

ALGERNON PHARMACEUTICALS INC.

Condensed Interim Consolidated Financial Statements (Unaudited)

For the six months ended February 28, 2021 and February 29, 2020
(Expressed in Canadian dollars)

ALGERNON PHARMACEUTICALS INC.

Unaudited Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Note	February 28, 2021	August 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents	4	\$ 3,044,263	\$ 6,121,424
Accounts receivable	5	2,360,599	1,229,453
Prepaid expenses	6	263,027	387,348
Total current assets		5,667,889	7,738,225
Non-current assets			
Restricted cash equivalents	7	57,500	57,500
Deposits – long-term		22,487	-
Intangible assets	8	5,059,667	5,028,243
Total non-current assets		5,139,654	5,085,743
TOTAL ASSETS		\$ 10,807,543	\$ 12,823,968
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 1,576,511	\$ 607,053
Total liabilities		1,576,511	607,053
Shareholders' equity			
Share capital	9	24,245,697	21,343,530
Subscriptions received	9	552,500	-
Shares to be issued	9, 15	1,931	-
Reserves	9	6,982,623	8,216,628
Accumulated other comprehensive income		134,948	120,245
Deficit		(22,686,667)	(17,463,488)
Total shareholders' equity		9,231,032	12,216,915
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 10,807,543	\$ 12,823,968

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

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

	Note	Three months ended February 28, 2021	Three months ended February 29, 2020	Six months ended February 28, 2021	Six months ended February 29, 2020
EXPENSES					
General and administrative	10	\$ 45,963	\$ 22,328	\$ 91,058	\$ 42,625
Marketing		223,325	123,128	378,768	190,902
Professional fees	10	143,996	121,282	256,186	243,886
Research and development	11	1,461,349	213,854	3,966,580	232,226
Salaries and benefits	10	171,655	-	343,547	-
Share-based payments	9,10	275,669	296,891	668,444	296,891
Shareholder communications		66,111	16,294	124,240	44,464
		2,388,068	793,777	5,828,823	1,050,994
Interest income		(2,696)	(5,003)	(9,003)	(6,739)
Debt forgiveness	11	-	-	-	(137,833)
Gain on dissolution of US subsidiary		-	(1,371)	-	(1,371)
Impairment of research license	12	-	-	-	48,689
Net loss for the period		2,385,372	787,403	5,819,820	953,740
OTHER COMPREHENSIVE INCOME					
Item not classified into profit or loss:					
Foreign exchange (gain) / loss on translation to reporting currency		(43,346)	4,817	(14,703)	4,833
Comprehensive loss for the period		\$ 2,342,026	\$ 792,220	\$ 5,805,117	\$ 958,573
Loss per common share					
Basic and fully diluted		\$ 0.02	\$ 0.01	\$ 0.04	\$ 0.02
Weighted average number of common shares outstanding		144,361,850	73,556,630	144,024,939	64,338,690

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

ALGERNON PHARMACEUTICALS INC.

