

ALGERNON PHARMACEUTICALS INC.

Condensed Interim Consolidated Financial Statements (Unaudited)

For the nine months ended May 31, 2022 and 2021
(Expressed in Canadian dollars)

ALGERNON PHARMACEUTICALS INC.Unaudited Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

As at	Notes	May 31, 2022	August 31, 2021
ASSETS			
Current assets			
Cash and cash equivalents	4	\$ 872,841	\$ 2,411,163
Accounts receivable	5	509,325	2,294,882
Prepaid expenses	6, 10	175,758	203,216
Total current assets		1,557,924	4,909,261
Non-current assets			
Restricted cash equivalents	4, 7	57,500	57,500
Intangible assets	8	5,288,117	5,170,871
Total non-current assets		5,345,617	5,228,371
TOTAL ASSETS		\$ 6,903,541	\$ 10,137,632
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	10	\$ 1,347,602	\$ 1,022,314
Total liabilities		1,347,602	1,022,314
Shareholders' equity			
Share capital	9	25,849,846	25,849,846
Reserves	9	2,859,967	6,826,581
Accumulated other comprehensive loss		(38,944)	(14,764)
Deficit		(23,114,930)	(23,546,345)
Total shareholders' equity		5,555,939	9,115,318
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 6,903,541	\$ 10,137,632

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**“Harry J. F. Bloomfield Q.C.” (signed)**Harry J. F. Bloomfield Q.C.
Director

ALGERNON PHARMACEUTICALS INC.

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

	Notes	Three months ended May 31, 2022	Three months ended May 31, 2021	Nine months ended May 31, 2022	Nine months ended May 31, 2021
EXPENSES					
General and administrative	10	\$ 49,822	\$ 44,621	\$ 202,423	\$ 135,679
Marketing		123,050	180,646	390,016	559,414
Professional fees	10	288,474	130,903	688,602	387,089
Research and development	5, 8, 11	87,234	1,037,673	1,478,756	5,004,253
Salaries and benefits		182,247	148,863	583,240	492,410
Share-based payment	9, 10	14,312	101,556	301,980	770,000
Shareholder communications		56,027	32,003	193,776	156,243
		801,166	1,676,265	3,838,793	7,506,088
Interest income		(550)	(2,272)	(1,614)	(11,275)
Net loss for the period		800,161	1,673,993	3,837,179	7,493,813
OTHER COMPREHENSIVE INCOME					
Item not reclassified into profit or loss:					
Foreign exchange (gain) / loss on translation to reporting currency		(617)	82,648	24,180	67,945
Comprehensive loss for the period		\$ 799,999	\$ 1,756,641	\$ 3,861,359	\$ 7,561,758
Loss per common share					
Basic and fully diluted		\$ 0.48	\$ 1.01	\$ 2.29	\$ 4.94
Weighted average number of common shares outstanding		1,674,868	1,663,961	1,674,868	1,518,097

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)

