

ALGERNON PHARMACEUTICALS INC.

Condensed Interim Consolidated Financial Statements (Unaudited)

For the three months ended November 30, 2020 and 2019
(Expressed in Canadian dollars)

ALGERNON PHARMACEUTICALS INC.

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

	Note	November 30, 2020	August 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents	4	\$ 2,649,369	\$ 6,121,424
Accounts receivable	5	2,000,918	1,229,453
Prepaid expenses	6	467,030	387,348
Total current assets		5,117,317	7,738,225
Non-current assets			
Restricted cash equivalents	7	57,500	57,500
Deposits – long-term		22,487	-
Intangible assets	8	5,034,505	5,028,243
Total non-current assets		5,114,492	5,085,743
TOTAL ASSETS		\$ 10,231,809	\$ 12,823,968
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	10	\$ 1,128,700	\$ 607,053
Total liabilities		1,128,700	607,053
Shareholders' equity			
Share capital	9	21,822,525	21,343,530
Reserves	9	7,949,008	8,216,628
Accumulated other comprehensive income		91,602	120,245
Deficit		(20,760,026)	(17,463,488)
Total shareholders' equity		9,103,109	12,216,915
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 10,231,809	\$ 12,823,968

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

Approved on behalf of the Board:

“Christopher Moreau” (signed)

Christopher Moreau
Director and Chief Executive Officer

“David Levine” (signed)

David Levine
Director

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

Three months ended November 30	Note	2020	2019
EXPENSES			
General and administrative	10	\$ 45,095	\$ 20,297
Marketing		155,443	67,774
Professional fees	10	112,190	122,604
Research and development	5	2,505,231	18,372
Salaries and benefits	10	171,892	-
Share-based payment	9,10	392,775	-
Shareholder communications		58,129	28,170
		3,440,755	257,217
Interest income		(6,307)	(1,736)
Debt forgiveness	11	-	(137,833)
Impairment of research license	12	-	48,689
Net loss for the period		3,434,448	166,337
OTHER COMPREHENSIVE INCOME			
Item not classified into profit or loss:			
Foreign exchange loss on translation to reporting currency		28,643	16
Comprehensive loss for the period		\$ 3,463,091	\$ 166,353
Loss per common share			
Basic and fully diluted		\$ 0.02	\$ 0.00
Weighted average number of common shares outstanding		139,513,046	55,120,750

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

ALGERNON PHARMACEUTICALS INC.

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

Three months ended November 30	2020	2019
OPERATING ACTIVITIES		
Net loss for the period	\$ (3,434,448)	\$ (166,337)
Items not involving cash		
Share-based payment	392,775	-
Impairment of research license (note 6)	-	48,689
Unrealized foreign exchange (gain) loss	(96,652)	895
	(3,138,325)	(116,753)
Changes in non-cash operating working capital		
Accounts receivable	(715,596)	(18,310)
Prepaid expenses	(79,682)	(120,482)
Deposits – long-term	(22,487)	-
Accounts payable and accrued liabilities	533,614	(149,572)
	(3,422,476)	(405,117)
INVESTING ACTIVITIES		
Additions of intangible assets	(6,262)	(11,996)
	(6,262)	(11,996)
FINANCING ACTIVITIES		
Proceeds from shares issued for cash – net of financing costs	-	1,785,659
Proceeds from warrants exercised	68,405	-
Proceeds from compensation options exercised	17,564	-
Cash used for withholding of restricted share units	(129,459)	-
	(43,490)	1,785,659
Effect of exchange rate fluctuations on cash held	173	(158)
Increase (decrease) in cash and cash equivalents	(3,472,055)	1,368,388
Cash and cash equivalents, beginning of period	6,121,424	207,812
Cash and cash equivalents, end of period	\$ 2,649,369	\$ 1,576,200
Cash and cash equivalents is comprised of:		
Guaranteed Investment Certificates	\$ 2,100,000	\$ 1,000,000
Cash	549,369	576,200
	\$ 2,649,369	\$ 1,576,200
Supplemental cash flow information		
Non-cash investing and financing activities:		
Fair value of warrants issued with unit offering	\$ -	\$ 589,747
Fair value of warrants expired	\$ 137,910	\$ 1,317,304
Fair value of stock options expired	\$ -	\$ 26,509
Share issue costs included in accounts payable	\$ -	\$ 114,200
Intangible assets included in accounts payable	\$ -	\$ 1,247
Fair value of warrants exercised	\$ 10,920	\$ -
Fair value of compensation options exercised	\$ 5,158	\$ -
Common shares issued on settlement of restricted share units	\$ 376,948	\$ -
Interest paid	\$ -	\$ -
Taxes paid	\$ -	\$ -

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

ALGERNON PHARMACEUTICALS INC.

