
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **June 30, 2022**

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: **001-37990**

LEAP THERAPEUTICS, INC.

(Exact name of registrant as specified in its charter)

Delaware
State or other jurisdiction of
incorporation or organization

27-4412575
(I.R.S. Employer
Identification No.)

47 Thorndike St, Suite B1-1, Cambridge, MA
Address of Principal Executive Offices

02141
Zip Code

(617) 714-0360

Registrant's Telephone Number, Including Area Code

N/A

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

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

Title of each class:	Trading Symbol(s)	Name of each exchange on which registered:
Common Stock, par value \$0.001 per share	LPTX	Nasdaq Global Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 10, 2022 there were 99,021,376 shares of the registrant's common stock, par value \$0.001 per share, outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This Quarterly Report on Form 10-Q (this “Quarterly Report”) contains forward-looking statements which reflect our current views with respect to, among other things, our operations and financial performance. In some cases, you can identify forward-looking statements by terminology such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “predict,” “project,” “will” or the negative of such terms or any other comparable terminology. Forward-looking statements appear in a number of places throughout this Quarterly Report and include statements regarding our intentions, beliefs, projections, outlook, analyses or current expectations concerning, among other things, that the initiation, conduct, and completion of clinical trials, laboratory operations, manufacturing campaigns, and other studies may be delayed, adversely affected, or impacted by COVID-19 related issues; our ability and plan to develop and commercialize DKN-01; status, timing and results of preclinical studies and clinical trials; the potential benefits of DKN-01; the timing of our development programs and seeking regulatory approval of DKN-01; our ability to obtain and maintain regulatory approval; our estimates of expenses and future revenues and profitability; our estimates regarding our capital requirements and our needs for additional financing; our estimates of the size of the potential markets for DKN-01; the benefits to be derived from our agreement with BeiGene, Ltd. (“BeiGene”) or any other collaborations, license agreements, or other acquisition efforts, including those relating to the development and commercialization of DKN-01; sources of revenues and anticipated revenues, including contributions from our agreement with BeiGene or any other collaborations or license agreements for the development and commercialization of products; our ability to create an effective sales and marketing infrastructure if we elect to market and sell DKN-01 directly; the rate and degree of market acceptance of DKN-01; the timing and amount of reimbursement for DKN-01; the success of other competing therapies that may become available; the manufacturing capacity for DKN-01; our intellectual property position; our ability to maintain and protect our intellectual property rights; our results of operations, financial condition, liquidity, prospects, growth and strategies; the industry in which we operate; and the trends that may affect the industry or us.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events, competitive dynamics and industry change, and depend on economic circumstances that may or may not occur in the future or may occur on longer or shorter timelines than anticipated. Although we believe that we have a reasonable basis for each forward-looking statement contained in this Quarterly Report, we caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from the forward-looking statements contained in this Quarterly Report. In addition, even if our results of operations, financial condition and liquidity, and events in the industry in which we operate are consistent with the forward-looking statements contained in this Quarterly Report, they may not be predictive of results or developments in future periods. You should carefully read this Quarterly Report and any documents that we have filed as exhibits to this Quarterly Report completely.

You should refer to Part II, Item 1A, Risk Factors in this Quarterly Report and Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2021 as filed with the Securities and Exchange Commission on March 11, 2022 for a discussion of important factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements. As a result of these factors, we cannot assure you that the forward-looking statements in this Quarterly Report will prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard any such statement as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified timeframe, or at all. Any forward-looking statement that we make in this Quarterly Report speaks only as of the date of such statement, and, except to the extent required by applicable law, we undertake no obligation to update such statements to reflect events or circumstances after the date of this Quarterly Report or to reflect the occurrence of unanticipated events. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Quarterly Report. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

DKN-01 is an investigational drug undergoing clinical development and has not been approved by the U.S. Food and Drug Administration (the “FDA”), nor has it been submitted to the FDA for approval. DKN-01 has not been, and may never be, approved by any regulatory agency or marketed anywhere in the world. Statements contained in this Quarterly Report should not be deemed to be promotional.

INTRODUCTORY COMMENT

References to Leap

Throughout this Quarterly Report on Form 10-Q, the “Company,” “Leap,” “Leap Therapeutics,” “we,” “us,” and “our,” except where the context requires otherwise, refer to Leap Therapeutics, Inc. and its consolidated subsidiaries, and “our board of directors” refers to the board of directors of Leap Therapeutics, Inc.

Part I – FINANCIAL INFORMATION**Item 1. Financial Statements****LEAP THERAPEUTICS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share and per share amounts)**

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
	<u>(Unaudited)</u>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 90,883	\$ 114,916
Research and development incentive receivable	1,130	1,189
Prepaid expenses and other current assets	428	769
Total current assets	92,441	116,874
Property and equipment, net	28	36
Right-of-use assets, net	863	459
Research and development incentive receivable, net of current portion	610	—
Deferred tax assets	150	159
Other long term assets	60	90
Deposits	51	293
Total assets	<u>\$ 94,203</u>	<u>\$ 117,911</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 7,553	\$ 4,189
Accrued expenses	2,463	5,366
Lease liability - current portion	395	432
Total current liabilities	10,411	9,987
Non current liabilities:		
Lease liability, net of current portion	474	37
Total liabilities	<u>10,885</u>	<u>10,024</u>
Stockholders' equity:		
Common stock, \$0.001 par value; 240,000,000 shares authorized; 88,318,454 shares issued and outstanding	88	88
Additional paid-in capital	374,108	371,638
Accumulated other comprehensive income (loss)	94	(267)
Accumulated deficit	(290,972)	(263,572)
Total stockholders' equity	83,318	107,887
Total liabilities and stockholders' equity	<u>\$ 94,203</u>	<u>\$ 117,911</u>

See notes to condensed consolidated financial statements.

LEAP THERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
License revenue	\$ —	\$ 375	\$ —	\$ 750
Operating expenses:				
Research and development	14,045	7,206	21,829	14,013
General and administrative	2,855	2,795	5,703	5,535
Total operating expenses	<u>16,900</u>	<u>10,001</u>	<u>27,532</u>	<u>19,548</u>
Loss from operations	(16,900)	(9,626)	(27,532)	(18,798)
Interest income	39	1	44	3
Interest expense	(17)	(16)	(38)	(30)
Australian research and development incentives	587	244	624	315
Foreign currency loss	(733)	(129)	(498)	(150)
Net loss attributable to common stockholders	<u>\$ (17,024)</u>	<u>\$ (9,526)</u>	<u>\$ (27,400)</u>	<u>\$ (18,660)</u>
Net loss per share				
Basic & diluted	<u>\$ (0.15)</u>	<u>\$ (0.12)</u>	<u>\$ (0.24)</u>	<u>\$ (0.24)</u>
Weighted average common shares outstanding				
Basic & diluted	<u>113,248,937</u>	<u>76,389,525</u>	<u>113,248,937</u>	<u>76,384,077</u>

See notes to condensed consolidated financial statements.

LEAP THERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Net loss	\$ (17,024)	\$ (9,526)	\$ (27,400)	\$ (18,660)
Other comprehensive income:				
Foreign currency translation adjustments	519	115	361	130
Comprehensive loss	<u>\$ (16,505)</u>	<u>\$ (9,411)</u>	<u>\$ (27,039)</u>	<u>\$ (18,530)</u>

See notes to condensed consolidated financial statements.

LEAP THERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Three and Six Months Ended June 30, 2021

(In thousands, except share amounts)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balances at March 31, 2021	59,669,722	\$ 60	\$ 271,002	\$ (564)	\$ (232,119)	\$ 38,379
Issuance of common stock upon exercise of stock options	2,292	—	4	—	—	4
Foreign currency translation adjustment	—	—	—	115	—	115
Stock-based compensation	—	—	912	—	—	912
Net loss	—	—	—	—	(9,526)	(9,526)
Balances at June 30, 2021	<u>59,672,014</u>	<u>\$ 60</u>	<u>\$ 271,918</u>	<u>\$ (449)</u>	<u>\$ (241,645)</u>	<u>\$ 29,884</u>

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balances at December 31, 2020	59,657,742	\$ 60	\$ 270,155	\$ (579)	\$ (222,985)	\$ 46,651
Issuance of common stock upon exercise of warrants	11,980	—	14	—	—	14
Issuance of common stock upon exercise of stock options	2,292	—	4	—	—	4
Foreign currency translation adjustment	—	—	—	130	—	130
Stock-based compensation	—	—	1,745	—	—	1,745
Net loss	—	—	—	—	(18,660)	(18,660)
Balances at June 30, 2021	<u>59,672,014</u>	<u>\$ 60</u>	<u>\$ 271,918</u>	<u>\$ (449)</u>	<u>\$ (241,645)</u>	<u>\$ 29,884</u>

See notes to condensed consolidated financial statements.

