ALGERNON PHARMACEUTICALS INC.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the six months ended February 29, 2020 and February 28, 2019
(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	February 29, 2020	August 31, 2019
ASSETS			
Current assets			
Cash and cash equivalents	*4*	$ 2,189,970	$ 207,812
Accounts receivable	*5*	99,047	44,792
Prepaid expenses	*6*	392,143	26,259
Total current assets		2,681,160	278,863
Non-current assets			
Restricted cash equivalents	*7*	57,500	57,500
Incorporation costs		-	1,371
License	*8*	-	48,689
Intangible assets	*9*	4,973,059	4,951,680
Total non-current assets		5,030,559	5,059,240
TOTAL ASSETS		$ 7,711,719	$ 5,338,103
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	*12*	$ 237,013	$ 365,464
Total liabilities		237,013	365,464
Shareholders' equity			
Share capital	*10*	14,753,332	12,587,435
Reserves	*10*	2,468,278	2,517,348
Accumulated other comprehensive income		132,117	136,950
Deficit		(9,879,021)	(10,269,094)
Total shareholders' equity		7,474,706	4,972,639
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 7,711,719	$ 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)

	Note	Three months ended February 29, 2020	Three months ended February 28, 2019	Six months ended February 29, 2020	Six months ended February 28, 2019
EXPENSES					
General and administrative	*12*	$ 22,328	$ 62,155	$ 42,625	$ 99,599
Marketing		123,128	36,881	190,902	116,031
Professional fees	*12*	121,282	150,838	243,886	343,349
Research and development	*8, 11*	213,854	183,274	232,226	358,139
Share-based payment	*10*	296,891	-	296,891	-
Shareholder communications		16,294	13,845	44,464	38.337
		793,777	446,993	1,050,994	955,455
Interest income		(5,003)	(2,183)	(6,739)	(5,250))
Debt forgiveness	*11*	-	-	(137,833)	(6,651)
Gain on disposal of furniture and equipment		-	-	-	(4,968)
Gain on dissolution of US subsidiary		(1,371)	-	(1,371)	-
Impairment of research license	*8*	-	-	48,689	-
Net loss for the period		787,403	444,810	953,740	938,586
OTHER COMPREHENSIVE INCOME					
Item not classified into profit or loss:					
Foreign exchange loss on translation to reporting currency		4,817	457	4,833	1,896
Comprehensive loss for the period		$ 792,220	$ 445,267	$ 958,573	$ 940,482
Loss per common share					
Basic and fully diluted		$ 0.01	$ 0.01	$ 0.02	$ 0.02
Weighted average number of common shares outstanding		73,556,630	46,835,068	64,338,690	41,946,146

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)

Six months ended	February 29, 2020	February 28, 2019
OPERATING ACTIVITIES		
Net loss for the period	$ (953,740)	$ (938,586)
Items not involving cash		
Amortization	-	14,823
Share-based payment (note 10)	296,891	-
Debt forgiveness	*(137,833)*	(6,651)
Gain on disposal of furniture and equipment	-	(3,798)
Impairment of research license (note 8)	48,689	-
Dissolution of US subsidiary	1,371	-
Unrealized foreign exchange (gain) loss	(4,120)	(2,512)
	(748,742)	(936,724)
Changes in non-cash operating working capital		
Accounts receivable	(54,255)	35,141
Prepaid expenses	(365,884)	(37,961)
Accounts payable and accrued liabilities	8,760	(60,568)
	(1,160,121)	(1,000,112)
INVESTING ACTIVITIES		
Proceeds from sale of furniture and equipment	-	55,323
Cash acquired on Nash Pharma acquisition	-	100,600
Additions of intangible assets	(21,379)	(7,395)
	(21,379)	148,528
FINANCING ACTIVITIES		
Units issued for prospectus offering – net of financing costs	1,690,123	-
Units issued for private placement – net of financing costs	1,473,506	494,236
Proceeds from warrants exercised	120	153,750
	3,163,749	647,986
Effect of exchange rate fluctuations on cash held	(91)	374
Increase (decrease) in cash and cash equivalents	1,982,158	(203,224)
Cash and cash equivalents, beginning of year	207,812	1,251,058
Cash and cash equivalents, end of period	$ 2,189,970	$ 1,047,834
Cash and cash equivalents is comprised of:		
Guaranteed Investment Certificates	$ 1,800,000	$ 311,500
Cash	389,970	736,334
	$ 2,189,970	$ 1,047,834
Supplemental cash flow information		
Non-cash investing and financing activities:		
Fair value of warrants issued with unit offering	$ 553,725	$ -
Fair value of warrants issued with private placement	444,145	137,910
Fair value of warrants expired	$ 1,317,304	$ -
Fair value of stock options expired	$ 26,509	$ 555,497
Shares issued to replace Nash Pharma shares	$ -	$ 3,476,000
Fair value of Nash Pharma replacements warrants	$ -	$ 1,380,409
Fair value of warrants exercised	$ 18	$ 32,637

