ALGERNON PHARMACEUTICALS INC.
(FORMERLY BREATHTEC BIOMEDICAL, INC.)

Consolidated Financial Statements

For the years ended August 31, 2019 and 2018
(Expressed in Canadian dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Algernon Pharmaceuticals Inc. (formerly Breathtec Biomedical, Inc.) (the "Company") are the responsibility of the Company's management. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board and reflect management's best estimates and judgments based on information currently available.

Management has developed and maintains a system of internal controls to ensure that the Company's assets are safeguarded, transactions are authorized and properly recorded, and financial information is reliable.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls through its Audit Committee, which is comprised of non-management directors. The Audit Committee reviews the results of the audit and the annual consolidated financial statements prior to their submission to the Board of Directors for approval.

"Michael Sadhra" (signed)
Michael Sadhra
Director and Chief Financial Officer

"Dr. Raj Attariwala" (signed)
Dr. Raj Attariwala
Director

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ALGERNON PHARMACEUTICALS INC. (FORMERLY BREATHTEC BIOMEDICAL, INC.)

Opinion

We have audited the consolidated financial statements of Algernon Pharmaceuticals Inc. (formerly Breathtec Biomedical, Inc.) (the "Company"), which comprise:

- the consolidated statements of financial position as at August 31, 2019 and 2018;
- the consolidated statements of loss and comprehensive loss and changes in shareholders' equity for the years ended August 31, 2019 and 2018;
- the consolidated statements of cash flows for the years ended August 31, 2019 and 2018; and
- the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at August 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years ended August 31, 2019 and 2018, in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $1,895,563 during the year ended August 31, 2019 and, as of that date, the Company has a deficit of $10,269,094. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises of Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Herve Leong-Chung.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
December 16, 2019

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ALGERNON PHARMACEUTICALS INC.
(FORMERLY BREATHTEC BIOMEDICAL, INC.)
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Note	August 31, 2019	August 31, 2018
ASSETS			
Current assets			
Cash and cash equivalents	*3b*	$ 207,812	$ 1,251,058
Accounts receivable	*8*	44,792	11,269
Prepaid expenses		26,259	32,367
Total current assets		278,863	1,294,694
Non-current assets			
Restricted cash equivalents	*9*	57,500	-
Incorporation costs		1,371	1,371
Furniture and equipment	*10*	-	53,801
License	*7*	48,689	73,033
Intangible assets	*5, 6*	4,951,680	-
Total non-current assets		5,059,240	128,205
TOTAL ASSETS		$ 5,338,103	$ 1,422,899
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	*14*	$ 365,464	$ 57,034
Total liabilities		365,464	57,034
Shareholders' equity			
Share capital	*11*	12,587,435	8,568,723
Reserves	*11*	2,517,348	1,587,162
Accumulated other comprehensive income		136,950	139,008
Deficit		(10,269,094)	(8,929,028)
Total shareholders' equity		4,972,639	1,365,865
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 5,338,103	$ 1,422,899

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

Approved on behalf of the Board:

"Michael Sadhra" (signed)
Michael Sadhra
Director

"Dr. Raj Attariwala" (signed)
Dr. Raj Attariwala
Director

ALGERNON PHARMACEUTICALS INC.
(FORMERLY BREATHTEC BIOMEDICAL, INC.)
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

Years ended August 31	Note	2019	2018
EXPENSES			
General and administrative	*10,14*	$ 222,138	$ 222,459
Marketing		234,033	-
Professional fees	*14*	731,335	347,758
Research and development	*7, 12*	605,734	93,816
Share-based payment	*11,14*	-	235,097
Shareholder communications		120,665	49,425
		1,913,905	948,555
Interest income		(6,723)	(10,961)
Debt forgiveness		(6,651)	-
Gain on disposal of furniture and equipment	*10*	(4,968)	-
Net loss for the year		1,895,563	937,594
OTHER COMPREHENSIVE INCOME			
Item not classified into profit or loss:			
Foreign exchange (gain) loss on translation to reporting currency		2,058	(7,754)
Comprehensive loss for the year		$ 1,897,621	$ 929,840
Loss per common share			
Basic and fully diluted		$ 0.04	$ 0.03
Weighted average number of common shares outstanding		44,667,514	28,164,607

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

ALGERNON PHARMACEUTICALS INC.
(FORMERLY BREATHTEC BIOMEDICAL, INC.)
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended August 31	2019	2018
OPERATING ACTIVITIES		
Net loss for the year	$ (1,895,563)	$ (937,594)
Items not involving cash		
Amortization	26,995	40,950
Share-based payment	-	235,097
Gain on disposal of furniture and equipment	(4,968)	-
Unrealized foreign exchange (gain) loss	(2,649)	1,417
	(1,876,185)	(660,130)
Changes in non-cash operating working capital		
Accounts receivable	11,183	(2,038)
Prepaid expenses	6,604	35,738
Restricted cash	(57,500)	-
Accounts payable and accrued liabilities	133,670	9,923
	(1,782,228)	(616,507)
INVESTING ACTIVITIES		
Proceeds from sale of furniture and equipment	55,324	-
Cash acquired on Nash Pharma acquisition	100,600	-
Additions of intangible assets	(65,746)	-
	90,178	-
FINANCING ACTIVITIES		
Shares issued for private placement – net of financing costs	494,236	-
Proceeds from warrants exercised	153,750	453,050
Proceeds from stock options exercised	-	18,750
	647,986	471,800
Effect of exchange rate fluctuations on cash held	818	3,251
Decrease in cash and cash equivalents	(1,043,246)	(141,456)
Cash and cash equivalents, beginning of year	1,251,058	1,392,514
Cash and cash equivalents, end of year	$ 207,812	$ 1,251,058
Cash and cash equivalents is comprised of:		
Guaranteed Investment Certificates	$ -	$ 239,558
Cash	207,812	1,011,500
	$ 207,812	$ 1,251,058
Supplemental cash flow information		
Non-cash investing and financing activities:		
Shares issued to acquire Nash Pharma (note 5)	$ 3,476,000	$ -
Fair value of Nash Pharma replacement warrants (note 5)	$ 1,380,409	$ -
Fair value of warrants issued with private placement	$ 137,910	$ -
Fair value of warrants exercised	$ 32,636	$ -
Intangible assets included in accounts payable and accrued liabilities	$ 23,178	$ -
Interest paid	$ -	$ -
Taxes paid	$ -	$ -

