosure requirements on fair value measurements. The standard is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years, and early adoption is permitted. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The adoption of ASU 2018-13 did not have a material impact on the Company's financial statements and disclosures.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes* (FASB ASC Topic 740): *Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), as part of its simplification initiative to reduce the cost and

## Notes to Financial Statements

complexity in accounting for income taxes. The amendments in ASU 2019-12 removes certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. ASU 2019-12 also amends other aspects of the guidance to help simplify and promote consistent application of U.S. GAAP. The guidance is effective for interim and annual periods beginning after December 15, 2020, with early adoption permitted. The Company early adopted the new standard in 2020 and the adoption of the standard did not have a material impact on the Company's financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases* (FASB ASC Topic 842) ("ASU 2016-02"). The FASB subsequently issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, ASU 2018-11, *Leases* (FASB ASC Topic 842): *Targeted Improvements*, and ASU 2019-01, *Leases* (FASB ASC Topic 842): *Codification Improvements*, to further amend ASU 2016-02. ASU 2016-02, as amended, provides revised guidance related to the accounting and reporting of leases, including a requirement for lessees to recognize most leases on the balance sheet. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee will depend on its classification as a finance or operating lease. For public entities, the guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. Companies may adopt retrospectively as of the earliest period presented or retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment, in each case with a number of practical expedients that entities may elect to apply. The Company adopted ASC 842 as of January 1, 2019, electing the alternative modified transition method that allows for a cumulative-effect adjustment in the period of adoption and did not restate prior periods. The Company elected the package of practical expedients permitted under the transition guidance. See Note 9 for further disclosure on the Company's leasing arrangements.

**Accounting Pronouncements Not Yet Adopted**

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options* (Subtopic 470-20) and *Derivatives and Hedging—Contracts in Entity's Own Equity* (Subtopic 815-40). This new guidance is intended to reduce the complexity of accounting for convertible instruments. The guidance also addresses how convertible instruments are accounted for in the diluted earnings per share calculation and requires enhanced disclosures about the terms of convertible instruments. Entities may adopt ASU 2020-06 using either a partial retrospective or fully retrospective method of transition. This ASU is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years for smaller reporting companies. The Company is currently evaluating the impact the adoption of ASU 2018-13 will have on the Company's financial statements.

**4. EOC License Agreement**

In December 2020, the Company entered into the EOC License Agreement with EOC Pharma for the further development and commercialization of ABI-009 in the Licensed Territory. Under the terms of the EOC License Agreement, Aadi granted to EOC Pharma an exclusive, royalty-bearing license to develop and commercialize the product in the Licensed Territory.

Unless earlier terminated, the term of the EOC License Agreement continues until the expiration of the royalty obligations. Prior to the expiration of the EOC License Agreement, EOC Pharma has the right to terminate the agreement for any reason upon 120 days advance written notice. Either party may terminate the EOC License Agreement in the event that the other party breaches the agreement and fails to cure the breach, becomes insolvent or challenges certain of the intellectual property rights licensed under the agreement.



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The Company received a \$14.0 million upfront payment in January 2021 and is eligible to receive an additional \$257.0 million in the aggregate upon achievement of certain development, regulatory, and sales milestones, as well as tiered royalties on net sales in the Licensed Territory. Under the terms of the EOC License Agreement, EOC Pharma will fund all research, development, regulatory, marketing and commercialization activities in the defined Licensed Territory.

The Company assessed the EOC License Agreement with EOC Pharma in accordance with FASB ASC Topic 606 and concluded that EOC Pharma is a customer. Additionally, the Company identified the license of ABI-009 provided to EOC Pharma as the sole performance obligation. The \$14.0 million upfront payment received from EOC Pharm is non-refundable and non-creditable and is considered fixed consideration. For the year ended December 31, 2020, the Company recognized \$14.0 million as license revenue under the EOC License Agreement.

Both the milestones and royalty payments under the EOC License Agreement are considered variable consideration. Under the “most-likely” method, the Company will apply a constraint to these amounts until it has received notification from EOC Pharma that the milestones and royalty payments have been achieved.

**5. Convertible Notes**

The Company received \$8.1 million in October 2019 and \$1.0 million in January 2020 for the proceeds from the issuance of Convertible Notes. The October 2019 convertible notes were issued to existing equity holders. The Convertible Notes originally had a maturity date of one year from the date of issuance and bear an escalating interest rate of 6% per annum for the first four months following the effective date of the loan agreement, 8% per annum for the fifth and sixth months, and 10% per annum for the remaining six months of the note term until maturity at twelve months. The Convertible Notes contain certain redemption features, including conversion to preferred stock upon the closing of the Company’s next issuance of preferred stock resulting in net proceeds to the Company of at least \$25.0 million (“Qualified Financing”). The Convertible Notes will convert into a variable, whole number of preferred shares equal to the number obtained by dividing the principal plus accrued interest of the Convertible Notes by 80% of the price per share paid by cash investors in the Qualifying Financing if converted in the first four months following the effective date of the loan agreement, 75% if converted in months five or six, and 70% if converted later than six months. The Convertible Notes also contain a mandatory prepayment provision that requires the Company to pay the outstanding principal, plus accrued and unpaid interest together with a premium in the event that a qualified liquidity event occurred. The premium is equal to 120% of the outstanding principal amount to be prepaid in the event the liquidity event occurs within four months of the note date, 130% between the fifth and sixth month, and 140% if after the sixth month but prior to maturity.

In November 2020, the Company entered into an amendment to the original Convertible Notes, whereby the term was extended from one year to two years. The amendment was accounted for under debt modification accounting.

**6. Payroll Protection Program Loan**

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”). The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to

## Notes to Financial Statements

tax depreciation methods for qualified improvement property. The CARES Act also appropriated funds for the Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”) loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by COVID-19.

In May 2020, Aadi was approved for a \$194,366 SBA PPP loan, as provided for in the CARES Act (“PPP Loan”). Under certain conditions, the PPP Loan and accrued interest are forgivable after a twenty-four-week covered period as long as the loan proceeds were used for eligible expenses, including payroll, benefits, rent and utilities, and the company maintains certain payroll levels. The amount of loan forgiveness is subject to reduction if the Company terminates employees or reduces salaries during the twenty-four-week covered period. The unforgiven portion of the loan is payable over two years at an interest rate of 1%, with a deferral of payments for the ten months following the end of the twenty-four-week covered period. While the Company currently believes that the use of the loan proceeds will meet the conditions for forgiveness of the loan by the SBA, forgiveness of the loan has not been granted by the SBA and therefore the PPP Loan is accounted for as a liability in other current liabilities and other long-term liabilities on the balance sheet as of December 31, 2020.

## 7. Stockholders' Equity (Deficit)

Under the Amended and Restated Certificate of Incorporation dated March 29, 2017, the Company had a total of 27,946,166 shares of capital stock authorized for issuance, consisting of 20,000,000 shares of Common Stock, par value of \$0.0001 per share, and 7,946,166 shares of Preferred Stock, par value of \$0.0001 per share. Of the 7,946,166 shares of authorized Preferred Stock, 734,218 are designated Series Seed Preferred Stock and 7,211,948 shares are designated Series A Preferred Stock.

### *Series Seed Preferred Stock*

On February 23, 2017, the Company converted from a limited liability company to a corporation and at that time converted 734,218 membership units into shares of Series Seed Preferred Stock. As of December 31, 2020, and 2019, all of the 734,218 shares of designated Series Seed Preferred Stock were issued and outstanding.

### *Series A Preferred Stock*

In February and March 2017, the Company sold and issued in a private placement 5,847,940 shares of Series A Preferred Stock at \$3.42 per share (the “Series A Financing”). Upon the closing of the Series A Financing, convertible notes issued in 2015 converted into 482,426 shares of Series A Preferred Stock at 85% of the \$3.42 price per share (the “Series A Original Issue Price”) paid by the Series A Financing investors. Convertible notes issued in 2017 converted into 881,286 shares of Series A Preferred Stock at the Series A Original Issue Price. As of December 31, 2020, and 2019, of the 7,211,948 shares designated as Series A Preferred Stock, 7,211,652 shares were issued and outstanding.

### *Common Stock*

On February 23, 2017, the Company converted from a limited liability company to a corporation and at that time converted 8,015,000 membership units to shares of Common Stock. As of December 31, 2020, and 2019, of the authorized 20,000,000 shares of Commons Stock, 8,015,000 shares were issued and outstanding. The voting, dividend, and liquidation rights of the holders of the Common Stock are subject to and qualified by the rights, powers, and preferences of the holders of the Preferred Stock. The holders of the Common Stock are entitled to one vote for each share of Common Stock held at all meetings of stockholders.

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The Company's preferred stock has the following characteristics:

**Dividends**

Holders of Series A Preferred Stock, in preference to the holders of Common Stock and Series Seed Preferred Stock, shall be entitled to receive cumulative dividends at the annual accrual rate of 4% of the Series A Original Issue Price. Such dividends shall accrue from day to day, however, shall be payable only when and if declared by the Company's Board of Directors. There have been no dividends declared by the board as of December 31, 2020 and 2019. Upon conversion of the shares of Series A Preferred Stock into Common Stock, the Company shall pay accrued but unpaid dividends on the Series A Preferred Stock converted either in shares of Common Stock at the fair market value in effect at the time of conversion or in cash, as determined by the Board of Directors.

**Liquidation**

The holders of the Series A Preferred Stock are entitled to receive liquidation preferences at the Series A Original Issue Price of \$3.42, plus all accrued but unpaid dividends, whether or not declared. Liquidation payments to the holders of Series A Preferred Stock have priority and are made in preference to any payments to the holders of Series Seed Preferred Stock and Common Stock.

After full payment of the liquidation preference to the holders of the Series A Preferred Stock, the remaining assets, if any, will be distributed ratably to the holders of the Series Seed Preferred Stock at an amount per share equal to the greater of (a) the Series Seed Original Issue Price of \$1.50 (the "Series Seed Original Issue Price"), plus any dividends accrued or declared but unpaid, or (b) such amount per share as would have been payable had all shares of Series Seed Preferred Stock been converted into Common Stock.

After full payment of the liquidation preference to the holders of the Series A Preferred Stock and Series Seed Preferred Stock, the remaining assets, if any, will be distributed ratably to the holders of the Series A Preferred Stock, Series Seed Preferred Stock, and Common Stock on an as-if-converted to Common Stock basis.

**Conversion Rights**

The shares of Series A Preferred Stock and Series Seed Preferred are convertible, at the option of the holder of such Series A Preferred Stock and Series Seed Preferred, at any time, into such number of shares of common stock as is determined by dividing the original issue price for such series of Series A Preferred Stock or Series Seed Preferred Stock, as applicable, by the conversion price for such series in effect at the time of conversion. The conversion price for the Series A Preferred Stock and Series Seed Preferred Stock, as applicable, initially means the original issue price for such series. The initial conversion price for the Series A Preferred Stock, and the rate at which shares of Series A Preferred Stock may be converted into shares of common stock, shall be subject to adjustment for dividends, stock splits, and other distributions. The conversion rate at December 31, 2020 and 2019 for the Series A Preferred Stock and Series Seed Preferred Stock was 1:1.

Each share of Series A Preferred Stock and Series Seed Preferred Stock is automatically converted into common stock at the then effective conversion rate (A) at any time upon the affirmative election of the holders of at least a majority of the outstanding shares of the Series A Preferred Stock, or (B) immediately upon the closing of a firmly underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, covering the offer and sale of Common Stock for the account of the Company in which (i) the

Notes to Financial Statements

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public offering price per share is at least three times the applicable Series A Original Issue Price (subject to appropriate adjustment in the event of a stock split, stock dividend, combination, reclassification, or similar event affecting the Series A Preferred Stock), (ii) the gross cash proceeds to the Company (before underwriting discounts, commissions and fees) are at least \$30 million and (iii) the Company's shares have been listed for trading on the New York Stock Exchange, NASDAQ Global Select Market or NASDAQ Global Market.

**Redemption Rights**

The holders of Preferred Stock do not have any redemption rights.

**Voting**

Each holder of Series A Preferred Stock or Series Seed Preferred Stock shall be entitled to cast the number of votes equal to the number of whole shares of common stock into which the shares of Series A Preferred Stock or Series Seed Preferred Stock held by such holder are convertible. Except as provided by law or by the other provisions of the Company's governance documents, holders of Series A Preferred Stock and Series Seed Preferred Stock shall vote together with the holders of Common Stock as a single class.

**8. Share-Based Compensation**

**Stock Option Plan**

In February 2017, the Company approved the Amended and Restated 2014 Equity Incentive Plan (the "Amended and Restated 2014 Plan"). The Amended and Restated 2014 Plan provides for the issuance of 1,485,000 shares of Common Stock to officers, directors, employees, non-employee directors, and consultants of the Company. The Amended and Restated 2014 Plan allows for the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock unit awards and other stock awards. There were 252,500 and 445,000 options remaining available for future issuance under the Amended and Restated 2014 Plan as of December 31, 2020 and 2019, respectively.

The options that are granted from the Amended and Restated 2014 Plan are exercisable at various dates as determined upon grant and will expire no more than ten years from their date of grant. Stock options generally vest over a four-year term. The exercise price of each option shall be determined by the Board of Directors, although generally options have an exercise price equal to the fair market value of the Company's stock on the date of the option grant. In the case of incentive stock options, the exercise price shall not be less than 100% of the fair market value of the Company's common stock at the time the option is granted. For holders of more than 10% of the Company's total combined voting power of all classes of stock, incentive stock options may not be granted at less than 110% of the fair market value of the Company's common stock at the date of grant and for a term not to exceed five years.

## Notes to Financial Statements

The following table summarizes the option activity for the year ended December 31, 2020:

	Options	Weighted Average Exercise Price	Weighted- Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding as of January 1, 2020	1,040,000	\$ 0.59	7.59	\$515,750
Granted	227,500	1.08	9.39	
Exercised	—	—	—	
Cancelled	(27,500)	0.79	—	
Forfeited	(7,500)	0.73	—	
Outstanding as of December 31, 2020	1,232,500	\$ 0.67	7.26	\$505,250
Vested and exercisable as of December 31, 2020	769,267	\$ 0.53	6.27	\$416,555
Vested and expected to vest as of December 31, 2020	1,232,500	\$ 0.67	7.26	\$505,250

All exercisable options are vested, and all outstanding options are vested or expected to vest.

The fair value of stock options granted during the years ended December 31, 2020 and 2019 was estimated at the grant date using the following assumptions:

<u>December 31,</u>	2020	2019
Weighted average grant date fair value (per share)	\$0.81	\$0.58
Risk-free interest rate	0.34% - 0.80%	1.83% - 2.63%
Expected volatility	89.57% - 92.52%	93.53% - 96.61%
Expected term (in years)	5.3 - 6.3	6.3-10.0
Expected dividend yield	0%	0%

The Company recognized stock-based compensation of \$139,530 and \$106,142 for the years ended December 31, 2020 and 2019, respectively. The total unrecognized compensation cost related to outstanding unvested stock-based awards as of December 31, 2020 was \$255,522, which is expected to be recognized over a weighted-average remaining service period of 1.49 years.

