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February 28, 2018
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Antibe Therapeutics Inc.

(V.ATE - TSX)

V.ATE: Data from Phase 2b Trial of ATB-346 Expected Week of Mar. 19, 2018…

Based on our probability adjusted DCF model that takes into account potential future revenues from ATB-346 along with Citagenix Inc., ATE.V is valued at CAD$0.85 per share. This model is highly dependent upon continued clinical success of ATB-346 along with the global growth strategy for Citagenix and will be adjusted accordingly based upon future clinical results and the company's execution.

Current Price (02/28/2018)	CAD$0.27
Valuation	**CAD$0.85**

OUTLOOK

On February 26, 2018, Antibe Therapeutics Inc. (ATE.V) provided an update on the Phase 2b gastrointestinal (GI) safety study of ATB-346. The company confirmed the previously announced schedule for announcing top-line results and we anticipate these results during the week of Mar. 19, 2018. This study of 240 healthy volunteers was designed to demonstrate superiority of ATB-346 in GI safety compared to naproxen. The company is expected to follow the GI safety study with a Phase 2b dose-ranging efficacy study of ATB-346 in support of a potential partnering event with a global pharmaceutical company in the next 12 months.

SUMMARY DATA

52-Week High	**$0.33**
52-Week Low	**$0.08**
One-Year Return (%)	**28.6**
Beta	**-0.56**
Average Daily Volume (sh)	**836,980**
Shares Outstanding (mil)	**163**
Market Capitalization ($mil)	**$44**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using #Lin Estimate	**N/A**
P/E using #Lin Estimate	**N/A**

Risk Level	**N/A**
Type of Stock	**Small-Growth**
Industry	**Med-Drugs**

ZACKS ESTIMATES

Revenue
(In millions of CAD$)

	Q1 (Jun)	Q2 (Sep)	Q3 (Dec)	Q4 (Mar)	Year (Mar)
2017	2.6 A	2.2 A	2.0 A	2.3 A	9.1 A
2018	2.3 A	1.8 A	2.2 A	2.6 E	9.2 E
2019					12.0 E
2020					15.0 E

Earnings per Share

	Q1 (Jun)	Q2 (Sep)	Q3 (Dec)	Q4 (Mar)	Year (Mar)
2017	-$0.01 A	-$0.01 A	-$0.02 A	-$0.01 A	-$0.06 A
2018	-$0.02 A	-$0.01 A	-$0.01 A	-$0.01 E	-$0.04 E
2019					-$0.04 E
2020					-$0.04 E

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WHAT'S NEW

Data from Phase 2 GI Safety Study Expected Week of Mar. 19, 2018

On February 26, 2018, Antibe Therapeutics Inc. (ATE.V) provided an update on the Phase 2 gastrointestinal (GI) safety study of its lead drug, ATB-346. The company reaffirmed its previous guidance for announcing topline results in the first calendar quarter of 2018 and we now anticipate those results during the week of Mar. 19, 2018.

The double-blind, GI safety study enrolled 240 healthy volunteers, in which participants were given either ATB-346 once daily or naproxen twice-daily for two weeks. All subjects had an endoscopic examination of the upper GI tract prior to drug treatment and at the end of the 14-day study period. The primary endpoint of the study is the percentage of subjects with a GI ulcer ≥3 mm in diameter. This study is necessary as the FDA considers endoscopically examining upper GI ulceration the 'gold standard' in assessing NSAID-associated toxicity. Positive results from this study would allow Antibe to pursue a GI safety claim of superiority to naproxen.

Following release of the results from the GI safety study, we anticipate the company initiating a Phase 2b dose-ranging efficacy study. The results from these two studies could lead to a partnering event with a global pharmaceutical company within the next 12 months.

NSAID Side Effects

Antibe is developing ATB-346 as a solution to the dose-related GI side effects associated with NSAIDs. These effects are a result of the inhibition of the COX-1 enzyme, which is responsible for the normal gastro-protective processes (Roth, 1988). In addition, many NSAIDs are acidic molecules, resulting in irritation to the gastric mucosa. Dyspepsia, abdominal pain, and nausea are all common side effects of oral NSAIDs (Makris *et al*., 2010). While these adverse events are manageable, more serious events are known to occur with oral NSAID use including upper GI bleeding, ulcers, and death (Hernández-Díaz *et al*., 2000). According to The Arthritis, Rheumatism, and Aging Medical Information System, more than 100,000 Americans are hospitalized each year and more than 16,000 die from ulcers and GI bleeding linked to NSAID use.

With the discovery of COX-2, research and development efforts were directed at discovering compounds that inhibited COX-2 selectively in order to overcome the GI side effects. While COX-1 is constitutively expressed throughout the body, COX-2 is typically only expressed in inflammation, with the inhibition of COX-2 resulting in the desired clinical response of NSAIDs.

