

ALGERNON PHARMACEUTICALS INC.

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National Instrument 51-102F6V

STATEMENT OF EXECUTIVE COMPENSATION

as at August 31, 2019

This Statement of Executive Compensation (the "Statement") should be read in conjunction with the Annual Financial Statements of Algernon Pharmaceuticals Inc. (the "Company") for the Company's financial year ended August 31, 2019 which available on SEDAR at www.sedar.com.

In this Statement, references to "the Company", "Algernon Pharmaceuticals", "we" and "our" refer to Algernon Pharmaceuticals Inc. "Common Shares" mean common shares without par value in the capital of the Company.

All monetary amounts herein are expressed in Canadian Dollars ("\$") unless otherwise stated.

In this Statement:

"**CEO**" of the Company means each individual who acted as chief executive officer of the Company or acted in a similar capacity for any part of the most recently completed financial year;

"**CFO**" of the Company means each individual who acted as chief financial officer of the Company or acted in a similar capacity for any part of the most recently completed financial year;

"**compensation securities**" includes stock options, convertible securities, exchangeable securities and similar instruments including stock appreciation rights, deferred share units and restricted stock units granted or issued by the Company or one of its subsidiaries (if any) for services provided or to be provided, directly or indirectly to the Company or any of its subsidiaries (if any);and

"**Named Executive Officer**" or "**NEO**" means each of the following individuals:

- (a) each individual who, in respect of the Company, during any part of the most recently completed financial year, served as chief executive officer, including an individual performing functions similar to a chief executive officer;
- (b) each individual who, in respect of the Company, during any part of the most recently completed financial year, served as chief financial officer, including an individual performing functions similar to a chief financial officer;
- (c) in respect of the Company and its subsidiaries, the most highly compensated executive officer other than the individuals identified in paragraphs (a) and (b) at the end of the most recently completed financial year whose total compensation was more than \$150,000 for the financial year, and

- (d) each individual who would be an NEO under paragraph (c) but for the fact that the individual was neither an executive officer of the Company, and was not acting in a similar capacity, at the end of that financial year.

Director and Named Executive Officer Compensation

As at the year ended August 31, 2019, the Company had three NEOs, namely Christopher Moreau, the Chief Executive Officer, Mark Williams, the Chief Science Officer and Michael Sadhra, the Chief Financial Officer. The Company had three directors: Michael Sadhra, Raj Attariwala and David Levine.

Director and NEO Compensation Excluding Options and Compensation Securities

The following table presents information concerning all compensation paid, payable, given, or otherwise provided, directly or indirectly, to NEOs and Directors by the Company for services in all capacities to the Company during the two most recently completed financial years:

Name and Principal Position	Year	Salary, consulting fee, retainer or commission (\$)	Bonus (\$)	Committee or meeting fees (\$)	Value of Perquisites (\$)	Value of all other compensation (\$)	Total Compensation (\$)
Christopher Moreau ⁽¹⁾ CEO	2019	108,000	Nil	Nil	Nil	Nil	108,000
	2018	54,000	Nil	Nil	Nil	Nil	54,000
Mark Williams ⁽²⁾ Chief Science Officer	2019	138,491	Nil	Nil	Nil	Nil	138,491
	2018	Nil	Nil	Nil	Nil	Nil	Nil
Michael Sadhra CFO and Director	2019	48,000	Nil	Nil	Nil	Nil	48,000
	2018	48,000	Nil	Nil	Nil	Nil	48,000
Raj Attariwala Director	2019	Nil	Nil	Nil	Nil	Nil	Nil
	2018	38,000	Nil	Nil	Nil	Nil	38,000
David Levine Director	2019	Nil	Nil	Nil	Nil	Nil	Nil
	2018	Nil	Nil	Nil	Nil	Nil	Nil
Michael Costanzo ⁽³⁾ Former Chief Technology Officer	2019	Nil	Nil	Nil	Nil	Nil	Nil
	2018	98,162	Nil	Nil	Nil	Nil	98,162
Kulwant Malhi ⁽⁴⁾ Former President, Director	2019	Nil	Nil	Nil	Nil	Nil	Nil
	2018	64,000	Nil	Nil	Nil	Nil	64,000
Guy La Torre ⁽⁵⁾ Former CEO, former President and former Director	2019	Nil	Nil	Nil	Nil	Nil	Nil
	2018	30,656	Nil	Nil	Nil	Nil	30,656
Alfred Wong ⁽⁶⁾ Former VP Corporate Development	2019	40,500	Nil	Nil	Nil	Nil	40,500
	2018	26,000	Nil	Nil	Nil	Nil	26,000