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

Six months ended	February 28, 2021	February 29, 2020
OPERATING ACTIVITIES		
Net loss for the period	\$ (5,819,820)	\$ (953,740)
Items not involving cash		
Share-based payments (note 10)	668,444	296,891
Debt forgiveness (note 11)	-	(137,833)
Impairment of research license (note 12)	-	48,689
Dissolution of US subsidiary	-	1,371
Unrealized foreign exchange gain	(54,169)	(4,120)
	(5,205,545)	(748,742)
Changes in non-cash operating working capital		
Accounts receivable	(1,087,633)	(54,255)
Prepaid expenses	124,321	(365,884)
Deposits – long-term	(22,487)	-
Accounts payable and accrued liabilities	990,089	8,760
	(5,201,255)	(1,160,121)
INVESTING ACTIVITIES		
Additions of intangible assets	(31,424)	(21,379)
	(31,424)	(21,379)
FINANCING ACTIVITIES		
Proceeds from shares issued for cash, net of financing costs	-	3,163,629
Proceeds from unit subscriptions	552,500	-
Proceeds from options exercised	2,500	-
Proceeds from warrants exercised	1,784,099	120
Proceeds from compensation options exercised	26,668	-
Cash used for withholding of restricted share units	(214,977)	-
	2,150,790	3,163,749
Effect of exchange rate fluctuations on cash held	4,728	(91)
Increase (decrease) in cash and cash equivalents	(3,077,161)	1,982,158
Cash and cash equivalents, beginning of period	6,121,424	207,812
Cash and cash equivalents, end of period	\$ 3,044,263	\$ 2,189,970
Cash and cash equivalents are comprised of:		
Guaranteed Investment Certificates	\$ 1,100,000	\$ 1,800,000
Cash	1,944,263	389,970
	\$ 3,044,263	\$ 2,189,970
Supplemental cash flow information		
Non-cash investing and financing activities:		
Fair value of warrants issued with unit offering	\$ -	\$ 553,725
Fair value of warrants issued with private placement	\$ -	\$ 444,145
Fair value of warrants expired	\$ 189,539	\$ 1,317,304
Fair value of stock options expired	\$ 407,102	\$ 26,509
Fair value of warrants exercised	\$ 283,885	\$ 18
Fair value of stock options exercised	\$ 1,733	\$ -
Fair value of compensation options exercised	\$ 7,376	\$ -

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

ALGERNON PHARMACEUTICALS INC.

Unaudited Condensed Interim Consolidated Statements of Changes in Shareholder's Equity
(Expressed in Canadian dollars)

	Number of Shares	Share Capital	Subscriptions Received	Shares to be Issued	Reserves	Accumulated Other Comprehensive Income	Deficit	Total
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	42,706,239	2,165,759	-	-	997,870	-	-	3,163,629
Expiration of stock options	-	-	-	-	(26,509)	-	26,509	-
Expiration of warrants	-	-	-	-	(1,317,304)	-	1,317,304	-
Exercise of warrants	1,000	138	-	-	(18)	-	-	120
Share-based payment	-	-	-	-	296,891	-	-	296,891
Other comprehensive loss	-	-	-	-	-	(4,833)	-	(4,833)
Net loss for the period	-	-	-	-	-	-	(953,740)	(953,740)
Balance at February 29, 2020	90,051,751	\$ 14,753,332	\$ -	\$ -	\$ 2,468,278	\$ 132,117	\$ (9,879,021)	\$ 7,474,706
Balance at August 31, 2020	138,337,979	\$ 21,343,530	\$ -	\$ -	\$ 8,216,628	\$ 120,245	\$ (17,463,488)	\$ 12,216,915
Subscriptions received	-	-	552,500	-	-	-	-	552,500
Expiration of stock options	-	-	-	-	(407,102)	-	407,102	-
Expiration of warrants	-	-	-	-	(189,539)	-	189,539	-
Exercise of warrants	14,853,492	2,066,053	-	1,931	(283,885)	-	-	1,784,099
Exercise of compensation options	313,736	34,044	-	-	(7,376)	-	-	26,668
Exercise of stock options	25,000	4,233	-	-	(1,733)	-	-	2,500
Settlement of restricted share units	2,182,522	797,837	-	-	(1,012,814)	-	-	(214,977)
Share-based payment	-	-	-	-	668,444	-	-	668,444
Other comprehensive loss	-	-	-	-	-	14,703	-	14,703
Net loss for the period	-	-	-	-	-	-	(5,819,820)	(5,819,820)
Balance at February 28, 2021	155,712,729	\$ 24,245,697	\$ 552,500	\$ 1,931	\$ 6,982,623	\$ 134,948	\$ (22,686,667)	\$ 9,231,032

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

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Six Months Ended February 28, 2021 and February 29, 2020
(Expressed in Canadian dollars)

1. NATURE AND GOING CONCERN

Algernon Pharmaceuticals Inc. (the “Company” or “Algernon”) was incorporated on April 10, 2015 under the British Columbia *Business Corporations Act*. The registered office of Algernon is located at Suite 1500 – 1500 West Georgia Street, Vancouver, British Columbia, V6E 4N7.

Algernon is a 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 re-purposing (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).