LEAP THERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Three and Six Months Ended June 30, 2022

(In thousands, except share amounts)

(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balances at March 31, 2022	88,318,454	\$ 88	\$ 372,842	\$ (425)	\$ (273,948)	\$ 98,557
Foreign currency translation adjustment	—	—	—	519	—	519
Stock-based compensation	—	—	1,266	—	—	1,266
Net loss	—	—	—	—	(17,024)	(17,024)
Balances at June 30, 2022	<u>88,318,454</u>	<u>\$ 88</u>	<u>\$ 374,108</u>	<u>\$ 94</u>	<u>\$ (290,972)</u>	<u>\$ 83,318</u>
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balances at December 31, 2021	88,318,454	\$ 88	\$ 371,638	\$ (267)	\$ (263,572)	\$ 107,887
Foreign currency translation adjustment	—	—	—	361	—	361
Stock-based compensation	—	—	2,470	—	—	2,470
Net loss	—	—	—	—	(27,400)	(27,400)
Balances at June 30, 2022	<u>88,318,454</u>	<u>\$ 88</u>	<u>\$ 374,108</u>	<u>\$ 94</u>	<u>\$ (290,972)</u>	<u>\$ 83,318</u>

See notes to condensed consolidated financial statements.

LEAP THERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2022	2021
Cash flows from operating activities:		
Net loss	\$ (27,400)	\$ (18,660)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	8	14
Amortization of contract asset	—	68
Change in right-of-use asset	206	191
Stock-based compensation expense	2,470	1,745
Foreign currency loss	498	150
Change in fair value of restricted stock liability	—	(204)
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	336	(134)
Research and development incentive receivable	(638)	(258)
Deferred offering costs	—	209
Accounts payable and accrued expenses	679	1,488
Deferred revenue	—	(750)
Lease liability	(208)	(198)
Other assets	272	—
Net cash used in operating activities	<u>(23,777)</u>	<u>(16,339)</u>
Cash flows from financing activities:		
Proceeds from the exercise of common stock warrants	—	14
Proceeds from the exercise of stock options	—	4
Payment of deferred costs	(210)	—
Net cash provided by (used in) financing activities	<u>(210)</u>	<u>18</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(46)</u>	<u>(16)</u>
Net decrease in cash and cash equivalents	<u>(24,033)</u>	<u>(16,337)</u>
Cash and cash equivalents at beginning of period	114,916	52,071
Cash and cash equivalents at end of period	<u>\$ 90,883</u>	<u>\$ 35,734</u>
Supplemental disclosure of non-cash investing and financing activities:		
Remeasurement of right-of-use asset and lease liability	\$ 609	\$ —

See notes to condensed consolidated financial statements.

Leap Therapeutics, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share amounts)

(Unaudited)

1. Nature of Business, Basis of Presentation and Liquidity

Nature of Business

Leap Therapeutics, Inc. was incorporated in the state of Delaware on January 3, 2011. During 2015, HealthCare Pharmaceuticals Pty Ltd. (“HCP Australia”) was formed and is a wholly owned subsidiary of the Company. On December 15, 2021, Leap Securities Corp. was formed and is a wholly owned subsidiary of the Company.

The Company is a biopharmaceutical company acquiring and developing novel therapeutics at the leading edge of cancer biology. The Company’s approach is designed to target compelling tumor-promoting and immuno-oncology pathways to generate durable clinical benefit and enhanced outcomes for patients. The Company’s programs are monoclonal antibodies that target key cellular pathways that enable cancer to grow and spread and specific mechanisms that activate the body’s immune system to identify and attack cancer.

Basis of Presentation

The accompanying condensed consolidated financial statements as of June 30, 2022 and for the three and six months ended June 30, 2022 and 2021 have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and the notes thereto for the year ended December 31, 2021 included in the Company’s Annual Report on Form 10-K filed with the SEC on March 11, 2022.

The condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments which are necessary for the fair presentation of the Company’s financial position as of June 30, 2022, statements of operations and statements of comprehensive loss for the three and six months ended June 30, 2022 and 2021 and statements of cash flows for the six months ended June 30, 2022 and 2021. Such adjustments are of a normal and recurring nature. The results of operations for the three and six months ended June 30, 2022 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2022.

Liquidity

Since inception, the Company has been engaged in organizational activities, including raising capital, and research and development activities. The Company does not yet have a product that has been approved by the Food and Drug Administration (the “FDA”), has not generated any product sales 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, its research and commercialization efforts, regulatory approval, and, ultimately, the market acceptance of the Company’s products.

In accordance with Accounting Standards Codification (“ASC”) 205-40, Going Concern, the Company has evaluated whether there are conditions and 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 condensed consolidated financial statements are issued. As of June 30, 2022, the Company had cash and cash equivalents of \$90,883. Additionally, the Company had an accumulated deficit of \$290,972 at June 30, 2022, and during the six months ended June 30, 2022, the Company incurred a net loss of \$27,400. The Company expects to continue to generate operating losses for the foreseeable future. The Company believes that its cash and cash equivalents of \$90,883 as of June 30, 2022 will be sufficient to fund its operating expenses for at least the next 12 months from issuance of these financial statements.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions are eliminated upon consolidation.

Use of Estimates

The presentation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Research and development incentive income and receivable

The Company recognizes other income from Australian research and development incentives when there is reasonable assurance that the income will be received, the relevant expenditure has been incurred, and the consideration can be reliably measured. The research and development incentive is one of the key elements of the Australian Government's support for Australia's innovation system and is supported by legislative law primarily in the form of the Australian Income Tax Assessment Act 1997, as long as eligibility criteria are met.

Management has assessed the Company's research and development activities and expenditures to determine which activities and expenditures are likely to be eligible under the research and development incentive regime described above. At each period end, management estimates the refundable tax offset available to the Company based on available information at the time.

Under the program, a percentage of eligible research and development expenses incurred by the Company through its subsidiary in Australia are reimbursed. The percentage was 43.5% for the year ended December 31, 2021 and for the six months ended June 30, 2022.

The research and development incentive receivable represents an amount due in connection with the above program. The Company recorded a research and development incentive receivable of \$1,740 and \$1,189 as of June 30, 2022 and December 31, 2021, respectively, in the condensed consolidated balance sheets and other income from Australian research and development incentives of \$587 and \$244, respectively, for the three months ended June 30, 2022 and 2021, and \$624 and \$315 for the six months ended June 30, 2022 and 2021, respectively, in the condensed consolidated statements of operations related to refundable research and development incentive program payments in Australia.

The following table shows the change in the research and development incentive receivable from January 1, 2021 to June 30, 2022 (in thousands):

Balance at January 1, 2021	73
Australian research and development incentive income, net	1,226
Cash received for 2020 eligible expenses	(111)
Foreign currency translation	1
Balance at December 31, 2021	\$ 1,189
Australian research and development incentive income, net	624
Foreign currency translation	(73)
Balance at June 30, 2022	<u>\$ 1,740</u>

Foreign Currency Translation

The financial statements of the Company's Australian subsidiary are measured using the local currency as the functional currency. Assets and liabilities of this subsidiary are translated into U.S. dollars at an exchange rate as of the consolidated balance sheet date. Equity is translated at historical exchange rates. Revenues and expenses are translated into U.S. dollars at average rates of exchange in effect during the period. The resulting cumulative translation adjustments have been recorded as a separate component of stockholders' equity. Realized and unrealized foreign currency transaction gains and losses are included in the results of operations.

Deposits

As of June 30, 2022 and December 31, 2021, there were \$51 and \$293, respectively, of deposits made by the Company with certain service providers that are to be applied to future payments due under the service agreements or returned to the Company if not utilized which were recorded in the condensed consolidated balance sheets.

Warrants

The Company will recognize on a prospective basis the value of the effect of the down round feature in the warrants to purchase shares of common stock that were issued in a private placement in November 2017 (the "2017 Warrants") when it is triggered (i.e., when the exercise price is adjusted downward). This value is measured as the difference between (1) the financial instrument's fair value (without the down round feature) using the pre-trigger exercise price and (2) the financial instrument's fair value (with the down round feature) using the reduced exercise price. The value of the effect of the down round feature will be treated as a dividend and a reduction to income available to common stockholders in the basic EPS calculation.

Fair Value of Financial Instruments

Certain assets and liabilities are carried at fair value under GAAP. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. Financial assets and liabilities carried at fair value are to be classified and disclosed in one of the following three levels of the fair value hierarchy, of which the first two are considered observable and the last is considered unobservable:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Observable inputs (other than Level 1 quoted prices), such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to determining the fair value of the assets or liabilities, including pricing models, discounted cash flow methodologies and similar techniques.

During the periods presented, the Company did not change the manner in which it values assets and liabilities that are measured at fair value using Level 3 inputs. There were no transfers within the hierarchy during the six months ended June 30, 2022 or the year ended December 31, 2021.

A summary of the assets and liabilities carried at fair value in accordance with the hierarchy defined above is as follows (in thousands):

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>June 30, 2022</u>				
Assets:				
Cash equivalents	\$ 88,747	\$ 88,747	\$ —	\$ —
Total assets	<u>\$ 88,747</u>	<u>\$ 88,747</u>	<u>\$ —</u>	<u>\$ —</u>
<u>December 31, 2021</u>				
Assets:				
Cash equivalents	\$ 112,726	\$ 112,726	\$ —	\$ —
Total assets	<u>\$ 112,726</u>	<u>\$ 112,726</u>	<u>\$ —</u>	<u>\$ —</u>

Cash equivalents of \$88,747 and \$112,726 as of June 30, 2022 and December 31, 2021, respectively, consisted of overnight investments and money market funds and are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in active markets.

