

# ALGERNON PHARMACEUTICALS INC.

## BUSINESS ACQUISITION REPORT

### FORM 51-102F4

#### Item 1. Identity of Company

##### 1.1 Name and Address of Company

Algernon Pharmaceuticals Inc. (formerly Breathtec Biomedical Inc.) (the “**Company**”)  
Suite 915 – 700 West Pender Street  
Vancouver, B.C. V6C 1G8

##### 1.2 Executive Officer

The following executive officer of the Company is knowledgeable about the significant acquisition and this business acquisition report:

Executive Officer: Christopher Moreau, CEO

Telephone: 604- 646-1553

#### Item 2. Details of Acquisition

##### 2.1 Nature of Business Acquired

On October 9, 2018, the Company complete the acquisition (the “**Acquisition**”) of all of the issued and outstanding securities of Nash Pharmaceuticals Inc., a private British Columbia company, (“**Nash Pharma**”) pursuant to the terms of a share exchange agreement dated October 5, 2018 (the “**Definitive Agreement**”) among the Company, Nash Pharma and the securityholders of Nash Pharma. In consideration for the Acquisition and pursuant to the terms of the Definitive Agreement, the Company issued an aggregate of 15,800,000 common shares in the capital of the Company (the “**Payment Shares**”) pro rata to the holders of Nash Pharma common shares at a deemed price of \$0.24 per Payment Share. In addition, all outstanding unexercised warrants to acquire Nash Pharma common shares pursuant to outstanding Nash Pharma warrants (“**Nash Pharma Warrants**”) were cancelled. In consideration for such disposition, the holders of Nash Pharma Warrants received the right (a “**Replacement Warrant**”), to acquire one common share in the capital of the Company. The exercise price under each Replacement Warrant is equal to the exercise price under the particular Nash Pharma Warrant that was cancelled in consideration for such Replacement Warrant. The Company issued an aggregate of 14,800,000 Replacement Warrants.

Nash Pharma, is a clinical stage pharmaceutical development company focused on drug repurposing in the areas of non-alcoholic steatohepatitis, chronic kidney disease and inflammatory bowel disease. Through its ongoing research programs, Nash Pharma has

developed data that supports the advancement of up to seven drug candidates into phase II trials.

## **2.2 Date of Acquisition**

The Company completed the Acquisition on October 9, 2018.

## **2.3 Consideration**

Pursuant to the Definitive Agreement and in consideration for the Acquisition, the Company issued 15,800,000 Payment Shares to the holders of common shares of Nash Pharma at a deemed price of \$0.24 per Payment Share. In connection with the Acquisition, the Company also issued 14,800,000 Replacement Warrants to the holders of Nash Pharma Warrants .

Further information regarding the Acquisition can be found in the Company's material change report dated October 26, 2018, a copy of which has been filed under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

## **2.4 Effect on Financial Position**

Upon completion of the Acquisition, Nash Pharma became a wholly-owned subsidiary of the Company. The business and operations of Nash Pharma have been combined with those of the Company.

Except as disclosed in this business acquisition report and the Material Change Report, the Company does not have any current plans for material changes in the business or affairs of Nash Pharma which may have a significant effect on the results of the operations and financial position of the Company.

## **2.5 Prior Valuations**

Not Applicable

## **2.6 Parties to the Transaction**

The Acquisition was not with an informed person, associate or affiliate of the Company as defined in Section 1.1 of National Instrument 51-102 *Continuous Disclosure Obligations*.

## **2.7 Date of Report**

September 13, 2019

## **Item 3. Financial Statements**

The following financial statements are attached to this Business Acquisition Report:

- audited financial statements of Nash Pharma for the 271-day period ended December 31, 2017; and
- unaudited interim financial statements of Nash Pharma for the nine month ended September 30, 2018 and the 179-day period ended September 30, 2017.

The Company has obtained the consent of the auditor of Nash Pharma to incorporate the auditor's report for the audited financial statements for the 271-day period ended December 31, 2017 in this Business Acquisition Report.

