

**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 March 31, 2022
- OR
- 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: 001-36812

**SALARIUS PHARMACEUTICALS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware** **46-5087339**  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

2450 Holcombe Blvd., Suite X, Houston, TX 77021  
(Address of principal executive offices)(Zip Code)

(832)834-6992  
Registrant's telephone number, including area code

(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, \$ 0.0001 par value	SLRX	The Nasdaq Stock Market LLC

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 the 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 May 9, 2022, there were 56,116,243 shares of common stock outstanding.

**SALARIUS PHARMACEUTICALS, INC.**

**TABLE OF CONTENTS**

	<u>Page</u>	
<u>PART I.</u>	<u>Financial Information</u>	
<u>Item 1.</u>	<u>Financial Statements (Unaudited)</u>	<u>5</u>
	<u>Condensed Consolidated Balance Sheets</u>	<u>5</u>
	<u>Condensed Consolidated Statements of Operations</u>	<u>6</u>
	<u>Condensed Consolidated Statements of Cash Flows</u>	<u>7</u>
	<u>Condensed Consolidated Statements of Stockholders' Equity</u>	<u>8</u>
	<u>Notes to Condensed Consolidated Financial Statements</u>	<u>9</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>18</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>22</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>22</u>
<u>PART II.</u>	<u>Other Information</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>23</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>23</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>26</u>
<u>SIGNATURES</u>		<u>27</u>

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Various statements made in this Quarterly Report on Form 10-Q are forward-looking and involve risks and uncertainties. All statements that address activities, events or developments that we intend, expect or believe may occur in the future are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements give our current expectations or forecasts of future events and are not statements of historical or current facts. These statements include, among others, statements about:

- future periods;
- the Company's strategy and ongoing development programs;
- the Company's clinical trials, including status, costs, goals, timing and other expectations related thereto;
- the Company's belief as to the potential of its lead compound, SP-2577;
- the Company's strategic collaborations and license agreements, and intellectual property;
- the potential for seclidemstat to target the epigenetic dysregulation underlying Ewing sarcoma and advanced solid tumors;
- expected timing and results of clinical studies;
- the ability of the Company's product candidates to demonstrate drug activity;
- the nature, strategy and focus of the Company;
- the development and commercial potential of any product candidates;
- the Company's ability and plan to regain and maintain compliance with Nasdaq's continued listing standards; the Company's expectations as to revenue, cash flow, and expenses;
- the potential impact of the COVID-19 pandemic on the Company's business, operations, cash flow and ability to obtain additional financing;
- the Company's liquidity position, the expected sufficiency of such position for anticipated operating and capital requirements; future capital requirements, and need for, and ability to secure, additional financing;
- the ability of the Company to access additional financing under the Grant Contract with Cancer Prevention and Research Institute of Texas; the Company's operating losses and ability to continue as a going concern; and
- the Company's decision to engage in any new collaborations or selectively partnering its technology to improve the Company's ability to continue as a going concern.

Forward-looking statements also include statements other than statements of current or historical fact, including, without limitation, all statements related to any expectations of revenues, expenses, cash flows, earnings or losses from operations, cash required to maintain current and planned operations, capital or other financial items; any statements of the plans, strategies and objectives of management for future operations; any plans or expectations with respect to product research, development and commercialization, including regulatory approvals; any other statements of expectations, plans, intentions or beliefs; and any statements of assumptions underlying any of the foregoing. We often, although not always, identify forward-looking statements by using words or phrases such as "believe," "may," "could," "will," "estimate," "continue," "anticipate," "intend," "expect," "indicate," "seek," "should," "would," "target", "potential," "evaluate," "proceeding."

The following are some of the factors that could cause actual results to differ materially from the anticipated results or other expectations expressed, anticipated or implied in our forward-looking statements:

- the extent to which the COVID-19 pandemic impacts our business, our customers' businesses, the medical community and the global economy;
  - the effectiveness and timeliness of our preclinical studies and clinical trials, and the usefulness of the data;
  - our expectations regarding the timing and clinical development of our product candidates;
  - our ability to achieve profitable operations and access to needed capital;
  - fluctuations in our operating results;
  - the success of current and future license and collaboration agreements
  - our dependence on contract research organizations, vendors and investigators;
  - effects of competition and other developments affecting development of products;
  - market acceptance of our product candidates;
  - protection of intellectual property and avoiding intellectual property infringement;
  - product liability; and
  - other factors described in our filings with the SEC.
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We cannot guarantee that the results and other expectations expressed, anticipated or implied in any forward-looking statement will be realized. The risks set forth under Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021 describe major risks to our business, and you should read and interpret any forward-looking statements together with these risks. A variety of factors, including these risks, could cause our actual results and other expectations to differ materially from the anticipated results or other expectations expressed, anticipated or implied in our forward-looking statements. Should known or unknown risks materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected in the forward-looking statements. You should bear this in mind as you consider any forward-looking statements.

Our forward-looking statements speak only as of the dates on which they are made. We do not undertake any obligation to publicly update or revise our forward-looking statements even if experience or future changes makes it clear that any projected results expressed or implied in such statements will not be realized.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## SALARIUS PHARMACEUTICALS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

	3/31/2022 (Unaudited)	12/31/2021
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 24,193,554	\$ 29,214,380
Prepaid expenses and other current assets	662,854	949,215
Total current assets	24,856,408	30,163,595
Grants receivable from CPRIT	1,610,490	1,610,490
Property and equipment, net	4,190	7,880
Other assets	170,907	185,994
Goodwill	8,865,909	8,865,909
Total assets	\$ 35,507,904	\$ 40,833,868
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 1,693,398	\$ 1,543,096
Accrued expenses and other current liabilities	390,233	553,269
Warrant liability	8,710	14,518
Total liabilities	2,092,341	2,110,883
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value; 10,000,000 shares authorized; 0 issued and outstanding	—	—
Common stock, \$0.0001 par value; 100,000,000 shares authorized; 46,697,194 and 45,241,808 shares issued and outstanding at March 31, 2022 and December 31, 2021, respectively	4,669	4,524
Additional paid-in capital	71,717,311	70,915,653
Accumulated deficit	(38,306,417)	(32,197,192)
Total stockholders' equity	33,415,563	38,722,985
Total liabilities and stockholders' equity	\$ 35,507,904	\$ 40,833,868

See accompanying notes to condensed consolidated financial statements.

**SALARIUS PHARMACEUTICALS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

	Three Months Ended March 31	
	2022	2021
Revenue:		
Grant revenue	\$ —	\$ 1,268,829
Operating expenses:		
Research and development	4,439,475	1,740,655
General and administrative	1,677,754	1,332,769
Total operating expenses	6,117,229	3,073,424
Loss before other income (expense)	(6,117,229)	(1,804,595)
Change in fair value of warrant liability	5,808	(46,054)
Interest income (expense), net	2,196	(1,247)
Loss from continuing operations	<b>(6,109,225)</b>	<b>(1,851,896)</b>
<b>Net loss</b>	<b>\$ (6,109,225)</b>	<b>\$ (1,851,896)</b>
<b>Loss per common share — basic and diluted</b>	<b>\$ (0.13)</b>	<b>\$ (0.06)</b>
Weighted-average number of common shares outstanding — basic and diluted	46,255,210	30,551,316

See accompanying notes to condensed consolidated financial statements.