(1) Mr. Moreau was appointed CEO on March 1, 2018;

(2) Mr. Williams was appointed Chief Science Officer on October 19, 2018

- (3) Mr. Costanzo resigned as Chief Technology Officer on June 25, 2018;
- (4) Mr. Malhi resigned as President and a Director of the Company on May 18, 2017;
- (5) Mr. La Torre resigned as the CEO, President and a Director of the Company on September 19, 2017; and
- (6) Mr. Wong resigned as the VP Corporate Development of the Company on August 27, 2019.

Other than as set forth above, no NEO or Director of the Company has, during the most recently completed financial year, received compensation pursuant to:

- (a) any standard arrangement for the compensation of NEOs or Directors for their services in their capacity as NEOs and/or Directors, including any additional amounts payable for committee participation or special assignments;
- (b) any other arrangement, in addition to, or in lieu of, any standard arrangement, for the compensation of NEOs in their capacity as NEOs; or
- (c) any arrangement for the compensation of NEOs or Directors for services as consultants or expert.

Compensation Securities

The following table sets forth information in respect of all compensation securities granted or issued to each NEO and Director of the Company in the most recently completed financial year ended August 31, 2019:

Name and Position	Type of Compensation Security	Number of compensation securities, number of underlying securities and percentage of class # / % ⁽¹⁾	Date of issue or grant (mm/dd/yyyy)	Issue, conversion or exercise price (\$)	Closing price of security or underlying security on date of grant (\$)	Closing price of security or underlying security at year end (\$)	Expiry date
Christopher Moreau CEO	Stock options	Nil ⁽²⁾	N/A	N/A	N/A	N/A	N/A
Mark Williams Chief Science Officer	Stock options	Nil	N/A	N/A	N/A	N/A	N/A
Michael Sadhra CFO and Director	Stock options	Nil ⁽³⁾	N/A	N/A	N/A	N/A	N/A
Raj Attariwala Director	Stock options	Nil ⁽⁴⁾	N/A	N/A	N/A	N/A	N/A
David Levine Director	Stock options	Nil ⁽⁵⁾	N/A	N/A	N/A	N/A	N/A
Michael Costanzo Former Chief Technology Officer	Stock options	Nil ⁽⁶⁾	N/A	N/A	N/A	N/A	N/A

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Kulwant Malhi Former President, Director	Stock options	Nil	N/A	N/A	N/A	N/A	N/A
Alfred Wong VP Corporate Development	Stock options	Nil	N/A	N/A	N/A	N/A	N/A