### Common Stock Reserved for Future Issuance

Common stock reserved for future issuance consisted of the following as of December 31, 2020 and 2019:

<u>December 31,</u>	2020	2019
Common stock options granted and outstanding	1,232,500	1,040,000
Common stock reserved for future option grants	252,500	445,000
	<u>1,485,000</u>	<u>1,485,000</u>

## 9. Commitments and Contingencies

### Operating Lease

In April 2019, the Company entered into a twenty-eight-month facility lease agreement for 2,760 square feet of office space in Los Angeles, California. The lease commenced on May 1, 2019 and is scheduled to expire on

## Notes to Financial Statements

August 31, 2021. The lease contains an option to extend the term for one additional three-year period. The lease includes four months of rent abatement and a rent escalation clause. Rent expense is being recorded on a straight-line basis. Rent expense related to this lease was \$182,600 and \$121,800 for the years ended December 31, 2020 and 2019, respectively.

The following table summarizes information related to leases:

<u>December 31,</u>	<u>2020</u>	<u>2019</u>
<b>Assets:</b>		
Operating lease right-of-use assets	<b>\$ 119,007</b>	\$ 286,236
Total right-of-use assets	<b><u>\$ 119,007</u></b>	<u>\$ 286,236</u>
<b>Liabilities:</b>		
Operating lease liabilities, current	<b>\$ 124,723</b>	\$ 188,272
Operating lease liabilities, non-current	—	133,475
Total operating lease liabilities	<b><u>\$ 124,723</u></b>	<u>\$ 321,747</u>

The future minimum lease payments required under the operating lease as of December 31, 2020, are summarized as follows:

Year Ending December 31, 2021	<b>\$ 127,476</b>
2022	—
2023	—
2024	—
Total minimum lease payments	<b><u>\$ 127,476</u></b>
Less: amount representing interest	<b>\$ (2,753)</b>
Present value of operating lease liabilities	<b><u>\$ 124,723</u></b>
Less: operating lease liabilities, current	<b><u>\$(124,723)</u></b>
Operating lease liabilities, non-current	<b><u>\$ —</u></b>
Remaining lease term (in years)	0.7
Incremental borrowing rate	<b>6.8%</b>

## 10. Income Taxes

The income tax provision for the years ended December 31, 2020 and 2019 is as follows:

<u>December 31,</u>	<u>2020</u>	<u>2019</u>
<b>Federal</b>		
Current	\$ —	\$ —
Deferred	—	—
<b>State</b>		
Current	<b>1,800</b>	1,300
Deferred	—	—
Provision expense for income taxes	<b><u>\$1,800</u></b>	<u>\$1,300</u>

## Notes to Financial Statements

A reconciliation of the total income tax provision tax rate to the statutory federal income tax rate of 21% for the years ended December 31, 2020 and 2019, respectively are as follows:

<i>Year ended December 31,</i>	2020		2019	
Income taxes at statutory rates	\$ (729,996)	21.0%	\$(2,570,673)	21.0%
State income tax, net of federal benefit	(85,560)	2.5%	(245,522)	2.0%
Nondeductible interest	171,048	(4.9%)	18,876	(0.2%)
Other permanent items	56,618	(1.6%)	17,827	(0.2%)
Research credit	(999,859)	28.8%	(1,325,049)	10.8%
Change in valuation allowance	1,589,549	(45.7%)	4,105,841	(33.5%)
Income tax expense	<u>\$ 1,800</u>	<u>0.1%</u>	<u>\$ 1,300</u>	<u>0.0%</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2020 and 2019, respectively are as follows:

<i>December 31,</i>	2020	2019
<b>Deferred tax assets</b>		
Net operating loss carryforward	\$ 7,265,000	\$ 5,137,000
Research and development tax credits	2,782,000	1,776,000
Accrued liabilities	—	1,681,000
Other	227,000	96,000
Total gross deferred tax assets	<u>10,274,000</u>	<u>8,690,000</u>
Valuation allowance	<u>(10,255,000)</u>	<u>(8,666,000)</u>
Total gross deferred tax assets, net of valuation allowance	<u>19,000</u>	<u>24,000</u>
<b>Deferred tax liabilities</b>		
Other	<u>(19,000)</u>	<u>(24,000)</u>
Total gross deferred tax liabilities	<u>(19,000)</u>	<u>(24,000)</u>
Net deferred tax assets / (liabilities)	<u>\$ —</u>	<u>\$ —</u>

Deferred income tax assets and liabilities are recorded for differences between the financial statement and tax basis of the assets and liabilities that will result in taxable or deductible amounts in the future based on enacted laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company has evaluated the available evidence supporting the realization of its gross deferred tax assets, including the amount and timing of future taxable income, and has determined it is more likely than not that the assets will not be realized. As a result, the Company has concluded that a full valuation allowance against its deferred tax assets is necessary at this time.

As of December 31, 2020, the Company had federal and state net operating loss carryforwards of approximately \$30,961,000 and \$27,441,000, respectively. Of the amount of federal net operating loss carryforwards, \$27,414,000 can be carried forward indefinitely. The remaining federal and state loss

## Notes to Financial Statements

carryforwards begin to expire in 2037, unless previously utilized. The Company also has federal and state research credit carryforwards of approximately \$2,303,000 and \$1,486,000, respectively, as of December 31, 2020. The federal and New Jersey research credit carryforwards will begin to expire in 2037 and 2027, respectively, unless previously utilized. The California research credit will carry forward indefinitely. The increase in the valuation allowance is \$1,589,000 and \$4,106,000 for the years ended December 31, 2020 and 2019, respectively.

Pursuant to Section 382 and 383 of the Internal Revenue Code (IRC), utilization of the Company's net operating loss carryforwards and research credits may be subject to annual limitations in the event of any significant future changes in its ownership structure. These annual limitations may result in the expiration of net operating loss carryforwards and research credits prior to utilization. As of December 31, 2020, the Company has not completed an IRC Section 382 study. When this analysis is finalized, the Company plans to update its unrecognized tax benefits accordingly. The Company does not expect this analysis to be completed within the next 12 months. Due to the existence of the valuation allowance, future changes in the Company's unrecognized tax benefits will not impact the Company's effective tax rate.

Uncertain tax positions are evaluated based upon the facts and circumstances that exist at each reporting period. Subsequent changes in judgement based upon new information may lead to changes in recognition, derecognition, and measurement. Adjustment may result, for example, upon resolution of an issue with the taxing authorities or expiration of a statute of limitations barring an assessment for an issue.

The Company recognizes a tax benefit from an uncertain tax position when it is more likely than not that the position will be sustained upon examination by tax authorities.

The following table summarizes the changes to the Company's gross unrecognized tax benefits for the years ended December 31, 2020 and 2019, respectively:

<i>Year Ended December 31,</i>	<u>2020</u>	<u>2019</u>
<b>Beginning balance as of the beginning of the year</b>	<b>\$ 2,210,000</b>	<b>\$ 776,450</b>
Increases (decreases) related to prior year positions	—	—
Increases related to current year positions	<b>194,000</b>	<b>1,433,550</b>
<b>Balance as of the end of the year</b>	<b><u>\$ 2,404,000</u></b>	<b><u>\$ 2,210,000</u></b>

Due to the existence of the valuation allowance, future recognition of previously unrecognized tax benefits will not impact the Company's effective tax rate. The Company's practice is to recognize interest and penalties related to income tax matters in income tax expense. The Company is subject to taxation in the United States, California and New Jersey. The Company's tax years from inception are subject to examination by the United States California and New Jersey authorities due to the carryforward of unutilized NOLs and research and development credits.

The Company had no accrued interest or penalties related to income tax matters in the Company's balance sheet as of December 31, 2020, and has not recognized interest or penalties in the Company's statement of operations and comprehensive loss for the year ended December 31, 2020. Further, the Company is not currently under examination by any federal, state or local tax authority.

The CARES Act provides sweeping tax changes in response to the COVID-19 pandemic. Some of the more significant provisions are removal of certain limitations on utilization of net operating losses, increasing the loss



## Notes to Financial Statements

carryback period for certain losses to five years, and increasing the ability to deduct interest expense, as well as amending certain provisions of the previously enacted Tax Cuts and Jobs Act. As of December 31, 2020, the Company has not recorded any material adjustments to its income tax provision related to the provisions within the CARES Act. The Company will continue to analyze the impact that the CARES Act will have, if any, on its financial position, results of operations or cash flows.

**11. Subsequent Events**

We have evaluated subsequent events through June 21, 2021, the date the financial statements were available for issuance.

On May 16, 2021, the Company entered into an agreement and plan of merger (“Merger Agreement” or “Merger”) with Aerpio Pharmaceuticals, Inc. (“Aerpio”), a Delaware corporation. If the Merger is completed, the business of Aadi will continue as the business of the combined company.

The Merger Agreement was approved by the members of the board of directors of the Company (the “Board”).

In connection with the Merger Agreement, Aerpio has entered into subscription agreements to raise an aggregate amount of approximately \$155.0 million in a Private Investment in Public Equity (“PIPE”) financing in shares of common stock and pre-funded warrants to purchase Aerpio common stock. The PIPE financing is expected to be consummated concurrently with the closing of the Merger, subject to customary closing conditions, and is contingent on the closing of the Merger.

The closing of the Merger is subject to approval of the Aerpio’s shareholders and the satisfaction of certain closing conditions, including, among others, obtaining the requisite approval of the stockholders of Aerpio, Aerpio’s cash and cash equivalents maintaining a balance equal to or greater than \$10.0 million and the completion of the PIPE financing. The Merger is intended to qualify as a tax-free reorganization for U.S. federal income tax purposes.

If Aerpio is unable to satisfy the closing conditions in Aadi’s favor or if other applicable closing conditions are not satisfied, Aadi will not be obligated to complete the Merger. The Merger Agreement provides Aerpio and Aadi with specified termination rights, and further provides that, upon termination of the Merger Agreement, under specified circumstances, Aerpio may be required to pay the Aadi a termination fee of \$2.0 million. In addition, in connection with certain terminations of the Merger Agreement, Aerpio may be required to pay Aadi’s out-of-pocket fees and expenses up to \$750,000.

If the Merger is consummated, on a pro forma basis, current shareholders of Aadi will own approximately 66.8% and current shareholders of Aerpio will own approximately 33.2% of the combined company upon the closing of the Merger, without giving effect to the proposed PIPE. Following the closing of the anticipated PIPE financing, the former Aadi shareholders are expected to own approximately 29.6% of the outstanding shares of Aerpio common stock, on a fully-diluted basis, the shareholders of Aerpio (as of immediately prior to the closing of the Merger) are expected to own approximately 14.7% of the outstanding shares of Aerpio common stock, on a fully-diluted basis, and the PIPE investors are expected to own approximately 55.7% of the outstanding shares of Aerpio common stock, on a fully-diluted basis.

The Merger Agreement contemplates contingent value rights which entitle the holder to receive a defined percentage of net proceeds, if any, received by the newly combined company with respect to certain Aerpio assets which will be executed at or prior to the effective time of the Merger.

**Aadi Bioscience, Inc.**  
**Index to Financial Statements**  
**As of June 30, 2021 (unaudited) and December 31, 2020**  
**and for the six months ended June 30, 2021 and 2020 (unaudited)**

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Aadi Bioscience, Inc.

Condensed Balance Sheets

	<u>June 30, 2021</u> <i>(unaudited)</i>	<u>December 31, 2020</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 11,674,604	\$ 4,454,730
Account receivables	—	14,148,829
Prepaid expenses and other current assets	192,586	81,429
<b>Total current assets</b>	<b>11,867,190</b>	18,684,988
Property and equipment, net	16,291	20,773
Operating lease right-of-use assets	30,337	119,007
Deferred transaction costs	1,656,325	—
<b>Total assets</b>	<b>\$ 13,570,143</b>	<b>\$ 18,824,768</b>
<b>Liabilities and stockholders' deficit</b>		
Current liabilities		
Accounts payable	\$ 4,378,023	\$ 2,391,996
Accrued liabilities	4,834,087	4,098,899
Payable to related party	14,314,473	14,314,473
Convertible promissory notes payable at fair value, current portion (includes related party amounts of \$8,361,659 and \$9,029,032, respectively)	9,374,927	9,029,032
Operating lease liabilities, current portion	36,854	124,723
Other current liabilities	—	98,816
<b>Total current liabilities</b>	<b>32,938,364</b>	30,057,939
Convertible promissory notes payable at fair value	—	1,101,627
Other liabilities	—	96,810
<b>Total liabilities</b>	<b>32,938,364</b>	31,256,376
<b>Commitments and contingencies (Note 10)</b>		
<b>Stockholders' deficit:</b>		
Series Seed preferred stock, \$0.0001 par value, 734,218 shares authorized, issued, and outstanding as of June 30, 2021 and December 31, 2020; aggregate liquidation preference of \$1,101,327 as of June 30, 2021 and December 31, 2020	73	73
Series A preferred stock, \$0.0001 par value; 7,211,948 shares authorized; 7,211,652 shares issued, and outstanding as of June 30, 2021 and December 31, 2020; aggregate liquidation preference of \$28,926,144 and \$28,432,867 as of June 30, 2021 and December 31, 2020, respectively	721	721
Common stock, \$0.0001 par value; 20,000,000 shares authorized; 8,015,000 shares issued and outstanding as of June 30, 2021 and December 31, 2020	802	802
Additional paid-in capital	20,236,684	20,161,306
Accumulated deficit	(39,606,501)	(32,594,510)
<b>Total stockholders' deficit</b>	<b>(19,368,221)</b>	<b>(12,431,608)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 13,570,143</b>	<b>\$ 18,824,768</b>

See accompanying notes to financial statements.

Aadi Bioscience, Inc.

Condensed Statements of Operations and Comprehensive Loss

	Six Months Ended June 30,	
	2021	2020
	<i>(unaudited)</i>	
<b>Revenue</b>		
Grant revenue	\$ 119,561	\$ 199,943
<b>Total revenue</b>	<b>119,561</b>	<b>199,943</b>
<b>Operating expenses</b>		
Research and development (includes related party amounts of \$0 and \$779,167, respectively)	6,688,756	7,289,204
General and administrative	1,393,420	1,199,813
<b>Total operating expenses</b>	<b>8,082,176</b>	<b>8,489,017</b>
<b>Loss from operations</b>	<b>(7,962,615)</b>	<b>(8,289,074)</b>
<b>Other income (expense)</b>		
Change in fair value of convertible promissory notes	1,205,752	—
Gain upon forgiveness of Payroll Protection Plan loan	196,262	—
Interest income	814	39,759
Interest expense (includes related party amounts of \$400,432 and \$327,173, respectively)	(450,654)	(356,707)
<b>Total other income (expense), net</b>	<b>952,174</b>	<b>(316,948)</b>
Loss before income tax expense	(7,010,441)	(8,606,022)
Income tax expense	(1,550)	—
<b>Net and comprehensive loss</b>	<b>(7,011,991)</b>	<b>(8,606,022)</b>
Convertible preferred stock cumulative and undeclared dividends	(493,277)	(493,277)
<b>Net loss and comprehensive loss attributable to common stockholders</b>	<b>\$ (7,505,268)</b>	<b>\$ (9,099,299)</b>
Net and comprehensive loss per share basic and diluted	\$ (0.94)	\$ (1.14)
Weighted average number of common shares used in computing net loss per share attributable to common stockholders, basic and diluted	<b>8,015,000</b>	<b>8,015,000</b>

See accompanying notes to financial statements.