As at February 28, 2021, the Company has an accumulated deficit of \$22,686,667 (August 31, 2020 - \$17,463,488) and for the six-months period ended incurred a net loss of \$5,819,820 (February 29, 2020 - \$953,740). The Company will need to raise sufficient working capital to maintain operations. Without additional financing, the Company may not be able to fund its ongoing operations and complete development activities. Management anticipates that the Company will continue to raise adequate funding through equity or debt financings, although there is no assurance that the Company will be able to obtain adequate funding on favorable terms. These uncertainties may cast significant doubt on the Company’s ability to continue as a going concern. These condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. These condensed interim consolidated financial statements do not reflect adjustments, which could be material, to the carrying value of assets and liabilities, which may be required should the Company be unable to continue as a going concern.

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 how it would impact the Company’s operations. However, as a result of the outbreak of COVID-19 and the company’s focus on developing repurposed therapeutic drugs, the Company announced on March 6, 2020 that it was going to explore NP-120 (Ifenprodil) as a possible treatment for COVID-19 when it discovered an independent research study that showed the drug was active in an animal model for H5N1, the world’s most lethal avian flu, with an approximately 60% mortality rate in humans. In the study, Ifenprodil reduced mortality by 40% and reduced acute lung injury and inflammation in the lung tissue.

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
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1. NATURE AND GOING CONCERN (continued)

Impact of COVID-19 (continued)

While there has been an impressive advancement in the area of vaccine development and deployment, there still remains an urgent need to identify a therapeutic for the treatment of the most seriously affected COVID-19 patients.

The Company has now completed its initial review of the full data set from the Phase 2b part of its Phase 2b/3 human study of NP-120 (Ifenprodil) for the treatment of COVID-19. It has announced that it will be seeking guidance from the U.S. Food and Drug Administration (“FDA”) on moving forward with a potential Phase 3 study.

It is currently 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 condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) using policies consistent with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). They have been prepared on a historical cost basis, except for certain financial instruments, which are stated at fair value. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for the cash flow information.

These condensed interim consolidated financial statements have been prepared in accordance with the same accounting policies and methods of application as the most recent audited consolidated financial statements for the year ended August 31, 2020, except that they do not include all the disclosures required for the annual audited financial statements. These condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the Company for year ended August 31, 2020.

(b) Approval of the condensed interim consolidated financial statements

The condensed interim consolidated financial statements of the Company for the period ended February 28, 2021 were approved and authorized for issuance by the Board of Directors on April 29, 2021.

(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.

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Six Months Ended February 28, 2021 and February 29, 2020
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2. BASIS OF PRESENTATION (continued)

(c) Foreign currencies (continued)

On consolidation, the assets and liabilities of entities are translated into the reporting currency at the rate of exchange at the reporting date and the consolidated statements of loss and comprehensive loss are translated at the average exchange rates for the year. The exchange differences arising on translation for consolidation purposes are recognized in other comprehensive income.

(d) Use of accounting estimates and judgements

The preparation of condensed interim consolidated financial statements in accordance with IFRS requires management to make estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The condensed interim 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.

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.

ALGERNON PHARMACEUTICALS INC.

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

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk (continued)

At February 28, 2021, the Company had a working capital of \$4,091,378 compared to working capital at August 31, 2020 of \$7,131,172. This included cash and cash equivalents of \$3,044,263 (August 31, 2020 - \$6,121,424) available to meet short-term business requirements and current liabilities of \$1,576,511 (August 31, 2020 - \$607,053).

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risks. The Company is not exposed to significant interest rate risk and other price risk.

a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash is limited because of the short-term investment nature. The Company's financial asset exposed to interest rate risk consists of cash and cash equivalents and restricted cash equivalents. 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 February 28, 2021, the Company had monetary assets of US\$14,316 or \$18,160 (August 31, 2020 - US\$21,499 or \$28,040) at the CAD equivalent and monetary liabilities of US\$50,584 or \$64,165 (August 31, 2020 - US\$84,285 or \$109,924) at the CAD equivalent. The Company's sensitivity analysis suggests that a change in the absolute rate of exchange in US\$ by 10% will increase or decrease other comprehensive loss by approximately \$4,601 (August 31, 2020 - \$8,188).