- (1) The percentage of class is based on the total number of options and common shares outstanding as at August 31, 2019: 47,344,512 common shares and 1,387,500 stock options.
- (2) Mr. Moreau was issued 250,000 stock options on March 1, 2018, each option exercisable into one common share of the Company at a price of \$0.48 per share until March 1, 2023.
- (3) Mr. Sadhra has a total of 400,000 stock options: 200,000 stock options were issued on February 1, 2016 each exercisable into one common share of the Company at a price of 0.50 per share until February 1, 2021; 50,000 stock options were issued on May 18, 2017 each exercisable into one common share of the Company at a price of \$0.30 per share until May 18, 2022; and 150,000 stock options were issued on March 1, 2018 exercisable into one common share of the Company at a price of \$0.48 per share until March 1, 2023.
- (4) Mr. Attariwala has a total of 225,000 stock options: 125,000 stock options were issued on February 1, 2016 each exercisable into one common share of the Company at a price of 0.50 per share until February 1, 2021; 50,000 stock options were issued on May 18, 2017 each exercisable into one common share of the Company at a price of \$0.30 per share until May 18, 2022; and 50,000 stock options were issued on March 1, 2018 exercisable into one common share of the Company at a price of \$0.48 per share until March 1, 2023.
- (5) Mr. Levine has a total of 300,000 stock options: 200,000 stock options were issued on February 1, 2016 each exercisable into one common share of the Company at a price of 0.50 per share until February 1, 2021; 50,000 stock options were issued on May 18, 2017 each exercisable into one common share of the Company at a price of \$0.30 per share until May 18, 2022; and 50,000 stock options were issued on March 1, 2018 exercisable into one common share of the Company at a price of \$0.48 per share until March 1, 2023.
- (6) Mr. Costanzo's options expired on January 30, 2019
- (7) Mr. Wong had a total of 150,000 stock options: 100,000 stock options were issued on May 18, 2017 each exercisable into one common share of the Company at a price of \$0.30 per share until May 18, 2022; and 50,000 stock options were issued on March 1, 2018 exercisable into one common share of the Company at a price of \$0.48 per share until March 1, 2023. Mr. Wong's options expired on September 26, 2019, subsequent to the year end.

Exercise of Compensation Securities by Directors and NEOs:

There were no compensation securities exercised by Directors and NEOs during the financial year ended August 31, 2019:

Name and position	Type of compensation security	Number of underlying securities exercised	Exercise price per security (\$)	Date of exercise	Closing price per security on date of exercise (\$)	Difference Between exercise price and closing price on date of exercise (\$)	Total value on exercise date (\$)
N/A							

Stock Option Plan

The Company adopted a Stock Option Plan on September 11, 2015, which was adopted by shareholders on April 10, 2017 (the "Plan").

The purpose of the Option Plan is to attract, retain, and motivate NEOs, directors, employees and other service providers by providing them with the opportunity, through options, to acquire an interest in the Company and benefit from the Company's growth. Under the Option Plan, the maximum number of Shares reserved for issuance, including Options currently outstanding, is equal to 10% of the issued and outstanding Shares from time to time (the "10% Maximum"), meaning that, following the exercise, termination, cancellation or expiration of any Options, a number of Shares equivalent to the number of Options so exercised, terminated, cancelled or expired would become available for reserve for issuance in respect of future Option grants.

Material Terms to the Option Plan

- (a) The number of Shares which may be the subject of Options on a yearly basis to any one person cannot exceed 5% of the number of issued and outstanding Shares at the time of the grant;
- (b) Options may be granted to any employee, officer, director, consultant, affiliate or subsidiary of the Company exercisable at a price which is not less than the market price of Shares on the date of the grant;
- (c) The directors of the Company may, by resolution, determine the time period during which any Option may be exercised (the "Exercise Period"), provided that the Exercise Period does not contravene any rule or regulation of such exchange on which the Shares may be listed;
- (d) All Options will terminate on the earliest to occur of:
 - (i) the expiry of their term;

- (ii) the date of termination of an optionee's employment, office or position as director, if terminated for just cause;
 - (iii) 90 days (or such other period of time as permitted by any rule or regulation of such exchange on which the Shares may be listed) following the date of termination of an optionee's position as a director or NEO, if terminated for any reason other than the optionee's disability or death; and
 - (iv) 30 days following the date of termination of an optionee's position as a consultant engaged in investor relations activities, if terminated for any reason other than the optionee's disability, death, or just cause;
- (e) Options are non-assignable and non-transferable and are subject to early termination in the event of the death of a participant or in the event a participant ceases to be a NEO, director, employee, consultant, affiliate, or subsidiary of the Company, as the case may be.

