

*A copy of this preliminary short form prospectus has been filed with the securities regulatory authorities in British Columbia, Alberta, Manitoba and Ontario, but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the short form prospectus is obtained from the securities regulatory authorities.*

*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and only by persons permitted to sell these securities in those jurisdictions.*

*The securities offered under this short form prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended (the “U.S. Securities Act”) or any state securities laws and may not be offered or sold within the United States of America or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S under the U.S. Securities Act) unless exemptions from the registration requirements of the U.S. Securities Act and applicable state securities laws are available. This short form prospectus does not constitute an offer to sell or a solicitation or an offer to buy any of the securities offered hereby within the United States or to, or for the benefit of, U.S. persons. See “Plan of Distribution”.*

*Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of Algernon Pharmaceuticals Inc., Suite 915 – 700 West Pender Street, Vancouver, BC, V6C 1G8, Telephone: 604-646-1553, and are also available electronically at [www.sedar.com](http://www.sedar.com).*

## PRELIMINARY SHORT FORM PROSPECTUS

New Issue

June 1, 2020



### ALGERNON PHARMACEUTICALS INC.

**\$6,861,849**

### **19,605,285 Units Issuable upon Exercise of 19,605,285 Special Warrants**

This short form prospectus (the “**Prospectus**”) qualifies the distribution of 19,605,285 Units (the “**Units**”) of Algernon Pharmaceuticals Inc. (the “**Company**”) issuable upon the exercise or deemed exercise of 19,605,285 special warrants (the “**Special Warrants**”) previously issued on May 13, 2020 (the “**Closing Date**”), at a price of \$0.35 per Special Warrant (the “**Offering Price**”), to purchasers resident in each of the Provinces of British Columbia, Alberta, Manitoba and Ontario (in addition to offshore purchasers) on a private placement basis pursuant to prospectus exemptions under applicable securities legislation (the “**Offering**”). Each Unit consists of one class A common share (a “**Unit Share**”) in the capital of the Company and one class A common share purchase warrant (a “**Warrant**”). The Special Warrants were issued pursuant to the terms of a special warrant indenture (the “**Special Warrant Indenture**”) dated May 13, 2020 between the Company and AST Trust Company (Canada) (“**AST**”) and an agency agreement dated May 13, 2020 (the “**Agency Agreement**”) between the Company and Mackie Research Capital Corporation (the “**Agent**”). The Offering Price and other terms of the Offering were determined by arm’s length negotiation between the Company and the Agent. See “Plan of Distribution”.

**There is no market through which the Special Warrants may be sold, and purchasers may not be able to resell the Special Warrants acquired pursuant to the Offering. This may affect the pricing of the Special Warrants in the secondary market, the transparency and availability of trading prices, the liquidity of the Special Warrants and the extent of issuer regulation. An investment in the securities of the Company is speculative and involves a significant degree of risk. See “Risk Factors”.**

**The Special Warrants are not available for purchase pursuant to this Prospectus and no additional funds are to be received by the Company from the distribution of the Units upon deemed exercise of the Special Warrants.**

The Company's class A common shares (the "**Common Shares**") are listed and posted for trading on the CSE under the symbol "AGN", the OTCQB under the symbol "BTHCF" and on the Frankfurt Exchange under the symbol "AGW". On May 29, 2020, the last trading day prior to the date of this Prospectus, the closing price of the Common Shares on the CSE, the OTCQB and the Frankfurt Exchange was \$0.30, US\$0.22 and €0.24, respectively.

	<u>Price to the Public</u>	<u>Agent's Fee<sup>(1)</sup></u>	<u>Net Proceeds to the Company<sup>(2) (3)</sup></u>
Per Special Warrant.....	\$0.35	\$0.028	\$0.322
Per Special Warrant (President's list).....	\$0.35	\$0.014	\$0.336
Per Special Warrant (Non-brokered) <sup>(4)</sup> .....	\$0.35	\$Nil	\$0.35
Total .....	\$6,861,850	\$526,853	\$6,334,998

- (1) Pursuant to the Agency Agreement, the Company paid to the Agent a fee equal to 8.0% of the gross proceeds of the Offering (the "**Agent's Fee**"), subject to a reduced fee of up to 4.0% for Special Warrants sold by the Agent to certain purchasers designated by the Company on the President's list (the "**President's List**") up to a maximum of \$500,000 in proceeds. As additional compensation, the Company also issued compensation options (the "**Compensation Options**") to the Agent. The Compensation Options entitle the Agent to purchase that number of Units (the "**Agent's Units**") as is equal to 8% of the total number of Special Warrants, subject to a reduced number of Compensation Options equal to up to 4.0% of the Special Warrants sold by the Agent to purchasers on the President's List, sold under the Offering, at an exercise price per Agent's Unit equal to the Offering Price for a period of 24 months from the Closing Date. If the Qualification Date (as defined below) does not occur on or before the Qualification Deadline (as defined below), each Compensation Option that has not been exercised shall be exercisable to acquire one-and-one tenth (1.10) Agent's Units, and an additional 0.02 of an Agent's Unit for each additional 30 days thereafter prior to the Qualification Date. This Prospectus qualifies the distribution of any Agent's Units issued prior to September 14, 2020. See "Plan of Distribution".
- (2) After deducting the Agent's Fee, but before deducting the expenses of the Offering and the qualification for distribution of the Units, estimated to be \$300,000, which will be paid out of the gross proceeds of the Offering.
- (3) The distribution of the Units upon exercise of the Special Warrants will not result in any proceeds being received by the Company.
- (4) In conjunction with the Offering, the Company issued 200,835 Special Warrants on a non-brokered basis to one investor for which no commission was paid (the "Non-Brokered Private Placement").

Each Special Warrant entitles its holder to receive, upon exercise or deemed exercise, one Unit at no additional cost. Each Special Warrant shall be deemed exercised on behalf of, and without any required action on the part of, the holder thereof, on the day (the "**Qualification Date**") that is the earlier of: (i) the third business day following the day the Company obtains a final receipt from the Canadian securities regulatory authorities for a final short form prospectus qualifying the distribution of the Units in each of the provinces of Canada in which Special Warrants were sold (the "**Qualifying Jurisdictions**") upon exercise of the Special Warrants; and (ii) September 14, 2020. The Company has agreed to use reasonable commercial efforts to file, and obtain a receipt for, a final short form prospectus qualifying the Units issuable upon exercise of the Special Warrants on or before June 17, 2020, being 35 days after the Closing Date (the "**Qualification Deadline**"). If the receipt for the final Prospectus is not received on or before the Qualification Deadline, each holder of a Special Warrant shall be entitled to receive, without payment of additional consideration, one-and-one tenth (1.10) Units per Special Warrant (in lieu of one Unit per Special Warrant) and thereafter at the end of each additional 30 day period prior to the Qualification Deadline, each Special Warrant will be exercisable for an additional 0.02 of a Unit (each additional 0.10 Unit and 0.02 Unit to be issued upon the exercise or deemed exercise of each Special Warrant after the Qualification Deadline are collectively referred to as the "**Additional Units**"). This Prospectus also qualifies the distribution of any Additional Units upon the exercise or deemed exercise of the Special Warrants. See "Plan of Distribution".

The Warrants are issuable pursuant to a warrant indenture dated May 13, 2020 (the "**Warrant Indenture**") between the Company and AST. Each Warrant will entitle the holder to acquire one class A common share in the capital of the Company (a "**Warrant Share**", and together with the Unit Shares, the "**Underlying Shares**") at an exercise price of \$0.55 per Warrant Share for a period of 24 months following the Closing Date, subject to adjustment in certain circumstances. Notwithstanding the foregoing, if, at any time following the Qualification Deadline and prior to the expiry date of the Warrants, the volume weighted average trading price of the Common Shares the CSE or other principal exchange on which the Common Shares are listed, is greater than \$1.00 for a period of 10 consecutive trading days then the Company may, within 15 days of the occurrence of such event, accelerate the expiry date of the Warrants to the date that is 30 days following the date on which the Company issues notice to all the Warrant holders of the new

expiry date (“**Accelerated Exercise Period**”). Concurrently with the giving of such notice, the Company will also issue a press release disclosing the Accelerated Exercise Period. Any unexercised Warrants shall automatically expire at the end of the Accelerated Exercise Period. See “Description of Securities Being Distributed”.

