ALGERNON PHARMACEUTICALS INC.

Consolidated Financial Statements

For the years ended August 31, 2020 and 2019
(Expressed in Canadian dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

"Christopher Moreau" (signed)
Christopher Moreau
Director and Chief Executive Officer

"David Levine" (signed)
David Levine
Director

Smythe CPA

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ALGERNON PHARMACEUTICALS INC.

Opinion

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

- the consolidated statements of financial position as at August 31, 2020 and 2019;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at August 31, 2020 and 2019, and its consolidated financial performance and consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $8,538,207 during the year ended August 31, 2020 and, as of that date, the Company has a deficit of $17,463,488. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Sukhjit Gill.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia

December 18, 2020

ALGERNON PHARMACEUTICALS INC.

Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Note	August 31, 2020	August 31, 2019
ASSETS			
Current assets			
Cash and cash equivalents	*4*	$ 6,121,424	$ 207,812
Accounts receivable	*6*	1,229,453	44,792
Prepaid expenses	*7*	387,348	26,259
Total current assets		7,738,225	278,863
Non-current assets			
Restricted cash equivalents	*8*	57,500	57,500
Incorporation costs		-	1,371
License	*9*	-	48,689
Intangible assets	*5, 10*	5,028,243	4,951,680
Total non-current assets		5,085,743	5,059,240
TOTAL ASSETS		$ 12,823,968	$ 5,338,103
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	*14*	$ 607,053	$ 365,464
Total liabilities		607,053	365,464
Shareholders' equity			
Share capital	*11*	21,343,530	12,587,435
Reserves	*11*	8,216,628	2,517,348
Accumulated other comprehensive income		120,245	136,950
Deficit		(17,463,488)	(10,269,094)
Total shareholders' equity		12,216,915	4,972,639
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 12,823,968	$ 5,338,103

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

Approved on behalf of the Board:

"Christopher Moreau" (signed)
Christopher Moreau
Director and Chief Executive Officer

"David Levine" (signed)
David Levine
Director

ALGERNON PHARMACEUTICALS INC.

Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

Years ended August 31	Note	2020	2019
EXPENSES			
General and administrative	*14*	$ 151,024	$ 222,138
Marketing		1,265,925	234,033
Professional fees	*14*	1,171,258	731,335
Research and development	*6, 9, 12*	2,691,541	605,734
Salaries and benefits	*14*	8,175	-
Share-based payment	*11, 14*	3,179,440	-
Shareholder communications		209,740	120,665
		8,677,103	1,913,905
Other income	6	(16,048)	-
Interest income		(35,075)	(6,723)
Debt forgiveness	*12*	(137,833)	(6,651)
Gain on disposal of furniture and equipment		-	(4,968)
Loss on dissolution of US subsidiary		1,371	-
Impairment of research license	*9*	48,689	-
Net loss for the year		8,538,207	1,895,563
OTHER COMPREHENSIVE INCOME			
Item that may subsequently be reclassified to profit or loss:			
Foreign exchange loss on translation to reporting currency		16,705	2,058
Comprehensive loss for the year		$ 8,554,912	$ 1,897,621
Loss per common share			
Basic and fully diluted		$ 0.10	$ 0.04
Weighted average number of common shares outstanding		88,077,936	44,667,514

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

ALGERNON PHARMACEUTICALS INC.

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

Years ended August 31	2020	2019
OPERATING ACTIVITIES		
Net loss for the year	$ (8,538,207)	$ (1,895,563)
Items not involving cash		
Amortization	-	26,995
Share-based payment	3,179,440	-
Debt forgiveness	(137,833)	-
Gain on disposal of furniture and equipment	-	(4,968)
Impairment of research license	48,689	-
Dissolution of US subsidiary	1,371	-
Unrealized foreign exchange gain	(94,522)	(2,649)
	(5,541,062)	(1,876,185)
Changes in non-cash operating working capital		
Accounts receivable	(1,123,269)	11,183
Prepaid expenses	(361,089)	6,604
Restricted cash equivalents	-	(57,500)
Accounts payable and accrued liabilities	415,487	133,670
	(6,609,933)	(1,782,228)
INVESTING ACTIVITIES		
Proceeds from sale of furniture and equipment	-	55,324
Cash acquired on Nash Pharma acquisition	-	100,600
Additions of intangible assets	(99,741)	(65,746)
	(99,741)	90,178
FINANCING ACTIVITIES		
Proceeds from shares issued for cash, net of financing costs	9,259,075	494,236
Proceeds from warrants exercised	3,142,569	153,750
Proceeds from stock options exercised	12,500	-
Proceeds from compensation options exercised	205,604	-
	12,619,748	647,986
Effect of exchange rate fluctuations on cash held	3,538	818
Increase (decrease) in cash and cash equivalents	5,913,612	(1,043,246)
Cash and cash equivalents, beginning of year	207,812	1,251,058
Cash and cash equivalents, end of year	$ 6,121,424	$ 207,812