Nine months ended	May 31, 2022	May 31, 2021
OPERATING ACTIVITIES		
Net loss for the period	\$ (3,837,179)	\$ (7,493,813)
Items not involving cash		
Share-based payment (note 10)	301,980	770,000
Amortization of intangible assets (note 8)	6,554	-
Unrealized foreign exchange (gain) loss	(23,388)	82,431
	(3,552,033)	(6,641,382)
Changes in non-cash operating working capital		
Accounts receivable	1,778,198	(1,561,901)
Prepaid expenses	27,458	(16,872)
Deposits – long-term	-	(22,487)
Accounts payable and accrued liabilities	305,252	1,234,340
	(1,441,125)	(7,008,302)
INVESTING ACTIVITY		
Additions of intangible assets	(95,543)	(114,064)
	(95,543)	(114,064)
FINANCING ACTIVITIES		
Proceeds from shares issued for cash, net of financing costs	-	2,653,610
Proceeds from options exercised	-	52,500
Proceeds from warrants exercised	-	1,784,099
Proceeds from compensation options exercised	-	26,668
Cash used for withholding of restricted share units	-	(214,977)
	-	4,301,900
Effect of exchange rate fluctuations on cash held	(1,654)	(12,950)
Decrease in cash and cash equivalents	(1,538,322)	(2,833,416)
Cash and cash equivalents, beginning of period	2,411,163	6,121,424
Cash and cash equivalents, end of period	\$ 872,841	\$ 3,288,008
Cash and cash equivalents is comprised of:		
Guaranteed Investment Certificates	\$ 600,000	\$ 1,100,000
Cash	272,841	2,188,008
	\$ 872,841	\$ 3,288,008
Supplemental cash flow information		
Non-cash investing and financing activities:		
Intangible assets included in accounts payable and accrued Liabilities	\$ 28,257	\$ -
Fair value of restricted share units forfeited	\$ -	\$ 72,493
Fair value of warrants issued with unit offering	\$ -	\$ 1,176,055
Fair value of warrants expired	\$ 3,490,164	\$ 585,483
Fair value of stock options expired	\$ 778,430	\$ 966,559
Fair value of warrants exercised	\$ -	\$ 283,885
Fair value of stock options exercised	\$ -	\$ 36,396
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	Reserves	Accumulated Other Comprehensive Income	Deficit	Total
Balance at August 31, 2020	1,383,380	\$ 21,343,530	\$ 8,216,628	\$ 120,245	\$ (17,463,488)	\$ 12,216,915
Shares issued for cash, net of financing costs	112,600	1,477,555	1,176,055	-	-	2,653,610
Expiration of stock options	-	-	(966,559)	-	966,559	-
Expiration of warrants	-	-	(585,483)	-	585,483	-
Exercise of stock options	5,250	88,896	(36,396)	-	-	52,500
Exercise of warrants	148,675	2,067,984	(283,885)	-	-	1,784,099
Exercise of compensation options	3,137	34,044	(7,376)	-	-	26,668
Settlement of restricted share units	21,826	797,837	(1,012,814)	-	-	(214,977)
Forfeiture of restricted share units	-	-	(72,493)	-	72,493	-
Share-based payment	-	-	770,000	-	-	770,000
Other comprehensive loss	-	-	-	(67,945)	-	(67,945)
Net loss for the period	-	-	-	-	(7,493,813)	(7,493,813)
Balance at May 31, 2021	1,674,868	\$ 25,809,846	\$ 7,197,677	\$ 52,300	\$ (23,332,766)	\$ 9,727,057
Balance at August 31, 2021	1,674,868	\$ 25,849,846	\$ 6,826,581	\$ (14,764)	\$ (23,546,345)	\$ 9,115,318
Expiration of stock options	-	-	(778,430)	-	778,430	-
Expiration of warrants	-	-	(3,490,164)	-	3,490,164	-
Share-based payment	-	-	301,980	-	-	301,980
Other comprehensive loss	-	-	-	(24,180)	-	(24,180)
Net loss for the period	-	-	-	-	(3,837,179)	(3,837,179)
Balance at May 31, 2022	1,674,868	\$ 25,849,846	\$ 2,859,967	\$ (38,944)	\$ (23,114,930)	\$ 5,555,939

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 Nine Months Ended May 31, 2022 and 2021
(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS 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.

On November 23, 2021, the Company consolidated all of its issued and outstanding common shares on the basis of 100 to 1. Unless otherwise noted, all share, options and warrants, special warrants, and restricted share information have been retroactively adjusted to reflect this consolidation.

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.

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”), chronic cough and stroke. 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 May 31, 2022, the Company has an accumulated deficit of \$23,114,930 (August 31, 2021 - \$23,546,345) and for the nine-month period then ended incurred a net loss of \$3,837,179 (May 31, 2021 - \$7,493,813). 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 raise 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. COVID-19 restrictions in Australia have led to temporary site closures and delays in patient screening/enrolment. With recent widespread adoption of vaccination, these restrictions have been lifted.

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Nine Months Ended May 31, 2022 and 2021
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1. NATURE OF OPERATIONS AND GOING CONCERN (continued)

Impact of COVID-19 (continued)

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, 2021, 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, 2021.