The following table sets out the securities issuable to the Agent:

<u>Agent’s Position</u>	<u>Maximum size or number of securities available for Offering</u>	<u>Exercise period</u>	<u>Exercise price</u>
Compensation Options	1,505,293 Agent’s Units	May 13, 2022	\$0.35 per Agent’s Unit

Certain legal matters in connection with the Offering are being reviewed on behalf of the Company by McMillan LLP and on behalf of the Agent by Fasken Martineau DuMoulin LLP.

**An investment in the securities of the Company is highly speculative and involves significant risks that should be carefully considered by prospective investors before purchasing such securities. The risks outlined in this Prospectus and in the documents incorporated by reference herein should be carefully reviewed and considered by prospective investors in connection with an investment in such securities. See “Risk Factors” and “Cautionary Statement Regarding Forward Looking Information”. Potential investors are advised to consult their own legal counsel and other professional advisers in order to assess income tax, legal and other aspects of this investment.**

The Offering was conducted through the non-certificated inventory system maintained by CDS Clearing and Depository Services Inc. (“**CDS**”) and the Special Warrants issued pursuant to the offering were registered and deposited with CDS on the Closing Date in electronic form. The Unit Shares and Warrants to be issued upon exercise or deemed exercise of the Special Warrants and the Warrant Shares to be issued upon exercise of the Warrants will also be registered and deposited in the non-certificated inventory system of CDS and a purchaser of the Special Warrants will not receive a definitive certificate representing the Unit Shares, Warrants or Warrant Shares. See “Plan of Distribution”.

The CSE has approved the Offering, including the listing of the Underlying Shares and the Agent’ Warrant Shares. See “Plan of Distribution”.

**Investors should rely only on the information contained or incorporated by reference in this Prospectus. The Company and the Agent have not authorized anyone to provide investors with information different from that contained or incorporated by reference in this Prospectus. Readers should not assume that the information contained in this Prospectus is accurate as of any date other than the date on the cover page of this Prospectus.**

**Investors are advised to consult their own tax advisors regarding the application of Canadian federal income tax laws to their particular circumstances, as well as any other provincial, foreign and other tax consequences of acquiring, holding or disposing of the Special Warrants, the Underlying Shares and the Warrants, including the Canadian federal income tax consequences applicable to a foreign controlled Canadian corporation that acquires the Special Warrants, the Underlying Shares and the Warrants.**

Unless otherwise indicated, all references to dollar amounts in this Prospectus are to Canadian dollars.

The Company’s head office is located at Suite 915 – 700 West Pender Street, Vancouver, BC, V6C 1G8. The Company’s registered office is located at Suite 1500-1055 West Georgia Street, Vancouver, British Columbia, V6E 4N7.

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## DEFINITIONS

All capitalized terms not defined herein have the meanings ascribed to them in the Annual Information Form (as defined herein).

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Prospectus contains forward-looking information and forward-looking statements (collectively, “**forward-looking statements**”) that relate to the Company’s current expectations and views of future events. In some cases, these forward-looking statements can be identified by words or phrases such as “may”, “might”, “will”, “expect”, “anticipate”, “estimate”, “intend”, “plan”, “indicate”, “seek”, “believe”, “predict” or “likely”, or the negative or grammatical variations of these terms, or other similar expressions intended to identify forward-looking statements, although not all forward-looking statements include such words. The Company has based these forward-looking statements on its current expectations and projections about future events and financial trends that it believes might affect its financial condition, results of operations, business, prospects and financial needs. These forward-looking statements include, among other things, statements relating to:

- uncertainties with respect to the effects of the novel coronavirus known as COVID-19 (“**COVID-19**”) will directly and indirectly have on the Company;
- the Company’s expectations regarding its revenue, expenses and research and development operations;
- the Company’s anticipated cash needs and its needs for additional financing;
- the Company’s intention to grow its business and operations;
- expectations with respect to future production costs and capacity;
- expectations regarding the Company’s growth rates and growth plans and strategies;
- expectations with respect to the approval of the Company’s license applications;
- the Company’s competitive position and the regulatory environment in which the Company operates;
- the Company’s business objectives for the next twelve months;
- the Company’s plans with respect to the payment of dividends;
- the Company’s ability to obtain additional funds through the sale of equity or debt instruments;
- the ability of the Company’s products to access markets;
- the Company’s ability to expand into international markets; and
- the Company’s relationship with its distribution partners.

Forward-looking statements are based on certain assumptions and analyses made by the Company in light of the experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate and are subject to risks and uncertainties. In making the forward-looking statements included in this Prospectus, the Company has made various material assumptions, including but not limited to, the following: (i) the Company obtaining the necessary regulatory approvals; (ii) that regulatory requirements will be maintained; (iii) general business and economic conditions; (iv) the Company’s ability to successfully execute its plans and intentions; (v) the availability of financing on reasonable terms; (vi) the Company’s ability to attract and retain skilled staff; (vii) market competition; (viii) the products and technology offered by the Company’s competitors; (ix) the maintenance of the Company’s current good relationships with its suppliers, service providers and other third parties; (x) financial results, future financial position and expected growth of cash flows; (xi) business strategy, including budgets, projected costs, projected capital expenditures, taxes, plans, objectives, potential synergies and industry trends; (xii) research and development; (xiii) expectations concerning the size and growth of the global medical technology market; and (xiv) the

effectiveness of the Company's products compared to its competitors' products. Although the Company believes that the assumptions underlying these statements are reasonable, they may prove to be incorrect, and the Company cannot assure that actual results will be consistent with these forward-looking statements. Given these risks, uncertainties and assumptions, investors should not place undue reliance on these forward-looking statements. Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions and other factors, including those listed under "Risk Factors", which include:

- the Company is a development stage company with little operating history, a history of losses and the Company cannot assure profitability;
- the Company is subject to changes in Canadian laws regulations and guidelines which could adversely affect the Company's future business and financial performance;
- the Company may not be able to effectively manage its growth and operations, which could materially and adversely affect its business;
- the Company may be unable to obtain additional financing on acceptable terms or not at all;
- the effectiveness Company's technology and the Company's ability to bring its technology into commercial production cannot be assured;
- the effect of COVID-19 outbreak on the ability of the Company to carry on business, including the ability to conduct clinical trials;
- the continued growth of the global medical technology market cannot be assured;
- the Company may become subject to litigation, including for possible product liability claims, which may have a material adverse effect on the Company's reputation, business, results from operations and financial condition;
- the Company faces competition from other companies where it will conduct business and those companies may have a higher capitalization, more experienced management or may be more mature as a business;
- the Company is reliant on management and if the Company is unable to attract and retain key personnel, it may not be able to compete effectively;
- the Company's industry is experiencing rapid growth and consolidation that may cause the Company to lose key relationships and intensify competition;
- the Company expects to sell additional equity securities or secure debt facilities to fund operations, for capital expansion, and for mergers and acquisitions, which would have the effect of diluting the ownership positions of the Company's current shareholders;
- the Company's officers and directors may be engaged in a range of business activities resulting in conflicts of interest;
- regulatory scrutiny of the Company's industry may negatively impact its ability to raise additional capital;
- the Company cannot assure you that a market will continue to develop or exist for the Common Shares and, if such market continues to develop, what the market price of the Common Shares will be;
- the market price for Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond our control;
- the Company does not anticipate paying cash dividends; and
- future sales of Common Shares by existing shareholders could reduce the market price of the Common Shares.

The above list is not exhaustive of the factors that may affect any of the forward-looking statements of the Company. If any of these risks or uncertainties materialize, or if assumptions underlying the forward-looking statements prove incorrect, actual results might materially vary from those anticipated in those forward-looking statements. The

assumptions referred to above and described in greater detail under “Risk Factors” should be considered carefully by readers.

Certain of the forward-looking statements and other information contained herein concerning the pharmaceutical industry and the general expectations of the Company concerning the pharmaceutical industry and concerning the Company are based on estimates prepared by the Company using data from publicly available governmental sources as well as from market research and industry analysis and on assumptions based on data and knowledge of this industry which the Company believes to be reasonable. While the Company is not aware of any misstatement regarding any industry or government data presented herein, the pharmaceutical industry involves risks and uncertainties that are subject to change based on various factors and the Company has not independently verified such third-party information.

The Company’s forward-looking statements are based on the reasonable beliefs, expectations and opinions of management on the date of this Prospectus (or as of the date they are otherwise stated to be made). Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There is no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

Further, any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by applicable law, the Company does not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management of the Company to predict all such factors and to assess in advance the impact of each such factor on the business of the Company or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. See “Risk Factors”.