Aadi Bioscience, Inc.

Condensed Statements of Stockholders' Equity (Deficit)

	For the Six Months Ended June 30, 2020 (unaudited)								
	Series Seed Preferred Stock		Series A Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance as of January 1, 2020	734,218	\$ 73	7,211,652	\$ 721	8,015,000	\$ 802	\$20,021,776	\$(29,117,038)	\$ (9,093,666)
Share-based compensation expense							65,795		65,795
Net loss								(8,606,022)	(8,606,022)
<b>Balance as of June 30, 2020</b>	<b>734,218</b>	<b>\$ 73</b>	<b>7,211,652</b>	<b>\$ 721</b>	<b>8,015,000</b>	<b>\$ 802</b>	<b>\$20,087,571</b>	<b>\$(37,723,060)</b>	<b>\$(17,633,893)</b>

  

	For the Six Months Ended June 30, 2021 (unaudited)								
	Series Seed Preferred Stock		Series A Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance as of January 1, 2021	734,218	\$ 73	7,211,652	\$ 721	8,015,000	\$ 802	\$20,161,306	\$(32,594,510)	\$(12,431,608)
Share-based compensation expense							75,378		75,378
Net loss								(7,011,991)	(7,011,991)
<b>Balance as of June 30, 2021</b>	<b>734,218</b>	<b>\$ 73</b>	<b>7,211,652</b>	<b>\$ 721</b>	<b>8,015,000</b>	<b>\$ 802</b>	<b>\$20,236,684</b>	<b>\$(39,606,501)</b>	<b>\$(19,368,221)</b>

See accompanying notes to financial statements.

Aadi Bioscience, Inc.

Condensed Statements of Cash Flows

	<u>For the Six Months Ended June 30,</u>	
	2021	2020
	(unaudited)	
<b>Cash flows from operating activities</b>		
Net loss	\$ (7,011,991)	\$ (8,606,022)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Change in fair value of convertible promissory notes (includes related party amounts of \$1,067,804 and \$0, respectively)	(1,205,752)	—
Non-cash interest expense (includes related party amounts of \$400,432 and \$327,173, respectively)	450,654	356,707
Gain on forgiveness of Payroll Protection Plan loan	(196,262)	—
Share-based compensation expense	75,378	65,795
Non-cash lease expense	88,670	82,029
Depreciation expense	4,482	4,482
Changes in operating assets and liabilities:		
Account receivables	14,148,829	184,923
Prepaid expenses and other current assets	(111,156)	(44,027)
Operating lease liability	(87,868)	(96,021)
Accounts payable and accrued liabilities	1,222,611	881,122
Payable to related party	—	779,167
<b>Net cash provided by (used in) operating activities</b>	<u>7,377,595</u>	<u>(6,391,845)</u>
<b>Cash flows from investing activities</b>		
Deferred acquisition costs paid	(156,700)	—
<b>Net cash used in investing activities</b>	<u>(156,700)</u>	<u>—</u>
<b>Cash flows from financing activities</b>		
Deferred offering costs paid for PIPE financing	(1,021)	—
Proceeds from issuance of convertible promissory notes	—	1,000,000
Proceeds from Payroll Protection Loan program	—	194,366
<b>Net cash (used in) provided by financing activities</b>	<u>(1,021)</u>	<u>1,194,366</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>7,219,874</u>	<u>(5,197,479)</u>
Cash and cash equivalents at beginning of period	4,454,730	15,961,923
<b>Cash and cash equivalents at end of period</b>	<u>\$ 11,674,604</u>	<u>\$ 10,764,444</u>
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Gain on forgiveness of Payroll Protection Plan loan	<u>\$ 196,262</u>	<u>\$ —</u>
Deferred transaction costs included in accounts payable and accrued liabilities	<u>\$ 1,498,604</u>	<u>\$ —</u>

See accompanying notes to financial statements.

Notes to Condensed Financial Statements  
(Unaudited)

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**1. Business and Business Organization**

***Description of Business***

Aadi LLC was originally formed in the State of Delaware on September 29, 2011. Aadi LLC converted to Aadi Bioscience, Inc. (“Aadi” or the “Company”) and was incorporated in the State of Delaware on February 27, 2017. The Company is a privately-held, clinical stage biopharmaceutical company focused on development and commercialization of precision medicines targeted to rare mutation-driven diseases. Aadi’s initial focus is on the development of nab-sirolimus (sirolimus albumin-bound nanoparticles for injectable suspension, or “ABI-009”) for diseases driven by mTOR pathway activation through mutations or deletions of specific genes such as TSC1, TSC2 or PTEN. ABI-009 has a markedly different pharmacological and pharmacokinetic profile compared to any other mTOR inhibitor. ABI-009 is licensed to Aadi by Abraxis BioScience, LLC, a wholly owned subsidiary of Celgene Corporation, now Bristol Myers Squibb (“Celgene”), for all therapeutic areas including oncology, cardiovascular, and metabolic related diseases.

The Company commenced operations in 2014. Those operations have consisted principally of performing research and development activities and raising capital. The Company’s activities are subject to significant risks and uncertainties, including failing to secure additional funding before sustainable revenues and profit from operations are achieved.

***Aerpio Merger Agreement***

On May 16, 2021, the Company entered into an agreement and plan of merger (“Merger Agreement” or “Merger”) with Aerpio Pharmaceuticals, Inc. (“Aerpio”), a Delaware corporation. On August 26, 2021, the Merger was completed and the business of Aadi will continue as the business of the combined company. On August 27, 2021, the combined company’s common stock began trading on The Nasdaq Global Select Market under the ticker symbol “AADI”. The merger will be treated by Aerpio as a reverse asset acquisition under the acquisition method of accounting in accordance with U.S. generally accepted accounting principles (referred to as “GAAP”). For accounting purposes, Aadi is considered to be the accounting acquirer in this transaction.

In connection with the Merger Agreement, Aerpio entered into subscription agreements to raise an aggregate amount of \$155.0 million in a Private Investment in Public Equity (“PIPE”) financing in shares of common stock to purchase Aerpio common stock. The PIPE financing was consummated concurrently with the closing of the Merger. The Merger is intended to qualify as a tax-free reorganization for U.S. federal income tax purposes

Effective on the closing date, current shareholders of Aadi own 65.8% and current shareholders of Aerpio will own 34.2% of the combined company upon the closing of the Merger, without giving effect to the PIPE. Following the closing of the PIPE financing, the former Aadi shareholders own 29.2% of the outstanding shares of Aerpio common stock, on a fully-diluted basis, the shareholders of Aerpio (as of immediately prior to the closing of the Merger) own 15.2% of the outstanding shares of Aerpio common stock, on a fully-diluted basis, and the PIPE investors own 55.6% of the outstanding shares of Aerpio common stock, on a fully-diluted basis.

The Merger Agreement contemplates contingent value rights which entitle the holder to receive a defined percentage of net proceeds, if any, received by the newly combined company with respect to certain Aerpio assets executed at the effective time of the Merger.

Pursuant to the closing of the Merger, the Company’s Board of Directors declared a 4% cumulative dividend on its preferred stock of \$4.4 million. Other items contingent upon the closing of the Merger include payments for advisory fees of \$11.4 million and one-time bonuses to key executives of \$0.6 million.

**Notes to Condensed Financial Statements  
(Unaudited)**

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***Liquidity***

Since inception, the Company has devoted substantially all of its resources to research and development activities, business planning, establishing and maintaining its intellectual property portfolio, hiring personnel, raising capital, and providing general and administrative support for these operations and has not realized revenues from its planned principal operations. The Company has incurred losses and negative cash flows from operations since inception. In addition, the Company expects to incur substantial operating losses for the next several years as it continues its research and development activities. As of June 30, 2021, the Company had cash and cash equivalents of \$11.7 million.

Management plans to continue to incur substantial costs in order to conduct research and development activities and additional capital will be needed to undertake these activities. The Company intends to raise such capital through debt or equity financings or other arrangements to fund operations. Management believes that the Company's current cash and cash equivalents, including the net PIPE proceeds of \$145.4 million, concurrent with the closing of its merger with Aerpio, as described above, will provide sufficient funds to enable the Company to meet its obligations for at least twelve months from the filing date of this report.

***COVID-19***

In December 2019, a strain of coronavirus was reported in Wuhan, China and began to spread globally, including to the United States and Europe, in the following months. The World Health Organization has declared COVID-19 to be a global pandemic. The full impact of the COVID-19 pandemic is inherently uncertain at the time of this report. The COVID-19 pandemic has resulted in travel restrictions and, in some cases, prohibitions of non-essential activities, disruption and shutdown of businesses, and greater uncertainty in global financial markets. As COVID-19 has spread, it has significantly impacted the health and economic environment around the world, and many governments have closed most public establishments, including restaurants, workplaces, and schools. Aadi's ongoing clinical trials have been, and may continue to be, affected by the closure of offices, or country borders, among other measures being put in place around the world. The inability to travel and conduct face-to-face meetings can also make it more difficult to enroll new patients in ongoing or planned clinical trials. Any of these circumstances will potentially have a negative impact on our financial results and the timing of our clinical trials.

The COVID-19 pandemic has caused the Company to modify business practices (including but not limited to curtailing or modifying employee travel, moving to full remote work, and cancelling physical participation in meetings, events, and conferences), and may take further actions as may be required by government authorities or that are determined to be in the best interests of the Company's employees, patients, and business partners.

The extent of the impact of the COVID-19 pandemic on Aadi's future liquidity and operational performance will depend on certain developments, including the duration and spread of the outbreak, the availability and effectiveness of vaccines, the impact on our clinical trials, patients, and collaboration partners, and the effect on our suppliers.

**2. Related Party Transactions**

***Celgene License Agreement***

On April 9, 2014, the Company entered into a license agreement (the "Celgene License Agreement") with a wholly-owned subsidiary of Celgene, for exclusive rights for certain patents and a non-exclusive license for certain technology and know-how pertaining to ABI-009. The Celgene License Agreement will remain in effect from the effective date of April 9, 2014 until expiration of all milestone and royalty payment obligations under the agreement, unless terminated by either of the parties upon giving an advance notice as specified in the Celgene License Agreement. Under the terms of the Celgene License Agreement, Celgene agreed to supply the Company with licensed products of ABI-009 necessary for clinical or non-clinical development.



**Notes to Condensed Financial Statements  
(Unaudited)**

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Celgene had the option to terminate the Celgene License Agreement and all of the Company's related rights and licenses upon the occurrence of each of the following: (a) successful completion of the first Phase 2 Trial for a licensed product ("First Trigger Event"), or (b) if Celgene elects not to exercise its option upon the First Trigger Event, then upon the acceptance by the Food and Drug Administration or the European Medicines Agency, as applicable, of the first New Drug Application either in the United States or European Union, whichever occurs first, for a licensed product ("Second Trigger Event"). Celgene could also terminate the Celgene License Agreement upon written notice to the Company at any time following the occurrence of the First Trigger Event and prior to the occurrence of the Second Trigger Event (an "Early Exercise"). In each case, the termination would be subject to a payment to the Company by Celgene equal to the valuation of the Company as per the terms of the Celgene License Agreement. On October 3, 2016, the Celgene License Agreement was amended to include an option extension payment that allowed Celgene the option of paying \$3.0 million to the Company to extend the period of time that Celgene had to Early Exercise. The Company has certain milestones that it is required to meet as specified in the Celgene License Agreement. If the Company fails to meet these milestones and cannot agree upon new terms and conditions, Celgene may terminate the Celgene License Agreement.

The Company paid Celgene a non-refundable initial fee of \$125,000 in cash during 2014. Celgene is entitled to receive certain development milestone payments, royalties on net sales from licensed products under the agreement and any sublicense fees. No payments were made related to milestones or royalties under this agreement during the six months ended June 30, 2021 or 2020.

On May 1, 2019, Celgene terminated its rights to elect an option to terminate the Celgene License Agreement upon the occurrence of a First Trigger Event, Second Trigger Event or Early Exercise. As a result, the Company is free to negotiate and enter into any agreement with respect to an acquisition of all or substantially all of the business or assets of the Company whether by merger, sale of equity or assets, or otherwise and to consummate the same as it sees fit.

On November 15, 2019, Celgene and the Company entered into an amendment to the Celgene License Agreement (the "Amended Celgene License Agreement") to terminate certain of Celgene's ABI-009 product supply obligations and to transfer control over certain regulatory filings under the original Celgene License Agreement from Celgene to the Company. The Amended Celgene License Agreement also waived the obligations related to certain development milestone payments and waived the liability related to 2016 and 2017 licensed drug manufacturing costs of \$1.2 million and \$2.7 million, respectively.

On December 8, 2020, the Company entered into a license agreement ("EOC License Agreement") with EOC Pharma (Hong Kong) Limited ("EOC Pharma") under which the Company received \$14.0 million in January 2021 in non-refundable upfront consideration as partial payment for the rights and licenses granted to EOC by the Company for the further development and commercialization of ABI-009 in the People's Republic of China, Hong Kong Special Administration Region, Macao Special Administrative Region and Taiwan (the "Licensed Territory"). In accordance with the Celgene License Agreement, the Company is required to pay 20% of all sublicense fees to Celgene. As such, the Company recognized \$2.8 million of license expense with a related party in the fourth quarter of 2020 and had a corresponding \$2.8 million sublicense payable in payable to related party in the balance sheet as of June 30, 2021 and December 31, 2020. Refer to Note 4 for additional information on the EOC License Agreement.

***Convertible Notes***

The Company issued convertible notes to existing equity holders in October 2019. In addition, the Company issued convertible notes in January 2020 (refer to Note 5 for additional information regarding the convertible notes).

**Notes to Condensed Financial Statements  
(Unaudited)**

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**3. Summary of Significant Accounting Policies*****Basis of Presentation***

The accompanying condensed balance sheet as of June 30, 2021, and the condensed statements of operations and comprehensive loss, stockholders' deficit and cash flows for the six months ended June 30, 2021 and 2020, and the related disclosures are unaudited. In management's opinion, the unaudited interim condensed financial statements have been prepared on the same basis as the audited financial statements as of and for the year ended December 31, 2020 and included all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the Company's financial position and the results of its operations and cash flows in accordance with U.S. GAAP. The results for the six months ended June 30, 2021 are not necessarily indicative of the results expected for the full fiscal year or any other interim period.

