ALGERNON PHARMACEUTICALS INC.

Consolidated Financial Statements

For the years ended August 31, 2024 and 2023
(Expressed in Canadian dollars)

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, 2024 and 2023;
- 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 material accounting policy information.

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, 2024 and 2023, 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 $502,982 during the year ended August 31, 2024 and, as of that date, the Company has an accumulated deficit of $30,755,831. 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 financial statements for the year ended August 31, 2024. These matters were addressed in the context of our audit of the 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.

Other Information

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

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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.

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- 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 Herve Leong-Chung.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia

December 20, 2024

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

As at	Notes	August 31, 2024	August 31, 2023
ASSETS			
Current assets			
Cash and cash equivalents	*4*	$ 596,198	$ 125,085
Accounts receivable	*4,5*	15,686	96,056
Prepaid expenses	*6*	126,879	118,688
Total current assets		738,763	339,829
Non-current assets			
Restricted cash equivalents	*4,7*	28,750	57,500
Intangible assets	*8*	3,176,527	3,796,370
Total non-current assets		3,205,277	3,853,870
TOTAL ASSETS		$ 3,944,040	$ 4,193,699
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	*4,9,13*	$ 1,775,447	$ 2,719,760
Total liabilities		1,775,447	2,719,760
Shareholders' equity			
Share capital	*10*	29,555,135	28,149,932
Reserves	*10*	3,409,675	4,148,624
Accumulated other comprehensive loss		(40,386)	(32,275)
Deficit		(30,755,831)	(30,792,342)
Total shareholders' equity		2,168,593	1,473,939
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 3,944,040	$ 4,193,699

Subsequent events (Note 17)

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	Notes	2024	2023
EXPENSES			
General and administrative	*8,13*	$ 149,373	$ 236,765
Marketing		321,352	1,260,704
Professional fees	*13*	91,595	494,286
Research and development	*5,8,14*	651,157	1,095,159
Salaries and benefits	*13*	805,021	688,122
Share-based payments	*10,13*	286,658	1,256,821
Shareholder communications		106,886	210,134
		2,412,042	5,241,991
Gain on sale of research program	*11*	(1,662,231)	-
Gain on settlement of trade payables	*9*	(245,461)	-
Write-down of intangible assets	*8*	-	1,541,306
Interest income		(1,368)	(2,097)
Net loss for the year		502,982	6,781,200
OTHER COMPREHENSIVE (INCOME) LOSS			
Item not classified into profit or loss:			
Foreign exchange (gain) loss on translation to reporting currency		8,111	(4,751)
Comprehensive loss for the year		$ 511,093	$ 6,776,449
Loss per common share			
Basic and fully diluted		$ 0.03	$ 0.45
Weighted average number of common shares outstanding		20,047,990	15,147,365

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	2024	2023
OPERATING ACTIVITIES		
Net loss for the year	$ (502,982)	$ (6,781,200)
Items not involving cash		
Gain on sale of research program	(1,662,231)	-
Gain on settlement of trade payables	(245,461)	-
Share-based payments	286,658	1,256,821
Amortization	26,562	50,398
Write-down of intangible assets	-	1,541,306
Investment banking fees paid with common shares	-	40,000
Unrealized foreign exchange loss	4,073	73,950
	(2,093,381)	(3,818,725)
Changes in non-cash operating working capital		
Accounts receivable	80,475	567,802
Prepaid expenses	(8,191)	634,372
Accounts payable and accrued liabilities	(688,480)	63,543
	(2,709,577)	(2,553,008)
INVESTING ACTIVITIES		
Proceeds from sale of research program	2,714,400	-
Redemption of restricted cash equivalents	28,750	-
Transaction costs paid pursuant to sale of research program	(379,177)	-
Additions of intangible assets	(84,025)	(59,500)
	2,279,948	(59,500)
FINANCING ACTIVITIES		
Proceeds from shares issued for cash, net of financing costs	893,589	1,225,980
Proceeds from stock options exercised	7,500	-
Proceeds from warrants exercised	-	102,929
	901,089	1,328,909
Effect of exchange rate fluctuations on cash held	(347)	175
Increase (decrease) in cash and cash equivalents	471,113	(1,283,424)
Cash and cash equivalents, beginning of year	125,085	1,408,509
Cash and cash equivalents, end of year	**$ 596,198**	**$ 125,085**