Subject to the foregoing restrictions, and certain other restrictions set out in the Option Plan, the Board is authorized to provide for the granting of Options and the exercise and method of exercise of options granted under the Option Plan.

Employment, Consulting and Management Agreements

Management functions of the Company are substantially performed by directors or senior officers (or private companies controlled by them, either directly or indirectly) of the Company and not, to any substantial degree, by any other person with whom the Company has contracted. The Company entered into a Management Consulting Agreement dated March 1, 2018 with Christopher Moreau (the "Moreau Agreement") whereby he was retained to act as the Company's CEO. The Moreau Agreement provided for the remuneration of Mr. Moreau at the rate of CAD\$9,000 per month (the "Base Fee").

Oversight and Description of Director and NEO Compensation

The Company does not have a compensation committee or a formal compensation policy and relies solely on the Board of Directors (the "Board") to determine NEO compensation. In determining compensation, the Board considers industry standards and its financial situation but does not currently have any formal objectives or criteria. The performance of each NEO is informally monitored by the Board, who keeps in mind the business strengths of the individual and the purpose of originally appointing the individual as an officer. The duties and responsibilities of the NEOs are typical of those of a business entity of the Company's size in a similar business and include direct reporting responsibility to the Board, overseeing the activities of all other executive and management consultants, representing the Company, providing leadership and responsibility for achieving corporate goals and implementing corporate policies and initiatives.

The Board is also responsible for recommending compensation for the directors and granting stock options to the directors, NEOs and employees of, and consultants to, the Company pursuant to the Company's Stock Option Plan (defined below).

Philosophy and Objectives

The compensation program for the senior management of the Company is designed to ensure that the level and form of compensation achieves certain objectives, including:

- attracting and retaining talented, qualified and effective executives;
- motivating the short and long-term performance of these executives; and
- better aligning their interests with those of the Company's shareholders.

In compensating its senior management, the Company has employed a combination of base salary and equity participation through its stock option plan.

The Company relies solely on the discussions of the Board, without any formal objectives, criteria and analysis, for determining executive compensation.

Base Salary or Consulting Fees

In establishing the base salary for NEOs, the Board considers the NEO's performance, level of expertise, responsibilities, length of service to the Company and comparable levels of remuneration paid to executives of other companies of comparable size and development. The financial and other resources of the Company are also considered since capital management is critical to the Company as a successful generator of business using Shareholders' funds. Using this information, together with budgetary guidelines the Board determines and sets the base salaries of the CEO, CFO and other NEOs.

Bonus Incentive Compensation

The Company's objective is to achieve certain strategic objectives and milestones. The Board will consider executive bonus compensation dependent upon the Company meeting those strategic objectives and milestones and sufficient cash resources being available for granting of bonuses. The Board approves executive bonus compensation dependent upon compensation levels based on recommendations of the CEO. Such recommendations are generally based on information provided by issuers that are similar in size and scope to the Company's operations.

Equity Participation

The Company believes that encouraging its executives and employees to become shareholders is the best way of aligning their interests with those of its shareholders. Equity participation is accomplished through the Company's stock option plan. Stock options are granted to executives and employees taking into account a number of factors, including the amount and term of

options previously granted, base salary and bonuses and competitive factors. The amounts and terms of options granted are determined by the Board. The Board continues to review and redesign the overall compensation plan for senior management so as to continue to address the objectives identified above.

Given the evolving nature of the Company's business, the Board continues to review and redesign the overall compensation plan for senior management so as to continue to address the objectives identified above.

Compensation Review Process

Compensation Components: Compensation paid to the Company's NEOs consists of a base salary in the form of cash compensation, and long-term incentive stock options. No specific formula is used to assign a specific weighting to these components. Instead, the Board considers the Company's performance and assigns compensation based on this assessment.