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

	Number of Shares	Share Capital	Reserves	Accumulated Other Comprehensive Income	Deficit	Total
Balance at August 31, 2019	47,344,512	\$ 12,587,435	\$ 2,517,348	\$ 136,950	\$ (10,269,094)	\$ 4,972,639
Shares issued for cash, net of financing costs	24,401,300	1,136,398	553,725	-	-	1,690,123
Expiration of stock options	-	-	(26,509)	-	26,509	-
Expiration of warrants	-	-	(1,317,304)	-	1,317,304	-
Other comprehensive loss	-	-	-	(16)	-	(16)
Net loss for the period	-	-	-	-	(166,337)	(166,337)
Balance at November 30, 2019	71,745,812	\$ 13,723,833	\$ 1,727,260	\$ 136,934	\$ (9,091,618)	\$ 6,496,409
Balance at August 31, 2020	138,337,979	\$ 21,343,530	\$ 8,216,628	\$ 120,245	\$ (17,463,488)	\$ 12,216,915
Expiration of warrants	-	-	(137,910)	-	137,910	-
Exercise of warrants	570,040	79,325	(10,920)	-	-	68,405
Exercise of compensation options	206,626	22,722	(5,158)	-	-	17,564
Settlement of restricted share units	1,068,521	376,948	(506,407)	-	-	(129,459)
Share-based payment	-	-	392,775	-	-	392,775
Other comprehensive loss	-	-	-	(28,643)	-	(28,643)
Net loss for the period	-	-	-	-	(3,434,448)	(3,434,448)
Balance at November 30, 2020	140,183,166	\$ 21,822,525	\$ 7,949,008	\$ 91,602	\$ (20,760,026)	\$ 9,103,109

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

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended November 30, 2020 and 2019
(Expressed in Canadian dollars)

1. NATURE AND GOING CONCERN

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

Algernon is a drug re-purposing company that investigates safe, already approved drugs for multiple new disease applications, moving them efficiently and safely into new human trails. The Company’s lead compound is a drug called Ifenprodil which is being investigated in clinical trails for idiopathic pulmonary fibrosis (“IPF”) and chronic cough as well as COVID-19.

Algernon is a clinical stage pharmaceutical development company focused on developing repurposed therapeutic drugs in the areas of non-alcoholic steatohepatitis (“NASH”), a type of liver disease, chronic kidney disease (“CKD”), inflammatory bowel disease (“IBD”), idiopathic pulmonary fibrosis (“IPF”) and chronic cough. Drug re-purposing (also known as re-profiling, re-tasking or therapeutic switching) is the application of approved drugs and compounds to treat a different disease than what it originally developed for. All the research and development (“R&D”) work are carried out by the Company’s 100% owned Canadian subsidiary, Nash Pharmaceuticals Inc. (“Nash Pharma”). On January 6, 2020, Nash Pharma established a 100% owned Australian subsidiary, Algernon Research Pty Ltd. (“AGN Research”). Through its ongoing research programs, Nash Pharma is seeking to minimize investment and drug development risk by taking advantage of regulatory approved drugs and discovering alternative clinical uses by accelerating entry into phase II clinical trials (human).

As at November 30, 2020, the Company has an accumulated deficit of \$20,760,026 (August 31, 2020 - \$17,463,488) and for the period ended incurred a net loss of \$3,434,448 (November 30, 2019 - \$166,337). The Company will need to raise sufficient working capital to maintain operations. Without additional financing, the Company may not be able to fund its ongoing operations and complete development activities. Management anticipates that the Company will continue to raise adequate funding through equity or debt financings, although there is no assurance that the Company will be able to obtain adequate funding on favorable terms. These uncertainties may cast significant doubt on the Company’s ability to continue as a going concern. These condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. These condensed interim consolidated financial statements do not reflect adjustments, which could be material, to the carrying value of assets and liabilities, which may be required should the Company be unable to continue as a going concern.