Selective COX-2 inhibitors, such as rofecoxib (Vioxx®), celecoxib (Celebrex®), and valdecoxib (Bextra®), were initially very popular with both physicians and patients for their ability to relieve pain with a significantly decreased risk of adverse GI events. For example, Vioxx achieved over $1 billion in sales in its first year on the market. However, some clinical trials of the COX-2 inhibitors showed that treatment led to an increased risk of adverse cardiovascular (CV) events (Antman *et al*., 2007; Kearney *et al*., 2006). These results led Merck to voluntarily recall Vioxx® in 2004, with Bextra® withdrawn from the market in 2005. In addition, the FDA required a black box warning on the label for Celebrex®.

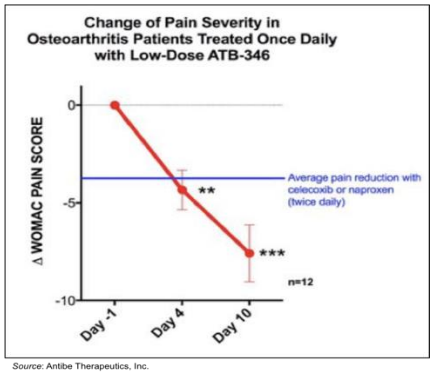
So while on the one hand non-selective NSAIDs are great at offering pain relief, they are accompanied by the threat of serious GI problems, including the development of intestinal damage and bleeding ulcers. Selective NSAIDs are very effective at mitigating pain and they cause significantly fewer GI effects, but they come with an increased risk of CV events. Thus, what is needed is an effective NSAID that does not increase a patient's risk of serious GI or CV events.

ATB-346

ATB-346 uses naproxen as a base molecule with a hydrogen sulfide releasing moiety covalently attached. Hydrogen sulfide (H_2S) has been identified as an important gasotransmitter, a gas that serves as an important signaling molecule in the body. Other examples of gasotransmitters are nitric oxide (NO) and carbon monoxide (CO).

In 2016, Antibe announced the successful completion of a Phase 2 study of ATB-346 in patients with osteoarthritis of the knee. Twelve patients were treated once daily with 250 mg of ATB-346, which is only 1/6th of the typical daily

dose of naproxen for treating osteoarthritis. The patients recorded their pain level one day prior to starting treatment and then again on days 4 and 10 of treatment using the WOMAC pain scale. The graph below shows the change in recorded pain level over the 10 days of the study. Previous studies show typical reductions in WOMAC pain scores for osteoarthritis patients taking celecoxib of approximately 4 units following one week of treatment, with no additional improvement beyond that with continued treatment (Wittenberg *et al*., 2006). Thus, the average reduction of 7.6 units is quite impressive in that study population.



Financial Update

On February 27, 2018, Antibe released financial results for the third quarter of fiscal year 2018 that ended Dec. 31, 2017. The company reported revenue of CAD$2.2 million compared to CAD$2.0 million for the three months ended Dec. 31, 2016. Net loss for 3QFY18 was CAD$2.3 million, which was the same as 3QFY17.

General and administrative, selling and marketing, research and development, stock-based compensation, and depreciation and amortization expenses totaled CAD$2.3 million, a slight (CAD$19,123) increase over 3QFY17. The variation in expenses between 3QFY17 and 3QFY16 are broken down as follows:

- G&A expenses decreased CAD$0.07 million to CAD$0.85 million primarily due to lower professional and consulting fees partially offset by higher office and other expenses.
- Selling and marketing costs increased CAD$0.03 million to CAD$0.71 million due to higher salaries, advertising, and promotion costs partially offset by lower commissions.
- R&D expenses increased CAD$0.31 million to CAD$0.52 million due to higher salaries and development costs for the Phase 2b GI safety study.
- Stock-based compensation decreased CAD$0.26 million.
- Depreciation and amortization expenses increased CAD$4,338 to $98,017 primarily due to amortization of software upgrade purchased by Citigenix.

As of December 31, 2017, Antibe had cash and cash equivalents of approximately CAD$1.4 million with another CAD$0.5 million in restricted cash. We believe the current cash position is sufficient to fund operations into the second quarter of 2018.

As of December 31, 2017, Antibe had approximately 163.0 million common shares outstanding along with approximately 21.0 millon stock options and approximately 59.3 million warrants. In addition, the company has approximately CAD$3.0 million in convertible debt that can be converted into approximately 13.4 million shares. We estimate the fully diluted share count currently stands at 256.7 million shares.

Valuation

We value Antibe using a probability adjusted discounted cash flow model that takes into account potential future revenues for ATB-346 and Citagenix. For ATB-346, we anticipate that the company will enter into a collaboration with a larger pharmaceutical company before Phase 3 studies commence. For modeling purposes, we are estimating that Phase 3 studies for ATB-346 will begin in 2019, with an NDA filing in 2020 and approval in 2021. We model for approval in the E.U. a year later.