***All of the forward-looking statements contained in this Prospectus are expressly qualified by the foregoing cautionary statements. Investors should read this entire Prospectus and consult their own professional advisors to assess the income tax, legal, and other risk factors, and other aspects, of their investment.***

## **ELIGIBILITY FOR INVESTMENT**

In the opinion of McMillan LLP, counsel to the Company, and Fasken Martineau DuMoulin LLP, counsel to the Agent, based on the provisions of the *Income Tax Act* (Canada) and the regulations thereunder (collectively, the “**Tax Act**”) as of the date hereof, the Unit Shares and Warrants acquired pursuant to the deemed exercise of the Special Warrants and the Warrant Shares, if issued on the date hereof, would be “qualified investments” under the Tax Act for a trust governed by a registered retirement savings plan (“**RRSP**”), registered retirement income fund (“**RRIF**”), deferred profit sharing plan, registered education savings plan (“**RESP**”), registered disability savings plan (“**RDSP**”) and tax-free savings account (“**TFSA**”) (collectively, “**Deferred Plans**”) provided that (i) the Common Shares are listed on a “designated stock exchange” as defined in the Tax Act (which currently includes the TSX), and (ii) in the case of the Warrants, neither the Company, nor any person with whom the Company does not deal at arm’s length, is an annuitant, a beneficiary, an employer or a subscriber under, or a holder of the particular Deferred Plan.

Notwithstanding that the Unit Shares, Warrants and Warrant Shares may be a “qualified investment” for a Deferred Plan, the annuitant under an RRSP or RRIF, the holder of a TFSA or RDSP, or the subscriber of an RESP will be subject to a penalty tax if such Unit Shares, Warrants and Warrant Shares are a “prohibited investment” (as defined in the Tax Act) for the RRSP, RRIF, RESP, RDSP or TFSA. The Unit Shares, Warrants and Warrant Shares will generally not be a “prohibited investment” for a particular RRSP, RRIF, RESP, RDSP or TFSA provided that the annuitant under the RRSP or RRIF, the holder of the TFSA or RDSP, or the subscriber of the RESP, as the case may be, deals at arm’s length with the Company for purposes of the Tax Act and does not have a “significant interest” (as defined in the Tax Act) in the Company. In addition, the Unit Shares and Warrant Shares will not be a prohibited investment if such securities are “excluded property” (as defined in the Tax Act for purposes of these rules) for the particular TFSA, RRSP, RESP, RDSP or RRIF.

**Persons who intend to hold Unit Shares, Warrants and Warrant Shares in a trust governed by a Deferred Plan should consult their own tax advisors with respect to the application of these rules in their particular circumstances.**

#### **DOCUMENTS INCORPORATED BY REFERENCE**

The following documents filed with the securities commission or similar regulatory authority in each of the Qualifying Jurisdictions are available at [www.sedar.com](http://www.sedar.com) and are specifically incorporated by reference into, and form an integral part of, this Prospectus:

- the annual information form of the Company for the financial year ended August 31, 2019 dated June 1, 2020 (the “**Annual Information Form**”);
- the audited consolidated financial statements of the Company, for the years ended August 31, 2019 and 2018, together with the auditors’ report thereon and the notes thereto (the “**Annual Financial Statements**”);
- the management’s discussion and analysis of financial condition and results of operations of the Company for the year ended August 31, 2019 (the “**Annual MD&A**”);
- the condensed interim consolidated financial statements of the Company for the three and six months ended February 29, 2020 and February 28, 2019, and the notes thereto, except the notice provided under subparagraph 4.3(3)(a) of National Instrument 52-102 – *Continuous Disclosure Obligations* (“**NI 51-102**”) (the “**Interim Financial Statements**”);
- the management’s discussion and analysis of financial condition and results of operations of the Company for the six months ended February 29, 2020 and February 28, 2019 (the “**Interim MD&A**”);
- the management information circular of the Company dated March 25, 2019 distributed in connection with the Company’s annual general meeting of shareholders held on May 6, 2019;
- the business acquisition report dated September 13, 2019 relating to the acquisition of Nash Pharmaceuticals Inc. (“**Nash Pharma**”);
- the material change report dated September 9, 2019 announcing the pricing of the Company’s short form prospectus offering of units;
- the material change report dated November 1, 2019 announcing the closing of the Company’s short form prospectus offering of units for gross proceeds of approximately \$2.074 million; and
- the material change report dated May 22, 2020 announcing the closing of the Offering.

Material change reports (other than confidential reports), business acquisition reports, annual financial statements, interim financial statements, the associated management’s discussion and analysis of financial condition and results of operations and all other documents of the type referred to in section 11.1 of Form 44-101F1 of National Instrument 44-101 – *Short Form Prospectus Distributions* to be incorporated by reference in a short form prospectus, filed by the Company with a securities commission or similar regulatory authority in Canada after the date of this Prospectus and before completion of the distribution of the Units, will be deemed to be incorporated by reference into this Prospectus. The documents incorporated or deemed to be incorporated herein by reference contain meaningful and material information relating to the Company and readers should review all information contained in this Prospectus and the documents incorporated or deemed to be incorporated by reference herein.

**Any statement contained in a document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded for the purposes of this Prospectus to the extent that a statement contained in this Prospectus or in any subsequently filed document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded will not constitute a part of this Prospectus, except as so modified or superseded. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the statement or document that it modifies or supersedes. The making of such a modifying or superseding**



**statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.**

Copies of the documents incorporated herein by reference may also be obtained on request without charge from the Corporate Secretary of Algernon Pharmaceuticals Inc., Suite 915 – 700 West Pender Street, Vancouver, BC V6C 1G8, Telephone: (604) 646-1553.

## THE COMPANY

The Company is a clinical stage pharmaceutical development company focused on advancing its lead compounds for non-alcoholic steatohepatitis (“**NASH**”), chronic kidney disease (“**CKD**”), inflammatory bowel disease (“**IBD**”), idiopathic pulmonary fibrosis (“**IPF**”), chronic cough, and acute lung injury (“**ALI**”) (including ALI related to COVID-19).

On October 19, 2018, the Company acquired Nash Pharma pursuant to a share exchange agreement dated October 5, 2018. The Company issued 15,800,000 Common Shares to the shareholders of Nash Pharma at the deemed price of \$0.22 per Common Share in exchange for 100% of the issued and outstanding shares of Nash Pharma. The Company also issued 14,800,000 replacement warrants to holders of Nash Pharma warrants in exchange for their existing warrants.

Algernon is a drug re-purposing company that investigates safe, already approved drugs for new disease applications, moving them efficiently and safely into new human trials, developing new formulations and seeking new regulatory approvals in global markets. Algernon specifically investigates compounds that have never been approved in the U.S. or Europe to avoid off label prescription writing, which can interfere with the normal economic pricing models of newly approved drug treatments.

The Company’s early research identified a number of drug candidates that had already been approved for other diseases. Only drugs that were approved in Russia, Ukraine, South Korea and Japan were chosen to avoid off-label prescription writing in the United States and Europe. Eleven drug candidates were initially screened in globally accepted *in vivo* animal models for three new disease areas: NASH, CKD, IBD. The Company has also screened a number of candidates for IPF and chronic cough in an *in vivo* animal model study and based on the results is conducting additional research. In addition the company is also developing a research program for ALI (specifically in relation to COVID-19).

The Company’s lead candidate is NP-120 (Ifenprodil) (“**NP-120**”), which is the key compound for multiple research studies and disease indications. NP-120 is an N-methyl-D-aspartate (“**NMDA**”) receptor antagonist specifically targeting the NMDA-type subunit 2B (Glu2NB). NP-120 (Ifenprodil) prevents glutamate signalling. The NMDA receptor is found on many tissues including lung cells and T-cells, neutrophils. NP-120 (brand name Cerocal) was initially developed by Sanofi in the 1990s in the French and Japanese markets for the treatment of circulatory disorders. Although no longer available in France, the drug is highly genericized and still sold in Japan and South Korea.

The Company is investigating NP-120 for IPF and chronic cough and is planning a Phase 2 study in Australia and New Zealand. The purpose of this proof-of-concept trial is to determine the efficacy of NP-120 in the preservation of lung function in IPF patients (including biomarkers of fibrosis) and its associated cough. On May 6, 2020 the Company received ethics approval from the Royal Brisbane & Women’s Hospital, Human Research Ethics Committee and is expecting to receive ethics and regulatory approval for the remaining 4 study sites shortly. The Phase 2 trial is expected to begin in late June 2020.