The carrying values of the research and development incentive receivable, accounts payable and accrued liabilities approximate their fair value due to the short-term nature of these assets and liabilities.

Leases

The Company accounts for leases in accordance with Accounting Standards Codification, or ASC, Topic 842, *Leases*.

At the inception of an arrangement, the Company determines whether the arrangement is or contains a lease based on the unique facts and circumstances present. Most leases with a term greater than one year are recognized on the balance sheet as right-of-use assets, lease liabilities and, if applicable, long-term lease liabilities. The Company has elected not to recognize on the balance sheet leases with terms of one year or less. Operating lease liabilities and their corresponding right-of-use assets are recorded based on the present value of lease payments over the expected remaining lease term. The Company has determined that the rate implicit in the lease is not determinable and the Company does not have borrowings with similar terms and collateral. Therefore, the Company considered a variety of factors, including observable debt yields from comparable companies and the volatility in the debt market for securities with similar terms, in determining that 8% was reasonable to use as the incremental borrowing rate for purposes of the calculation of lease liabilities.

In accordance with the guidance in Topic 842, components of a lease should be split into three categories: lease components (e.g. land, building, etc.), non-lease components (e.g. common area maintenance, maintenance, consumables, etc.), and non-components (e.g. property taxes, insurance, etc.). Then the fixed and in-substance fixed contract consideration (including any related to non-components) must be allocated based on fair values to the lease components and non-lease components.

Although separation of lease and non-lease components is required, certain practical expedients are available. Entities may elect the practical expedient to not separate lease and non-lease components. Rather, they would account for each lease component and the related non-lease component together as a single component. The Company has elected to account for the lease and non-lease components of each of its operating leases as a single lease component and allocate all of the contract consideration to the lease component only. The lease component results in an operating right-of-use asset being recorded on the consolidated balance sheets and amortized such that lease expense is recorded on a straight line basis over the term of the lease.

Revenue Recognition

The Company records revenue in accordance with ASC Topic 606, *Revenue From Contracts with Customers*. This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaboration arrangements and financial instruments. Under Topic 606, an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the entity performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company only applies the five step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Company assesses the goods or services promised within each contract and determines those that are performance obligations, and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

License revenue. The Company's performance obligations under its license agreements may include providing intellectual property licenses, performing technology transfer, performing research and development consulting services and notifying the customer of any enhancements to licensed technology or new technology that it discovers, among others. The Company determined that its performance obligations under its license agreements as evaluated at contract inception were not distinct and represented a single performance obligation. Upfront payments are amortized to revenue on a straight-line basis over the performance period. Upfront payment contract liabilities resulting from the Company's license agreements do not represent a financing component as the payment is not financing the transfer of goods or services, and the technology underlying the licenses granted reflects research and development expenses already incurred by the Company. Generally, all amounts received or due other than sales-based milestones and royalties are classified as license revenues. Sales-based milestones and royalties under the Company's license agreements will be recognized as royalty revenue in the period the related sale occurred. The Company generally invoices its licensees upon the completion of the effort or achievement of a milestone, based on the terms of each agreement. Deferred revenue arises from amounts received in advance of the culmination of the earnings process and is recognized as revenue in future periods as performance obligations are satisfied. Deferred revenue expected to be recognized within the next twelve months is classified as a current liability.

Research and Development Services. The promises under the Company's license agreements may include research and development services to be performed by the Company on behalf of the customer. Payments or reimbursements resulting from the Company's research and development efforts are recognized as the services are performed and presented on a gross basis because the Company is the principal for such efforts.

Customer Options. If an arrangement is determined to contain customer options that allow the customer to acquire additional goods or services, the goods and services underlying the customer options that are not determined to be material rights are not considered to be performance obligations at the outset of the arrangement, as they are contingent upon option exercise. The Company evaluates the customer options for material rights, or options to acquire additional goods or services for free or at a discount. If the customer options are determined to represent a material right, the material right is recognized as a separate performance obligation at the outset of the arrangement. The Company allocates the transaction price to material rights based on the relative standalone selling price, which is determined based on the identified discount and the probability that the customer will exercise the option. Amounts allocated to a material right are not recognized as revenue until (1) the option is exercised and the additional goods or services are transferred or (2) the option expires.

Milestone Payments. At the inception of each arrangement that includes research or development milestone payments, the Company evaluates whether the milestones are considered probable of being achieved and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the control of the Company or the licensee, such as regulatory approvals, are not considered probable of being achieved until those approvals are received. The Company evaluates factors such as the scientific, clinical, regulatory, commercial, and other risks that must be overcome to achieve the particular milestone in making this assessment. There is considerable judgment involved in determining whether it is probable that a significant revenue reversal would not occur. At the end of each subsequent reporting period, the Company reevaluates the probability of achievement of all milestones subject to constraint and, if necessary, adjusts its estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenues and earnings in the period of adjustment.

Royalties. For arrangements that include sales-based royalties, including milestone payments upon first commercial sales and milestone payments based on a level of sales, which are the result of a customer-vendor relationship and for which the license is deemed to be the predominant item to which the royalties relate, the Company recognizes revenue at the later of (i) when the related sales occur, or (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied or partially satisfied. To date, the Company has not recognized any royalty revenue resulting from any of its licensing arrangements.

Collaborative Arrangements

The Company analyzes its collaboration arrangements to assess whether such arrangements involve joint operating activities performed by parties that are both active participants in the activities and exposed to significant risks and rewards dependent on the commercial success of such activities and therefore within the scope of ASC Topic 808, Collaborative Arrangements (ASC 808). This assessment is performed throughout the life of the arrangement based on changes in the responsibilities of all parties in the arrangement. For collaboration arrangements within the scope of ASC 808 that contain multiple elements, the Company first determines which elements of the collaboration are deemed to be within the scope of ASC 808 and which elements of the collaboration are more reflective of a vendor-customer relationship and therefore within the scope of ASC 606. For elements of collaboration arrangements that are accounted for pursuant to ASC 808, an appropriate recognition method is determined and applied consistently, generally by analogy to ASC 606. Amounts that are owed to collaboration partners are recognized as an offset to collaboration revenues as such amounts are incurred by the collaboration partner. Where amounts owed to a collaboration partner exceed the Company's collaboration revenues in each quarterly period, such amounts are classified as research and development expense. Reimbursements from and payments to the customer that are the result of a collaborative relationship with a partner, instead of a customer relationship, such as co-development activities, are recorded as a reduction to research and development expense. For those elements of the arrangement that are accounted for pursuant to ASC 606, the Company applies the five-step model described above under ASC 606.

See Note 3 for a complete discussion of the revenue recognition for the Company's license agreement.

Net Loss per Share

Basic net loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed using the weighted average number of common shares outstanding during the period and, if dilutive, the weighted average number of potential shares of common stock, including the assumed exercise of stock options and warrants.

Subsequent Events

The Company considers events or transactions that occur after the balance sheet date but prior to the issuance of the financial statements to provide additional evidence for certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated as required.

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements please refer to Note 2, "Summary of Significant Accounting Policies", in the Company's previously filed Annual Report on Form 10-K for the year ended December 31, 2021.

3. BeiGene Exclusive Option and License Agreement

Terms of Agreement

On January 3, 2020, the Company entered into an exclusive option and license agreement (the "BeiGene Agreement") with BeiGene, Ltd. ("BeiGene") for the clinical development and commercialization of DKN-01, in Asia (excluding Japan), Australia, and New Zealand. The Company retains exclusive rights for the development, manufacturing, and commercialization of DKN-01 for the rest of the world.

Pursuant to the BeiGene Agreement, the Company received an upfront cash payment of \$3,000 from BeiGene in exchange for granting BeiGene an option to an exclusive license to develop and commercialize DKN-01 in Asia (excluding Japan), Australia, and New Zealand. The Company is eligible to receive up to \$132,000 in future option exercise and milestone payments, based upon the achievement of certain development, regulatory, and sales milestones, as well as tiered royalties on any product sales of DKN-01 in the licensed territory.

The Company is responsible for conducting development activities prior to the exercise of the option. After the option is exercised, BeiGene is solely responsible for the development and commercialization of DKN-01 in the territory. The BeiGene Agreement continues in effect until the earlier of: (i) 120 days after the end of the option period, if BeiGene has not exercised the option by such date; and (ii) on a country-by country and Licensed Product-by-Licensed Product (as defined in the BeiGene Agreement) basis, the expiration of the Royalty Term (as defined in the BeiGene Agreement) applicable to such licensed product in such country. At any time, BeiGene may terminate the BeiGene Agreement by providing at least 60 days written notice of termination to the Company. Upon termination of the License Agreement, all rights granted by the Company to BeiGene terminate.

