

ALGERNON PHARMACEUTICALS INC.

Condensed Interim Consolidated Financial Statements (Unaudited)

For the three months ended November 30, 2022 and 2021
(Expressed in Canadian dollars)

ALGERNON PHARMACEUTICALS INC.

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

As at	Note	November 30, 2022	August 31, 2022
ASSETS			
Current assets			
Cash and cash equivalents	4	\$ 689,699	\$ 1,408,509
Accounts receivable	4,5	213,958	665,529
Prepaid expenses	6,10	418,910	753,060
Total current assets		1,322,567	2,827,098
Non-current assets			
Restricted cash equivalents	4,7	57,500	57,500
Intangible assets	8	5,293,443	5,256,159
Total non-current assets		5,350,943	5,313,659
TOTAL ASSETS		\$ 6,673,510	\$ 8,140,757
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	4,10	\$ 2,237,400	\$ 2,516,099
Total liabilities		2,237,400	2,516,099
Shareholders' equity			
Share capital	9	27,240,764	27,115,383
Reserves	9	4,307,540	3,733,188
Accumulated other comprehensive loss		(45,281)	(37,026)
Deficit		(27,066,913)	(25,186,887)
Total shareholders' equity		4,436,110	5,624,658
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 6,673,510	\$ 8,140,757

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 Bloomfield” (signed)
 Harry Bloomfield
 Director

ALGERNON PHARMACEUTICALS INC.Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

Three months ended November 30	Note	2022	2021
EXPENSES			
General and administrative	8,10	\$ 68,003	\$ 73,572
Marketing		578,295	142,698
Professional fees		44,135	103,327
Research and development	5,8,10	356,170	626,718
Salaries and benefits	10	174,472	222,152
Share-based payments	9,10	596,804	-
Shareholder communications		62,441	32,558
		1,880,320	1,201,025
Interest income		(294)	(465)
Net loss for the period		1,880,026	1,200,560
OTHER COMPREHENSIVE LOSS			
Item not classified into profit or loss:			
Foreign exchange loss on translation to reporting currency		8,255	21,766
Comprehensive loss for the period		\$ 1,888,281	\$ 1,222,326
Loss per common share			
Basic and fully diluted		\$ 0.79	\$ 0.72
Weighted average number of common shares outstanding		2,378,714	1,674,868

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)

Three months ended November 30	2022	2021
OPERATING ACTIVITIES		
Net loss for the period	\$ (1,880,026)	\$ (1,200,560)
Items not involving cash		
Share-based payments	596,804	-
Amortization	11,691	-
Unrealized foreign exchange loss	25,054	(9,256)
	(1,246,477)	(1,209,816)
Changes in non-cash operating working capital		
Accounts receivable	453,433	1,967,623
Prepaid expenses	334,150	(20,409)
Accounts payable and accrued liabilities	(348,245)	(398,468)
	(807,139)	338,930
INVESTING ACTIVITY		
Additions of intangible assets	(17,736)	(40,048)
	(17,736)	(40,048)
FINANCING ACTIVITIES		
Proceeds from warrants exercised	102,929	-
	102,929	-
Effect of exchange rate fluctuations on cash held	3,136	(12,989)
Decrease in cash and cash equivalents	(718,810)	285,893
Cash and cash equivalents, beginning of period	1,408,509	2,411,163
Cash and cash equivalents, end of period	\$ 689,699	\$ 2,697,056
Cash and cash equivalents are comprised of:		
Guaranteed Investment Certificates	\$ -	\$ 1,000,000
Cash	689,699	1,697,056
	\$ 689,699	\$ 2,697,056
Supplemental cash flow information		
Non-cash investing and financing activities:		
Intangible assets included in accounts payable	\$ 61,513	\$ 5,506
Fair value of warrants exercised	\$ 22,452	\$ -
Interest paid	\$ -	\$ -
Taxes paid	\$ -	\$ -

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

ALGERNON PHARMACEUTICALS INC.Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