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.

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

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair Value (continued)

- 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).

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

	Financial Assets		Financial Assets		Financial Liabilities	
	Fair Value Through Profit		Measured at Amortized Cost		Measured at Amortized Cost	
February 28, 2021						
Cash and cash equivalents	\$	3,044,263	\$	-	\$	-
Accounts receivable		-		6,666		-
Accounts payable and accrued liabilities	\$	-	\$	-	\$	(1,576,511)

	Financial Assets		Financial Assets		Financial Liabilities	
	Fair Value Through Profit		Measured at Amortized Cost		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)

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

5. ACCOUNTS RECEIVABLE

	February 28, 2021	August 31, 2020
Accrued interest receivable	\$ 6,666	\$ 21,364
GST receivable	133,105	206,667
Australian R&D tax credit receivable ^{(1) (2)}	2,220,828	1,001,422
	\$ 2,360,599	\$ 1,229,453

(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. As at February 28, 2021, cash refundable of \$2,220,828 (August 31, 2020 - \$985,378) is recognized as a recovery of R&D expenditures over the relevant periods to match it with the related expenditures.

(2) As at February 28, 2021, research claim receivable of \$nil (August 31, 2020 - \$16,044) for the months of January and February 2021 from National Research Council Canada. The allocation for the Federal Government fiscal year of April 1, 2020 to March 31, 2021 was fully reached after the month of December 31, 2020. The remaining allocation is available to be claimed in the new fiscal year.

ALGERNON PHARMACEUTICALS INC.

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

6. PREPAID EXPENSES

	February 28, 2021	August 31, 2020
Conferences	\$ 25,000	\$ 25,000
Consulting	49,905	-
Marketing	74,701	195,704
Office and general	24,614	30,052
Professional fees – legal retainer	12,737	10,895
Research and development	72,118	113,887
Shareholders communications	3,952	11,810
	<u>\$ 263,027</u>	<u>\$ 387,348</u>

7. RESTRICTED CASH EQUIVALENTS

As at February 28, 2021 and August 31, 2020, 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%.

8. INTANGIBLE ASSETS

	Acquisition of Nash Pharma ⁽¹⁾	Trademark Application Costs ⁽³⁾	Patent Application Costs ⁽²⁾	Total
Cost				
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
Additions	-	467	30,957	31,424
Balance, February 28, 2021	\$ 4,862,756	\$ 13,695	\$ 183,216	\$ 5,059,667

(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.

9. SHARE CAPITAL AND RESERVES

Share capital

Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at February 28, 2021, there were 155,712,729 (August 31, 2020 – 138,337,979) common shares issued and outstanding. Details of common shares are as follows:

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(Expressed in Canadian dollars)

9. SHARE CAPITAL AND RESERVES (continued)

Share capital (continued)

During the period ended February 28, 2021:

- 2,182,522 common shares were issued net of withholding taxes in settlement of the 2,871,000 restricted share units ("RSUs) that were settled. The RSUs were granted on July 23, 2020 with a fair value of \$0.35 per RSU. The total gross fair value of the vested RSUs was \$1,012,814. A total of 688,478 common shares were withheld in lieu of withholding taxes in the amount of \$214,977. The fair value of the common shares issued was \$797,837.
- 7,242,751 common shares were issued with another 14,000 issued subsequent to the period ended February 28, 2021 (note 15), in connection with the exercise of 7,256,751 tradeable warrants at a price of \$0.12 per tradeable warrant for gross proceeds of \$870,810. The fair value allocated to these warrants on issuance of \$129,858 was reclassified from reserves to share capital.

7,610,741 common shares were issued in connection with the exercise of 7,610,741 non-tradeable warrants at a price of \$0.12 per non-tradeable warrant for gross proceeds of \$913,289. The fair value allocated to these warrants on issuance of \$154,027 was reclassified from reserves to share capital.

