Consolidated financial statements of

NervGen Pharma Corp.

(Expressed in Canadian Dollars)

For the years ended December 31, 2019 and 2018

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
NervGen Pharma Corp.

Opinion

We have audited the accompanying consolidated financial statements of NervGen Pharma Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency), and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its 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 Auditor's 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.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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 auditor's 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.

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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.

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's 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.

The engagement partner on the audit resulting in this independent auditor's report is Glenn Parchomchuk.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

April 29, 2020

NERVGEN PHARMA CORP.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

as at	**December 31, 2019**	December 31, 2018
	$	$
Assets		
Current assets		
Cash	**4,106,183**	2,474,340
Accounts receivable	**122,502**	25,843
Prepaids and deposits (Notes 7, 12)	**2,027,176**	49,375
	6,255,861	2,549,558
Non-current assets		
Intangible assets (Note 8)	**509,608**	547,829
	509,608	547,829
	6,765,469	3,097,387
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	**751,560**	390,802
Due to related parties (Note 12)	**172,389**	58,074
	923,949	448,876
Non-current liabilities		
License fee payable (Note 8)	**-**	134,230
	-	134,230
	923,949	583,106
Shareholders' Equity		
Common shares (Note 10)	**15,293,689**	3,846,630
Reserves (Note 11)	**1,683,734**	37,947
Deficit	**(11,135,903)**	(1,370,296)
	5,841,520	2,514,281
	6,765,469	3,097,387

Nature of business (Note 1)
Subsequent events (Note 15)

Approved by the Board

/s/ William J. Radvak Director   */s/ Brian E. Bayley* Director

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

NERVGEN PHARMA CORP.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

	For the Year Ended December 31, 2019 $	For the Year Ended December 31, 2018 $
Operating expenses		
Research and development (Note 13)	**6,447,211**	780,401
General and administration (Note 13)	**3,417,223**	578,082
Total operating expenses	**9,864,434**	1,358,483
Interest income	**(98,827)**	-
Net loss and comprehensive loss for the year	**(9,765,607)**	(1,358,483)
Basic and diluted net loss per share	**(0.38)**	(0.17)
Weighted average common shares outstanding (Note 10)	**25,902,344**	8,065,720

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

NERVGEN PHARMA CORP.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	For the Year Ended December 31, 2019 $	For the Year Ended December 31, 2018 $
Operating activities		
Loss for the year	**(9,765,607)**	(1,358,483)
Items not involving cash:		
Amortization of intangible asset	**38,221**	19,763
Stock-based compensation	**1,293,687**	37,947
Unrealized foreign exchange	**133,070**	(43,634)
Changes in non-cash working capital:		
Accounts receivable	**(96,659)**	(25,843)
Prepaid expenses	**(53,558)**	(49,375)
Due to related parties	**114,315**	106,541
Accounts payable and accrued liabilities	**242,571**	273,005
	(8,093,960)	(1,040,079)
Investing activities		
Payments to acquire intangible asset	**-**	(126,815)
	-	(126,815)
Financing activities		
Proceeds from issuance of common shares	**10,740,000**	3,591,468
Share issue costs - cash	**(900,791)**	-
	9,839,209	3,591,468
Effect of foreign exchange on cash	**(113,406)**	49,766
Net increase in cash	**1,631,843**	2,474,340
Cash, beginning of year	**2,474,340**	-
Cash, end of year	**4,106,183**	2,474,340
Cash paid for interest and taxes	$ -	$ -
Non-cash transactions:		
Agent compensation options	352,100	-
Allocation of prepaid financing cost to share issue cost	25,000	-
Shares issued for deposit	1,984,950	
Shares issued for intangible asset	-	169,130
Accrual for binding license obligations	-	200,558
Shares issued for settlement of amounts due to related parties	-	86,032
Reclassification of deferred acquisition costs to intangible asset	-	83,249

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

NERVGEN PHARMA CORP.