Revenue Recognition

The Company evaluated the BeiGene Agreement to determine whether it is a collaborative arrangement for purposes of ASC 808. The Company concluded that because both parties were active participants and were exposed to the risks and rewards of the BeiGene Agreement, that such activities are under the scope of ASC 808. The Company concluded that BeiGene was a customer with regard to the combined license and research and development activities and as such the contract should be evaluated under ASC 606.

In determining the appropriate amount of revenue to be recognized under ASC 606 as the Company fulfills its obligations under the BeiGene Agreement, the Company performs the following steps: (i) identifies the promised goods or services in the contract; (ii) determines whether the promised goods or services are performance obligations including whether they are distinct in the context of the contract; (iii) measures the transaction price, including any constraints on variable consideration; (iv) allocates the transaction price to the performance obligations; and (v) recognizes revenue when (or as) the Company satisfies each performance obligation.

The Company identified the following material promises under the BeiGene Agreement: (1) option to an exclusive license to develop and commercialize DKN-01 in Asia (excluding Japan), Australia, and New Zealand, (2) participation in a joint development committee, (3) technology transfer services and (4) pre-option research and development services. The Company determined that the option to an exclusive license in the territory does not represent a material right. Additionally, the Company determined that the participation in the joint development committee, research and development services and technology transfer services are not distinct from each other, as each has limited value without the other. As such, for the purposes of ASC 606, the Company determined that these four material promises, described above, should be combined into a single performance obligation.

The Company determined the transaction price was equal to the up-front fee of \$3,000. The transaction price was fully allocated to the single performance obligation and was recognized as revenue on a straight-line basis over the performance period of the research and development services. During the three and six months ended June 30, 2021, the Company recognized \$375 and \$750, respectively, of license revenue related to the up-front fee received from BeiGene. During the three and six months ended June 30, 2022, the Company did not recognize any such revenue as the upfront payment was fully recognized as of December 31, 2021.

Cost of contract acquisition

The Company incurred contract acquisition costs of \$270 which were capitalized under ASC 340-40 as incremental costs of obtaining the contract with BeiGene. This cost was amortized on a straight-line basis over the performance period of the research and development services. The total amount of amortization expense during the three and six months ended June 30, 2021 was \$34 and \$68, respectively. During the three and six months ended June 30, 2022, the Company did not recognize any such amortization expense as the contract acquisition costs were fully amortized as of December 31, 2021.

Royalties

As the license is deemed to be the predominant item to which sales-based royalties relate, the Company will recognize revenue when the related sales occur. No royalty revenue was recognized during the six months ended June 30, 2022 and 2021.

4. Accrued Expenses

Accrued expenses consist of the following:

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Clinical trials	\$ 1,092	\$ 2,499
Professional fees	108	181
Payroll and related expenses	1,263	2,686
Accrued expenses	<u>\$ 2,463</u>	<u>\$ 5,366</u>

5. Leases

The Company has operating leases for real estate in the United States and does not have any finance leases. The Company's leases may contain options to renew and extend lease terms and options to terminate leases early. Reflected in the right-of-use asset and lease liability on the Company's consolidated balance sheets are the periods provided by renewal and extension options that the Company is reasonably certain to exercise, as well as the periods provided by termination options that the Company is reasonably certain to not exercise.

The Company's existing lease includes variable lease and non-lease components that are not included in the right-of-use asset and lease liability and are reflected as an expense in the period incurred. Such payments primarily include common area maintenance charges and increases in rent payments that are driven by factors such as future changes in an index (e.g., the Consumer Price Index).

In calculating the present value of future lease payments, the Company utilized its incremental borrowing rate based on the lease term. The Company has elected to account for each lease component and its associated non-lease components as a single lease component and has allocated all of the contract consideration across lease components only. This will potentially result in the initial and subsequent measurement of the balances of the right-of-use asset and lease liability for leases being greater than if the policy election was not applied. The Company has existing net leases in which the non-lease components (e.g. common area maintenance, maintenance, consumables, etc.) are paid separately from rent based on actual costs incurred and therefore are not included in the right-of-use asset and lease liability and are reflected as an expense in the period incurred. During the three months ended June 30, 2022, the Company extended the term of its operating lease and recorded an additional right-of-use asset and lease liability of \$609. As of June 30, 2022, a right-of-use asset of \$863 and lease liability of \$869 are reflected on the condensed consolidated balance sheets. The Company recorded rent expense of \$112 and \$105, respectively, during the three months ended June 30, 2022 and 2021, and \$220 and \$210, respectively, during the six months ended June 30, 2022 and 2021.

Future lease payments under non-cancelable operating leases as of June 30, 2022 are detailed as follows:

Future Operating Lease Payments	
2022	\$ 222
2023	452
2024	268
Total Lease Payments	942
Less: imputed interest	(73)
Total operating lease liabilities	\$ 869

6. Warrants

As of June 30, 2022, outstanding warrants to purchase common stock, all of which are classified as equity warrants, consisted of the following:

June 30, 2022				
Description	Number of Shares		Exercise Price	Expiration Date
	Issuable			
January 23 2017 Warrants	54,516	\$	0.01	Upon M&A Event
2017 Warrants	2,502,382	\$	1.055	November 2024
2019 Warrants	7,008,257	\$	1.95	February 2026
March 2020	14,413,902	\$	0.001	No Expiry
March 2020	25,945,035	\$	2.11	Jan - March 2027
June 2020	1,690,137	\$	0.001	No Expiry
September 2021	8,771,928	\$	0.001	No Expiry
	60,386,157			

2017 Warrants

The 2017 Warrants contain full ratchet anti-dilution protection provisions. The Company will recognize on a prospective basis the value of the effect of the down round feature in the 2017 Warrants when it is triggered (i.e., when the exercise price is adjusted downward). This value is measured as the difference between (1) the financial instrument's fair value (without the down round feature) using the pre-trigger exercise price and (2) the financial instrument's fair value (with the down round feature) using the reduced exercise price. The value of the effect of the down round feature will be treated as a dividend and a reduction to income available to common stockholders in the basic EPS calculation.

2019 Warrants

On February 5, 2019, in connection with the 2019 Public Offering, the Company issued immediately exercisable warrants (the "2019 Warrants") to purchase 7,557,142 shares of common stock to investors. The 2019 Warrants have an exercise price of \$1.95 per share and expire on February 5, 2026. The 2019 Warrants qualify for equity classification.

March 2020 Warrants

On January 3, 2020, the Company entered into a Securities Purchase Agreement with investors, providing for a private placement transaction exempt from the Securities Act of 1933, as amended, pursuant to which the Company issued and sold 1,421,801 shares of its Series A Preferred Stock, at a purchase price of \$10.54 per share, and 1,137,442 shares of its Series B Preferred Stock at a purchase price of \$10.55 per share, and one (1) share of the Company's Special Voting Stock entitling the purchaser of Series A Preferred Stock to elect one member of the Company's board of directors.

On March 5, 2020, the Company's stockholders approved the conversion of the Series A Preferred Stock into a pre-funded warrant to purchase 14,413,902 shares of common stock at an exercise price of \$0.001 (the "March 2020 Pre-funded Warrants") and the conversion of the Series B Preferred Stock into 11,531,133 shares of common stock. Each investor also received a warrant to purchase an equal number of shares of common stock at an exercise price of \$2.11 per share (the "Coverage Warrants"). The March 2020 Pre-funded Warrants and the Coverage Warrants qualify for equity classification.

June 2020 Warrants

On June 22, 2020, the Company completed a public offering (the "2020 Public Offering") whereby the Company issued 20,250,000 shares of its common stock, at \$2.00 per share and, in lieu of common stock, offered pre-funded warrants (the "June 2020 Pre-funded Warrants") to purchase up to 2,250,000 shares of its common stock to certain investors. The June 2020 Pre-funded Warrants have an exercise price of \$0.001 per share and qualify for equity classification.

September 2021 Warrants

On September 24, 2021, the Company completed a public offering (the “2021 Public Offering”) whereby the Company issued 27,568,072 shares of its common stock, at \$2.85 per share and, in lieu of common stock, offered pre-funded warrants (the “September 2021 Pre-funded Warrants”) to purchase up to 8,771,928 shares of its common stock to certain investors. The September 2021 Pre-funded Warrants have an exercise price of \$0.001 per share and qualify for equity classification.

7. Common Stock

Each share of common stock entitles the holder to one vote on all matters submitted to a vote of the Company’s stockholders. Common stockholders are entitled to receive dividends, as may be declared by the board of directors, if any, subject to the preferential dividend rights of the preferred stockholders. Through June 30, 2022, no dividends have been declared for shares of common stock.

Public Offering of Common Stock – September 2021

On September 24, 2021, the Company completed the 2021 Public Offering, whereby the Company issued 22,828,072 shares of its common stock at \$2.85 per share and, in lieu of common stock, issued certain investors 8,771,928 of its September 2021 Pre-funded Warrants. The September 2021 Pre-funded Warrants have an exercise price of \$0.001 per share and qualify for equity classification. The underwriters exercised their right to purchase 4,740,000 additional shares of the Company’s common stock at the public offering price per share of common stock, less underwriting discounts and commissions. The aggregate net proceeds received by the Company from the 2021 Public Offering were approximately \$96,828 net of underwriting discounts and commissions and offering expenses payable by the Company.