The Company is also investigating NP-120 for ALI and specifically COVID-19. A recent independent study, published by the American Society of Microbiology in *mSystems*, found that NP-120 significantly reduced ALI and improved survivability in an animal study with H5N1 infected mice. H5N1 is the most lethal form of

influenza known to date with an over 50% mortality rate.<sup>1</sup> In light of these findings, the Company believes that NP-120 has the potential to be a front-line treatment for the most severe cases of COVID-19, and may also reduce morbidity in patients. According to the World Health Organization, COVID-19 currently has an overall predicted mortality rate of approximately 3.4%.<sup>2</sup>

As part of the Company’s ALI COVID-19 research program, the Company received approval on April 23, 2020 from the Ministry of Food and Drug Safety in South Korea, as well as ethics approval, for an investigator-led, Phase 2 COVID-19 clinical study of its re-purposed drug NP-120, an NMDA receptor antagonist. The 40-patient, 4-week trial is designed to test the effect of NP-120 in COVID-19 infected patients with severe pneumonia. Patients are randomized in a 1:1 fashion to receive either standard of care (“SOC”) or SOC with NP-120. The primary endpoint will be the rate at which their lung function improves by measuring oxygen levels in the blood (PaO2/FiO2). Secondary endpoints will include mortality, rate of mechanical ventilation, and patient reported effects on cough and breathlessness (dyspnea).

In addition, on April 29, 2020, the Company received a “No Objection” letter from Health Canada to proceed with a NP-120 COVID-19 Phase 2b/3 multinational clinical trial. The study is an adaptive pilot to pivotal trial design based on guidance documents from the World Health Organization (“WHO”) to determine if NP-120 can improve clinical symptoms of COVID-19 by reducing the number of COVID-19 diagnosed patients from progressing to mechanical ventilation with intubation and death. The trial will begin as a Phase 2b study and after an interim analysis is performed on the first 100 patients, the data will determine the number of expected patients needed to reach statistical significance in a Phase 3 trial. With positive preliminary data, the clinical trial will move directly from a Phase 2b into a Phase 3.

As part of the planned multinational Phase 2 COVID-19 trial, the Company has also filed for ethics approval in Australia and has also filed an investigational new drug (“IND”) application with the United States Food and Drug Administration.

The Company has also retained Organic Consultants, Inc. (dba Cascade Chemistry) to produce the active pharmaceutical ingredient (“API”) of NP-120. Algernon made the decision to scale-up cGMP manufacturing of NP-120 (Ifenprodil) to support its quickly evolving clinical programs for ALI and its urgent clinical focus on COVID-19 as well as its IPF clinical program. The Company expects that its first multi-kilogram batch of cGMP material will be ready in early July 2020 at which point toxicology studies can begin. The Company filed a pre-IND application with the U.S. FDA to seek guidance on the use of Algernon’s planned new propriety injectable and slow release formulation. The FDA advised that for the toxicology program of the new intravenous NP-120 formulation, a single animal 30-day study would be acceptable.

The Company cautions that while it is preparing to begin Phase 2 clinical trials, it is not making any express or implied claims that NP-120 is an effective treatment for ALI, COVID-19 or any other medical condition at this time.

### CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of the Company as at the dates indicated, adjusted to give effect to the Offering, on the share and loan capital of the Company since February 29, 2020, the date of the Company’s most recently filed financial statements. This table should be read in conjunction with the Annual Financial Statements and the Interim Financial Statements, and the respective related Annual MD&A and Interim MD&A, that are incorporated by reference in this Prospectus.

	As at February 29, 2020 before giving effect to the Offering	As at February 29, 2020 after giving effect to the Offering	As at February 29, 2020 after giving effect to the Offering and the exercise of the Special Warrants
Share Capital	\$14,753,332 <sup>(1)</sup>	\$14,753,332 <sup>(1)</sup>	\$17,555,754 <sup>(1) (2)</sup>

<sup>1</sup> American Society of Microbiology, December 2019 issue of mSystems

<sup>2</sup> <https://www.who.int/dg/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-covid-19---3-march-2020>

	As at February 29, 2020 before giving effect to the Offering	As at February 29, 2020 after giving effect to the Offering	As at February 29, 2020 after giving effect to the Offering and the exercise of the Special Warrants
Common Shares (Authorized: unlimited)	90,051,751 Common Shares <sup>(1)</sup>	90,051,751 Common Shares <sup>(1)</sup>	109,657,036 Common Shares <sup>(1) (2)</sup>
Special Warrants	Nil	19,605,285 Special Warrants	Nil
Warrants	48,793,839 Warrants <sup>(3)</sup>	48,793,839 Warrants <sup>(3)</sup>	68,399,124 Warrants <sup>(3) (4)</sup>
Compensation Options	2,770,651 Compensation Options <sup>(5)</sup>	4,275,944 Compensation Options <sup>(5) (6)</sup>	4,275,944 Compensation Options <sup>(5) (6)</sup>
Stock Options	5,662,500 Stock Options <sup>(7)</sup>	5,662,500 Stock Options <sup>(7)</sup>	5,662,500 Stock Options <sup>(7)</sup>
Deficit	(\$9,879,021)	(\$9,879,021)	(\$9,879,021)
Equity Reserves	\$2,468,278 <sup>(8)</sup>	\$8,688,718 <sup>(8) (9)</sup>	\$5,886,296 <sup>(8) (9) (10)</sup>
Total Shareholder's Equity	\$7,474,706 <sup>(11)</sup>	\$13,695,146 <sup>(11)</sup>	\$13,695,146 <sup>(11)</sup>

**Notes:**

- (1) Subsequent to February 29, 2020, share capital amount (including the fair value of the securities exercised) and number of Common Shares increased by: (i) \$2,527,989 upon exercise of 18,332,743 of tradeable warrants at an exercise price of \$0.12 per Common Share; (ii) \$172,996 upon exercise of 1,647,586 Compensation Options units at an exercise price of \$0.085 per unit; and (iii) \$11,883 upon exercise of 25,000 stock options at an exercise price of \$0.30 per Common Share. The total subsequent increase was \$2,712,868 in share capital amount and 20,005,329 in additional issuance of number of Common Shares.
- (2) The share amount includes the fair value of the share portion of the Units upon the exercise of the Special Warrants of \$4,128,740 less share issue costs totalling \$1,326,318. The number of Common Shares increased by 19,605,285 upon the exercise of Special Warrants.
- (3) Subsequent to February 29, 2020, the number of warrants decreased by 18,332,743 upon the exercises of tradeable warrants. The decrease was partially offset by issuance of 1,647,586 tradeable warrants upon the exercises of compensation options.
- (4) Upon the exercise of Special Warrants, the number of warrants increased by 19,605,285.
- (5) Subsequent to February 29, 2020, the number of compensation options decreased by 1,647,586 upon the exercises of compensation options.
- (6) Upon the offering of Special Warrants, the number of compensation options increased by 1,505,293.
- (7) Subsequent to February 29, 2020, the number of stock options increased by 4,550,000 upon a stock option grant on April 13, 2020. The increase was partially offset by 25,000 upon an exercise of stock options.
- (8) Subsequent to February 29, 2020, the changes in equity reserves amount were due to exercises of (i) tradeable warrants; (ii) compensation options; and (iii) stock options. The net change was a decrease of \$365,394.
- (9) Upon completion of the Offering, the equity reserves were increased by the gross proceeds of the Offering of \$6,861,850 and the fair value of \$684,908 of the Compensation Options. The increase was partially offset by Special Warrants offering costs totalling \$1,326,318.
- (10) Upon the exercise of Special Warrants, the fair value of the Common Share portion of the Units of \$4,128,740 was reallocated to share capital amount. The Special Warrants offering costs totalling \$1,326,318 were transferred out of equity reserves to share capital as share issue costs.
- (11) Total shareholder's equity included \$132,117 of accumulated other comprehensive income as at February 29, 2020.

## USE OF PROCEEDS

### *Use of Proceeds*

The Company has received gross proceeds of \$6,861,849.75 from the sale of the Special Warrants. The net proceeds to the Company from the Offering is approximately \$6,034,997 after deducting the Agent's Fee and expenses in connection with the Offering and the estimated expenses of the Company in connection with the qualification for distribution of the Units. The Company intends to use the net proceeds from the Offering as set out in the table below:

First portion of the Phase 2b/3 multinational COVID-19 study.....	\$4,000,000
Phase 2 COVID-19 South Korea budget .....	\$1,000,000
Synthesis of cGMP material of NP-120 (Ifenprodil) .....	\$450,000
Working Capital and General and Administrative Expenses .....	\$584,997
<b>Total .....</b>	<b>\$6,034,997</b>

Although the Company intends to use the proceeds from the Offering as set forth above, the actual allocation of the net proceeds may vary depending on future developments or unforeseen events.