Consolidated Statement of Changes in Shareholders' Equity (Deficiency)

(Expressed in Canadian dollars)

	Common Shares				Total Shareholders'
	Number	Amount	Reserves	Deficit	Equity (Deficiency)
		$	$	$	$
Balance December 31, 2017	**2**	**-**	**-**	**(11,813)**	**(11,813)**
Common share financings	16,599,998	3,677,500	-	-	3,677,500
Common shares issued for license	601,659.00	169,130	-	-	169,130
Stock-based compensation	-	-	37,947	-	37,947
Loss and comprehensive loss	-	-	-	(1,358,483)	(1,358,483)
Balance December 31, 2018	**17,201,659**	**3,846,630**	**37,947**	**(1,370,296)**	**2,514,281**
Common share financings	10,650,000	9,836,641	-	-	9,836,641
Shares issued for deposit (net)	1,500,000	1,962,518	-	-	1,962,518
Agent compensation options	-	(352,100)	352,100	-	-
Stock-based compensation	-	-	1,293,687	-	1,293,687
Loss and comprehensive loss	-	-	-	(9,765,607)	(9,765,607)
Balance December 31, 2019	**29,351,659**	**15,293,689**	**1,683,734**	**(11,135,903)**	**5,841,520**

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

1. Nature of business

NervGen Pharma Corp. (the "Company" or "NervGen") is a publicly traded company incorporated on January 19, 2017 under the *Business Corporations Act* (British Columbia). The corporate office of the Company is located at Suite 1703, 595 Burrard Street, Vancouver, BC, V7X 1J1, Canada, and the registered office is located at Suite 2600, 595 Burrard Street, Vancouver BC V7X 1L3, Canada.

On March 13, 2019, the Company completed an initial public offering ("IPO") of its common shares. The IPO consisted of the issuance of 10,000,000 common shares at a price of $1.00 per share for gross proceeds of $10,000,000. Also, on March 15, 2019, NervGen's common shares commenced trading on the TSX-V under the symbol "NGEN".

The Company's shares were listed on the U.S. over-the counter OTCQB® market, on May 3, 2019 under trading symbol "NGENF" and were subsequently uplisted to the OTCQX® on June 10, 2019.

The Company's principal business activity is the discovery, development and commercialization of pharmaceutical products for the treatment of nerve injuries. NervGen is advancing its lead compound, NVG-291, for the treatment of spinal cord injury ("SCI") and multiple sclerosis ("MS"). The Company has also initiated a preclinical research and development program to determine if its technology could have a positive effect on Alzheimer's disease.

2. Significant accounting policies

a) *Basis of measurement and statement of compliance*

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the Interpretations of the International Financial Reporting and Interpretations Committee ("IFRIC").

The financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of NervGen and its subsidiary is the Canadian dollar.

The financial statements were approved by the Company's Board of Directors and authorized for issue on April 24, 2020.

b) *Going Concern*

These consolidated financial statements have been prepared in accordance with IFRS accounting principles applicable to a going concern using the historical cost basis.

Management has forecasted the Company will have sufficient working capital to operate for the ensuing 12 months. While the Company has been successful in the past in obtaining financing, there can be no assurance that the Company will be able to obtain adequate financing, or that such financing will be on terms acceptable to the Company, to meet future operational needs which may result in the delay, reduction, or discontinuation of ongoing development programs.

These consolidated financial statements do not reflect the adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and settle its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements. Such amounts could be material.

c) *Principles of Consolidation*

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary NervGen US Inc. The subsidiary is fully consolidated from the date at which control is determined to have

2. Significant accounting policies cont'd

occurred and are deconsolidated from the date that the Company no longer controls the entity. Intercompany transactions, balances, and gains and losses on transactions between subsidiaries are eliminated.

d) Foreign currency

Transactions in foreign currencies are translated to the functional currency at the rate on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange as at the reporting date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

e) Cash

Cash consists of amounts held in banks. Interest from cash is recorded on an accrual basis. The Company does not have any cash equivalents.

f) Research and development costs

Expenditures on research and development activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Investment tax credits related to current expenditures are included in the determination of profit or loss as the expenditures are incurred when there is reasonable assurance they will be realized.

Development activities involve a plan or design for the discovery, preclinical and clinical evaluation and manufacturing 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. These criteria will be deemed by the Company to have been met when revenue is received by the Company and a determination that it has sufficient resources to market and sell its product offerings. Upon a determination that the criteria to capitalize development expenditures have been met, the expenditures capitalized will include the cost of materials, direct labor and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures will be expensed as incurred.