	2024	2023
Supplemental cash flow information		
Non-cash investing and financing activities:		
Fair value of warrants issued with unit offering	$ 286,453	$ 504,892
Fair value of warrants exercised	$ -	$ 22,452
Fair value of warrants expired	$ -	$ 1,069,286
Fair value of stock options exercised	$ 4,500	$ -
Fair value of stock options expired	$ 211,346	$ 108,459
Fair value of restricted share units settled	$ 768,067	$ 148,080
Fair value of restricted share units expired	$ 328,147	$ -
Intangible assets included in accounts payable and accrued liabilities	$ 92,772	$ 115,084
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, 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
Shares 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**
Units issued for cash, net of financing costs (Private Placement)	9,093,333	607,136	286,453	-	-	893,589
Settlement of restricted share units	2,131,729	768,067	(768,067)	-	-	-
Shares issued on exercise of stock options	100,000	12,000	(4,500)	-	-	7,500
Shares issued in connection with an investment banking agreement	200,000	18,000	-	-	-	18,000
Expiration of stock options	-	-	(211,346)	-	211,346	-
Expiration of restricted share units	-	-	(328,147)	-	328,147	-
Share-based payments	-	-	286,658	-	-	286,658
Other comprehensive loss	-	-	-	(8,111)	-	(8,111)
Net loss for the year	-	-	-	-	(502,982)	(502,982)
Balance at August 31, 2024	**27,300,819**	**$ 29,555,135**	**$ 3,409,675**	**$ (40,386)**	**$ (30,755,831)**	**$ 2,168,593**

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.

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"), 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 was 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 are carried out by AGN Neuro.

The Company previously focused on developing a repurposed therapeutic, Ifenprodil, to treat Chronic Cough and Idiopathic Pulmonary Fibrosis ("IPF"); however, on March 26, 2024, the Company closed an agreement with Seyltx, Inc. ("Seyltx"), a privately owned U.S. based drug development company, for the sale of the Company's Ifenprodil research and development program focused on chronic cough and IPF, as described in Note 11, for the purchase price of USD $2.0 million (approximately CAD $2.7 million) in cash and 1,896,700 common shares in Seyltx, representing a 20% equity position in Seyltx on a fully-diluted basis.

As at August 31, 2024, the Company has an accumulated deficit of $30,755,831 (2023 - $30,792,342) and for the year then ended incurred a net loss of $502,982 (2023 - $6,781,200). 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.

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.

2. BASIS OF PRESENTATION (continued)

(a) Statement of compliance (continued)

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, 2024 were approved and authorized for issuance by the Board of Directors on December 20, 2024.

(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. MATERIAL 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.

3. MATERIAL ACCOUNTING POLICIES (continued)

(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) 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.

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.

3. MATERIAL ACCOUNTING POLICIES (continued)

(c) Income taxes (continued)

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.

(d) 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
Investment in Seyltx, Inc.	FVTPL
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.

3. MATERIAL ACCOUNTING POLICIES (continued)

(d) Financial instruments (continued)

Financial Assets (continued)

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 ("FVTOCI"), with all subsequent changes in fair value being recognized in other comprehensive income. This election is available for each separate investment. Under this new FVTOCI 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 FVTOCI.

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, and accounts payables and accrued liabilities are recorded at their carrying amounts and approximate their fair values and classified as level within the fair value hierarchy due to their short- term nature. The carrying amount of restricted cash equivalents approximates fair value as it is based on market rates of interest. The investment in Seyltx is classified as level 3 within the fair value hierarchy due to absence of readily available market prices or observable data to use for valuation.

3. MATERIAL ACCOUNTING POLICIES (continued)

(e) Share-based payments

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

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

(f) 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 RSUs are settled in shares, recorded fair value is transferred from reserves to share capital. For cash settled RSUs, 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 RSUs 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.

(g) 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.

(h) 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. MATERIAL ACCOUNTING POLICIES (continued)

(i) 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.

(j) 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.

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

The Company qualifies for the Australian R&D for 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. MATERIAL ACCOUNTING POLICIES (continued)

(l) 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.

(m) 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.

Control

At the time of acquisition, the Company assesses whether it has control or significant influence over the acquiree. Control exists when the Company has power over an entity, when the Company is exposed, or has rights, to variable returns from the entity and when the Company has the ability to affect those returns through its power over the entity. Whereas significant influence exists when the Company has power to participate in the financial and operating policy decisions of the investee but without control or joint control over those policies. When control exists, the Company consolidates the results of the acquired entity whereas when significant influence exists, the Company accounts using the equity method of accounting.