**FINANCIAL STATEMENTS OF NASH PHARMACEUTICALS INC.**

# **NASH PHARMACEUTICALS INC.**

Financial Statements for the 271-day period ended December 31, 2017 (audited)

and

Interim Financial Statements for the Nine Months ended September 30, 2018 and 179-day period ended September 30, 2017 (unaudited)

(Expressed in Canadian dollars)



## INDEPENDENT AUDITORS' REPORT

### TO THE DIRECTORS OF NASH PHARMACEUTICALS INC.

We have audited the accompanying financial statements of Nash Pharmaceuticals Inc., which comprise the statement of financial position as at December 31, 2017 and the statements of loss and comprehensive loss, changes in equity and cash flows for the period from incorporation on April 4, 2017 to December 31, 2017, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nash Pharmaceuticals Inc. as at December 31, 2017, and its financial performance and its cash flows for the period from incorporation on April 4, 2017 to December 31, 2017 in accordance with International Financial Reporting Standards.

#### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to note 1 in the financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

*Smythe LLP*

Chartered Professional Accountants

Vancouver, British Columbia  
September 10, 2019

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**NASH PHARMACEUTICALS INC.**Statements of Financial Position  
(Expressed in Canadian dollars)

As at	September 30, 2018 (unaudited)	December 31, 2017 (audited)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$138,007	\$217,280
GST receivable	5,996	-
Prepaid expenses	496	2,311
<b>Total assets</b>	<b>\$144,499</b>	<b>\$219,591</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 7)	\$127,380	\$7,600
<b>Total liabilities</b>	<b>127,380</b>	<b>7,600</b>
<b>Shareholders' equity</b>		
Share capital	2,056,740	1,056,740
Share subscriptions (note 5)	(37,501)	(349,675)
Reserves	190,760	190,760
Deficit	(2,192,880)	(685,834)
<b>Total shareholders' equity</b>	<b>17,119</b>	<b>211,991</b>
<b>Total</b>	<b>\$144,499</b>	<b>\$219,591</b>

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

Approved on behalf of the Board of Directors:

**"Christopher Morneau" (signed)**  
\_\_\_\_\_  
Christopher Morneau  
Director**"Mark Williams" (signed)**  
\_\_\_\_\_  
Mark Williams  
Director

**NASH PHARMACEUTICALS INC.**Statements of Loss and Comprehensive Loss  
(Expressed in Canadian dollars)

For the period ended	September 30, 2018 (unaudited)	September 30, 2017 (unaudited)	December 31, 2017 (audited)
<b>EXPENSES</b>			
Accounting and audit	\$7,150	\$ -	\$ -
Bank charges and interest	232	188	443
Consulting (note 7)	28,125	145,039	285,500
Legal	22,169	2,804	26,493
Management (note 7)	73,116	37,143	53,381
Meals and entertainment	596	-	-
Office and general administration	641	484	484
Research and development	364,890	-	-
Share-based payment (notes 5 & 7)	1,000,000	-	-
Travel	10,127	-	3,783
<b>Net loss for the period</b>	<b>1,507,046</b>	<b>185,658</b>	<b>370,084</b>
<b>OTHER EXPENSES</b>			
Loss on units issued to settle accounts payable (note 5)	-	-	315,750
<b>Comprehensive loss for the period</b>	<b>\$1,507,046</b>	<b>\$185,658</b>	<b>\$685,834</b>
Net loss per share, basic and diluted	\$0.12	\$1.53	\$0.17
Weighted average number of common shares outstanding	12,880,293	121,190	4,104,126

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



**NASH PHARMACEUTICALS INC.**

## Statements of Cash Flows

(Expressed in Canadian dollars)