(b) Approval of the condensed interim consolidated financial statements

The condensed interim consolidated financial statements of the Company for the nine-month period ended May 31, 2022 were approved and authorized for issuance by the Board of Directors on July 28, 2022.

(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 condensed interim consolidated statements of loss and comprehensive loss are translated at the average exchange rates for the period. The exchange differences arising on translation for consolidation purposes are recognized in other comprehensive income.

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Nine Months Ended May 31, 2022 and 2021
(Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (continued)

(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.

The 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.

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 payments

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 the Company's historical share prices, 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.

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Nine Months Ended May 31, 2022 and 2021
(Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (continued)

(d) Use of accounting estimates and judgements (continued)

Intangible assets – Treatment and Recoverability (continued)

Intangible assets not being amortized are tested annually for impairment, and 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 judgment 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.

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.

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Nine Months Ended May 31, 2022 and 2021
(Expressed in Canadian dollars)

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 banks, 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 and Australia. 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 May 31, 2022, the Company had a working capital of \$210,322 compared to working capital at August 31, 2021 of \$3,886,947. This included cash and cash equivalents of \$872,841 (August 31, 2021 - \$2,411,163) available to meet short-term business requirements and current liabilities of \$1,347,602 (August 31, 2021 - \$1,022,314).

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. Cash equivalents, totaling \$600,000, consists of a GIC held at banking institutions that bears interest at 0.2% and matures on June 14, 2022. Restricted cash equivalents consist of GICs held at banking institutions that bear interest at prime less 2.65% and matures on April 21, 2023.

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.

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Nine Months Ended May 31, 2022 and 2021
(Expressed in Canadian dollars)

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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\$"), Euros, British Pound Sterling and Swedish Krona ("KR") and other operating expenses that are mainly in Canadian dollars ("CAD\$").

The Company holds funds in its Australian subsidiary in AUS\$ and may fund additional cash calls to this foreign subsidiary in the future. 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 May 31, 2022, the Company had monetary assets of US\$27 or \$34 (August 31, 2021 - US\$19,796 or \$24,976) at the CAD equivalent and monetary liabilities of US\$51,793 or \$65,508 (August 31, 2021 - US\$78,289 or \$98,777) 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 \$6,547 (August 31, 2021 - \$7,380).

As at May 31, 2022, the Company had monetary assets of AUD\$600,885 or \$545,483 (August 31, 2021 - AUD\$2,685,541 or \$2,478,217) at the CAD equivalent and monetary liabilities of AUD\$426,407 or \$387,092 (August 31, 2021 - AUD\$638,313 or \$589,035) at the CAD equivalent. The Company's sensitivity analysis suggests that a change in the absolute rate of exchange in AUD\$ by 10% will increase or decrease other comprehensive loss by approximately \$15,839 (August 31, 2021 - \$188,918).

As at May 31, 2022, the Company had monetary liabilities of KR\$114,900 or \$14,845 (August 31, 2021 - KR\$nil or \$nil) at the CAD equivalent. The Company's sensitivity analysis suggests that a change in the absolute rate of exchange in KR by 10% will increase or decrease other comprehensive loss by approximately \$1,485 (August 31, 2021 - \$nil).

As at May 31, 2022 and August 31, 2021, the Company did not have any significant monetary assets or liabilities denominated in Euros or British Pound Sterling.

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).

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Nine Months Ended May 31, 2022 and 2021
(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		Financial Assets		Financial Liabilities	
	Fair Value Through Profit		Measured at Amortized Cost		Measured at Amortized Cost	
May 31, 2022						
Cash and cash equivalents	\$	872,841	\$	-	\$	-
Accounts receivable		-		1,214		-
Restricted cash equivalents		57,500		-		-
Accounts payable and accrued liabilities	\$	-	\$	-	\$	(1,347,602)
August 31, 2021						
Cash and cash equivalents	\$	2,411,163	\$	-	\$	-
Accounts receivable		-		484		-
Restricted cash equivalents		57,500		-		-
Accounts payable and accrued liabilities	\$	-	\$	-	\$	(1,022,314)