**SALARIUS PHARMACEUTICALS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	Three Months Ended March 31	
	2022	2021
<b>Operating activities</b>		
Net loss	\$ (6,109,225)	\$ (1,851,896)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, amortization and impairment	4,797	4,795
Equity-based compensation expense	313,903	135,379
In-process research and development technology	1,987,900	—
Change in fair value of warrant liability	(5,808)	46,054
Changes in operating assets and liabilities:		
Grants receivable	—	(367,536)
Prepaid expenses and other current assets	300,342	21,214
Accounts payable	150,302	(446,520)
Accrued expenses and other current liabilities	(163,037)	(264,280)
Net cash used in operating activities	(3,520,826)	(2,722,790)
<b>Investing activities</b>		
Purchase in-process research and development technology	(1,500,000)	—
Net cash used in investing activities	(1,500,000)	—
<b>Financing activities</b>		
Proceeds from issuance of equity securities, net		27,016,746
Proceeds from warrants exercised for cash		1,485,351
Payments on note payable		(285,633)
Net cash provided by financing activities	—	28,216,464
Net increase (decrease) in cash, cash equivalents and restricted cash	(5,020,826)	25,493,674
Cash, cash equivalents and restricted cash at beginning of period	29,214,380	11,118,614
Cash, cash equivalents and restricted cash at end of period	\$ 24,193,554	\$ 36,612,288
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ —	\$ 1,174
Non-cash investing and financing activities:		
Common stock issued for in-process research and development technology	\$ 487,900	\$ —
Accrued issuance costs for public offering	\$ —	\$ 166,725

See accompanying notes to condensed consolidated financial statements.

**SALARIUS PHARMACEUTICALS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**(Unaudited)**

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount			
<b>Balance at December 31, 2020</b>	<b>23,808,546</b>	<b>\$ 2,381</b>	<b>\$ 41,585,761</b>	<b>\$ (19,428,954)</b>	<b>\$ 22,159,188</b>
Issuance of equity securities, net	19,627,215	1,963	26,848,058	—	26,850,021
Warrants exercised for cash	1,298,567	129	1,485,222	—	1,485,351
Equity-based compensation expense	—	—	135,379	—	135,379
Net loss	—	—	—	(1,851,896)	(1,851,896)
<b>Balance at March 31, 2021</b>	<b>44,734,328</b>	<b>4,473</b>	<b>70,054,420</b>	<b>(21,280,850)</b>	<b>48,778,043</b>
<b>Balance at December 31, 2021</b>	<b>45,241,808</b>	<b>4,524</b>	<b>70,915,653</b>	<b>(32,197,192)</b>	<b>38,722,985</b>
Common stock issued for in-process research and development technology	1,000,000	100	487,800	—	487,900
Equity-based compensation expense	455,386	45	313,858	—	313,903
Net loss	—	—	—	(6,109,225)	(6,109,225)
<b>Balance at March 31, 2022</b>	<b>46,697,194</b>	<b>\$ 4,669</b>	<b>\$ 71,717,311</b>	<b>\$ (38,306,417)</b>	<b>\$ 33,415,563</b>

See accompanying notes to condensed consolidated financial statements.



**SALARIUS PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**NOTE 1. ORGANIZATION AND OPERATIONS**

**Nature of Business**

Salarius Pharmaceuticals, Inc. ("Salarius" or the "Company"), together with its subsidiaries, Salarius Pharmaceuticals, LLC, Flex Innovation Group LLC, and TK Pharma, Inc., is a clinical-stage biopharmaceutical company focused on developing effective treatments for cancers with high, unmet medical need. Specifically, the Company is developing treatments for cancers caused by dysregulated gene expression, i.e., genes that are incorrectly turned on or off. We are developing two classes of drugs that address gene dysregulation: epigenetic inhibitors and targeted protein degraders. Our technologies have the potential to work in both liquid and solid tumors. Our current pipeline consists of two small molecule drugs: 1) seclidemstat (SP-2577), a targeted protein inhibitor and 2) SP-3164, a targeted protein degrader. The Company is located in Houston, Texas.

**Going Concern**

Salarius has no products approved for commercial sale, has not generated any revenue from product sales to date and has suffered recurring losses from operations since its inception. The lack of revenue from product sales to date and recurring losses from operations since its inception raise substantial doubt as to the Company's ability to continue as a going concern. The accompanying financial statements are prepared using accounting principles generally accepted in the United States applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities should the Company be unable to continue as a going concern. Salarius will require substantial additional capital to fund its research and development expenses related to its oncology drug. Based on Salarius' expected cash requirements, Salarius believes that there is substantial doubt that its existing cash and cash equivalents, will be sufficient to fund its operations through one year from the financial statements issuance date. The Company intends to obtain additional capital through the sale of equity securities in one or more offerings or through issuances of debt instruments, and may also consider new collaborations or selectively partnering its technology. However, the Company cannot provide any assurance that it will be successful in accomplishing any of its plans.

**Risks Related to Covid-19 Pandemic**

The ongoing COVID-19 coronavirus pandemic (the "Pandemic") has had a significant effect on the United States, global economies, and business worldwide. While we have thus far experienced minimal disruptions from the Pandemic, the duration and full extent to which the Pandemic impacts our business and financial condition depends on future developments that are highly uncertain, subject to change and are difficult to predict, including new information that may emerge concerning the Pandemic, and may cause intermittent or prolonged periods of interruptions to our clinical operations. We are continuously monitoring the Pandemic and its potential effect on our financial position, results of operations and cash flows. This uncertainty could have an impact in future periods on certain estimates used in the preparation of our periodic financial results. Uncertainty around the extent and length of time of the Pandemic, and any future related financial impact cannot be reasonably estimated at this time.

**NOTE 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). Any reference in these notes to applicable guidance is meant to refer to the authoritative GAAP as found in the Accounting Standard Codification ("ASC") and Accounting Standards Update ("ASU") of the Financial Accounting Standards Board ("FASB").

**Principles of Consolidation**

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

## **Unaudited Interim Financial Information**

The accompanying interim financial statements are unaudited. These unaudited interim financial statements have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. These unaudited interim financial statements should be read in conjunction with the audited financial statements and accompanying notes for the year ended December 31, 2021 included elsewhere in the Company's Annual Report on Form 10-K filed with the SEC on March 25, 2022. In the opinion of management, the unaudited interim financial statements reflect all the adjustments (consisting of normal recurring adjustments) necessary to state fairly the Company's financial position as of March 31, 2022 and the results of operations for the three months ended March 31, 2022 and 2021. The interim results of operations are not necessarily indicative of the results that may occur for the full fiscal year. The December 31, 2021 balance sheet included herein was derived from the audited financial statements, but does not include all disclosures, including notes, required by GAAP for complete financial statements.

