ALGERNON PHARMACEUTICALS INC.

Consolidated Financial Statements

For the years ended August 31, 2023 and 2022
(Expressed in Canadian dollars)

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ALGERNON PHARMACEUTICALS INC.

Opinion

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

- the consolidated statements of financial position as at August 31, 2023 and 2022;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at August 31, 2023 and 2022, and its consolidated financial performance and consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $6,781,200 during the year ended August 31, 2023 and, as of that date, the Company's accumulated deficit is $30,792,342. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined that there are no key audit matters to communicate in our auditors' report.

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Other Information

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
December 28, 2023

SMYTHE LLP | smythecpa.com

VANCOUVER
1700–475 Howe St
Vancouver, BC V6C 2B3
T: 604 687 1231
F: 604 688 4675

LANGLEY
600–19933 88 Ave
Langley, BC V2Y 4K5
T: 604 282 3600
F: 604 357 1376

NANAIMO
201–1825 Bowen Rd
Nanaimo, BC V9S 1H1
T: 250 755 2111
F: 250 984 0886

ALGERNON PHARMACEUTICALS INC.

Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

As at	Note	August 31, 2023	August 31, 2022
ASSETS			
Current assets			
Cash and cash equivalents	*4*	$ 125,085	$ 1,408,509
Accounts receivable	*4,5*	96,056	665,529
Prepaid expenses	*6,11*	118,688	753,060
Total current assets		339,829	2,827,098
Non-current assets			
Restricted cash equivalents	*4,7*	57,500	57,500
Intangible assets	*8*	3,796,370	5,256,159
Total non-current assets		3,853,870	5,313,659
TOTAL ASSETS		$ 4,193,699	$ 8,140,757
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	*4,11*	$ 2,719,760	$ 2,516,099
Total liabilities		2,719,760	2,516,099
Shareholders' equity			
Share capital	*9*	28,149,932	27,115,383
Reserves	*9*	4,148,624	3,733,188
Accumulated other comprehensive loss		(32,275)	(37,026)
Deficit		(30,792,342)	(25,186,887)
Total shareholders' equity		1,473,939	5,624,658
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 4,193,699	$ 8,140,757

Subsequent events (Note 15)

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

Approved on behalf of the Board:

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

"Harry Bloomfield" (signed)
Harry Bloomfield
Chairman and Director

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

Years ended August 31	Note	2023	2022
EXPENSES			
General and administrative	*8,11*	$ 236,765	$ 243,916
Marketing		1,260,704	729,798
Professional fees	*11*	494,286	924,464
Research and development	*5,8,12*	1,095,159	2,293,448
Salaries and benefits	*11*	688,122	1,065,739
Share-based payments	*9,11*	1,256,821	530,835
Shareholder communications		210,134	231,755
Write-down of intangible assets	*8*	1,541,306	36,479
		6,783,297	6,056,434
Interest income		(2,097)	(2,078)
Net loss for the year		6,781,200	6,054,356
OTHER COMPREHENSIVE LOSS			
Item not classified into profit or loss:			
Foreign exchange (gain) loss on translation to reporting currency		(4,751)	22,262
Comprehensive loss for the year		$ 6,776,449	$ 6,076,618
Loss per common share			
Basic and fully diluted		$ 0.45	$ 0.87
Weighted average number of common shares outstanding		15,147,365	6,952,539

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

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

Years ended August 31	2023	2022
OPERATING ACTIVITIES		
Net loss for the year	$ (6,781,200)	$ (6,054,356)
Items not involving cash		
Share-based payments	1,256,821	530,835
Amortization	50,398	34,936
Write-down of intangible assets	1,541,306	36,479
Investment banking fees paid with common shares	40,000	-
Unrealized foreign exchange loss/(gain)	73,950	(45,121)
	(3,818,725)	(5,497,227)
Changes in non-cash operating working capital		
Accounts receivable	567,802	1,614,491
Prepaid expenses	634,372	(549,844)
Accounts payable and accrued liabilities	63,543	1,519,839
	(2,553,008)	(2,912,741)
INVESTING ACTIVITY		
Additions of intangible assets	(59,500)	(144,608)
	(59,500)	(144,608)
FINANCING ACTIVITIES		
Proceeds from shares issued for cash, net of financing costs	1,225,980	2,055,123
Proceeds from warrants exercised	102,929	-
	1,328,909	2,055,123
Effect of exchange rate fluctuations on cash held	175	(428)
Decrease in cash and cash equivalents	(1,283,424)	(1,002,654)
Cash and cash equivalents, beginning of year	1,408,509	2,411,163
Cash and cash equivalents, end of year	$ 125,085	$ 1,408,509

	2023	2022
Supplemental cash flow information		
Non-cash investing and financing activities:		
Fair value of warrants issued with unit offering	$ 504,892	$ 789,586
Fair value of warrants expired	$ 1,069,286	$ 3,635,384
Fair value of stock options expired	$ 108,459	$ 778,430
Fair value of warrants exercised	$ 22,452	$ -
Fair value of restricted share units settled	$ 148,080	$ -
Intangible assets included in accounts payable and accrued liabilities	$ 115,084	$ 42,669
Interest paid	$ -	$ -
Taxes paid	$ -	$ -

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

ALGERNON PHARMACEUTICALS INC.

Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

	Number of Shares	Share Capital	Reserves	Accumulated Other Comprehensive Income	Deficit	**Total**
Balance at August 31, 2021	**6,699,404**	**$ 25,849,846**	**$ 6,826,581**	**$ (14,764)**	**$ (23,546,345)**	**$ 9,115,318**
Shares issued for cash, net of financing costs	2,732,068	1,265,537	789,586	-	-	2,055,123
Expiration of stock options	-	-	(778,430)	-	778,430	-
Expiration of warrants	-	-	(3,635,384)	-	3,635,384	-
Share-based payments	-	-	530,835	-	-	530,835
Other comprehensive loss	-	-	-	(22,262)	-	(22,262)
Net loss for the year	-	-	-	-	(6,054,356)	(6,054,356)
Balance at August 31, 2022	**9,431,472**	**$ 27,115,383**	**$ 3,733,188**	**$ (37,026)**	**$ (25,186,887)**	**$ 5,624,658**
Shares issued for cash, net of financing costs (ATM)	8,400	4,525	-	-	-	4,525
Units issued for cash, net of financing costs (Rights Offering)	4,883,769	586,101	435,354	-	-	1,021,455
Units issued for cash, net of financing costs (Private Placement)	1,025,000	130,462	69,538	-	-	200,000
Units issued in connection with an investment banking agreement	200,000	40,000	-	-	-	40,000
Exercise of warrants	109,788	125,381	(22,452)	-	-	102,929
Settlement of restricted share units	117,328	148,080	(148,080)	-	-	-
Expiration of stock options	-	-	(106,459)	-	106,459	-
Expiration of warrants	-	-	(1,069,286)	-	1,069,286	-
Share-based payments	-	-	1,256,821	-	-	1,256,821
Other comprehensive income	-	-	-	4,751	-	4,751
Net loss for the year	-	-	-	-	(6,781,200)	(6,781,200)
Balance at August 31, 2023	**15,775,757**	**$ 28,149,932**	**$ 4,148,624**	**$ (32,275)**	**$ (30,792,342)**	**$ 1,473,939**

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

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 March 3, 2023, the Company completed a forward split of all of its issued and outstanding common shares on a 4 to 1 basis. Unless otherwise noted, all share, options, warrants, agent warrants, and restricted share unit information have been retroactively adjusted to reflect this forward split.

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 trials. The Company’s lead compound is a drug called Ifenprodil 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”), and 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 is 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). On December 9, 2022, the Company established a 100% owned subsidiary incorporated in British Columbia, Algernon NeuroScience Inc. (“AGN Neuro”) and on December 20, 2022, AGN Neuro acquired all of the assets of the Company’s DMT program and all research and development activities pertaining to DMT will be carried out by AGN Neuro.

As at August 31, 2023, the Company has an accumulated deficit of $30,792,342 (2022 - $25,186,887) and for the year then ended incurred a net loss of $6,781,200 (2022 - $6,054,356). The Company will need to raise sufficient working capital to maintain operations. Without additional financing, the Company may not be able to fund its ongoing operations and complete development activities. Management anticipates that the Company will continue to raise adequate funding through equity or debt financings, although there is no assurance that the Company will be able to obtain adequate funding on favorable terms. These uncertainties may cast significant doubt on the Company’s ability to continue as a going concern. These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. These consolidated financial statements do not reflect adjustments, which could be material, to the carrying value of assets and liabilities, which may be required should the Company be unable to continue as a going concern.

Subsequent to August 31, 2023, on November 21, 2023 the Company signed a Letter of Intent (“LOI”) with Seyltx Inc. (“Seyltx”), a privately owned U.S. based drug development company, to acquire the Company’s Ifenprodil research program for USD $2,000,000 cash and a 20% common share equity position in Seyltx. The transaction is subject to certain conditions including, inter alia, Seyltx financing and the negotiation and execution of a definitive agreement, which is expected to occur within 90 days of the signing of the LOI.

2. BASIS OF PRESENTATION

(a) Statement of compliance

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

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates, and as such, the estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both the current and future periods. The areas involving a higher degree of judgments or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

(b) Approval of the consolidated financial statements

The annual consolidated financial statements of the Company for the year ended August 31, 2023 were approved and authorized for issuance by the Board of Directors on December 28, 2023.

2. BASIS OF PRESENTATION (continued)

(c) Foreign currencies

The reporting currency is the Canadian dollar ("CAD"), which is the functional currency of Algernon, Nash Pharma and AGN Neuro. The functional currency of AGN Research is the Australian dollar ("AUD"). Transactions in currencies other than the functional currency are recorded at the rate of exchange prevailing on the date of the transaction, except amortization, which is translated at the rates of exchange applicable to the related assets. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate on the date of the initial transaction. Non-monetary items that are measured at fair values are reported at the exchange rate on the date when fair values are determined. Foreign currency translation differences are recognized in profit or loss, except for differences on the translation of foreign entities to reporting currency on consolidation, which are recognized in other comprehensive income.

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

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

All intercompany transactions and balances have been eliminated on consolidation.

(b) Cash and cash equivalents

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

(c) Share issuance costs

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Income taxes

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

Current Tax

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

Deferred Tax

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments

The Company's financial instruments are accounted for as follows:

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

Financial Assets

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

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

Financial assets measured at amortized costs

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

Financial Assets (continued)

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

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

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

Financial Liabilities

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

Fair Value Hierarchy

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

- Level 1 – inputs are unadjusted quoted prices in active markets for identical assets or liabilities;

- Level 2 – inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly or indirectly; and

- Level 3 – inputs for the asset or liability are not based on observable market data.