***Segment Information***

Operating segments are defined as components of an enterprise about which separate discrete information is available for evaluation by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company views its operations and manages its business in one reportable operating segment, which is the business of developing and commercializing proprietary therapeutics. All the assets and operations of the Company's sole operating segment are located in the United States.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that impact the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities in the Company's financial statements and accompanying notes. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Although these estimates are based on the Company's knowledge of current events and actions it may undertake in the future, actual results may materially differ from these estimates and assumptions.

***Concentration of Credit Risk***

Financial instruments, which potentially subject the Company to concentration of credit risk, consist primarily of cash and cash equivalents and certain investments in money market funds. The Company maintains deposits in federally insured financial institutions in excess of federally insured limits. Management believes that the Company is not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held. The Company has not experienced any losses on deposits since inception.

***Cash and Cash Equivalents***

The Company considers all highly liquid marketable securities purchased with original maturities of three months or less at the purchase date to be cash equivalents. As of June 30, 2021 and December 31, 2020, cash equivalents included money market investments totaling \$3.0 million.

***Fair Value Option***

As permitted under the FASB Accounting Standards Codification ("ASC") Topic 825, *Financial Instruments*, ("ASC 825"), the Company has elected the fair value option to account for its convertible promissory notes issued. In accordance with ASC 825, the Company records these convertible promissory notes at fair value with changes in fair value recorded in the statements of operations and comprehensive loss. As a result of applying the fair value option, direct costs and fees related to the convertible promissory notes were recognized in earnings as incurred and not deferred.

**Notes to Condensed Financial Statements  
(Unaudited)**

**Fair Value of Financial Instruments**

The accounting guidance defines fair value, establishes a consistent framework for measuring fair value, and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. Fair value is defined as an exit price representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the accounting guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Observable inputs, such as quoted prices in active markets
- Level 2: Inputs, other than the quoted prices in active markets that are observable either directly or indirectly
- Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions which reflect those that a market participant would use

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

In determining the fair value of its financial instruments, the Company considers the source of observable market data inputs, liquidity of the instrument, the credit risk of the counterparty to the contract, and its risk of nonperformance. In the case fair value is not observable, for the items subject to fair value measurements, the Company applies valuation techniques deemed the most appropriate under the U.S. GAAP guidance based on the nature of the assets and liabilities being measured.

The carrying amounts of cash equivalents, account receivables, prepaid expenses, accounts payable, and accrued liabilities are reasonable estimates of their fair value because of the short maturity of these items.

The following table sets forth the fair value of the Company's financial assets and liabilities, allocated into the Level 1, Level 2 and Level 3 hierarchy that were measured at fair value on a recurring basis:

	Fair Value Measurements as of June 30, 2021			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Money market funds	\$ 3,040,896	\$ —	\$ —	\$ 3,040,896
<b>Liabilities:</b>				
Convertible promissory notes	\$ —	\$ —	\$ 9,374,927	\$ 9,374,927
	Fair Value Measurements as of December 31, 2020			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Money market funds	\$ 3,040,583	\$ —	\$ —	\$ 3,040,583
<b>Liabilities:</b>				
Convertible promissory notes	\$ —	\$ —	\$ 10,130,659	\$ 10,130,659

**Notes to Condensed Financial Statements**  
**(Unaudited)**

As further described in Note 5, the Company issued convertible promissory notes in October 2019 and January 2020 (collectively the “Convertible Notes”). The Company elected the fair value option to account for the Convertible Notes. The fair value was estimated using a scenario-based analysis based on the probability-weighted value of expected future investment returns, considering possible outcomes available to the noteholders including conversions in subsequent equity financings, change of control transactions, settlement, and dissolution. The Company adjusts the carrying value of its Convertible Notes to their estimated fair value at each reporting date, with any related increases or decreases in the fair value recorded as a change in fair value of convertible promissory notes in the statements of operations and comprehensive loss.

As of June 30, 2021 and December 31, 2020, the significant unobservable inputs used in the fair value measurement of the Convertible Notes included an expected settlement date in August 2021 and June 2021, respectively, and an estimated discount rate of 25%. Other significant unobservable inputs include the relative weighting applied to the possible outcomes available to the noteholders including conversions in subsequent equity financings, change of control transactions, settlement, and dissolution.

There are significant judgments, assumptions and estimates inherent in the determination of the fair value of the convertible promissory notes described above. These include determination of a valuation method and selection of the possible outcomes available to the Company, including the determination of timing and expected future investment returns for such scenarios, as well as the likelihood of repayment, conversion, and dissolution. The related judgments, assumptions and estimates are highly interrelated and changes in any one assumption could necessitate changes in another. Any changes in the probability of a particular outcome would require a related change to the probability of another outcome.

The following table provides a reconciliation of the Convertible Notes (refer to Note 5) measured at fair value using significant unobservable inputs (Level 3):

	Convertible Notes (Level 3)
<b>Balance as of December 31, 2019</b>	<b>\$ 8,164,885</b>
Issuance of convertible promissory notes	1,000,000
Accrual of interest	356,707
Change in fair value of convertible promissory notes	—
<b>Balance as of June 30, 2020</b>	<b>\$ 9,521,592</b>
	Convertible Notes (Level 3)
<b>Balance as of December 31, 2020</b>	<b>\$ 10,130,659</b>
Issuance of convertible promissory notes	—
Accrual of interest	450,020
Change in fair value of convertible promissory notes	(1,205,752)
<b>Balance as of June 30, 2021</b>	<b>\$ 9,374,927</b>

There have been no transfers between levels during the reporting periods.

**Property and Equipment, Net**

Property and equipment, which consist of computers, furniture and fixtures, and office equipment, are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets (generally five years).

**Notes to Condensed Financial Statements  
(Unaudited)**

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***Leases***

The Company accounts for leases in accordance with ASC 842. At the inception of a contractual arrangement, the Company determines whether the contract contains a lease by assessing whether there is an identified asset and whether the contract conveys the right to control the use of the identified asset in exchange for consideration over a period of time. If both criteria are met, the Company records the associated lease liability and corresponding right-of-use asset upon commencement of the lease using the implicit rate or a discount rate based on a credit-adjusted secured borrowing rate commensurate with the term of the lease. The Company does not recognize assets or liabilities for leases with lease terms of less than 12 months.

The Company additionally evaluates leases at their inception to determine if they are to be accounted for as an operating lease or a finance lease. A lease is accounted for as a finance lease if it meets one of the following five criteria: the lease has a purchase option that is reasonably certain of being exercised, the present value of the future cash flows is substantially all of the fair market value of the underlying asset, the lease term is for a significant portion of the remaining economic life of the underlying asset, the title to the underlying asset transfers at the end of the lease term, or if the underlying asset is of such a specialized nature that it is expected to have no alternative uses to the lessor at the end of the term. Leases that do not meet the finance lease criteria are accounted for as an operating lease. Operating lease assets represent a right to use an underlying asset for the lease term and operating lease liabilities represent an obligation to make lease payments arising from the lease. Operating lease liabilities with a term greater than one year and their corresponding right-of-use assets are recognized on the balance sheets at the commencement date of the lease based on the present value of lease payments over the expected lease term.

Certain adjustments to the right-of-use asset may be required for items such as initial direct costs paid or incentives received. As the Company's leases do not typically provide an implicit rate, the Company utilizes the appropriate incremental borrowing rate, determined as the rate of interest that the Company would have to pay to borrow on a collateralized basis over a similar term and in a similar economic environment. For finance leases, depreciation expense is recognized for the leased asset acquired and interest expense is recognized related to the portion of the financing in the statements of operations. For operating leases, lease cost is recognized on a straight-line basis over the lease term and variable lease payments are recognized as operating expenses in the period in which the obligation for those payments is incurred. Variable lease payments primarily include common area maintenance, utilities, real estate taxes, insurance, and other operating costs that are passed on from the lessor in proportion to the space leased by the Company. The Company has elected the practical expedient to not separate between lease and non-lease components.

***Account Receivables***

Account receivables as of December 31, 2020 represents grant revenue recognized to date, but for which payment has not yet been received from the funding agency. The December 31, 2020 balance also includes \$14.0 million receivable related to the EOC Pharma upfront payment. Estimates for allowances for doubtful accounts are determined based on existing contractual obligations and historical payment patterns. No allowance for doubtful accounts was recorded as of June 30, 2021 and December 31, 2020.

***Revenue Recognition***

***Revenue Under License Agreement***

The Company generates revenues from payments received under a license agreement. Under such license agreements, the Company recognizes revenue when it transfers promised goods or services to partners in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. To determine revenue recognition for contracts with partners, the Company performs the following five steps: (i) identifies the promised goods or services in the contract; (ii) identifies the performance obligations in the contract, including whether they are distinct in the context of the contract; (iii) determines the transaction price, including the constraint on variable consideration; (iv) allocates the transaction price to the performance obligations in the contract; and (v) recognizes revenue when (or as) the Company satisfies the performance obligations.

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For revenue from such license agreements, the Company generally collects an upfront license payment from the license partner and is also entitled to receive event-based payments subject to the license partner's achievement of specified development, regulatory and sales-based milestones. In addition, the Company is generally entitled to royalties if products under the license agreement are commercialized.

Transaction price for a contract represents the amount to which the Company is entitled in exchange for providing goods and services to the partner. Transaction price does not include amounts subject to uncertainties unless it is probable that there will be no significant reversal of revenue when the uncertainty is resolved. Apart from the upfront license payment, all other fees the Company may earn under such license agreements are subject to significant uncertainties of product development. Achievement of many of the event-based development and regulatory milestones may not be probable until such milestones are actually achieved. This generally relates to milestones such as obtaining regulatory approvals and successful completion of clinical trials. With respect to other development milestones, e.g. dosing of a first patient in a clinical trial, achievement could be considered probable prior to its actual occurrence, based on the progress towards commencement of the trial. The Company does not include any amounts subject to uncertainties into the transaction price until it is probable that the amount will not result in a significant reversal of revenue in the future. At the end of each reporting period, the Company re-evaluates the probability of achievement of such milestones and any related constraint, and if necessary, adjusts the estimate of the overall transaction price.

Because such agreements generally only have one type of performance obligation, a license, which is generally all transferred at the same time as agreement inception, allocation of the transaction price among multiple performance obligations is not required.

Upfront amounts allocated to licenses are recognized as revenue when the licenses are transferred to the partners. Development milestones and other fees are recognized in revenue when their occurrence becomes probable.

*Grant Revenue*

The Company's grant revenues are derived from federal grants with the Food and Drug Administration. The Company has determined that the government agencies providing grants to the Company are not customers. Grant revenue is recognized when there is reasonable assurance of compliance with the conditions of the grant and reasonable assurance that the grant revenue will be received. The Company recognizes grant revenues as reimbursable grant costs are incurred. The costs associated with these reimbursements are reflected as a component of research and development expense in the accompanying statements of operations and comprehensive loss.

With respect to grant revenue derived from reimbursement of direct out-of-pocket expenses for research costs associated with federal contracts, where the Company acts as principal with discretion to choose suppliers, bears credit risk, and performs part of the services required in the transaction, the Company records revenue for the gross amount of the reimbursement. The costs associated with these reimbursements are reflected as a component of research and development expense in the accompanying statements of operations and comprehensive loss.

*Research and Development Costs*

Research and development expenses consist of costs incurred in performing research and development activities, including salaries and benefits, materials and supplies, preclinical expenses, stock-based compensation expense, contract services, and other external development expenses. The Company records research and development activities conducted by third-party service providers, which include work related to preclinical studies, clinical trials, and contract manufacturing activities, to research and development expense as incurred. The Company is required to estimate the amount of services provided but not yet invoiced and include these expenses in accrued expenses in the balance sheet and within research and development expenses in the statements of operations and comprehensive loss. These expenses are a significant component of the Company's

**Notes to Condensed Financial Statements  
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research and development expenses and require significant estimates and judgments. The Company accrues for these expenses based on factors such as estimates of the work completed and in accordance with agreements established with its third-party service providers. As actual expenses become known, the Company adjusts its accrued expenses.

***Commitments and Contingencies***

The Company recognizes a liability with regard to loss contingencies when it believes it is probable a liability has occurred, and the amount can be reasonably estimated. If some amount within a range of loss appears at the time to be a better estimate than any other amount within the range, the Company accrues that amount. When no amount within the range is a better estimate than any other amount the Company accrues the minimum amount in the range. The Company has not recorded any such liabilities as of June 30, 2021 and December 31, 2020.

***Income Taxes***

Income taxes have been accounted for using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded if, based upon the weight of all available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

***Share Based Compensation***

Share-based compensation expense represents the cost of the grant date fair value of employee, non-employee, officer, and director stock option grants, estimated in accordance with the applicable accounting guidance, recognized on a straight-line basis over the vesting period. The vesting period generally approximates the expected service period of the awards. Forfeitures are recognized and accounted for as they occur.

The fair value of stock options is estimated using a Black-Scholes-Merton valuation model on the date of grant. This method requires certain assumptions be used as inputs, such as the fair value of the underlying common stock, expected term of the option before exercise, expected volatility of the Company's common stock, expected dividend yield, and a risk-free interest rate. Options granted during the year have a maximum contractual term of ten years. The Company has limited historical stock option activity and therefore estimates the expected term of stock options granted to employees, officers, and directors using the simplified method, which represents the average of the contractual term of the stock option and its weighted-average vesting period. For options granted to non-employees, the Company uses the remaining contractual life. The expected volatility of stock options is based upon the historical volatility of a number of publicly traded companies in similar stages of clinical development. The Company has historically not declared or paid any dividends and does not currently expect to do so in the foreseeable future. The risk-free interest rates used are based on the U.S. Treasury yield in effect at the time of grant for zero-coupon U.S. treasury notes with maturities approximately equal to the expected term of the stock options.

***Common Stock Valuation***

Due to the absence of an active market for the Company's common stock, the Company utilized methodologies in accordance with the framework of Standards 9 and 10 of the Uniform Standards of Professional Appraisal Practice, the Statement on Standards for Valuation Services as set forth by the American Institute of Certified Public Accountants ("AICPA"), the Statement of U.S. GAAP Codification of Accounting Standards Codification Topic 820: Fair Value Measurements and Disclosures, and the AICPA Accounting and Valuation Guide for the Valuation of Privately-Held-Company Equity Securities Issued as Compensation, to estimate the

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fair value of its common stock. In determining the exercise prices for options granted, the Company has considered the fair value of the common stock as of the grant date. The fair value of the common stock has been determined based upon a variety of factors, including the illiquid nature of the common stock, arm's-length sales of the Company's common stock, the effect of the rights and preferences of the preferred stockholders, and the prospects of a liquidity event. Among other factors are the Company's financial position and historical financial performance, the status of technological developments within the Company's research, the composition and ability of the current research and management team, an evaluation or benchmark of the Company's competition, and the current business climate in the marketplace. Significant changes to the key assumptions underlying the factors used could result in different fair values of common stock at each valuation date.

***Deferred Transaction Costs***

The Company has deferred transaction costs consisting of legal, accounting, and other fees and costs directly attributable to its planned merger. As of June 30, 2021, \$1,656,325 of deferred transaction costs were recorded within other long-term assets on the balance sheet. No such costs were recorded on the balance sheet as of December 31, 2020.