## **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America as defined by the FASB ASC requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## **Cash and Cash Equivalents**

Salarius considers all highly-liquid investments with original maturities of three months or less to be cash equivalents.

## **Impairment of Long-Lived Assets**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no impairment charges related to long-lived assets for the three months ended March 31, 2022 and 2021.

## **Goodwill**

Goodwill is not amortized, but is tested at least annually for impairment at the reporting unit level. The Company has determined that the reporting unit is the single operating segment disclosed in its current financial statements. Additional impairment assessments may be performed on an interim basis if the Company encounters events or changes in circumstances that would indicate that, more likely than not, the carrying value of goodwill has been impaired.

Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. The Company utilizes the option to perform a qualitative assessment for its reporting unit and if the Company concludes it is more likely than not that the fair value of the reporting unit is less than its carrying amount, then the Company utilizes the two-step quantitative assessment. The Company's qualitative assessment is sensitive to assumptions related to potential adverse events and circumstances, including current market trends in control premiums and involves judgement in determining comparable peer companies to include in the control premium evaluation. Many of the events and circumstances evaluated in determining whether it is more likely than not that goodwill is impaired are outside of the Company's control and could change in future periods. There was no impairment of goodwill during the three months ended March 31, 2022 or March 31, 2021.

## **Financial Instruments and Credit Risks**

Financial instruments that potentially subject the Company to credit risk include cash and cash equivalents and restricted cash. Cash is deposited in demand accounts in federally insured domestic institutions to minimize risk. Insurance is provided through the Federal Deposit Insurance Corporation ("FDIC"). Although the balances in these accounts exceed the federally insured limit from time to time, the Company has not incurred losses related to these deposits.

## **Warrants**

The Company determines whether warrants should be classified as a liability or equity. For warrants classified as liabilities, the Company estimates the fair value of the warrants at each reporting period using Level 3 inputs with changes in fair value recorded in the Condensed Consolidated Statement of Operations within change in fair value of warrant liability. The estimates in valuation models are based, in part, on subjective assumptions, including but not limited to stock price volatility, the expected life of the warrants, the risk-free interest rate and the fair value of the common stock underlying the warrants, and could differ materially in the future. The Company will continue to adjust the fair value of the warrant liability at the end of each reporting period for changes in fair value from the prior period until the earlier of the exercise or expiration of the applicable warrant. For warrants classified as equity contracts, the Company allocates the transaction proceeds to the warrants and any other free-standing instruments issued in the transaction based on an allowable allocation method.

## **Clinical Trial Accruals**

The Company's preclinical and clinical trials are performed by third party contract research organizations (CROs) and/or clinical investigators, and clinical supplies are manufactured by contract manufacturing organizations (CMOs). Invoicing from these third parties may be monthly based upon services performed or based upon milestones achieved. The Company accrues these expenses based upon its assessment of the status of each clinical trial and the work completed, and upon information obtained from the CROs and CMOs. The Company's estimates are dependent upon the timeliness and accuracy of data provided by the CROs and CMOs regarding the status and cost of the studies, and may not match the actual services performed by the organizations. This could result in adjustments to the Company's research and development expenses in future periods. To date the Company has had no significant adjustments.

## **Grants Receivable and Revenue Recognition**

Salarius' source of revenue has been from a grant received from CPRIT. Grant revenue is recognized when qualifying costs are incurred and there is reasonable assurance that conditions of the grant have been met. Cash received from grants in advance of incurring qualifying costs is recorded as deferred revenue and recognized as revenue when qualifying costs are incurred.

## **Research and Development Costs**

Research and development costs consist of expenses incurred in performing research and development activities, including pre-clinical studies and clinical trials. Research and development costs include salaries and personnel-related costs, consulting fees, fees paid for contract research services, the costs of laboratory equipment and facilities, license fees and other external costs. Research and development costs are expensed when incurred.

Costs incurred in obtaining in-process research and development technology ("IPRD") that has no alternative future use are charged to research and development expense as acquired, and presented as investing activity cash outflows on the Statement of Cash Flow.

## **Equity-Based Compensation**

Salarius measures equity-based compensation based on the grant date fair value of the awards and recognizes the associated expense in the financial statements over the requisite service period of the award, which is generally the vesting period.

The Company uses the Black-Scholes option valuation model to estimate the fair value of the stock-based compensation and incentive units. Assumptions utilized in these models including expected volatility calculated based on implied volatility from traded stocks of peer companies, dividend yield and risk-free interest rate. Additionally, forfeitures are accounted for in compensation cost as they occur.

## Loss Per Share

Basic net loss per share is calculated by dividing the net loss applicable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Since the Company was in a loss position for all periods presented, diluted net loss per share is the same as basic net loss per share for all periods, as the inclusion of all potential common shares outstanding is anti-dilutive.

The number of anti-dilutive shares, consisting of common shares underlying (i) common stock options, (ii) stock purchase warrants, (iii) unvested restricted stock, (iv) convertible preferred stock and (v) rights entitling holders to receive warrants to purchase the Company's common shares, which have been excluded from the computation of diluted loss per share, was 10,785,198 and 9,531,198 shares as of March 31, 2022 and 2021, respectively.

## Income Taxes

Income taxes are recorded in accordance with FASB ASC Topic 740, Income Taxes ("ASC 740"), which provides for deferred taxes using an asset and liability approach. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and the tax reporting basis of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. The Company provides a valuation allowance against net deferred tax assets unless, based upon the available evidence, it is more likely than not that the deferred tax assets will be realized. The Company has evaluated available evidence and concluded that the Company may not realize the benefit of its deferred tax assets; therefore, a valuation allowance has been established for the full amount of the deferred tax assets.

The Company accounts for uncertain tax positions in accordance with the provisions of ASC 740. When uncertain tax positions exist, the Company recognizes the tax benefit of tax positions to the extent that the benefit will more likely than not be realized. The determination as to whether the tax benefit will more likely than not be realized is based upon the technical merits of the tax position as well as consideration of the available facts and circumstances. As of March 31, 2022 and December 31, 2021, the Company did not have any significant uncertain tax positions and no interest or penalties have been charged. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company is subject to routine audits by taxing jurisdictions.

## Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which requires the measurement of all expected credit losses for financial assets including trade receivables held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Subsequent to the issuance of ASU 2016-13, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments - Credit Losses. This ASU does not change the core principle of the guidance in ASU 2016-13, instead these amendments are intended to clarify and improve operability of certain topics included within the credit losses guidance. The FASB also subsequently issued ASU No. 2019-04, Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Derivatives and Hedging (Topic 815), and Financial Instruments (Topic 842), which did not change the core principle of the guidance in ASU 2016-13 but clarified that expected recoveries of amounts previously written off and expected to be written off should be included in the valuation account and should not exceed amounts previously written off and expected to be written off. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019 for public business entities, excluding smaller reporting companies. Early adoption is permitted. As a smaller reporting company, the guidance will be effective for the Company during the first quarter of 2023. The Company is in the process of assessing the impact adoption will have on its consolidated financial statements.