- 313,736 common shares were issued in connection with the exercise of 313,736 agent warrant units at a price of \$0.085 per unit for gross proceeds of \$26,668. The fair value allocated to the share component of these units on issuance of \$7,376 was reclassified from reserves to share capital.
- 25,000 common shares were issued in connection with the exercise of 25,000 stock options at \$0.10 per share for gross proceeds of \$2,500. The fair value allocated to these stock options on issuance of \$1,733 was reclassified from reserves to share capital.
- \$552,5000 of subscription funds were received prior to the closing of the private placement offering of units on March 5, 2021 (note 15).

During the period ended February 29, 2020:

- On November 1, 2019, the Company closed a public offering of 24,401,300 units of the Company at a price of \$0.085 per unit for gross proceeds of \$2,074,110 (the "November 2019 Offering"). Each unit consisted of one common share and one common share purchase warrant. Each warrant entitled 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 were 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 entitled the holder to purchase one unit of the Company at a price of \$0.085 per unit until May 1, 2022. Each unit consisted 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 were tradeable on the CSE under the symbol AGN.WT.

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9. 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. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at the price of \$0.12 for a period of 30 months after the closing date until August 20, 2022. The share purchase warrants in connection with this private placement are not tradeable on the CSE. Using the relative fair value approach and based on the listed share price of \$0.080 and listed warrant price of \$0.025 on date of issuance of the units, the fair value attributed to the warrants was determined to be \$370,457.

In addition, a total of 969,571 of agent warrant units were issued. Each agent warrant unit entitles the holder to purchase one unit of the Company at a price of \$0.085 per unit until August 20, 2022. Each unit consists of one common share and one share purchase warrant entitling the holder to acquire an additional common share at a price of \$0.12. These share purchase warrants are not tradeable on the CSE. The agent warrant units were valued using a Geske compound options pricing model with the following inputs on date of issuance: share price of \$0.080 on February 20, 2020 for the share component of the unit; allocated price of \$0.005 for the warrant component of the unit; exercise price of the warrant of \$0.12; expected life of 2.5 years for both the share component and warrant component of the unit; expected volatility of 130.28%; risk-free rate of return of 1.45%; and expected dividend yield of 0%. The fair value of the Agent Warrant Units was determined to be \$73,688.

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

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.

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SHARE CAPITAL AND RESERVES (continued)**Stock options (continued)**

During the six months ended February 28, 2021:

- There were no stock options granted by the Company.
- A total of 25,000 incentive stock options were exercised with a weighted average exercise price of \$0.10 per share.
- On February 1, 2021, a total of 537,500 incentive stock options expired unexercised. The stock options expired had a weighted average exercise price of \$0.50 per share. The fair value allocated to these stock options on issuance of \$407,102 was reclassified from reserves to deficit.

During the six months ended February 29, 2020:

- On September 26, 2019, a total of 100,000 incentive stock options expired following the resignation of an officer. The stock options expired had a weighted average exercise price of \$0.39 per share.
- On February 13, 2020, the Company granted a total of 4,375,000 incentive stock options to certain directors, officers and consultants of the Company with an exercise price of \$0.10 per share. The options expire on February 13, 2025.

The changes in stock options outstanding are as follows:

	Number of Stock Options	Weighted Average Exercise Price
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
Exercised ⁽²⁾	(25,000)	\$ 0.10
Expired	(537,500)	\$ 0.50
Balance outstanding at February 28, 2021	10,175,000	\$ 0.22

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

⁽²⁾ The weighted average share price on the date of exercise for options exercised was \$0.375.

As at February 28, 2021, the Company had the following stock options outstanding and exercisable:

Date of Grant	Date of Expiry	Number Outstanding and Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
May 18, 2017	May 18, 2022	162,500	\$ 0.30	1.22
March 1, 2018	March 1, 2023	562,500	\$ 0.48	2.00
February 13, 2020	February 13, 2025	4,300,000	\$ 0.10	3.96
April 13, 2020	April 13, 2025	4,550,000	\$ 0.29	4.12
August 17, 2020	August 17, 2025	600,000	\$ 0.35	4.47
Total		10,175,000	\$ 0.22	3.91

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9. 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 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.

- 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% vested on January 22, 2021 and the remaining 34% to be vested on July 22, 2021. The RSUs expire on July 22, 2022.