Impact of COVID-19

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness.

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

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended November 30, 2020 and 2019
(Expressed in Canadian dollars)

1. NATURE AND GOING CONCERN (continued)

Impact of COVID-19 (continued)

Coupled with the Company's own animal data showing Ifenprodil's reduction of lung fibrosis in two separate studies, the Company is investigating Ifenprodil to determine if it can reduce the severity and duration of a COVID infection.

The Company has announced that it is expecting to report final data from the Phase 2b part of its multinational Phase 2b/3 human study of NP-120 (Ifenprodil) for the treatment of COVID-19 by the end of February, 2021.

It is currently not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

2. BASIS OF PRESENTATION

(a) Statement of compliance

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

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

(b) Approval of the condensed interim consolidated financial statements

The condensed interim consolidated financial statements of the Company for the period ended November 30, 2020 were approved and authorized for issuance by the Board of Directors on January 29, 2021.

(c) Foreign currencies

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

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended November 30, 2020 and 2019
(Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (continued)

(c) Foreign currencies (continued)

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

(d) Use of accounting estimates and judgements

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

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

All intercompany transactions and balances have been eliminated on consolidation.

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with a counter party's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to its cash and cash equivalents and accounts receivable. The Company's accounts receivable is mainly comprised of GST receivable, accrued interest receivable from GIC's held with bank, and accrued Australia R&D tax credit receivable. GST receivable and Australia R&D tax credit receivable are not financial instruments as they do not arise from contractual obligations. The Company limits exposure to credit risk on bank deposits by holding demand deposits in high credit quality banking institutions in Canada. Management believes that the credit risk with respect to receivables is minimal.

Liquidity risk

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

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended November 30, 2020 and 2019
(Expressed in Canadian dollars)

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk (continued)

At November 30, 2020, the Company had a working capital of \$3,988,617 compared to working capital at August 31, 2020 of \$7,131,172. This included cash and cash equivalents of \$2,649,369 (August 31, 2020 - \$6,121,424) available to meet short-term business requirements and current liabilities of \$1,128,700 (August 31, 2020 - \$607,053).

Market risk

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

a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash is limited because of the short-term investment nature. The Company's financial asset exposed to interest rate risk consists of cash and cash equivalents and restricted cash equivalents. The Company's cash equivalents hold interest rates ranging from 0.15% to 1.8%.

b) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant other price risk.

c) Foreign currency risk

Foreign currency risk is related to fluctuations in foreign exchange rates. The Company has certain expenditures that are denominated in US dollars ("US\$"), Australian dollars ("AUD\$") and other operating expenses that are mainly in Canadian dollars ("CAD\$"). The Company funds cash calls to its foreign subsidiary in Australia in AUD\$. The Company's exposure to foreign currency risk arises primarily on fluctuations in the exchange rate of the CAD\$ relative to the US\$ and the AUD\$.

As at November 30, 2020, the Company had monetary assets of US\$161,570 or \$209,475 (August 31, 2020 - US\$21,499 or \$28,040) at the CAD equivalent and monetary liabilities of US\$208,765 or \$270,664 (August 31, 2020 - US\$84,285 or \$109,924) at the CAD equivalent. The Company's sensitivity analysis suggests that a change in the absolute rate of exchange in US\$ by 10% will increase or decrease other comprehensive loss by approximately \$6,119 (August 31, 2020 - \$8,188).

The Company has not entered into any foreign currency contracts to mitigate this risk. Foreign currency risk is considered low relative to the overall financial operating plan.

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values.