5. ACCOUNTS RECEIVABLE

	May 31, 2022	August 31, 2021
Accrued interest receivable	\$ 1,214	\$ 484
GST receivable	80,534	74,253
Other receivable ⁽¹⁾	427,577	2,220,145
	\$ 509,325	\$ 2,294,882

(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 May 31, 2022, cash refundable of \$427,577 (August 31, 2021 - \$2,220,145) is recognized as a recovery of R&D expenditures over the relevant periods to match it with the related expenditures.

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
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6. PREPAID EXPENSES

	May 31, 2022	August 31, 2021
Board of Directors fees (note 10)	\$ 48,199	\$ -
Consulting	835	1,637
Marketing	80,817	115,956
Office and general	13,128	27,933
Professional fees – legal retainer	-	16,884
Research and development	13,978	26,799
Shareholders communications	18,801	14,007
	\$ 175,758	\$ 203,216

7. RESTRICTED CASH EQUIVALENTS

As at May 31, 2022 and August 31, 2021, the Company classified \$57,500 as restricted cash equivalents. This amount is held as collateral for the Company's corporate credit cards and is invested in GICs at a rate of prime less 2.65%.

8. INTANGIBLE ASSETS

	Acquisition of Nash Pharma ⁽¹⁾	Trademark Application Costs ⁽²⁾	In-licensed Patents ⁽³⁾	Patent Application Costs ⁽⁴⁾	Total
Cost					
Balance, August 31, 2020	\$ 4,862,756	\$ 13,228	\$ -	\$ 152,259	\$ 5,028,243
Additions	-	1,204	-	141,424	142,628
Balance, August 31, 2021	\$ 4,862,756	\$ 14,432	\$ -	\$ 293,683	\$ 5,170,871
Additions	-	-	37,358	86,442	123,800
Balance, May 31, 2022	\$ 4,862,756	\$ 14,432	\$ 37,358	\$ 380,125	\$ 5,294,671

	Acquisition of Nash Pharma ⁽¹⁾	Trademark Application Costs ⁽²⁾	In-licensed Patents ⁽³⁾	Patent Application Costs ⁽⁴⁾	Total
Accumulated Amortization					
Balance, August 31, 2020	\$ -	\$ -	\$ -	\$ -	\$ -
Balance, August 31, 2021	\$ -	\$ -	\$ -	\$ -	\$ -
Amortization	-	-	(6,554)	-	(6,554)
Balance, May 31, 2022	\$ -	\$ -	\$ (6,554)	\$ -	\$ (6,554)

	Acquisition of Nash Pharma ⁽¹⁾	Trademark Application Costs ⁽²⁾	In-licensed Patents ⁽³⁾	Patent Application Costs ⁽⁴⁾	Total
Net Book Value					
Balance, August 31, 2021	\$ 4,862,756	\$ 14,432	\$ -	\$ 293,683	\$ 5,170,871
Balance, May 31, 2022	\$ 4,862,756	\$ 14,432	\$ 30,804	\$ 380,125	\$ 5,288,117

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Notes to Unaudited Condensed Interim Consolidated Financial Statements
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8. INTANGIBLE ASSETS (continued)

- (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 trademark applications for the name "ALGERNON". No amortization was taken.
- (3) The Company in-licensed an issued patent relating its oncology program, for an up-front payment of \$37,358 including up-front license fees and patent filing costs reimbursed, and is amortizing the patents based on its estimated useful life of 4.75 years. The Company recorded \$6,554 of amortization within research and development expenses on the unaudited condensed interim consolidated statement of loss and comprehensive loss for the nine-months ended May 31, 2022 (2021 - \$nil)
- (4) The Company has filed new method of use patents for lead compounds for treatment of six new disease areas: NASH, CKD, IBD, IPF, chronic cough and stroke. In addition to method of use, the applications for the stroke lead compounds also includes claims for composition of matter as well as formulations, dosages and devices. The likelihood of the application success is not known. No amortization was taken as the assets are not available for use.