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	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 income	-	-	-	(1,896)	-	(1,896)
Net loss for the period	-	-	-	-	(938,586)	(938,586)
Balance at February 28, 2019	**47,344,512**	**$ 12,587,435**	**$ 2,517,348**	**$ 137,112**	**$ (9,312,117)**	**$ 5,929,778**

Balance at August 31, 2019	47,344,512	$ 12,587,435	$ 2,517,348	$ 136,950	$ (10,269,094)	$ 4,972,639
Units issued for cash, net of financing costs – prospectus offering	24,401,300	1,136,398	553,725	-	-	1,690,123
Units issued for cash, net of financing costs – private placement	18,304,939	1,029,361	444,145	-	-	1,473,506
Expiration of stock options	-	-	(26,509)	-	26,509	-
Expiration of warrants	-	-	(1,317,304)	-	1,317,304	-
Exercise of warrants	1,000	138	(18)	-	-	120
Share-based payment	-	-	296,891	-	-	296,891
Other comprehensive loss	-	-	-	(4,833)	-	(4,833)
Net loss for the period	-	-	-	-	(953,740)	(953,740)
Balance at February 29, 2020	**90,051,751**	**$ 14,753,332**	**$ 2,468,278**	**$ 132,117**	**$ (9,879,021)**	**$ 7,474,706**

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

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"), idiopathic pulmonary fibrosis ("IPF") and chronic cough. 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. All the research and development work are carried out by the Company's 100% owned Canadian subsidiary, Nash Pharmaceuticals Inc. ("Nash Pharma"). 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 February 29, 2020 were approved and authorized for issuance by the Board of Directors on April 27, 2020.

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 Pharma. The functional currency of Breathtec US is the United States dollar ("US"). The functional currency of AGN Research is the Australian dollar ("AUD"). 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.

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, Nash Pharma and AGN Research. 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.

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 February 29, 2020, the Company had a working capital of $2,444,147 compared to working capital deficit at August 31, 2019 of $86,601. This included cash and cash equivalents of $2,189,970 (August 31, 2019 - $207,812) available to meet short-term business requirements and current liabilities of $237,013 (August 31, 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.

c) Foreign currency risk

The Company has certain expenditures that are denominated in US dollars ("US$"), Australian dollars ("AUD$") and other operating expenses that are mainly in Canadian dollars ("CAD$"). The Company's exposure to foreign currency risk arises primarily on fluctuations between the CAD$, the US$ and the AUD$.

(Expressed in Canadian dollars)

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Market risk (continued)

c) Foreign currency risk (continued)

As at February 29, 2020, the Company had monetary assets of US$32,083 or $43,085 (August 31, 2019 - US$47,113 or $62,637) at the CAD equivalent and monetary liabilities of US$23,563 or $31,643 (August 31, 2019 - US$125,398 or $166,717) at the CAD equivalent. The Company's sensitivity analysis suggests that a change in the absolute rate of exchange in US$ by 10% will increase or decrease other comprehensive loss by approximately $4,308 (August 31, 2019 - $10,408).