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended November 30, 2020 and 2019
(Expressed in Canadian dollars)

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair Value (continued)

- Level 1 – fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – fair values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or
- Level 3 – fair values are based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

	Financial Assets		Financial Assets		Financial Liabilities	
	Fair Value Through Profit		Measured at Amortized Cost		Measured at Amortized Cost	
November 30, 2020						
Cash and cash equivalents	\$	2,649,369	\$	-	\$	-
Accounts receivable		-		37,032		-
Accounts payable and accrued liabilities	\$	-	\$	-	\$	(1,128,700)

	Financial Assets		Financial Assets		Financial Liabilities	
	Fair Value Through Profit		Measured at Amortized Cost		Measured at Amortized Cost	
August 31, 2020						
Cash and cash equivalents	\$	6,121,424	\$	-	\$	-
Accounts receivable		-		37,408		-
Accounts payable and accrued liabilities	\$	-	\$	-	\$	(607,053)

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

5. ACCOUNTS RECEIVABLE

	November 30, 2020	August 31, 2020
Accrued interest receivable	\$ 6,106	\$ 21,364
GST receivable	237,272	206,667
Other receivable ^{(1) (2)}	1,757,540	1,001,422
	\$ 2,000,918	\$ 1,229,453

(1) The Australia R&D tax credit allows qualifying companies to receive a cash refund at 43.5% of the eligible R&D expenditure connected to R&D activities undertaken in Australia. As at November 30, 2020, cash refundable of \$1,726,613 (August 31, 2020 - \$985,378) is recognized as a recovery of R&D expenditures over the relevant periods to match it with the related expenditures.

(2) As at November 30, 2020, research claim receivable of \$30,927 (August 31, 2020 - \$16,044) for the months of October and November 2020 from National Research Council Canada.

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended November 30, 2020 and 2019
(Expressed in Canadian dollars)

6. PREPAID EXPENSES

	November 30, 2020	August 31, 2020
Conferences	\$ 25,000	\$ 25,000
Consulting	867	-
Marketing	89,241	195,704
Office and general	24,715	30,052
Professional fees – legal retainer	10,895	10,895
Research and development	308,444	113,887
Shareholders communications	7,868	11,810
	\$ 467,030	\$ 387,348

7. RESTRICTED CASH EQUIVALENTS

As at November 30, 2020 and August 31, 2020, the Company classified \$57,500 as restricted cash equivalents. This amount is held as collateral for the Company's corporate credit cards and is invested in GICs at a rate of prime less 1.85%.

8. INTANGIBLE ASSETS

	Acquisition of Nash Pharma ⁽¹⁾	Trademark Application Costs ⁽³⁾	Patent Application Costs ⁽²⁾	Total
Cost				
Balance, August 31, 2019	\$ 4,862,756	\$ 5,403	\$ 83,521	\$ 4,951,680
Additions	-	7,825	68,738	76,562
Balance, August 31, 2020	\$ 4,862,756	\$ 13,228	\$ 152,259	\$ 5,028,243
Additions	-	467	5,795	6,262
Balance, November 30, 2020	\$ 4,862,756	\$ 13,695	\$ 158,054	\$ 5,034,505

(1) No amortization was taken on the intangibles acquired from the acquisition of Nash Pharma as the assets are not available for use.

(2) The Company has filed new method of use patents for lead compounds for treatment of three new disease areas: NASH, CKD and IBD. The likelihood of the application success is not known. No amortization was taken as the assets are not available for use.

(3) The Company has filed trademark applications for the name "ALGERNON". No amortization was taken.

9. SHARE CAPITAL AND RESERVES

Share capital

Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at November 30, 2020, there were 140,183,166 (August 31, 2020 – 138,337,979) common shares issued and outstanding. Details of common shares are as follows:

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended November 30, 2020 and 2019
(Expressed in Canadian dollars)

9. SHARE CAPITAL AND RESERVES (continued)

Share capital (continued)

During the period ended November 30, 2020:

- On September 29, 2020, a total of 1,068,521 of common shares were issued net of withholding taxes in settlement of the 1,435,500 restricted share units ("RSUs) that were settled. The RSUs were granted on July 23, 2020 with a fair value of \$0.35 per RSU. The total gross fair value of the vested RSUs was \$506,407. A total of 366,979 common shares were withheld in lieu of withholding taxes in the amount of \$129,459. The fair value of the common shares issued was \$376,948.
- 263,000 common shares were issued in connection with the exercise of 263,000 tradeable warrants at a price of \$0.12 per tradeable warrant for gross proceeds of \$31,560. The fair value allocated to these warrants on issuance of \$4,706 was reclassified from reserves to share capital.