8. Equity Incentive Plans

Equity Incentive Plans

In September 2012, the Company adopted the 2012 Equity Incentive Plan, as amended, which provides designated employees of the Company and its affiliates, certain consultants and advisors who perform services for the Company and its affiliates, and nonemployee members of the board of directors of the Company and its affiliates with the opportunity to receive grants of incentive stock options, nonqualified stock options and stock awards.

On January 20, 2017, the Company’s stockholders approved the 2016 Equity Incentive Plan (the “2016 Plan”). Beginning on January 1, 2018, the number of shares of common stock authorized for issuance pursuant to the 2016 Plan was increased each January 1 by an amount equal to four percent (4%) of the Company’s outstanding common stock as of the end of the immediately preceding calendar year or such other amount as determined by the compensation committee of the Company’s board of directors.

On June 16, 2022, the Company’s stockholders approved the 2022 Equity Incentive Plan (the “2022 Plan”), which provides for a total of 7,500,000 new shares of the Company’s common stock to be granted.

As of June 30, 2022, there were 7,768,193 shares available for grant under the Company’s equity incentive plans.

A summary of stock option activity under the Equity Plans is as follows:

	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Life in Years	Aggregate Intrinsic Value
Outstanding at December 31, 2021	8,525,618	\$ 4.48	7.58	
Granted	745,000	\$ 1.89		
Forfeited	(224,198)	\$ 2.10		
Outstanding at June 30, 2022	9,046,420	\$ 4.31	7.20	\$ 2
Options exercisable at June 30, 2022	6,499,613	\$ 5.20	6.62	\$ 1
Options vested and expected to vest at June 30, 2022	9,046,420	\$ 4.31	7.20	\$ 2

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The grant date fair value of the options granted during the six months ended June 30, 2022 and 2021 was estimated at the date of grant using the Black-Scholes option valuation model. The expected life was estimated using the “simplified” method as defined by the SEC’s Staff Accounting Bulletin 107, Share-Based Payment. The expected volatility was based on the historical volatility of comparable public companies from a representative peer group selected based on industry and market capitalization data. The risk-free interest rate was based on the continuous rates provided by the U.S. Treasury with a term approximating the expected life of the option. The expected dividend yield was 0% because the Company does not expect to pay any dividends for the foreseeable future. The Company elected the straight-line attribution method in recognizing the grant date fair value of options issued over the requisite service periods of the awards, which are generally the vesting periods.

The weighted average grant date fair value for the stock options granted during the six months ended June 30, 2022 and 2021 was \$1.35 and \$2.21 per share, respectively.

The assumptions that the Company used to determine the grant-date fair value of stock options granted to employees and directors during the six months ended June 30, 2022 and 2021 were as follows, presented on a weighted average basis:

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Expected volatility	82.70 %	66.94 %
Weighted average risk-free interest rate	1.82 %	0.8 %
Expected dividend yield	0.00 %	0.00 %
Expected term (in years)	6.44	6.86

Stock options generally vest over a three or four year period, as determined by the compensation committee of the board of directors at the time of grant. The options expire ten years from the grant date. As of June 30, 2022, there was approximately \$3,151 of unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over a remaining weighted-average period of approximately 1.66 years.

Restricted Stock Units

During the six months ended June 30, 2022 and 2021, the Company granted 2,575,000 and 275,000, respectively, RSUs to employees that will cliff vest and will be settled after three years of continuous service, or upon a change of control of the Company, whichever is earlier, pursuant to the 2016 Plan.

The following table presents RSU activity under the 2016 Plan during the six months ended June 30, 2022:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2021	935,606	\$ 1.76
Awarded	2,575,000	\$ 1.94
Outstanding at June 30, 2022	<u>3,510,606</u>	<u>\$ 1.89</u>

As of June 30, 2022, there were 3,510,606 shares outstanding covered by RSUs that are expected to vest with a weighted average grant date fair value of \$1.89 per share and an aggregate grant date fair value of approximately \$6,640. As of June 30, 2022, there was approximately \$4,902 of unrecognized compensation costs related to RSUs granted to employees, which are expected to be recognized as expense over a remaining weighted average period of 2.43 years.

The Company recognized stock-based compensation expense related to the issuance of stock option awards and RSUs to employees and non-employees in the condensed consolidated statements of operations during the three and six months ending June 30, 2022 and 2021 as follows:

Stock Based Compensation Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Research and development	\$ 617	\$ 398	\$ 1,171	\$ 743
General and administrative	649	514	1,299	1,002
Total	\$ 1,266	\$ 912	\$ 2,470	\$ 1,745

9. Net Loss Per Share

Basic and diluted net loss per share for the three and six months ended June 30, 2022 and 2021 was calculated as follows (in thousands except share and per share amounts).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Numerator:				
Net loss	\$ (17,024)	\$ (9,526)	\$ (27,400)	\$ (18,660)
Net loss attributable to common stockholders for basic and diluted loss per share	\$ (17,024)	\$ (9,526)	\$ (27,400)	\$ (18,660)
Denominator:				
Weighted average number of common shares outstanding – basic and diluted	113,248,937	76,389,525	113,248,937	76,384,077
Net loss per share attributable to common stockholders – basic and diluted	\$ (0.15)	\$ (0.12)	\$ (0.24)	\$ (0.24)

Included within weighted average common shares outstanding for the three and six months ended June 30, 2022 and for the three and six months ended June 30, 2021 are 24,930,483 and 16,718,418, respectively, common shares issuable upon the exercise of the pre-funded warrants and penny warrants, as the warrants are exercisable at any time for nominal consideration, and as such, the shares are considered outstanding for the purpose of calculating basic and diluted net loss per share attributable to common stockholders.

The Company's potentially dilutive securities include RSUs, stock options and warrants. These securities were excluded from the computations of diluted net loss per share for the three and six months ended June 30, 2022 and 2021, as the effect would be to reduce the net loss per share. The following table includes the potential shares of common stock, presented based on amounts outstanding at each period end, that were excluded from the computation of diluted net loss per share attributable to common stockholders for the periods indicated because including them would have had an anti-dilutive effect:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Restricted stock units to purchase common stock	3,510,606	935,606	3,510,606	935,606
Options to purchase common stock	9,046,420	8,386,135	9,046,420	8,386,135
Warrants to purchase common stock	35,455,674	35,974,337	35,455,674	35,974,337
	48,012,700	45,296,078	48,012,700	45,296,078

10. Commitments and Contingencies

Manufacturing Agreements—The Company is party to manufacturing agreements with vendors to manufacture DKN-01, its lead product candidate, for use in clinical trials. As of June 30, 2022, there were \$12,000 noncancelable commitments under these agreements.

License and Service Agreement—On January 3, 2011, the Company entered into a license agreement with Eli Lilly and Company (“Lilly”), a shareholder, to grant a license to the Company for certain intellectual property rights relating to pharmaceutically active compounds that may be useful in the treatment of bone healing, cancer and, potentially, other medical conditions. As defined in the license agreement, the Company would be required to pay royalties to Lilly based upon a percentage in

the low single digits of net sales of developed products, if and when achieved. However, there can be no assurance that clinical or commercialization success of developed products will occur, and no royalties have been paid or accrued through June 30, 2022.

License Agreement—On May 28, 2015, the Company entered into a license agreement with Lonza Sales AG (“Lonza”), pursuant to which Lonza granted the Company a world-wide, non-exclusive license for certain intellectual property relating to a gene expression system for manufacturing DKN-01. As defined in the license agreement, the Company would be required to pay royalties to Lonza based on a percentage in the low single digits of net sales of DKN-01, if and when achieved. However, there can be no assurance that clinical or commercialization success will occur, and no royalties have been paid or accrued through June 30, 2022.

Legal Proceedings—At each reporting date, the Company evaluates whether or not a potential loss amount or a potential range of loss is probable and reasonably estimable under the provisions of the authoritative guidance that addresses accounting for contingencies. The Company expenses as incurred the costs related to its legal proceedings. As of the date of this report, the Company is not currently a party to any material legal proceedings.

Indemnification Agreements—In the ordinary course of business, the Company may provide indemnification of varying scope and terms to vendors, lessors, business partners and other parties with respect to certain matters including, but not limited to, losses arising out of breach of such agreements or from intellectual property infringement claims made by third parties. In addition, the Company has entered into indemnification agreements with members of its board of directors that will require the Company, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is, in many cases, unlimited. To date, the Company has not incurred any material costs as a result of such indemnifications. The Company is not aware of any claims under indemnification arrangements, and it has not accrued any liabilities related to such obligations in its condensed consolidated financial statements as of June 30, 2022 or December 31, 2021.