ALGERNON PHARMACEUTICALS INC.
Consolidated Statements of Cash Flows (continued)
(Expressed in Canadian dollars)

Cash and cash equivalents is comprised of:		
Guaranteed Investment Certificates	$ 5,500,000	$ 75,000
Cash	621,424	132,812
	$ 6,121,424	$ 207,812
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	$ 444,144	$ 137,910
Fair value of warrants issued with conversion of special warrants	$ 3,411,997	$ -
Fair value of warrants expired	$ 1,317,304	$ -
Fair value of stock options expired	$ 26,509	$ 555,497
Fair value of warrants exercised	$ 486,241	$ 32,636
Fair value of stock options exercised	$ 7,849	$ -
Fair value of compensation options exercised	$ 52,123	$ -
Shares issued on Nash Pharma acquisition	$ -	$ 3,476,000
Fair value of replacement warrants issued on Nash Pharma acquisition	$ -	$ 1,380,409
Intangible assets included in accounts payable and accrued liabilities	$ -	$ 23,178
Interest paid	$ -	$ -
Taxes paid	$ -	$ -

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

ALGERNON PHARMACEUTICALS INC.
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 loss	-	-	-	(2,058)	-	(2,058)
Net loss for the year	-	-	-	-	(1,895,563)	(1,895,563)
Balance at August 31, 2019	**47,344,512**	**$ 12,587,435**	**$ 2,517,348**	**$ 136,950**	**$ (10,269,094)**	**$ 4,972,639**

Balance at August 31, 2019	47,344,512	$ 12,587,435	$ 2,517,348	$ 136,950	$ (10,269,094)	$ 4,972,639
Shares issued for cash, net of financing costs	62,311,524	4,849,209	4,409,866	-	-	9,259,075
Expiration of stock options	-	-	(26,509)	-	26,509	-
Expiration of warrants	-	-	(1,317,304)	-	1,317,304	-
Exercise of stock options	75,000	20,349	(7,849)	-	-	12,500
Exercise of warrants	26,188,077	3,628,810	(486,241)	-	-	3,142,569
Exercise of compensation options	2,418,866	257,727	(52,123)	-	-	205,604
Share-based payment	-	-	3,179,440	-	-	3,179,440
Other comprehensive loss	-	-	-	(16,705)	-	(16,705)
Net loss for the year	-	-	-	-	(8,538,207)	(8,538,207)
Balance at August 31, 2020	**138,337,979**	**$ 21,343,530**	**$ 8,216,628**	**$ 120,245**	**$ (17,463,488)**	**$ 12,216,915**

The accompanying notes are an integral part of these 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 drug re-purposing company that investigates safe, already approved drugs for multiple new disease applications, moving them efficiently and safely into new human trails. The Company's lead compound is a drug called Ifenprodil which is being investigated in clinical trails for idiopathic pulmonary fibrosis ("IPF") and chronic cough as well as COVID-19.

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 ("R&D") work are carried out by the Company's 100% owned Canadian subsidiary, Nash Pharmaceuticals Inc. ("Nash Pharma"). On January 6, 2020, Nash Pharma established a 100% owned Australian subsidiary, Algernon Research Pty Ltd. ("AGN Research"). 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).

After suspending any further research on the development of a breathalyzer prototype with the University of Florida, the Company completed the process of dissolving its US subsidiary, Breathtec Biomedical, Inc. ("Breathtec US") on February 7, 2020.

As at August 31, 2020, the Company has an accumulated deficit of $17,463,488 (2019 - $10,269,094) and for the year then ended incurred a net loss of $8,538,207 (2019 - $1,895,563). 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 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 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.

Impact of COVID-19

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness.