	Number of Shares	Share Capital	Reserves	Accumulated Other Comprehensive Loss	Deficit	Total
Balance at August 31, 2021	1,674,868	\$ 25,849,846	\$ 6,826,581	\$ (14,764)	\$ (23,546,345)	\$ 9,115,318
Other comprehensive loss	-	-	-	(21,766)	-	(21,766)
Net loss for the period	-	-	-	-	(1,200,560)	(1,200,560)
Balance at November 30, 2021	1,674,868	\$ 25,849,846	\$ 6,826,581	\$ (36,530)	\$ (24,746,905)	\$ 7,892,992
Balance at August 31, 2022	2,357,885	\$ 27,115,383	\$ 3,733,188	\$ (37,026)	\$ (25,186,887)	\$ 5,624,658
Exercise of warrants	27,447	125,381	(22,452)	-	-	102,929
Share-based payments	-	-	596,804	-	-	596,804
Other comprehensive loss	-	-	-	(8,255)	-	(8,255)
Net loss for the period	-	-	-	-	(1,880,026)	(1,880,026)
Balance at November 30, 2022	2,385,332	\$ 27,240,764	\$ 4,307,540	\$ (45,281)	\$ (27,066,913)	\$ 4,436,110

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 Three Months Ended November 30, 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 – 1055 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 clinical trials. The Company’s lead compound is a drug called lfenprodil which is being investigated in clinical trials 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 as well as advancing a stroke program using N,N-Dimethyltryptamine (“DMT”). 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 was 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 November 30, 2022, the Company has an accumulated deficit of \$27,066,913 (August 31, 2022 - \$25,186,887) and for the three-month period then ended incurred a net loss of \$1,880,026 (November 30, 2021 - \$1,200,560). 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 to 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.

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Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended November 30, 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, 2022, 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, 2022.

(b) Approval of the condensed interim consolidated financial statements

The condensed interim consolidated financial statements of the Company for the three-month period ended November 30, 2022 were approved and authorized for issuance by the Board of Directors on January 27, 2023.

(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
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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 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 loss.

(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 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.

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
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4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk (continued)

At November 30, 2022, the Company had a working capital deficit of \$914,833 compared to working capital at August 31, 2022 of \$310,999. This included cash and cash equivalents of \$689,699 (August 31, 2022 - \$1,408,509) available to meet short-term business requirements and current liabilities of \$2,237,400 (August 31, 2022 - \$2,516,099).

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. Restricted cash equivalents consists of GICs held at banking institutions that bear interest prime less 2.65% and mature one year from the purchase date.

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

The Company holds funds in its Australian subsidiary in AUD\$ 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 November 30, 2022, the Company had monetary assets of US\$16,930 or \$22,870 (August 31, 2022 - US\$29,841 or \$39,125) at the CAD\$ equivalent and monetary liabilities of US\$465,209 or \$628,405 (August 31, 2022 - US\$508,797 or \$667,084) 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 comprehensive loss by approximately \$60,554 (August 31, 2022 - \$62,796).

As at November 30, 2022, the Company had monetary assets of AUD\$404,252 or \$367,667 (August 31, 2022 - AUD\$698,522 or \$627,832) at the CAD\$ equivalent and monetary liabilities of AUD\$689,437 or \$627,043 (August 31, 2022 - AUD\$668,260 or \$600,632) 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 comprehensive loss by approximately \$25,938 (August 31, 2022 - \$2,720).

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Notes to Unaudited Condensed Interim Consolidated Financial Statements
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4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(c) Foreign currency risk (continued)

As at November 30, 2022, the Company had monetary liabilities of \$22,209 Euros or \$31,075 (August 31, 2022 - \$161,764 Euros or \$212,898) at the CAD\$ equivalent. The Company's sensitivity analysis suggests that a change in the absolute rate of exchange in the Euro by 10% will increase or decrease comprehensive loss by approximately \$3,108 (August 31, 2022 - \$21,290).

As at November 30, 2022, the Company had monetary liabilities of GBP\$120,000 or \$194,316 (August 31, 2022 - GBP\$120,000 or \$182,892) at the CAD\$ equivalent. The Company's sensitivity analysis suggests that a change in the absolute rate of exchange in the GBP by 10% will increase or decrease comprehensive loss by approximately \$19,432 (August 31, 2022 - \$18,289).