11. Subsequent Events

In July and August 2022, there were cashless exercises of 10,712,767 pre-funded warrants, exercise price \$0.001 per share, resulting in the issuance of 10,702,922 shares of the Company's common stock.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand our results of operations and financial condition. This MD&A is provided as a supplement to, and should be read in conjunction with, our condensed consolidated financial statements and the accompanying notes thereto and other disclosures included in this Quarterly Report on Form 10-Q, including the disclosures under Part II, Item 1A "Risk Factors," and our audited condensed consolidated financial statements and the accompanying notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2021, which was filed with the Securities and Exchange Commission, or the SEC, on March 11, 2022. Our condensed consolidated financial statements have been prepared in accordance with U.S. GAAP and, unless otherwise indicated, amounts are presented in U.S. dollars.

Company Overview

We are a biopharmaceutical company developing novel therapies designed to treat patients with cancer by inhibiting fundamental tumor-promoting pathways and by harnessing the immune system to attack cancer cells. Our strategy is to identify, acquire, and develop molecules that will rapidly translate into high impact therapeutics that generate durable clinical benefit and enhanced patient outcomes.

Our lead clinical stage program is DKN-01, a monoclonal antibody that inhibits Dickkopf-related protein 1, or DKK1. DKK1 is a protein that regulates the Wnt signaling pathways and enables tumor cells to proliferate and spread, as well as suppresses the immune system from attacking the tumor. When DKN-01 binds to DKK1, an anti-tumor effect can be generated. DKN-01-based therapies have generated responses and clinical benefit in several patient populations. We are currently studying DKN-01 in multiple ongoing clinical trials in patients with esophagogastric cancer, hepatobiliary cancer, gynecologic cancers, or prostate cancer. We entered into an exclusive option and license agreement (the "BeiGene Agreement") with BeiGene, Ltd., or BeiGene, which granted BeiGene the right to develop and commercialize DKN-01 in Asia (excluding Japan), Australia, and New Zealand.

Recent Developments

Since March 31, 2022, we have continued to make progress with the development of DKN-01 and our business strategy.

- **Announced Initiation of Part C of the Ongoing DisTinguish Study to Evaluate DKN-01, in Combination with Tislelizumab and Chemotherapy Compared to a Tislelizumab and Chemotherapy Control Arm, in Patients with G/GEJ.** The DisTinguish study (NCT04363801) is a Phase 2 study of DKN-01 in combination with tislelizumab and standard of care (SOC) chemotherapy in patients with inoperable, locally advanced, G/GEJ adenocarcinoma. Part C of the DisTinguish study will enroll approximately 160 first-line, HER2-negative patients who have had no prior therapy for unresectable locally advanced or metastatic G/GEJ adenocarcinoma. Patients will be randomized 1:1 to study DKN-01 in combination with tislelizumab and SOC chemotherapy, compared to tislelizumab and SOC chemotherapy. The primary objective of Part C is progression-free survival (PFS) in patients whose tumors express high levels of DKK1 (DKK1-high). Secondary objectives of Part C include PFS in all patients regardless of DKK1 expression, as well as overall survival (OS) and objective response rate (ORR) as measured by RECIST v1.1 in DKK1-high and all patients.
- **Announced Initiation of the DeFiance Study of DKN-01 in Combination with SOC Bevacizumab in Chemotherapy in Second-line Patients with Colorectal Cancer.** The DeFiance study is a Phase 2 study of DKN-01 in combination with bevacizumab and SOC chemotherapy in patients with advanced CRC who have received one prior systemic therapy. The study is designed with an initial 20 patient cohort and to then expand into a 130 patient randomized controlled trial against bevacizumab and SOC chemotherapy. The primary objective is PFS. Secondary objectives include ORR, duration of response (DOR), and OS.
- **Announced the Support of an Investigator-initiated Trial of DKN-01 Plus Pembrolizumab in Patients with Endometrial Cancer to be Conducted at The University of Texas M.D. Anderson Cancer Center and at the University of Alabama at Birmingham.** The investigator-initiated trial of DKN-01 in combination with pembrolizumab is an open-label, Bayesian design, Phase 2 trial and will initially enroll 15 patients each into DKK1-high and DKK1-low cohorts. If the efficacy criteria is met in either or both of the 15 patient cohort(s), then the cohort(s) will be expanded by an additional 15 patients. The primary objective of the study is ORR. Secondary objectives include clinical benefit rate (CBR), PFS, OS, and DOR.

- **Presented Initial Clinical Data from the Investigator-Sponsored Study of DKN-01 Plus Docetaxel in Patients with Prostate Cancer at the 2022 ASCO Annual Meeting.** In May 2022, we presented initial clinical data from the investigator-sponsored Phase 1b/2a dose escalation and dose expansion study testing DKN-01 as monotherapy or in combination with docetaxel in mCRPC. Highlights from the data include:
 - No DLTs were observed at DKN-01 300mg or 600mg dose levels as monotherapy or in combination with docetaxel, and no treatment-related adverse events occurred in either cohort
 - No partial responses (PR) were seen in the monotherapy cohort with best overall response of stable disease in 2 out of 5 evaluable patients
 - In the combination cohort, all 5 evaluable patients had a PR as measured by RECIST (3 confirmed, 2 unconfirmed) and all 6 patients by PSA50
 - Confirmed partial responses in the combination cohort were observed in both DKK1 high and low expressing tumors, including in 2 out of 3 patients with aggressive variant prostate cancer

Financial Overview

Revenues

Our revenues relate to our performance obligations under the BeiGene Agreement and may include such things as providing intellectual property licenses, performing technology transfer, performing research and development consulting services and notifying the customer of any enhancements to licensed technology or new technology that we discover, among others. We have determined that our performance obligations under the BeiGene Agreement, as evaluated at contract inception, were not distinct and represented a single performance obligation. Upfront payments are amortized to revenue on a straight-line basis over the performance period. Upfront payment contract liabilities resulting from the BeiGene Agreement do not represent a financing component as the payment is not financing the transfer of goods or services, and the technology underlying the license granted reflects research and development expenses already incurred by us. Generally, all amounts received or due other than sales-based milestones and royalties are classified as license revenues. Sales-based milestones and royalties under the BeiGene Agreement will be recognized as royalty revenue in the period the related sale occurred. We generally invoice our licensee upon the completion of the effort or achievement of a milestone, based on the terms of the BeiGene Agreement. Deferred revenue arises from amounts received in advance of the culmination of the earnings process and is recognized as revenue in future periods as performance obligations are satisfied. Deferred revenue expected to be recognized within the next twelve months is classified as a current liability.

Research and Development Expenses

Our research and development activities have included conducting nonclinical studies and clinical trials, manufacturing development efforts and activities related to regulatory filings for DKN-01 and TRX518. We recognize research and development expenses as they are incurred. Our research and development expenses consist primarily of:

- salaries and related overhead expenses for personnel in research and development functions, including costs related to stock-based compensation;
- fees paid to consultants and CROs for our nonclinical and clinical trials, and other related clinical trial fees, including but not limited to laboratory work, clinical trial database management, clinical trial material management and statistical compilation and analysis;
- costs related to acquiring and manufacturing clinical trial material; and
- costs related to compliance with regulatory requirements.

We plan to increase our research and development expenses for the foreseeable future as we continue the development of DKN-01 and any other product candidates, subject to the availability of additional funding.

Our direct research and development expenses are tracked on a program-by-program basis and consist primarily of internal and external costs, such as employee costs, including salaries and stock-based compensation, other internal costs, fees paid to consultants, central laboratories, contractors and CROs in connection with our clinical and preclinical trial development activities. We use internal resources to manage our clinical and preclinical trial development activities and perform data analysis for such activities.

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We participate, through our subsidiary in Australia, in the Australian government's research and development ("R&D") Incentive program, such that a percentage of our eligible research and development expenses are reimbursed by the Australian government as a refundable tax offset and such incentives are reflected as other income.

The table below summarizes our research and development expenses incurred by development program and the R&D Incentive income for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(in thousands)		(in thousands)	
Direct research and development by program:				
DKN-01 program	\$ 14,023	\$ 7,372	\$ 21,763	\$ 13,987
TRX518 program	22	(166)	66	26
Total research and development expenses	<u>\$ 14,045</u>	<u>\$ 7,206</u>	<u>\$ 21,829</u>	<u>\$ 14,013</u>
Australian research and development incentives	<u>\$ 587</u>	<u>\$ 244</u>	<u>\$ 624</u>	<u>\$ 315</u>

The successful development of our clinical product candidates is highly uncertain. At this time, we cannot reasonably estimate the nature, timing or costs of the efforts that will be necessary to complete the remainder of the development of any of our product candidates or the period, if any, in which material net cash inflows from these product candidates may commence. This is due to the numerous risks and uncertainties associated with developing drugs, including the uncertainty of:

- the scope, rate of progress and expense of our ongoing, as well as any additional, clinical trials and other research and development activities;
- future clinical trial results; and
- the timing and receipt of any regulatory approvals.