3. MATERIAL ACCOUNTING POLICIES (continued)

(m) Significant accounting judgments and estimates (continued)

Control (continued)

In the acquisition of the initial 948,350 shares in Seyltx, it was assessed that no control or significant influence resides with Algernon considering the percentage of ownership interest and various other qualitative factors. Consequently, in accordance with accounting principles, this transaction has been treated as an investment in financial instruments. As such, the investment in Seyltx is classified as a financial asset and accounted under IFRS 9.

Investment in privately-held company

The Company's investment in Seyltx, a privately-held company, is initially recorded at fair value at the acquisition date. At the end of each reporting period, the Company's management evaluates and updates the fair value of the investment, reflecting the updated valuations in the consolidated financial statements.

Valuation of private company investments can be challenging due to limited availability, reliability, or completeness of financial information from the investee. The fair value of these investments may rely on significant inputs that are not derived from observable market data. Adjustments to fair value, whether upward or downward, are made when supported by strong and objective evidence, such as a substantial equity financing event involving an independent investor or significant corporate, political, or operational developments that, in management's judgment, affect the investee's prospects and, consequently, its fair value. The use of this valuation approach may involve uncertainties and determinations based on the Company's judgment and any value estimated from these may not be realized or realizable.

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.

3. MATERIAL ACCOUNTING POLICIES (continued)

(m) Significant accounting judgments and estimates (continued)

Intangible assets – Treatment and Recoverability (continued)

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

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.

Trademark application costs are capitalized and amortized over their estimated useful life of ten years.

In-licensed patents are capitalized and amortized over their remaining estimated useful life representing the remaining months to the expiration of the associated patent.

Patent application costs are capitalized and amortized 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.

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, 2024, the Company had a working capital deficit of $1,036,684 (2023 - $2,379,931). This included cash and cash equivalents of $596,198 (2023 - $125,085) available to meet short-term business requirements and current liabilities of $1,775,447 (2023 - $2,719,760). The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

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 assets exposed to interest rate risk consist of cash and cash equivalents and restricted cash equivalents. Restricted cash equivalents consist of GICs held at banking institutions that bear interest prime less 2.95% (2023 - 2.90%) 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 holds marketable securities from its investment in Seyltx. The Company is not exposed to significant other price risk as there is no active trading market for the common shares held in Seyltx.

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Market risk (continued)

c) Foreign currency risk

Foreign currency risk is related to fluctuations in foreign exchange rates. The Company has certain expenditures that are denominated in US dollars (“US$”), Australian dollars (“AUD$”), Euros and the British Pound Sterling (“GBP£”) and other operating expenses that are mainly in Canadian dollars (“CAD$”).

The Company holds funds in its Australian subsidiary in AUD$ and may fund additional cash calls to this foreign subsidiary in the future. The Company’s exposure to foreign currency risk arises primarily on fluctuations in the exchange rate of the CAD$ relative to the US$ and the AUD$.

As at August 31, 2024, the Company had monetary assets of US$111,409 or $150,302 (2023 - US$4,438 or $6,005) at the CAD$ equivalent and monetary liabilities of US$498,699 or $672,795 (2023 - US$498,244 or $674,174) at the CAD$ 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 $52,249 (2023 - $66,817).

As at August 31, 2024, the Company had monetary assets of AUD$5,443 or $4,973 (2023 - AUD$74,445 or $65,229) at the CAD$ equivalent and monetary liabilities of AUD$23,468 or $21,440 (2023 - AUD$481,839 or $422,188) at the CAD$ 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 $1,647 (2023 - $35,696).

As at August 31, 2024, the Company had monetary liabilities of $268,348 Euros or $400,402 (2023 - $418,062 Euros or $613,799) at the CAD$ 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 $40,040 (2023 - $61,380).

As at August 31, 2024, the Company had monetary liabilities of GBP£77,452 or $137,245 (2023 - GBP£66,639 or $114,245) at the CAD$ 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 $13,725 (2023 - $11,425).

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.