307,040 common shares were issued in connection with the exercise of 307,040 non-tradeable warrants at a price of \$0.12 per non-tradeable warrant for gross proceeds of \$36,845. The fair value allocated to these warrants on issuance of \$6,214 was reclassified from reserves to share capital.

- 206,626 common shares were issued in connection with the exercise of 206,626 Agent Warrant Units at a price of \$0.085 per unit for gross proceeds of \$17,564. The fair value allocated to the share component of these units on issuance of \$5,158 was reclassified from reserves to share capital.

During the period ended November 30, 2019:

- On November 1, 2019, the Company closed a public offering of 24,401,300 units of the Company at a price of \$0.085 per unit for gross proceeds of \$2,074,110 (the "November 2019 Offering"). Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at the price of \$0.12 for a period of 30 months after the closing date until May 1, 2022. These share purchase warrants in connection with the public offering are tradeable on the Canadian Securities Exchange ("CSE") under the symbol "AGN.WT". Using the relative fair value approach and based on the listed share price of \$0.075 on November 1, 2019 and listed warrant price of \$0.020 on November 4, 2019 (the first day of trading), the fair value attributed to the warrants was determined to be \$436,655.

In addition, a total of 1,801,080 of Agent Warrant Units (also referred as Compensation Options) were issued. Each Agent Warrant Unit entitles the holder to purchase one unit of the Company at a price of \$0.085 per unit until May 1, 2022. Each unit consists of one common share and one common share purchase warrant entitling the holder to acquire an additional common share at the price of \$0.12. These share purchase warrants are tradeable on the CSE under the symbol AGN.WT.

The fair value per share on date of issuance was \$0.075. The Agent Warrant Units were valued using a Geske compound options pricing model with the following inputs on date of issuance: allocated share price of \$0.075 for the share component of the unit; allocated price of \$0.010 for the warrant component of the unit; exercise price of the warrant of \$0.12; expected life of 2.5 years for both the share component and warrant component of the unit; expected volatility of 126.18%; risk-free rate of return of 1.55%; and expected dividend yield of 0%. The fair value of the Agent Warrant Units was determined to be \$117,070.

The total of the fair value of the warrants associated with the units of the November 2019 Offering and the fair value of the Agent Warrant Units issued was \$553,725.

The Company also incurred cash share issue costs of \$383,987 related to this public unit offering

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended November 30, 2020 and 2019
(Expressed in Canadian dollars)

9. SHARE CAPITAL AND RESERVES (continued)

Stock options

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

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

During the three months ended November 30, 2020 and 2019:

- There were no stock options granted by the Company.

The changes in stock options outstanding are as follows:

	Number of Stock Options	Weighted Average Exercise Price
Balance at August 31, 2019	1,387,500	\$ 0.46
Granted	9,525,000	\$ 0.21
Exercised ⁽¹⁾	(75,000)	\$ 0.17
Expired	(100,000)	\$ 0.39
Balance outstanding at August 31, 2020	10,737,500	\$ 0.24
Balance exercisable at August 31, 2020	10,637,500	\$ 0.24
Balance outstanding and exercisable at November 30, 2020	10,737,500	\$ 0.24

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

As at November 30, 2020, 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 1, 2016	February 1, 2021	537,500	\$ 0.50	0.17
May 18, 2017	May 18, 2022	162,500	\$ 0.30	1.46
March 1, 2018	March 1, 2023	562,500	\$ 0.48	2.25
February 13, 2020	February 13, 2025	4,325,000	\$ 0.10	4.21
April 13, 2020	April 13, 2025	4,550,000	\$ 0.29	4.37
August 17, 2020	August 17, 2025	600,000	\$ 0.35	4.72
Total		10,737,500	\$ 0.24	3.96

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended November 30, 2020 and 2019
(Expressed in Canadian dollars)

9. SHARE CAPITAL AND RESERVES (continued)

Restricted Share Units

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

During the year ended August 31, 2020:

- On July 23, 2020, a total of 4,350,000 RSUs were granted to certain directors, officers and consultants of the Company with a fair value of \$0.35 per RSU. 33% was vested on the grant date with another 33% to be vested on January 22, 2021 and the remaining 34% to be vested on July 22, 2021. The RSUs expire on July 22, 2022.