Capitalized development expenditures will be measured at cost less accumulated amortization and accumulated impairment losses. No development costs have been capitalized to date.

g) Intangible assets

The Company has acquired certain intellectual property licenses. The Company expenses patent costs, including license fees and other maintenance costs, until such time as the Company has certainty over the future recoverability of the intellectual property at which time it capitalizes the costs incurred. The Company will capitalize costs directly related to the acquisition of licensed patents.

The Company does not hold any intangible asset with an indefinite life.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization method and amortization period of an intangible asset with a finite life is reviewed at least annually. Changes in the expected useful life or 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 are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in general and administrative expenses.

2. Significant accounting policies cont'd

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use.

h) Income taxes

Current tax and deferred tax are recognized in the Company's profit or loss, except to the extent that it relates to a business combination or items recognized directly in equity.

Current income taxes are recognized for the estimated taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the period end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax assets can be utilized. At the end of each reporting period, the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has been probable that future taxable profit will allow the deferred tax asset to be recovered.

i) Basic and diluted loss per common share

Basic loss per share is computed by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share.

j) Equipment

The Company capitalizes fixed assets that exceed $2,500 in value.

Depreciation is recognized using the straight-line method based on an expected life of the assets.

Computer equipment	2 years

<u>Impairment of long-lived assets:</u>

The Company's long-lived assets are reviewed for indications of impairment at the date of preparing each statement of financial position. If indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying value of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other assets or groups of assets. For the purpose of impairment testing, the Company determined it has one cash-generating unit. The recoverable amount is the greater of the asset's fair value less cost to sell and value in use.

2. Significant accounting policies cont'd

k) Stock-based compensation

The Company has a stock-based compensation plan (the "Plan") available to officers, directors, employees and consultants with grants under the Plan approved by the Company's Board of Directors. Under the Plan, the exercise price of each option is determined by the Board of Directors. Vesting is provided for at the discretion of the Board of Directors and the expiration of options is to be no greater than 10 years from the date of grant. The Company uses the fair value-based method of accounting for employee awards granted under the Plan. The Company calculates the fair value of each stock option grant using the Black Scholes option pricing model at the grant date. The stock-based compensation cost of the options is recognized as stock-based compensation expense over the relevant vesting period of the stock options using an estimate of the number of options that will eventually vest.

Stock options awarded to non-employees are accounted for at the fair value of the goods received or the services rendered. The fair value is measured at the date the Company obtains the goods or the date the counterparty renders the service. If the fair value of the goods or services cannot be reliably measured, the fair value of the options granted will be used.

l) Financial instruments

<u>Financial assets</u>

The Company's financial assets are comprised of cash, deposits and accounts receivable. All financial assets are initially recorded at fair value plus directly attributable transaction costs except for fair value through profit or loss where costs are expensed. Financial assets are designated upon inception into one of three categories: fair value through profit or loss ("FVTPL"); fair value through other comprehensive income ("FVOCI"); or amortized cost.

Subsequent to initial recognition, the financial assets are measured in accordance with the following:

- FVTPL: Financial instruments or assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a financial instrument that is subsequently measured at FVTPL and is not part of a hedging relationship is recognized in net income (loss) and presented net in comprehensive income (loss) in the period in which it arises. The Company has classified its cash as fair value through profit or loss.
- Amortized cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Finance income from these financial instruments is recorded in net income (loss) using the effective interest rate method. Deposits and accounts receivable are classified as amortized cost.
- Fair value through other comprehensive income ("FVOCI"): Financial instruments that are held for collection of contractual cash flows and for selling the financial instruments, where the financial instruments' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognized in net income (loss). When the financial instrument is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to net income (loss).

<u>Impairment of financial assets</u>

An expected credit loss ("ECL") model applies to financial assets measured at amortized cost and contract assets, but not to investments in equity instruments. The ECL model requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective

2. Significant accounting policies cont'd

interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period. In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. The Company's financial assets measured at amortized cost are subject to the ECL model.

Financial liabilities

The Company's financial liabilities are comprised of accounts payable, accrued liabilities, due to related parties and license fee payable. Financial liabilities are recognized initially at fair value plus any directly attributable transaction costs, and subsequently at amortized cost using the effective interest rate method.

A financial liability is derecognized when its contractual obligations are discharged, cancelled or expired.

m) Warrants issued in equity financing transactions

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and to explore and evaluate additional product development opportunities. These equity financing transactions may involve issuance of common shares together with warrants. Depending on the terms and conditions of each of the equity financing transactions, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated in the transaction. Warrants are assigned a value, based on the residual value, if any, and included in reserves.