(Expressed in Canadian dollars)

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair value

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

		Financial Assets		Loans and Receivables		Financial Liabilities
		Fair Value Through Profit		Measured at Amortized Cost		Measured at Amortized Cost
August 31, 2024						
Cash and cash equivalents	$	596,198	$	-	$	-
Restricted cash equivalents		28,750		-		-
Accounts receivable		-		444		-
Accounts payable and accrued liabilities	$	-	$	-	$	(1,775,447)
August 31, 2023						
Cash and cash equivalents	$	125,085	$	-	$	-
Restricted cash equivalents		57,500		-		-
Accounts receivable		-		1,015		-
Accounts payable and accrued liabilities	$	-	$	-	$	(2,719,760)

5. ACCOUNTS RECEIVABLE

		August 31, 2024		August 31, 2023
Accrued interest receivable	$	444	$	1,015
GST receivable		15,242		31,330
R&D tax credit receivable		-		63,711
	$	15,686	$	96,056

6. PREPAID EXPENSES

		August 31, 2024		August 31, 2023
Marketing(1)	$	92,500	$	87,183
Office and general		3,099		-
Research and development		15,550		15,412
Shareholders communications		15,730		16,093
	$	126,879	$	118,688

(1) On July 15, 2024, the Company entered into a five-month marketing agreement with a third party for $100,000, whose founder participated in the Company's Unit offering completed on August 1, 2024 (note 10) for 1,667,000 units at a price of $0.12 per unit for total proceeds of $200,040. As at August 31, 2024, there is $70,000 recorded within prepaid expenses pertaining to amounts paid to this third party. At August 31, 2023, there was $25183 included within prepaid expenses pertaining to amounts paid to this third party whose founder participated in the Company's Unit offering competed on July 27, 2023 (note 10).

(Expressed in Canadian dollars)

7. RESTRICTED CASH EQUIVALENTS

As at August 31, 2024, the Company classified $28,750 (2023 - $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 2.95% (2023 - 2.90%) and mature five months from the purchase date and are automatically renewed on the maturity date.

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, 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
Additions	-	1,922	-	59,790	61,712
Disposals (note 11)	(486,276)	-	-	(189,851)	(676,127)
Balance, August 31, 2024	**$ 2,917,653**	**$ 23,270**	**$ -**	**$ 288,041**	**$ 3,228,964**

	Acquisition of Nash Pharma(1)	Trademark Application Costs(2)	In-licensed Patents(3)	Patent Application Costs(4)	Total
Accumulated Amortization					
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)
Amortization	-	(2,233)	-	(24,329)	(26,562)
Disposals (note 11)	-	-	-	21,134	21,134
Balance, August 31, 2024	**$ -**	**$ (5,490)**	**$ -**	**$ (46,947)**	**$ (52,437)**

	Acquisition of Nash Pharma(1)	Trademark Application Costs(2)	In-licensed Patents(3)	Patent Application Costs(4)	Total
Net Book Value					
Balance, August 31, 2023	$ 3,403,929	$ 18,091	$ -	$ 374,350	$ 3,796,370
Balance, August 31, 2024	**$ 2,917,653**	**$ 17,780**	**$ -**	**$ 241,094**	**$ 3,176,527**

(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 following the performance of an annual impairment test or an additional impairment test 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. Also see Note 11.

(2) The Company has filed trademark applications for the name "ALGERNON". The Company amortizes trademarks over their estimated useful life of ten years. The Company recorded $2,233 of amortization within general and administrative expenses on the consolidated statement of loss and comprehensive loss for the year ended August 31, 2024 (2023 - $1,685).

8. INTANGIBLE ASSETS (continued)

(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 did not record any amortization within research and development expenses on the consolidated statement of loss and comprehensive loss for the year ended August 31, 2024 (2023 - $20,915) relating to in-licensed patents. 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.

(4) The Company has filed new method of use patents for lead compounds for treatment of disease areas including NASH, CKD, 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. The Company amortizes its patent application costs over their remaining estimated useful life representing the remaining months to expiration of the associated patent. The Company recorded $24,329 of amortization within research and development expenses on the consolidated statement of loss and comprehensive loss for the year ended August 31, 2024 (2023 - $27,798). 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 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. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

During the year ended August 31, 2024, the Company negotiated an amount payable with a vendor of the Company resulting in a gain on settlement of trade payables totaling $245,461 recorded on consolidated statement of loss and comprehensive loss for the year ended August 31, 2024.

10. SHARE CAPITAL AND RESERVES

Share capital

Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at August 31, 2024, there were 27,300,819 (2023 - 15,775,757) common shares issued and outstanding.

Details of common shares are as follows.

During the year ended August 31, 2024:

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.

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 $0.07, exercise price of the warrant of $0.20; expected life of 2 years; expected volatility of 112.56%; risk-free rate of return of 3.91%; and expected dividend yield of 0%. The fair value of the share purchase warrant was determined to be $73,271.