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

ALGERNON PHARMACEUTICALS INC.
(FORMERLY BREATHTEC BIOMEDICAL, INC.)
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

	Number of Shares	Share Capital	Reserves	Accumulated Other Comprehensive Income	Deficit	**Total**
Balance at August 31, 2017	27,376,012	$ 7,989,797	$ 2,291,687	$ 131,254	$ (8,823,930)	$ 1,588,808
Cancellation of stock options	-	-	(132,148)	-	132,148	-
Expiration of warrants	-	-	(700,348)	-	700,348	-
Exercise of stock options	62,500	29,707	(10,957)	-	-	18,750
Exercise of warrants	1,510,166	549,219	(96,169)	-	-	453,050
Share-based payment	-	-	235,097	-	-	235,097
Other comprehensive income	-	-	-	7,754	-	7,754
Net loss for the year	-	-	-	-	(937,594)	(937,594)
Balance at August 31, 2018	**28,948,678**	**$ 8,568,723**	**$ 1,587,162**	**$ 139,008**	**$ (8,929,028)**	**$ 1,365,865**

Balance at August 31, 2018	28,948,678	$ 8,568,723	$ 1,587,162	$ 139,008	$ (8,929,028)	$ 1,365,865
Shares issued on Nash Pharma acquisition	15,800,000	3,476,000	-	-	-	3,476,000
Replacement warrants issued on Nash Pharma acquisition	-	-	1,380,409	-	-	1,380,409
Shares issued for cash, net of financing costs	2,083,334	356,326	137,910	-	-	494,236
Expiration of stock options	-	-	(555,497)	-	555,497	-
Exercise of warrants	512,500	186,386	(32,636)	-	-	153,750
Other comprehensive loss	-	-	-	(2,058)	-	(2,058)
Net loss for the year	-	-	-	-	(1,895,563)	(1,895,563)
Balance at August 31, 2019	**47,344,512**	**$ 12,587,435**	**$ 2,517,348**	**$ 136,950**	**$ (10,269,094)**	**$ 4,972,639**

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

1. NATURE AND GOING CONCERN

Algernon Pharmaceuticals Inc. (formerly "Breathtec Biomedical, Inc.") (the "Company", "Algernon" or "Breathtec") was incorporated on April 10, 2015 under the British Columbia *Business Corporations Act.* The registered office of Algernon is located at Suite 1500 – 1500 West Georgia Street, Vancouver, British Columbia, V6E 4N7.

Breathtec was formed to propel innovative research in the area of breath analysis as a medical diagnostic tool. The principal goal of the Company was to develop and commercialize non-invasive, affordable, breath analysis devices for early detection of infections and life-threatening diseases such as cancers, liver disease, kidney failure, diabetes, asthma and tuberculosis.

On September 11, 2015, Breathtec incorporated a wholly owned subsidiary, Breathtec Merger Sub, Inc. ("MergerCo"), under the *Florida Business Corporations Act* ("FBCA").

Breathtec Biomedical, Inc. ("Breathtec US") was incorporated under the FBCA on January 22, 2015. The head office and registered office of Breathtec US is located at 525 Okeechobee Boulevard, Suite 1600, West Palm Beach, Florida, 33401.

On October 26, 2015, Breathtec, Breathtec US and MergerCo completed an agreement (the "Merger Agreement") structured as a reverse takeover, specifically, as a triangular merger under the FBCA among Breathtec, Breathtec US and MergerCo (the "Merger"). Pursuant to the Merger, Breathtec US was merged with and into MergerCo with Breathtec US as the surviving corporation. The Company acquired a 100% interest in Breathtec US pursuant to and on the terms and subject to the conditions set out in the Merger Agreement resulting in Breathtec US becoming a 100% owned Florida operating subsidiary of the Company. Management applied judgment in determining the shareholders of which entity was the acquirer, and concluded Breathtec US controlled Breathtec, and these consolidated financial statements represent the continuation of Breathtec US, the legal subsidiary.

On October 17, 2018, the Company consolidated its common shares on the basis of 2 pre-consolidation shares for 1 post-consolidation common share. All the figures as to the number of common shares, stock options, warrants, prices of issued shares, exercise prices of stock options and warrants, as well as loss per share, in the consolidated financial statements are post-consolidation amounts and the prior year comparatives have been retroactively restated to present the post-consolidation amounts.

On October 19, 2018, the Company completed the acquisition of 100% of the issued and outstanding shares and dilutive securities of Nash Pharmaceuticals Inc. ("Nash Pharma"), in exchange for securities of Breathtec (the "Transaction"). Nash Pharma is a clinical stage pharmaceutical development company focused on developing repurposed therapeutic drugs in the areas of non-alcoholic steatohepatitis ("NASH"), a type of liver disease, chronic kidney disease ("CKD"), inflammatory bowel disease ("IBD") and idiopathic pulmonary fibrosis ("IPF"). Drug repurposing (also known as re-profiling, re-tasking or therapeutic switching) is the application of approved drugs and compounds to treat a different disease than what it originally developed for. Through its ongoing research programs, Nash Pharma is seeking to minimize investment and drug development risk by taking advantage of regulatory approved drugs and discovering alternative clinical uses by accelerating entry into phase II clinical trials (human).

To align the corporate identity with the Company's new main strategy in the treatment of liver disease, chronic kidney disease and inflammatory bowel disease, the Company changed its name to Algernon Pharmaceuticals Inc. on February 19, 2019 and its common shares also began trading on the Canadian Securities Exchange ("CSE") on the same day under the new symbol "AGN".