For the period ended	September 30, 2018 (unaudited)	September 30, 2017 (unaudited)	December 31, 2017 (audited)
<b>OPERATING ACTIVITIES</b>			
Net loss for the period	\$ (1,507,046)	\$ (185,658)	\$ (685,834)
<b>Items not affecting cash</b>			
Loss on debt settlement (note 5)	-	-	315,750
Share-based payment (note 5)	1,000,000	-	-
<b>Changes in non-cash operating working capital</b>			
GST receivable	(5,996)	(11,972)	-
Prepaid expenses	1,815	(5,056)	(2,311)
Accounts payable and accrued liabilities	119,780	138,039	218,100
	(391,447)	(64,64)	(154,295)
<b>FINANCING ACTIVITIES</b>			
Shares issued for cash	-	47,825	371,575
Share subscriptions received	312,174	310,925	-
	312,174	358,750	371,575
Increase (decrease) in cash	(79,273)	294,103	217,280
Cash, beginning of period	217,280	-	-
<b>Cash, end of period</b>	<b>\$138,007</b>	<b>\$294,103</b>	<b>\$217,280</b>
<b>Supplemental cash flow information</b>			
Units issued for debt settlement	\$ -	\$ -	\$ 526,250
Shares issued for subscriptions receivable	\$ -	\$ 49,675	\$ 349,675

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

**NASH PHARMACEUTICALS INC.**

Statement of Changes in Equity  
(Expressed in Canadian dollars)

	Number of Shares	Share Capital	Share Subscriptions	Reserves	Deficit	Total
<b>Balance at April 4, 2017 (date of incorporation)</b>	1	\$ 1	\$ -	\$ -	\$ -	\$ 1
Repurchased by the Company	(1)	(1)	-	-	-	(1)
Shares issued for private placement	7,200,000	89,875	(49,675)	7,625	-	47,825
Share subscriptions received	-	-	310,925	-	-	310,925
Net loss for the period	-	-	-	-	(185,658)	(185,658)
<b>Balance at September 30, 2017 (unaudited)</b>	<b>7,200,000</b>	<b>89,875</b>	<b>261,250</b>	<b>7,625</b>	<b>(185,658)</b>	<b>173,092</b>
Shares issued for private placement	2,495,000	440,615	(610,925)	183,135	-	12,825
Shares issued for debt settlement	2,105,000	526,250	-	-	-	526,250
Net loss for the period	-	-	-	-	(500,176)	(500,176)
<b>Balance at December 31, 2017 (audited)</b>	<b>11,800,000</b>	<b>1,056,740</b>	<b>(349,675)</b>	<b>190,760</b>	<b>(685,834)</b>	<b>211,991</b>
Share-based payment	4,000,000	1,000,000	-	-	-	1,000,000
Share subscriptions received	-	-	312,174	-	-	312,174
Net loss for the period	-	-	-	-	(1,507,046)	(1,507,046)
<b>Balance at September 30, 2018 (unaudited)</b>	<b>15,800,000</b>	<b>\$2,056,740</b>	<b>\$ (37,501)</b>	<b>\$ 190,760</b>	<b>\$ (2,192,880)</b>	<b>\$ 17,119</b>

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

## **NASH PHARMACEUTICALS INC.**

### Notes to Financial Statements

For the 271-day period ended December 31, 2017 (audited) and for the nine months ended September 30, 2018 and 179-day period ended September 30, 2017 (unaudited)  
(Expressed in Canadian dollars)

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#### **1. NATURE AND GOING CONCERN**

Nash Pharmaceuticals Inc. ("Nash" or the "Company") was incorporated on April 4, 2017 under the British Columbia *Business Corporations Act*. The registered office of Nash is located at Suite 915 – 700 West Pender Street, Vancouver, British Columbia, V6C 1G8.

Nash is a clinical stage pharmaceutical development company focused on drug repurposing in the areas of non-alcoholic steatohepatitis (NASH), chronic kidney disease (CKD) and inflammatory bowel disease (IBD).

The financial statements have been prepared on the basis of going concern which assumes that the Company will continue in operations for the foreseeable future and be able to realize assets and satisfy liabilities in the normal course of business. If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary for the carrying value of assets and liabilities, the reported expenses and the statement of financial position classifications used. Such adjustments could be material.