10. SHARE CAPITAL AND RESERVES (continued)

Share capital (continued)

Issued and outstanding (continued)

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 and incurred other professional fees associated with the December 2023 Offering of $5,428, 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 $0.07; exercise price of the warrant of $0.20; expected life of 2 years; expected volatility of 112.56%; risk-free rate of return of 3.91%; and expected dividend yield of 0%. The fair value of the finders' warrants was determined to be $2,977, 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 December 2023 Offering and the fair value of the finders' warrants issued was $76,248.

On August 1, 2024, the Company completed a private placement of 3,400,000 units of the Company at a price of $0.12 per unit for gross proceeds of $408,000 (the "August 1, 2024 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 $0.24 for a period of 24 months after the closing date until August 1, 2026.

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 $0.13; exercise price of the warrant of $0.24; expected life of 2 years; expected volatility of 118.90%; risk-free rate of return of 3.36%; and expected dividend yield of 0%. The fair value of the share purchase warrant was determined to be $132,233.

In connection with the August 1, 2024 Offering, the Company issued a total of 44,800 finders' warrants from units sold under the August 1, 2024 Offering to purchasers introduced by eligible finders. Each finders' warrant entitles the holder to purchase one common share until August 1, 2026 at a price of $0.24. The Company also paid cash finders fees in the aggregate amount of $5,376 from the sale of units to purchasers introduced by the eligible finders and incurred other professional fees associated with the August 1, 2024 Offering of $3,175, 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 $0.13; exercise price of the warrant of $0.24; expected life of 2 years; expected volatility of 118.90%; risk-free rate of return of 3.36%; and expected dividend yield of 0%. The fair value of the finders' warrants was determined to be $2,793, 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 1, 2024 Offering and the fair value of the finders' warrants issued was $135,026.

On August 19, 2024, the Company completed a private placement of 1,960,000 units of the Company at a price of $0.12 per unit for gross proceeds of $235,200 (the "August 19, 2024 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 $0.24 for a period of 24 months after the closing date until August 19, 2026.

10. SHARE CAPITAL AND RESERVES (continued)

Share capital (continued)

Issued and outstanding (continued)

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 $0.12; exercise price of the warrant of $0.24; expected life of 2 years; expected volatility of 116.49%; risk-free rate of return of 3.33%; and expected dividend yield of 0%. The fair value of the share purchase warrant was determined to be $73,019.

In connection with the August 19, 2024 Offering, the Company issued a total of 40,000 finders' warrants from units sold under the August 19, 2024 Offering to purchasers introduced by eligible finders. Each finders' warrant entitles the holder to purchase one common share until August 19, 2024 at a price of $0.24. The Company also paid cash finders fees in the aggregate amount of $4,800 from the sale of units to purchasers introduced by the eligible finders and incurred other professional fees associated with the August 19, 2024 Offering of $1,832, 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 $0.12; exercise price of the warrant of $0.24; expected life of 2 years; expected volatility of 116.49%; risk-free rate of return of 3.33%; and expected dividend yield of 0%. The fair value of the finders' warrants was determined to be $2,161, 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 19, 2024 Offering and the fair value of the finders' warrants issued was $75,180.

There were 506,672 common shares issued to officers and directors of the Company as a result of the settlement of RSUs that vested between January 1, 2023 and January 1, 2024.

There were 1,625,000 common shares issued to officers and directors of the Company as a result of the settlement of RSUs that vested on January 30, 2024.

There were 100,000 common shares issued to a consultant of the Company as a result of the exercise of 100,000 stock options with an exercise price $0.075 per share.

There were 200,000 common shares with a fair value of $18,000 issued to Maxim Group LLC. ("Maxim") pursuant to an investment banking agreement signed on June 23, 2023 following the sale of the Company's chronic cough and IPF research program.

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.

10. SHARE CAPITAL AND RESERVES (continued)

Share capital (continued)

Issued and outstanding (continued)

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 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 were earned by Maxim following the sale of the Company's chronic cough and IPF research program.

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.

(Expressed in Canadian dollars)

10. SHARE CAPITAL AND RESERVES (continued)

Share capital (continued)

Issued and outstanding (continued)

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.

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 RSUs that vested on January 1, 2023.