9. SHARE CAPITAL AND RESERVES

Share capital

Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at May 31, 2022, there were 1,674,868 (August 31, 2021 - 1,674,868) common shares issued and outstanding. Details of common shares are as follows:

During the nine-month period ended May 31, 2022:

- There were no shares issued during the nine-month period ended May 31, 2022.

During the nine-month period ended May 31, 2021:

- On March 5, 2021, the Company completed a private placement of 112,600 units of the Company at a price of \$25.00 per unit for gross proceeds of \$2,815,010 (the "March 2021 Offering"). Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at the price of \$40.00 for a period of 24 months after the closing date until March 5, 2023.

The fair value of the share purchase warrants was valued using the relative fair value approach and the Black-Scholes option pricing model with the following inputs on date of issuance: share listed price of \$27.00, exercise price of the warrant of \$40.00; expected life of 2 years; expected volatility of 139.92%; risk-free rate of return of 0.29%; and expected dividend yield of 0%. The fair value of the share purchase warrant was determined to be \$1,069,286.

In connection with the private placement, the Company issued a total of 6,456 finders' warrants, being 8% of the number of units sold under the March 2021 Offering to purchasers introduced by eligible finders. Each finders' warrant entitles the holder to purchase one common share until March 5, 2023. The Company also paid cash finders fees in the aggregate amount of \$161,400, being 8% of the aggregate proceeds raised from the sale of units to purchasers introduced by the eligible finders.

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9. SHARE CAPITAL AND RESERVES (continued)

Share capital (continued)

The fair value of the finders' warrants was valued using the Black-Scholes option pricing model with the same inputs listed above. The fair value of the finder' warrants was determined to be \$106,769. The total fair value of the warrants associated with the units of the March 2021 Offering and the fair value of the finders warrants issued was \$1,176,055.

- 21,826 common shares were issued net of withholding taxes in settlement of the 28,710 restricted share units ("RSUs) that were settled. The RSUs were granted on July 23, 2020 with a fair value of \$35.00 per RSU. The total gross fair value of the vested RSUs was \$1,012,814. A total of 6,885 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.
- A total of 148,675 common shares were issued in connection with the exercise of tradeable and non-tradeable warrants.

72,568 common shares were issued in connection with the exercise of 72,568 tradeable warrants at a price of \$12.00 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.

76,107 common shares were issued in connection with the exercise of 76,107 non-tradeable warrants at a price of \$12.00 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.

- 3,137 common shares were issued in connection with the exercise of 3,137 agent warrant units at a price of \$8.50 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.
- 5,250 common shares were issued in connection with the exercise of 5,250 stock options at \$10.00 per share for gross proceeds of \$52,500. The fair value allocated to these stock options on issuance of \$36,396 was reclassified from reserves to share capital.

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 Canadian Securities Exchange and other applicable regulatory authorities.

During the nine-month period ended May 31, 2022:

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9. SHARE CAPITAL AND RESERVES (continued)

Stock options (continued)

- On January 1, 2022, the Company granted a total of 96,000 incentive stock options to certain directors, officers, employees and consultants of the Company with an exercise price of \$4.10 per share. The options expire on January 1, 2027. The fair value of the incentive stock options were determined using a Black-Scholes valuation model, including the exercise price of \$4.10, risk-free rate of 1.25%, estimated life of five years, no dividend yield and a volatility of 128%. Of the incentive stock options granted, 79,750 vested immediately and 16,250 vest on January 1, 2023.
- There were no stock options exercised.
- During the nine months ended May 31, 2022 a total of 35,750 incentive stock options expired unexercised. The stock options expired had a weighted average exercise price of \$18.80 per share. The fair value allocated to these stock options on issuance of \$778,430 was reclassified from reserves to deficit.

During the nine-month period ended May 31, 2021:

- During the nine months ended May 31, 2021 a total of 17,875 incentive stock options expired following the resignation of an officer. The expired stock options had a weighted average exercise price of \$39.00 per share. The fair value allocated to these stock options on issuance of \$966,559 was reclassified from reserves to deficit.