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

(f) Share-based payments

The Company has a stock option plan that is described in Note 9 and grants share options to acquire common shares of the Company to directors, officers, employees, and consultants. Share-based payments to employees are measured at the fair value of the instruments granted. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued as calculated using the Black-Scholes option pricing model. The offset to the recorded expense is to reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Share-based payments (continued)

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

(g) Restricted Share Units

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

When the RSU are settled in shares, recorded fair value is transferred from reserves to share capital. For cash settled RSU, the fair value of the RSU is recognized as share-based payment expense, with a corresponding increase in accrued liabilities over the vesting period. The amount recognized as an expense is based on the estimate of the number of RSUs expected to vest. Cash settled RSU are measured at their fair value at each reporting period on a mark-to-market basis. Upon vesting of the cash settled RSU, the liability is reduced by the cash payout.

(h) Loss per share

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

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

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

As at August 31, 2022 and 2021, outstanding equity instruments were anti-dilutive, and therefore, basic and fully diluted EPS were equal.

(i) Share capital

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Unit offering

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

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

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

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

(k) Research and development expenditures

Development activities involve a plan or design for the production of new or substantially improved products and processes.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Intangible assets

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

Intangible assets with finite lives are amortized over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. A change in the expected useful life of the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its estimated recoverable amount. The Company derecognizes the carrying amount of assets on disposal or when no future economic benefits are expected from its use. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level.

Impairment losses are recognized in net loss. Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount. An impairment charge is reversed through net loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of any applicable depreciation, if no impairment loss had been recognized.

(n) Significant accounting judgments and estimates

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Significant accounting judgments and estimates (continued)

Share-based compensation

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.

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.

Intangible assets – Assessment of Useful Life

Intangible assets acquired as a part of the acquisition of Nash Pharma are intangible assets with a finite life that are not available for use. On an annual basis, intangible assets with finite life are reviewed for impairment and the Company impairs or writes off intangible assets when it abandons a drug or determine an amortization policy when a compound is approved.

During the year ended August 31, 2022, the Company changed its estimate in relation to the useful life of trademark application costs and began to amortize trademark application costs over their estimated useful life, estimated to be ten years.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Significant accounting judgments and estimates (continued)

Intangible assets – Assessment of Useful Life (continued)

During the year ended August 31, 2022, the Company in-licensed an issued patent relating its oncology program and is amortizing the patents based on its estimated useful life, which represents the remaining life of the patent of 4.75 years.

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 the expiration of the associated patent.

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, Nash Pharma and AGN Neuro, 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.

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.

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements. All of the Company's financial obligations are due within one year.

At August 31, 2023, the Company had a working capital deficit of $2,379,931 (2022 - working capital of $310,999). This included cash and cash equivalents of $125,085 (2022 - $1,408,509) available to meet short-term business requirements and current liabilities of $2,719,760 (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 2.90% (August 31, 2022 - 2.65%) and mature five months 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, British Pound Sterling ("GBP"), and Swedish Krona 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 August 31, 2023, the Company had monetary assets of US$4,438 or $6,005 (2022 - US$29,841 or $39,125) at the CAD$ equivalent and monetary liabilities of US$498,244 or $674,174 (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 other comprehensive loss by approximately $66,817 (2022 - $62,796).

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Market risk (continued)

c) Foreign currency risk (continued)

As at August 31, 2023, the Company had monetary assets of AUD$74,445 or $65,229 (2022 - AUD$698,522 or $627,832) at the CAD$ equivalent and monetary liabilities of AUD$481,839 or $422,188 (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 other comprehensive loss by approximately $35,696 (2022 - $2,720).

As at August 31, 2023, the Company had monetary liabilities of $418,062 Euros or $613,799 (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 other comprehensive loss by approximately $61,380 (2022 - $21,290).

As at August 31, 2023, the Company had monetary liabilities of GBP£66,639 or $114,245 (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 other comprehensive loss by approximately $11,425 (2022 - $18,289).

As at August 31, 2022 and 2021, the Company did not have any significant monetary assets or liabilities denominated in Swedish Krona.

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

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

	Financial Assets Fair Value Through Profit	Loans and Receivables Measured at Amortized Cost	Financial Liabilities Measured at Amortized Cost
August 31, 2023			
Cash and cash equivalents	$ 125,085	$ -	$ -
Restricted cash equivalents	57,500	-	-
Accounts receivable	-	1,016	-
Accounts payable and accrued liabilities	$ -	$ -	$ (2,719,760)
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)

(Expressed in Canadian dollars)

5. ACCOUNTS RECEIVABLE

	August 31, 2023	August 31, 2022
Accrued interest receivable	$ 1,015	$ 481
GST receivable	31,330	128,296
R&D tax credit receivable(1)	63,711	536,752
	$ 96,056	$ 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 August 31, 2023, cash refundable of $63,711 (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

	August 31, 2023	August 31, 2022
Board of directors' fees	$ -	$ 32,132
Conferences	-	5,037
Consulting	-	859
Marketing(1)	87,183	676,252
Office and general	-	8,633
Professional fees – legal retainer	-	1,584
Research and development	15,412	14,670
Shareholders communications	16,093	13,893
	$ 118,688	$ 753,060

(1) On July 4, 2022, the Company entered into a twelve-month marketing agreement with a third party for US$200,000, whose founder participated in the Company's Unit offering completed on July 4, 2022 (note 9) for 102,700 units at a price of $3.75 per unit for total proceeds of $385,125. As at August 31, 2023, there is $25,183 (2022 - $245,470) recorded within prepaid expenses pertaining to amounts paid to this third party.