A change in the outcome of any of these variables with respect to the development of a product candidate could result in a significant change in the costs and timing associated with the development of that product candidate. For example, if the FDA or another regulatory authority were to require us to conduct clinical trials beyond those that we currently anticipate will be required for the completion of clinical development of a product candidate, or if we experience significant delays in enrollment in any of our clinical trials, we could be required to expend significant additional financial resources and time on the completion of clinical development.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and related costs, including stock-based compensation, for personnel in executive, finance and administrative functions. General and administrative expenses also include direct and allocated facility-related costs as well as professional fees for legal, patent, consulting, accounting and audit services.

We anticipate that our general and administrative expenses will increase in the future as we increase our headcount to support our continued research activities and development of our product candidates. We also anticipate that we will incur increased accounting, audit, legal, regulatory, compliance, director and officer insurance costs as well as investor and public relations expenses associated with being a public company.

Interest income

Interest income consists primarily of interest income earned on cash and cash equivalents.

Research and development incentive income

Research and development incentive income includes payments under the R&D Incentive program from the government of Australia. The R&D Incentive program is one of the key elements of the Australian Government's support for Australia's innovation system. It was developed to assist businesses in recovering some of the costs of undertaking research and development. The research and development tax incentive provides a tax offset to eligible companies that engage in research and development activities.

Companies engaged in research and development may be eligible for either:

- a 43.5% refundable tax offset for entities with an aggregated turnover of less than A\$20 million per annum, or
- a 38.5% non-refundable tax offset for all other entities.

We recognize as income the amount we expect to be reimbursed for qualified expenses.

Foreign currency translation adjustment

Foreign currency translation adjustment consists of gains (losses) due to the revaluation of foreign currency transactions attributable to changes in foreign currency exchange rates associated with our Australian subsidiary.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States, or GAAP. The preparation of our financial statements and related disclosures requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and the disclosure of contingent assets and liabilities in our financial statements. We base our estimates on historical experience, known trends and events and various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates under different assumptions or conditions.

Our critical accounting policies are described under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations— Critical Accounting Policies and Significant Judgments and Estimates” in our Annual Report on Form 10-K filed with the SEC on March 11, 2022 and the notes to the condensed consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q. We believe that of our critical accounting policies, the following accounting policies involve the most judgment and complexity:

- revenue recognition;
- accrued research and development expenses;
- research and development incentive receivable; and
- stock-based compensation.

Results of Operations

Comparison of the Three Months Ended June 30, 2022 and 2021

The following table summarizes our results of operations for the three months ended June 30, 2022 and 2021:

	Three Months Ended June 30,		Change
	2022	2021	
	(in thousands)		
License revenue	\$ —	\$ 375	\$ (375)
Operating expenses:			
Research and development	14,045	7,206	6,839
General and administrative	2,855	2,795	60
Total operating expenses	<u>16,900</u>	<u>10,001</u>	<u>6,899</u>
Loss from operations	(16,900)	(9,626)	(7,274)
Interest income	39	1	38
Interest expense	(17)	(16)	(1)
Australian research and development incentives	587	244	343
Foreign currency loss	(733)	(129)	(604)
Net loss	<u>\$ (17,024)</u>	<u>\$ (9,526)</u>	<u>\$ (7,498)</u>

Revenues

License revenue for the three months ended June 30, 2021 was \$0.4 million and relates to the BeiGene Agreement for the development and commercialization of DKN-01 in Asia (excluding Japan), Australia, and New Zealand. No such license revenue was recorded in the three months ended June 30, 2022 as the upfront payment was fully recognized as of December 31, 2021.

Research and Development Expenses

	Three Months Ended June 30,		Increase (Decrease)
	2022	2021	
	(in thousands)		
Direct research and development by program:			
DKN-01 program	\$ 14,023	\$ 7,372	\$ 6,651
TRX518 program	22	(166)	188
Total research and development expenses	<u>\$ 14,045</u>	<u>\$ 7,206</u>	<u>\$ 6,839</u>

Research and development expenses were \$14.0 million for the three months ended June 30, 2022, compared to \$7.2 million for the three months ended June 30, 2021. The increase of \$6.8 million in research and development expenses was due to an increase of \$5.2 million in manufacturing costs related to clinical trial material and manufacturing campaigns, an increase of \$1.2 million in clinical trial costs due to patient enrollment and the duration of patients on study, an increase of \$0.4 million in payroll and other related expenses due to an increase in headcount of our research and development full time employees and an increase of \$0.2 million in stock based compensation expense due to new stock options and restricted stock units granted to research and development full time employees during the three months ended June 30, 2022. These increases were partially offset by a \$0.2 million decrease in consulting fees associated with research and development activities.

General and Administrative Expenses

General and administrative expenses were \$2.9 million for the three months ended June 30, 2022, compared to \$2.8 million for the three months ended June 30, 2021. The increase of \$0.1 million in general and administrative expenses was due to an increase

of \$0.1 million in stock based compensation expense due to new stock options and restricted stock units granted to general and administrative full time employees during the three months ended June 30, 2022.

Interest Income

We recorded an immaterial amount of interest income in the three months ended June 30, 2022 and 2021.

Australian Research and Development Incentives

We recorded R&D incentive income of \$0.6 million and \$0.2 million during the three months ended June 30, 2022 and 2021, respectively, based upon the applicable percentage of eligible research and development activities under the Australian Incentive Program, which expenses included the cost of manufacturing clinical trial material.

The R&D incentive receivable has been recorded as “Research and development incentive receivable” in the condensed consolidated balance sheets.

Foreign Currency Gains (loss)

During the three months ended June 30, 2022 and 2021, we recorded foreign currency losses of \$0.7 million and \$0.1 million, respectively. Foreign currency gains and losses are due to changes in the Australian dollar exchange rate related to activities of the Australian entity.

Comparison of the Six Months Ended June 30, 2022 and 2021

The following table summarizes our results of operations for the six months ended June 30, 2022 and 2021:

	Six Months Ended June 30,		Change
	2022	2021	
	(in thousands)		
License revenue	\$ —	\$ 750	\$ (750)
Operating expenses:			
Research and development	21,829	14,013	7,816
General and administrative	5,703	5,535	168
Total operating expenses	<u>27,532</u>	<u>19,548</u>	<u>7,984</u>
Loss from operations	<u>(27,532)</u>	<u>(18,798)</u>	<u>(8,734)</u>
Interest income	44	3	41
Interest expense	(38)	(30)	(8)
Australian research and development incentives	624	315	309
Foreign currency loss	(498)	(150)	(348)
Net loss	<u>\$ (27,400)</u>	<u>\$ (18,660)</u>	<u>\$ (8,740)</u>

Revenues

License revenue for the six months ended June 30, 2021 was \$0.8 million and relates to the BeiGene Agreement for the development and commercialization of DKN-01 in Asia (excluding Japan), Australia, and New Zealand. No such license revenue was recorded in the six months ended June 30, 2022 as the upfront payment was fully recognized as of December 31, 2021.

Research and Development Expenses

	<u>Six Months Ended June 30,</u>		<u>Increase (Decrease)</u>
	<u>2022</u>	<u>2021</u>	
	<u>(in thousands)</u>		
Direct research and development by program:			
DKN-01 program	\$ 21,763	\$ 13,987	\$ 7,776
TRX518 program	66	26	40
Total research and development expenses	<u>\$ 21,829</u>	<u>\$ 14,013</u>	<u>\$ 7,816</u>

Research and development expenses were \$21.8 million for the six months ended June 30, 2022, compared to \$14.0 million for the six months ended June 30, 2021. The increase of \$7.8 million in research and development expenses was due to an increase of \$4.7 million in manufacturing costs related to clinical trial material and manufacturing campaigns, an increase of \$1.8 million in clinical trial costs due to patient enrollment and the duration of patients on study, an increase of \$0.9 million in payroll and other related expenses due to an increase in headcount of our research and development full time employees and an increase of \$0.4 million in stock based compensation expense due to new stock options and restricted stock units granted to research and development full time employees during the six months ended June 30, 2022.

General and Administrative Expenses

General and administrative expenses were \$5.7 million for the six months ended June 30, 2022, compared to \$5.5 million for the six months ended June 30, 2021. The increase of \$0.2 million in general and administrative expenses was due an increase of a \$0.3 million in stock based compensation expense due to new stock options and restricted stock units granted to general and administrative full time employees during the six months ended June 30, 2022 and an increase of \$0.2 million in payroll and other related expenses due to an increase in compensation expense. These increases were partially offset by a \$0.3 million decrease in professional fees during the six months ended June 30, 2022 as compared to the same period in 2021.

Interest Income

We recorded an immaterial amount of interest income in the six months ended June 30, 2022 and 2021.

Australian Research and Development Incentives

We recorded R&D incentive income of \$0.6 million and \$0.3 million, respectively, during the six months ended June 30, 2022 and 2021, based upon the applicable percentage of eligible research and development activities under the Australian Incentive Program, which expenses included the cost of manufacturing clinical trial material.

The R&D incentive receivable has been recorded as “Research and development incentive receivable” in the condensed consolidated balance sheets.

Foreign Currency Gains (loss)

During the six months ended June 30, 2022 and 2021, we recorded foreign currency losses of \$0.5 million and \$0.2 million, respectively. Foreign currency gains and losses are due to changes in the Australian dollar exchange rate related to activities of the Australian entity.