Pending the use of proceeds outlined above, the Company intends to invest the net proceeds of the Offering in investment grade, short-term, interest bearing securities. The Chief Financial Officer of the Company is responsible for executing the Company's investment policies.

The Company has no history of revenue from its operating activities. During the three months ended February 29, 2020 the Company had negative cash flow from operating activities, reported a net comprehensive loss of \$792,220 and net loss per share of \$0.01. The Company anticipates it will continue to have negative cash flow from operating activities and net losses in future periods unless and until commercial sales are achieved for one or more of the Company's products. A portion of the proceeds from the Offering will be used to fund negative cash flow from operating activities in future periods.

### **Business Objectives and Milestones**

The following table outlines the key milestones for the Company's IPF/chronic cough and COVID-19 clinical research programs and its manufacturing of NP-120 and the expected general timeline. The Company estimates that the Phase 2 COVID-19 clinical trial will cost approximately \$1.0 million. Actual costs for each milestone noted below cannot be separated from the total cost of the Phase 2 trial as the costs of each step are closely linked.

<b>Key Milestones</b>	<b>Expected Timing from Start of Trial</b>
<b><u>Phase 2 Clinical Trial (COVID South Korea)</u></b>	
Recruitment of Patients for Phase 2 Clinical Trial (COVID South Korea)	Month 1- 4
Treatment of Patients and Follow-Up (COVID South Korea)	Month 5
Phase 2 Clinical Trial Close Out (COVID South Korea)	Month 6
<b>Total time for Phase 2 Clinical Trial (COVID South Korea)</b>	<b>Up to 6 months</b>
<b><u>Phase 2b/3 Clinical Trial (COIVD Multinational)</u></b>	
Recruitment of Patients for Phase 2b/3 Clinical Trial (COVID Multinational)	Month 1-4
Treatment of Patients and Follow-Up (COVID Multinational)	Month 4
Phase 2b/3 Clinical Trial Close Out (COVID Multinational)	Month 5
<b>Total time for Phase 2b/3 Clinical Trial (COVID Multinational)</b>	<b>Up to 5 months</b>
Synthesis of cGMP NP-120	Months 1-4

The Company expects to begin the NP-120 COVID-19 trail in South Korea in the second quarter of 2020. In the third quarter of 2020, the Company expects to begin the multinational Phase 2b/3 COVID-19 trial in Canada and he U.S. (subject to FDA approval). The Company also plans to have completed the synthesis of 2 kg of cGMP NP-120 API.

The major third party costs associated with all Phase 2 clinical trials are related to the contract research organization (“**CRO**”) chosen to conduct the Phase 2 trial in the chosen country. There will also be costs associated with the management of the trials by a CRO that will act as the “general contractor” and manage all aspects of the clinical programs.

CRO costs include but are not limited to the following general tasks and duties:

- retention of principal investigator and study sites;
- management of regulatory issues, travel, logistics, local storage and distribution for investigation medical product;
- data management and statistics; and
- full clinical services including preparation of study documents, regulatory approval, logistics, project and site management, monitoring, pharmacovigilance work, preparation of clinical study report.

The remainder of the proceeds will be used for working capital, salaries, operating costs and other general administrative costs.

Since the multinational COVID-19 NP-120 trial is designated as Phase 2b/3, if the interim data is positive, the study will transition into a phase 3 trial. The size of the Phase 3 trial will be dependent on the data generated from the Phase 2b portion. The costs to upsize the trial for the Phase 3 part of the trial is estimated to be between an additional \$10 million to \$20 million depending on the number of patients required. The Company anticipates that it will seek funding for the Phase 3 study from a number of sources, including non-dilutive grants and/or equity financings.

## **PLAN OF DISTRIBUTION**

This Prospectus is being filed in the Provinces of British Columbia, Alberta, Manitoba and Ontario to qualify the distribution of 19,605,285 Units issuable upon the deemed exercise of 19,605,285 Special Warrants.

On May 13, 2020, the Company completed the Offering of 19,605,285 Special Warrants pursuant to prospectus exemptions under applicable securities legislation in each of the Provinces of British Columbia, Alberta, Manitoba and Ontario (and in jurisdictions outside of Canada in compliance with laws applicable therein), on a commercially reasonable best efforts private placement basis at the Offering Price per Special Warrant, which was determined by arm’s length negotiation between the Company and the Agent. The Special Warrants were issued pursuant to the terms of the Special Warrant Indenture.

Each Special Warrant entitles its holder to receive, upon deemed exercise, one Unit at no additional cost. Each Special Warrant shall be deemed exercised on behalf of, and without any required action on the part of, the holder thereof, on the Qualification Date, being the earlier of: (i) the third business day following day the Company obtains a final receipt from the Canadian securities regulatory authorities for a final short form prospectus qualifying the distribution of the Units in the Qualifying Jurisdictions; and (ii) September 14, 2020. The Company has agreed to use reasonable commercial efforts to file and obtain a receipt for a final short form prospectus qualifying the Units issuable upon exercise of the Special Warrants on or before the Qualification Deadline, being June 17, 2020. If a receipt for the final Prospectus is not received on or before the Qualification Deadline, each holder of a Special Warrant shall be entitled to receive, without payment of additional consideration, one-and-one tenth (1.10) Units per Special Warrant (in lieu of one Unit) and thereafter at the end of each additional 30 day period prior to the Qualification Deadline, each Special Warrant will be exercisable for an additional 0.02 of a Unit upon the exercise or deemed exercise of the Special Warrants. This Prospectus qualifies the distribution of any Additional Units upon the exercise or deemed exercise of the Special Warrants.

The Warrants are issuable pursuant to the Warrant Indenture. Each Warrant will entitle the holder to acquire, subject to adjustment in certain circumstances, one Warrant Share at an exercise price of \$0.55 per Warrant Share for a period of 24 months following the Closing Date, subject to acceleration of the expiry date in accordance with the terms of the Warrant Indenture.

Pursuant to the Agency Agreement, the Company paid to the Agent a cash fee equal to 8.0% of the gross proceeds of the Offering, subject to a reduced fee of up to 4.0% for Special Warrants sold by the Agent to President's List purchasers up to a maximum of \$500,000 in proceeds. As additional compensation, the Company also issued Compensation Options to the Agent. The Compensation Options entitle the Agent to purchase that number of Agent's Units as is equal to 8.0% of the total number of Special Warrants, subject to a reduced number of Compensation Options equal to up to 4.0% of the Special Warrants sold by the Agent to purchasers on the President's List, sold under the Offering, at an exercise price per Agent's Unit equal to the Offering Price for a period of 24 months from the Closing Date. If the Qualification Date does not occur on or before the Qualification Deadline, each Compensation Option that has not been exercised shall be exercisable to acquire one-and-one tenth (1.10) Agent's Units, and an additional 0.02 of an Agent's Unit for each additional 30 days thereafter prior to the Qualification Date. This Prospectus qualifies the distribution of the Agent's Units issued prior to September 14, 2020. The Company has agreed to reimburse the Agent for certain expenses related to the Offering. There are no payments in cash, securities or other consideration being made, or to be made, to a promoter, finder or any other person or company in connection with the Offering other than the payments to be made to the Agent in accordance with the terms of the Agency Agreement.

The CSE has approved the Offering, including the listing of the Underlying Shares and the Agent' Warrant Shares.

The Company has agreed that, during the period commencing on the Closing Date and ending 120 days after the Closing Date, it will not, directly or indirectly, without the prior written consent of the Agent, such consent not to be unreasonably withheld or delayed, issue, sell, offer, grant an option or right in respect of, or otherwise dispose of, or enter into any derivative transaction that has the effect of the foregoing, or agree to or announce any intention to issue, sell, offer, grant an option or right in respect of, or otherwise dispose of, or enter into any derivative transaction that has the effect of the foregoing, any additional Common Shares, equity securities or debt securities or any securities convertible into or exchangeable for Common Shares, equity securities or debt securities, other than in conjunction with: (i) any equity securities which may be issued from time to time as agreed in employee compensation agreements, (ii) any existing option/warrant obligations, (iii) the grant of stock options and other similar issuances pursuant to the share incentive plan of the Company; (iv) in connection with acquisitions in normal course or other existing obligations, (v) the Offering, or (vi) the Non-Brokered Private Placement.

The Underlying Shares and Warrants have not been and will not be registered under the U.S. Securities Act or any state securities laws of the United States and, subject to certain exceptions, may not be offered or sold in the United States.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States or to, or for the account or benefit of, U.S. Persons (as such term is defined in the U.S. Securities Act). None of the Special Warrants, Underlying Shares and Warrants have been or will be registered under the U.S. Securities Act or the securities laws of any state of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons, except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws.

