

ALGERNON PHARMACEUTICALS INC.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the three months ended November 30, 2019 and 2018
(Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by management and approved by the Board of Directors of the Company. These condensed interim consolidated financial statements have not been reviewed by the Company's external auditors.

ALGERNON PHARMACEUTICALS INC.Unaudited Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Note	November 30, 2019	August 31, 2019
ASSETS			
Current assets			
Cash and cash equivalents	4	\$ 1,576,200	\$ 207,812
Accounts receivable	7	63,102	44,792
Prepaid expenses		146,741	26,259
Total current assets		1,786,043	278,863
Non-current assets			
Restricted cash equivalents	6	57,500	57,500
Incorporation costs		1,371	1,371
License	8	-	48,689
Intangible assets	5	4,964,923	4,951,680
Total non-current assets		5,023,794	5,059,240
TOTAL ASSETS		\$ 6,809,837	\$ 5,338,103
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	11	\$ 332,092	\$ 365,464
Total liabilities		332,092	365,464
Shareholders' equity			
Share capital	9	13,669,147	12,587,435
Reserves	9	1,763,282	2,517,348
Accumulated other comprehensive income		136,934	136,950
Deficit		(9,091,618)	(10,269,094)
Total shareholders' equity		6,477,745	4,972,639
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 6,809,837	\$ 5,338,103

The accompanying notes are an integral part of these condensed interim 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.Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

Three months ended November 30	Note	2019	2018
EXPENSES			
General and administrative	11	\$ 20,297	\$ 37,444
Marketing		67,774	79,150
Professional fees	11	122,604	192,511
Research and development	6, 10	18,372	174,865
Shareholder communications		28,170	24,492
		257,217	508,462
Interest income		(1,736)	(3,067)
Debt forgiveness	10	(137,833)	(6,651)
Gain on disposal of furniture and equipment		-	(4,968)
Impairment of research license	6	48,689	-
Net loss for the period		166,337	493,776
OTHER COMPREHENSIVE INCOME			
Item not classified into profit or loss:			
Foreign exchange loss on translation to reporting currency		16	1,439
Comprehensive loss for the period		\$ 166,353	\$ 495,215
Loss per common share			
Basic and fully diluted		\$ 0.00	\$ 0.01
Weighted average number of common shares outstanding		55,120,750	37,110,949

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

ALGERNON PHARMACEUTICALS INC.

Unaudited Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Three months ended November 30	2019	2018
OPERATING ACTIVITIES		
Net loss for the period	\$ (166,337)	\$ (493,776)
Items not involving cash		
Amortization	-	8,714
Impairment of research license (note 6)	48,689	-
Unrealized foreign exchange (gain) loss	895	(7,500)
	(116,753)	(492,562)
Changes in non-cash operating working capital		
Accounts receivable	(18,310)	(22,001)
Prepaid expenses	(120,482)	(68,252)
Accounts payable and accrued liabilities	(149,572)	34,988
	(405,117)	(547,827)
INVESTING ACTIVITIES		
Additions of intangible assets	(11,996)	-
Proceeds from sale of furniture and equipment	-	55,323
Cash acquired on Nash Pharma acquisition	-	100,600
	(11,996)	155,923
FINANCING ACTIVITIES		
Shares issued for marketed unit offering – net of financing costs	1,785,659	-
Shares issued for private placement – net of financing costs	-	498,737
	1,785,659	498,737
Effect of exchange rate fluctuations on cash held	(158)	962
Increase (decrease) in cash and cash equivalents	1,368,388	107,795
Cash and cash equivalents, beginning of year	207,812	1,251,058
Cash and cash equivalents, end of period	\$ 1,576,200	\$ 1,358,853

Cash and cash equivalents is comprised of:

Guaranteed Investment Certificates	\$ 1,000,000	\$ 811,500
Cash	576,200	547,353
	\$ 1,576,200	\$ 1,358,853

Supplemental cash flow information

Non-cash investing and financing activities:

Fair value of warrants issued with marketed unit offering	\$ 589,747	\$ -
Fair value of warrants expired	\$ (1,317,304)	\$ -
Fair value of stock options expired	\$ (26,509)	\$ -
Share issue costs included in accounts payable	\$ (114,200)	\$ -
Intangible assets included in accounts payable	\$ (1,247)	\$ -
Shares issued to acquire Nash Pharma	\$ -	\$ 3,476,000
Fair value of Nash Pharma replacements warrants	\$ -	\$ 1,380,409
Fair value of warrants issued with private placement	\$ -	\$ 137,910

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

ALGERNON PHARMACEUTICALS INC.Unaudited Condensed Interim 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, 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	360,827	137,910	-	-	498,737
Other comprehensive income	-	-	-	(1,439)	-	(1,439)
Net loss for the year	-	-	-	-	(493,776)	(493,776)
Balance at November 30, 2018	46,832,012	\$ 12,405,550	\$ 3,105,481	\$ 137,569	\$ (9,422,804)	\$ 6,225,796
Balance at August 31, 2019	47,344,512	\$ 12,587,435	\$ 2,517,348	\$ 136,950	\$ (10,269,094)	\$ 4,972,639
Shares issued for cash, net of financing costs	24,401,300	1,081,712	589,747	-	-	1,671,459
Expiration of stock options	-	-	(26,509)	-	26,509	-
Expiration of warrants	-	-	(1,317,304)	-	1,317,304	-
Other comprehensive loss	-	-	-	(16)	-	(16)
Net loss for the year	-	-	-	-	(166,337)	(166,337)
Balance at November 30, 2019	71,745,812	\$ 13,669,147	\$ 1,763,282	\$ 136,934	\$ (9,091,618)	\$ 6,477,745

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

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended November 30, 2019 and 2018
(Expressed in Canadian dollars)

1. NATURE AND GOING CONCERN

Algernon Pharmaceuticals Inc. (the “Company” or “Algernon”) 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.

Algernon 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).

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 condensed interim 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 condensed interim 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 condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) using policies consistent 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.

These condensed interim consolidated financial statements have been prepared in accordance with the same accounting policies and methods of application as the most recent audited financial statements for the year ended August 31, 2019, except that they do not include all the disclosures required for the annual audited financial statements. These condensed interim financial statements should be read in conjunction with the audited consolidated financial statements for the Company for year ended August 31, 2019.

(b) Approval of the condensed interim consolidated financial statements

The condensed interim consolidated financial statements of the Company for the period ended November 30, 2019 were approved and authorized for issuance by the Board of Directors on January 28, 2020.

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended November 30, 2019 and 2018
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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 Algernon and Nash Pharmaceuticals Inc. ("Nash Pharma"). The functional currency of Breathtec Biomedical, Inc. ("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.

(d) Use of accounting estimates and judgements

The preparation of condensed interim 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.

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.

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.

Apart from the above, there have been no material revisions to the nature and amount of changes in estimates of amounts reported in its audited consolidated financial statements for the year ended August 31, 2019.

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended November 30, 2019 and 2018
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3. SIGNIFICANT ACCOUNTING POLICIES

The company has applied the same accounting policies and methods of computation in its condensed interim consolidated financial statements as in its audited consolidated financial statements for the year ended August 31, 2019, except for those that relate to new standards and interpretations effective for the first time for periods beginning on or after January 1, 2020, and will be adopted in the 2020 annual financial statements.

(a) Basis of consolidation

The condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Breathtec US and Nash Pharma. 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) New accounting policy

IFRS 16 Leases

The company adopted IFRS 16 – Leases effective September 1, 2019. 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*.

The Company has reviewed the impact of IFRS 16 and concluded that the adoption of this standard did not have a material effect on the Company's consolidated financial statements.

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended November 30, 2019 and 2018
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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 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 November 30, 2019, the Company had a working capital of \$1,453,951 compared to working capital deficit at August 31, 2019 of \$86,601. This included cash and cash equivalents of \$1,576,200 (2019 - \$207,812) available to meet short-term business requirements and current liabilities of \$332,092 (2019 - \$365,464). 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 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.

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
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4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 November 30, 2019, the Company had monetary assets of US\$34,987 or \$46,495 (August 31, 2019 - US\$47,113 or \$62,637) at the CAD equivalent and monetary liabilities of US\$22,791 or \$30,287 (August 31, 2019 - US\$125,398 or \$166,717) at the CAD equivalent.