1. NATURE AND GOING CONCERN (continued)

At present, the Company has no current operating income. The Company will need to raise sufficient working capital to maintain operations. Without additional financing, the Company may not be able to fund its ongoing operations and complete development activities. Management anticipates that the Company will continue to raise adequate funding through equity or debt financings, although there is no assurance that the Company will be able to obtain adequate funding on favorable terms. These uncertainties may cast significant doubt on the Company's ability to continue as a going concern. These annual consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. These annual consolidated financial statements do not reflect adjustments, which could be material, to the carrying value of assets and liabilities, which may be required should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These annual consolidated 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 consolidated 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 years presented, except for the adoption of IFRS 9 *Financial Instruments* ("IFRS 9"). Effective September 1, 2018, IFRS 9 was adopted retrospectively with no restatement of comparative periods, as permitted by the transition provisions of the standard.

(b) Approval of the consolidated financial statements

The consolidated financial statements of the Company for the year ended August 31, 2019 were approved and authorized for issuance by the Board of Directors on December 16, 2019.

(c) Foreign currencies

The reporting currency is the Canadian dollar ("CAD"), which is the functional currency of Algernon and Nash Pharma. The functional currency of Breathtec US is the United States dollar ("US"). 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 initial transaction. Non-monetary items that are measured at fair values are reported at the exchange rate on the date when fair values are determined. Foreign currency translation differences are recognized in profit or loss, except for differences on the translation of foreign entities to reporting currency on consolidation, which are recognized in other comprehensive income.

On consolidation, the assets and liabilities of entities are translated into the reporting currency at the rate of exchange at the reporting date and the consolidated statements of loss and comprehensive loss are translated at the average exchange rates for the year. The exchange differences arising on translation for consolidation purposes are recognized in other comprehensive income.

2. BASIS OF PRESENTATION (continued)

(d) Use of accounting estimates

The preparation of consolidated 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 consolidated 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 consolidated financial statements as appropriate.

Furniture and equipment

The Company has acquired furniture and equipment for use in its research and business activities. Amortization is recognized using the straight-line basis based upon management's estimate of the useful life. Management has estimated the useful life of furniture and equipment to be 5 years. As at August 31,2019, all furniture and equipment has been disposed of.

License - Useful life

Following initial recognition, the Company carries the value of the license at cost less accumulated amortization and any accumulated impairment losses. Amortization is recorded on the straight-line basis based upon management's estimate of the useful life and residual value. The estimates are reviewed at least annually and are updated if expectations change as a result of the technical obsolescence or legal and other limits to use. A change in the useful life or residual value will impact the reported carrying value of the intangible assets resulting in a change in related amortization expense.

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.

Inputs to the Black-Scholes option pricing model

The fair value of equity instruments is subject to the limitations of the Black-Scholes option pricing model, as well as other pricing models that incorporate market data and involves uncertainty in estimates used by management in the assumptions. Because option pricing models require inputs of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate. The Company estimates volatility based on historical share price of comparable companies, excluding specific time frames in which volatility was affected by specific transactions that are not considered to be indicative of the entities' expected share price volatility.

2. BASIS OF PRESENTATION (continued)

(d) Use of accounting estimates (continued)

Fair value of consideration on acquisition of Nash Pharma

The fair value of consideration to acquire Nash Pharma comprised common shares and replacement warrants. Common shares were fair valued on the date of issuance. Replacement warrants were fair valued using the Black-Scholes Option Pricing model. The Company applied IFRS 2 *Share-based Payments* in accounting for the acquisition.

Recoverability of the carrying value of intangible assets

Recoverability of the carrying value of intangible assets requires management to determine whether future economic benefits from sale or otherwise are likely. Evaluation may be more complex where activities have not reached a stage that permits a reasonable assessment of the viability of the asset. Management must make certain estimates and assumptions about future events or circumstances including, but not limited to, the interpretation of research results, as well as the Company's financial ability to continue sales activities and operations.

(e) Use of judgments

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

Acquisition of Nash Pharma

The acquisition of Nash Pharma requires management to make a judgement as to whether Nash Pharma constitutes a business combination or an asset acquisition under the definitions of IFRS 3 *Business Combinations* ("IFRS 3"). The assessment requires management to assess inputs, processes, and ability of Nash Pharma to produce outputs at the time of acquisition. Pursuant to the assessment, Nash Pharma was considered an asset acquisition (note 5) and intangible assets were recognized (note 6).

Treatment of intangible assets

At each reporting date, the Company assesses if the intangible assets have indicators of impairment. In determining whether the intangible assets are impaired, the Company assesses certain criteria, including observable decreases in value, significant changes with adverse effect on the entity, evidence of technological obsolescence and future plans.

Following initial recognition, the Company carries the value of the intangible assets at cost less accumulated amortization and any accumulated impairment losses. Amortization is recorded on the straight-line basis based upon management's estimate of the useful life and residual value. The estimates are reviewed at least annually and are updated if expectations change as a result of the technical obsolescence or legal and other limits to use. A change in the useful life or residual value will impact the reported carrying value of the intangible assets resulting in a change in related amortization expense. As at August 31, 2019, the Company has not amortized the intangible assets as amortization begins when the intangible assets are available for use.

2. BASIS OF PRESENTATION (continued)

(e) Use of judgments (continued)

Treatment of development costs

Costs to develop products are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38 *Intangible Assets* are met. Those criteria require that the product is technically and economically feasible, the Company has the intention and ability to use the asset, and how the asset will generate future benefits. Management assessed the capitalization of development costs based on the attributes of the development project, perceived user needs, industry trends and expected future economic conditions.

Management considers these factors in aggregate and applies significant judgment to determine whether the product is technically and economically feasible. The Company has not capitalized any development costs as at August 31, 2019.

Determination of the functional currency

In concluding that the Canadian dollar is the functional currency of Algernon and Nash Pharma, and the United States dollar is the functional currency of Breathtec US, management considered the currency that mainly influences the cost of providing goods and services in the primary economic environment in which each entity operates, or if there has been a change in events or conditions that determined the primary economic environment.

Recoverability of deferred tax assets

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant tax authorities, which occurs subsequent to the issuance of the consolidated financial statements.