The duration and impact of the COVID-19 outbreak is unknown as to how it would impact the Company's operations. It is therefore not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). They have been prepared on a historical cost basis, except for certain financial instruments, which are stated at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for the cash flow information.

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates, judgements and assumptions that affect the application of accounting policies, 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. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both the current and future periods. The areas involving a higher degree of judgements or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

The significant accounting policies set out in Note 3 have been applied consistently to the years presented,

(b) Approval of the consolidated financial statements

The annual consolidated financial statements of the Company for the year ended August 31, 2020 were approved and authorized for issuance by the Board of Directors on December 18, 2020.

(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 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.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, which are entities over which the Company has control. Control exists when the Company has the power and ability, directly or indirectly, to direct the relevant activities of an entity so as to obtain benefit from its activities. Subsidiaries are fully consolidated from the date that control commences until the date the control ceases. The accounting policies of the Company's subsidiaries have been aligned with the policies adopted by the Company. When the Company ceases to control a subsidiary, the financial statements of that subsidiary are de-consolidated.

All intercompany transactions and balances have been eliminated on consolidation.

(b) Cash and cash equivalents

Cash includes deposits held with banks that are available on demand. Cash equivalents consisted of cashable guaranteed investment certificates that were readily convertible into a known amount of cash within 90 days or less.

(c) Share issuance costs

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

(d) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except for items recognized directly in equity or in other comprehensive income.

Current Tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred Tax

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Income taxes (continued)

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

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

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

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

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

(e) Financial instruments

The Company's financial instruments are classified as follows:

Measurement Category	Classification
Financial Asset	
Cash and cash equivalents	FVTPL
Restricted cash equivalents	FVTPL
Accounts receivable	Amortized cost
Financial Liability	
Accounts payable and accrued liabilities	Amortized cost

Financial Assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

Financial Assets (continued)

Financial assets measured at amortized costs

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

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

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the amount outstanding.

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

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

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

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

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

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

Financial Liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or financial liabilities subsequently measured at amortized cost. All interest-related charges are reported in profit or loss within interest expense, if applicable.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

Fair Value Hierarchy

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

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

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

(f) Share-based payments

The Company has a stock option plan that is described in Note 10 and grants share options to acquire common shares of the Company to directors, officers, employees and consultants. Share-based payments to employees are measured at the fair value of the instruments granted. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued as calculated using the Black-Scholes option pricing model. The offset to the recorded expense is to reserve.

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

(g) Restricted Share Units

The fair value of the restricted share units ("RSU") over the vesting periods is based on the volume weighted average trading price of the Company's common shares for the five trading days immediately preceding the grant date. Costs recognized when the RSUs vest are charged to share-based payment with the corresponding equity recorded as reserves.

When the restricted share units are settled in shares, recorded fair value is transferred from reserves to share capital.

(h) Loss per share

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Loss per share (Continued)

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

As at August 31, 2020 and 2019, outstanding equity instruments were anti-dilutive, and therefore, basic and fully diluted EPS were equal.

(i) Share capital

Instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares are classified as equity instruments.

(j) Unit offering

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

The fair value of the components of the units sold are measured using the relative fair value approach, based on the calculated fair value of the stand-alone shares through reference to the closing quoted bid price on the share issuance date and the fair value of the stand-alone warrant, estimated using the Black-Scholes option pricing model. Fair value attributed to the warrants is recorded in reserves.

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

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

(k) Research and development expenditures

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Expenditures capitalized may include the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are recognized in profit or loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Research and development expenditures (continued)

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss when incurred.

(l) Australian research and development ("R&D") tax credits

The Company qualifies for the Australian R&D tax credit as it has incurred qualified R&D expenditures undertaken in Australia. The tax credit is calculated as 43.5% of qualified R&D expenditures incurred.

The Company recognizes a tax credit receivable and records those amounts as a recovery against R&D expenses in the relevant periods to match with the related expenditures.

(m) Intangible assets

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

Intangible assets with finite lives are amortized over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The Company amortizes its license over five years using the straight-line basis. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. A change in the expected useful life of the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method,
as appropriate, and treated as changes in accounting estimates. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the Cash Generating Unit ("CGU") level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

(n) Significant accounting judgements and estimates

Following are the accounting policies subject to such judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position.

License - Useful life and Recoverability

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Significant accounting judgements and estimates (continued)

License - Useful life and Recoverability (continued)

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.