For the period ended November 30, 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 \$1,621 (August 31, 2019 - \$10,408). 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. INTANGIBLE ASSETS

	Acquisition of Nash Pharma ⁽¹⁾	Trademark Application Costs ⁽³⁾	Patent Application Costs ⁽²⁾	Total
Cost				
Balance, August 31, 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
Additions	-	3,732	9,511	13,243
Balance, November 30, 2019	\$ 4,862,756	\$ 9,135	\$ 93,032	\$ 4,964,923

(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.

6. 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").

In concert with the Company's new focus on advancing its lead compounds for NASH, CKD, IBD, IPF and chronic cough, the Company suspended any further research on the breathalyzer device with UFRF and terminated the research and development agreement with UF (note 10). Accordingly, indicators of impairment existed leading to an assessment of the recoverable amount of the License - UFRF. The Company wrote-down the carrying value of the license agreement with UFRF to \$nil and recognized an impairment loss of \$48,689. A value in use calculation is not applicable, as the Company does not have any expected cash flows from using the license. In estimating the fair value less costs of disposal, management did not have observable or unobservable inputs to estimate a recoverable amount greater than \$nil. As this valuation technique requires

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
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(Expressed in Canadian dollars)

6. LICENSES (continued)

management's judgment and estimates of the recoverable amount, it is classified within Level 3 of the fair value hierarchy.

Subsequent to the period ended November 30, 2019, the Company made a formal request to UFRF to terminate the license agreement. Pursuant to the terms of the license agreement, the License - UFRF will terminate on March 7, 2020. Any charges incurred up through the date of termination will be payable by the Company.

	UFRF License
Cost	
Balance at August 31, 2018	\$ 121,722
Additions	-
Balance at August 31, 2019	121,722
Impairment	(121,722)
Balance at November 30, 2019	\$ -
Accumulated Amortization	
Balance at August 31, 2018	\$ 48,689
Amortization	24,344
Balance at August 31, 2019	73,033
Impairment	(73,033)
Balance at November 30, 2019	\$ -
Carrying Amounts	
August 31, 2019	\$ 48,689
November 30, 2019	\$ -

For the period ended November 30, 2019, included in research and development expense is a total of \$nil (November 30, 2018 - \$6,086) in amortization expense from the UFRF license.

7. ACCOUNTS RECEIVABLE

	November 30, 2019	August 31, 2019
Accounts receivable	\$ 10,174	\$ -
Accrued interest receivable	1,954	754
GST receivable	50,974	44,038
	\$ 63,102	\$ 44,792

8. RESTRICTED CASH EQUIVALENTS

As at November 30, 2019 and August 31, 2019, the Company classified \$57,500 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%.

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
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9. SHARE CAPITAL AND RESERVES

Share capital

Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at November 30, 2019, there were 71,745,812 (August 31, 2019 – 47,344,512) common shares issued and outstanding. Details of common shares are as follows:

During the period ended November 30, 2019:

- On November 1, 2019, the Company closed a public offering of 24,401,300 units of the Company at a price of \$0.085 per unit for gross proceeds of \$2,074,110. Each unit consisted of one common share and one common share purchase warrant. Each warrant will entitle the holder to acquire one common share at the price of \$0.12 for a period of 30 months after the closing date until May 1, 2022. These share purchase warrants had an estimated fair value of \$436,655 based on the listed price on November 4, 2019.

In addition, a total of 1,801,080 of Agent Warrants (also referred as Compensation Options) were issued. Each Agent Warrant 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 and one common share purchase warrant entitling the holder to acquire an additional common share at the price of \$0.12. These share purchase warrants will be tradeable on the CSE. The Agent Warrants had an estimated fair value of \$153,092 based on the unit price of \$0.085 per unit.

The Company also incurred cash share issue costs of \$402,652 related to this public unit offering.

During the period ended November 30, 2018:

- On October 19, 2018, the Company issued 15,800,000 common shares in connection with the acquisition of Nash Pharma. 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 \$479 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 \$5,765 relating to the private placement.

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
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9. 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 three months ended November 30, 2019 and 2018:

- There were no stock options granted by the Company.