The changes in RSUs outstanding are as follows:

	Number Outstanding ⁽³⁾	Number Vested	Number Unvested ⁽³⁾
Balance at August 31, 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
Settled ^{(1) (2)}	(2,871,000)	1,435,500	(1,435,500)
Balance at February 28, 2021	1,479,000	2,871,000	1,479,000

⁽¹⁾ On September 29, 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. A total of 366,979 of common shares were withheld in lieu of withholding taxes in the amount of \$129,459.

⁽²⁾ On February 9, 2021, a total of 1,114,001 of common shares were issued net of withholding taxes in settlement of the 1,435,500 RSUs that were vested on January 22, 2021. A total of 321,499 of common shares were withheld in lieu of withholding taxes in the amount of \$85,518.

⁽³⁾ The Company has until July 22, 2022 to complete the settlement of vested RSUs. The remaining life of the outstanding and unvested RSUs is 1.39 years; the remaining 1,479,000 to be vested on July 22, 2021.

Share-based payments

(a) Stock options

- No stock options were granted during the six months ended February 28, 2021.
- 4,550,000 stock options were granted on April 13, 2020. 4,450,000 vested immediately and 100,000 vested on October 13, 2020. Under the graded vesting method, \$10,517 was recognized as share-based payment for the six months ended February 28, 2021 (2020 - \$296,891).

(b) Restricted Share Units

- On September 29, 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 settled. The RSUs were granted on July 23, 2020 with a fair value of \$0.35 per RSU. The total gross fair value of the vested RSUs was \$506,407. A total of 366,979 common shares were withheld in lieu of withholding taxes in the amount of \$129,459.

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9. SHARE CAPITAL AND RESERVES (continued)

Share-based payments (continued)

(b) Restricted Share Units (continued)

- On February 9, 2021, a total of 1,114,001 of common shares were issued net of withholding taxes in settlement of the 1,435,500 RSUs that were vested on January 22, 2021. The RSUs were granted on July 23, 2020 with a fair value of \$0.35 per RSU. The total gross fair value of the vested RSUs was \$506,407. A total of 321,499 common shares were withheld in lieu of withholding taxes in the amount of \$85,518.
- Under the graded vesting method, at February 28, 2021, the fair value of the unvested RSUs was \$657,927 which was recognized as share-based payment for the six months ended February 28, 2021. No RSUs were granted during the six months ended February 29, 2020.

Share purchase warrants

The changes in warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
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
Issued	313,736	\$ 0.12
Exercised	(14,867,492)	\$ 0.12
Expired	(2,315,787)	\$ 0.46
Balance at February 28, 2021	27,761,370	\$ 0.45

As at February 28, 2021, 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	0.38
May 1, 2022 ⁽²⁾	\$ 0.12	8,250	1.17
May 13, 2022	\$ 0.55	19,605,285	1.20
August 20, 2022	\$ 0.12	4,147,835	1.47
Total	\$ 0.45	27,761,370	1.13

⁽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⁾ Warrants that were issued on November 1, 2019 ("November Warrants") were tradeable under the symbol of AGN.WT had their expiry date accelerated to January 21, 2021. A total of 227,187 of these AGN.WT expired during the period.

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9. SHARE CAPITAL AND RESERVES (continued)

Share purchase warrants (continued)

Agent warrant units

The changes in agent warrant units outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance at August 31, 2019	-	\$ -
Issued	4,275,944	\$ 0.178
Exercised	(2,418,866)	\$ 0.085
Balance at August 31, 2020	1,857,078	\$ 0.300
Exercised	(313,736)	\$ 0.085
Balance at February 28, 2021	1,543,342	\$ 0.343

As at February 28, 2021, 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	38,049	1.17
May 13, 2022	\$ 0.350	1,505,293	1.20
Total	\$ 0.343	1,543,342	1.20

10. 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:

Six months ended	February 28, 2021	February 29, 2020
Short-term benefits ⁽¹⁾	\$ 276,000	\$ -
Consulting fees – other ⁽²⁾	9,150	175,998
Share-based payments ⁽³⁾	567,179	166,334
Rent ⁽⁴⁾	18,000	14,000
	\$ 870,329	\$ 356,322

⁽¹⁾ Salaries paid to officers and directors fees to independent directors:

- \$110,000 (February 29, 2020 - \$nil) to Chief Executive Officer;
- \$60,000 (February 29, 2020 - \$nil) to Chief Financial Officer;
- \$100,000 (February 29, 2020 - \$nil) to Chief Science Officer;
- \$3,000 (February 29, 2020 - \$nil) to an independent director;
- \$3,000 (February 29, 2020 - \$nil) to an independent director.