The Company has agreed, pursuant to the Agency Agreement, to indemnify the Agent and their affiliates and directors, officers, employees, shareholders, partners, advisors and agents and each other person, if any, controlling the Agent or their affiliates and against certain liabilities, including liabilities under Canadian securities legislation in certain circumstances or to contribute to payments the Agent may have to make because of such liabilities.

## **DESCRIPTION OF SECURITIES BEING DISTRIBUTED**

### **Description of Special Warrants**

The Special Warrants are governed by the terms and conditions set forth in the Special Warrant Indenture. An aggregate of 19,605,285 Special Warrants are outstanding as of the date of this Prospectus. The material terms and conditions of the Special Warrants are summarized below:

- each of the Special Warrants entitles the holder thereof to acquire, for no additional consideration to the Company, one Unit for each Special Warrant, subject to adjustment as provided for in the Special Warrant Indenture;
- the Special Warrants will be deemed to be exercised on the Qualification Date;
- the Special Warrant Indenture provides for and contains provisions designed to keep the holders of the Special Warrants unaffected by the possible occurrence of certain corporate events, including the amalgamation, merger or corporate reorganization of the Company;
- the holders of Special Warrants do not have any right or interest whatsoever as shareholders of the Company, including but not limited to any right to vote at, to receive notice of, or to attend, any meeting of shareholders or any other proceedings of the Company or any right to receive any dividend or other distribution;
- the rights of holders of Special Warrants may be modified by extraordinary resolution at a meeting of Special Warrant holders. The Special Warrant Indenture provides for meetings by holders of Special Warrants and the passing of resolutions and extraordinary resolutions by such holders which are binding on all holders of Special Warrants. Certain amendments to the Special Warrant Indenture may only be made by “extraordinary resolution”, which is defined in the Special Warrant Indenture as a resolution proposed at a meeting of Special Warrant holders duly convened for that purpose at which there are present in person or by proxy Special Warrant holders holding at least 25% of the aggregate number of the then outstanding Special Warrants passed by the affirmative votes of Special Warrant holders holding not less than 66⅔% of the aggregate number of the then outstanding Special Warrants represented at the meeting and voted on the poll upon such resolution;
- AST and the Company, without the consent of the holders of Special Warrants, may be able to amend or supplement the Special Warrant Indenture for certain purposes, including rectifying any ambiguities, defective provisions, clerical omissions or mistakes, or other errors contained in the Special Warrant Indenture or in any deed or indenture supplemental or ancillary to the Special Warrant Indenture, provided that, in the opinion of AST, relying on the opinion of legal counsel, the rights of the holders of Special Warrants, as a group, are not prejudiced thereby; and
- the Company has agreed to provide to the holders of the Special Warrants a contractual right of rescission. See “Contractual Rights of Rescission” below.

The foregoing is a summary description of certain material provisions of the Special Warrant Indenture, it does not purport to be a comprehensive summary and is qualified in its entirety by reference to the more detailed provisions of the Special Warrant Indenture between the Company and AST, as Special Warrant Agent, a copy of which may be obtained on request without charge from the Company at its registered office or electronically on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Common Shares**

Each Common Share carries the right to attend and vote at all general meetings of shareholders. Holders of Common Shares are entitled to receive on a pro rata basis such dividends, if any, as and when declared by the Company’s board of directors at its discretion from funds legally available for the payment of dividends and upon the liquidation, dissolution or winding up of the Company are entitled to receive on a pro rata basis the net assets of the Company after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to or on a pro rata basis with the holders of Common Shares with respect to dividends or liquidation. The Common Shares do not carry any pre-emptive, subscription, redemption or conversion rights, nor do they contain any sinking or purchase fund provisions.

## **Warrants**

The Warrants will be governed by the terms of the Warrant Indenture. The following summary of certain anticipated provisions of the Warrant Indenture does not purport to be complete and is subject in its entirety to the detailed provisions of the Warrant Indenture. Reference is made to the Warrant Indenture for the full text of the attributes

of the Warrants which will be filed by the Company under its corporate profile on SEDAR following the closing of the Offering. A register of holders will be maintained at the principal offices of AST in Vancouver, BC.

Each Warrant will entitle the holder to acquire, subject to acceleration and adjustment in certain circumstances, one Warrant Share at an exercise price of \$0.55 until 5:00 p.m. (Pacific time) on the date that is the earlier of: (i) 24 months following the Closing Date; and (ii) the date specified in any Warrant Acceleration Notice, subject to certain exceptions and the terms of the Warrants, after which time the Warrants will be void and of no value.

If, at any time, the volume-weighted average trading price of the Common Shares on the CSE, or other principal exchange on which the Common Shares are listed, is greater than \$1.00 for any 10 consecutive trading day period, the Company may, within 15 days of the occurrence of such event, provide written notice to AST and the registered holders of Warrants (a “**Warrant Acceleration Notice**”) and issue a press release that the expiry time of the Warrants shall be accelerated to the date that is 30 days following the date of such Warrant Acceleration Notice.

The Warrant Indenture will provide for adjustment in the number of Warrant Shares issuable upon the exercise of the Warrants and/or the exercise price per Warrant Share upon the occurrence of certain events, including:

- (i) the issuance of Common Shares or securities exchangeable or exercisable for or convertible into Common Shares to all or substantially all of the holders of the Common Shares as a stock dividend or other distribution (other than a distribution of Common Shares upon the exercise of warrants or options of the Company);
- (ii) the subdivision, redivision or change of the Common Shares into a greater number of shares;
- (iii) the reduction, combination or consolidation of the Common Shares into a lesser number of shares;
- (iv) the issuance to all or substantially all of the holders of the Common Shares of rights, options or warrants under which such holders are entitled, during a period expiring not more than 45 days after the record date for such issuance, to subscribe for or purchase Common Shares, or securities exchangeable or exercisable for or convertible into Common Shares, at a price per Common Share to the holder (or at an exchange, exercise or conversion price per share) of less than 95% of the “current market price”, as defined in the Warrant Indenture, for the Common Shares on such record date; and
- (v) the issuance or distribution to all or substantially all of the holders of Common Shares of (i) securities, including rights, options or warrants to acquire shares of any class or securities exchangeable, exercisable or convertible into any such shares or property or assets or (ii) any property or assets, including evidences of indebtedness.

The Warrant Indenture will also provide for adjustments in the class and/or number of securities issuable upon exercise of the Warrants and/or exercise price per security in the event of the following additional events: (a) reclassifications of the Common Shares or exchange or change of the Common Shares into other shares, or capital reorganization of the Company (other than as described in clauses (ii) or (iii) above), (b) consolidations, amalgamations, arrangements, mergers of the Company with or into another entity (other than a consolidation, amalgamation, arrangement, merger or other business combination which does not result in any reclassification of the Company’s outstanding Common Shares or an exchange or change of the Common Shares into other shares), or (c) any sale or conveyance of the property and assets of the Company as an entirety or substantially as an entirety to any other body corporate, trust, partnership or other entity, in which case each holder of a Warrant which is thereafter exercised will receive, in lieu of Common Shares, the kind and number or amount of other securities or property which such holder would have been entitled to receive as a result of such event if such holder had exercised the Warrants prior to the event.

The Company will also covenant in the Warrant Indenture that, during the period in which the Warrants are exercisable, it will give notice to holders of Warrants of certain stated events, including events that would result in an adjustment to the exercise price for the Warrants or the number of Warrant Shares issuable upon exercise of the Warrants, not less than 14 days prior to such applicable record date or effective date, as the case may be, of such events.



No fractional Common Shares will be issuable to any holder of Warrants upon the exercise thereof, and no cash or other consideration will be paid in lieu of fractional shares. The holding of Warrants will not make the holder thereof a shareholder of the Company or entitle such holder to any right or interest in respect of the Warrants except as expressly provided in the Warrant Indenture. Holders of Warrants will not have any voting or pre-emptive rights or any other rights of a holder of Common Shares.

The Warrant Indenture will provide that, from time to time, AST and the Company, without the consent of the holders of Warrants, may be able to amend or supplement the Warrant Indenture for certain purposes, including rectifying any ambiguities, defective provisions, clerical omissions or mistakes, or other errors contained in the Warrant Indenture or in any deed or indenture supplemental or ancillary to the Warrant Indenture, provided that, in the opinion of AST, relying on the opinion of legal counsel, the rights of the holders of Warrants, as a group, are not prejudiced thereby.