Warrants that are issued as payment for agency or finders' fees or other transaction costs are accounted for as share-based payments.

n) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid in short term cash bonuses if the Company expects to pay these amounts as approved by the Board of Directors as a result of past services provided by the employee and the obligation can be estimated reliably.

o) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are assessed by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount on provisions is recognized in finance costs. A provision for onerous contracts is recognized when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

p) New standards, amendments and interpretations adopted during 2019

The Company has adopted new accounting standard IFRS 16 - Leases, effective for the Company's annual period beginning January 1, 2019. The adoption of IFRS 16 did not result in any changes to the Company's financial statements.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model, with certain exemptions. The standard includes two recognition exemptions for lessees – leases of "low-value" assets and short-term leases with a lease term of 12 months or less. At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term.

2. Significant accounting policies cont'd

Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees are also required to remeasure the lease liability upon the occurrence of certain events, such as a change in lease term. The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

3. Key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are accounted for prospectively.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities are discussed below:

Intangible assets

The Company estimates the useful lives of intangible assets from the date they are available for use in the manner intended by management and periodically reviews the useful lives to reflect management's intent about developing and commercializing the assets.

Valuation of stock-based compensation and warrants

Management will measure the costs for stock-based compensation and warrants using market-based option valuation techniques. Assumptions are made and estimates are used in applying the valuation techniques. These include estimating the future volatility of the share price, expected dividend yield, expected risk-free interest rate, future employee turnover rates, future exercise behaviors and corporate performance. Such estimates and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates of stock-based compensation and warrants.

Functional currency

Management considers the determination of the functional currency of the Company a significant judgment. Management has used its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions and considered various factors including the currency of historical and future expenditures and the currency in which funds from financing activities are generated. A Company's functional currency is only changed when there is a material change in the underlying transactions, events and conditions.

Deferred taxes

The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax carry-forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore do not necessarily provide certainty as to their recorded values.

4. Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The Company has one reportable operating segment being the research and development of pharmaceutical drugs. All of the Company's assets are located in Canada.

5. Capital disclosures

The Company's objectives, when managing capital, are to safeguard cash as well as maintain financial liquidity and flexibility in order to preserve its ability to meet financial obligations and deploy capital to grow its businesses.

The Company's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to business growth opportunities and changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue shares or issue debt (secured, unsecured, convertible and/or other types of available debt instruments).

There were no changes to the Company's capital management policy during the year. The Company is not subject to any externally imposed capital requirements.

6. Financial risk management

(a) Fair value

The Company's financial instruments recognized on the statement of financial position consist of cash, accounts receivable, deposits, accounts payable and accrued liabilities, due to related parties and license fee payable. The fair value of these instruments, approximate their carry values due to their short-term maturity.

(b) Classification of financial instruments

Financial instruments measured at fair value on the statement of financial position are summarized into the following fair value hierarchy levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Cash is measured using level 1 inputs.

The Company has exposure to the following risks from its use of financial instruments: credit, interest rate, currency and liquidity risk. The Company reviews its risk management framework on a quarterly basis and makes adjustments as necessary.

(c) Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations.

The Company will manage credit risk associated with its cash by maintaining minimum standards of R1-med or A-high investments and the Company will invest only in highly rated Canadian corporations which are capable of prompt liquidation.

(d) Interest rate risk

Interest rate risk is the risk that the fair values and future cash flows of the Company will fluctuate because of changes in market interest rates. The Company believes that its exposure to interest rate risk is not significant.

(e) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The ability to do so relies on the Company maintaining sufficient cash in excess of anticipated needs. As at December 31, 2019, the Company's liabilities consist of, accounts payable and accrued liabilities and amounts due to related parties that have contracted maturities of less than one year.

6. Financial risk management cont'd

(f) Currency risk

Currency risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk from employee costs as well as the purchase of goods and services primarily in the United States and cash balances held in U.S. dollars. Fluctuations in the U.S. dollar exchange rate could have a significant impact on the Company's results. Assuming all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the U.S. dollar would result in an increase or decrease in loss and comprehensive loss for the year ended December 31, 2019 of $336,000 (December 31, 2018 - $61,000).