As at February 29, 2020, the Company had monetary assets of AUD$36,857 or $32,169 (August 31, 2019 - AUD$nil or $nil) at the CAD equivalent and monetary liabilities of AUD$NIL or $NIL (August 31, 2019 - AUD$nil or $nil) at the CAD equivalent. The Company's sensitivity analysis suggests that a change in the absolute rate of exchange in AUD$ by 10% will increase or decrease other comprehensive loss by approximately $3,219 (August 31, 2019 - $nil).

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. ACCOUNTS RECEIVABLE

	February 29, 2020	August 31, 2019
Accrued interest receivable	$ 6,956	$ 754
GST receivable	92,091	44,038
	$ 99,047	$ 44,792

6. PREPAID EXPENSES

	February 29, 2020	August 31, 2019
Conferences	$ 25,000	$ -
Marketing	349,521	7,250
Office and general	12,412	2,567
Professional fees – legal retainer	-	2,563
Research and development	-	1,994
Shareholders communications	5,210	11,885
	$ 392,143	$ 26,259

7. RESTRICTED CASH EQUIVALENTS

As at February 29, 2020 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%.

(Expressed in Canadian dollars)

8. LICENSES

University of Florida Research Foundation ("UFRF")

On January 7, 2020, the Company made a formal request to UFRF to terminate the license agreement. Pursuant to the terms of the license agreement, the License - UFRF was terminated subsequently on March 7, 2020.

	UFRF License
Cost	
Balance at August 31, 2018	$ 121,722
Additions	-
Balance at August 31, 2019	121,722
Impairment	(121,722)
Balance at February 29, 2020	$ -
Accumulated Amortization	
Balance at August 31, 2018	$ 48,689
Amortization	24,344
Balance at August 31, 2019	73,033
Impairment	(73,033)
Balance at February 29, 2020	$ -
Carrying Amounts	
August 31, 2019	$ 48,689
February 29, 2020	$ -

For the period ended February 29, 2020, included in research and development expense is a total of $nil (February 29, 2019 - $12,172) in amortization expense from the UFRF license.

9. 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	-	7,133	14,246	21,379
Balance, February 29, 2020	$ 4,862,756	$ 12,536	$ 97,767	$ 4,973,059

(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.

10. SHARE CAPITAL AND RESERVES

Share capital

Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at February 29, 2020, there were 90,051,751 (August 31, 2019 – 47,344,512) common shares issued and outstanding. Details of common shares are as follows:

During the period ended February 29, 2020:

- 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 consists of one common share and one common share purchase warrant. Each warrant entitles 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 in connection with the public offering are tradeable on the Canadian Securities Exchange ("CSE") under the symbol "AGN.WT". Using the relative fair value approach and based on the listed share price of $0.075 on November 1, 2019 and listed warrant price of $0.020 on November 4, 2019 (the first day of trading), the fair value attributed to the warrants was determined to be $436,655.

  In addition, a total of 1,801,080 of Agent Warrant Units (also referred as Compensation Options) were issued. Each Agent Warrant Unit entitles the holder to purchase one unit of the Company at a price of $0.085 per unit until May 1, 2022. Each unit consists 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 are tradeable on the CSE under the symbol AGN.WT. The Agent Warrant Units were valued using a Geske compound options pricing model with the following inputs on date of issuance: share price of $0.075 on November 1, 2020 for the share component of the unit; allocated price of $0.010 for the warrant component of the unit; exercise price of the warrant of $0.12; expected life of 2.5 years for both the share component and warrant component of the unit; expected volatility of 126.18%; risk-free rate of return of 1.55%; and expected dividend yield of 0%. The fair value of the Agent Warrant Units was determined to be $117,070.