Several conditions exist that cast significant doubt about the ability of the Company to continue as a going concern. The Company does not have revenue to date and has incurred operating losses since inception. As at September 30, 2018 and December 31, 2017, the Company had a deficit which is being funded by debt and equity financing. The Company is dependent on its ability to raise further capital through equity financing and funding from certain officers and shareholders to meet its commitments and fund its ongoing operations. Management is continuing to investigate opportunities to raise financing for the Company.

On October 5, 2018, the Company entered into a Share Exchange Agreement with Algernon Pharmaceuticals Inc. ("Algernon", formerly "Breathtec BioMedical Inc.") which resulted in Algernon acquiring 100% ownership in Nash. As consideration, Algernon exchanged 15,800,000 common shares for the same number of common shares outstanding by Nash and issued an additional 14,800,000 warrants at a price equal to the exercise price of the Nash warrants.

#### **2. BASIS OF PRESENTATION**

##### **(a) Statement of compliance**

These annual and interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). They have been prepared on a historical cost basis, except for certain financial instruments, which are stated at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for the cash flow information.

The significant accounting policies set out in note 3 have been applied consistently to the periods presented.

##### **(b) Approval of the annual and condensed interim financial statements**

The annual financial statements of the Company for the 271-day period ended December 31, 2017 and the interim financial statements for the period ended September 30, 2018 were approved and authorized for issuance by the Board of Directors on September 10, 2019.

## **NASH PHARMACEUTICALS INC.**

### Notes to Financial Statements

For the 271-day period ended December 31, 2017 (audited) and for the nine months ended September 30, 2018 and 179-day period ended September 30, 2017 (unaudited)  
(Expressed in Canadian dollars)

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## **2. BASIS OF PRESENTATION (continued)**

### **(c) Foreign currencies**

The reporting currency is the Canadian dollar ("CAD"), which is the functional currency of Nash. Transactions in currencies other than the functional currency are recorded at the rate of exchange prevailing on the date of the transaction, except amortization, which is translated at the rates of exchange applicable to the related assets. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate on the date of the transaction. Foreign currency translation differences are recognized in profit or loss.

### **(d) Critical accounting estimates**

The preparation of financial statements in accordance with IFRS requires management to make estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Actual results could differ from these estimates, and as such, the estimates and underlying assumptions are reviewed on an ongoing basis. Key estimates made by management with respect to the areas noted previously have been disclosed in the notes to these financial statements as appropriate.

Significant areas requiring the use of management estimates include:

#### *Recoverability of deferred tax assets*

The Company estimates the expected manner and timing of the realization or settlement of the carrying value of its assets and liabilities and applies the tax rates that are enacted or substantively enacted on the estimated dates of realization or settlement. In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities.

#### *Non-monetary transactions:*

All non-monetary transactions are measured at the fair value of the asset surrendered or the asset received, whichever is more reliable, unless the transaction lacks commercial substance or the fair value cannot be reliably established. The commercial substance requirement is met when the future cash flows are expected to change significantly as a result of the transaction.

When the fair value of a non-monetary transaction cannot be reliably measured, it is recorded at the carrying amount (after reduction, when appropriate, for impairment) of the asset given up and adjusted by the fair value of any monetary consideration received or given. When the asset received or the consideration given up is common shares, the market value of those common shares will be considered fair value.

## **NASH PHARMACEUTICALS INC.**

### Notes to Financial Statements

For the 271-day period ended December 31, 2017 (audited) and for the nine months ended September 30, 2018 and 179-day period ended September 30, 2017 (unaudited)  
(Expressed in Canadian dollars)

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## **2. BASIS OF PRESENTATION (continued)**

### **(e) Use of judgments**

Significant areas requiring the usage of management's judgments include:

#### *Going concern*

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay its ongoing operating expenditures and to meet its liabilities for the ensuing year, involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

### **(a) Financial instruments**

Financial assets

#### **i. Initial recognition and measurement**

A financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. On initial recognition, a financial asset is classified as measured at amortized cost or fair value through profit or loss. A financial asset is measured at amortized cost if it meets the conditions that i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and iii) is not designated as fair value through profit or loss.