7. RESTRICTED CASH EQUIVALENTS

As at August 31, 2023 and 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 2.90% (2022 - 2.65%) and mature five months from the purchase date.

(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	-	5,625	16,036	110,254	131,915
Write-downs	(1,458,827)	-	(66,328)	(54,476)	(1,579,631)
Balance, August 31, 2023	**$ 3,403,929**	**$ 21,348**	**$ -**	**$ 418,102**	**$ 3,843,379**

	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	-	(1,685)	(20,915)	(27,798)	(50,398)
Write-downs	-	-	30,513	7,812	38,325
Balance, August 31, 2023	**$ -**	**$ (3,257)**	**$ -**	**$ (43,752)**	**$ (47,009)**

	Acquisition of Nash Pharma(1)	Trademark Application Costs(2)	In-licensed Patents(3)	Patent Application Costs(4)	Total
Net Book Value					
Balance, August 31, 2022	$ 4,862,756	$ 14,151	$ 40,694	$ 338,558	$ 5,256,159
Balance, August 31, 2023	**$ 3,403,929**	**$ 18,091**	**$ -**	**$ 374,350**	**$ 3,796,370**

(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 are reviewed for impairment. The Company will impair or write-off the intangible assets related to the acquisition of Nash Pharma when indicators of impairment exist and the recoverable value is less than the carrying value. During the year ended August 31, 2023, the Company wrote-off intangible assets acquired as part of the acquisition of Nash Pharma pertaining to its inflammatory bowel disease ("IBD") program, which was no longer being pursued by the Company. The Company recorded $1,458,827 of write-downs within impairment of intangible assets on the consolidated statement of loss and comprehensive loss for the year ended August 31, 2023 pertaining to the IBD assets. Management determined the value in use of these intangible assets in accordance with level 3 of the fair value hierarchy was $nil.

(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 $1,686 of amortization within general and administrative expenses on the consolidated statement of loss and comprehensive loss for the year ended August 31, 2023 (2022 - $1,572).

(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 $20,914 of amortization within research and development expenses on the consolidated statement of loss and comprehensive loss for the year ended August 31, 2023 (2022 - $9,598). During the year ended August 31, 2023, the Company wrote-off the in-licensed patent pertaining to its oncology program, which was no longer being pursued by the Company. The Company recorded $35,815 of write-downs within impairment of intangible assets on the consolidated statement of loss and comprehensive loss for the year ended August 31, 2023 pertaining to the oncology assets. Management determined the value in use of these intangible assets in accordance with level 3 of the fair value hierarchy was $nil.

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 $27,798 of amortization within research and development expenses on the consolidated statement of loss and comprehensive loss for the year ended August 31, 2023 (2022 - $23,766). Additionally, during the year ended August 31, 2023, the Company wrote-off patents application costs that were previously capitalized for patents that are no longer being pursued by the Company totaling $46,664 (2022 - $36,479) on the consolidated statement of loss and comprehensive loss. Management determined the value in use of these patents in accordance with level 3 of the fair value hierarchy was $nil.

9. SHARE CAPITAL AND RESERVES

Share capital

On March 3, 2023, the Company completed a forward split of all of its issued and outstanding common shares on a 4 to 1 basis. Unless otherwise noted, all share, options, warrants, agent warrants, and restricted share unit information have been retroactively adjusted to reflect this forward split.

Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at August 31, 2023, there were 15,775,757 (2022 - 9,431,472) common shares issued and outstanding.

Details of common shares are as follows.

During the year ended August 31, 2023:

On July 27, 2023, the Company completed a private placement of 1,025,000 units of the Company at a price of $0.20 per unit for gross proceeds of $205,000 (the "July 2023 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 $0.25 for a period of 24 months after the closing date until July 27, 2025.

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 $0.205, exercise price of the warrant of $0.25, expected life of 2 years, expected volatility of 106.32%, risk-free rate of return of 4.77%, and expected dividend yield of 0%. The fair value of the share purchase warrant was determined to be $69,538.

There were no finders' fees incurred or finders' warrants issued in connection with the July 2023 Offering. Total share issuance costs of the July 2023 Offering were $5,000.

On June 23, 2023, the Company signed an investment banking agreement with Maxim Group LLC. ("Maxim") under which the Company issued 200,000 common shares to Maxim, due on the signing of the agreement, at a price of $0.20 on July 26, 2023. An additional 200,000 common shares may be earned by Maxim upon certain milestones being reached under the investment banking agreement, including 100,000 common shares upon acceptance of a non-binding letter of intent if a spin-out transaction is completed surrounding the Company's chronic cough program and 100,000 common shares on the closing of that transaction.

9. SHARE CAPITAL AND RESERVES (continued)

Share capital (continued)

On May 5, 2023, the Company closed a rights offering which expired on April 27, 2023 (the “Rights Offering”). At closing, the Company issued 4,753,369 units (the “Rights Offering Units”) at the subscription price of $0.25 per Rights Offering Unit for total gross proceeds of approximately $1,188,342. Each Rights Offering Unit consists of one common share and one common share purchase warrant (a “Rights Offering Warrant”), with each Rights Offering Warrant being exercisable for one common share at the exercise price of $0.52 until November 5, 2024, subject to acceleration to a date that is not less than 30 days following delivery of an acceleration notice to the holders of the Rights Offering Warrants if the volume weighted average price of the Shares for each of the ten consecutive trading days on the Canadian Securities Exchange exceeds $1.04.