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

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

The changes in stock options outstanding are as follows:

	Number of Stock Options	Weighted Average Exercise Price
Balance at August 31, 2022	943,000	$ 2.18
Expired	(12,000)	$ (12.00)
Balance outstanding at August 31, 2023	931,000	$ 2.05
Granted	100,000	$ (0.075)
Exercised	(100,000)	$ (0.075)
Expired	(146,000)	$ (1.69)
Balance outstanding at August 31, 2024	785,000	$ 2.12

(Expressed in Canadian dollars)

10. SHARE CAPITAL AND RESERVES (continued)

Share capital (continued)

Issued and outstanding (continued)

As at August 31, 2024, 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	0.45
April 13, 2020	April 13, 2025	81,000	$ 7.25	0.62
August 17, 2020	August 17, 2025	14,000	$ 8.75	0.96
January 1, 2022	January 1, 2027	282,000	$ 1.03	2.34
August 31, 2022	August 31, 2027	308,000	$ 1.35	3.00
Total outstanding		785,000	$ 2.12	2.16
Total exercisable		785,000	$ 2.12	2.16

Restricted Share Units

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

The changes in restricted share units outstanding are as follows:

	Number Outstanding
Balance at August 31, 2022	884,000
Settled	(117,328)
Balance at August 31, 2023	766,672
Granted	2,050,000
Settled	(2,131,672)
Expired	(260,000)
Balance at August 31, 2024	425,000
Balance vested at August 31, 2024	425,000

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.

(Expressed in Canadian dollars)

10. SHARE CAPITAL AND RESERVES (continued)

Share based payments (continued)

(a) Stock options (continued)

During the year ended August 31, 2024:

- On January 30, 2024, the Company granted a total of 100,000 incentive stock options to a consultant of the Company with an exercise price of $0.075 per share. The options expire on January 30, 2026. The fair value of the incentive stock options was determined using a Black-Scholes valuation model, including the exercise price of $0.075, risk-free rate of 4.04%, estimated life of two years, no dividend yield, and a volatility of 113.85%. The incentive stock options granted vested immediately.

- There were 100,000 common shares issued to a consultant of the Company as a result of the exercise of 100,000 stock options with an exercise price $0.075 per share.

- A total of 146,000 incentive stock options, 10,000 with exercise prices of $8.75, 76,000 with exercise prices of $1.03 and 60,000 with exercise prices of $1.35, were forfeited and cancelled. The fair value allocated to these stock options on issuance of $211,346 was reclassified from reserves to deficit.

During the year ended August 31, 2023:

- There were no stock options granted.

- There were no stock options exercised.

- 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.

Under the graded vesting method, $4,500 of share-based payment expense was recognized for stock options during the year ended August 31, 2024 (2023 - $233,678).

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	2024	2023
Risk-free interest rate	4.04%	N/A
Expected dividend yield	nil	N/A
Expected stock price volatility	113.85%	N/A
Expected option life in years	2.0	N/A
Forfeiture rate	nil	N/A

(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.

10. SHARE CAPITAL AND RESERVES (continued)

Share based payments (continued)

(b) Restricted Share Units (continued)

During the year ended August 31, 2024:

- On May 21, 2024, a total of 425,000 RSU units were granted to an employee and a consultant of the Company with a fair value of $0.14 per RSU based on the five-day volume average price of the Company's common shares on the CSE. The RSUs vested entirely on the grant date.
- On January 30, 2024, a total of 1,625,000 RSU units were granted to certain officers and directors of the Company with a fair value of $0.08 per RSU based on the five-day volume average price of the Company's common shares on the CSE. The RSUs vested entirely on the grant date.
- A total of 2,131,672 RSUs were settled resulting in the issuance of 2,131,672 common shares of the Company to officers and directors of the Company.
- A total of 260,000 RSUs were forfeited.

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.
- No RSUs were granted.
- No RSUs were forfeited.

Under the graded vesting method, share-based payments recognized for RSUs for the year ended August 31, 2024 totaled $282,158 (2023 - $1,023,143).

Overall, during the year ended August 31, 2024, the Company recorded a total of $286,658 (2023 - $1,256,821) of share-based payment expense for its reserves.

Effective July 10, 2024, by way of director's resolution, the Company has limited its total stock options and RSUs to a combined 10% of the issued and outstanding common shares of the Company. Previously each plan allowed for the issuance of 10% of the issued and outstanding common shares of the Company.

(Expressed in Canadian dollars)

10. SHARE CAPITAL AND RESERVES (continued)

Share purchase warrants

The changes in warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance at August 31, 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
Issued	9,093,333	$ 0.22
Balance at August 31, 2024	17,646,570	$ 0.42

As at August 31, 2024, 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	2.84
August 22, 2027	$ 1.06	1,495,600	2.98
November 5, 2024	$ 0.52	4,883,769	0.18
July 27, 2025	$ 0.25	1,025,000	0.90
December 27, 2025	$ 0.20	3,733,333	1.32
August 1, 2026	$ 0.24	3,400,000	1.92
August 19, 2026	$ 0.24	1,960,000	1.96
Total	$ 0.42	17,646,570	1.41

(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.