#### **ii. Subsequent measurement**

The subsequent measurement of financial assets depends on their classification as follows:

#### *Financial assets at fair value through profit or loss*

Financial assets measured at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value therein, recognized in the statement of loss and comprehensive loss. The Company classifies cash as fair value through profit or loss.

#### *Financial assets measured at amortized cost*

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment allowance. The Company's receivables are measured at amortized cost.

## NASH PHARMACEUTICALS INC.

### Notes to Financial Statements

For the 271-day period ended December 31, 2017 (audited) and for the nine months ended September 30, 2018 and 179-day period ended September 30, 2017 (unaudited)  
(Expressed in Canadian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (a) Financial instruments (continued)

##### iii. Derecognition

A financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets is derecognized when:

- the contractual rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
  - (a) the Company has transferred substantially all the risks and rewards of the asset; or
  - (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

#### Financial liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or financial liabilities subsequently measured at amortized cost. All interest-related charges are reported in profit or loss within interest expense, if applicable. The Company's financial liabilities include accounts payable and accrued liabilities.

#### Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

- Level-1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level-2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level-3 - Inputs for assets or liabilities that are not based on observable market data.

The Company's financial instruments classified as Level 1 in the fair value hierarchy is cash. Their carrying values approximate the fair values due to short-term maturity of these instruments.

## **NASH PHARMACEUTICALS INC.**

### Notes to Financial Statements

For the 271-day period ended December 31, 2017 (audited) and for the nine months ended September 30, 2018 and 179-day period ended September 30, 2017 (unaudited)  
(Expressed in Canadian dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(b) Loss per share**

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of shares outstanding during the period. Diluted earnings (loss) per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive. As at September 30, 2018 and December 31, 2017, outstanding equity instruments were anti-dilutive, and therefore, basic and fully diluted EPS are equal.

#### **(c) Share capital**

Instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

#### **(d) Income taxes**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except for items recognized directly in equity or in other comprehensive income.

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period in which the change is enacted or substantively enacted.

## **NASH PHARMACEUTICALS INC.**

### Notes to Financial Statements

For the 271-day period ended December 31, 2017 (audited) and for the nine months ended September 30, 2018 and 179-day period ended September 30, 2017 (unaudited)  
(Expressed in Canadian dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(d) Income taxes (continued)**

The amount of deferred tax reflects the expected manner of realization or settlement of the carrying amount of assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets that are recognized are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

#### **(e) Unit offering**

Warrants issued by the Company typically accompany an issuance of shares in the Company (a "unit"), and entitle the warrant holder to exercise the warrants for a stated price for a stated number of common shares in the Company. The fair value of the components of the units sold are measured using the relative fair value approach, based on the calculated fair value of the stand-alone shares through reference to the quoted market price at the completion of the financing and the fair value of the stand-alone warrant, estimated using the Black-Scholes option pricing model. Consideration received on the exercise of warrants is recorded as share capital and the recorded amount to reserves is transferred to share capital.

#### **(f) Research and development expenditures**

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Expenditures capitalized may include the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are recognized in profit or loss as incurred.

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss when incurred.



## **NASH PHARMACEUTICALS INC.**

Notes to Financial Statements

For the 271-day period ended December 31, 2017 (audited) and for the nine months ended September 30, 2018 and 179-day period ended September 30, 2017 (unaudited)  
(Expressed in Canadian dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(g) New accounting pronouncements not yet adopted**

##### **IFRS 16 Leases**

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease. Management has not yet evaluated the impact of the application of this standard.

The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payment.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

The new standard supersedes the requirements in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Applicable to the Company's annual period beginning January 1, 2019.

## **NASH PHARMACEUTICALS INC.**

### Notes to Financial Statements

For the 271-day period ended December 31, 2017 (audited) and for the nine months ended September 30, 2018 and 179-day period ended September 30, 2017 (unaudited)  
(Expressed in Canadian dollars)

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#### **4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

##### **Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk for the Company is associated with its cash. The Company is not exposed to significant credit risk as its cash is placed with a major Canadian financial institution.