License - Recoverability

The Company assesses at each reporting date if the license has indicators of impairment. In determining whether the license is impaired, the Company assesses certain criteria including observable decreases in value, significant changes with adverse effect on the entity, a change in market interest rates, evidence of technological obsolescence, and future plans.

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) Basis of consolidation

As a result of the Transaction described in note 1, the consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Breathtec US and Nash Pharma (since October 19, 2018). Subsidiaries are fully consolidated from the date of acquisition being the date that the Company obtains control. All intercompany transactions and balances have been eliminated on consolidation.

A wholly owned subsidiary is an entity over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

(b) Cash and cash equivalents

Cash includes deposits held with banks that are available on demand. Cash equivalents consisted of cashable guaranteed investment certificates that were readily convertible into a known amount of cash within 90 days or less. There are no cash equivalents as at August 31, 2019 (2018 - $239,558).

(c) Furniture and equipment

Furniture and equipment is recorded at cost less accumulated amortization. The Company provides for amortization on a straight-line basis over a period of five years.

At each reporting date, the Company assesses whether there is objective evidence that the furniture and equipment is impaired. If such evidence exists, the Company recognizes an impairment loss. The loss is the difference between the carrying value and recoverable value, which is the higher or fair value less costs of disposal and value in use. The carrying amount of the furniture and equipment is reduced by this amount. Impairment losses are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event or condition occurring after the impairment was recognized. However, the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized.

(d) Share issuance costs

Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred share issue costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issue costs are charged to share capital when the related shares are issued.

(e) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Income taxes (continued)

Current Tax

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

Deferred income tax is recognized in respect of temporary differences, at the end of each reporting period, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward or unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in net loss in the period in which the change is enacted or substantively enacted.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments

On September 1, 2018, the Company adopted IFRS 9, which replaced IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 provides a revised model for classification and measurement of financial assets, including a new expected credit loss ("ECL") impairment model. The revised model for classifying financial assets results in classification according to their contractual cash flow characteristics and the business models under which they are held. IFRS 9 also introduces a reformed approach to hedge accounting. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The change did not result in a change in carrying value of any of the Company's financial instruments on transition date. The adoption of the ECL impairment model did not have an impact on the Company's consolidated financial statements.

New Standard Adopted

The Company adopted the new accounting standard IFRS 9, Financial Instruments effective January 1, 2018 using the modified retrospective approach. The Company has not restated comparative information for prior periods with respect to the classification and measurement requirements of IFRS 9 and accordingly, the comparative information for the year ended August 31, 2017 is presented under IAS 39 Financial Instruments: recognition and measurement. There were no changes to the carrying value of any of the Company's assets or liabilities as a result of this new accounting standard.

The Company's financial instruments are accounted for as follows under IFRS 9 as compared to the Company's previous policy in accordance with IAS 39:

	Measurement Category	
	Under IAS 39	**Under IFRS 9**
	Classification	**Classification**
Cash and cash equivalents	Fair value – P&L	Fair value – P&L
Accounts receivable	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost

The adoption of IFRS 9 has not had a significant impact on the Company's policies related to financial assets of cash and cash equivalents, accounts receivable, and accounts payables and accrued liabilities.

Financial Assets

The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument. The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income or measured at fair value through profit or loss.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Assessment and decision on the business model approach used is an accounting judgement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

Financial Assets (continued)

Financial assets measured at amortized costs

A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost.

- The Company's business model for such financial assets, is to hold the assets in order to collect contractual cash flows; and
- 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 amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction costs directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, net of impairment loss, if necessary.

Financial assets measured at fair value through other comprehensive income ("FVTOCI")

For financial assets that are not held for trading, the Company can make an irrevocable election at initial recognition to classify the instruments at fair value through other comprehensive income ("FTVOCI"), with all subsequent changes in fair value being recognized in other comprehensive income. This election is available for each separate investment. Under this new FTVOCI category, fair value changes are recognized in OCI while dividends are recognized in profit or loss. On disposal of the investment the cumulative change in fair value is not recycled to profit or loss. The Company does not have any financial assets designated as FTVOCI.

Financial assets measured at fair value through profit or loss ("FVTPL")

A financial asset measured at fair value through profit or loss is recognized initially at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial asset is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

The Company derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any interests in transferred financial assets that are created or retained by the Company are recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

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.

Fair Value Hierarchy

The Company classifies and discloses fair value measurements based on a three-level hierarchy:

- Level 1 – inputs are unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – inputs for the asset or liability are not based on observable market data.

Cash and cash equivalents, accounts receivable, restricted cash equivalents accounts payables and accrued liabilities are recorded at their carrying amounts and approximate their fair values due to their short-term nature.

(g) Share-based payments

The Company has a stock option plan that is described in note 11 and grants share options to acquire common shares of the Company to directors, officers, employees and consultants. Share-based payments to employees are measured at the fair value of the instruments granted. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued as calculated using the Black-Scholes option pricing model. The offset to the recorded expense is to reserve.

Consideration received on the exercise of stock options is recorded as share capital and the recorded amount in reserves is transferred to share capital. For those options that expire or cancelled, the recorded fair value in reserves is transferred to deficit.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Loss per share

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method.

Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the reporting periods.

However, in periods where a net loss is reported, outstanding options and warrants are excluded from the calculation of diluted loss per share, as they are anti-dilutive and as a result diluted loss per share is equal to the basic loss per share.

As at August 31, 2019 and 2018, outstanding equity instruments were anti-dilutive, and therefore, basic and fully diluted EPS were equal.

(i) License

Licenses acquired separately are measured on initial recognition at fair value.

Following initial recognition, licenses with finite useful lives are carried at cost less any accumulated amortization and accumulated impairment losses, if any. The Company amortizes its license over five years using the straight-line basis.

At each reporting date, the Company assesses whether there is objective evidence that the license is impaired. If such evidence exists, the Company recognizes an impairment loss. The loss is the difference between the carrying value and recoverable value, which is the higher of fair value less costs of disposal and value in use. The carrying amount of the license is reduced by this amount. Impairment losses are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event or condition occurring after the impairment was recognized. However, the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized.