ATB-346 is the main value driver for Antibe as the NSAID market is valued at $8 billion total. We model for approval in OA, however we believe that if the drug is approved it will likely go on to be approved for multiple indications similar to celecoxib. There are approximately 27 million individuals in the U.S. with OA (NIAMS). Of those, we

estimate approximately 50% are taking or are open to taking oral NSAIDs. With a conservatively estimated 6% of the market, ATB-346 would have peak sales of $1.0 billion. In the E.U., where there are approximately 40 million patients with OA (WHO), a similar market share could generate close to $1 billion in revenue. Using a 12% royalty rate, an 18% discount rate, and a 50% chance of approval, we estimate the net present value of ATB-346 to be $171 million. When taking into account estimated capital requirements, the current conversion to Canadian Dollars (USD$1 = CAD$1.27), and dividing by the fully diluted share count of 256.7 million shares leads to a valuation of approximately CAD$0.85. We believe investors would be wise to take a close look at Antibe ahead of the Phase 2b results in March 2018.

PROJECTED FINANCIALS

Antibe Therapeutics, Inc.
Income Statement

Antibe Therapeutics, Inc. Fiscal Year Ends Mar. 31 / in Canadian dollars	FY 2017 A	Q1 '18 A	Q2 '18 A	Q3 '18 A	Q4 '18 E	FY 2018 E	FY 2019 E	FY 2020 E
ATB-346 (royalty)	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
YOY Growth	-	-	-	-	-	*#DIV/0!*	*#DIV/0!*	*#DIV/0!*
ATB-352 (royalty)	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
YOY Growth	-	-	-	-	-	-	*#DIV/0!*	*#DIV/0!*
Citagenix	**$9.1**	**$2.3**	**$1.8**	**$2.2**	**$2.6**	**$8.9**	**$12.0**	**$15.0**
Licensing / Development	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Total Revenues	$9.1	$2.3	$1.8	$2.2	$2.6	$8.9	$12.0	$15.0
YOY Growth	*104.1%*	*-12.7%*	*-17.9%*	*14.0%*	*12.7%*	*-1.7%*	*34.8%*	*25.0%*
Cost of Goods Sold	$5.1	$1.3	$1.1	$1.4	$2.0	$5.8	$8.3	$9.9
Product Gross Margin	*43.4%*	*42.7%*	*36.7%*	*39.6%*	*23.1%*	*35.0%*	*30.8%*	*34.0%*
SG&A	$6.9	$1.6	$1.6	$1.6	$2.2	$7.0	$9.0	$11.0
% SG&A	*76.6%*	*72.0%*	*91.2%*	*70.1%*	*84.6%*	*79.1%*	*75.0%*	*73.3%*
R&D	$0.7	$0.6	$0.5	$0.5	$0.5	$2.1	$1.8	$2.0
% R&D	*7.7%*	*27.5%*	*25.9%*	*23.3%*	*19.2%*	*23.7%*	*15.0%*	*13.3%*
Stock-based compensation	$1.2	$0.3	$0.2	$0.1	$0.4	$1.0	$1.8	$1.8
% Stock-based	*12.8%*	*12.2%*	*11.3%*	*4.2%*	*15.4%*	*10.9%*	*15.0%*	*12.0%*
Amortization and Depreciation	$0.4	$0.1	$0.1	$0.1	$0.1	$0.4	$0.5	$0.6
% Other	*3.9%*	*4.0%*	*5.1%*	*4.4%*	*5.0%*	*4.6%*	*4.2%*	*4.0%*
Operating Income	($5.2)	($1.7)	($1.7)	($1.4)	($2.6)	($6.4)	($7.6)	($8.5)
Operating Margin	*-57.5%*	*-73.0%*	*-96.7%*	*-62.5%*	*-101.2%*	*-72.4%*	*-63.3%*	*-56.7%*
Interest Income / Net	($0.9)	($0.2)	($0.1)	($0.2)	$0.0	($0.5)	$0.0	$0.0
Pre-Tax Income	($6.1)	($1.8)	($1.9)	($1.6)	($2.6)	($7.0)	($7.6)	($8.5)
Taxes	($0)	($0)	($0)	($0)	($0)	($0)	($0)	($0)
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income	($5.7)	($1.7)	($1.7)	($1.6)	($2.5)	($6.6)	($7.6)	($8.5)
YOY Growth	*71.1%*	-	-	-	-	*14.2%*	*15.6%*	*11.9%*
Net Margin	*-63.5%*	-	*-94.0%*	*-72.7%*	*-95.7%*	*-73.7%*	*-63.2%*	*-56.5%*
Reported EPS	($0.06)	($0.02)	($0.01)	($0.01)	($0.01)	($0.04)	($0.04)	($0.04)
Fully Diluted Shares	95.7	116.7	157.9	163.0	180.0	154.4	200.0	220.0

Source: David Bautz, PhD - Zacks Investment Research, Inc.

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