Balances in U.S. dollars are as follows:

	December 31, 2019 $U.S.	December 31, 2018 $U.S.
Cash	**3,059,250**	814,638
Accounts payable and accrued liabilities	**(475,885)**	(367,211)
	2,583,365	447,427

7. Prepaid expenses

	December 31, 2019 $	December 31, 2018 $
Vendor deposits (note 10)	**1,952,400**	-
Prepaid insurance premiums	**10,843**	750
Prepaid consulting and expenses to related parties (note 12)	**31,500**	23,625
Prepaid listing fees	**31,549**	-
Prepaid retainer	**884**	25,000
	2,027,176	49,375

8. Intangible asset

In June 2018, the Company entered into an exclusive worldwide licensing agreement to research, develop and commercialize a patented technology, with Case Western Reserve University ("Case Western Reserve") in Cleveland, Ohio with potential to bring new therapies for spinal cord injury and other conditions associated with nerve damage.

Case Western Reserve was issued 439,000 common shares of the Company valued at $87,800 on closing and a cash payment of $32,920 (U.S. $25,000). An additional 162,659 common shares valued at $81,330 were issued in September 2018. This share issuance fulfilled the Company's final requirement to issue anti-dilution shares to Case Western Reserve. No further anti-dilution shares are required to be issued under this agreement.

The Company had agreed to reimburse certain past expenses incurred by Case Western in stages over a period of three years, subject to an acceleration clause. As at December 31, 2019, the long-term binding portion of these obligations is $nil (2018 - $134,230).

Additional cash payments are payable to Case Western Reserve pursuant to completion of development and sales milestones and tiered royalties are payable on net sales.

(Expressed in Canadian Dollars)

8. Intangible asset cont'd

The license costs are being amortized straight-line over the remaining life of the licensed patent of 15 years. During the year ended December 31, 2019, the Company recognized amortization of $38,221 (December 31, 2018 - $19,763).

Continuity of the intangible asset is as follows:

Intangible asset – Case Western Reserve license	Total
Balance, December 31, 2017	**$ -**
Allocation of deferred acquisition costs	83,249
Upfront cash fee	32,920
Annual minimum royalty	13,183
Legal fees	22,455
Binding acquisition obligations	246,655
Shares issued for acquisition	169,130
Amortization expense	(19,763)
Balance, December 31, 2018	**547,829**
Amortization expense	(38,221)
Balance, December 31, 2019	**$ 509,608**

9. Accounts payable and accrued liabilities

	December 31, 2019 **$**	December 31, 2018 $
Accounts payable	**501,923**	46,417
Accrued liabilities	**249,637**	344,385
	751,560	390,802

10. Share capital

Authorized

Unlimited common shares.

Escrowed securities

In connection with the IPO completed on March 13, 2019, an aggregate of 8,425,000 common shares were placed in escrow.

Pursuant to the escrow agreements, 6,318,750 common shares of the Company remain in escrow as at December 31, 2019 and will be released in various tranches over the remainder of the 36 month period after the IPO.

Equity Issuances

Fiscal 2019

The Company issued 10,000,000 common shares for net cash proceeds of $9,155,976 and granted 700,000 non-transferable compensation options (7% of common shares issued), exercisable at $1.00 per share to the agent and brokerage firms involved in the financing, with a 2-year life and a fair value of $352,100 using the Black-Scholes option pricing model.

(Expressed in Canadian Dollars)

10. Share capital cont'd

350,000 shares were issued at $1.00 each and 300,000 shares at $1.30 each for net proceeds of $680,665 in a private placement.

The Company entered into an agreement and issued 1,500,000 common shares with a fair value of $1,984,950, and recorded net of share issue costs of $22,432, to its peptide manufacturing partner, CSBio, as a deposit.

Fiscal 2018
The Company issued 16,599,998 common shares for cash proceeds of $3,591,468 and settlement of amounts due to related parties of $86,032. A total of 601,659 common shares, valued at $169,130, were issued for license acquisition.