Pursuant to a dealer manager agreement entered into by the Company with the soliciting dealer (the “Soliciting Dealer”), the Company paid the Soliciting Dealer a cash fee of $41,292, of which $10,000 of the fee was settled by way of the issuance of 40,000 Rights Offering Units, and a corporate finance fee of $22,600, which was settled by way of the issuance of 90,400 Rights Offering Units.

The fair value of the Rights Offering Warrants issued under the rights offering and the warrants issued as part of the Rights Offering Units to the Soliciting Dealer as payment of the cash fee and corporate finance fee were 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 $0.25, exercise price of the warrant of $0.52, expected life of 18 months, expected volatility of 112.09%, risk-free rate of return of 3.70%, and expected dividend yield of 0%. The fair value of the Rights Offering Warrants was determined to be $397,748 and the fair value of the warrants issued as part of the Rights Offering Units to the Soliciting Dealer was determined to be $10,912.

The Company also issued to the Soliciting Dealer 165,166 Soliciting Dealer warrants (the “Soliciting Dealer Warrants”). Each Soliciting Dealer Warrant is exercisable for one Rights Offering Unit at the exercise price of $0.25 until November 5, 2024. The fair value of the Soliciting Dealer Warrants were recorded as a reduction in the value of the shares issued as share issuance costs.

The fair value of the Soliciting Dealer Warrants were valued using the Black-Scholes option pricing model with the following inputs on date of issuance: share listed price of $0.25, exercise price of the warrant of $0.25, expected life of 18 months, expected volatility of 112.09%, risk-free rate of return of 3.70%, and expected dividend yield of 0%. The fair value of the Soliciting Dealer Warrants were determined to be $26,604, which were recorded as a reduction in the value of the shares issued as share issuance costs. The total fair value of the warrants associated with the rights offering was $435,264.

Total share issuance costs of the rights offering were $226,183, including the fair value of the warrants issued to the Soliciting Dealer.

On December 23, 2022, the Company entered into an equity distribution agreement (the “Distribution Agreement”) with an agent (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.

9. SHARE CAPITAL AND RESERVES (continued)

Share capital (continued)

There were 8,400 common shares issued during the year ended August 31, 2023 as a result of the sale of shares through the Company's ATM Offering resulting in gross proceeds to the Company of $4,641.

There were 109,788 common shares issued during the year ended August 31, 2023 as a result of the exercise of warrants resulting in gross proceeds to the Company of $102,929.

There were 117,328 common shares issued to directors and consultants of the Company as a result of the settlement of RSU's that vested on January 1, 2023.

During the year ended August 31, 2022:

On July 4, 2022, the Company completed a brokered public offering of 1,236,468 units of the Company at a price of $0.94 per unit for gross proceeds of $1,159,189 (the "July 2022 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 $1.18 for a period of 60 months after the closing date until July 4, 2027.

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 $0.93, exercise price of the warrant of $1.18, expected life of 5 years, expected volatility of 129.37%, risk-free rate of return of 3.04%, and expected dividend yield of 0%. The fair value of the share purchase warrant was determined to be $316,913. The warrants issued in the July 2022 Offering included anti-dilution provisions in the case of a down-round financing during their five-year term (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.

In connection with the July 2022 Offering, the Company issued a total of 43,380 broker warrants from units sold under the July 2022 Offering to purchasers introduced by the broker. Each finders' warrant entitles the holder to purchase one common share until July 4, 2027 at a price of $1.03. The Company also paid cash finders fees in the aggregate amount of $65,068 from the sale of units to purchasers introduced by the broker and incurred other professional and listing fees associated with the July 2022 Offering of $298,272, which were recorded as a reduction in the value of the shares issued as share issuance costs.

The fair value of the brokers' warrants was valued using the Black-Scholes option pricing model with the following inputs on date of issuance: share listed price of $0.93, exercise price of the warrant of $1.03, expected life of 5 years, expected volatility of 129.37%, risk-free rate of return of 3.04%, and expected dividend yield of 0%. The fair value of the finders' warrants was determined to be $15,096, which were recorded as a reduction in the value of the shares issued as share issuance costs. The total fair value of the warrants associated with the units of the July 2022 Offering and the fair value of the finders' warrants issued was $332,009.

On August 22, 2022, the Company completed a private placement of 1,495,600 units of the Company at a price of $0.94 per unit for gross proceeds of $1,402,125 (the "August 2022 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 $1.06 for a period of 60 months after the closing date until August 22, 2027.

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 $1.00, exercise price of the warrant of $1.06, expected life of 5 years, expected volatility of 129.73%, risk-free rate of return of 3.19%, and expected dividend yield of 0%. The fair value of the share purchase warrant was determined to be $421,657.

9. SHARE CAPITAL AND RESERVES (continued)

Share capital (continued)

In connection with the August 2022 Offering, the Company issued a total of 81,920 finders' warrants from units sold under the August 2022 Offering to purchasers introduced by eligible finders. Each finders' warrant entitles the holder to purchase one common share until August 22, 2027 at a price of $1.03. The Company also paid cash finders fees in the aggregate amount of $122,850 from the sale of units to purchasers introduced by the eligible finders and incurred other professional fees associated with the August 2022 Offering of $20,000, which were recorded as a reduction in the value of the shares issued as share issuance costs.