## NOTE 3. GRANTS RECEIVABLE

Grants receivable represents qualifying costs incurred where there is reasonable assurance that conditions of the grant have been met but the corresponding funds have not been received as of the reporting date. Grants receivable balances are \$1.6 million at both March 31, 2022 and December 31, 2021.

**NOTE 4. PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid expenses and other current assets at March 31, 2022 and December 31, 2021 consisted of the following:

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
Prepaid clinical trial expenses	\$ 67,730	\$ 97,557
Prepaid insurance	399,746	678,672
Other prepaid and current assets	195,378	172,986
Total prepaid expenses and other current assets	<u>\$ 662,854</u>	<u>\$ 949,215</u>

Prepaid insurance is mainly comprised of prepaid directors' and officers' insurance.

**NOTE 5. COMMITMENTS AND CONTINGENCIES****License Agreement with the University of Utah Research Foundation**

In 2011, the Company entered into a license agreement with the University of Utah, under which, the Company acquired an exclusive license to an epigenetic enzyme lysine specific demethylase 1 ("LSD1"). In exchange for the license, the Company issued 2% equity ownership in the Company based on a fully diluted basis at the effective date of the agreement subject to certain adjustments specified in the agreement, such as granted revenue sharing rights on any resulting products or processes to commence on first commercial sale, and milestone payments based upon regulatory approval of any resulting product or process as well as on the second anniversary of first commercial sale.

**Cancer Prevention and Research Institute of Texas**

In June 2016, the Company entered into a Cancer Research Grant Contract with CPRIT. Pursuant to the contract, CPRIT awarded the Company a grant of up to \$18.7 million, further modified to \$16.1 million, to fund the development of an LSD1 inhibitor. This is a 3-year grant award which originally expired on May 31, 2019. The grant now expires on November 30, 2022.

The Company will retain ownership over any intellectual property developed under the contract ("Project Result"). With respect to non-commercial use of any Project Result, the Company agreed to grant to CPRIT a nonexclusive, irrevocable, royalty-free, perpetual, worldwide license with right to sublicense any necessary additional intellectual property rights to exploit all Project Results by CPRIT, other governmental entities and agencies of the State of Texas, and private or independent institutions of higher education located in Texas, for education, research and other non-commercial purposes.

The Company is obligated to make revenue-sharing payments to CPRIT with respect to net sales of any product covered by the contract, up to a maximum repayment of a certain percentage of the aggregate amount paid to the Company by CPRIT under the CPRIT contract. The payments are determined as a percentage of net sales, which may be reduced if the Company is required to obtain a license from a third party to sell any such product. In addition, upon meeting the foregoing limitation on revenue-sharing payments, the Company agreed to make continued revenue-sharing payments to CPRIT of less than 1% of net sales.

The CPRIT grant is subject to funding conditions including a matching funds requirement where the Company will match 50% of funding from the CPRIT grant. As of March 31, 2022, the Company has expended all allowable funds under the grant.

**Lease Agreement**

The Company presently leases office space under operating lease agreements on a month to month basis.

**NOTE 6. 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. A fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last is considered unobservable, are used to measure fair value:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Significant unobservable inputs including Salarius' own assumptions in determining fair value.

The Company believes the recorded values of its financial instruments, including cash and cash equivalents, accounts payable and note payable approximate their fair values due to the short-term nature of these instruments.

The following table sets forth a summary of changes in the fair value of Level 3 liabilities, the warrants issued in connection with the Company's merger with Flex Pharma in 2019, which are measured at fair value on a recurring basis for the three months ended March 31, 2022:

Description	Balance at December 31, 2021	Change in Fair Value	Balance at March 31, 2022
Warrant liability	\$ 14,518	\$ 5,808	\$ 8,710

## NOTE 7. STOCKHOLDERS' EQUITY

### Common Stock

On January 12, 2022, the Company, entered into an Acquisition and Strategic Collaboration Agreement (the "ASCA"), with DeuteRx, LLC, a Delaware limited liability company (the "DeuteRx"), pursuant to which DeuteRx agreed to sell, and Company agreed to purchase and assume from DeuteRx, all of DeuteRx's rights, title, and interest in and to certain assets of DeuteRx, including SP-3164, DeuteRx's intellectual property, information and data related to SP-3164, tangible materials or reagents related to SP-3164, goodwill, rights and claims, other than certain excluded assets (collectively, the "Purchased Assets"), all as more specifically set forth in the ASCA, and assume certain assumed liabilities, upon the terms and subject to the conditions set forth in the ASCA. The Aggregate purchase price paid under the ASCA was \$2.0 million consisting of \$1.5 million cash payment and the delivery of 1 million shares of the Company's common stock, valued at \$0.5 million. In addition, the Company agreed to pay to Seller potential future milestone payments upon the occurrence of an applicable Milestone Event (as defined in the ASCA) and potential future royalty payments. A member of the Company's Board of Directors also serves as a consultant to the Seller and is employed by an affiliate of the Seller.

On February 5, 2021, the Company entered into an At the Market Offering Agreement (the "Sales Agreement") with Ladenburg Thalmann & Co. Inc. ("Ladenburg"). Under the Sales Agreement the Company was able to issue and sell, from time to time, shares of its common stock having an aggregate offering price of up to \$6.3 million (the "ATM Shares") with Ladenburg acting as an agent for sales. Sales of the ATM Shares may be made by any method permitted by law deemed to be an "at the market offering" as defined in Rule 415(a)(4) of the Securities Act of 1933, as amended, including, without limitation, sales made directly on or through the NASDAQ Capital Market. No shares were issued under the Sales Agreement during the three months ended March 31, 2022. During the three months ended March 31, 2021, the Company issued 2,820,493 shares under the Sales Agreement for gross proceeds of \$6.3 million.

On March 8, 2021, the Company completed a public offering of 16,806,722 shares of its common stock at a price to the public of \$1.3685 per share. Total gross proceeds from the offering were approximately \$23.0 million prior to deducting underwriting discounts and commissions and offering expenses payable by the Company.

## Warrants Exercised for Cash

The Company has five-year warrants outstanding that were issued in February 2020 and subsequently modified in December 2020 in connection with the issuance of additional inducement warrants. The warrants are exercisable at a price per share of \$0.90. The inducement warrants expire on June 11, 2026 and are exercisable at a price per share of \$1.182.

During the three months ended March 31, 2022, no warrants were exercised. During the three months ended March 31, 2021, the Company issued 1,298,567 common shares as a result of warrant exercises, and received cash proceeds of approximately \$1.5 million. As of March 31, 2022, 7,747,587 warrants remain outstanding.

## Rights to Warrants

On January 3, 2019, Flex Pharma, Private Salaris and Merger Sub entered into the Merger Agreement. Pursuant to the Merger Agreement, Flex Pharma distributed one right per share of common stock to stockholders of record as of the close of business on July 18, 2019. Each right entitles such stockholders to receive a warrant to purchase the Company's common shares on January 20, 2020. These warrants were issued on July 1, 2021 and are exercisable in the aggregate, into 142,711 shares of the Company's common stock with a 5-year term from January 20, 2020, at an exercise price of \$15.17 per share. The warrants are subject to a cashless exercise, at the option of the Company, at the closing of an issuance and sale of the Company's common stock in certain qualified financing, upon the closing of which the holders of warrants shall be entitled to receive a number of shares of common stock equal to the greater of two formulae defined by the Merger Agreement, which are based on the volume weighted average price of the Company's common stock during the 10 consecutive trading days ending on the trading day immediately preceding the date of exercise. As a result, the warrants have been classified as a liability.