The Warrant Indenture will contain provisions making binding upon all holders of Warrants resolutions passed at meetings of such holders in accordance with such provisions or by instruments in writing signed by holders of Warrants holding a specified percentage of the Warrants. Any amendment or supplement to the Warrant Indenture that is prejudicial to the interests of the holders of Warrants, as a group, and certain other amendments or other actions, will be subject to approval by an “Extraordinary Resolution”, which will be defined in the Warrant Indenture as a resolution either: (i) passed at a meeting of the holders of Warrants at which there are holders of Warrants present in person or represented by proxy representing at least 25% of the aggregate number of the then outstanding Warrants and passed by the affirmative vote of holders of Warrants representing not less than 66<sup>2/3</sup>% of the aggregate number of Warrants represented at the meeting in person or by proxy and voted on the poll upon such resolution; or (ii) adopted by an instrument in writing signed by the holders of Warrants representing not less than 66<sup>2/3</sup>% of the number of all of the then outstanding Warrants.

The principal transfer office of AST in Vancouver, British Columbia is the location at which Warrants may be surrendered for exercise or transfer.

## PRIOR SALES

The following table summarizes details of the securities issued by the Company during the 12-month period prior to the date of this Prospectus.

### *Common Shares*

Date of Issuance	Issuance of Common Shares Upon:	Number of securities issued	Issue/exercise price per security
November 1, 2019	November 2019 Offering	24,401,300 <sup>(1)</sup>	\$0.085
January 20, 2020	Exercise of Warrants – November 2019 Offering	1,000	\$0.12
February 20, 2020	February 2020 Offering	18,304,939 <sup>(2)</sup>	\$0.085
March 12, 2020	Exercise of Warrants – November 2019 Offering	1,000	\$0.12
March 13, 2020	Exercise of Warrants – November 2019 Offering	1,615,000	\$0.12
March 16, 2020	Exercise of Warrants – November 2019 Offering	6,982,400	\$0.12
March 16, 2020	Exercise of Compensation Options – November 2019 Offering	1,227,500	\$0.085
March 20, 2020	Exercise of Warrants – November 2019 Offering	300,000	\$0.12
March 23, 2020	Exercise of Warrants – November 2019 Offering	835,000	\$0.12

Date of Issuance	Issuance of Common Shares Upon:	Number of securities issued	Issue/exercise price per security
March 24, 2020	Exercise of Warrants – November 2019 Offering	600,000	\$0.12
March 25, 2020	Exercise of Warrants – November 2019 Offering	141,000	\$0.12
March 27, 2020	Exercise of Compensation Options – November 2019 Offering	357,023	\$0.085
March 27, 2020	Exercise of Warrants – November 2019 Offering	1,716,023	\$0.12
April 2, 2020	Exercise of Compensation Options – November 2019 Offering	11,000	\$0.085
April 2, 2020	Exercise of Warrants – November 2019 Offering	117,000	\$0.12
April 13, 2020	Exercise of Warrants – November 2019 Offering	1,161,000	\$0.12
April 14, 2020	Exercise of Warrants – November 2019 Offering	820,000	\$0.12
April 15, 2020	Exercise of Warrants – November 2019 Offering	256,860	\$0.12
April 16, 2020	Exercise of Warrants – November 2019 Offering	788,500	\$0.12
April 20, 2020	Exercise of Compensation Options – November 2019 Offering	9,680	\$0.085
April 23, 2020	Exercise of Warrants – November 2019 Offering	293,645	\$0.12
April 24, 2020	Exercise of Warrants – November 2019 Offering	1,101,855	\$0.12
April 27, 2020	Exercise of Warrants – November 2019 Offering	907,800	\$0.12
April 28, 2020	Exercise of Compensation Options – November 2019 Offering	27,500	\$0.085
April 28, 2020	Exercise of Warrants – November 2019 Offering	124,000	\$0.12
April 29, 2020	Exercise of Warrants – November 2019 Offering	136,500	\$0.12
April 30, 2020	Exercise of Stock Options	25,000	\$0.30
April 30, 2020	Exercise of Warrants – November 2019 Offering	115,000	\$0.12
May 4, 2020	Exercise of Warrants – November 2019 Offering	27,500	\$0.12
May 6, 2020	Exercise of Warrants – November 2019 Offering	7,160	\$0.12
May 7, 2020	Exercise of Warrants – November 2019 Offering	150,000	\$0.12
May 8, 2020	Exercise of Warrants – November 2019 Offering	135,500	\$0.12
May 11, 2020	Exercise of Compensation Options – November 2019 Offering	14,883	\$0.085

### *Warrants*

Date of Issuance	Issuance of Warrants upon	Number of securities issued	Issue/exercise price per security
November 1, 2019	November 2019 Offering	24,401,300 <sup>(1)</sup>	\$0.12
February 20, 2020	February 2020 Offering	18,304,939 <sup>(2)</sup>	\$0.12
March 16, 2020	Exercise of Compensation Options – November 2019 Offering	1,227,500	\$0.12
March 27, 2020	Exercise of Compensation Options – November 2019 Offering	357,023	\$0.12
April 2, 2020	Exercise of Compensation Options – November 2019 Offering	11,000	\$0.12
April 20, 2020	Exercise of Compensation Options – November 2019 Offering	9,680	\$0.12
April 28, 2020	Exercise of Compensation Options – November 2019 Offering	27,500	\$0.12
May 11, 2020	Exercise of Compensation Options – November 2019 Offering	14,883	\$0.12

### *Special Warrants*

Date of Issuance	Issuance of Special Warrants pursuant to:	Number of securities issued	Issue/exercise price per security
May 13, 2020	The Offering	19,605,285	\$0.35

### *Compensation Options*

Date of Issuance	Issuance of Compensation Options pursuant to:	Number of securities issued	Issue/exercise price per security
November 1, 2019	November 2019 Offering	1,801,080 <sup>(1)</sup>	\$0.085
February 20, 2020	February 2020 Offering	969,571 <sup>(2)</sup>	\$0.085
May 13, 2020	The Offering	1,505,293	\$0.35

### *Stock Options*

Date of Issuance	Issuance of Stock Options upon:	Number of securities issued	Issue/exercise price per security
February 13, 2020	Stock Options Grant	4,375,000	\$0.10
April 13, 2020	Stock Options Grant	4,550,000	\$0.29

#### **Notes:**

- (1) Issued in connection with the closing of a short form prospectus offering of 24,401,300 units at a price of \$0.085 per unit (the “**November 2019 Offering**”). Each unit consists of one Common Share and one warrant listed and posted for trading on the CSE under the symbol ‘AGN.WT’. Each warrant entitles to holder to purchase one Common Share until May 1, 2022 at an exercise price of \$0.12 per Common Share. In addition, a total of 1,801,800 compensation options were issued, each compensation option entitling 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 listed warrant entitling the holder to purchase one Common Share until May 1, 2022 at an exercise price of \$0.12 per Common Share.
- (2) Issued in connection with the closing of a private placement offering of 18,304,939 units at a price of \$0.085 per unit (the “**February 2020 Offering**”). Each unit consists of one Common Share and one warrant. Each warrant entitles to holder to purchase one Common Share until

August 20, 2022 at an exercise price of \$0.12 per Common Share. In addition, a total of 969,571 compensation options were issued, each compensation option entitling 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 warrant entitling the holder to purchase one Common Share until August 20, 2022 at an exercise price of \$0.12 per Common Share.

## TRADING PRICE AND VOLUME

The Common Shares are listed on the CSE under the trading symbol “AGN”. The following tables set forth information relating to the trading of the Common Shares on the CSE for the months indicated. On May 29, 2020, the last trading day prior to the date of this Prospectus, the closing price of the Common Shares on the CSE was \$0.30.

Month	CSE Price Range (\$)		Total Volume
	High	Low	
May 2019	0.28	0.195	730,795
June 2019	0.25	0.20	767,474
July 2019	0.225	0.185	1,344,914
August, 2019	0.19	0.125	499,195
September, 2019	0.16	0.105	1,254,896
October 2019	0.20	0.075	6,402,868
November 2019	0.08	0.04	5,594,500
December 2020	0.085	0.045	11,211,467
January 2020	0.09	0.055	6,157,129
February 2020	0.11	0.07	7,459,261
March 2020	0.35	0.085	71,222,246
April 2020	0.58	0.22	55,720,977
May, 2020	0.45	0.285	21,100,454

## RISK FACTORS

An investment in the securities of the Company is speculative and subject to risks and uncertainties. The occurrence of any one or more of these risks or uncertainties could have a material adverse effect on the value of any investment in the Company and the business, prospects, financial position, financial condition or operating results of the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial may also impair the Company’s business operations.