⁽²⁾ Fees paid to consultants/companies related to management personnel:

- \$nil (February 29, 2020 - \$69,000) to a company controlled by the Chief Executive Officer;
- \$nil (February 29, 2020 - \$24,000) to a company controlled by the Chief Financial Officer;
- \$nil (February 29, 2020 - \$79,998) to the Chief Science Officer;
- \$9,150 (February 29, 2020 - \$3,000) for tax services paid to a partnership where a senior officer and director is a partner.

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

(3) Share-based payments were non-cash items that consisted of the fair value of RSUs that were granted but unvested.

(4) Rent:

- \$18,000 (February 29, 2020 - \$14,000) paid for corporate office space to a company where a senior officer and director is a principal.

As at February 28, 2021 and August 31, 2020 there were no amounts payable to related parties.

11. DEBT FORGIVENESS

On November 13, 2019, the Company terminated the research and development agreement with the University of Florida ("UF") with no additional cost on either party. It effectively absolved the Company from paying the quarterly payments that were recorded as payables and accruals at the year ended August 31, 2019. As a result, the Company recognized a debt forgiveness of \$137,833 in the period ended February 29, 2020.

12. IMPAIRMENT OF RESEARCH LICENSE

The US subsidiary, Breathtec Medical, Inc., prior to its dissolution in February of 2020, made a formal request on January 7, 2020 to terminate the license agreement it held with the University of Florida Research Foundation ("UFRF"). The termination of the license agreement resulted in an impairment loss of \$48,689 recognized in the period ended February 29, 2020.

13. RISK AND CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company in order to support future business opportunities. The Company defines its capital as shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to manage its capital to be able to sustain the future development of the Company's business. The Company currently has no source of revenues, and therefore, is dependent upon external financings to fund activities. In order to carry future projects and pay administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the period ended February 28, 2021. The Company is not subject to externally imposed capital requirements.

14. SEGMENTED DISCLOSURES

The Company is a Canadian clinical stage pharmaceutical development company that 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:

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14. SEGMENTED DISCLOSURES (continued)

As at February 28, 2021, the Company's long-term assets are located as follows:

	Canada	Australia	Total
Restricted cash equivalents	\$ 57,500	\$ -	\$ 57,500
Deposits – Long-term	22,487	-	22,487
Intangible assets	5,059,667	-	5,059,667
	\$ 5,139,654	\$ -	\$ 5,139,654

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

	Canada	Australia	Total
Restricted cash equivalents	\$ 57,500	\$ -	\$ 57,500
Intangible assets	5,028,243	-	5,028,243
	\$ 5,085,743	\$ *	\$ 5,085,743

15. SUBSEQUENT EVENTS

Subsequent to the period ended February 28, 2021:

- 14,000 common shares were issued for 14,000 warrants that were exercised with an exercise price of \$0.12 per warrant prior to the period end, which was included in shares to be issued as at February 28, 2021.
- The Company completed on March 5, 2021 a private placement offering of units and issued an aggregate of 11,260,040 units at the price of \$0.25 per unit for gross proceeds of \$2,815,010.

Each unit is comprised of one common share and one share purchase warrant. Each warrant will entitle the holder to acquire one additional common share at a price of \$0.40 per share until March 5, 2023.

In connection with the unit offering, the Company paid cash commissions in the aggregate amount of \$161,400, being 8% of the aggregate proceeds raised from the sale of units to purchasers introduced by eligible finders. In addition, the Company has issued 645,600 finders' warrants ("Finders' Warrants"), being 8% of the number of units sold under the offering to purchasers introduced by such finders. Each Finders' Warrant entitles the holder to purchase one additional common share at a price of \$0.40 per share until March 5, 2023.