Deferred income taxes

The Company estimates the expected manner and timing of the realization or settlement of the carrying value of its assets and liabilities and applies the tax rates that are enacted or substantively enacted on the estimated dates of realization or settlement. In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities.

The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant tax authorities, which occurs subsequent to the issuance of the consolidated financial statements.

Share-based payment

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

Intangible assets – Treatment and Recoverability

Following initial recognition, the Company carries the value of the intangible assets at cost less accumulated amortization and any accumulated impairment losses. Amortization is recorded on the straight-line basis based upon management's estimate of the useful life and residual value.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Significant accounting judgements and estimates (continued)

Intangible assets – Treatment and Recoverability (continued)

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

Qualified research and development expenses

In determining whether the R&D expenses incurred in Australia qualify for the Australian R&D tax credit, the Company must use judgement in assessing whether expenses incurred meet the criteria set forth by the Australian Government. These criteria include, but are not limited to, whether the expenditure was incurred on R&D activities, whether the expense was incurred to acquire or construct a building, and whether the expense relates to a decline in value of depreciating assets used in R&D activities.

Determination of the functional currency

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

Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay its ongoing operating expenditures and to meet its liabilities for the ensuing year, involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

(o) New accounting policy adopted

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) New accounting policy adopted (continued)

IFRS 16 *Leases* *(continued)*

- 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 significant effect on the Company's consolidated financial statements as it does not have any long-term leases.

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, accrued interest receivable from GIC's held with bank, and accrued Australia R&D tax credit receivable. GST receivable and Australia R&D tax credit receivable are not financial instruments as they do 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. All of the Company's financial obligations are due within one year.

At August 31, 2020, the Company had a working capital of $7,131,172 compared to working capital deficit at August 31, 2019 of $86,601. This included cash and cash equivalents of $6,121,424 (August 31, 2019 - $207,812) available to meet short-term business requirements and current liabilities of $607,053 (August 31, 2019 - $365,464).

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.

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Market risk (continued)

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. The Company's cash equivalents hold interest rates ranging from 0.15% to 1.8%.

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

Foreign currency risk is related to fluctuations in foreign exchange rates. 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$"). The Company funds cash calls to its foreign subsidiary in Australia in AUD$. The Company's exposure to foreign currency risk arises primarily on fluctuations in the exchange rate of the CAD$ relative to the US$ and the AUD$.

As at August 31, 2020, the Company had monetary assets of US$21,499 or $28,040 (2019 - US$47,113 or $62,637) at the CAD equivalent and monetary liabilities of US$84,285 or $109,924 (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 profit or loss by approximately $8,188 (2019 - $10,408).

The Company has not entered into any foreign currency contracts to mitigate this risk. Foreign currency risk is considered low relative to the overall financial operating plan.

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values.

- Level 1 – fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – fair values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or
- Level 3 – fair values are based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(Expressed in Canadian dollars)

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair Value (continued)

The Company classified its financial instruments at Level 1 and as follows:

	Financial Assets Fair Value Through Profit	Financial Assets Measured at Amortized Cost	Financial Liabilities Measured at Amortized Cost
August 31, 2020			
Cash and cash equivalents	$ 6,121,424	$ -	$ -
Accounts receivable	-	37,408	-
Accounts payable and accrued liabilities	$ -	$ -	$ (607,053)

	Financial Assets Fair Value Through Profit	Financial Assets Measured at Amortized Cost	Financial Liabilities Measured at Amortized Cost
August 31, 2019			
Cash and cash equivalents	$ 207,812	$ -	$ -
Accounts receivable	-	754	-
Accounts payable and accrued liabilities	$ -	$ -	$ (364,464)

The carrying value of receivables and accounts payable and accrued liabilities approximate their fair value due to the short-term nature of these instruments.

5. ACQUISITION OF NASH PHARMA

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

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

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

(Expressed in Canadian dollars)

5. ACQUISITION OF NASH PHARMA (continued)

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

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

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

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

6. ACCOUNTS RECEIVABLE

	August 31, 2020	August 31, 2019
Accrued interest receivable	$ 21,364	$ 754
GST receivable	206,667	44,038
Other receivable(1) (2)	1,001,422	-
	$ 1,229,453	$ 44,792

(1) The Australia R&D tax credit allows qualifying companies to receive a cash refund at 43.5% of the eligible R&D expenditure connected to R&D activities undertaken in Australia. The cash refundable of $985,378 is recognized as a recovery of R&D expenditures over the relevant periods to match it with the related expenditures. Subsequent to the year ended August 31, 2020, $585,113 of the cash refundable was received.