***Accounting Pronouncements Not Yet Adopted***

In August 2020, the FASB issued ASU 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40). This new guidance is intended to reduce the complexity of accounting for convertible instruments. The guidance also addresses how convertible instruments are accounted for in the diluted earnings per share calculation and requires enhanced disclosures about the terms of convertible instruments. Entities may adopt ASU 2020-06 using either a partial retrospective or fully retrospective method of transition. This ASU is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years for smaller reporting companies. The Company is currently evaluating the impact the adoption of ASU 2018-13 will have on the Company's financial statements.

In April 2021, the FAB issued ASU 2021-04, which included Topic 260 "Earnings Per Share." This guidance clarifies and reduces diversity in an issuer's accounting for modifications or exchanges of freestanding equity-classified written call options due to a lack of explicit guidance in the FASB Codification. ASU 2021-04 is effective for all entities for fiscal years beginning after December 15, 2021. Early adoption is permitted. The Company is currently evaluating the impact of adopting ASU 2021-04 on its financial statements.

**4. EOC License Agreement**

In December 2020, the Company entered into the EOC License Agreement with EOC Pharma for the further development and commercialization of ABI-009 in the Licensed Territory. Under the terms of the EOC License Agreement, Aadi granted to EOC Pharma an exclusive, royalty-bearing license to develop and commercialize the product in the Licensed Territory.

Unless earlier terminated, the term of the EOC License Agreement continues until the expiration of the royalty obligations. Prior to the expiration of the EOC License Agreement, EOC Pharma has the right to terminate the agreement for any reason upon 120 days advance written notice. Either party may terminate the EOC License Agreement in the event that the other party breaches the agreement and fails to cure the breach, becomes insolvent or challenges certain of the intellectual property rights licensed under the agreement.

The Company received a \$14.0 million upfront payment in January 2021 and is eligible to receive an additional \$257.0 million in the aggregate upon achievement of certain development, regulatory, and sales milestones, as well as tiered royalties on net sales in the Licensed Territory. Under the terms of the EOC License Agreement, EOC Pharma will fund all research, development, regulatory, marketing and commercialization activities in the defined Licensed Territory.



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The Company assessed the EOC License Agreement with EOC Pharma in accordance with FASB ASC Topic 606 and concluded that EOC Pharma is a customer. Additionally, the Company identified the license of ABI-009 provided to EOC Pharma as the sole performance obligation. The \$14.0 million upfront payment received from EOC Pharma is non-refundable and non-creditable and is considered fixed consideration.

Both the milestones and royalty payments under the EOC License Agreement are considered variable consideration. Under the “most-likely” method, the Company will apply a constraint to these amounts until it has received notification from EOC Pharma that the milestones and royalty payments have been achieved.

**5. Convertible Notes**

The Company received \$8.1 million in October 2019 and \$1.0 million in January 2020 for the proceeds from the issuance of Convertible Notes. The October 2019 Convertible Notes were issued to existing equity holders. The Convertible Notes issued in October 2019 and January 2020 originally had a maturity date of one year from the date of issuance and bear an escalating interest rate of 6% per annum for the first four months following the effective date of the loan agreement, 8% per annum for the fifth and sixth months, and 10% per annum for the remaining six months of the note term until maturity at twelve months. The Convertible Notes contain certain redemption features, including conversion to preferred stock upon the closing of the Company’s next issuance of preferred stock resulting in net proceeds to the Company of at least \$25.0 million (“Qualified Financing”). The Convertible Notes will convert into a variable, whole number of preferred shares equal to the number obtained by dividing the principal plus accrued interest of the Convertible Notes by 80% of the price per share paid by cash investors in the Qualifying Financing if converted in the first four months following the effective date of the loan agreement, 75% if converted in months five or six, and 70% if converted later than six months. The Convertible Notes also contain a mandatory prepayment provision that requires the Company to pay the outstanding principal, plus accrued and unpaid interest together with a premium in the event that a qualified liquidity event occurred. The premium is equal to 120% of the outstanding principal amount to be prepaid in the event the liquidity event occurs within four months of the note date, 130% between the fifth and sixth month, and 140% if after the sixth month but prior to maturity.

In November 2020, the Company entered into an amendment to the October 2019 and January 2020 Convertible Notes, whereby the term was extended from one year to two years. The amendment was accounted for as a debt modification.

In May 2021, the Company entered into an amendment to the October 2019 and January 2020 Convertible Notes, whereby upon the closing of the merger (see Note 1), the outstanding principal amount of this Note and all accrued and unpaid interest on this Note as of immediately prior to the closing of the Merger shall automatically convert into fully paid and nonassessable shares of common stock of the Company at a price per share equal to \$4.80. The terms of the amendment remain in force and effect until the closing of the merger on August 26, 2021.

In conjunction with the closing of the Merger on August 26, 2021, the outstanding Convertible Notes were converted into 698,018 shares of common stock.

**6. Payroll Protection Program Loan**

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”). The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. The CARES Act also appropriated funds for the Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”) loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by COVID-19.

**Notes to Condensed Financial Statements  
(Unaudited)**

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In May 2020, Aadi was approved for a \$194,366 SBA PPP loan, as provided for in the CARES Act (“PPP Loan”). Under certain conditions, the PPP Loan and accrued interest are forgivable after a twenty-four-week covered period as long as the loan proceeds were used for eligible expenses, including payroll, benefits, rent and utilities, and the company maintains certain payroll levels. The amount of loan forgiveness is subject to reduction if the Company terminates employees or reduces salaries during the twenty-four-week covered period. The unforgiven portion of the loan is payable over two years at an interest rate of 1%, with a deferral of payments for the ten months following the end of the twenty-four-week covered period. On April 29, 2021, the Company received notification from the SBA that the Company’s Forgiveness Application of the PPP Loan and accrued interest was approved in full, and the Company had no further obligations related to the PPP Loan. Accordingly, the Company recorded a gain on the forgiveness of the PPP Loan totaling \$196,262 including accrued interest of \$1,896.

The SBA has stated that all PPP loans in excess of \$2 million, and other PPP loans as appropriate, will be subject to review by the SBA for compliance with program requirements. If the SBA determines in the course of its review that a borrower lacked an adequate basis for the required certification concerning the necessity of the loan request or the subsequent use of loan proceeds, the SBA will seek repayment of the PPP loan, including interest and potential penalties. While the Company believes the loan was properly obtained and forgiven, there can be no assurance regarding the outcome of an SBA review. The Company has not accrued any liability associated with the risk of an adverse SBA review.

**7. Stockholders’ Deficit**

Under the Amended and Restated Certificate of Incorporation dated March 29, 2017, the Company had a total of 27,946,166 shares of capital stock authorized for issuance, consisting of 20,000,000 shares of Common Stock, par value of \$0.0001 per share, and 7,946,166 shares of Preferred Stock, par value of \$0.0001 per share. Of the 7,946,166 shares of authorized Preferred Stock, 734,218 are designated Series Seed Preferred Stock and 7,211,948 shares are designated Series A Preferred Stock.

***Series Seed Preferred Stock***

On February 23, 2017, the Company converted from a limited liability company to a corporation and at that time converted 734,218 membership units into shares of Series Seed Preferred Stock. As of June 30, 2021 and December 31, 2020, all of the 734,218 shares of designated Series Seed Preferred Stock were issued and outstanding.

***Series A Preferred Stock***

In February and March 2017, the Company sold and issued in a private placement 5,847,940 shares of Series A Preferred Stock at \$3.42 per share (the “Series A Financing”). Upon the closing of the Series A Financing, convertible notes issued in 2015 converted into 482,426 shares of Series A Preferred Stock at 85% of the \$3.42 price per share (the “Series A Original Issue Price”) paid by the Series A Financing investors. Convertible notes issued in 2017 converted into 881,286 shares of Series A Preferred Stock at the Series A Original Issue Price. As of June 30, 2021 and December 31, 2020, of the 7,211,948 shares designated as Series A Preferred Stock, 7,211,652 shares were issued and outstanding.

***Common Stock***

On February 23, 2017, the Company converted from a limited liability company to a corporation and at that time converted 8,015,000 membership units to shares of Common Stock. As of June 30, 2021 and December 31, 2020, of the authorized 20,000,000 shares of Commons Stock, 8,015,000 shares were issued and outstanding. The voting, dividend, and liquidation rights of the holders of the Common Stock are subject to and qualified by the rights, powers, and preferences of the holders of the Preferred Stock. The holders of the Common Stock are entitled to one vote for each share of Common Stock held at all meetings of stockholders.

Notes to Condensed Financial Statements  
(Unaudited)

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The Company's preferred stock has the following characteristics:

**Dividends**

Holders of Series A Preferred Stock, in preference to the holders of Common Stock and Series Seed Preferred Stock, shall be entitled to receive cumulative dividends at the annual accrual rate of 4% of the Series A Original Issue Price. Such dividends shall accrue from day to day, however, shall be payable only when and if declared by the Company's Board of Directors. There have been no dividends declared by the board as of June 30, 2021 and December 31, 2020. Upon conversion of the shares of Series A Preferred Stock into Common Stock, the Company shall pay accrued but unpaid dividends on the Series A Preferred Stock converted either in shares of Common Stock at the fair market value in effect at the time of conversion or in cash, as determined by the Board of Directors.

**Liquidation**

The holders of the Series A Preferred Stock are entitled to receive liquidation preferences at the Series A Original Issue Price of \$3.42, plus all accrued but unpaid dividends, whether or not declared. Liquidation payments to the holders of Series A Preferred Stock have priority and are made in preference to any payments to the holders of Series Seed Preferred Stock and Common Stock.

After full payment of the liquidation preference to the holders of the Series A Preferred Stock, the remaining assets, if any, will be distributed ratably to the holders of the Series Seed Preferred Stock at an amount per share equal to the greater of (a) the Series Seed Original Issue Price of \$1.50 (the "Series Seed Original Issue Price"), plus any dividends accrued or declared but unpaid, or (b) such amount per share as would have been payable had all shares of Series Seed Preferred Stock been converted into Common Stock.

After full payment of the liquidation preference to the holders of the Series A Preferred Stock and Series Seed Preferred Stock, the remaining assets, if any, will be distributed ratably to the holders of the Series A Preferred Stock, Series Seed Preferred Stock, and Common Stock on an as-if-converted to Common Stock basis.

**Conversion Rights**

The shares of Series A Preferred Stock and Series Seed Preferred are convertible, at the option of the holder of such Series A Preferred Stock and Series Seed Preferred, at any time, into such number of shares of common stock as is determined by dividing the original issue price for such series of Series A Preferred Stock or Series Seed Preferred Stock, as applicable, by the conversion price for such series in effect at the time of conversion. The conversion price for the Series A Preferred Stock and Series Seed Preferred Stock, as applicable, initially means the original issue price for such series. The initial conversion price for the Series A Preferred Stock, and the rate at which shares of Series A Preferred Stock may be converted into shares of common stock, shall be subject to adjustment for dividends, stock splits, and other distributions. The conversion rate as of June 30, 2021 and December 31, 2020 for the Series A Preferred Stock and Series Seed Preferred Stock was 1:1.

Each share of Series A Preferred Stock and Series Seed Preferred Stock is automatically converted into common stock at the then effective conversion rate (A) at any time upon the affirmative election of the holders of at least a majority of the outstanding shares of the Series A Preferred Stock, or (B) immediately upon the closing of a firmly underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, covering the offer and sale of Common Stock for the account of the Company in which (i) the public offering price per share is at least three times the applicable Series A Original Issue Price (subject to appropriate adjustment in the event of a stock split, stock dividend, combination, reclassification, or similar event affecting the Series A Preferred Stock), (ii) the gross cash proceeds to the Company (before underwriting discounts, commissions and fees) are at least \$30 million and (iii) the Company's shares have been listed for trading on the New York Stock Exchange, NASDAQ Global Select Market or NASDAQ Global Market.

In conjunction with the closing of the Merger on August 26, 2021, the shares of the Series A Preferred Stock and Series Seed Preferred were converted into 2,520,425 shares of common stock.

**Notes to Condensed Financial Statements**  
**(Unaudited)**

**Redemption Rights**

The holders of Preferred Stock do not have any redemption rights.

**Voting**

Each holder of Series A Preferred Stock or Series Seed Preferred Stock shall be entitled to cast the number of votes equal to the number of whole shares of common stock into which the shares of Series A Preferred Stock or Series Seed Preferred Stock held by such holder are convertible. Except as provided by law or by the other provisions of the Company's governance documents, holders of Series A Preferred Stock and Series Seed Preferred Stock shall vote together with the holders of Common Stock as a single class.

**8. Net Loss Per Share**

Basic and diluted net loss attributable to common stock is presented in conformity with the two-class method required for participating securities as the Series A convertible preferred stock is considered a participating security. The Company's participating securities do not have a contractual obligation to share in the Company's losses. As such, the net loss was attributed entirely to common stock.

Basic net loss per share is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted net loss per share is computed by dividing the net loss attributable to common stockholders by the weighted average number of common shares and common share equivalents outstanding for the period. Common stock equivalents are only included when their effect is dilutive. The Company's potentially dilutive securities, which include convertible preferred stock and outstanding stock options under the Company's equity incentive plan have been excluded from the computation of diluted net loss per share as they would be anti-dilutive. For all periods presented, there is no difference in the number of shares used to calculate basic and diluted shares outstanding due to the Company's net loss position.

The following table summarizes the Company's net loss per share:

	<u>Six Months Ended June 30,</u>	
	<u>2021</u>	<u>2020</u>
<b>Numerator:</b>		
Net loss and comprehensive loss available to common stockholders	<u><b>\$ (7,505,268)</b></u>	<u>\$ (9,099,299)</u>
<b>Denominator:</b>		
Weighted-average common stock outstanding, basic and diluted	<u><b>8,015,000</b></u>	<u>8,015,000</u>
Net loss per share, basis and diluted	<u><b>\$ (0.94)</b></u>	<u>\$ (1.14)</u>

**Notes to Condensed Financial Statements**  
**(Unaudited)**

The following table sets forth the outstanding potentially dilutive securities that have been excluded in the calculation of diluted net loss per share because their inclusion would be anti-dilutive:

	June 30, 2021	December 31, 2020
Series Seed convertible preferred stock	734,218	734,218
Series A convertible preferred stock	7,211,652	7,211,652
Common stock options	1,415,000	1,232,500

## 9. Share-Based Compensation

### Stock Option Plan

In February 2017, the Company approved the Amended and Restated 2014 Equity Incentive Plan (the “Amended and Restated 2014 Plan”). The Amended and Restated 2014 Plan provides for the issuance of 1,485,000 shares of Common Stock to officers, directors, employees, non-employee directors, and consultants of the Company. The Amended and Restated 2014 Plan allows for the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock unit awards and other stock awards. There were 70,000 and 252,500 options remaining available for future issuance under the Amended and Restated 2014 Plan as of June 30, 2021 and December 31, 2020, respectively.