##### **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements.

At September 30, 2018 and December 31, 2017, the Company had working capital of \$17,119 and \$211,991, respectively. This included cash of \$138,007, and \$217,280, respectively, available to meet short-term business requirements and current liabilities of \$127,380, and \$7,600, respectively. The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

##### **Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risks. The Company is not exposed to significant interest rate risk, foreign currency risk, and other price risk.

#### **5. SHARE CAPITAL**

##### **Share capital**

###### *Authorized*

Unlimited number of common shares without par value.

###### *Issued and outstanding*

During the period ended September 30, 2017 (unaudited) and the period ended December 31, 2017 (audited):

- The Company issued:
  - 1 common share for \$1.00 upon incorporation. The Company subsequently repurchased this share for the same amount.
  - 1,000,000 common shares at \$0.01 each in connection with private placements.
  - 4,500,000 units at \$0.01 per unit, comprised of one common share and one common share purchase warrant in connection with private placements. Each common share purchase warrant entitles the holder to acquire an additional common share of the Company at an exercise price of \$0.15, for a period of two years.

## NASH PHARMACEUTICALS INC.

### Notes to Financial Statements

For the 271-day period ended December 31, 2017 (audited) and for the nine months ended September 30, 2018 and 179-day period ended September 30, 2017 (unaudited)  
(Expressed in Canadian dollars)

#### 5. SHARE CAPITAL (continued)

- 1,700,000 units at \$0.025 per unit, comprised of one common share and one common share purchase warrant in connection with private placements. Each common share purchase warrant entitles the holder to acquire an additional common share of the Company at an exercise price of \$0.15, for a period of two years.
- 2,495,000 units at \$0.25 per unit, comprised of one common share and one common share purchase warrant in connection with private placements. Each common share purchase warrant entitles the holder to acquire an additional common share of the Company at an exercise price of \$0.40, for a period of two years.

The total expected proceeds of the private placement were \$721,250. Of this amount, \$349,675 remains outstanding from subscribers as at December 31, 2017.

- In October 2017, the Company issued 2,105,000 units at a fair value of \$0.25 per unit for a total fair value of \$526,250 to settle debt of \$210,500. Each unit is comprised of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire an additional common share of the Company at an exercise price of 0.15, for a period of two years. The Company recorded a loss on units issued for debt settlement of \$315,750 during the period ended December 31, 2017.

During the period ended September 30, 2018 (unaudited):

- On July 18, 2018, the Company issued 4,000,000 units at a fair value of \$0.25 per share for a total fair value of \$1,000,000 pursuant to a consulting agreement dated January 26, 2018 and amended on July 18, 2018. Each unit is comprised of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire an additional common share of the Company at an exercise price of \$0.25, for a period of two years.

#### Share purchase warrants

The changes in warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
<b>Balance at April 4, 2017 (date of incorporation)</b>	-	\$ -
Issued	6,200,000	0.15
<b>Balance at September 30, 2017</b>	<b>6,200,000</b>	<b>0.15</b>
Issued	4,600,000	0.29
<b>Balance at December 31, 2017</b>	<b>10,800,000</b>	<b>0.21</b>
Issued	4,000,000	0.25
<b>Balance at September 30, 2018</b>	<b>14,800,000</b>	<b>\$ 0.22</b>

**NASH PHARMACEUTICALS INC.**

## Notes to Financial Statements

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**5. SHARE CAPITAL** (continued)

As at December 31, 2017 (audited), the Company had the following warrants outstanding:

Date of Expiry	Exercise Price	Number of Warrants	Weighted Average Remaining Life in Years
September 25, 2019	\$0.15	4,500,000	1.73
September 27, 2019	\$0.15	1,700,000	1.74
October 2, 2019	\$0.15	2,105,000	1.75
October 4, 2019	\$0.40	2,495,000	1.76
		<b>10,800,000</b>	

As at September 30, 2018 (unaudited), the Company had the following warrants outstanding:

Date of Expiry	Exercise Price	Number of Warrants	Weighted Average Remaining Life in Years
September 25, 2019	\$0.15	4,500,000	0.99
September 27, 2019	\$0.15	1,700,000	0.99
October 2, 2019	\$0.15	2,105,000	1.01
October 4, 2019	\$0.40	2,495,000	1.01
July 18, 2020	\$0.25	4,000,000	1.80
		<b>14,800,000</b>	

The fair value of warrants issued was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions:

	September 30, 2018	December 31, 2017
Exercise Price	-	0.22
Expected Life in Years	-	2.00
Annualized Volatility	-	100.00%
Dividend Rate	-	0.00%
Discount Rate	-	1.68%

## NASH PHARMACEUTICALS INC.

### Notes to Financial Statements

For the 271-day period ended December 31, 2017 (audited) and for the nine months ended September 30, 2018 and 179-day period ended September 30, 2017 (unaudited)  
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#### 6. INCOME TAXES

For the period ended December 31, 2017, a reconciliation of income tax provision computed at the Canadian statutory rates to the reported income tax provision is as follows:

Loss before income taxes	\$	(685,834)
Canadian statutory tax rate		26.0%
Income tax benefit computed at statutory rates		(178,317)
Items not deductible for tax purposes		82,095
Unused tax losses and tax offsets not recognized		96,222
	\$	-

As at December 31, 2017, the Company has operating losses (unrecognized deferred tax asset) available for carry-forward of approximately \$370,000 available to apply against future Canadian income for tax purposes. The operating losses will expire in 2037.

#### 7. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

Key management personnel are considered to be those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management includes senior officers and directors of the Company.

Related party transactions with key management personnel are as follows:

For the period ended	September 30, 2018 (unaudited)	September 30, 2017 (unaudited)	December 31, 2017 (audited)
Consulting fees <sup>(1)</sup>	\$19,173	\$-	\$2,000
Management fees <sup>(2)</sup>	70,166	37,143	37,143
Share-based payment <sup>(3)</sup>	1,000,000	-	-

<sup>(1)</sup> Consulting fees paid to management personnel:

- September 30, 2018 - \$1,173 (December 31, 2017 - \$2,000) to a company controlled by the Chief Financial Officer of the Company
- September 30, 2018 - \$18,000 (December 31, 2017 - \$nil) to a company controlled by the former Chief Executive Officer of the Company

<sup>(2)</sup> Management fees paid to management personnel:

- September 30, 2018 - \$66,666 (December 31, 2017 - \$nil) to a company controlled by the Chief Executive Officer of the Company
- September 30, 2018 - \$3,500 (December 31, 2017 - \$nil) to a company controlled by the Chief Financial Officer of the Company
- September 30, 2018 - \$nil (December 31, 2017 - \$37,143) to a company controlled by the former Chief Executive Officer of the Company

<sup>(3)</sup> Share-based payments to management personnel:

- September 30, 2018 - \$1,000,000 (December 31, 2017 - \$nil) to a company controlled by the Chief Executive Officer of the Company

## NASH PHARMACEUTICALS INC.

### Notes to Financial Statements

For the 271-day period ended December 31, 2017 (audited) and for the nine months ended September 30, 2018 and 179-day period ended September 30, 2017 (unaudited)  
(Expressed in Canadian dollars)

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#### 7. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION (continued)

Accounts payable and prepaid expenses include the following amounts to related parties:

For the period ended	September 30, 2018 (unaudited)	September 30, 2017 (unaudited)	December 31, 2017 (audited)
Key management personnel – management fees	\$6,490	\$-	\$-
Key management personnel – prepaid expenses	5,496	-	1,000

#### 8. RISK AND CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company in order to support future business opportunities. The Company defines its capital as shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to manage its capital to be able to sustain the future development of the Company's business. The Company currently has no source of revenues, and therefore, is dependent upon external financings to fund activities. In order to carry future projects and pay administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the 271-day period ended December 31, 2017 and the period ended September 30, 2018. The Company is not subject to externally imposed capital requirements.