The changes in RSUs outstanding are as follows:

	Number Outstanding ⁽²⁾	Number Vested	Number Unvested ⁽²⁾
Balance at August 31, 2019	-	-	-
Granted	4,350,000	1,435,500	2,914,500
Balance at August 31, 2020	4,350,000	1,435,500	2,914,500
Settled ⁽¹⁾	(1,435,500)	(1,435,500)	-
Balance at November 30, 2020	2,914,500	-	2,914,500

⁽¹⁾ On September 29, 2020, a total of 1,068,521 of common shares were issued net of withholding taxes in settlement of the 1,435,500 RSUs that were vested. A total of 366,979 of common shares were withheld in lieu of withholding taxes in the amount of \$129,459.

⁽²⁾ The Company has until July 22, 2022 to complete the settlement of vested RSUs. The remaining life of the outstanding and unvested RSUs is 1.64 years; 1,435,500 to be vested on January 22, 2021 and the remaining 1,479,000 to be vested on July 22, 2021.

Share-based payments

(a) Stock options

- No stock options were granted during the three months ended November 30, 2020 and 2019. There was no share-based payment recognized for new stock option grants in the three months ended November 30, 2020 and 2019.
- 100,000 of the 4,550,000 stock options granted on April 13, 2020 vested on October 13, 2020. Under the graded vesting method, \$10,517 was recognized as share-based payment for the three months ended November 30, 2020 (2019 - \$nil).

(b) Restricted Share Units

- On September 29, 2020, a total of 1,068,521 of common shares were issued net of withholding taxes in settlement of the 1,435,500 RSUs that were settled. The RSUs were granted on July 23, 2020 with a fair value of \$0.35 per RSU. The total gross fair value of the vested RSUs was \$506,407. A total of 366,979 common shares were withheld in lieu of withholding taxes in the amount of \$129,459.
- Under the graded vesting method, at November 30, 2020, the fair value of the unvested 2,914,500 RSUs was \$382,258 which was recognized as share-based payment for the three months ended November 30, 2020. No RSUs were granted during the three months ended November 30, 2019.

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended November 30, 2020 and 2019
(Expressed in Canadian dollars)

9. 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, 2019	22,115,266	\$ 0.28
Issued	64,730,390	\$ 0.25
Exercised	(26,188,077)	\$ 0.12
Expired	(16,026,666)	\$ 0.24
Balance at August 31, 2020	44,630,913	\$ 0.34
Issued	206,626	\$ 0.12
Exercised	(570,040)	\$ 0.12
Expired	(2,088,600)	\$ 0.50
Balance at November 30, 2020	42,178,899	\$ 0.34

As at November 30, 2020, the Company had the following warrants outstanding:

Date of Expiry	Exercise Price	Number of Warrants	Weighted Average Remaining Life in Years
July 18, 2021 ⁽¹⁾	\$ 0.25	4,000,000	0.63
May 1, 2022 ⁽²⁾	\$ 0.12	7,137,118	1.42
May 13, 2022	\$ 0.55	19,605,285	1.45
August 20, 2022	\$ 0.12	11,436,496	1.72
Total	\$ 0.34	42,178,899	1.44

⁽¹⁾ On July 6, 2020, the expiry date of the remaining 4,000,000 Nash replacement share purchase warrants was amended from July 18, 2020 to July 18, 2021 with all other terms remaining the same.

⁽²⁾ Warrants that were issued on November 1, 2019 ("November Warrants") and tradeable under the symbol of AGN.WT had their expiry date accelerated to January 21, 2021.

Agent warrant units

The changes in agent warrant units outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance at August 31, 2019	-	\$ -
Issued	4,275,944	\$ 0.178
Exercised	(2,418,866)	\$ 0.085
Balance at August 31, 2020	1,857,078	\$ 0.300
Exercised	(206,626)	\$ 0.085
Balance at November 30, 2020	1,650,452	\$ 0.327

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended November 30, 2020 and 2019
(Expressed in Canadian dollars)

9. SHARE CAPITAL AND RESERVES (continued)

Agent warrant units (continued)

As at November 30, 2020, the Company had the following agent warrant units outstanding:

Date of Expiry	Exercise Price	Number of Agent Warrant Units	Weighted Average Remaining Life in Years
May 1, 2022	\$ 0.085	130,119	1.42
May 13, 2022	\$ 0.350	1,505,293	1.45
August 20, 2022	\$ 0.085	15,040	1.72
Total	\$ 0.327	1,650,452	1.45

10. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

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

Related party transactions to key management personnel are as follows:

Three months ended November 30	2020	2019
Short-term benefits ⁽¹⁾	\$ 138,000	\$ -
Consulting fees – other ⁽²⁾	-	78,999
Share-based payments ⁽³⁾	329,533	-
Rent ⁽⁴⁾	9,000	6,000
	\$ 476,533	\$ 84,999

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

- \$55,000 (November 30, 2019 - \$nil) to Chief Executive Officer;
- \$30,000 (November 30, 2019 - \$nil) to Chief Financial Officer;
- \$50,000 (November 30, 2019 - \$nil) to Chief Science Officer;
- \$1,500 (November 30, 2019 - \$nil) to an independent director;
- \$1,500 (November 30, 2019 - \$nil) to an independent director.

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

- \$nil (November 30, 2019 - \$27,000) to a company controlled by the Chief Executive Officer;
- \$nil (November 30, 2019 - \$12,000) to a company controlled by the Chief Financial Officer;
- \$nil (November 30, 2019 - \$39,999) to the Chief Science Officer.

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

⁽⁴⁾ Rent:

- \$9,000 (November 30, 2019 - \$6,000) paid for corporate office space to a company where a senior officer and director is a principal.

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

As at	November 30, 2020	August 31, 2020
Key management personnel – expense reimbursements	\$ -	\$ -

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended November 30, 2020 and 2019
(Expressed in Canadian dollars)

11. DEBT FORGIVENESS

On November 13, 2019, the Company terminated the research and development agreement with the University of Florida (“UF”) with no additional cost on either party. It effectively absolved the Company from paying the quarterly payments that were recorded as payables and accruals at the year ended August 31, 2019. As a result, the Company recognized a debt forgiveness of \$137,833 for the three months ended November 30, 2019.

12. IMPAIRMENT OF RESARCH LICENSE

The US subsidiary, Breathtec Medical, Inc., prior to its dissolution in February of 2020, made a formal request on January 7, 2020 to terminate the license agreement it held with the University of Florida Research Foundation (“UFRF”). The termination of the license agreement resulted in an impairment loss of \$48,689 recognized for the three months ended November 30, 2019.

13. RISK AND CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company in order to support future business opportunities. The Company defines its capital as shareholders’ equity. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company’s management to manage its capital to be able to sustain the future development of the Company’s business. The Company currently has no source of revenues, and therefore, is dependent upon external financings to fund activities. In order to carry future projects and pay administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company’s approach to capital management during the period ended November 30, 2020. The Company is not subject to externally imposed capital requirements.

14. SEGMENTED DISCLOSURES

The Company is a Canadian clinical stage pharmaceutical development company that operates in two reportable operating segments being the development of repurposed therapeutic drugs in Canada and the facilitation of the Company’s lead drug candidates into off-label phase II clinical trials (humans) in Australia. All of the Company’s expenditures are incurred in both Canada and Australia. Geographical information of the Company’s long-term assets are as follows:

As at November 30, 2020, the Company’s long-term assets are located as follows:

	Canada	Australia	Total
Restricted cash equivalents	\$ 57,500	\$ -	\$ 57,500
Deposits – Long-term	22,487	-	22,487
Intangible asset	5,034,505	-	5,034,505
	\$ 5,114,492	\$ -	\$ 5,114,492

ALGERNON PHARMACEUTICALS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended November 30, 2020 and 2019
(Expressed in Canadian dollars)

14. SEGMENTED DISCLOSURES (continued)

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

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

15. SUBSEQUENT EVENTS

Subsequent to the period ended November 30, 2020:

- A total of 6,817,651 tradeable warrants with an exercise price of \$0.12 per warrant were exercised for gross proceeds of \$818,118;
- A total of 5,320,521 non-tradeable warrants with an exercise price of \$0.12 per warrant were exercised for gross proceeds of \$638,463;
- A total 98,860 Agents Warrants (also referred as Compensation Options) with an exercise price of \$0.085 per unit were exercised for gross proceeds of \$8,403.