The options that are granted from the Amended and Restated 2014 Plan are exercisable at various dates as determined upon grant and will expire no more than ten years from their date of grant. Stock options generally vest over a four-year term. The exercise price of each option shall be determined by the Board of Directors, although generally options have an exercise price equal to the fair market value of the Company’s stock on the date of the option grant. In the case of incentive stock options, the exercise price shall not be less than 100% of the fair market value of the Company’s common stock at the time the option is granted. For holders of more than 10% of the Company’s total combined voting power of all classes of stock, incentive stock options may not be granted at less than 110% of the fair market value of the Company’s common stock at the date of grant and for a term not to exceed five years.

During the six months ended June 30, 2021, there were 182,500 stock options granted. During the six months ended June 30, 2020, there were 167,500 stock options granted. The weighted average grant date fair value of options granted during the six months ended June 30, 2021 was \$1.97. The fair value of stock options granted during the six months ended June 30, 2021 and 2020 was estimated at the grant date using the following assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Risk-free interest rate	0.90% - 1.08%	0.34%	0.90% - 1.08%	0.34% - 0.80%
Expected volatility	85.21% - 87.88%	89.57%	85.21% - 87.88%	89.57% - 92.52%
Expected term (in years)	5.08 - 6.25	5.27	5.08 - 6.25	5.27 - 6.25
Expected dividend yield	0%	0%	0%	0%

The Company recognized stock-based compensation of \$75,378 and \$65,795 for the six months ended June 30, 2021 and 2020, respectively. The total unrecognized compensation cost related to outstanding unvested stock-based awards as of June 30, 2021 was \$538,972, which is expected to be recognized over a weighted-average remaining service period of 1.42 years.

**Notes to Condensed Financial Statements**  
**(Unaudited)**

The following table summarizes the option activity under the 2014 Plan for the six months ended June 30, 2021:

	Stock Option Shares	Weighted Average Exercise Price	Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2021	1,232,500	\$ 0.67	7.26	\$ 505,250
Granted	182,500	2.73	9.92	
Exercised	—	—	—	
Expired/canceled	—	—	—	
Outstanding, June 30, 2021	<u>1,415,000</u>	<u>\$ 0.94</u>	<u>6.99</u>	<u>\$2,538,875</u>
Expected to vest, June 30, 2021	<u>888,436</u>	<u>\$ 0.58</u>	<u>5.98</u>	<u>\$1,906,788</u>
Options exercisable, June 30, 2021	<u>1,415,000</u>	<u>\$ 0.94</u>	<u>6.99</u>	<u>\$2,538,875</u>

All outstanding options are vested or expected to vest.

### **Common Stock Reserved for Future Issuance**

Common stock reserved for future issuance consisted of the following as of June 30, 2021 and December 31, 2020:

	June 30, 2021	December 31, 2020
Common stock options granted and outstanding	<u>1,415,000</u>	1,232,500
Common stock reserved for future option grants	<u>70,000</u>	252,500
Total common stock reserved for future issuance	<u>1,485,000</u>	<u>1,485,000</u>

As of June 30, 2021, 70,000 shares authorized under the 2014 Plan were available for future awards.

## **10. Commitments and Contingencies**

### **Operating Lease**

In April 2019, the Company entered into a twenty-eight-month facility lease agreement for 2,760 square feet of office space in Los Angeles, California. The lease commenced on May 1, 2019 and is scheduled to expire on August 31, 2021. The lease contains an option to extend the term for one additional three-year period. The lease includes four months of rent abatement and a rent escalation clause. Rent expense is being recorded on a straight-line basis. Rent expense related to this lease was \$0.1 million for the six months ended June 30, 2021 and 2020.

The following table summarizes information related to leases:

	June 30, 2021	December 31, 2020
<b>Assets:</b>		
Operating lease right-of-use assets	<u>\$ 30,337</u>	\$ 119,007
Total right-of-use assets	<u>\$ 30,337</u>	<u>\$ 119,007</u>
<b>Liabilities:</b>		
Operating lease liabilities, current	<u>\$ 36,854</u>	\$ 124,723
Operating lease liabilities, non-current	—	\$ —
Total operating lease liabilities	<u>\$ 36,854</u>	<u>\$ 124,723</u>

**Notes to Condensed Financial Statements**  
**(Unaudited)**

The future minimum lease payments required under the operating lease as of June 30, 2021, are summarized as follows:

Year Ending December 31, 2021 (remaining 2 months)	<b>\$36,957</b>
2022	—
2023	—
2024	—
Total minimum lease payments	<b>\$36,957</b>
Less: amount representing interest	<b>(103)</b>
Present value of operating lease liabilities	<b>\$36,854</b>
Less: operating lease liabilities, current	<b>\$36,854</b>
Operating lease liabilities, non-current	—
Remaining lease term (in years)	<b>0.2</b>
Incremental borrowing rate	<b>6.8%</b>

### **Litigation**

On June 30, 2021, a purported stockholder of the Aerpio Pharmaceuticals, Inc. (“Aerpio”) filed a complaint in the United States District Court for the Southern District of New York, captioned Dwayne Komurke v. Aerpio Pharmaceuticals Inc., et al., Case No. 1:21-cv-05686 (the “Komurke complaint”), naming Aerpio, the Aerpio Board of Directors, as of the date of the Merger Agreement, Merger Sub and Aadi Bioscience, Inc. as defendants.

The Komurke complaint alleges, among other things, that the Merger consideration is inadequate and that Aerpio’s proxy statement filed with the SEC on June 21, 2021 in connection with the Merger (the “preliminary proxy statement”), is materially incomplete and misleading by allegedly failing to disclose in violation of Section 14(a) and Section 20(a) of the Exchange Act, as well as Rule 14a-9 promulgated thereunder, certain allegedly material information, including (i) the process leading up to the Merger; (ii) certain financial projections prepared by Aerpio’s management and summarized in the preliminary proxy statement; and (iii) certain inputs and assumptions used in the financial analyses conducted by Ladenburg in connection with rendering its fairness opinion to Aerpio’s Board of Directors. The Komurke complaint asserts claims for breach of fiduciary duty against Aerpio’s Board of Directors; aiding and abetting breaches of fiduciary duty of the Aerpio, Merger Sub and Aadi Bioscience, Inc.; violations of Section 14(a) and Rule 14a-9 against all defendants; and violations of Section 20(a) against Aerpio’s Board of Directors. The relief sought in the Komurke complaint includes equitable relief, including among other things, to enjoin the consummation of the Merger, to rescind the Merger Agreement, to the extent already implemented, or to recover rescissory damages, to direct the defendants to commence a new sale process, to direct the defendants to disseminate a proxy statement that includes certain additional and allegedly material information, to direct the defendants to account to plaintiff for all alleged damages suffered as a result of their alleged wrongdoing and to award plaintiff the cost of the stockholder complaint, including reasonable attorneys’ and expert fees.

The plaintiff in *Komurke* has voluntarily dismissed their complaint without prejudice on September 13, 2021.

## **11. Subsequent Events**

### **Payable to Related Party**

On August 30, 2021, the Company entered into an Amended and Restated License Agreement (the “License Agreement”) with a related party. Pursuant to the terms of the Amended and Restated License Agreement, total payment obligations of \$8.5 million were paid on September 3, 2021 that relate to balances previously accrued as of June 30, 2021. Included in the subsequent payment was the \$2.8 million sublicense fee to Celgene referenced in Note 2.

**Notes to Condensed Financial Statements  
(Unaudited)**

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***Lease Agreement***

On August 30, 2021, the Company entered into an amended lease agreement for its office space. Pursuant to the amended lease agreement, the Company and the Landlord agreed to extend the term of the Lease, which was previously set to expire on August 31, 2021, for an additional period of three (3) years and six (6) months, until February 28, 2025, for all spaces covered by the Lease, with an option to renew for an additional three (3) years in accordance with the terms of the Lease.

***Share-Based Compensation***

On August 26, 2021, the Company approved the Company's 2021 Equity Incentive Plan (the "2021 Plan"). Under the 2021 Plan, the Company granted 87,745 options to directors of the Company and 532,186 options to both officers and directors of the Company in August 2021 and September 2021, respectively.



## UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

On August 26, 2021, Aerpio Pharmaceuticals, Inc. (the “**Company**” or “**Aerpio**”) completed its reverse merger with Aadi Bioscience, Inc., a Delaware corporation (“**Aadi**”), in accordance with the terms of the Agreement and Plan of Merger (referred to as the “**Merger Agreement**”) dated May 16, 2021, by and among the Company, Aspen Merger Subsidiary, Inc., a Delaware corporation and a direct, wholly-owned subsidiary of Aerpio (“**Merger Sub**”) and Aadi, pursuant to which Merger Sub merged with and into Aadi, with Aadi surviving as a wholly-owned subsidiary of the Company (referred to as the “**Merger**”). In addition, the PIPE Investors (as defined below) purchased an aggregate of 11,852,862 shares of Common Stock concurrently with the closing of the Merger for an aggregate purchase price of approximately \$155.0 million (collectively, the “**PIPE Financing**”) pursuant to the Subscription Agreement dated May 16, 2021 (the “**Subscription Agreement**”) with the purchasers named therein (the “**PIPE Investors**”).

Also, on August 26, 2021, in connection with and immediately prior to the effective time of the Merger, (i) the Company effected a reverse stock split of the common stock, par value \$0.0001 per share (“**Common Stock**”) of the Company at a ratio of 15:1 (the “**Reverse Stock Split**”), (ii) Aadi changed its name from “Aadi Bioscience, Inc.” to “Aadi Subsidiary, Inc.,” and (iii) the Company changed its name from “Aerpio Pharmaceuticals, Inc.” to “Aadi Bioscience, Inc.” Following the completion of the Merger, the business conducted by the Company became primarily the business conducted by Aadi, a clinical-stage, biopharmaceutical company focused on precision therapies for genetically-defined cancers with alteration in the mTOR pathway genes.

Upon the effective time of the Merger (the “**Effective Time**”), the Company issued shares of its Common Stock to Aadi’s stockholders, at an exchange ratio of 0.3172 shares of Common Stock (taking into account the Reverse Stock Split), in exchange for each share of Aadi’s common stock outstanding as of the Effective Time (including the shares of common stock issuable upon the conversion of all shares of preferred stock and convertible promissory notes immediately prior to the Effective Time). The Company also assumed all of the stock options issued and outstanding under the Aadi Amended and Restated 2014 Equity Incentive Plan (the “**Aadi Plan**”) with such stock options henceforth representing the right to purchase a number of shares of Common Stock equal to 0.3172 multiplied by the number of shares of Aadi’s common stock previously represented by such stock options immediately prior to the closing of the Merger, with a proportional adjustment to the exercise price of such options.

Immediately following the Effective Time and after giving effect to the Reverse Stock Split and the PIPE Financing, there were approximately 20.8 million shares of Common Stock outstanding (after giving effect to the Reverse Stock Split). Immediately following the Effective Time and after giving effect to the Reverse Stock Split and the PIPE Financing: (i) the former Aadi stockholders owned approximately 29.2% of the outstanding shares of Common Stock; (ii) the Company’s stockholders immediately prior to the Merger, whose shares of Common Stock remain outstanding after the Merger, owned approximately 15.2% of the outstanding shares of Common Stock; and (iii) the PIPE Investors owned approximately 55.6% of the outstanding shares of Common Stock, in each case as calculated on a fully-diluted basis.

### Unaudited Pro Forma Combined Financial Statements

The following unaudited pro forma combined financial information gives effect to the Merger, the Reverse Stock Split (unless otherwise noted) and the PIPE Financing. Amounts in the historical Aerpio and historical Aadi columns of the unaudited pro forma combined financial statements do not give effect to the Reverse Stock Split. The unaudited pro forma condensed combined balance sheet as of June 30, 2021, and the unaudited pro forma condensed combined statements of operations and comprehensive loss for the six months ended June 30, 2021 and the year ended December 31, 2020, present the combination of the financial information of Aerpio and Aadi after giving effect to the following transactions:

- Merger accounted for as a reverse asset acquisition;
- Series Seed and Series A preferred shares conversion;
- Aadi Convertible Promissory Notes conversion; and
- PIPE and related adjustments

Collectively, these transactions are referred to as the “Transaction Accounting Adjustments,” described in the accompanying notes. The historical financial statements of Aerpio and Aadi have been adjusted to give pro forma effect to reflect the Transaction Accounting Adjustments, as well as other adjustments deemed to be directly related to the Merger, irrespective of whether or not such adjustment is deemed to be recurring. Aerpio and Aadi are collectively referred to herein as the “Companies,” and the Companies, subsequent to the Merger, are referred to herein as the “combined company.”

The unaudited pro forma combined financial information has been prepared in accordance with Rule 8-05 and Article 11 of U.S. Securities and Exchange Commission (“SEC”) Regulation S-X, as amended by SEC Final Rule Release No. 33-10786, “*Amendments to Financial Disclosures About Acquired and Disposed Businesses.*”

The unaudited pro forma combined balance sheet data as of June 30, 2021 gives effect to the Merger as if it took place on June 30, 2021 and combines the historical balance sheets of Aerpio and Aadi as of such date. The unaudited pro forma combined statement of operations and comprehensive loss data for the six months ended June 30, 2021 and the year ended December 31, 2020 gives effect to the Merger as if it took place on January 1, 2020 and combines the historical results of Aerpio and Aadi for the periods then ended. The unaudited pro forma combined balance sheet and statements of operations and comprehensive loss gives effect to the Reverse Stock Split. The unaudited pro forma combined financial information reflects the Reverse Stock Split that was effected immediately prior to the consummation of the Merger.

The Merger has been accounted for using the reverse asset acquisition method under U.S. generally accepted accounting principles (“GAAP”). For accounting purposes, Aadi is considered to be acquiring Aerpio and the Merger is being accounted for as a reverse asset acquisition. Aadi is considered the accounting acquirer even though Aerpio issued the Common Stock in the Merger based on the terms of the Merger Agreement and other factors including: (i) the stockholders of Aadi own a substantial portion of the voting rights of the combined company; (ii) the majority of the board of directors of the combined company is composed of directors designated by Aadi under the terms of the Merger Agreement; (iii) existing members of Aadi’s management became the management of the combined company; (iv) the PIPE Investors consist of individuals and funds, and for purpose of this analysis, while they own approximately 55.6%, no one individual or fund holds more shares than Aadi and are not considered to be a single voting group, and (v) the combined company is named “Aadi Bioscience, Inc.” and headquartered in Pacific Palisades, California, and all ongoing operations of the combined company will be those of Aadi. To determine the accounting for this transaction under GAAP, a company must assess whether an integrated set of assets and activities should be accounted for as an acquisition of a business or an asset acquisition. Upon closing of the Merger, substantially all of the fair value is concentrated in cash, working capital and a long-lived contract intangible asset. As such, the acquisition will be treated as an asset acquisition. The net assets of Aerpio will be recorded at their relative fair value in the consolidated financial statements of Aadi and the reported operating results prior to the Merger will be those of Aadi.

As a result, the historical financial statements of Aadi became the historical financial statements of the combined company upon consummation of the Merger.