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).

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	
November 30, 2022						
Cash and cash equivalents	\$	689,699	\$	-	\$	-
Restricted cash equivalents		57,500		-		-
Accounts receivable		-		775		-
Accounts payable and accrued liabilities	\$	-	\$	-	\$	(2,237,400)

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
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4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair Value (continued)

	Financial Assets	Loans and Receivables	Financial Liabilities
	Fair Value Through Profit	Measured at Amortized Cost	Measured at Amortized Cost
August 31, 2022			
Cash and cash equivalents	\$ 1,408,509	\$ -	\$ -
Restricted cash equivalents	57,500	-	-
Accounts receivable	-	481	-
Accounts payable and accrued liabilities	\$ -	\$ -	\$ (2,516,099)

5. ACCOUNTS RECEIVABLE

	November 30, 2022	August 31, 2022
Accrued interest receivable	\$ 775	\$ 481
GST receivable	64,690	128,296
Other receivable ⁽¹⁾	148,493	536,752
	\$ 213,958	\$ 665,529

(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 November 30, 2022, cash refundable of \$148,493 (August 31, 2022 - \$536,752) is recognized as a recovery of R&D expenditures over the relevant periods to match it with the related expenditures.

6. PREPAID EXPENSES

	November 30, 2022	August 31, 2022
Board of directors' fees	\$ 16,067	\$ 32,132
Conferences	-	5,037
Consulting	896	859
Marketing ⁽¹⁾	344,102	676,252
Office and general	24,076	8,633
Professional fees – legal retainer	15,154	1,584
Research and development	9,630	14,670
Shareholders communications	8,985	13,893
	\$ 418,910	\$ 753,060

(1) On July 4, 2022, the Company entered into a twelve-month marketing agreement with a third party for \$200,000 USD, whose founder participated in the Company's Unit offering completed on July 4, 2022 for 102,700 units at a price of \$3.75 per unit for total proceeds of \$385,125. As at November 30, 2022, there is \$158,411 recorded within prepaid expenses pertaining to this contract (August 31, 2022 - \$245,470).

7. RESTRICTED CASH EQUIVALENTS

As at November 30, 2022 and August 31, 2022, 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%.

ALGERNON PHARMACEUTICALS INC.

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

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, 2021	\$ 4,862,756	\$ 14,432	\$ -	\$ 293,683	\$ 5,170,871
Additions	-	1,291	50,292	105,120	156,703
Write-downs	-	-	-	(36,479)	(36,479)
Balance, August 31, 2022	\$ 4,862,756	\$ 15,723	\$ 50,292	\$ 362,324	\$ 5,291,095
Additions	-	-	-	48,975	48,975
Balance, November 30, 2022	\$ 4,862,756	\$ 15,723	\$ 50,292	\$ 411,299	\$ 5,340,070

	Acquisition of Nash Pharma ⁽¹⁾	Trademark Application Costs ⁽²⁾	In-licensed Patents ⁽³⁾	Patent Application Costs ⁽⁴⁾	Total
Accumulated Amortization					
Balance, August 31, 2021	\$ -	\$ -	\$ -	\$ -	\$ -
Amortization	-	(1,572)	(9,598)	(23,766)	(34,936)
Balance, August 31, 2022	\$ -	\$ (1,572)	\$ (9,598)	\$ (23,766)	\$ (34,936)
Amortization	-	(393)	(5,200)	(6,098)	(11,691)
Balance, November 30, 2022	\$ -	\$ (1,965)	\$ (14,798)	\$ (29,864)	\$ (46,627)

	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 August 31, 2022	\$ 4,862,756	\$ 14,151	\$ 40,694	\$ 338,558	\$ 5,256,159
Balance, November 30, 2022	\$ 4,862,756	\$ 13,758	\$ 35,494	\$ 381,435	\$ 5,293,443

