Consolidated Financial statements of

NervGen Pharma Corp.

(Expressed in Canadian Dollars)

For the year ended December 31, 2018 and the period from incorporation on January 19, 2017 to December 31, 2017

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, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the year ended December 31, 2018 and for the period from incorporation on January 17, 2017 to December 31, 2017, 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, 2018 and 2017, and its financial performance and its cash flows for the year ended December 31, 2018 and for the period from incorporation on January 17, 2017 to December 31, 2017, 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.

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
March 19, 2019

Chartered Professional Accountants

NERVGEN PHARMA CORP.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

as at	**December 31, 2018**	December 31, 2017
	$	$
Assets		
Current assets		
Cash	**2,474,340**	-
Accounts receivable	**25,843**	-
Prepaids and deferred financing costs (Notes 7, 12)	**49,375**	-
	2,549,558	-
Non-current assets		
Intangible assets (Note 8)	**547,829**	-
Deferred acquisition costs (Note 8)	**-**	83,249
	547,829	83,249
	3,097,387	83,249
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	**390,802**	57,497
Due to related parties (Note 12)	**58,074**	37,565
	448,876	95,062
Non-current liabilities		
License fee payable (Note 8)	**134,230**	-
	134,230	-
	583,106	**95,062**
Shareholders' Equity (Deficiency)		
Common shares (Note 10)	**3,846,630**	-
Reserves (Note 11)	**37,947**	-
Deficit	**(1,370,296)**	(11,813)
	2,514,281	**(11,813)**
	3,097,387	**83,249**

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, 2018	From Incorporation on January 19, 2017 December 31, 2017
	$	$
Expenses		
General and administration (Note 13)	**578,082**	11,813
Research and development (Note 13)	**780,401**	-
Net loss and comprehensive loss for the period	**(1,358,483)**	**(11,813)**
Basic and diluted net loss per share	**(0.17)**	(5,907)
Weighted average common shares outstanding (Note 10)	**8,065,720**	2

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

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

	For the Year Ended December 31, 2018	From Incorporation on January 19, 2017 to December 31, 2017
	$	$
Operating activities		
Loss for the period	**(1,358,483)**	(11,813)
Items not involving cash:		
Amortization of intangible asset	**19,763**	-
Stock-based compensation	**37,947**	-
Unrealized foreign exchange	**(43,634)**	-
Changes in non-cash working capital:		
Accounts receivable	**(25,843)**	-
Prepaid expenses	**(49,375)**	-
Due to related parties	**106,541**	3,247
Accounts payable and accrued liabilities	**273,005**	8,566
	(1,040,079)	-
Investing activities		
Payments to acquire intangible asset	**(126,815)**	-
	(126,815)	-
Financing activities		
Proceeds from issuance of common shares	**3,591,468**	-
	3,591,468	-
Effect of foreign exchange on cash	**49,766**	-
Net increase (decrease) in cash	**2,474,340**	-
Cash, beginning of period	**-**	-
Cash, end of period	**2,474,340**	-
Cash paid for interest and taxes	$ -	$ -
Non-cash transactions:		
Shares issued for intangible asset	169,130	-
Accrual for binding license obligations	194,530	-
Shares issued for settlement of amount due to related parties	86,032	-
Reclassification of deferred acquisition costs to intangible asset	83,249	-
Deferred acquisition costs	-	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' Equity (Deficiency)
	Number	Amount	Reserves	Deficit	
		$	$	$	$
Opening balance January 19, 2017 [1]	2	-	-	-	-
Loss and comprehensive loss	-	-	-	(11,813)	(11,813)
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	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**

(1) issued at $0.01 per share

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 private company incorporated on January 19, 2017 under the *Business Corporations Act* (British Columbia). The corporate office of the Company is Suite 1703, 595 Burrard Street, Vancouver, BC, V7X 1J1, Canada, and the registered office is located at Suite 704, 595 Howe Street, Vancouver, BC, V6C 2T5, Canada.

Subsequent to the year ended December 31, 2018, the Company completed an initial public offering ("IPO") of its common shares and listing as a Tier 2 company on the TSX Venture Exchange ("TSX-V").

The IPO consisted of the issuance of 10,000,000 common shares of the Company at a price of $1.00 per share for gross proceeds of $10,000,000. NervGen's common shares commenced trading on the TSX-V under the symbol "NGEN" on March 15, 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 a drug candidate called NVG-291 initially for the treatment of spinal cord injury while exploiting its technologies to identify additional therapeutic candidates for other related medical conditions.

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 March 19, 2019.