The unaudited pro forma combined financial information is provided for illustrative purposes only and does not necessarily reflect what the actual consolidated results of operations would have been had the acquisition occurred on the dates assumed and may not be useful in predicting the future consolidated results of operations or financial position. The Company’s results of operations and actual financial position may differ significantly from the pro forma amounts reflected herein due to a variety of factors. Aerpio’s assets and liabilities will be measured and recognized as an allocation of the transaction price based on their relative fair values as of the transaction date with any excess value associated with contract intangible assets being expensed. Aerpio’s assets and liabilities, at fair value, will be combined with the assets, liabilities and results of operations of Aadi after the consummation of the Merger.

The unaudited pro forma combined financial information, including the notes thereto, should be read in conjunction with the separate historical consolidated financial statements of Aerpio and Aadi and the section included in the definitive proxy statement, as filed with the SEC on July 8, 2021, entitled “*Aadi’s Management’s Discussion and Analysis of Financial Condition and Results of Operations.*” Aerpio’s historical audited consolidated financial statements for the years ended December 31, 2020 and 2019 are included in Aerpio’s Annual Report on Form 10-K for the fiscal year ended December 31, 2020, as filed with the SEC on March 11, 2021. In addition, the historical unaudited condensed consolidated financial statements for the three and six months ended June 30, 2021 and 2020 are included in Aerpio’s Quarterly Report on Form 10-Q, as filed with the SEC on August 11, 2021. Aadi’s historical audited financial statements for the years ended December 31, 2020 and 2019 are included as Exhibit 99.1 in this Current Report on Form 8-K and Aadi’s historical unaudited condensed financial statements for the six months ended June 30, 2021 are included as Exhibit 99.2 in this current Report on Form 8-K.

**UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET**  
As of June 30, 2021

	<u>Aadi</u>	<u>Aerpio</u>	<u>Transaction Accounting Adjustments</u>	<u>Note 5</u>	<u>Pro Forma Combined Total</u>
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 11,674,604	\$ 36,816,128	\$155,000,000	(a)	\$ 179,519,996
			(9,614,950)	(b)	
			(2,845,560)	(c)	
			(3,929,131)	(c)	
			(4,412,428)	(d)	
			(1,498,604)	(e)	
			(2,390,851)	(n)	
			720,788	(r)	
Other current assets	192,586	578,461	—		771,047
Total current assets	11,867,190	37,394,589	131,029,264		180,291,043
Furniture and equipment, net	16,291	—	—		16,291
Operating lease right-of-use assets, net	30,337	9,452	—		39,789
Deposits	—	20,000	—		20,000
Deferred transaction costs	1,656,325	—	(1,021)	(b)	—
			(1,655,304)	(e)	
Intangible assets	—	—	3,905,900	(l)	3,905,900
Total assets	<u>\$ 13,570,143</u>	<u>\$ 37,424,041</u>	<u>133,278,839</u>		<u>184,273,023</u>
<b>Liabilities and stockholders' equity</b>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 9,212,110	\$ 2,198,140	(1,811,334)	(c)	\$ 8,100,312
			(1,498,604)	(e)	
Payable to related party	14,314,473	—	—		14,314,473
Convertible notes payable	9,374,927	—	(10,428,160)	(f)	—
			1,053,233	(g)	
Current portion of operating lease liability	36,854	9,955	—		46,809
Total current liabilities	32,938,364	2,208,095	(12,684,865)		22,461,594
Other liabilities	—	—	—		—
Total liabilities	<u>32,938,364</u>	<u>2,208,095</u>	<u>(12,684,865)</u>		<u>22,461,594</u>
Commitments and contingencies					
Stockholders' equity (deficit):					
Common stock	802	4,747	1,185	(a)	2,084
			220	(f)	
			(922)	(h)	
			794	(i)	
			(4,812)	(k)	
			70	(r)	
Preferred stock	794	—	(794)	(i)	—
Additional paid-in capital	20,236,684	190,611,718	154,998,815	(a)	282,453,542
			(9,615,971)	(b)	
			10,427,940	(f)	
			922	(h)	
			(85,409,747)	(k)	
			482,463	(n)	
			720,718	(r)	
Accumulated deficit	(39,606,501)	(155,400,519)	(2,845,560)	(c)	(120,644,197)
			(1,655,304)	(e)	
			(1,053,233)	(g)	
			155,400,519	(j)	
			(68,197,857)	(l)	
			(2,873,314)	(n)	
			(4,412,428)	(d)	
Total stockholders' equity (deficit)	<u>(19,368,221)</u>	<u>35,215,946</u>	<u>145,963,704</u>		<u>161,811,429</u>
Total liabilities and stockholders' equity	<u>\$ 13,570,143</u>	<u>\$ 37,424,041</u>	<u>\$133,278,839</u>		<u>\$ 184,273,023</u>

*The accompanying notes are an integral part of the unaudited pro forma combined financial statements.*

**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS**  
**For the Six Months Ended June 30, 2021**

	Aadi	Aerpio	Transaction Accounting Adjustments	Note 5	Pro Forma Combined Total
<b>Revenue</b>					
Grant revenue	\$ 119,561	\$ —	\$ —		\$ 119,561
<b>Total revenue</b>	<u>119,561</u>	<u>—</u>	<u>—</u>		<u>119,561</u>
<b>Operating expenses</b>					
Research and development	6,688,756	2,947,639	—		9,636,395
General and administrative	1,393,420	6,188,314	(250,312)	(n)	5,234,565
			(2,096,857)	(c)	
Restructuring expense	—	1,238,270	(1,238,270)	(c)	—
<b>Total operating expenses</b>	<u>8,082,176</u>	<u>10,374,223</u>	<u>(3,585,439)</u>		<u>14,870,960</u>
Loss from operations	(7,962,615)	(10,374,223)	3,585,439		(14,751,399)
Other income	—	1,518,842	—		1,518,842
Change in fair value of convertible promissory notes	1,205,752	—	(1,205,752)	(p)	—
Gain upon extinguishment of debt	196,262	—	—		196,262
Interest (expense) income, net	(449,840)	5,707	450,021	(p)	5,888
<b>Total other (expense) income</b>	<u>952,174</u>	<u>1,524,549</u>	<u>(755,731)</u>		<u>1,720,992</u>
Net and comprehensive loss, before taxes	(7,010,441)	(8,849,674)	2,829,708		(13,030,407)
Income tax expense	(1,550)	—	—		(1,550)
Net and comprehensive loss	(7,011,991)	(8,849,674)	2,829,708		(13,031,957)
Convertible preferred stock cumulative and undeclared dividends	(493,277)	—	493,277	(d)	—
Net loss attributable to common stockholders	<u>\$(7,505,268)</u>	<u>\$ (8,849,674)</u>	<u>\$ 3,322,985</u>		<u>\$ (13,031,957)</u>
Net loss per share attributable to common stockholders, basic and diluted	<u>\$ (0.94)</u>	<u>\$ (0.19)</u>			<u>\$ (0.63)</u>
Weighted average number of common shares used in computing net loss per share attributable to common stockholders, basic and diluted	<u>8,015,000</u>	<u>47,327,701</u>	<u>(34,528,480)</u>	(q)	<u>20,768,842</u>

*The accompanying notes are an integral part of the unaudited pro forma combined financial statements.*

**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS**  
**For the Year Ended December 31, 2020**

	Aadi	Aerpio	Transaction Accounting Adjustments	Note 5	Pro Forma Combined Total
Revenue					
License revenue	\$14,000,000	\$15,000,000	\$ —		\$ 29,000,000
Grant revenue	580,014	—	79,900	(m)	659,914
Total revenue	14,580,014	15,000,000	79,900		29,659,914
Operating expenses					
Research and development	15,008,376	12,594,823	—		27,603,199
General and administrative	2,121,018	8,762,222	5,452,924	(c)	19,459,790
Impairment of intangible asset	—	—	3,123,626	(n)	
			72,698,721	(l)	72,698,721
Total operating expenses	17,129,394	21,357,045	81,275,271		119,761,710
Loss from operations	(2,549,380)	(6,357,045)	(81,195,371)		(90,101,796)
Other income	—	1,813,976	—		1,813,976
Change in fair value of convertible promissory notes	(152,519)	—	152,519	(o)	—
Grant income	—	79,900	(79,900)	(m)	—
Interest (expense) income	(773,773)	147,846	813,255	(o)	187,328
Total other (expense) income	(926,292)	2,041,722	885,874		2,001,304
Net and comprehensive loss, before tax	(3,475,672)	(4,315,323)	(80,309,497)		(88,100,492)
Income tax expense	(1,800)	—	—		(1,800)
Net and comprehensive loss	(3,477,472)	(4,315,323)	(80,309,497)		(88,102,292)
Convertible preferred stock cumulative and undeclared dividends	(986,554)	—	986,554	(d)	—
Net loss attributable to common stockholders	<u>\$ (4,464,026)</u>	<u>\$ (4,315,323)</u>	<u>\$ (79,322,943)</u>		<u>\$ (88,102,292)</u>
Net loss per share attributable to common stockholders, basic and diluted	<u>\$ (0.56)</u>	<u>\$ (0.10)</u>			<u>\$ (4.31)</u>
Weighted average number of common shares used in computing net loss per share attributable to common stockholders, basic and diluted	<u>8,015,000</u>	<u>42,624,148</u>	<u>(30,183,877)</u>	(g)	<u>20,455,271</u>

*The accompanying notes are an integral part of the unaudited pro forma combined financial statements.*

## 1. Description of the Merger and Basis of Presentation

### *Description of Transaction*

On May 16, 2021, Aerpio entered into the Merger Agreement with Aadi. Pursuant to the terms set forth in the Merger Agreement and effective August 26, 2021: (i) Merger Sub merged with and into Aadi, with Aadi surviving as a wholly-owned subsidiary of Aerpio, and (ii) Aerpio was re-named Aadi Bioscience, Inc. In connection with and immediately prior to the Effective time, Aerpio effected a 15:1 reverse stock split of the Aerpio Common Stock.

At the Effective Time, each share of Aadi common stock outstanding immediately prior to the Effective Time, including the shares of common stock issuable upon the conversion of all shares of preferred stock and convertible promissory notes prior to the Effective Time, were converted into the right to receive shares of Aerpio Common Stock based on an exchange ratio of 0.3172 shares of Common Stock, after taking into account the reverse stock split.

Pursuant to the Merger Agreement, Aerpio assumed all of the outstanding and unexercised options to purchase shares of Aadi capital stock under the Aadi Plan, and, in connection with the Merger, such options were converted into options to purchase shares of Aerpio Common Stock based on the exchange ratio. At the closing of the Merger on August 26, 2021, Aerpio issued an aggregate of 5,776,660 shares of Common Stock to holders of Aadi common stock, including for shares of Aadi common stock issuable upon the conversion of all shares of preferred stock and convertible promissory notes immediately prior to the Effective Time.

Concurrently with the closing of the Merger, the PIPE Investors purchased an aggregate of 11,852,862 shares of Common Stock (the “**PIPE Shares**”) for an aggregate purchase price of approximately \$155.0 million pursuant to the Subscription Agreement. The aggregate net proceeds for the issuance and sale of the of the PIPE Shares was \$145.4 million, after deducting certain expenses incurred that were direct and incremental to the issuance of the PIPE Shares.

Immediately following the Effective Time, and after giving effect to the Reverse Stock Split and the PIPE Financing, there were approximately 20.8 million shares of Common Stock outstanding (after giving effect to the Reverse Stock Split). Immediately following the Effective Time and after giving effect to the Reverse Stock Split and the PIPE Financing: (i) the former Aadi stockholders owned approximately 29.2% of the outstanding shares of Common Stock; (ii) the Company’s stockholders immediately prior to the Merger, whose shares of Common Stock remain outstanding after the Merger, owned approximately 15.2% of the outstanding shares of Common Stock; and (iii) the PIPE Investors owned approximately 55.6% of the outstanding shares of Common Stock, in each case as calculated on a fully-diluted basis.

In connection with the Merger, the Company entered into a Contingent Value Rights Agreement (the “**CVR Agreement**”) with a legacy director of Aerpio, as Holder Representative (as defined in the CVR Agreement), and American Stock Transfer & Trust Company, LLC, as Rights Agent (as defined in the CVR Agreement), in accordance with the terms of the Merger Agreement. The CVR Agreement entitles each holder of Aerpio Common Stock as of immediately prior to the Effective Time to receive one contingent value right (“**CVR**”) for each outstanding share of Aerpio Common Stock held by such stockholder as of immediately prior to the Effective Time, each representing the right to receive certain net proceeds, if any, derived from the CVR completed during a CVR Payment Period, which means successive six-month periods, prior to the expiration of the CVR Term (as defined in the CVR Agreement), with any potential payment obligations continuing until the earlier of (a) the 20-year anniversary of the closing of the Merger Agreement and (b) the time at which the license agreement with Gossamer Bio., Inc, the underlying basis for the CVR, has expired or been terminated.

There can be no assurances that any proceeds will result therefrom. The CVRs are not transferable, except in certain limited circumstances as provided in the CVR Agreement, will not be certificated or evidenced by any instrument and will not be registered with the SEC or listed for trading on any exchange.

### ***Basis of Presentation***

The unaudited pro forma combined financial information was prepared in accordance with GAAP and pursuant to the rules and regulations of Rule 8-05 and Article 11 of SEC Regulation S-X, as amended by the final rule, “*Amendments to Financial Disclosures About Acquired and Disposed Business*”, as adopted by the SEC on May 21, 2021 (“**Article 11**”). The unaudited pro forma combined balance sheet as of June 30, 2021 was prepared using the historical condensed consolidated balance sheets of Aerpio and Aadi as of June 30, 2021. The unaudited pro forma combined statement of operations and comprehensive loss for the six months ended June 30, 2021 and the unaudited pro forma combined statement of operations and comprehensive loss for the year ended December 31, 2020 was prepared using the condensed and/or consolidated historical statements of operations and comprehensive loss of Aerpio and Aadi for the six months ended June 30, 2021 and the year ended December 31, 2020 and gives effect to the Merger, the PIPE Financing and the Reverse Stock Split as if each occurred on January 1, 2020.

Based on management’s preliminary review of Aadi’s and Aerpio’s summary of significant accounting policies and preliminary discussions between management teams of Aadi and Aerpio, the nature and amount of any adjustments to the historical financial statements of Aerpio to conform its accounting policies to those of Aadi are not expected to be material.

Adjustments to unaudited pro forma combined financial statements that the pro forma financial information reflects are reflective of the Reverse Stock Split. Management has made significant estimates and assumptions in its determination of the Transaction Accounting Adjustments. As the unaudited pro forma combined financial information has been prepared based on these preliminary estimates, the final amounts recorded may differ materially from the information presented. The unaudited pro forma combined financial information do not reflect the income tax effects of the pro forma adjustments as any change in the deferred tax balance would be offset by an increase in the valuation allowance given that Aadi incurred significant losses during the historical periods presented.