Prospective investors should carefully consider all information contained in this Prospectus, including all documents incorporated by reference, and in particular should give special consideration to the risk factors under the section titled “Risk Factors” in the Annual Information Form, which is incorporated by reference in this Prospectus and which may be accessed on the Company’s SEDAR profile at [www.sedar.com](http://www.sedar.com), and the information contained in the section entitled “Cautionary Statement Regarding Forward-Looking Information”. Additionally, purchasers should consider the risk factors set forth below.

The risks and uncertainties described or incorporated by reference in this Prospectus are not the only ones the Company may face. Additional risks and uncertainties that the Company is unaware of, or that the Company currently deems not to be material, may also become important factors that affect the Company. If any such risks actually occur, the Company’s business, financial condition or results of operations could be materially adversely affected, with the result that the trading price of the Common Shares could decline and investors could lose all or part of their investment.

### *Return on Investment is not Guaranteed*

There is no guarantee that an investment in the securities described herein will provide any positive return in the short term or long term. An investment in the securities of the Company is speculative and involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. An investment in the securities of the Company described herein is appropriate only for holders who have the capacity to absorb a loss of some or all of their investment.

### *Discretion in the Use of Proceeds from the Offering*

The Company intends to use the net proceeds from this Offering as set forth under “Use of Proceeds”; however, the Company maintains broad discretion concerning the use of the net proceeds from the Offering, as well as the timing of its expenditures in ways that it deems most efficient, and there can be no assurance as to how the funds will be allocated, especially if the Company determines to revise its business plan and growth strategy. The application of the proceeds to various items may not necessarily enhance the value of the Units. The failure to apply the net proceeds as set forth under “Use of Proceeds” and other financings could adversely affect the Company’s business and, consequently, could adversely affect the price of the Units on the open market.

Until utilized, the net proceeds of the Offering will be held in cash balances in the Company’s bank account or invested at the discretion of the Board. As a result, a purchaser will be relying on the judgment of management of the Company for the application of the net proceeds of the Offering. The results and the effectiveness of the application of the net proceeds are uncertain. If the net proceeds are not applied effectively, the Company’s business, prospects, financial condition and results of operations may suffer, which could have material and adverse effect on the trading price of the Common Shares and the Warrants in the market.

### *Negative Cash Flow from Operations*

During the three and six months ended February 29, 2020, the Company had negative cash flow from operating activities, reported a net comprehensive loss of \$792,220 and net loss per share of \$0.01 for the three months ended February 29, 2020. The Company anticipates it will have negative cash flow from operating activities in future periods. To the extent that the Company has negative cash flow in any future period, certain of the net proceeds from the Offering may be used to fund such negative cash flow from operating activities, if any.

### *Additional Financing*

The continued development of the Company will require additional financing. There is no guarantee that the Company will be able to achieve its business objectives. The Company intends to fund its business objectives by way of additional offerings of equity and/or debt financing as well as through anticipated positive cash flow from operations in the future. The failure to raise or procure such additional funds or the failure to achieve positive cash flow could result in the delay or indefinite postponement of current business objectives. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, will be on terms acceptable to the Company. If additional funds are raised by offering equity securities, existing shareholders could suffer significant dilution. The Company will require additional financing to fund its operations until positive cash flow is achieved, see “Risk Factors – Negative Cash Flow from Operations” above.

### *Risk Factors Related to Dilution*

While the net proceeds of the Offering are expected to enhance the Company’s liquidity, to the extent that a portion of the net proceeds of the Offering remains as cash, the Offering may dilute the interest of holders of Common Shares. The Company may issue additional Common Shares or securities convertible into Common Shares in the future, which may dilute a shareholder's holdings in the Company. The Company's articles permit the issuance of an unlimited number of Common Shares, and shareholders will have no pre-emptive rights in connection with such further issuance. The directors of the Company have discretion to determine the price and the terms of further issuances. Moreover, additional Common Shares will be issued by the Company on the exercise of options under the Company's stock option plan and upon the exercise of outstanding warrants.

### *Market Price of Common Shares*

The trading prices of CSE-listed companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in Canada, North America and globally, and market perceptions of the attractiveness of particular industries. The trading price of the Common Shares is also likely to be significantly affected by changes from time to time in the Company's operating results, financial condition, liquidity and other internal factors.

### *No Market for Warrants*

There is currently no market through which the Warrants may be sold. Accordingly, the purchasers may not be able to resell the securities qualified under this Prospectus. This may affect the pricing of the Warrants in the secondary market, the transparency and availability of trading prices, the liquidity of the Warrants, and the extent of issuer regulation.

### *Holders of Warrants Have no Rights as a Shareholder*

Until a holder of Warrants acquires Warrant Shares upon the due exercise of Warrants, such holder will have no rights with respect to the Warrant Shares underlying such Warrants. Upon due exercise of such Warrants, such holder will be entitled to exercise the rights of a holder of Common Shares only as to matters for which the record date occurs after the exercise date.

## **AUDITORS, TRANSFER AGENT, REGISTRAR AND WARRANT AGENT**

The auditors of the Company are Smythe LLP, Chartered Professional Accountants, Vancouver, British Columbia. Smythe LLP is independent of the Company in accordance with the Rules of Professional Conduct of the Chartered Professional Accountants of British Columbia.

AST Trust Company (Canada), at its principal offices in Vancouver, British Columbia is the transfer agent and registrar for the Common Shares, the special warrant agent for the Special Warrants and the warrant agent for the Warrants.

## **LEGAL MATTERS**

Certain legal matters in connection with the Offering will be passed upon by McMillan LLP, on behalf of the Company and by Fasken Martineau DuMoulin LLP, on behalf of the Agent. As at the date hereof, the partners and associates of McMillan LLP, as a group, and the partners and associates of by Fasken Martineau DuMoulin LLP, as a group, each beneficially own, directly or indirectly, less than one percent of the outstanding Common Shares of the Company.

## **PURCHASERS' STATUTORY RIGHTS**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment thereto. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some provinces, revisions of the price or damages if the Prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

In an offering of Warrants, investors are cautioned that the statutory right of action for damages for a misrepresentation contained in this short form prospectus is limited, in certain provincial securities legislation, to the price at which the Warrants are offered to the public under the Offering. This means that, under the securities legislation

of certain provinces, if the purchaser pays additional amounts upon exercise of the Warrants, those amounts may not be recoverable under the statutory right of action for damages that applies in those provinces. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of this right of action for damages or consult with a legal adviser.

### **CONTRACTUAL RIGHT OF RESCISSION**

Pursuant to the terms of the Agency Agreement and the subscription agreements between the Company and the purchasers of Special Warrants, the Company has granted to each holder of a Special Warrant a contractual right of rescission of the prospectus-exempt transaction under which the Special Warrant was initially acquired. The contractual right of rescission provides that if a holder of a Special Warrant who acquires Units on the exercise or deemed exercise of the Special Warrant as provided for in this Prospectus is, or becomes, entitled under the securities legislation of a jurisdiction to the remedy of rescission because of this Prospectus or an amendment to this Prospectus containing a misrepresentation,

- (a) the holder is entitled to rescission of both the holder's exercise or deemed exercise of its Special Warrant and the private placement transaction under which the Special Warrant was initially acquired,
- (b) the holder is entitled in connection with the rescission to a full refund of all consideration paid to the Company on the acquisition of the Special Warrant, and
- (c) if the holder is a permitted assignee of the interest of the original Special Warrant subscriber, the holder is entitled to exercise the rights of rescission and refund as if the holder was the original subscriber.

The contractual rights of action described above are in addition to and without derogation from any other right or remedy that a purchaser of Special Warrants may have at law.

**CERTIFICATE OF THE COMPANY**

Dated: June 1, 2020

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of the Provinces of British Columbia, Alberta, Manitoba and Ontario.

*(Signed) Christopher J. Moreau*  
Chief Executive Officer

*(Signed) Michael Sadhra*  
Chief Financial Officer

On Behalf of the Board of Directors

*(Signed) Raj Attariwala*  
Director

*(Signed) David Levine*  
Director



## **CERTIFICATE OF THE AGENT**

Dated: June 1, 2020

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of the Provinces of British Columbia, Alberta, Manitoba and Ontario.

**MACKIE RESEARCH CAPITAL CORPORATION**

(Signed) *David J. Keating*  
Managing Director