  The Company also incurred cash share issue costs of $383,988 related to this public unit offering.

  On February 20, 2020, the Company closed a private placement for 18,304,939 units of the Company at a price of $0.085 per unit for gross proceeds of $1,555,920. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at the price of $0.12 for a period of 30 months after the closing date until August 20, 2022. The share purchase warrants in connection with this private placement are not tradeable on the CSE. Using the relative fair value approach and based on the listed share price of $0.080 and listed warrant price of $0.025 on date of issuance of the units, the fair value attributed to the warrants was determined to be $370,457

  In addition, a total of 969,571 of Agent Warrant Units were issued. Each Agent Warrant Unit entitles the holder to purchase one unit of the Company at a price of $0.085 per unit until August 20, 2022. Each unit consists of one common share and one share purchase warrant entitling the holder to acquire an additional common share at a price of $0.12. These share purchase warrants are not tradeable on the CSE. The Agent Warrant Units were valued using a Geske compound options pricing model with the following inputs on date of issuance: share price of $0.080 on February 20, 2020 for the share component of the unit; allocated price of $0.005 for the warrant component of the unit; exercise price of the warrant of $0.12;

10. SHARE CAPITAL AND RESERVES (continued)

Share capital (continued)

expected life of 2.5 years for both the share component and warrant component of the unit; expected volatility of 130.28%; risk-free rate of return of 1.45%; and expected dividend yield of 0%. The fair value of the Agent Warrant Units was determined to be $73,688.

The Company also incurred cash share issue costs of $82,414 related to this private placement.

During the period ended February 28, 2019:

- 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.

- 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 $32,636 was reclassified from reserves to share capital.

- 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 consisted 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. 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 entitled 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.

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 six months ended February 28, 2020:

- On September 26, 2019, a total of 100,000 incentive stock options expired following the resignation of an officer. The stock options expired had a weighted average exercise price of $0.39 per share.

- On February 13, 2020, the Company granted a total of 4,375,000 incentive stock options to certain directors, officers and consultants of the Company with an exercise price of $0.10 per share. The options expire on February 13, 2025.

(Expressed in Canadian dollars)

10. SHARE CAPITAL AND RESERVES (continued)

Stock options (continued)

During the six months ended February 28, 2019:

- 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, 2019	1,387,500	$ 0.46
Granted	4,375,000	$ 0.10
Expired	(100,000)	$ 0.39
Balance at February 29, 2020	5,662,500	$ 0.18

As at February 29, 2020, 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	0.93
May 18, 2017	May 18, 2022	187,500	$ 0.30	2.22
March 1, 2018	March 1, 2023	562,500	$ 0.48	3.00
February 13, 2020	February 13, 2025	4,375,000	$ 0.10	4.96
Total		5,662,500	$ 0.18	4.29

Share-based payments

During the six months ended February 29, 2020, the Company granted 4,375,000 stock options to certain directors, officers and consultants of the Company with a weighted average exercise price of $0.10 per share. The options expire on February 13, 2025. Of the stock options granted, 4,275,000 vested immediately with a four-month hold on trading and 100,000 were subject to vesting six months after the grant date. Under the graded vesting method, the total fair value of these stock options granted on February 13, 2020 was $296,891 which was also recognized as share-based payment for the six-month period.