The fair value of the finders' warrants was valued using the Black-Scholes option pricing model with the following inputs on date of issuance: share listed price of $1.00, exercise price of the warrant of $1.03, expected life of 5 years, expected volatility of 129.73%, risk-free rate of return of 3.19%, and expected dividend yield of 0%. The fair value of the finders' warrants was determined to be $35,920, which were recorded as a reduction in the value of the shares issued as share issuance costs. The total fair value of the warrants associated with the units of the August 2022 Offering and the fair value of the finders' warrants issued was $457,577.

Stock options

Stock options to purchase common shares have been granted to directors, employees, contractors, and consultants at exercise prices determined by reference to the market value on the date of the grant. The number of shares available for options to be granted under the Company's rolling stock option plan is 10% of the number of shares outstanding (the "Plan"). Options granted under the Plan vest immediately or over a period of time at the discretion of the Board of Directors.

Under the Plan, the number of shares reserved for issuance to any one optionee will not exceed 5% of the then issued and outstanding shares and the number of shares reserved for issuance to consultants will not exceed 2% of the then issued and outstanding shares. The options are non-assignable and non-transferable and will be exercisable up to 10 years from the date of grant. The minimum exercise price of an option granted under the Plan must not be less than the discounted market price, as such term is defined in the policies of the CSE and other applicable regulatory authorities.

During the year ended August 31, 2023:

- There were no stock options granted.
- There were no stock options exercised.
- During the year ended August 31, 2023, a total of 12,000 incentive stock options expired unexercised. The stock options expired had a weighted average exercise price of $12.00 per share. The fair value allocated to these stock options on issuance of $106,459 was reclassified from reserves to deficit.

During the year ended August 31, 2022:

- On January 1, 2022, the Company granted a total of 384,000 incentive stock options to certain directors, officers, employees and consultants of the Company with an exercise price of $1.03 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 $1.03, risk-free rate of 1.25%, estimated life of 5 years, no dividend yield, and a volatility of 128.00%. Of the incentive stock options granted, 319,000 vested immediately and 65,000 vested on January 1, 2023.

(Expressed in Canadian dollars)

9. SHARE CAPITAL AND RESERVES (continued)

Stock options (continued)

- On August 31, 2022, the Company granted a total of 368,000 incentive stock options to certain directors, officers, employees, and consultants of the Company with an exercise price of $1.35 per share. The options expire on August 31, 2027. The fair value of the incentive stock options were determined using a Black-Scholes valuation model, including the exercise price of $1.35, risk-free rate of 3.34%, estimated life of 5 years, no dividend yield, and a volatility of 129.85%. Of the incentive stock options granted, 184,000 vested immediately and 184,000 vested on February 28, 2023.

- There were no stock options exercised.

- A total of 143,000 incentive stock options expired unexercised. The stock options expired had a weighted average exercise price of $4.70 per share. The fair value allocated to these stock options on issuance of $778,430 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, 2021	334,000	$ 5.50
Granted	752,000	$ 1.18
Expired	(143,000)	$ (4.70)
Balance at August 31, 2022	943,000	$ 2.18
Expired	(12,000)	$ (12.00)
Balance outstanding at August 31, 2023	931,000	$ 2.05
Balance exercisable at August 31, 2023	931,000	$ 2.05

As at August 31, 2023, the Company had the following stock options outstanding and exercisable:

Date of Grant	Date of Expiry	Number Outstanding and Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
February 13, 2020	February 13, 2025	100,000	$ 2.50	1.45
April 13, 2020	April 13, 2025	81,000	$ 7.25	1.62
August 17, 2020	August 17, 2025	24,000	$ 8.75	1.96
January 1, 2022	January 1, 2027	358,000	$ 1.03	3.34
August 31, 2022	August 31, 2027	368,000	$ 1.35	4.00
Total outstanding		931,000	$ 2.05	3.21
Total exercisable		931,000	$ 2.05	3.21

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.

(Expressed in Canadian dollars)

9. SHARE CAPITAL AND RESERVES (continued)

Restricted Share Units (continued)

During the year ended August 31, 2023:

- 117,328 common shares were issued to directors and consultants of the Company as a result of the settlement of RSUs that vested on January 1, 2023.

During the year ended August 31, 2022:

- On August 31, 2022, a total of 221,000 RSU units were granted to certain officers, directors, employees, and consultants of the Company with a fair value of $5.05 per RSU based on the five-day volume average price of the Company's common shares on the Canadian Securities Exchange ("CSE"). 33% will vest on January 1, 2023, with another 33% vesting on June 1, 2023 and the remaining 34% will vest on January 1, 2024.

The changes in restricted share units outstanding are as follows:

	Number Outstanding
Balance at August 31, 2021	-
Granted	884,000
Balance at August 31, 2022	884,000
Settled	(117,328)
Balance at August 31, 2023	766,672
Balance vested at August 31, 2023	473,328

Share-based payments

(a) Stock options

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

- No stock options were granted during the year ended August 31, 2023.

- During the year ended August 31, 2022, on January 1, 2022, the Company granted a total of 384,000 incentive stock options to certain directors, officers, employees, and consultants of the Company with an exercise price of $1.025 per share. The options expire on January 1, 2027.