The changes in stock options outstanding are as follows:

	Number of Stock Options	Weighted Average Exercise Price
Balance at August 31, 2020	107,375	\$ 24.00
Exercised	(5,250)	10.00
Expired	(18,625)	35.00
Balance outstanding and exercisable at August 31, 2021	83,500	\$ 22.00
Granted	96,000	4.10
Expired	(35,750)	21.62
Balance outstanding at May 31, 2022	143,750	\$ 10.84
Balance exercisable at May 31, 2022	127,500	\$ 11.70

As at May 31, 2022, the Company had the following stock options outstanding and exercisable:

Date of Grant	Date of Expiry	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
March 1, 2018	March 1, 2023	3,000	\$ 48.00	0.75
February 13, 2020	February 13, 2025	25,000	\$ 10.00	2.71
April 13, 2020	April 13, 2025	20,250	\$ 29.00	2.87
August 17, 2020	August 17, 2025	6,000	\$ 35.00	3.21
January 1, 2022	January 1, 2027	89,500	\$ 4.10	4.59
Total outstanding		143,750	\$ 10.84	3.58
Total exercisable		127,500	\$ 11.70	3.51

There are 16,250 unvested stock options with an exercise price of \$4.10 that vest on January 1, 2023.

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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 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 nine-month period ended May 31, 2022:

- There were no RSUs granted, forfeited or issued.

During the nine-month period ended May 31, 2021:

- On September 29, 2020, a total of 10,686 of common shares were issued net of withholding taxes in settlement of the 14,355 RSUs that were vested. A total of 3,670 of common shares were withheld in lieu of withholding taxes in the amount of \$129,459.
- On February 9, 2021, a total of 11,140 of common shares were issued net of withholding taxes in settlement of the 14,355 RSUs that were vested on January 22, 2021. The RSUs were granted on July 23, 2020 with a fair value of \$35.00 per RSU. The total gross fair value of the vested RSUs was \$506,407. A total of 3,215 common shares were withheld in lieu of withholding taxes in the amount of \$85,518.
- Under the graded vesting method, at May 31, 2021, the fair value of the unvested RSUs was \$759,484 which was recognized as share-based payment for the nine months ended May 31, 2021.

The changes in RSUs outstanding are as follows:

	Number Outstanding	Number Vested	Number Unvested
Balance at August 31, 2020	43,500	14,355	29,145
Settled	(40,100)	(40,100)	-
Forfeited	(3,400)	(3,400)	-
Vested	-	29,145	(29,145)
Balance at August 31, 2021 and May 31, 2022	-	-	-

Share-based payments

(a) Stock options

- On January 1, 2022, the Company granted a total of 96,000 incentive stock options to certain directors, officers, employees and consultants of the Company with an exercise price of \$4.10 per share. The options expire on January 1, 2027. The Company recorded \$301,980 of share-based payments pertaining to incentive stock options on the unaudited condensed interim consolidated statement of loss and comprehensive loss for the nine-months ended May 31, 2022.
- A total of 89,250 stock options with a weighted average exercise price of \$20.00 per share were granted during the nine months ended May 31, 2020. All vested immediately except for 1,000 options that were vested subsequently on October 13, 2020. Under the graded vesting method, \$10,516 was recognized as share-based payment for the nine months ended May 31, 2021.

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9. SHARE CAPITAL AND RESERVES (continued)

Share-based payments

(b) Restricted Share Units

- No RSUs were granted, settled or forfeited during the nine-month period ended May 31, 2021. There was no share-based payment recognized for new RSU grants during the nine-month period ended May 31, 2022.
- On September 29, 2020, a total of 10,686 of common shares were issued net of withholding taxes in settlement of the 14,355 RSUs that were settled. The RSUs were granted on July 23, 2020 with a fair value of \$35.00 per RSU. The total gross fair value of the vested RSUs was \$506,407. A total of 3,670 common shares were withheld in lieu of withholding taxes in the amount of \$129,459.
- On February 9, 2021, a total of 11,140 of common shares were issued net of withholding taxes in settlement of the 14,355 RSUs that were vested on January 22, 2021. The RSUs were granted on July 23, 2020 with a fair value of \$35.00 per RSU. The total gross fair value of the vested RSUs was \$506,407. A total of 3,215 common shares were withheld in lieu of withholding taxes in the amount of \$85,518.
- Under the graded vesting method, at May 31, 2021, the fair value of the unvested RSUs was \$759,484 which was recognized as share-based payment for the nine months ended May 31, 2021.