- (1) On October 19, 2018, the Company completed the acquisition transaction of Nash Pharma. No amortization was taken on the intangibles acquired as the assets with finite life are not available for use. On an annual basis, the intangibles with finite life including those not available for use, are reviewed for impairment or more frequently if there are indicators of impairment. The Company will impair or write-off the intangible assets related to the acquisition of Nash Pharma when the recoverable value is less than the carrying value. The Nash Pharma intangibles are tested annually for impairment at August 31.
- (2) The Company has filed trademark applications for the name "ALGERNON". During the year ended August 31, 2022, the Company changed its estimate in relation to the useful life of trademarks and began to amortize the trademarks over their estimated useful life of ten years. The Company recorded \$393 of amortization within general and administrative expenses on the condensed interim consolidated statement of loss and comprehensive loss for the three months ended November 30, 2022 (2021 - \$nil).
- (3) The Company in-licensed an issued patent relating its oncology program, for payments including up-front and annual 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 \$5,200 of amortization within research and development expenses on the condensed interim consolidated statement of loss and comprehensive loss for the three months ended November 30, 2022 (2021 - \$nil).

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8. INTANGIBLE ASSETS (continued)

- (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. During the year ended August 31, 2022, the Company changed its estimate in relation to the useful life of patent application costs and began to amortize these costs over their remaining estimated useful life representing the remaining months to expiration of the associated patent. The Company recorded \$6,098 of amortization within research and development expenses on the condensed interim consolidated statement of loss and comprehensive loss for the three months ended November 30, 2022 (2021 - \$nil).

9. SHARE CAPITAL AND RESERVES

Share capital

Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at November 30, 2022, there were 2,385,332 (August 31, 2022 - 2,357,885) common shares issued and outstanding. Details of common shares are as follows:

During the three-month period ended November 30, 2022:

- There were 27,447 common shares issued during the three months ended November 30, 2022 as a result of the exercise of warrants resulting in gross proceeds to the Company of \$102,929.

During the three-month period ended November 30, 2021:

- There were no common shares issued during the three months ended November 30, 2021.

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 ("CSE") and other applicable regulatory authorities.

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

The changes in stock options outstanding are as follows:

	Number of Stock Options	Weighted Average Exercise Price
Balance at August 31, 2021	83,500	\$ 22.00
Granted	188,000	\$ 4.73
Expired	(35,750)	\$ (18.80)
Balance outstanding at August 31, 2022	235,750	\$ 8.71
Balance outstanding at November 30, 2022	235,750	\$ 8.71
Balance exercisable at November 30, 2022	173,500	\$ 10.03

As at November 30, 2022, the Company had the following stock options outstanding and exercisable:

Date of Grant	Date of Expiry	Number Outstanding	Exercise Price	Remaining Life in Years
March 1, 2018	March 1, 2023	3,000	\$ 48.00	0.25
February 13, 2020	February 13, 2025	25,000	\$ 10.00	2.21
April 13, 2020	April 13, 2025	20,250	\$ 29.00	2.37
August 17, 2020	August 17, 2025	6,000	\$ 35.00	2.71
January 1, 2022	January 1, 2027	89,500	\$ 4.10	4.09
August 31, 2022	August 31, 2027	92,000	\$ 5.39	4.75
Total outstanding		235,750	\$ 8.71	3.92
Total exercisable		173,500	\$ 10.03	3.68

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.

The changes in RSUs outstanding are as follows:

	Number Outstanding	Number Vested	Number Unvested
Balance at August 31, 2021	-	-	-
Granted	221,000	-	221,000
Balance at August 31, 2022	221,000	-	221,000
Balance at November 30, 2022	221,000	-	221,000

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9. SHARE CAPITAL AND RESERVES (continued)

Share-based payments

(a) Stock options

- No stock options were granted during the three months ended November 30, 2022 and 2021.
- Under the graded vesting method, share-based payments recognized for previously granted, unvested stock options in the three months ended November 30, 2022 totaled \$122,020 (2021 - \$nil).

(b) Restricted Share Units

- No RSUs were granted, settled or forfeited during the three months ended November 30, 2022 or 2021.
- Under the graded vesting method, share-based payments recognized for previously granted, unvested RSUs in the three months ended November 30, 2022 totaled \$474,784 (2021 - \$nil).

Overall, during the three months ended November 30, 2022, the Company recorded a total of \$596,804 (2021 - \$nil) of share-based payment expense.