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 that based on the subsequent IPO, the Company will have sufficient working capital to execute its current planned expenditures for the next 12 months without further financing being obtained. However, there can be no assurance that the capital will be adequate to meet continuing expenditures. There can be no assurance that the Company will be able to obtain sufficient financing 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 occurred and are deconsolidated from the date that the Company no longer

2. Significant accounting policies cont'd

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

2. Significant accounting policies cont'd

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.

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

2. Significant accounting policies cont'd

Impairment of long-lived assets:

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.

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*

Financial assets

The Company's financial assets are comprised of cash 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 and 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:

- Financial assets classified as fair value through profit or loss are measured at fair value. All gains and losses resulting from changes in their fair value are included in the profit or loss in the period in which they arise. 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.
- 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

2. Significant accounting policies cont'd

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).

- FVTPL: Financial instruments 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 assesses at each reporting period date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset or the group of financial assets have been negatively impacted.

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

2. Significant accounting policies cont'd

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 2018*

The Company has adopted new accounting standard IFRS 9 - Financial Instruments, effective for the Company's annual period beginning January 1, 2018. The adoption of IFRS 9 did not result in any changes to the classification, measurement or carrying amounts of the Company's existing financial instruments on transition date.

The new standard brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 - Financial instruments: recognition and measurement. The standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value.

The Company continues to classify and measure its cash at fair value through profit or loss with changes in fair value recognized in profit or loss as they arise ("FVTPL"). Accounts receivables are classified initially at FVTPL, and subsequently at amortized cost using the effective interest rate method. Accounts payable and accrued liabilities, dues to related parties and license fee payable are classified and measured as financial liabilities, initially at FVTPL, and subsequently at amortized cost using the effective interest rate method.

q) *New standards and interpretations not yet effective*

The following IFRS pronouncement has been issued but is not yet effective:

IFRS 16, Leases. In January 2016 the IASB issued IFRS 16 Leases ("IFRS 16") which requires lessees to recognize assets and liabilities for most leases on their statements of financial position. Lessees applying IFRS 16 will have a single accounting model for all leases, with certain exemptions. The new standard will be effective for annual periods beginning on or after January 1, 2019 with limited early application permitted. The Company believes that the adoption of this standard will not have a material impact on the financial statements.

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:

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.

3. Key sources of estimation uncertainty cont'd

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.

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.

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.

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, 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, with the exception of the license fee payable, which is discounted using a valuation model.

6. Financial risk management cont'd

(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, 2018, 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. Additionally, it has long term license fee payable of $134,230.

(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 foreign currencies. 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, 2018 of $61,000 (December 31, 2017 - $Nil).

Balances in U.S. dollars are as follows:

	December 31, 2018 $U.S.	December 31, 2017 $U.S.
Cash	**814,638**	-
Accounts payable and accrued liabilities	**(367,211)**	-
	447,427	-

7. Prepaid expenses

	December 31, 2018 $	December 31, 2017 $
Prepaid insurance	**750**	-
Prepaid consulting to related parties (Note 12)	**23,625**	-
Prepaid retainer	**25,000**	-
	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 on September 13, 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.

Case Western Reserve had a pre-emptive right to maintain its percentage ownership and participate in any further financings on the same terms as other investors until the Company completes an IPO, which was completed subsequent to the year ended December 31, 2018 (Note 14).

The Company has agreed to reimburse certain past expenses incurred by Case Western Reserve in stages over a period of three years, subject to an acceleration clause, in addition to advance minimum royalty payments escalating over time. As of December 31, 2018, the long term binding portion of these obligations is $134,230. In accordance with the CWRU license agreement, the entire remaining liability will become due within 30 days of the closing US $10,000,000 in equity or debt financing raised by the Company, subsequent to execution of the license agreement. The successful completion of the subsequent IPO has resulted in the Company meeting the funding threshold thereby accelerating the payment of this liability, subsequent to year-end.

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.

The license costs are being amortized straight-line over a remaining minimum life of the licensed patent of 15 years. During the year ended December 31, 2018, the Company recognized amortization of $19,763 (2017 - $nil).

(Expressed in Canadian Dollars)

8. Intangible asset cont'd

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**

9. Accounts payable and accrued liabilities

	December 31, 2018 **$**	December 31, 2017 $
Accounts payable and accrued liabilities	**390,802**	57,497

10. Share capital

Authorized

Unlimited common shares.

Equity Issuances

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.

Fiscal 2017
During the period ended December 31, 2017, the Company issued 2 common shares for $0.01 per share.