Financial Position, Liquidity and Capital Resources

Since our inception, we have been engaged in organizational activities, including raising capital, and research and development activities. We do not yet have a product that has been approved by the Food and Drug Administration (the “FDA”), have not yet achieved profitable operations, nor have we ever generated positive cash flows from operations. There is no assurance that profitable operations, if achieved, could be sustained on a continuing basis. Further, our future operations are dependent on the success of efforts to raise additional capital, our research and commercialization efforts, regulatory approval, and, ultimately, the market acceptance of our products.

In accordance with Accounting Standards Codification (“ASC”) 205-40, Going Concern, we have evaluated whether there are conditions and events, considered in the aggregate, that raise substantial doubt about our ability to continue as a going concern within one year after the date that the condensed consolidated financial statements are issued. As of June 30, 2022, we had cash and cash equivalents of \$90.9 million. Additionally, we had an accumulated deficit of \$291.0 million at June 30, 2022, and during the six months ended June 30, 2022, we incurred a net loss of \$27.4 million. We expect to continue to generate operating losses in the foreseeable future. We believe that our cash and cash equivalents of \$90.9 million as of June 30, 2022 will be sufficient to fund our operating expenses for at least the next 12 months from the filing of this report on Form 10-Q.

In addition, we will seek additional funding through public or private equity financings or government programs and will seek funding or development program cost-sharing through collaboration agreements or licenses with larger pharmaceutical or biotechnology companies. If we do not obtain additional funding or development program cost-sharing, we will be forced to delay, reduce or eliminate certain clinical trials or research and development programs, reduce or eliminate discretionary operating expenses, and delay company and pipeline expansion, which would adversely affect our business prospects. The inability to obtain funding, as and when needed, would have a negative impact on our financial condition and ability to pursue our business strategies.

Cash Flows

The following table summarizes our sources and uses of cash for each of the periods presented:

	Six Months Ended June 30,	
	2022	2021
	(in thousands)	
Cash used in operating activities	\$ (23,777)	\$ (16,339)
Cash provided by (used in) financing activities	(210)	18
Effect of exchange rate changes on cash and cash equivalents	(46)	(16)
Net decrease in cash and cash equivalents	<u>\$ (24,033)</u>	<u>\$ (16,337)</u>

Operating activities. Net cash used in operating activities for the six months ended June 30, 2022 was primarily related to our net loss from the operation of our business of \$27.4 million and net changes in working capital, including an increase in research and development receivable of \$0.6 million and a decrease in lease liability of \$0.2 million. These changes were partially offset by an increase in accounts payable and accrued expenses of \$0.7 million, a decrease of \$0.3 million in prepaid expenses and other assets and an increase in long term other assets of \$0.3 million. During the six months ended June 30, 2022, there was also noncash stock based compensation expense of \$2.5 million, foreign currency losses of \$0.5 million and a change in right-of-use asset of \$0.2 million.

Net cash used in operating activities for the six months ended June 30, 2021 was primarily related to our net loss from the operation of our business of \$18.7 million and net changes in working capital, including a decrease of \$0.8 million in deferred revenue, an increase of \$0.3 million in research and development incentive receivable, an increase of \$0.1 million in prepaid expenses and other assets, a decrease in lease liabilities of \$0.2 million and a \$0.2 million decrease related to a noncash change in restricted stock liability. These changes were partially offset by an increase in accounts payable and accrued expenses of \$1.5 million, an increase in deferred offering costs of \$0.2 million, noncash stock based compensation expense of \$1.7 million and a change in a right-of-use asset of \$0.2 million.

Investing Activities. There were no investing activities during the six months ended June 30, 2022 and 2021.

Financing Activities. Net cash used in financing activities for the six months ended June 30, 2022 consisted of payments of deferred offering costs of \$0.2 million. Net cash provided by financing activities for the six months ended June 30, 2021 consisted of proceeds from the issuance of common stock upon the exercise of stock options and warrants.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not Applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is (1) recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms and (2) accumulated and communicated to our management, including our President and Chief Executive Officer, who is also serving as Chief Financial Officer and therefore currently serves as both our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

As of June 30, 2022, our management, with the participation of our Chief Executive Officer, who is also serving as Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013 Framework). Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our principal executive officer and principal financial officer has concluded, based upon the evaluation described above, that, as of June 30, 2022, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such material information is accumulated and communicated to the Company’s management, including its principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

During the six months ended June 30, 2022, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that materially affected, or are reasonably likely to affect, internal control over financial reporting.

Part II — OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

An investment in our ordinary shares involves a high degree of risk. You should carefully consider the risk factors discussed in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021 as filed with the SEC on March 11, 2022, which could materially affect our business, financial condition, operating results or cash flows. There have been no material changes from the risk factors previously disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

See the Exhibit Index immediately prior to the signature page to this Quarterly Report on Form 10-Q for a list of exhibits filed or furnished with this report, which Exhibit Index is incorporated herein by reference.

Third Amendment to Lease by and between Bullfinch Square Limited Partnership and Leap Therapeutics, Inc., dated as of May 16, 2022.

EXHIBIT INDEX

- 10.1* [Third Amendment to Lease by and between Bullfinch Square Limited Partnership and Leap Therapeutics, Inc., dated as of May 16, 2022.](#)
- 31.1* [Certification of Chief Executive Officer and Chief Financial Officer Required Under Rule 13a-14\(a\) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1** [Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101* The following materials from Leap Therapeutics, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2022, formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at June 30, 2022 and December 31, 2021, (ii) Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2022 and 2021, (iii) Condensed Consolidated Statements of Comprehensive Loss for the three and six months ended June 30, 2022 and 2021, (iv) Condensed Consolidated Statements of Stockholders' Equity for the three and six months ended June 30, 2022 and 2021, (v) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2022 and 2021, and Notes to the Condensed Consolidated Financial Statements, tagged as blocks of text.
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

**Furnished with this report.

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, thereunto duly authorized.

LEAP THERAPEUTICS, INC.

Date: August 12, 2022

By: /s/ Douglas E. Onsi

Douglas E. Onsi
President, Chief Executive Officer and Chief Financial
Officer
(Principal Executive Officer, Principal Financial Officer
and Duly
Authorized Signatory)

THIRD AMENDMENT TO LEASE

This is a Third Amendment to Lease dated as of May 16, 2022 by and between Bulfinch Square Limited Partnership, a Massachusetts limited partnership ("Landlord") and Leap Therapeutics, Inc., a Delaware corporation ("Tenant").

WHEREAS, Landlord and Tenant entered into a Lease dated November 13, 2018, as amended by First Amendment to Lease dated August 17, 2021 and Second Amendment to Lease dated as of October 1, 2021 (as so amended, the "Lease") with respect to certain premises at 47 Thorndike Street, Cambridge, Massachusetts; and

WHEREAS, Tenant wishes to extend the term of the Lease until July 31, 2024 from its current expiration of January 31, 2023; and

NOW, THEREFORE, in consideration of the foregoing, Landlord and Tenant agree as follows:

1. Capitalized terms used herein without definition, including in the foregoing recitals, shall have the meanings ascribed to them by the Lease.
 2. The Original Term shall be extended to expire on July 31, 2024. The date by which Tenant must elect whether to exercise its option to extend the term of the Lease for the Extended Term shall be November 30, 2023.
 3. Annual Fixed Rent for the period of February 2023 through July 2024 shall be \$452,353.00 per annum (i.e. \$37,696.08 for each month) through January 2024, and \$460,020.00 per annum (i.e. \$38,335.00 per month) for the period of February 2024 through July 31, 2024.
 4. Tenant warrants and represents that it has dealt with no broker in connection with this Third Amendment to Lease, and that in the event of any brokerage claims or liens against Landlord or the Property predicated on dealings with Tenant, Tenant agrees to defend the same and to indemnify and hold Landlord harmless from any such claim and to discharge any such lien.
 5. Except as herein amended the Lease is ratified and affirmed.
-

IN WITNESS WHEREOF, Landlord and Tenant have executed this Third Amendment to Lease as of the date first set forth above.

LANDLORD:

Bulfinch Square Limited Partnership

By: Courthouse Associates, Inc., its general partner

By: /s/ Kenneth Krozy

Kenneth Krozy
Vice President

TENANT:

Leap Therapeutics, Inc.

By: /s/ Douglas E. Onsi

Name: Douglas E. Onsi
Title: President & CEO

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
AND CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Douglas E. Onsi, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Leap Therapeutics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 12, 2022

Date

/s/ DOUGLAS E. ONSI

Douglas E. Onsi

President, Chief Executive Officer and Chief Financial Officer
(Principal Executive Officer and Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Leap Therapeutics, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Douglas E. Onsi, as Chief Executive Officer, President and Chief Financial Officer, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 12, 2022

By: /s/ DOUGLAS E. ONSI

Douglas E. Onsi
President, Chief Executive Officer and Chief Financial Officer
(Principal Executive Officer and Principal Financial Officer)

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Leap Therapeutics, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Quarterly Report), irrespective of any general incorporation language contained in such filing.