(j) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Unit offering

The Company engages in equity financing transactions to obtain the funds necessary to continue operations, research and development activities. These equity financing transactions may involve issuance of common shares or units (a "unit"). Each unit comprises a certain number of common shares and a certain number of warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a stated price prior to expiry as stipulated by the transaction.

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 closing quoted bid price on the share issuance date and the fair value of the stand-alone warrant, estimated using the Black-Scholes option pricing model. Fair value attributed to the warrants is recorded in reserves.

From time to time in connection with private placements, the Company issues compensatory warrants to agents ("Agent Warrants") as commission for services. Awards of Agent Warrants are accounted for in accordance with the fair value method of accounting and result in share issue costs and a credit to reserves when Agent Warrants are issued. The fair value of Agent Warrants is measured using the Black-Scholes option pricing model that requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility in the price of the underlying stock, and expected life of the Agent Warrants.

Consideration received upon the exercise of warrants is recorded as share capital and the recorded amount in reserves is transferred to share capital. If warrants expire unexercised, the recorded amount in reserves is transferred to deficit.

(l) 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.

(m) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in an asset acquisition is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. A change in the expected useful life of the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method,

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Intangible assets (continued)

as appropriate, and treated as changes in accounting estimates. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the Cash Generating Unit ("CGU") level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

(n) 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.

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 payments.

- 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 September 1, 2019. The Company has reviewed the impact of IFRS 16 and concluded that the adoption of this standard will not have a material effect on the Company's consolidated financial statements.

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 of loss associated with a counter party's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to its cash and cash equivalents and accounts receivable. The Company's accounts receivable is mainly comprised of GST receivable and accrued interest receivable from GIC's held with bank. GST receivable is not a financial instrument as it does not arise from contractual obligations. The Company limits exposure to credit risk on bank deposits by holding demand deposits in high credit quality banking institutions in Canada.

Management believes that the credit risk with respect to receivables is minimal.

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 August 31, 2019, the Company had a working capital deficit of $86,601 compared to working capital at August 31, 2018 of $1,237,660. This included cash and cash equivalents of $207,812 (2018 - $1,251,058) available to meet short-term business requirements and current liabilities of $365,464 (2018 - $57,034). The Company will require additional financing in the future to meet its obligations. The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Subsequent to August 31, 2019, the Company filed a final short form prospectus on October 1, 2019 with the securities regulatory authorities in the provinces of British Columbia, Alberta, Saskatchewan, and Ontario in connection with a fully marketed public offering of units of the Company to secure new sources of capital (note 17).

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 and other price risk.

a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash is limited because of the short-term investment nature. The Company's financial asset exposed to interest rate risk consists of cash and cash equivalents and restricted cash equivalents.

b) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant other price risk.

(Expressed in Canadian dollars)

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

c) Foreign currency risk

The Company is exposed to foreign currency risk to the extent expenditures incurred or funds received and balances maintained by the Company are denominated in currencies other than the CAD (primarily US$). As at August 31, 2019, the Company had monetary assets of US$47,113 or $62,637 (2018 - US$31,492 or $41,113) at the CAD equivalent and monetary liabilities of US$125,398 or $166,717 (2018 - US$3,271 or $4,270) at the CAD equivalent.

For the year ended August 31, 2019, the Company's sensitivity analysis suggests that a change in the absolute rate of exchange in US$ by 10% will increase or decrease other comprehensive loss by approximately $10,408 (2018 - $3,684). The Company has not entered into any foreign currency contracts to mitigate this risk. Foreign currency risk is considered low relative to the overall financial operating plan.

5. ACQUISITION OF NASH PHARMA

On October 5, 2018, the Company and Nash Pharma entered into a Share Exchange Agreement whereby the Company would acquire 100% of the issued and outstanding shares of Nash Pharma, including its dilutive securities, in exchange for securities of the Company.

Upon the closing of the Transaction on October 19, 2018, the Company acquired all of the issued and outstanding common shares of Nash Pharma, in consideration for the issuance of 15,800,000 common shares and 14,800,000 warrants ("Replacement Warrant") of the Company. Each Replacement Warrant had an exercise price and expiration date equal to the exercise price and expiration date of the Nash Pharma warrants that were cancelled. The fair value of the Replacement Warrants was determined using a Black-Scholes option pricing model.

For accounting purposes, the acquisition has been recorded as an asset acquisition as Nash Pharma did not meet the definition of a business, as defined in IFRS 3.

Consideration paid:		
Fair value of 15,800,000 common shares issued	$	3,476,000
Fair value of 14,800,000 replacement warrants issued		1,380,409
Transaction costs		19,180
Total consideration paid	**$**	**4,875,589**
Net identifiable assets acquired:		
Cash	$	100,600
Taxes recoverable and other receivables		44,706
Prepaids		496
Intangible asset		4,862,756
Accounts payable and accrued liabilities		(132,969)
Identifiable assets acquired	**$**	**4,875,589**

As a result of the acquisition, an amount of $4,862,756 was capitalized to intangible assets which represent the pending patents that were filed by Nash Pharma before its acquisition by the Company.

(Expressed in Canadian dollars)

5. ACQUISITION OF NASH PHARMA (continued)

The Company used the Black-Scholes option pricing model to determine the fair value of the 14,800,000 Replacement Warrants issued with the following weighted average assumptions:

Risk-free interest rate	2.25%
Expected dividend yield	0.00%
Expected stock price volatility	94.02%
Expected life in years	1.16
Forfeiture rate	0.00%

6. INTANGIBLE ASSETS

	Acquisition of Nash Pharma(1)	Trademark Application Costs(3)	Patent Application Costs(2)	Total
Cost				
Balance, August 31, 2017 and 2018	$ -	$ -	$ -	$ -
Additions	4,862,756	5,403	83,521	4,951,680
Balance, August 31, 2019	$ 4,862,756	$ 5,403	$ 83,521	$ 4,951,680

(1) No amortization was taken on the intangibles acquired from the acquisition of Nash Pharma as the assets are not available for use.