Calculation of loss per share

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

	December 31, 2018
Common shares issued and outstanding, beginning of year	2
Shares issued	17,201,657
Common shares issued and outstanding, end of year	**17,201,659**
Weighted average shares outstanding, end of year	**8,065,720**

(Expressed in Canadian Dollars)

11. Stock options

During the year ended December 31, 2018 the Company granted stock options to purchase 350,000 common shares 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 year ended December 31, 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**

The following table summarizes information about stock options outstanding at December 31, 2018:

	Options Outstanding			Options Exercisable	
Exercise Price	Number of Shares issuable under Options	Weighted average remaining contractual life	Weighted average exercise price	Number of Shares issuable under Options	Weighted average exercise price
$		**Years**	**$**		**$**
0.50	350,000	4.68	0.50	-	-
	350,000	4.68	0.50	-	-

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, 2018	December 31,2017
Risk-free interest rate	1.75%	-
Expected option life in years	5 years	-
Expected stock price volatility	94%	-
Expected forfeiture rate	15%	-
Dividend yield	0%	-

12. Related party disclosures

Key management personnel, consisting of the Company's officers (Founder, President and Secretary) and directors, received the following compensation for the following periods:

	December 31, 2018	December 31, 2017
	$	$
Consulting fees	**146,397**	30,953
Salaries	**123,330**	-
Stock option expense	**22,586**	-
Related party rent	**2,625**	-
	294,938	30,953

(Expressed in Canadian Dollars)

12. Related party disclosures cont'd

As at December 31, 2018, the Company had amounts owing or accrued to related parties of $58,074 (2017 - $37,565) pertaining to rent, consulting fees, expense reimbursements and bonuses.

Prepaid expenses to related parties are disclosed in Note 7.

13. Components of expenses

	December 31, 2018	December 31, 2017
	$	$
General and Administration Expenses		
Amortization expense	**19,763**	-
Facilities and operations	**56,593**	-
Legal, professional and finance	**368,772**	11,813
Salaries and benefits	**133,944**	-
Stock-based compensation	**30,266**	-
Other general and administrative	**(31,256)**	-
	578,082	11,813

	December 31, 2018	December 31, 2017
	$	$
Research and Development Expenses		
Pre-clinical	**160,329**	-
Chemistry, manufacturing and controls	**296,929**	-
Licensing & patent legal fees	**117,154**	
Salaries and benefits	**179,259**	-
Stock-based compensation	**7,681**	-
Other research and development	**19,049**	-
	780,401	-

(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:

	2018	2017
	$	$
Loss for the year	**(1,358,483)**	(11,813)
Expected income tax (recovery)	**(367,000)**	(3,000)
Change in statutory, foreign tax, foreign exchange rates	**16,000**	
Permanent differences	**11,000**	
Change in unrecognized deductible temporary differences	**340,000**	3,000
Total income tax expense (recovery)	**-**	-
Current income tax	$ -	$ -
Deferred tax recovery	$ -	$ -

b) Deferred income tax

	2018	2017
	$	$
License	**5,000**	-
Non-capital losses available for future periods	**338,000**	3,000
	343,000	3,000
Unrecognized deferred tax asset	**(343,000)**	(3,000)
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:

	2018	**Expiry**	**2017**	**Expiry**
License	$ 20,000	None	-	None
Non-capital losses available for future periods	$ 1,311,000	2037-2038	12,000	2037
Canada	$ 1,035,000	2037-2038	-	2037
USA	276,000	2038	-	-

15. Subsequent events

Subsequent to December 31, 2018, the Company:

1. Granted options to purchase 1,050,000 common shares of the Company to the five directors, an executive and five consultants. All stock options are exercisable a price of $1.00 per share; are exercisable on or before the fifth anniversary of the date on which the IPO is carried out, and vest over varying periods of up to approximately three years from the IPO date.

2. Completed an IPO and concurrent listing of the common shares of the Company on the TSX-V, as a Tier 2 company. The IPO consisted of the issuance of 10,000,000 common shares of the Company at a price of $1.00 per share for gross proceeds of $10,000,000. NervGen's common shares commenced trading on the TSX-V under the symbol "NGEN" on March 15, 2019.

   Haywood Securities Inc. ("Haywood") acted as NervGen's agent in respect of the IPO. NervGen paid Haywood an aggregate cash commission of $700,000. In addition, NervGen granted Haywood a non-transferable compensation option entitling the purchase of 700,000 common shares at a price of $1.00 per share until March 13, 2021. In connection with closing of the IPO, Haywood also received a corporate finance fee of $40,000.