The Company accounted for these warrants at fair value using Level 3 inputs. The Company determined the fair value of this warrant liability using a Black-Scholes valuation model. Using this method, unobservable inputs included the Company's equity value, expected timing of possible outcomes, risk free interest rates and stock price volatility.

Variables used in the Black-Scholes model are as follows:

	March 31, 2022	December 31, 2021
Discount rate	2.45%	0.97%
Expected life (years)	2.81 years	3.06 years
Expected volatility	125.52%	125.58%
Expected dividend	—%	—%

## Wedbush Warrant

On July 19, 2019, upon the closing of the merger, the Company elected to issue warrants to purchase 42,928 common shares to Wedbush Securities Inc. ("Wedbush") to satisfy \$0.5 million of the \$1.0 million success fee payable to Wedbush at the closing of the merger. The remaining \$0.5 million success fee was paid in cash. These warrants have an exercise price of \$18.90 and a 5-year term. As of March 31, 2022, all warrants issued to Wedbush were outstanding.

## NOTE 8. EQUITY-BASED COMPENSATION

### Equity Incentive Plans

The Company has granted options to employees, directors, and consultants under the 2015 Equity Incentive Plan (the "2015 Plan"). The 2015 Plan provides for the grant of incentive stock options ("ISOs"), nonstatutory stock options, restricted stock awards, restricted stock units, stock appreciation rights, performance-based stock awards and other stock-based awards. Additionally, the 2015 Plan provides for the grant of performance-based cash awards. ISOs may be granted only to the Company's employees. All other awards may be granted to the Company's employees, including officers, and to non-employee directors and consultants. As of March 31, 2022, there were 1,126,976 shares remaining available for the grant of option awards under the 2015 Plan.

During the three-months periods ended March 31, 2022 and 2021, the Company awarded 1,254,000 and 40,000 stock options, respectively, to its employees and directors, pursuant to the plan described above. Stock options generally vest over one to four years and have a contractual term of ten years. Stock options are valued using the Black-Scholes option pricing model and compensation cost is recognized based on the resulting value over the service period. Expected volatilities utilized in the model are based on implied volatilities from traded stocks of peer companies. Similarly, the dividend yield is based on historical experience and the estimate of future dividend yields. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant. The expected term of the options is based on the average period the stock options are expected to remain outstanding. The fair value of the option grants awarded during each of the three months periods ended March 31, 2022 and 2021 was \$0.5 million and \$0.1 million, respectively, which has been estimated with the following assumptions on the grant date.

	1/20/2022	3/10/2021
Risk-free interest rate	1.62%-1.70%	1.00%
Volatility	125.19%	133.35%
Expected life (years)	5.00-6.00	6.00
Expected dividend yield	0%	0%

The following table summarizes stock option activity for employees and non-employees for the three months ended March 31, 2022 and 2021:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2020	1,563,972	\$2.78	9.47	\$175,770
Granted	40,000	1.49		
Exercised	—			
Forfeited	—			
Expired	—			
Outstanding at March 31, 2021	1,603,972	\$2.75	9.24	\$787,801
Exercisable at March 31, 2021	143,747	\$18.96	7.00	\$57,900
Outstanding at December 31, 2021	1,597,972	\$2.75	8.50	\$—
Granted	1,254,000	\$ 0.48		
Exercised	—			
Forfeited	—			
Expired	—			
Outstanding at March 31, 2022	2,851,972	\$1.75	8.94	\$—
Exercisable at March 31, 2022	768,900	\$4.46	8.01	\$—

As of March 31, 2022 and 2021, there was approximately \$1.3 million of total unrecognized compensation cost related to unvested stock options. Total unrecognized compensation cost will be adjusted for future changes in employee and non-employee forfeitures, if any. The Company expects to recognize that cost over a remaining weighted-average period of 2.8 years.



## **NOTE 9 SUBSEQUENT EVENTS**

The Company's management reviewed all material events through the date that the financial statements were issued for subsequent event disclosure consideration.

On April 22, 2022, the Company entered into a securities purchase agreement on with certain institutional and accredited investors for the sale by the Company of 9,339,436 shares of the Company's common stock, par value \$0.0001 per share (the "Common Stock") at a purchase price of \$0.25 per share. Concurrently, the Company also sold unregistered warrants exercisable for an aggregate of 7,004,578 shares of Common Stock, which represents 75% of the shares of Common Stock sold, with an exercise price of \$0.3399 per share. The transaction closed on April 26, 2022 with gross proceeds of \$2.3 million before deducting certain fees due to the placement agent and other estimated transaction expenses.

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

*The following discussion and analysis should be read in conjunction with the unaudited financial information and the notes thereto included herein, as well as our audited financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on March 25, 2022. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of several factors, including those set forth under "Part I - Item 1A - Risk Factors" discussed in our Annual Report on Form 10-K for the year ended December 31, 2021, in other subsequent filings with the SEC, and elsewhere in this Quarterly Report on Form 10-Q. These statements, like all statements in this report, speak only as of the date of this Quarterly Report on Form 10-Q (unless another date is indicated), and we undertake no obligation to update or revise these statements in light of future developments.*

### Overview

We are a clinical-stage biopharmaceutical company focused on developing treatments for cancers with high, unmet medical need. Specifically, we are developing treatments for cancers caused by dysregulated gene expression, i.e., genes which are incorrectly turned on or off. We are developing two classes of drugs that address gene dysregulation: epigenetic inhibitors and targeted protein degraders. Our technologies have the potential to work in both liquid and solid tumors. Our current pipeline consists of two small molecule drugs: 1) seclidemstat (SP-2577), a targeted protein inhibitor and 2) SP-3164, a targeted protein degrader.

We have no products approved for commercial sale and have not generated any revenue from product sales. We have never been profitable and have incurred operating losses in each year since inception. We had an accumulated deficit of \$38.3 million as of March 31, 2022. Substantially all of our operating losses resulted from expenses incurred in connection with our research and development programs and from general and administrative costs associated with our operations. As of March 31, 2022, we had cash and cash equivalents of \$24.2 million.

Our financial statements are prepared using Generally Accepted Accounting Principles in the United States of America ("GAAP") applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Our financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities should we be unable to continue as a going concern.

We expect to continue to incur significant expenses and increasing operating losses for at least the next several years as we initiate and continue the clinical development of, and seek regulatory approval for, our product candidate, add personnel necessary to continue to operate as a public company, and work to develop an advanced clinical pipeline of product candidates. We expect that our operating losses will fluctuate significantly from quarter-to-quarter and year-to-year due to timing of clinical development programs and efforts to achieve regulatory approval.