(Expressed in Canadian dollars)

10. SHARE CAPITAL AND RESERVES (continued)

Share-based payments (continued)

The Company uses the Black-Scholes option pricing model to determine the fair value of the options granted with the following weighted average assumption:

Six months	February 29, 2020	February 28, 2019
Risk-free interest rate	1.39%	-
Expected dividend yield	0.00%	-
Expected stock price volatility	120.95%	-
Expected option life in years	5.0	-
Forfeiture rate	0.00%	-

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	42,706,239	$ 0.12
Exercised	(1,000)	$ 0.12
Expired	(16,026,666)	$ 0.25
Balance at February 29, 2020	48,793,839	$ 0.15

As at February 29, 2020, 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	0.38
October 23, 2020	$ 0.50	2,088,600	0.65
May 1, 2022	$ 0.12	24,400,300	2.17
August 20, 2022	$ 0.12	18,304,939	2.47
Total	$ 0.15	48,793,839	2.07

(Expressed in Canadian dollars)

10. SHARE CAPITAL AND RESERVES (continued)

Agent warrant units

The changes in agent warrant units outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance at August 31, 2019 and 2018	-	$ -
Issued	2,770,651	$ 0.085
Exercised	-	$ 0.085
Balance at February 29, 2020	2,770,651	$ 0.085

As at February 29, 2020, the Company had the following agent warrant units outstanding:

Date of Expiry	Exercise Price	Number of Warrants	Weighted Average Remaining Life in Years
May 1, 2022	$ 0.085	1,801,080	2.17
August 20, 2022	$ 0.085	969,571	2.47
Total	$ 0.085	2,770,651	2.28

11. RESEARCH AND DEVELOPMENT

On November 13, 2019, the Company terminated the research and development agreement with the University of Florida (“UF”) 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 six months ended February 20, 2020 (2019 – $6,651).

12. 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.

(Expressed in Canadian dollars)

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

Related party transactions to key management personnel are as follows:

Six months	February 29, 2020	February 28. 2019
Consulting fees – other (1)	$ 175,998	$ 136,493
Share-based payment	166,334	-
Rent (2)	14,000	12,000
	$ 356,332	$ 148,493

(1) Fees paid to consultants/companies related to management personnel:
- $69,000 (February 28, 2019 - $54,000) to a company controlled by the Chief Executive Officer;
- $24,000 (February 28, 2019 - $24,000) to a company controlled by the Chief Financial Officer;
- $79,998 February 28, 2019 - $58,493) to the Chief Science who took on the position on October 19, 2018.

(2) Rent:
- $14,000 (February 28, 2019 - $12,000) 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	February 29, 2020	August 31, 2019
Key management personnel – expense reimbursements	$ 1,549	$ 183

13. 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 period ended February 20, 2020. The Company is not subject to externally imposed capital requirements.

14. SEGMENTED DISCLOSURES

The Company is a Canadian clinical stage pharmaceutical development company. As a result of the Company's dissolution of its 100% owned US subsidiary on February 7, 2020 and the establishment of AGN Research in Australia on January 6, 2020, the Company operates in two reportable operating segments being the development of repurposed therapeutic drugs in Canada and the facilitation of the Company's lead drug candidates into off-label phase II clinical trials (humans) in Australia. All of the Company's expenditures are incurred in both Canada and Australia. Geographical information of the Company's long-term assets are as follows:

(Expressed in Canadian dollars)

14. SEGMENTED DISCLOSURES (continued)

As at February 29, 2020, the Company's long-term assets are located as follows:

	Canada	United States	Total
Restricted cash equivalents	$ 57,500	$ -	$ 57,500
Intangible asset	4,976,059	-	4,976,059
	$ 5,030,559	$ -	$ 5,030,559

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

15. SUBSEQUENT EVENTS

- On April 13, 2020, the Company granted an aggregate of 4,550,000 stock options to certain directors, officers and consultants of the Company with an exercise price of $0.29 per share. The options expire on April 13, 2025. The options vest immediately and are subject to a four-month hold on trading.

- Subsequent to the period ended February 29, 2020, in connection with the public unit offering that was completed on November 1, 2019:
  - a total of 17,637,083 tradeable warrants with an exercise price of $0.12 per warrant were exercised for gross proceeds of $2,116,450;

  - a total of 1,605,203 Agents Warrant units (also referred as Compensation Options) with an exercise price of $0.085 per unit were exercised for gross proceeds of $136,442.