The changes in stock options outstanding are as follows:

	Number of Stock Options	Weighted Average Exercise Price
Balance at August 31, 2018	2,147,500	\$ 0.48
Expired	(760,000)	\$ 0.50
Balance at August 31	1,387,500	\$ 0.46
Expired	(100,000)	\$ 0.39
Balance at November 30, 2019	1,287,500	\$ 0.46

As at November 30, 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	1.18
May 18, 2017	May 18, 2022	187,500	\$ 0.30	2.47
March 1, 2018	March 1, 2023	562,500	\$ 0.48	3.25
Total		1,287,500	\$ 0.46	2.27

Share-based payments

As no stock options were granted during the three months ended November 30, 2019 and 2018, there were no share-based payments recognized in the three months ended November 30, 2019 and 2018.

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
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9. SHARE CAPITAL AND RESERVES (continued)

Share purchase warrants

The changes in warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
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
Issued	26,202,380	\$ 0.12
Expired	(16,026,666)	\$ 0.25
Balance at November 30, 2019	32,290,980	\$ 0.16

As at November 30, 2019, the Company had the following warrants outstanding:

Date of Expiry	Exercise Price	Number of Warrants	Weighted Average Remaining Life in Years
July 18, 2020	\$ 0.25	4,000,000	0.63
October 23, 2020	\$ 0.50	2,088,600	0.90
May 1, 2022	\$ 0.12	24,401,300	2.42
May 1, 2022	\$ 0.085 ⁽¹⁾	1,801,080	2.42
Total	\$ 0.16	32,290,980	2.10

⁽¹⁾ The Agent Warrants in connection with the public offering of units of the Company that was completed on November 1, 2019 have an exercise price of \$0.085 per unit. Each unit will consist of one common share and one share purchase warrant entitling the holder to acquire one common share at a price of \$0.12.

10. RESEARCH AND DEVELOPMENT

Breathtec US had an agreement (the "Agreement") with the University of Florida ("UF") whereby UF assisted the Company with research and development that was 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 was for the period October 15, 2018 to October 15, 2019 and required 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.

On November 13, 2019, the Company and UF mutually terminated the research and development agreement with no additional cost on either party. It effectively absolved the Company from paying the quarterly payments that were recorded as payables and accruals at the year ended August 31, 2019. As a result, the Company recognized a debt forgiveness of \$137,833 for the three months ended November 30, 2019.

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11. 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 to key management personnel are as follows:

Three months ended November 30	2019	2018
Consulting fees – other ⁽¹⁾	\$ 78,999	\$ 57,494
Rent ⁽²⁾	6,000	6,000
	\$ 84,999	\$ 63,494

⁽¹⁾ Fees paid to consultants/companies related to management personnel:

- \$27,000 (November 30, 2018 - \$27,000) to a company controlled by the Chief Executive Officer;
- \$12,000 (November 30, 2018 - \$12,000) to a company controlled by the Chief Financial Officer;
- \$39,999 (November 30, 2018 - \$18,494) to the Chief Science who took on the position on October 19, 2018.

⁽²⁾ Rent:

- \$6,000 (November 30, 2018 - \$6,000) paid for corporate office space to a company where a senior officer and director is a principal.

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

As at	November 30, 2019	August 31, 2019
Key management personnel – expense reimbursements	\$ -	\$ 183

12. 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 November 30, 2019. The Company is not subject to externally imposed capital requirements.

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13. 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 November 30, 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	-	-	-
Intangible asset	4,964,923	-	4,964,923
	\$ 5,022,423	\$ 1,371	\$ 5,023,794

As at August 31, 2019, the Company's long-term assets were 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

14. SUBSEQUENT EVENTS

Subsequent to the period ended November 30, 2019:

- Novotech, a contract research organization ("CRO"), has signed a letter of intent ("LOI") to make an equity investment in the Company. The Company anticipates issuing to Novotech, on a private placement basis, approximately \$220,000 of units of the Company at the price of \$0.085 per unit. Each unit is comprised of one common share and one common share purchase warrant. Each warrant is exercisable for one common share at the price of \$0.12 for a period of 30 months after the date of issue.