The lack of revenue from product sales to date and recurring losses from operations since our inception raise substantial doubt as to our ability to continue as a going concern. We will continue to require substantial additional capital to continue our clinical development activities and may need such additional capital sooner than 12 months. Accordingly, we will need to raise substantial additional capital to continue to fund our operations. The amount and timing of our future funding requirements will depend on many factors, including the pace and results of our development, regulatory approvals and authorizations, commercialization efforts and market conditions. Failure to raise capital as and when needed, on favorable terms or at all, would have a negative impact on our financial condition and our ability to develop and commercialize our product candidates.

We intend to obtain additional capital through the sale of equity securities in one or more offerings or through issuances of debt instruments. We may also consider new collaborations or selectively partnering our technology. However, we cannot provide any assurance that we will be successful in accomplishing any of our plans to obtain additional capital or be able to do so on terms acceptable to us.

### **Seclidemstat - Targeted Protein Inhibition**

Our lead compound, seclidemstat (SP-2577), is a small molecule that inhibits the epigenetic enzyme lysine specific demethylase 1 (LSD1). LSD1 is an enzyme that removes mono- and di-methyl marks on histones (core protein of

chromatin) to alter gene expression. LSD1's enzymatic activity can cause genes to turn on or off and thereby affect the cell's gene expression and overall activity. In addition, LSD1 can act via its scaffolding properties, independently of its enzymatic function, to alter gene expression and modulate cell fate. In healthy cells, LSD1 is necessary for stem cell maintenance and cell development processes. However, in several cancers LSD1 is highly expressed and acts aberrantly to incorrectly silence or activate genes leading to disease progression. High levels of LSD1 expression are often associated with aggressive cancer phenotypes and poor patient prognosis. Hence, development of targeted LSD1 inhibitors is of interest for the treatment of various cancers. SP-2577 uses a novel, reversible mechanism to effectively inhibit LSD1's enzymatic and scaffolding properties and thereby treat and prevent cancer progression.

SP-2577 is being developed for both solid and liquid tumors. Our lead indication for SP-2577 is a devastating bone and soft-tissue cancer called Ewing sarcoma, which has a median age of diagnosis of 15. We are currently in a Phase 1/2 trial to treat relapsed/refractory Ewing sarcoma patients in combination with topotecan and cyclophosphamide. Based on SP-2577's proposed mechanism of action, preclinical data, and clinical data from our earlier Advanced Solid Tumor trial, we expanded the Ewing sarcoma dose expansion trial to include a cohort of Ewing-related sarcomas (also referred to as FET-translocated sarcomas). Ewing sarcoma and FET-translocated sarcomas are rare cancers that may provide a speed-to-market development approach. In addition, as part of our market expansion strategy, in 2021 we initiated an Investigator Initiated Trial with the MD Anderson Cancer Center that is studying SP-2577 in combination with azacitidine for the treatment of patients with myelodysplastic syndromes (MDS) or chronic myelomonocytic leukemia (CMML). MDS and CMML can progress into Acute Myeloid Leukemia (AML), which the American Cancer Society estimates there were almost 20,000 new cases of AML in the US alone in 2020.

### ***SP-3164 – Targeted Protein Degradation***

SP-3164 is a next-generation cereblon-binding molecular glue. Molecular glues are small molecules that commandeer the body's normal protein degradation processes by causing proteins to stick to one another thereby inducing selective degradation of cancer-causing proteins. Derived from avadomide, SP-3164 is engineered using DECS (deuterium-enabled chiral switching), a process that replaces hydrogen atoms with deuterium to stabilize the molecule's active enantiomer, resulting in a novel molecular entity with the potential for increased efficacy and improved safety compared to the 1st generation compound. SP-3164 degrades transcription factors IKZF1 and IKZF3, along with other proteins, resulting in both direct anti-cancer activity and immune-modulating properties. SP-3164 has potential to treat both hematologic and solid tumors and is currently in IND-enabling studies.

Our goal is to develop SP-2577 and SP-3164 for treatment of cancers while attempting to maximize return for investors. To achieve this goal, our strategy consists of a two-pronged approach: 1) speed-to-market by developing SP-2577 and SP-3164 in high unmet need indications and 2) expansion of the market by developing SP-2577 and SP-3164 in larger market indications.

### **Special Note About Coronavirus (COVID-19)**

The ongoing COVID-19 coronavirus pandemic (the "Pandemic") has had a significant effect on the United States, global economies, and business worldwide. While we have thus far experienced minimal disruptions from the Pandemic, the duration and full extent to which the Pandemic impacts our business and financial condition depends on future developments that are highly uncertain, subject to change and are difficult to predict, including new information that may emerge concerning the Pandemic, and may cause intermittent or prolonged periods of interruptions to our clinical operations. We are continuously monitoring the Pandemic and its potential effect on our financial position, results of operations and cash flows. This uncertainty could have an impact in future periods on certain estimates used in the preparation of our periodic financial results. Uncertainty around the extent and length of time of the Pandemic, and any future related financial impact cannot be reasonably estimated at this time.

## Results of Operations

The following table sets forth the condensed consolidated results of our operations for the three months ended March 31, 2022 compared to March 31, 2021.

	Three months ended March 31		\$ Change	% Change
	2022	2021		
Grant revenue	\$ —	\$ 1,268,829	\$ (1,268,829)	(100)%
Research and development expenses	4,439,475	1,740,655	2,698,820	155%
General and administrative expenses	1,677,754	1,332,769	344,985	26%
Change in fair value of warrant liability	5,808	(46,054)	51,862	113%
Interest income(expense), net	2,196	(1,247)	3,443	276%
Net loss	<u>\$ (6,109,225)</u>	<u>\$ (1,851,896)</u>	<u>\$ (4,257,329)</u>	<u>230%</u>

### Grant Revenue

Grant revenue, which was derived solely from the CPRIT grant, was \$0 for three months ended March 31, 2022 resulting from the completion of CPRIT available funding under the grant during the second quarter of 2021. We have reached the maximum amount of the eligible spending that can be reimbursed from CPRIT.

As of March 31, 2022, we expect to receive \$1.6 million from the grant.

### Research and Development Expenses

Research and development expenses increased during both the current period and three months ended March 31, 2022 compared to the same periods in 2021 resulting from the purchase of SP-3164 as an in-process research and development technology, significantly higher outsourced research and development consulting and services cost, personnel costs and clinical trial costs, partially offset by lower manufacturing and process development costs.

Research and Development expense by product candidate:	Three months ended March 31	
	2022	2021
SP-2577	\$ 2,266,546	\$ 1,740,655
SP-3164	2,172,929	—
<b>Total research and development costs</b>	<u><b>\$ 4,439,475</b></u>	<u><b>\$ 1,740,655</b></u>

Research and development costs by candidates and by categories:	SP-2577		SP-3164	
	Three months ended March 31			
	2022	2021	2022	2021
Outsourced research and development costs	\$ 1,270,309	\$ 910,513	\$ 117,603	\$ —
Employee-related costs	605,818	315,461	44,059	—
Manufacturing and laboratory costs	390,419	514,681	23,367	—
In process research and development costs	—	—	1,987,900	—
<b>Total research and development costs</b>	<b>\$ 2,266,546</b>	<b>\$ 1,740,655</b>	<b>\$ 2,172,929</b>	<b>\$ —</b>

### General and Administrative Expenses

General and administrative expenses increased during the current three months period compared to the same period a year ago resulting from higher personnel costs and public company cost, partially offset by lower professional fee .