Calculation of loss per share

Loss per common share is calculated using the weighted average number of common shares outstanding.
For the years ended December 31, 2019 and 2018 the calculation was as follows:

	2019	2018
Common shares issued and outstanding, beginning of year	**17,201,659**	2
Shares issued	**12,150,000**	17,201,657
Common shares issued and outstanding, end of year	**29,351,659**	17,201,659
Weighted average shares outstanding, end of year – basic and diluted	**25,902,344**	8,065,720

11. Stock options

Year Ended December 31, 2019
The following options were issued during the year ended December 31, 2019:

- stock options to purchase 1,050,000 common shares exercisable at $1.00 per share, with a 5-year life and a fair value of $754,950 using the Black-Scholes option pricing model and vest over varying periods of approximately three years;
- stock options to purchase 380,000 common shares exercisable at $1.54 per share, with a 5-year life and a fair value of $462,080 using the Black-Scholes option pricing model and vest over varying periods of approximately three years;
- stock options to purchase 100,000 common shares exercisable at $1.54 per share, with a 3-year life and a fair value of $102,700 using the Black-Scholes option pricing model and vesting over 1 year.
- stock options to purchase 50,000 common shares exercisable at a price of $1.40 per share, with a 5-year life and a fair value of $50,300 using the Black-Scholes option pricing model and vest 25% every quarter until fully vested.
- stock options to purchase 1,230,000 common shares exercisable at $1.49 per share, with a 10-year life and a fair value of $1,643,280 using the Black-Scholes option pricing model and vest over varying periods of approximately two years;
- stock options to purchase 30,000 common shares exercisable at $1.55 per share, with a 5-year life and a fair value of $34,800 using the Black-Scholes option pricing model and vesting over 1 year.

In addition to stock options granted under the Company's stock option plan, 700,000 non-transferable agent compensation options related to the IPO were granted at $1.00 per share, with a 2-year life and a fair value of $352,100 using the Black-Scholes option pricing model.

During the year ended December 31, 2019, the Company recognized $1,293,687 in share-based compensation expense.

(Expressed in Canadian Dollars)

11. Stock options cont'd

Year Ended December 31, 2018

During the year ended December 31, 2018 the Company granted stock options to purchase 350,000 common shares exercisable at $0.50 per share, with a 5-year life and a fair value of $126,000 using the Black-Scholes option pricing model and vest over varying periods of approximately three years.

During the year ended December 31, 2018, the Company recognized $37,947 in share-based compensation expense.

Stock option transactions for the years ended December 31, 2019 and 2018 are set forth below:

	Number of shares issuable under options	Weighted average exercise price
Balance outstanding at December 31, 2017	-	$ -
Granted	350,000	0.50
Balance outstanding at December 31, 2018	350,000	$ 0.50
Granted[(1)]	3,540,000	1.25
Balance outstanding at December 31, 2019	**3,890,000**	**$ 1.19**

(1) 2,840,000 stock options were granted under the Company's stock option plan. 700,000 non-transferable agent compensation options were granted related to the IPO.

The following table summarizes information about stock options outstanding at December 31, 2019:

Exercise Price ($)	Number of Options Outstanding	Number of Options Exercisable	Grant Date	Expiry Date
0.50	350,000	250,000	September 5, 2018	September 5, 2023
1.00	1,050,000	875,000	January 17, 2019	January 17, 2024
1.00	700,000	700,000	March 13, 2019	March 13, 2021
1.54	380,000	120,000	June 1, 2019	June 1, 2024
1.54	100,000	50,000	June 1, 2019	June 1, 2022
1.40	50,000	12,500	July 5, 2019	July 5, 2024
1.49	1,230,000	20,000	November 26, 2019	November 26, 2029
1.55	30,000	-	December 17, 2019	December 17, 2024
	3,890,000	**2,027,500**		

The weighted average remaining contractual life of the options outstanding is 5.36 years and the weighted average exercise price is $1.19. The weighted average remaining contractual life of the options exercisable is 3.06 years and the weighted average exercise price is $0.99.

The fair value of options granted is estimated on the grant date using the Black-Scholes option pricing model using the following variables:

	December 31, 2019	December 31, 2018
Risk-free interest rate	1.62-2.16%	1.75%
Expected option life in years	2-10 years	5 years
Expected stock price volatility	94-109.16%	94%
Expected forfeiture rate	15%	15%
Dividend yield	-	-

(Expressed in Canadian Dollars)

12. Related party disclosures

Key management personnel, consisting of the Company's officers (Founder, President and Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Vice President – Clinical Operations, Vice President – Chemistry Manufacturing and Controls) and directors, received the following compensation for the years ended December 31:

	2019	2018
	$	$
Salaries and bonuses	**889,715**	123,330
Stock based compensation	**763,767**	22,586
Consulting fees	**370,650**	146,397
Related party rent	**6,000**	2,625
	2,030,132	294,938

As at December 31, 2019, the Company had amounts owing or accrued to related parties of $172,389 (December 31, 2018 - $58,074) pertaining to rent, expense reimbursements, and bonuses.