Overall, during the period ended May 31, 2022, the Company recorded a total of \$301,980 (May 31, 2021 - \$770,000) of share-based payment expense for its reserves.

Share purchase warrants

The changes in warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance at August 31, 2020	446,309	\$ 34.00
Issued	122,194	\$ 39.00
Exercised	(148,675)	\$ 12.00
Expired	(63,158)	\$ 33.00
Balance at August 31, 2021	356,670	\$ 44.98
Expired	(196,136)	\$ 54.98
Balance at May 31, 2022	160,534	\$ 32.77

As at May 31, 2022, the Company had the following warrants outstanding:

Date of Expiry	Exercise Price	Number of Warrants	Weighted Average Remaining Life in Years
August 20, 2022	\$ 12.00	41,478	0.22
March 5, 2023	\$ 40.00	119,056	0.76
Total	\$ 32.77	160,534	0.62

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9. SHARE CAPITAL AND RESERVES (continued)

Agent warrant units

The changes in agent warrant units outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance at August 31, 2020	18,571	\$ 30.00
Exercised	(3,138)	\$ 8.50
Balance at August 31, 2021	15,433	\$ 34.35
Expired	(15,433)	\$ (34.35)
Balance at May 31, 2022	-	\$ -

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:

Nine months ended	May 31, 2022	May 31, 2021
Short-term benefits ⁽¹⁾	\$ 464,716	\$ 396,500
Consulting fees – other ⁽²⁾	-	11,750
Share-based payments ⁽³⁾	281,435	650,546
Rent ⁽⁴⁾	9,000	27,000
	\$ 755,151	\$ 1,085,796

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

- \$165,000 (May 31, 2021 - \$165,000) to Chief Executive Officer;
- \$75,000 (May 31, 2021 - \$90,000) to the Chief Financial Officer who resigned as Chief Financial Officer effective December 1, 2021, including \$45,000 pertaining to a severance payment.
- \$72,500 (May 31, 2021 - \$nil) to Chief Financial Officer, who was appointed effective December 1, 2021;
- \$nil (May 31, 2021 - \$100,000) to Chief Science Officer;
- \$97,500 (May 31, 2021 - \$32,500) to the Vice President Research and Operations
- \$23,849 (May 31, 2022 - \$nil) to the Chairman and independent director;
- \$12,000 (May 31, 2021 - \$nil) to an independent director;
- \$9,500 (May 31, 2021 - \$4,500) to an independent director;
- \$3,000 (May 31, 2021 - \$4,500) to an independent director, who ceased to be a director of the Company on February 28, 2022.
- \$6,367 (May 31, 2021 - \$nil) to an independent director, who was elected to the board of directors on February 28, 2022.

⁽²⁾ For the nine-months ended May 31, 2021, \$11,750 was paid to a partnership where a former senior officer and director was a partner for tax services.

⁽³⁾ Share-based payments for the nine-months ended May 31, 2022 were non-cash items that consisted of the fair value of the stock options that granted on January 1, 2022. Share-based payments for the nine-months ended May 31, 2021 were non-cash items that consisted of the fair value of RSUs that were granted but unvested.

⁽⁴⁾ Rent consists of \$9,000 (May 31, 2021 - \$27,000) paid for corporate office space to a company where a senior officer until November 30, 2021 and director until September 22, 2021 is a principal. Beginning December 1, 2021, this former senior officer and director is no longer a related party of the Company

As at May 31, 2022, there was \$2,530 (August 31, 2021 - \$111) due to related parties which was recorded within accounts payable and accrued liabilities, which are unsecured, non-interest bearing and due on demand and \$48,199 (August 31, 2021 - \$nil) recorded within prepaid expenses pertaining to prepaid board of directors fees.