### Liquidity and Capital Resources

#### Overview

Since inception, we have incurred operating losses and we anticipate that we will continue to incur losses for the foreseeable future.

As of March 31, 2022, we had \$22.8 million of working capital and our cash and cash equivalents totaled \$24.2 million, which were held in bank deposit accounts and a money market account. Our cash and cash equivalents balance decreased during the three months ended March 31, 2022, primarily due to cash used in operating and investing activities.

We do not expect to generate any revenue from product sales unless and until we obtain regulatory approval for and commercialize our product candidate. At the same time, we expect to continue to incur significant expenses and increasing operating losses for at least the next several years as we initiate and continue the clinical development of, and seek regulatory approval for, our product candidate, add personnel necessary to continue to operate as a public company, and work to develop an advanced clinical pipeline of product candidates. We expect that our operating losses will fluctuate significantly from quarter-to-quarter and year-to-year due to timing of clinical development programs and efforts to achieve regulatory approval.

To date, we have secured capital from the sale of equity and grant revenue. Until we can generate a sufficient amount of revenue from our products, if ever, we intend, when required, to obtain additional capital through the sale of equity securities in one or more offerings or through issuances of debt instruments. We may also consider new collaborations or selectively partnering our technology. However, we cannot provide any assurance that we will be successful in accomplishing any of our plans to obtain additional capital or be able to do so on favorable terms acceptable to us. If we are unable to obtain additional financing, we may be required to significantly delay, scale back or discontinue the development or commercialization of our product candidate. Furthermore, we may be unable to complete a collaboration, or if we do, we may be forced to relinquish valuable future product rights.

### Cash Flows

	Three months ended March 31,	
	2022	2021
Net cash (used in) provided by in:		
Operating activities	\$ (3,520,826)	\$ (2,722,790)
Investing activities	(1,500,000)	—
Financing activities	—	28,216,464
Net increase in cash and cash equivalents	<u>\$ (5,020,826)</u>	<u>\$ 25,493,674</u>

### **Operating Activities**

Net cash used in operating activities was \$3.5 million in the current period, an increase of approximately \$0.8 million from the same period a year ago. The increase is primarily due to higher research and development cost incurred in current year.

### **Investing Activities**

Net cash used in investing activities was \$1.5 million in the current period for the cash portion of the purchase price for the acquisition of in-process research and development technology SP-3164, there was no such transaction during the same period 2021.

### **Financing Activities**

Net cash provided by financing activities for the three months ended March 31, 2022 was \$0 million, compared to \$28.2 million for the same period of the year 2021. This is due to Company's completion of common stock sales during the three-months ended March 31, 2021 with total net proceeds of approximately \$27.0 million, and the receipt of approximately \$1.5 million from the exercise of warrants during the three-months ended 2021.

### **Critical Accounting Policies and Estimates**

Our management's discussion and analysis of our financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the condensed consolidated balance sheet and the reported amounts of expenses during the reporting period. In accordance with GAAP, we base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances at the time such estimates are made. Actual results may differ materially from our estimates and judgments under different assumptions or conditions. We periodically review our estimates in light of changes in circumstances, facts and experience. The effects of material revisions in estimates are reflected in our condensed consolidated financial statements prospectively from the date of the change in estimate.

There have been no material changes to our critical accounting policies from those described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K filed with SEC on March 25, 2022.

Readers should refer to our Annual Report on Form 10-K filed with SEC on March 25, 2022, Note 2, Basis of Presentation and Significant Accounting Policies to the accompanying financial statements for descriptions of these policies and estimates.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended, and are not required to provide the information under this item.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

We maintain "disclosure controls and procedures," as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed in our periodic and current reports that we file under the Exchange Act with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (our principal executive officer) and our Chief Financial Officer (our principal financial officer and principal accounting officer), as appropriate, to allow timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b) under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (our principal executive officer) and Chief Financial Officer (our principal financial officer and principal accounting officer), of the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and 15d-15(e) promulgated under the Exchange Act, as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on the foregoing, our Chief Executive Officer (our principal executive officer) and Chief Financial Officer (our principal financial officer and principal accounting officer) concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective at the reasonable assurance level as of the end of the period covered by this Quarterly Report

### Changes in Internal Control over Financial Reporting

During the three months ended March 31, 2022, there was no significant change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

We are not a party to any material legal proceedings on the date of this report. We may from time to time become involved in legal proceedings arising in the ordinary course of business, and the resolution of any such claims could be material.

### Item 1A. Risk Factors

For a discussion of certain factors that could materially affect our business, financial condition, and operating results, you should carefully review and consider the information under "Part I, Item 1A- Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on March 25, 2022, as well as the risk factors set forth below. The risk factors below are in addition to and supplement (and with respect to certain matters, update) the risk factors discussed in our Annual Report on Form 10-K and in our Current Report on Form 8-K filed on July 29, 2020. Other than as set forth below, there have been no material changes to the risk factors included in our Annual Report on Form 10-K filed with the SEC on March 25, 2022 and in our Current Report on Form 8-K filed on July 29, 2020.

***We have incurred losses since our inception, have a limited operating history on which to assess our business, and anticipate that we will continue to incur significant losses for the foreseeable future which together with our limited working capital, and lack of revenue from product sales, raises substantial doubt about our financial viability and as to whether we will be able to continue as a going concern.***

***We will continue to require substantial additional capital to fund our clinical activities and operations and the impact of the COVID-19 pandemic on the financial markets will likely negatively impact our ability to raise additional financing.***

We are a clinical development-stage biopharmaceutical company with a limited operating history. We have no products approved for commercial sale and have not generated any revenue from product sales. We have never been profitable and have incurred operating losses in each year since inception. Our net losses were \$12.8 million for the year ended December 31, 2021, and we have incurred a net loss of \$6.1 million and \$1.9 million for the three months ended March 31, 2022 and three months ended March 31, 2021, respectively. We have prepared our financial statements on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts of liabilities that might be necessary should we be unable to continue in existence.

We will continue to require substantial additional capital to continue our clinical development and potential commercialization activities. Accordingly, we will need to raise substantial additional capital to continue to fund our operations. The development of our product candidates and funding our operations have been funded through sales of equity and funds received from CPRIT. The amount and timing of our future funding requirements will depend on many factors, including but not limited to the pace and results of our clinical development efforts, as well as our ability to access the funding remaining available under the CPRIT grant. Further, the global economic downturn may impair our ability to obtain additional financing through other means, such as debt financing. There can be no assurance we will be able to secure additional financing on favorable terms to us, or at all. Further any debt financing may contain restrictive covenants which limit our operating flexibility and any equity financing will likely result in additional and possibly significant dilution to existing stockholders. Failure to raise sufficient capital, as and when needed or on commercially reasonable terms, would have a significant and negative impact on our financial condition and our ability to develop our product candidate.