Agent warrant units

The changes in agent warrant units outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance at August 31, 2022	125,300	$ 1.03
Issued	165,166	$ 0.25
Balance at August 31, 2023	290,466	$ 0.59
Issued	204,800	$ 0.22
Balance at August 31, 2024	495,266	$ 0.43

(Expressed in Canadian dollars)

10. SHARE CAPITAL AND RESERVES (continued)

Agent warrant units (continued)

As at August 31, 2024, 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	2.84
August 22, 2027	$ 1.03	81,920	2.98
November 5, 2024	$ 0.25	165,166	0.18
December 27, 2025	$ 0.20	120,000	1.32
August 1, 2026	$ 0.24	44,800	1.92
August 19, 2026	$ 0.24	40,000	1.96
Total	$ 0.43	495,266	1.45

11. GAIN ON SALE OF RESEARCH PROGRAM

On March 26, 2024, the Company closed an agreement with Seyltx, a privately owned U.S. based drug development company, for the sale of the Company's Ifenprodil research and development program focused on IPF and chronic cough for the purchase price of US$2.0 million (approximately CAD$2.7 million) in cash and 1,896,700 common shares in Seyltx, representing a 20% equity position in Seyltx on a fully-diluted basis.

948,350 common shares were received and 948,350 common shares, representing fifty percent of the Company's initial equity position, was held-back by Seyltx for a period of six months from the closing date of the transaction as part of the indemnification provisions of the asset purchase agreement between the Company and Seyltx. The held-back shares were released to the Company on September 26, 2024, six months from the closing date. The Company received anti-dilution rights in certain circumstances and has committed to providing advisory support to Seyltx until the completion of the expected Phase 2b clinical trial for chronic cough.

At the closing date, the common share equity position in Seyltx was determined to have a nil fair value considering its negative net asset position and no recent equity financing with a third-party investor had closed. The equity position continues to have a nil fair value as at August 31, 2024 as there is no basis to estimate a different fair value.

Set out below are the details of the sale of the research and development program focused on IPF and chronic cough:

Cash consideration received	$ 2,714,400
Transaction costs paid in cash	(379,177)
Transaction costs paid by issuance of common shares	(18,000)
Total consideration	2,317,223
Carrying amount of net assets sold	654,992
Net gain on sale of research program	**$ 1,662,231**

Transaction costs consisted of legal fees and transaction advisory services. In connection with the transaction, Maxim was paid a transaction advisory services fee pursuant to an investment banking agreement with the Company whereby Maxim was retained to identify and evaluate potential merger and acquisition and strategic opportunities. Maxim also received 200,000 common shares of the Company with a fair value of $18,000 in connection with the investment banking agreement.

(Expressed in Canadian dollars)

12. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 27.00% (2023 - 27%) to income before income taxes. The reasons for the differences are as follows:

		2024		2023
Loss before income taxes	$	502,982	$	6,781,200
Statutory income tax rate		27%		27%
Income tax benefit computed at statutory tax rate		(135,805)		(1,830,924)
Permanent differences				
Share-based payments		134,828		339,342
Share issuance costs		(116,475)		(115,369)
Non-deductible research and development		-		(1,217)
Other		(49,584)		62,967
Differences attributable to income tax rates of other countries		(4,554)		(57)
Unrecognized benefit of deferred income tax assets		171,590		1,545,258
Income tax expense	$	-	$	-

Significant unrecognized tax benefits and unused tax losses for which no deferred tax asset is recognized as of August 31, 2024 and 2023 are as follows:

		2024		2023
Non-capital losses carried forward	$	25,993,000	$	24,833,000
Share issuance costs		407,000		809,000
License agreement		48,000		188,000
Other		1,609,000		444,000
	$	28,057,000	$	26,274,000

(Expressed in Canadian dollars)

12. INCOME TAXES (continued)

The Company's unrecognized unused non-capital losses for Canadian income tax purposes have the following expiry dates:

2034	$	42,000
2035		205,000
2036		1,069,000
2037		684,000
2038		1,360,000
2039		1,683,000
2040		4,283,000
2041		4,552,000
2042		5,007,000
2043		4,541,000
2044		1,962,000
	$	25,388,000

The Company's unrecognized unused non-capital losses for Australian income tax purposes of $605,000 (2023 - $780,000) have an indefinite carry forward period.