(2) The Company has filed new method of use patents for lead compounds for treatment of three new disease areas: NASH, CKD and IBD. The likelihood of the application success is not known. No amortization was taken as the assets are not available for use.

(3) The Company has filed trademark applications for the name “ALGERNON”. No amortization was taken.

7. LICENSES

University of Florida Research Foundation (“UFRF”)

On June 18, 2016, the Company signed a license agreement with the UFRF, a non-profit Florida corporation, with respect to an exclusive royalty-bearing license to certain UFRF patent rights and a non-exclusive royalty-bearing license to certain UFRF know-how to enable commercial advancements in the field of infections detection (the “License - UFRF”).

Pursuant to the terms of the license agreement, the License - UFRF is effective from June 18, 2016 to the later of the date that no patent right remains enforceable and ten years after the first commercial sale of a licensed product (with an option to extend for additional five-year terms).

(Expressed in Canadian dollars)

7. LICENSES (continued)

In consideration for the License - UFRF, the Company issued to UFRF 468,162 common shares of the Company fair valued at $121,722. Starting in June 2017, an annual license maintenance fee of US$2,000 would be paid by the Company and every year thereafter until the first commercial sale. In addition, the Company will also make payments upon meeting certain development, regulatory and commercialization milestones. Upon commencement of commercial production, the Company will pay a royalty between 2% and 4% on all net sales.

	UFRF License
Cost	
Balance at August 31, 2017	$ 121,722
Additions	-
Balance at August 31, 2018	121,722
Additions	-
Balance at August 31, 2019	$ 121,722
Accumulated Amortization	
Balance at August 31, 2017	$ 24,344
Amortization	24,345
Balance at August 31, 2018	48,689
Amortization	24,344
Balance at August 31, 2019	$ 73,033
Carrying Amounts	
August 31, 2018	$ 73,033
August 31, 2019	$ 48,689

For the year ended August 31, 2019, included in research and development expense is a total of $24,344 (2018 - $24,345) in amortization expense from the UFRF license.

8. ACCOUNTS RECEIVABLE

	August 31, 2019	August 31, 2018
Accrued interest receivable	$ 754	$ 5,668
GST receivable	44,038	5,601
	$ 44,792	$ 11,269

9. RESTRICTED CASH EQUIVALENTS

As at August 31, 2019, the Company classified $57,500 (2018 – $nil) as restricted cash equivalents. This amount is held as collateral for the Company’s corporate credit cards and is invested in GICs at a rate of prime less 2.70%.

(Expressed in Canadian dollars)

10. FURNITURE AND EQUIPMENT

		Total
Cost		
Balance at August 31, 2017	$	82,282
Foreign translation impact		2,573
Balance at August 31, 2018		84,855
Disposal		(85,785)
Foreign translation impact		930
Balance at August 31, 2019	$	-
Accumulated Amortization		
Balance at August 31, 2017	$	14,323
Amortization		16,605
Foreign translation impact		126
Balance at August 31, 2018		31,054
Amortization		2,651
Disposal		(34,045)
Foreign translation impact		340
Balance at August 31, 2019	$	-
Carrying Amounts		
August 31, 2018	$	53,801
August 31, 2019	$	-

For the year ended August 31, 2019, included in general and administrative expense is a total of $2,651 (2018 - $16,605) in amortization expense.

11. SHARE CAPITAL AND RESERVES

Share capital

Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at August 31, 2019, there were 47,344,512 (2018 – 28,948,678) common shares issued and outstanding. Details of common shares are as follows:

11. SHARE CAPITAL AND RESERVES (continued)

Share capital (continued)

During the year ended August 31, 2019:

- On October 19, 2018, the Company issued 15,800,000 common shares in connection with the acquisition of Nash Pharma (note 5). The Company also issued 14,800,000 replacement warrants which were valued using a Black-Scholes option pricing model on the date of acquisition. The fair value was determined to be $1,380,409.

- On October 23, 2018, the Company closed a private placement for 2,083,334 units at a price of $0.24 per unit for gross proceeds of $500,000. Each unit consists of one common share and one share purchase warrant entitling the holder to acquire one common share at a price of $0.50 for a period of two years from the closing of the private placement. The share purchase warrants had an estimated fair value of $137,430 using the Black-Scholes option pricing model. In addition, 5,266 share purchase warrants were issued as Finders' warrants with a fair value of $480 estimated using the Black-Scholes option pricing model. Each Finders' warrant entitles the holder to purchase one share at a price of $0.50 per share until October 23, 2020. The Company also incurred cash share issue costs of $5,764 relating to the private placement.

- 512,500 common shares were issued in connection with the exercise of 512,500 warrants at a price of $0.30 per warrant for gross proceeds of $153,750. The value allocated to these warrants when issued of $32,636 was reclassified from reserves to share capital.

During the year ended August 31, 2018:

- 1,510,166 common shares were issued in connection with the exercise of 1,510,166 share purchase warrants at $0.30 per warrant for gross proceeds of $453,050. The value allocated to these warrants when issued was $96,169 was reclassified from reserves to share capital.

- 62,500 common shares were issued in connection with the exercise of 62,500 stock options at a price of $0.30 per option for gross proceeds of $18,750. The value allocated to these stock options when issued $10,957 was reclassified from reserves to share capital.

Escrow shares

In connection with the Merger among Breathtec, Breathtec US and Breathtec's wholly owned subsidiary, Breathtec Merger Sub. Inc. on October 26, 2015, the Company issued 3,878,350 escrow shares.

As at August 31, 2019, the Company had nil (2018 – 581,752) shares held in escrow. Under the escrow agreement, 10% of the total shares were released upon listing with the CSE and 15% of the shares would be released every six months following listing. The final release of the escrow shares occurred on February 1, 2019.

11. SHARE CAPITAL AND RESERVES (continued)

Stock options

Stock options to purchase common shares have been granted to directors, employees, contractors and consultants at exercise prices determined by reference to the market value on the date of the grant. The number of shares available for options to be granted under the Company's rolling stock option plan is 10% of the number of shares outstanding (the "Plan"). Options granted under the Plan vest immediately or over a period of time at the discretion of the Board of Directors.