***We rely on funding from CPRIT and failure to receive additional funds may harm our business.***

During the course of the development of our product candidate, we have been funded through the sale of equity and the funding we received from the CPRIT grant. The CPRIT agreement was awarded in June 2016 and originally provided for a three-year grant award of up to \$18.7 million, further modified to \$16.1 million, to fund the development of the LSD-1 inhibitor. We have received \$14 million since inception of the grant. The term of the CPRIT agreement was extended through November 30, 2022. We currently have a \$1.6 million receivable due from CPRIT on our March 31, 2022 balance sheet. If CPRIT terminates our agreement prior to the expiration due to an event of default or if we terminate the agreement, CPRIT may require us to repay some or all of the disbursed grant. Although we may apply for government contracts and grants in the future, we may not be successful in obtaining additional grants for any product candidates or programs.

**Risks Related to Our Common Stock**

***If we fail to comply with the continued listing standards of Nasdaq, our common stock may be delisted from Nasdaq. This in turn could result in significantly reduced trading liquidity, reduced trading volumes, and loss of research analyst coverage, among other consequences. These in turn could result in a further decline in the market price of common stock and would have a material adverse effect on our company.***

On November 16, 2021, we were notified (the "Notice") by Nasdaq that on November 15, 2021 the average closing price of the Company's common stock (the "Common Stock") over the prior 30 consecutive trading days had fallen below \$1.00 per share, which is the minimum average closing price required to maintain listing on Nasdaq under Nasdaq Listing Rule 5450(a)(1) (the "Minimum Bid Requirement"). To regain compliance, the closing bid price of the Company's common stock must be at least \$1.00 per share for a minimum of ten consecutive business days before May 16, 2022. On May 11, 2022, the closing price of our common stock was \$0.19 per share.

In the event that we do not regain compliance by May 16, 2022, we may be eligible for an additional 180 calendar day compliance period. To qualify, we would be required to meet the continued listing requirement for market value of publicly held shares and all other initial listing standards for The Nasdaq Capital Market with the exception of the Minimum Bid Requirement and provide Nasdaq with written notice of our intention to cure the deficiency during the second compliance period.

We intend to actively monitor the closing bid price of our common stock and will evaluate available options to regain compliance with the Minimum Bid Requirement, such as implementing a reverse stock split. We currently plan to seek at our 2022 Annual Meeting of Stockholders the approval of our stockholders to implement a reverse stock split. There is no assurance that we will be able to obtain stockholder approval of the reverse stock split. In the event a reverse stock split is implemented, there is no assurance that the reverse stock split will not cause an actual decline in the value of our outstanding common stock. The liquidity of the shares of our common stock may be affected adversely by the reverse stock split given the reduced number of shares that will be outstanding following the reverse stock split, especially if the market price of our common stock does not increase as a result of the reverse stock split. In addition, the reverse stock split may increase the number of stockholders who own odd lots (less than 100 shares) of our common stock, creating the potential for such stockholders to experience an increase in the cost of selling their shares and greater difficulty effecting such sales.

To the extent that we are unable to resolve any listing deficiency, including if our shareholders do not approve implementing a reverse stock split or it is unsuccessful in sufficiently raising the market price of our common stock, there is a risk that our common stock may be delisted from Nasdaq, which would adversely impact liquidity of our common stock and potentially result in even lower bid prices for our common stock and potentially result in even



lower bid prices for our common stock. If for any reasons, Nasdaq should delist our common stock, and if our common stock is not then eligible for quotation on another market or exchange, trading of shares of our common stock could be conducted in the over-the-counter markets. In such event, a reduction in some or all of the following may occur, each of which could materially and adversely affect our stockholders:

- the liquidity of our common stock;
- the market price of our common stock;
- our ability to obtain financing for the continuation of our operations;
- the number of institutional and general investors that will consider investing in our common stock;
- the number of market makers in our common stock;
- the availability of information concerning the trading prices and volume of our common stock; and
- the number of broker-dealers willing to execute trades in shares of our common stock.

The occurrence of any of these events could result in a further decline in the market price of common stock and could have a material adverse effect on us.

**Item 6. Exhibits**

<b>Exhibit number</b>	<b>Description of Document</b>
2.01	<a href="#">Acquisition and Strategic Collaboration Agreement, dated January 12, 2022 (incorporated by reference to Exhibit 10.1 of the Company's current report on Form 8-K that was filed on January 13, 2022).</a>
31.1	<a href="#">Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.</a>
31.2	<a href="#">Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.</a>
32.1*	<a href="#">Certification of Principal Executive Officer and Principal Financial Officer pursuant to Rule 13a-14(b) or 15d-14(b) of the Exchange Act and 18 U.S.C. Section 1350.</a>
101.0	The following materials from Salaris Pharmaceuticals, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2022, formatted in XBRL (eXtensible Business Reporting Language):(i) Unaudited Condensed Consolidated Balance Sheets, (ii) Unaudited Condensed Consolidated Statements of Operations (iii) Unaudited Condensed Consolidated Statements of Stockholders' Equity (Deficit), (iv) Unaudited Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Unaudited Consolidated Financial Statements.

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\* The material contained in Exhibit 32.1 is not deemed "filed" with the SEC and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing, except to the extent that the registrant specifically incorporates it by reference.

**SIGNATURES**

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

**SALARIUS PHARMACEUTICALS, INC.**

By: /s/ David J. Arthur  
David J. Arthur  
*President and Chief Executive Officer (Principal Executive Officer)*

By: /s/ Mark J. Rosenblum  
Mark J. Rosenblum  
*Chief Financial Officer and Executive Vice President of Finance (Principal Financial Officer and Principal Accounting Officer)*

Date: May 12, 2022

**Certification Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, David J. Arthur, President and Chief Executive Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Salarius Pharmaceuticals, 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. The registrant's other certifying officer and I are 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 our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us 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 our 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 our 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our 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.

May 12, 2022

/s/ David J. Arthur

David J. Arthur

President and Chief Executive Officer  
(Principal Executive Officer)

**Certification Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Mark J. Rosenblum, Executive Vice President and Interim Chief Financial Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Salarius Pharmaceuticals, 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. The registrant's other certifying officer and I are 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 our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us 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 our 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 our 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our 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.

May 12, 2022

/s/ Mark J. Rosenblum

Mark J. Rosenblum

Executive Vice President and Interim Chief Financial Officer  
(Principal Financial and Accounting Officer)

**Certification 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 on Form 10-Q of Salarius Pharmaceuticals, Inc. (the "Company") for the fiscal period ended March 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned 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 the best of their 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.

May 12, 2022

/s/ David J. Arthur  
David J. Arthur  
President and Chief Executive Officer (Principal Executive Officer)

May 12, 2022

/s/ Mark J. Rosenblum  
Mark J. Rosenblum  
Executive Vice President and Interim Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)