13. 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		2024		2023
Short-term benefits (1)	$	780,772	$	578,335
Consulting fees – other (2)		3,000		8,500
Share-based payment (3)		245,283		1,000,643
	$	1,029,055	$	1,587,478

(1) Salaries paid to officers and directors fees to independent directors:
- $385,000 (2023 - $220,000) to Chief Executive Officer, including bonuses for fiscal 2022 declared of $165,000;
- $210,000 (2023 - $120,000) to Chief Financial Officer, including bonuses for fiscal 2022 declared of $90,000;
- $109,500 (2023 - $130,000) to the Vice President Research and Operations, including bonuses of $44,500;
- $24,000 (2023 - $36,500) to the Chairman and independent director;
- $18,000 (2023 - $24,000) to an independent director;
- $18,000 (2023 - $24,000) to an independent director;
- $16,272 (2023 - $23,835) to an independent director, who was elected to the board of directors on February 28, 2022.

(2) For the year ended August 31, 2024, $3,000 (2023 - $3,500) was paid to a partnership where the Chairman and independent director was a partner for corporate secretarial services. For the year ended August 31, 2024, no amounts (2023 - $5,000) were paid to an independent director pertaining to scientific consulting services provided to the Company.

(Expressed in Canadian dollars)

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

(3) Share-based payments for the year ended August 31, 2024 were non-cash items that consisted of 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, 2024. 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.

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

As at	August 31, 2024	August 31, 2023
Key management personnel – directors fee	$ 22,889	15,031
Key management personnel – consulting fees	-	1,288
Total	$ 22,889	$ 16,319

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

14. RESEARCH AND DEVELOPMENT PROGRAMS

For the year ended	August 31, 2024	August 31, 2023
Clinical Trials:		
Phase 2 for IPF and chronic cough	$ 46,331	$ 13,207
Phase 1 DMT	496,738	915,718
	543,069	928,925
Preclinical:		
Ifenprodil preclinical and manufacture	3,844	14,590
DMT preclinical and manufacture	36,060	23,878
	39,904	38,468
Management and ad hoc scientific support	43,855	65,253
Amortization (note 8)	24,329	48,711
Total	651,157	1,081,357
Less: Australian R&D Tax Credit	-	13,802
Total Net Expenses	$ 651,157	$ 1,095,159

(Expressed in Canadian dollars)

15. RISK AND CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company in order to support future business opportunities. The Company defines its capital as shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to manage its capital to be able to sustain the future development of the Company's business. The Company currently has no source of revenues, and therefore, is dependent upon external financings to fund activities. In order to carry future projects and pay 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, 2024. The Company is not subject to externally imposed capital requirements.

16. 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, 2024, the Company's intangible assets are located as follows:

	Canada	Australia	Total
Intangible assets	$ 3,176,527	$ -	$ 3,176,527

As at August 31, 2023, the Company's intangible assets were located as follows:

	Canada	Australia	Total
Intangible assets	$ 3,796,370	$ -	$ 3,796,370

17. SUBSEQUENT EVENTS

Subsequent to August 31, 2024, 400 warrants with exercise prices of $0.52 were exercised for gross proceeds to the Company of $208.

On November 4, 2024, the Company extended the expiry date of an aggregate of 4,752,969 outstanding warrants (the "2023 Warrants"). The 2023 Warrants were issued in connection with the closing of a rights offering by the Company on May 5, 2023.

The initial exercise price of the 2023 Warrants is $0.52 and remains unchanged. The 2023 Warrants had an original expiration date of November 5, 2024. The Company extended the expiration date of the 2023 Warrants by an additional six months, so that the 2023 Warrants will expire on May 5, 2025. All other terms and conditions of the 2023 Warrants will remain unchanged.

17. SUBSEQUENT EVENTS (continued)

On November 5, 2024, 130,800 of the 2023 Warrants, all with exercise prices of $0.52, expired, unexercised. The 130,800 Warrants were issued as part of Rights Offering Units issued in the Rights Offering to settle transaction costs payable to the Soliciting Dealer. Additionally, 249,966 agent warrants issued to the Soliciting Dealer, all with exercise prices of $0.52, expired, unexercised.

As part of the sale of the research program described in note 11, 948,350 common shares, representing fifty percent of the Company's initial common share position, was to be held-back by Seyltx for a period of six months from the closing date of the transaction as part of the indemnification provisions of the asset purchase agreement between the Company and Seyltx. The held-back shares were released to the Company on September 26, 2024, six months from the closing date.