- During the year ended August 31, 2022, on August 31, 2022, the Company granted a total of 368,000 incentive stock options to certain directors, officers, employees, and consultants of the Company with an exercise price of $1.35 per share. The options expire on August 31, 2027.

(Expressed in Canadian dollars)

9. SHARE CAPITAL AND RESERVES (continued)

Share-based payments (continued)

(a) Stock options (continued)

- No stock options were exercised during the years ended August 31, 2023 or 2022.

- During the year ended August 31, 2023, a total of 12,000 incentive stock options expired unexercised. The stock options expired had a weighted average exercise price of $12.00 per share. The fair value allocated to these stock options on issuance of $106,459 was reclassified from reserves to deficit.

- During the year ended August 31, 2022 a total of 143,000 incentive stock options expired unexercised. The stock options expired had a weighted average exercise price of $4.70 per share. The fair value allocated to these stock options on issuance of $778,430 was reclassified from reserves to deficit.

- Under the graded vesting method, $233,678 of share-based payment expense was recognized for previously granted, unvested stock options during the year ended August 31, 2023 (2022 - $530,835).

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

Years ended August 31	2023	2022
Risk-free interest rate	N/A	2.32%
Expected dividend yield	N/A	Nil
Expected stock price volatility	N/A	128.94%
Expected option life in years	N/A	5 years
Forfeiture rate	N/A	Nil

(b) Restricted share units

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

- No RSUs were granted during the year ended August 31, 2023.

- During the year ended August 31, 2022, on August 31, 2022, a total of 221,000 RSU units were granted to certain officers, directors, employees, and consultants of the Company with a fair value of $5.05 per RSUs based on the fiv- day volume average price of the Company's common shares on the CSE. 33% will vest on January 1, 2023, with another 33% vesting on June 1, 2023 and the remaining 34% will vest on January 1, 2024.

- No RSUs were forfeited during the years ended August 31, 2023 or 2022.

- During the year ended August 31, 2023, a total of 117,328 RSUs were settled resulting in the issuance of 117,328 common shares of the Company to directors and consultants of the Company.

- No RSUs were settled during the year ended August 31, 2022.

(Expressed in Canadian dollars)

9. SHARE CAPITAL AND RESERVES (continued)

Share-based payments (continued)

(b) Restricted share units (continued)

- Under the graded vesting method, share-based payments recognized for previously granted, unvested RSUs in the year ended August 31, 2023 totaled $1,023,143 (2022 - $nil).

Overall, during the year ended August 31, 2023, the Company recorded a total of $1,256,821 (2022 - $530,835) 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, 2021	1,426,680	$ 11.50
Issued	2,732,068	$ 1.11
Expired	(950,456)	$ (11.87)
Balance at August 31, 2022	3,208,292	$ 2.34
Issued	5,908,769	$ 0.47
Exercised	(87,600)	$ (0.94)
Expired	(476,224)	$ 10.00
Balance at August 31, 2023	8,553,237	$ 0.64

As at August 31, 2023, the Company had the following warrants outstanding:

Date of Expiry	Exercise Price	Number of Warrants	Weighted Average Remaining Life in Years
July 4, 2027 (1)	$ 0.94	1,148,868	3.84
August 22, 2027	$ 1.06	1,495,600	3.98
November 5, 2024	$ 0.52	4,883,769	1.25
July 27, 2025	$ 0.25	1,025,000	1.90
Total	$ 0.64	8,553,237	2.15

(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 $1.18 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".

On August 22, 2022, the Company closed the August 2022 Offering at a price of $0.94 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 $0.94 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 1,236,468 warrants are now exercisable at a price of $0.94 per common share for approximately 1,549,704 common shares, subject to the rounding down of each warrant exercise.

(Expressed in Canadian dollars)

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, 2021	61,728	$ 8.58
Issued	125,300	$ 1.03
Expired	(61,728)	$ (8.58)
Balance at August 31, 2022	125,300	$ 1.03
Issued	165,166	$ 0.25
Balance at August 31, 2023	290,466	$ 0.59

As at August 31, 2023, 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	$ 1.03	43,380	3.84
August 22, 2027	$ 1.03	81,920	3.98
November 5, 2024	$ 0.25	165,166	1.25
Total	$ 0.59	290,466	2.41

10. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 27.00% (2022 - 27%) to income before income taxes. The reasons for the differences are as follows:

	2023	2022
Loss before income taxes	$ 6,781,200	$ 6,054,356
Statutory income tax rate	27%	27%
Income tax benefit computed at statutory tax rate	(1,830,924)	(1,634,676)
Permanent differences		
Share-based payments	339,342	143,325
Share issuance costs	(115,369)	(150,446)
Non-deductible research and development	(1,217)	96,024
Other	62,967	36,026
Differences attributable to income tax rates of other countries	(57)	10,359
Unrecognized benefit of deferred income tax assets	1,545,258	1,499,388
Income tax expense	$ -	$ -

(Expressed in Canadian dollars)

10. INCOME TAXES (continued)

Significant unrecognized tax benefits and unused tax losses for which no deferred tax asset is recognized as of August 31, 2023 and 2022 are as follows:

	2023	2022
Non-capital losses carried forward	$ 24,833,000	$ 20,475,000
Share issuance costs	809,000	1,012,000
License agreement	188,000	131,000
Other	444,000	23,000
	$ 26,274,000	$ 21,641,000

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

2034	$ 42,000
2035	205,000
2036	1,069,000
2037	1,054,000
2038	1,487,000
2039	1,683,000
2040	4,283,000
2041	4,552,000
2042	5,270,000
2043	4,407,000
	$ 24,052,000

The Company's unrecognized unused Australian non-capital losses of $780,000 (2022 - $783,000) have an indefinite carry forward period.

11. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

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

Related party transactions to key management personnel are as follows:

Years ended August 31	2023	2022
Short-term benefits (1)	$ 578,335	$ 885,216
Consulting fees – other (2)	8,500	2,500
Share-based payment (3)	1,000,643	468,224
Rent (4)	-	9,000
	$ 1,587,478	$ 1,364,940

(Expressed in Canadian dollars)

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

(1) Salaries paid to officers and directors fees to independent directors:
- $220,000 (2022 - $418,000 including $198,000 pertaining to bonuses) to Chief Executive Officer;
- $Nil (2022 - $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;
- $120,000 (2022 - $107,500 including $17,500 pertaining to bonuses) to Chief Financial Officer, who was appointed effective December 1, 2021;
- $130,000 (2022 - $195,000 including $65,000 pertaining to bonuses) to the Vice President Research and Operations, who was appointed effective March 1, 2021;
- $36,501 (2022 - $36,100) to the Chairman and independent director, who was appointed effective September 7, 2022;
- $24,000 (2022 - $19,500) to an independent director, who was appointed effective September 22, 2022;
- $24,000 (2022 - $17,000) to an independent director;
- $Nil (2022 - $3.000) to an independent director, who ceased to be a director of the Company on February 28, 2022; and
- $23,835 (2022 - $14,116) to an independent director, who was elected to the board of directors on February 28, 2022.

(2) For the year ended August 31, 2023, $3,500 (2022 - $2,500) was paid to a partnership where the Chairman and independent director was a partner for corporate secretarial services. For the year ended August 31, 2023, $5,000 (2022 - $Nil) was paid to an independent director pertaining to scientific consulting services provided to the Company.

(3) Share-based payments for the year ended August 31, 2023 were non-cash items that consisted of the fair value of the unvested stock options that were granted to key management personnel including members of the Board of Directors on January 1, 2022 and August 31, 2022 and the fair value of unvested RSUs that were granted to key management personnel including members of the Board of Directors on August 31, 2022. Share-based payments for the year ended August 31, 2022 were non-cash items that consisted of the fair value of the stock options that were granted to key management personnel including members of the Board of Directors on January 1, 2022 and August 31, 2022 and the fair value of RSUs that were granted to key management personnel including members of the Board of Directors, but unvested during the year ended August 31, 2022.

(4) Rent consists of $Nil (2022 - $9,000) 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.

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

As at	August 31, 2023	August 31, 2022
Key management personnel – bonuses	$ -	$ 268,000
Key management personnel – directors fee	15,031	5,244
Key management personnel – consulting fees	1,288	788
Total	$ 16,319	$ 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.

As at August 31, 2022, there was $32,132 recorded within prepaid expenses pertaining to prepaid board of directors fees.

(Expressed in Canadian dollars)

12. RESEARCH AND DEVELOPMENT PROGRAMS

For the year ended	August 31, 2023	August 31, 2022
Clinical Trials:		
Phase 2 for IPF and chronic cough	$ 13,207	$ 1,168,908
Phase 1 DMT	915,718	150,325
Phase 2b/3 multinational COVID study	-	3,120
	928,925	1,322,353
Preclinical:		
Ifenprodil preclinical and manufacture	14,590	46,286
DMT preclinical and manufacture	23,878	776,355
Repirinast preclinical and manufacture	-	341,516
Oncology preclinical	-	39,277
	38,468	1,203,434
Management and ad hoc scientific support	65,253	108,728
Amortization (note 8)	48,711	33,364
Total	1,081,357	2,667,879
Less: Australian R&D Tax Credit	13,802	(374,431)
Total Net Expenses	$ 1,095,159	$ 2,293,448

13. RISK AND CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company in order to support future business opportunities. The Company defines its capital as shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to manage its capital to be able to sustain the future development of the Company's business. The Company currently has no source of revenues, and therefore, is dependent upon external financings to fund activities. In order to carry future projects and pay administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended August 31, 2023. The Company is not subject to externally imposed capital requirements.

(Expressed in Canadian dollars)

14. 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 August 31, 2023, the Company's intangible assets are located as follows:

	Canada	Australia	Total
Intangible assets	$ 3,853,870	$ -	$ 3,853,870

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

	Canada	Australia	Total
Intangible assets	$ 5,313,659	$ -	$ 5,313,659

15. SUBSEQUENT EVENTS

On October 18, 2023, the Company received $63,711 pertaining to Australians research and development tax credits, which were recorded within accounts receivable as at August 31, 2023.

On December 27, 2023, the Company completed a private placement of 3,733,333 units of the Company at a price of $0.075 per unit for gross proceeds of $280,000 (the "December 2023 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 $0.20 for a period of 24 months after the closing date until December 27, 2025.

In connection with the December 2023 Offering, the Company issued a total of 120,000 finders' warrants from units sold under the December 2023 Offering to purchasers introduced by eligible finders. Each finders' warrant entitles the holder to purchase one common share until December 27, 2025 at a price of $0.20. The Company also paid cash finders fees in the aggregate amount of $9,000 from the sale of units to purchasers introduced by the eligible finders which are recorded as a reduction in the value of the shares issued as share issuance costs.