Under the plan, the number of shares reserved for issuance to any one optionee will not exceed 5% of the then issued and outstanding shares and the number of shares reserved for issuance to consultants will not exceed 2% of the then issued and outstanding shares. The options are non-assignable and non-transferable and will be exercisable up to 10 years from the date of grant. The minimum exercise price of an option granted under the Plan must not be less than the discounted market price, as such term is defined in the policies of the CSE and other applicable regulatory authorities.

During the year ended August 31, 2019:

- There were no stock options granted by the Company.

- On January 30, 2019, 175,000 incentive stock options granted under the Company's stock option plan were terminated following the end of the term of a contractor. The options were originally granted on October 26, 2015 with an exercise price of $0.50 per share, and 50,000 granted on March 1, 2018 with an exercise price of $0.48 per share. All options were fully vested prior to termination.

- On February 28, 2019, 585,000 incentive stock options granted under the Company's stock option plan were cancelled. The options were originally granted on October 26, 2015 with an exercise price of $0.50 per share. All options were fully vested prior to cancellation.

During the year ended August 31, 2018:

- On October 19, 2017, the Company cancelled a total of 550,000 incentive stock options granted under the Company's stock option plan following the resignation of a director and officer. The cancelled options included 125,000 originally granted on August 30, 2016 with an exercise price of $0.50 per share, 375,000 granted on October 20, 2016 with an exercise price of $0.34 per share and 50,000 granted on May 18, 2017 with an exercise price of $0.30 per share.

- On March 1, 2018, the Company granted a total of 662,500 incentive stock options to directors, officers and consultants of the Company with an exercise price of $0.48 per share. The options expire on March 1, 2023. The stock options vested immediately.

(Expressed in Canadian dollars)

11. SHARE CAPITAL AND RESERVES (continued)

Stock options (continued)

The changes in stock options outstanding are as follows:

	Number of Stock Options	Weighted Average Exercise Price
Balance at August 31, 2017	2,097,500	$ 0.44
Granted	662,500	$ 0.48
Cancelled/Expired	(550,000)	$ 0.38
Exercised	(62,500)	$ 0.30
Balance at August 31, 2018	2,147,500	$ 0.48
Cancelled/Expired	(760,000)	$ 0.50
Balance outstanding and exercisable at August 31, 2019	1,387,500	$ 0.46

As at August 31, 2019, the Company had the following stock options outstanding and exercisable:

Date of Grant	Date of Expiry	Number Outstanding and Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
February 1, 2016	February 1, 2021	537,500	$ 0.50	1.42
May 18, 2017	May 18, 2022	237,500	$ 0.30	2.72
March 1, 2018	March 1, 2023	612,500	$ 0.48	3.50
Total		1,387,500	$ 0.46	2.56

Share-based payments

When the Company issues stock options, it records a share-based payment expense in the year or period which the options are granted and/or vested. The expense is estimated using assumptions including: the expected volatility assumption that is based on the historical and implied volatility of the Company's common share price on the CSE and the risk-free interest rate assumption that is based on yield curves on Canadian government zero-coupon bonds with a remaining term equal to the expected life of the stock options. The Company used historical data to estimate option exercise, forfeiture and employee termination within the valuation model. The Company has not paid and does not anticipate paying dividends on its common shares. Companies are required to utilize an estimated forfeiture rate when calculating the expense for the reporting period. Based on the best estimate, management applied the estimated forfeiture rate of 0% in determining the share-based payment expense recorded in the accompanying consolidated statements of loss and comprehensive loss

Total fair value of options granted in the year ended August 31, 2018 was $235,097 which was recognized as share-based payment expense for the year.

(Expressed in Canadian dollars)

11. SHARE CAPITAL AND RESERVES (continued)

Share-based payments (continued)

The Company used the Black-Scholes option pricing model to estimate the fair value of the options granted during the year with the following weighted average assumptions:

	2019	2018
Risk-free interest rate	-	1.99%
Expected dividend yield	-	0.00%
Expected stock price volatility	-	116%
Expected option life in years	-	5.0
Forfeiture rate	-	0.00%

Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these input assumptions can materially affect the fair value estimate.

Share purchase warrants

The changes in warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance at August 31, 2017	13,014,838	$ 0.52
Expired	(5,765,506)	$ 0.78
Exercised	(1,510,166)	$ 0.30
Balance at August 31, 2018	5,739,166	$ 0.30
Issued	16,888,600	$ 0.27
Exercised	(512,500)	$ 0.30
Balance at August 31, 2019	22,115,266	$ 0.28

As at August 31, 2019, the Company had the following warrants outstanding:

Date of Expiry	Exercise Price	Number of Warrants	Weighted Average Remaining Life in Years
September 25, 2019 (1)	$ 0.15	4,500,000	0.07
September 27, 2019 (1)	$ 0.15	1,700,000	0.07
October 2, 2019 (1)	$ 0.15	2,105,000	0.09
October 4, 2019 (1)	$ 0.40	2,495,000	0.09
November 25, 2019 (1)	$ 0.30	5,226,666	0.24
July 18, 2020	$ 0.25	4,000,000	0.88
October 23, 2020	$ 0.50	2,088,600	1.15
Total	$ 0.28	22,115,266	0.36

(1) Subsequent to the year ended August 31, 2019, the following warrants have expired.

(Expressed in Canadian dollars)

12. RESEARCH AND DEVELOPMENT

Breathtec US has an agreement (the "Agreement") with the University of Florida ("UF") whereby UF assists the Company with research and development that is extended annually. There was a no-cost extension for the period January 16, 2018 to October 14, 2018.

Subsequent to the no-cost extension that ended on October 14, 2018, the Company amended its research agreement (the "Amending Agreement") with UF, whereby UF has undertaken to advance the FAIMS V3 prototype, or future iterations, through its final stages of prototype development. The Amending Agreement is for the period October 15, 2018 to October 15, 2019 and requires the Company to make quarterly payments of US$41,469 for a total of US$165,877. For the twelve-month period ended August 31, 2019, the Company paid a total of US$41,469 ($55,158), recorded a total payable of US$82,934 for 2nd and 3rd quarterly payments and an accrual of $US20,743.63 for half of the 4th quarterly payment. Prior to the no-cost extension, for the period January 16, 2017 to January 15, 2018 the Company paid a total of US$55,608 ($71,820). This research agreement has been terminated subsequent to year end (note 17).

13. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 27.00% (2018 - 26.67%) to income before income taxes. The reasons for the differences are as follows:

		2019		2018
Loss before income taxes	$	(1,859,563)	$	(937,594)
Statutory income tax rate		27%		26.67%
Income tax benefit computed at statutory tax rate		(511,804)		(250,056)
Permanent differences				
Share-based payment		-		62,693
Change in deferred tax rates		-		138,766
Other		(4,130)		(967)
Differences attributable to income tax rates of other countries		12,327		2,374
Unrecognized benefit of deferred income tax assets		503,607		47,190
Income tax expense	$	-	$	-

Significant unrecognized tax benefits and unused tax losses for which no deferred tax asset is recognized as of August 31, 2019 and 2018 are as follows:

		2019		2018
Non-capital losses carried forward	$	7,246,000	$	3,917,000
Share issuance costs		32,000		53,000
License agreement		73,000		482,000
Other		11,000		33,000
	$	7,362,000	$	4,485,000

(Expressed in Canadian dollars)

13. INCOME TAXES (continued)

The Company's unrecognized unused non-capital losses have the following expiry dates:

2034	$	53,000	$	-
2035		534,000		377,000
2036		1,448,000		1,647,000
2037		1,583,000		1,203,000
2038		1,733,000		690,000
2039		1,895,000		-
	$	7,246,000	$	3,917,000

14. 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.

Compensation to key management personnel is as follows:

Years Ended August 31		2019		2018
Short-term benefits (1)	$	-	$	128,818
Share-based payment		-		212,918
	$	-	$	341,736

Related party transactions not included in compensation to key management personnel are as follows:

Years Ended August 31		2019		2018
Consulting fees – other (2)	$	297,391	$	115,300
Rent (3)		24,000		24,000
	$	321,391	$	139,300

(1) Short-term benefits paid to management employees:
- $nil to former Chief Executive Officer (2018 - $30,656) who resigned from his position on September 19, 2017;
- $nil to former Chief Technology Officer (2018 - $98,162) who resigned from his position on June 15, 2018.

(2) Fees paid to consultants/companies related to management personnel:
- $108,000 (2018 - $54,000) to a company controlled by the Chief Executive Officer who took on the position on March 1, 2018;
- $48,000 (2018 - $48,000) to a company controlled by the Chief Financial Officer;
- $138,491 (2018 - $nil) to the Chief Science Officer who took on the position on October 19, 2018;
- $nil (2018 - $9,000) paid to a company owned by a director relating to the use of work space and computer equipment;
- $2,900 (2018 - $4,300) for tax services paid to a partnership where a senior officer and director is a partner.

(3) Rent:
- $24,000 (2018 - $24,000) paid for corporate office space to a company where a senior officer and director is a principal.

(Expressed in Canadian dollars)

14. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION (continued)

Accounts payable and accrued liabilities include the following amounts due to related parties:

	August 31, 2019	August 31, 2018
Key management personnel – expense reimbursements	$ 183	$ 2,660
Key management personnel – management fees	-	3,655
	$ 183	$ 6,315

15. 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 year ended August 31, 2019. The Company is not subject to externally imposed capital requirements.

16. SEGMENTED DISCLOSURES

The Company has two operating segments; one being the development centre of health-related technology in the United States; the other being a Canadian clinical stage pharmaceutical development company focused on drug repurposing.

As at August 31, 2019, the Company's long-term assets are located as follows:

	Canada	**United States**	**Total**
Restricted cash equivalents	$ 57,500	$ -	$ 57,500
Incorporation costs	-	1,371	1,371
License agreement	-	48,689	48,689
Intangible asset	4,951,680	-	4,951,680
	$ 5,009,180	$ 50,060	$ 5,059,240

As at August 31, 2018, the Company's long-term assets were located as follows:

	Canada	**United States**	**Total**
Incorporation costs	$ -	$ 1,371	$ 1,371
License agreement	-	73,033	73,033
Furniture and equipment	-	53,801	53,801
	$ -	$ 128,205	$ 128,205

17. SUBSEQUENT EVENTS

Subsequent to the year ended August 31, 2019:

- On October 24, 2019, the Company filed the amended and restated short form prospectus dated October 22, 2019 with the securities regulatory authorities in the provinces of British Columbia, Alberta, Saskatchewan and Ontario amending and restating the final short form prospectus dated September 30, 2019. The filing was in connection with a fully marketed public offering of units of the Company at the price of $0.085 per unit that was completed on November 1, 2019. At closing of the unit offering, the Company issued 24,401,300 units at a price of $0.085 per unit for gross proceeds of $2,074,110.

  Each unit is comprised of one common share in the capital of the Company and one common share purchase warrant. Each warrant will entitle the holder to acquire one common share in the capital of the Company at the price of $0.12 per warrant share for a period of 30 months after the closing date until May 1, 2022. These share purchase warrants commenced trading on the CSE under the symbol "AGN.WT" on November 4, 2019.

  In addition, a total of 1,801,080 of agent warrants were issued. These agent warrants will entitle the holder to purchase one unit of the Company at a price of $0.085 per unit until May 1, 2022. Each unit will consist of one common share in the capital of the Company and one common share purchase warrant at the price of $0.12 per warrant share. These share purchase warrants will be tradeable on the CSE.

- Subsequent to the year ended August 31, 2019, the Company terminated its research agreement with UF due to slower than expected progress on the development of a working prototype device. As a result of limited capital for ongoing research and based on the potential of its lead drug development candidates, the Company suspended any further research on the breathalyzer device.

  On November 13, 2019, the Company and UF signed a mutual release agreement releasing each other from any and all claims arising under or by virtue of any contract or any modification or change thereof. It effectively absolved the Company from paying the quarterly payments that were recorded as payables and accruals at the year ended August 31, 2019.