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11. 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 nine-month period ended May 31, 2022. The Company is not subject to externally imposed capital requirements.

12. 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:

As at May 31, 2022, the Company's long-term assets are located as follows:

	Canada	Australia	Total
Restricted cash equivalents	\$ 57,500	\$ -	\$ 57,500
Intangible assets	5,288,117	-	5,288,117
	\$ 5,345,617	\$ -	\$ 5,345,617

As at August 31, 2021, the Company's long-term assets were located as follows:

	Canada	Australia	Total
Restricted cash equivalents	\$ 57,500	\$ -	\$ 57,500
Intangible assets	5,170,871	-	5,170,871
	\$ 5,228,371	\$ *	\$ 5,228,371

13. SUBSEQUENT EVENTS

Subsequent to May 31, 2022, the Company issued 309,117 units (the "Units") at a price of \$3.75 per Unit for gross proceeds of \$1,159,189 upon the closing of a marketed public offering (the "Offering") with an Agent (the "Agent"). Each Unit consisted of one Class a common share of the Company (a "Common Share") and one Common Share purchase warrant (a "Warrant") of the Company. Each Warrant entitles the holder thereof, subject to adjustment in certain circumstances, to purchase one Common Share (a "Warrant Share") at an exercise price equal to \$4.70 per Warrant Share (the "Warrant Exercise Price") for a period of five years following the date of issuance (the "Expiry Date"), subject to acceleration of the expiry date.

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13. SUBSEQUENT EVENTS (continued)

In the event of a down-round financing during the period of five years following closing of the Offering (a “Dilutive Issuance”), the Warrants contain an anti-dilution protection feature, to adjust the Warrant Exercise Price and increase the number of Warrant Shares issuable thereunder if Common Shares are sold or issued for a consideration per share less than the Warrant Exercise Price (subject to certain exemptions), provided, that the exercise price will not be less than \$1.875 (the “Floor Price”).

Provided that if, at any time prior to the expiry date of the Warrants, the volume weighted average trading price of the Common Shares on the Canadian Securities Exchange, or other principal exchange on which the Common Shares are listed, is greater than \$14.10 for 20 consecutive trading days, the Company may, within 10 business days of the occurrence of such event, deliver a notice to the holders of Warrants accelerating the Expiry Date of the Warrants to the date that is not less than 30 days following the date of such notice and the issuance of a press release by the Company announcing the acceleration notice (the “Accelerated Exercise Period”). Any unexercised Warrants shall automatically expire at the end of the Accelerated Exercise Period.

In connection with the Offering, the Company issued a total of 10,805 compensation warrants. Each compensation warrant entitles the holder to purchase one common share at a price of \$4.125 until July 4, 2027.

The Company granted to the Agent an option (the “Over-Allotment Option”) to increase the size of the Offering by up to an additional number of Units, and/or the components thereof, that in aggregate would be equal to 15% of the total number of the Offered Securities to be issued under the Offering, to cover over-allotments, if any, and for market stabilization purposes, exercisable at any time and from time to time up to 30 days following the closing of the Offering.

The Offering included cash commissions, payable to the Agent, of eight percent and compensation warrants of five percent, including from the exercise, if any, of the Over-Allotment Option, subject to a reduction for certain orders. In connection with the Offering, the Company issued a total of 610,805 compensation warrants that entitles the holder to purchase one common share for a price of \$4.125 for a five-year period ending July 4, 2027.

On certain purchasers, an additional eight percent cash commission and five percent compensation warrants, including from the exercise, if any, of the Over-Allotment Option for certain purchasers, could have been payable due to a prior agreement with an investment bank in the United States.

The net proceeds from the Offering of the Units will be used to fund research and development programs, general and administrative expenses and for working capital purposes.