(2) Research claim receivable of $16,044 for the month of August 2020 from National Research Council Canada.

7. PREPAID EXPENSES

	August 31, 2020	August 31, 2019
Conferences	$ 25,000	$ -
Marketing	195,704	7,250
Office and general	30,052	2,567
Professional fees – legal retainer	10,895	2,563
Research and development	113,887	1,994
Shareholders communications	11,810	11,885
	$ 387,348	$ 26,259

(Expressed in Canadian dollars)

8. RESTRICTED CASH EQUIVALENTS

As at August 31, 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 1.85%.

9. 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 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 August 31, 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 August 31, 2020	$ -
Carrying Amounts	
August 31, 2019	$ 48,689
August 31, 2020	$ -

For the year ended August 31, 2020, included in R&D expense is a total of $nil (2019 - $24,344) in amortization expense from the UFRF license.

(Expressed in Canadian dollars)

10. 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	-	7,825	68,738	76,562
Balance, August 31, 2020	$ 4,862,756	$ 13,228	$ 152,259	$ 5,028,243

(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.

11. SHARE CAPITAL AND RESERVES

Share capital

Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at August 31, 2020, there were 138,337,979 (2019 – 47,344,512) common shares issued and outstanding. Details of common shares are as follows:

During the year ended August 31, 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 (the "November 2019 Offering"). 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.

11. SHARE CAPITAL AND RESERVES (continued)

Share capital (continued)

The fair value per share on date of issuance was $0.075. The Agent Warrant Units were valued using a Geske compound options pricing model with the following inputs on date of issuance: allocated share price of $0.075 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 total of the fair value of the warrants associated with the units of the November 2019 Offering and the fair value of the Agent Warrant Units issued was $553,725.

The Company also incurred cash share issue costs of $383,987 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 ("the February 2020 Offering"). 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 fair value per share on date of issuance was $0.080. The Agent Warrant Units were valued using a Geske compound options pricing model with the following inputs on date of issuance: allocated share price of $0.080 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; 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 $73,687.

  The total of the fair value of the warrants associated with the units of the February 2020 Offering and the fair value of the Agent Warrant Units issued was $444,144.

  The Company also incurred cash share issue costs of $101,590 related to this private placement.

- On May 13, 2020, the Company closed a private placement for 19,605,285 special warrants ("the Special Warrants offering") of the Company at a price of $0.35 per Special Warrant for gross proceeds of $6,861,850. Each Special Warrant is exercisable, for no additional consideration at the option of the holder, into one unit of the Company. Each unit will consist of one common share and one common share purchase warrant. Each warrant will entitle the holder to acquire one common share at the price of $0.55 for a period of 24 months after the closing date until May 13, 2022.

11. SHARE CAPITAL AND RESERVES (continued)

Share capital (continued)

- In accordance with the terms of a special warrant indenture dated May 13, 2020, on June 17, 2020, each Special Warrant was automatically converted into one common share of the Company and one common share purchase warrant. Each warrant is exercisable for one common share of the Company on or before May 13, 2022 at an exercise price of $0.55 per common share. 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 $0.355 and listed warrant price of $0.235 on date of issuance of the Special Warrants, May 13, 2020, the fair value attributed to the warrants was determined to be $2,733,110.

  In addition, a total of 1,505,293 of Agent Warrant Units were issued. Each Agent Warrant Unit entitles the holder to purchase one unit of the Company at a price of $0.35 per unit until May 13, 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 $0.55. 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 of the Special Warrants: allocated share price of $0.350 for the share component of the unit; allocated price of $0.0001 for the warrant component of the unit; exercise price of the warrant of $0.55; expected life of 2.0 years for both the share component and warrant component of the unit; expected volatility of 143.79%; risk-free rate of return of 0.28%; and expected dividend yield of 0%. The fair value of the Agent Warrant Units was determined to be $678,887.

  The fair value per share on date of issuance of Special Warrants was $0.355. As it was higher than the exercise price of the Agent Warrants Units at $0.350, the option on the share component of the unit was in the money. Hence the total exercise price of the unit, $0.350, was allocated to the share component of the unit and minimal amount of $0.0001 was allocated to the warrant portion of the unit.