Share purchase warrants

The changes in warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance at August 31, 2021	356,670	\$ 46.00
Issued	683,017	\$ 4.45
Expired	(237,614)	\$ 47.48
Balance at August 31, 2022	802,073	\$ 9.36
Exercised	(21,900)	\$ 3.75
Balance at November 30, 2022	780,173	\$ 9.52

As at November 30, 2022, the Company had the following warrants outstanding:

Date of Expiry	Exercise Price	Number of Warrants	Weighted Average Remaining Life in Years
March 5, 2023	\$ 40.00	119,056	0.26
July 4, 2027 ⁽¹⁾	\$ 3.75	287,217	4.59
August 22, 2027	\$ 4.25	373,900	4.73
Total	\$ 9.52	780,173	4.00

- (1) The terms of the warrants issued on July 4, 2022 pursuant to the July 2022 Offering were amended as a result of anti-dilution provisions contained in those warrants. The July 2022 Offering consisted of one common share and one warrant. Upon issuance, the warrants were exercisable at a price of \$4.70 per warrant and included anti-dilution provisions in the case of a "dilutive issuance to reduce the exercise price of the warrants and increase the number of shares issuable thereunder, if common shares are sold or issued for consideration per share less than the warrant exercise price, subject to certain exceptions."

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9. SHARE CAPITAL AND RESERVES (continued)

Warrants (continued)

On August 22, 2022, the Company closed the August 2022 Offering at a price of \$3.75 per unit. The August 2022 Offering resulted in a dilutive issuance and the exercise price of the warrants issued in the July 2022 Offering was reduced to \$3.75 per share and the number of shares issuable under each warrant was increased such that the aggregate exercise price payable after taking into account the decrease in the exercise price shall be equal to the aggregate exercise price prior to the adjustment. These 309,117 warrants are now exercisable at a price of \$3.75 per common share for approximately 387,426 common shares, subject to the rounding down of each warrant exercise.

During the three months ended November 30, 2022, 21,900 of these warrants were exercised resulting in the issuance of 27,447 common shares for gross proceeds to the \$102,929.

Agent warrant units

The changes in agent warrant units outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance at August 31, 2021	15,432	\$ 34.30
Issued	31,325	\$ 4.125
Expired	(15,432)	\$ (34.30)
Balance at August 31, 2022 and November 30, 2022	31,325	\$ 4.125

As at November 30, 2022, 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
July 4, 2027	\$ 4.125	10,845	4.59
August 22, 2027	\$ 4.125	20,480	4.73
Total	\$ 4.125	31,325	4.68

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:

Three months ended November 30	2022	2021
Short-term benefits ⁽¹⁾	\$ 152,808	\$ 171,100
Consulting fees – other ⁽²⁾	5,750	-
Share-based payments ⁽³⁾	474,357	-
Rent ⁽⁴⁾	-	9,000
	\$ 632,915	\$ 180,100

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

- (1) Salaries paid to officers and directors fees to independent directors:
- \$55,000 (November 30, 2021 - \$55,000) to Chief Executive Officer;
 - \$30,000 (November 30, 2021 - \$nil) to Chief Financial Officer, who was appointed effective December 1, 2021;
 - \$nil (November 30, 2021 - \$75,000, including \$45,000 pertaining to a severance payment) to the Chief Financial Officer who resigned as Chief Financial Officer effective December 1, 2021.
 - \$32,500 (November 30, 2021 - \$32,500) to the Vice President Research and Operations
 - \$12,250 (November 30, 2021 - \$5,600) to Chairman and independent director;
 - \$7,500 (November 30, 2021 - \$nil) to an independent director;
 - \$7,500 (November 30, 2021 - \$1,500) to an independent director;
 - \$8,058 (November 30, 2021 - \$nil) to an independent director, who was elected to the board of directors on February 28, 2022;
 - \$nil (November 30, 2021 - \$1,500) to an independent director, who ceased to be a director of the Company on February 28, 2022.
- (2) For the three months ended November 30, 2022, \$750 (2021 - \$nil) was paid to a partnership where the Chairman and independent director was a partner for corporate secretarial services. For the three months ended November 30, 2022, \$5,000 (2021 - \$nil) was paid to an independent director pertaining to scientific consulting services provided to the Company.
- (3) Share-based payments for the three months ended November 30, 2022 were non-cash items that consisted of the fair value of the stock options and RSUs that were granted to key management personnel including members of the Board of Directors, but unvested during the three months ended November 30, 2022.
- (4) Rent:
For the three months ended November 30, 2021, \$9,000 was paid for corporate office space to a company where a senior officer until December 1, 2021 and director until September 22, 2021 was a principal.