Prepaid expenses to related parties are disclosed in Note 7.

13. Components of expenses

	2019	2018
	$	$
Research and Development Expenses		
Chemistry, manufacturing and controls	**3,178,925**	296,929
Preclinical	**1,432,613**	160,329
Salaries and benefits	**916,598**	179,259
Stock-based compensation	**374,596**	7,681
Other research and development	**281,269**	19,049
Licensing and patent legal fees	**153,859**	117,154
Clinical	**73,168**	-
Regulatory	**36,183**	-
	6,447,211	780,401

	2019	2018
	$	$
General and Administration Expenses		
Legal, professional and finance	**1,466,665**	368,772
Stock-based compensation	**919,091**	30,266
Salaries and benefits	**528,283**	133,944
Other general and administrative	**324,230**	(31,256)
Facilities and operations	**140,733**	56,593
Amortization expense	**38,221**	19,763
	3,417,223	578,082

(Expressed in Canadian Dollars)

14. Income taxes

a) Provision for Income Tax

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2019	2018
	$	$
Loss for the year	(9,765,607)	(1,358,483)
Expected income tax (recovery)	(2,637,000)	(367,000)
Change in statutory, foreign tax, foreign exchange rates	(20,000)	16,000
Permanent differences	349,000	11,000
Share issue costs	(250,000)	-
Change in unrecognized deductible temporary differences	2,558,000	340,000
Total income tax expense (recovery)	**-**	-
Current income tax	$ -	$ -
Deferred tax recovery	$ -	$ -

b) Deferred income tax

	2019	2018
	$	$
License	62,000	5,000
Share issue costs	200,000	-
Non-capital losses available for future periods	2,644,000	343,000
	2,906,000	348,000
Unrecognized deferred tax asset	(2,906,000)	(348,000)
Net deferred tax assets	**-**	-

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included in the consolidated statements of financial position are as follows:

	2019	**Expiry**	**2018**	**Expiry**
License	$ 228,000	None	$ 20,000	None
Share issue costs	741,000	2020-2023	-	-
Non-capital losses available for future periods	9,747,000	See below	1,311,000	See below
Canada	8,381,000	2037-2039	1,035,000	2037-2038
USA	1,366,000	2038-2039	276,000	2038

15. Subsequent events

Subsequent to December 31, 2019:

1. 104,000 agent compensation options issued at $1.00, were exercised for gross proceeds of $104,000.

2. 10,000 stock options issued at $1.00, were exercised for gross proceeds of $10,000.

3. Stock options to purchase 800,000 common shares exercisable at $3.13 per share, with a 10-year life and vest 25% every six months from issuance, were issued on February 21, 2020.

4. Stock options to purchase 80,000 common shares exercisable at $2.99 per share, with a 10-year life and vest 25% every six months from issuance, were issued on February 24, 2020.

5. In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread globally, has adversely affected workforces, economies, and financial markets, leading to an economic downturn. It has also disrupted the normal operations of many businesses, including ours and it is not possible for us to predict the duration or magnitude of the adverse results of the outbreak and its effects on our business or results of operations at this time. As a result of this uncertainty, we have taken the following measures in order to conserve cash while minimally impacting operations:
    - The majority of external consulting contracts have been reduced or suspended unless directly related to development programs or financing;
    - Effective April 10, 2020, Denis Bosc, NervGen's Vice President, Chemistry, Manufacturing and Controls left the Company;
    - Effective April 1, 2020, NervGen's remaining Executive Team agreed to a temporary compensation reduction in exchange for a one-time grant of additional stock options, and;
    - Effective April 6, 2020, the Company's non-executive staff also agreed to a temporary salary reduction in exchange for a one-time grant of additional stock options or received working notice of termination.

    On April 6, 2020 the Company granted 280,000 incentive stock options to Directors and Officers and an additional 96,000 incentive stock options to employees exercisable at a price of $1.13 per share for a period of 10 years. All options will vest over a two-year period.