  The total of the fair value of the warrants associated with the units of the May 13, 2020 Special Warrants Offering and the fair value of the Agent Warrant Units issued was $3,411,997.

  The Company also incurred cash share issue costs of $747,228 related to this private placement.

- 18,672,143 common shares were issued in connection with the exercise of 18,672,143 tradeable warrants at a price of $0.12 per tradeable warrant for gross proceeds of $2,240,657. The value allocated to these warrants when issued $334,133 was reclassified from reserves to share capital.

  7,515,934 common shares were issued in connection with the exercise of 7,515,934 non-tradeable warrants at a price of $0.12 per non-tradeable warrant for gross proceeds of $901,912. The value allocated to these warrants when issued $152,108 was reclassified from reserves to share capital

- 2,418,886 common shares were issued in connection with the exercise of 2,418,886 Agent Warrant Units at a price of $0.085 per unit for gross proceeds of $205,604. The value allocated to the share component of these units when issued $52,123 was reclassified from reserves to share capital.

- 75,000 common shares were issued in connection with the exercise of 75,000 stock options at a weighted average exercise price of $0.17 per stock option for gross proceeds of $12,500. The value allocated to these stock options when issued $7,849 was reclassified from reserves to share capital.

11. SHARE CAPITAL AND RESERVES (continued)

Share capital (continued)

During the year ended August 31, 2019:

- On October 19, 2018, the Company issued 15,800,000 common shares in connection with the acquisition of Nash Pharma. 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 $137,910 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 year ended August 31, 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. All options were fully vested prior to resignation.

- 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.

- On April 13, 2020, the Company granted a total of 4,550,000 incentive 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.

(Expressed in Canadian dollars)

11. SHARE CAPITAL AND RESERVES (continued)

Stock options (continued)

- On August 17, 2020, the Company granted a total of 600,000 incentive stock options to certain consultants of the Company with an exercise price of $0.35 per share. The options expire on August 17, 2025.

- During the year, a total of 75,000 incentive stock options were exercised with a weighted average exercise price of $0.17 per share.

During the year ended August 31, 2019:

- There were no stock options granted by the Company.

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

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

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	9,525,000	$ 0.21
Exercised[1]	(75,000)	$ 0.17
Expired	(100,000)	$ 0.39
Balance outstanding at August 31, 2020	10,737,500	$ 0.24
Balance outstanding and exercisable at August 31, 2020	10,637,500	$ 0.24

(1) The weighted average share price on the date of exercise for options exercised was $0.33.

As at August 31, 2020, the Company had the following stock options outstanding:

Date of Grant	Date of Expiry	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
February 1, 2016	February 1, 2021	537,500	$ 0.50	0.42
May 18, 2017	May 18, 2022	162,500	$ 0.30	1.71
March 1, 2018	March 1, 2023	562,500	$ 0.48	2.50
February 13, 2020	February 13, 2025	4,325,000	$ 0.10	4.46
April 13, 2020	April 13, 2025	4,550,000	$ 0.29	4.62
August 17, 2020	August 17, 2025	600,000	$ 0.35	4.96
Total		10,737,500	$ 0.24	4.20

(Expressed in Canadian dollars)

11. SHARE CAPITAL AND RESERVES (continued)

Restricted Share Units

Effective July 23, 2020, the Company has a 10% rolling restricted share unit plan which allows the Company to grant restricted share units ("RSUs") to directors, officers, employees and consultants of the Company, to a maximum of the number of shares equal to 10% of the shares issued and outstanding from time to time.

During the year ended August 31, 2020:

- On July 23, 2020, a total of 4,350,000 RSUs were granted to certain directors, officers and consultants of the Company with a fair value of $0.35 per RSU. 33% was vested on the grant date with another 33% to be vested on January 22, 2021 and the remaining 34% to be vested on July 22, 2020. The RSUs expire on July 22, 2022.

The changes in RSUs outstanding are as follows:

	Number Outstanding	Number Vested(1)	Number Unvested(2)
Balance at August 31, 2018 and 2019	-	-	-
Granted	4,350,000	1,435,500	2,914,500
Balance at August 31, 2020	4,350,000	1,435,500	2,914,500

(1) Subsequent to the year ended August 31, 2020, a total of 1,068,521 of common shares were issued net of withholding taxes in settlement of the 1,435,500 RSUs that were vested.