Accounts payable and accrued liabilities include the following amounts due to related parties:

As at	November 30, 2022	August 31, 2022
Key management personnel – bonuses	\$ 100,500	\$ 268,000
Key management personnel – directors fees	5,403	5,244
Key management personnel – consulting fees	-	788
Total	\$ 105,903	\$ 274,032

The amounts recorded within accounts payable and accrued liabilities that are due to related parties are unsecured, non-interest bearing and due on demand.

Prepaid expenses as at November 30, 2022, includes \$16,067 (August 31, 2022 - \$32,132) pertaining to prepaid board of directors fees.

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 three months ended November 30, 2022. The Company is not subject to externally imposed capital requirements.

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12. SEGMENTED DISCLOSURES

The Company is a Canadian clinical stage pharmaceutical development company that operates in two reportable operating segments: 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 November 30, 2022, the Company's long-term assets are located as follows:

	Canada	Australia	Total
Restricted cash equivalents	\$ 57,500	\$ -	\$ 57,500
Intangible assets	5,293,443	-	5,293,443
	\$ 5,350,943	\$ -	\$ 5,350,943

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

	Canada	Australia	Total
Restricted cash equivalents	\$ 57,500	\$ -	\$ 57,500
Intangible assets	5,256,159	-	5,256,159
	\$ 5,313,659	\$ -	\$ 5,313,659

13. SUBSEQUENT EVENTS

Subsequent to November 30, 2022:

On December 9, 2022, the Company established Algernon NeuroScience Inc. ("AGN Neuro"), a wholly-owned subsidiary to advance the Company's DMT stroke research program and completed an asset transfer and trademark license agreement, on December 20, 2022, to transfer all of the assets of the DMT research program into AGN Neuro in exchange for 20,000,000 common shares of AGN Neuro.

AGN Neuro subsequently filed a Form 1-A offering statement with the U.S. Securities and Exchange Commission (the "SEC"), seeking qualification to raise up to USD \$10 million for AGN Neuro by offering up to 37.5% of its common shares, (including the maximum amount of bonus shares offered under the offering statement) under a Tier II Regulation A+ offering (Reg A+).

AGN Neuro adopted a Stock Option Plan (the "AGN Neuro Plan") on December 20, 2022. Under the AGN Neuro Plan, shares of AGN Neuro are authorized for issuance to employees, officers, directors, consultants and Algernon employees in an amount up to 10% of the issued and outstanding common shares of the AGN Neuro. To date, no stock options have been granted under the AGN Neuro Plan.

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13. SUBSEQUENT EVENTS (continued)

On December 23, 2022, the Company entered into an equity distribution agreement (the “Distribution Agreement”) with Research Capital Corporation (the “Agent”). Under the Distribution Agreement, the Company will be entitled, at its discretion and from time-to-time during the term of the Distribution Agreement, to sell, through the Agent, as sole and exclusive placement agent, such number of common shares of the Company having an aggregate gross sales price of up to \$5.0 million (the “ATM Offering”). The shares will be distributed at market prices or prices related to prevailing market prices from time to time. As a result, prices of the shares sold under the ATM Offering will vary as between purchasers and during the period of distribution. The ATM Offering will be effective until the earlier of the issuance and sale of all of the shares issuable pursuant to the ATM Offering and June 6, 2023, unless terminated prior to such date by the Company or the Agent in accordance with the terms of the Distribution Agreement.

Subsequent to November 30, 2022, the Company has sold 2,100 common shares through the ATM Offering with gross proceeds of \$4,641.

The Company also issued 25,999 common shares to directors and consultants of the Company pertaining to RSUs that vested on January 1, 2023.