### **2. Preliminary Purchase Price**

Pursuant to the Merger Agreement, at the Effective Time, Aerpio issued 5,776,660 shares of Common Stock to the holders of all of the Aadi capital stock as of immediately prior to the Effective Time in exchange for all of the shares of Aadi capital stock (including the shares of common stock issuable upon the conversion of all shares of preferred stock and convertible promissory notes immediately prior to the Effective Time), after giving effect to the Reverse Stock Split. The accompanying unaudited pro forma combined financial statements reflect an estimated reverse asset acquisition price of approximately \$110.4 million, including estimated transaction costs incurred by Aadi.

The estimated preliminary purchase price is calculated based on the fair value of the Aerpio Common Stock of the combined company that Aerpio stockholders will own as of the closing date of the transaction because, with no active trading market for shares of Aadi, the fair value of the Aerpio Common Stock represents a more

reliable measure of the fair value of consideration transferred in the Merger. The total purchase price and allocated purchase price is summarized as follows:

Number of common shares of the combined company to be owned by Aerpio stockholders (1)	3,208,718
Multiplied by the fair value per share of Aerpio common stock (2)	\$ 33.00
Fair value of Aerpio common stock	105,887,694
Aadi transaction costs (3)	4,500,864
Purchase price	<u>\$110,388,558</u>

- (1) For purposes of this unaudited pro forma combined financial information, 3,208,718 represents the historical 48,131,552 shares of Aerpio common stock outstanding immediately prior to the closing of the Merger on August 26, 2021, adjusted for the Reverse Stock Split and, as a result, an additional adjustment of approximately 52 fractional shares which were paid in cash.
- (2) Based on the last reported sale price of Aerpio Common Stock on the NASDAQ Capital Market on August 26, 2021, the closing date of the Merger, after giving effect to the Reverse Stock Split.
- (3) Aadi transaction costs consist primarily of legal expenses incurred by Aadi. The transaction costs have been reflected as an increase in the purchase price.

For purposes of this pro forma analysis, the purchase price for the Merger was allocated to the net assets acquired on the basis of relative fair values. The following summarizes the allocation of the purchase price to the net tangible and intangible assets acquired.

<b>Preliminary Purchase Price Allocation:</b>	<b>June 30, 2021 Pro forma</b>
Cash and cash equivalents	\$ 33,572,785
Other current assets	578,461
Operating lease right-of-use assets, net	9,452
Intangible asset (1)	76,604,621
Deposits	20,000
Accounts payable and accrued expenses	(386,806)
Current portion of operating lease liability	(9,955)
Net assets acquired	<u>\$110,388,558</u>

- (1) The preliminary fair value estimate of the intangible asset relates to contingent cash flows expected from Aerpio's out-licensing arrangement, of which 90% of any future net cash proceeds will be remitted to the stockholders of record of Aerpio Common Stock (stockholders of record immediately prior to the Effective Time) and paid through CVRs provided to each Aerpio shareholder prior to closing of the Merger. The fair value determination of the intangible asset is subject to change based upon finalization of a Monte Carlo valuation and final purchase price allocation of Aadi transaction costs that will be primarily allocated to the intangible asset fair value determination.

Consequently, the financial statements of Aadi reflect the operations of the acquirer for accounting purposes, together with a deemed issuance of shares, equivalent to the shares held by the former stockholders of the legal acquirer. The accompanying unaudited pro forma combined financial information is derived from the historical financial statements of Aerpio and Aadi, and include adjustments to give pro forma effect to reflect the accounting for the transaction in accordance with GAAP. The historical financial statements of Aadi shall become the historical financial statements of the combined company.



### 3. Shares of Aerpio Common Stock Issued to Aadi's Stockholders upon Closing of the Merger

Pursuant to the Merger Agreement, at the Effective Time, Aerpio issued 5,776,660 shares of Common Stock to the holders of all of the Aadi capital stock as of immediately prior to the Effective Time in exchange for all of the shares of Aadi capital stock (including the shares of common stock issuable upon the conversion of all shares of preferred stock and convertible promissory notes immediately prior to the Effective Time), after giving effect to the Reverse Stock Split, determined as follows:

	<u>Shares</u>
<b>Aadi:</b>	
Aadi common shareholders	8,065,000
Aadi preferred stock	7,945,870
Convertible promissory notes	2,200,570
<b>Total Aadi common equivalent shares pre-close</b>	<b>18,211,440</b>
Exchange ratio	0.3172
<b>Total Aadi merger common shares</b>	<b><u>5,776,660</u></b>

In addition, in accordance with the Merger Agreement, Aerpio assumed all of the issued and outstanding options to acquire Aadi common stock under the Aadi Plan with such stock options henceforth representing the right to purchase a number of shares of Common Stock equal to 0.3172 multiplied by the number of shares of Aadi's common stock previously represented by such stock options immediately prior to the closing of the Merger, with a proportional adjustment to the exercise price of such options.

### 4. Pro Forma Net Loss Per Share

Basic loss per share represents the net loss per share calculated using the historical weighted average shares outstanding, and the issuance of additional shares in connection with the Merger and the PIPE Financing, assuming the shares were outstanding at the beginning of the periods presented. Diluted loss per common share is the same as basic loss per common share for all periods presented because the effects of potentially dilutive items were anti-dilutive. The following common share equivalent securities have been excluded from the calculation of weighted-average common shares outstanding because the effect is anti-dilutive for the periods presented:

<u>Anti-dilutive common share equivalents:</u>	<u>June 30, 2021</u>
Stock Options of Aadi	1,415,000
Stock Options of Aerpio	4,485,326
Warrants to purchase Aerpio common stock	550,000
<b>Total anti-dilutive common share equivalents</b>	<b><u>6,450,326</u></b>

The information below reflects historical per share information for Aerpio and Aadi and unaudited pro forma per share information of the combined company as if Aerpio and Aadi had been combined as of or for the periods presented. The unaudited pro forma combined weighted average common shares is adjusted for the Reverse Stock Split. The net loss per share information reflects the Merger and PIPE Financing as if these transactions had occurred on January 1, 2020.

The unaudited pro forma combined loss per share information does not purport to represent the net loss per share which would have occurred had Aerpio and Aadi been combined during the periods presented, nor earnings (loss) per share for any future data or period.

	As of and for the Six Months Ended June 30, 2021	As of and for the Year Ended December 31, 2020
<b>Aerpio</b>		
Book value per common share—historical	\$ 0.74	\$ 0.91
Basic and diluted net loss per common share— historical	\$ (0.19)	\$ (0.10)
Cash dividends declared per common share— historical	—	—
Weighted average common shares	47,327,701	42,624,148
<b>Aadi</b>		
Book value per common share—historical	\$ (2.42)	\$ (1.55)
Basic and diluted net loss per common share— historical	\$ (0.94)	\$ (0.56)
Cash dividends declared per common share— historical	—	—
Weighted average common shares	8,015,000	8,015,000
<b>Unaudited Pro Forma Combined</b>		
Book value per common share—pro forma	\$ 7.77	\$ —
Basic and diluted net loss per common share—pro forma	\$ (0.63)	\$ (4.31)
Cash dividends declared per common share—pro forma	—	—
Weighted average common shares	20,768,842	20,455,271

## 5. Pro Forma Adjustments

The unaudited pro forma combined financial information reflects the Reverse Stock Split that was effected immediately prior to consummation of the Merger. Unaudited pro forma combined net loss per common share would increase to \$0.63 and \$4.31 for a 15:1 Reverse Stock Split for the six months ended June 30, 2021 and year ended December 31, 2020, respectively.

The pro forma adjustments, based on information known at the time of Closing, are as follows:

(a) The unaudited pro forma combined financial statements include pro forma adjustment associated with the PIPE Financing as follows:

- (i) To record the sale and issuance of 11,852,862 shares of Aerpio Common Stock, after giving effect to the Reverse Stock Split, resulting in gross proceeds of \$155.0 million; and
- (ii) To reflect an increase in the weighted-average shares outstanding for the period after giving effect to the issuance of 11,852,862 shares of Aerpio Common Stock (included in (q) below).

(b) Represents costs incurred, related to the issuance of equity in conjunction with the PIPE Financing. The equity issuance costs of \$9.6 million are netted against the proceeds within additional paid-in capital.

(c) Represents cash paid related to transaction costs incurred during the consummation of the Merger. Of the aggregate \$6.8 million of incremental transaction costs recorded on the balance sheet as of June 30, 2021, approximately \$2.9 million relate to Aadi and the remaining \$3.9 million of transaction costs relate to Aerpio. The transaction costs of Aadi and Aerpio primarily consist of legal, auditor and other professional fees directly incremental to the Merger. The transaction costs of Aadi have been reflected as an adjustment to accumulated deficit.

The Aerpio transaction costs have been reflected as a decrease of \$1.8 million to accounts payable and accrued expenses for the expense recognized in the six months ended June 30, 2021 but not paid. The pro forma combined balance as of June 30, 2021 reflects a decrease to Aerpio's cash balance of \$3.9 million for transaction costs paid prior to the Merger.

For the year ended December 31, 2020, the aggregate amount of Aerpio transaction costs of \$5.5 million is reflected as general and administrative expense in the pro forma combined statement of operations.

For the six months ended June 30, 2021, included within restructuring expense and general and administrative expenses on the statement of operations and comprehensive loss are expenses of \$1.2 million and \$2.1 million, respectively, of expenses related to the Merger.

(d) Represents accrued dividends on Aadi's preferred stock of approximately \$4.4 million paid at closing, and elimination of the dividend impact on the December 31, 2020 and June 30, 2021 pro forma net and comprehensive loss attributable to common shareholders.

(e) Represents an adjustment of Aadi's deferred transaction costs that were incurred during the six months ended June 30, 2021. These will be recognized as a part of the consideration paid for the asset acquisition and subsequently a component of the impairment on the intangible asset, presented as an adjustment to accumulated deficit at the closing of the Merger. The Aadi deferred transaction costs have been reflected as a decrease of \$1.5 million to accounts payable and accrued expenses as of June 30, 2021, and a decrease to cash of \$1.5 million prior to the closing of the Merger.

(f) Represents conversion of Aadi's convertible promissory notes into 2.1 million shares of Aadi common stock utilizing a fixed conversion price of \$4.80, prior to giving effect to the Merger.

(g) Represents the cumulative fair value adjustment on the convertible promissory notes previously recognized by Aadi. Per the terms of the Merger, only the convertible promissory notes principal and accrued interest will be converted to Aerpio Common Stock at closing of the Merger.

(h) Represents change in common stock par value due to exchange of Aerpio Common Stock for Aadi's common stock upon closing of the Merger. The Aadi and Aerpio common shareholders include shares issued subsequent to June 30, 2021 through options exercised prior to the Merger date.

	<u>Common Shares</u>
<b>Aadi:</b>	
Aadi common shareholders	8,065,000
Aadi preferred stock	7,945,870
Convertible promissory notes	2,200,570
<b>Total Aadi common shares pre-close</b>	<b>18,211,440</b>
Exchange ratio	0.3172
<b>Total Aadi common shares subsequent to the merger</b>	<b>5,776,660</b>
Aerpio common shareholders (after giving effect to the Reverse Stock Split)	3,208,718
PIPE investors	11,852,862
<b>Total common shares</b>	<b>20,838,240</b>
Par value per common share	<u>\$ 0.0001</u>
Par value of common shares	<u>\$ 2,084</u>

(i) Represents conversion of Aadi's preferred stock to common stock on a 1 for 1 basis.

(j) Represents the elimination of Aerpio's accumulated deficit balance.

(k) Represents the elimination of Aerpio's historical common stock and additional paid-in-capital, net of the fair value of the common stock retained by Aerpio shareholders.

Elimination of Aerpio's historical equity	\$(191,302,253)
Fair value of the common stock retained by Aerpio shareholders	<u>105,887,694</u>
	<u>\$ (85,414,559)</u>

(l) Represents the adjustment to record the excess of the preliminary purchase price over the fair value of the acquired contract intangible asset. At closing of the Merger, the Company hired a third-party valuation firm to value the CVR which contains a license agreement with Gossamer Bio., Inc. The Company is entitled to 10% of any amount paid by Gossamer Bio., Inc under the terms of the CVR. The related contract intangible asset was written down to \$3.9 million with the remaining amount being expensed and recorded within accumulated deficit. This pro forma adjustment is reflected in the unaudited pro forma combined statement of operations and the contract intangible asset is recognized as a non-current asset on the pro forma balance sheet.

(m) Represents the reclassification of reimbursable grant proceeds previously recorded by Aerpio in grant income to grant revenue to conform with Aadi's accounting policy for presentation of grant reimbursements within the statement of operations and comprehensive loss.

(n) Represents one-time post-combination expense for severance related benefits and accelerated stock-based compensation expense of \$3.1 million related to dual-trigger termination and change-in-control provisions within Aerpio's executive employment contracts. This amount is reflected in the pro forma combined statement of operations for the twelve months ended December 31, 2020. Included within this amount is \$0.2 million of stock-based compensation expense previously recognized in the Aerpio consolidated statement of operations during the six months ended June 30, 2021. The net impact was recognized as an increase to additional paid-in capital and a reduction to accumulated deficit on the June 30, 2021 pro forma combined balance sheet.

(o) Represents the elimination of the Aadi fair value adjustment of \$0.2 million to the convertible promissory notes and related interest previously recorded of \$0.8 million, as the convertible promissory notes were converted in connection with the Merger.

(p) Represents the elimination of the Aadi fair value adjustment of \$1.2 million to the convertible promissory notes and related interest previously recorded of \$0.5 million, as the convertible promissory notes were converted in connection with the Merger.

(q) Calculation of pro forma adjustment of weighted-average shares outstanding—basic and diluted:

	<u>June 30, 2021</u>	<u>December 31, 2020</u>
Historical Aadi weighted-average shares of common stock outstanding	8,015,000	8,015,000
Impact of Aadi's convertible preferred stock assuming conversion as of January 1, 2020	7,945,870	7,945,870
Impact of Aadi's convertible promissory notes outstanding as of January 1, 2020	2,200,570	2,200,570
Subtotal	18,161,440	18,161,440
Application of exchange ratio to historical Aadi weighted-average shares outstanding	0.3172	0.3172
Adjusted Aadi weighted-average shares outstanding (after giving effect to the Reverse Stock Split Ratio and the Exchange Ratio)	5,760,800	5,760,800
Historical Aerpio weighted-average shares of common stock outstanding (after giving effect to Reverse Split)	3,155,180	2,841,609
Impact of Aerpio's common stock purchase agreement (concurrent financing)	11,852,862	11,852,862
<b>Total weighted average shares outstanding</b>	<u>20,768,842</u>	<u>20,455,271</u>
Less: Historical Aadi weighted-average shares of common stock outstanding	8,015,000	8,015,000
Less: Historical Aerpio weighted-average shares of common stock outstanding	3,155,180	2,841,609
<b>Total weighted average shares outstanding - pro forma adjustment</b>	<u>9,598,662</u>	<u>9,598,662</u>

(r) Represents cash received as a result of options exercised subsequent to June 30, 2021 for Aadi and Aerpio.