(2) The remaining life of the outstanding and unvested RSUs is 1.89 years; 1,435,500 to be vested on January 22, 2021 and the remaining 1,479,000 to be vested on July 22, 2021.

Share-based payments

(a) Stock options

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

During the year ended August 31, 2020, the Company granted a total 9,525,000 stock options to certain directors, officers and consultants of the Company and recorded a total of $2,509,208 (2019 - $nil) of share-based payment expense.

(Expressed in Canadian dollars)

11. SHARE CAPITAL AND RESERVES (continued)

Share-based payments (continued)

(a) Stock options (continued)

- 4,375,000 stock options with a weighted average exercise price of $0.10 per share were granted on February 13, 2020 with an expiry date of 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. The fair value per share on grant date was $0.085. Under the graded vesting method, at August 31, 2020, the total fair value of these stock options was $303,296 which was also recognized as share-based payment for the year.

- 4,550,000 stock options with a weighted average exercise price of $0.29 per share were granted on April 13, 2020 with an expiry date of April 13, 2025. Of the stock options granted, 4,450,000 vested immediately with a four-month hold on trading and 100,000 were subject to vesting six months after the grant date. The fair value per share on grant date was $0.50. Under the graded vesting method, at August 31, 2020, the total fair value of these stock options was $2,036,420 which was also recognized as share-based payment for the year.

- 600,000 stock options with a weighted average exercise price of $0.35 per share were granted on August 17, 2020 with an expiry date of August 17, 2025. All of the stock options vested immediately on grant date with a four-month hold on trading. The fair value per share on grant date was $0.35. The total fair value of these stock options was $180,008 which was also recognized as share-based payment for the nine-month period.

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

Years ended August 31	2020	2019
Risk-free interest rate	0.94%	-
Expected dividend yield	0.00%	-
Expected stock price volatility	126.64%	-
Expected option life in years	5.0	-
Forfeiture rate	0.00%	-

(b) Restricted Share Units

When the Company issues RSUs, it records a share-based payment expense in the year or period which the RSUs are granted and/or vested. The expense is measured using a price that is based on the volume weighted average trading price of the Company’s common shares for the five trading days immediately preceding the grant date as prescribed in the Company’s RSU rolling plan.

During the year ended August 31, 2020, the Company granted a total of 4,350,000 RSUs to certain directors, officers and consultants of the Company and recorded a total of $670,232 (2019 - $nil) of share-based payment expense.

Overall, during the year ended August 31, 2020, the Company recorded a total of $3,179,440 (2019 - $nil) of share-based payment expense for its reserves.

(Expressed in Canadian dollars)

11. SHARE CAPITAL AND RESERVES (continued)

Share purchase warrants

The changes in warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance at August 31, 2018	5,739,166	$ 0.30
Issued	16,888,600	$ 0.27
Exercised	(512,500)	$ 0.30
Balance at August 31, 2019	22,115,266	$ 0.28
Issued	64,730,390	$ 0.25
Exercised	(26,188,077)	$ 0.12
Expired	(16,026,666)	$ 0.24
Balance at August 31, 2020	44,630,913	$ 0.34

As at August 31, 2020, the Company had the following warrants outstanding:

Date of Expiry	Exercise Price	Number of Warrants	Weighted Average Remaining Life in Years
July 18, 2021[1]	$ 0.25	4,000,000	0.88
October 23, 2020[2]	$ 0.50	2,088,600	0.15
May 1, 2022	$ 0.12	7,398,743	1.67
May 13, 2022	$ 0.55	19,605,285	1.70
August 20, 2022	$ 0.12	11,538,285	1.97
Total	$ 0.34	44,630,913	1.62

(1) On July 6, 2020, the expiry date of the remaining 4,000,000 Nash replacement share purchase warrants was amended from July 18, 2020 to July 18, 2021 with all other terms remaining the same.
(2) Subsequent to the year ended August 31, 2020, these warrants have expired.

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	4,275,944	$ 0.178
Exercised	(2,418,866)	$ 0.085
Balance at August 31, 2020	1,857,078	$ 0.300

As at August 31, 2020, the Company had the following agent warrant units outstanding:

Date of Expiry	Exercise Price	Number of Agent Warrant Units	Weighted Average Remaining Life in Years
May 1, 2022	$ 0.085	131,494	1.67
May 13, 2022	$ 0.350	1,505,293	1.70
August 20, 2022	$ 0.085	220,291	1.97
Total	$ 0.300	1,857,078	1.73

(Expressed in Canadian dollars)

12. 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 gain on debt forgiveness of $137,833 for year ended August 31, 2020 (2019 – $nil).

13. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 27.00% (2019 - 27%) to income before income taxes. The reasons for the differences are as follows:

		2020		2019
Loss before income taxes	$	(8,538,207)	$	(1,895,563)
Statutory income tax rate		27%		27%
Income tax benefit computed at statutory tax rate		(2,305,316)		(511,804)
Permanent differences				
Share-based payment		858,449		-
Change in deferred tax rates		-		-
Dissolution of US Subsidiary		335,516		-
Share issuance costs		(332,858)		-
Non-deductible research and development		327,047		-
Other		(1,748)		(4,130)
Differences attributable to income tax rates of other countries		(10,800)		12,327
Unrecognized benefit of deferred income tax assets		1,129,710		503,607
Income tax expense	$	-	$	-

Significant unrecognized tax benefits and unused tax losses for which no deferred tax asset is recognized as of August 31, 2020 and 2019 are as follows:

		2020		2019
Non-capital losses carried forward	$	10,065,000	$	7,246,000
Share issuance costs		991,000		32,000
License agreement		122,000		73,000
Other		11,000		11,000
	$	11,189,000	$	7,362,000

(Expressed in Canadian dollars)

13. INCOME TAXES (continued)

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

2034	$ 41,000	$ 53,000
2035	205,000	534,000
2036	1,069,000	1,448,000
2037	1,054,000	1,583,000
2038	1,487,000	1,733,000
2039	1,683,000	1,895,000
2040	4,282,000	-
	$ 9,821,000	$ 7,246,000

The Company's unrecognized unused Australian non-capital losses of $243,000 (2019 - $nil) have an indefinite carry forward period.

14. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

Key management personnel are considered to be those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management includes senior officers and directors of the Company.

Related party transactions to key management personnel are as follows:

Years ended August 31	2020	2019
Short-term benefits (1)	$ 8,000	$ -
Consulting fees – other (2)	606,663	297,391
Share-based payment (3)	2,489,669	-
Rent (4)	32,000	24,000
	$ 3,136,332	$ 321,391

(1) Short-term benefits consisted of directors' fees to the independent directors.

(2) Fees paid to consultants/companies related to management personnel:
- $257,000 (2019 - $108,000) to a company controlled by the Chief Executive Officer who was appointed director of the Company effective May 13, 2020;
- $80,000 (2019 - $48,000) to a company controlled by the Chief Financial Officer;
- $266,663 (2019 - $138,491) to the Chief Science Officer;
- $3,000 (2019 - $2,900) for tax services paid to a partnership where a senior officer and director is a partner.

(3) Share-based payments were non-cash items that consisted of the fair value of stock options that had been granted and the fair value of RSUs that were granted and settled in shares to key management personnel including the independent directors.

(4) Rent:
- $32,000 (2019 - $24,000) 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	2020	2019
Key management personnel – expense reimbursements	$ -	$ 183

(Expressed in Canadian dollars)

15. RISK AND CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company in order to support future business opportunities. The Company defines its capital as shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to manage its capital to be able to sustain the future development of the Company's business. The Company currently has no source of revenues, and therefore, is dependent upon external financings to fund activities. In order to carry future projects and pay Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended August 31, 2020. The Company is not subject to externally imposed capital requirements.

16. 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:

As at August 31, 2020, the Company's long-term assets are located as follows:

	Canada	United States	Total
Restricted cash equivalents	$ 57,500	$ -	$ 57,500
Intangible asset	5,028,243	-	5,028,243
	$ 5,085,743	$ -	$ 5,085,743

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

17. SUBSEQUENT EVENTS

- A total of 1,068,521 of common shares were issued net of withholding taxes in settlement of the 1,435,500 RSUs that were vested.

- A total of 2,088,600 of non-tradeable warrants with an exercise price of $0.50 expired unexercised.

- A total of 2,957,340 of warrants with an exercise price of $0.12 per warrant were exercised for gross proceeds of $354,881

- A total 225,706 Agents Warrants (also referred as Compensation Options) with an exercise price of $0.085 per unit were exercised for gross proceeds of $19,185.