In establishing compensation levels, the Board also relies on the experience of its members as officers and directors of other companies in similar lines of business as the Company. The purpose of this comparison to similar companies is to: (1) understand the competitiveness of current pay levels for each executive position relative to companies with similar business characteristics; (2) identify and understand any gaps that may exist between actual compensation levels and market compensation levels; and (3) establish a basis for developing salary adjustments and long-term incentive awards for the Board to consider and approve.

Long Term Compensation

Long term compensation is paid in the form of granting of stock options. The Board established the Option Plan to encourage share ownership and entrepreneurship on the part of the directors, management and employees. The Board believes that the Option Plan aligns the interests of the NEOs with the interests of Shareholders by linking a component of compensation to the longer-term performance of the Shares.

Options are generally granted on an annual basis, subject to the imposition of trading black-out periods, in which case options scheduled for grant will be granted subsequent to the end of the black-out period. All options granted to NEOs are approved by the Board. In monitoring stock option grants, the Board takes into account the level of options granted by comparable companies for similar levels of responsibility and considers each NEO based on reports received from management, its own observations on individual performance (where possible) and its assessment of individual contributions to Shareholder value.

In addition to determining the number of options to be granted pursuant to the methodology outlined above, the Board also makes the following determinations:

- the exercise price for each option granted;
- the date on which each option is granted;

- the vesting terms for each stock option; and
- the other materials terms and conditions of each stock option grant.

The Board makes these determinations subject to and in accordance with the provision of the Option Plan.

Risks Associated with the Company's Compensation Program

Neither the Board nor any committee of the Board considered the implications of the risks associated with the Company's compensation program during the most recently completed financial year. All of the Company's option-based awards for the benefit of executive officers were fully discretionary.

Hedging by Named Executive Officers or Directors

The Company has no policy with respect to NEOs or directors purchasing financial instruments, including, for greater certainty, prepaid variable forward contracts, equity swaps, collars, or units of exchange funds that are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by the NEO or director.

Benefits and Perquisites

The Company does not offer any benefits or perquisites to its directors or NEOs other than potential grants of incentive stock options as otherwise disclosed and discussed herein.

Option-Based Awards

As described above, the Company has a 10% "rolling" share option plan. The Company's Option Plan was established to provide incentive to qualified parties to increase their proprietary interest in the Company and thereby encourage their continuing association with the Company. Management proposes stock option grants to the Board based on such criteria as performance, previous grants, and hiring incentives. All grants require approval of the Board.

The purpose of the Company's Option Plan is to provide the Company with a share related mechanism to enable the Company to attract, retain and motivate qualified directors, officers, employees and other service providers, to reward directors, officers, employees and other service providers for their contribution toward the long term goals of the Company and to enable and encourage such individuals to acquire shares of the Company as long term investments.

Oversight and Description of Director Compensation

In the Board's view, there is, and has been, no need for the Company to design or implement a formal compensation program for directors. While the Board considers Option grants to directors under the Option Plan from time to time, the Board does not employ a prescribed methodology when determining the grant or allocation of Options. Other than the Option Plan, as discussed

above, the Company does not offer any long-term incentive plans, share compensation plans or any other such benefit programs for directors.

Pension Plan Benefits

The Company does not have a pension plan that provides for payments or benefits to the NEOs or Directors at, following, or in connection with retirement.

Termination and Change of Control Benefits

There are no compensatory plan(s) or arrangements(s), with respect to any of the NEOs resulting from the resignation, retirement or any other termination of employment of the officer’s employment or from a change of the NEOs responsibilities following a change of control.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets out, as of the end of the Company’s fiscal year ended June 30, 2019, all required information with respect to compensation plans under which equity securities of the Company are authorized for issuance:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by securityholders	1,387,500	\$0.46	3,346,951
Equity compensation plans not approved by securityholders	Nil	Nil	Nil
Total	1,387,500		3,346,951