



**COGNETIVITY NEUROSCIENCES LTD.**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the period ended April 30, 2019**

**(EXPRESSED IN CANADIAN DOLLAR)**

**Cognetivity Neurosciences Ltd.**

## Interim Condensed Consolidated Statements of Financial Position

(Expressed in Canadian dollars, except per share amounts)

<b>As at</b>	<b>Note</b>	<b>April 30, 2019</b>	<b>January 31, 2019</b>
		\$	\$
<b>ASSETS</b>			
<b>Current</b>			
Cash		665,110	250,746
Short term investment	<b>5</b>	30,000	128,000
Prepays		267,291	110,224
Interest and tax receivable		71,703	56,726
Research and development tax credit		-	144,679
<b>Total Current Assets</b>		<b>1,034,104</b>	<b>690,375</b>
<b>Equipment</b>	<b>6</b>	<b>26,448</b>	<b>25,946</b>
<b>TOTAL ASSETS</b>		<b>1,060,552</b>	<b>716,321</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities		207,056	217,810
Due to related parties	<b>8</b>	948	19,101
<b>Total Liabilities</b>		<b>208,004</b>	<b>236,911</b>
<b>SHAREHOLDERS' EQUITY</b>			
Common shares	<b>7</b>	6,296,575	5,180,324
Reserves	<b>7</b>	1,584,488	1,562,099
Deficit		(7,029,195)	(6,264,320)
Accumulative other comprehensive income		680	1,307
<b>Total Shareholders' Equity</b>		<b>852,548</b>	<b>479,410</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>1,060,552</b>	<b>716,321</b>

Nature of operations and going concern (Note 1)

Approved on Behalf of the Board of Directors on June 27, 2019:

“Sina Habibi” Director  
Sina Habibi

“David Velisek” Director  
David Velisek

*The accompanying notes are integral to these interim condensed consolidated financial statements.*

**Cognetivity Neurosciences Ltd.**

Interim Condensed Consolidated Statements of Operations and Comprehensive Loss  
(Expressed in Canadian dollars, except per share amounts)

		For the Periods Ended April 30,	
	Note	2019	2018
		\$	\$
<b>Expenses</b>			
Consulting fees		234,967	154,644
Depreciation	6	1,685	622
Foreign exchange loss		(782)	(654)
General and administration		18,883	18,578
Listing expenses		-	62,000
Marketing and advertising		130,463	163,665
Professional fees		26,320	4,326
Rent		26,236	27,484
Research and development		215,311	374,588
Salaries and benefits		99,602	79,212
Share-based payments	7	-	749,160
Travel		2,404	6,929
Transfer agent and regulatory		11,425	12,343
		766,514	1,652,897
<b>Other Expense (Income)</b>			
Interest income		(1,639)	(9255)
<b>Net Loss</b>		764,875	1,643,642
<b>Other Comprehensive Loss (Income)</b>			
<i>Items that will be reclassified subsequently to loss (income)</i>			
Unrealized (gain) loss on foreign exchange translation		627	2617
<b>Comprehensive loss</b>		765,502	1,646,259
<b>Basic and diluted loss per common share</b>		0.02	0.05
<b>Weighted average number of common shares outstanding</b>		44,067,997	35,827,921

*The accompanying notes are integral to these interim condensed consolidated financial statements*

**Cognetivity Neurosciences Ltd.**

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian dollars, except per share amounts)

	<u>Common Share</u>		<u>Class B Share</u>	<u>Special</u>	<u>Reserves</u>	<u>AOCI</u>	<u>Deficit</u>	<u>Shareholders'</u>
	<u>Number of</u>		<u>Number of</u>	<u>Warrants</u>				<u>Equity</u>
	<u>Shares</u>	<u>\$</u>	<u>Shares</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
	<u>#</u>		<u>#</u>					
<b>Balance – January 31, 2018</b>	24,777,022	1,519,911	10,000,002	3,840,140	80,060	19,948	(2,071,702)	3,388,357
Common shares attached to special warrants	16,670,000	3,156,670	-	(3,156,670)	-	-	-	-
Warrants attached to the special warrants	-	-	-	(683,470)	683,470	-	-	-
Stock options granted and vested	-	-	-	-	749,160	-	-	868,561
Net loss and comprehensive loss for the period	-	-	-	-	-	(2,617)	(1,643,642)	(1,646,259)
<b>Balance – April 30, 2018</b>	41,447,022	4,676,581	10,000,002	-	1,512,690	17,331	(3,715,344)	2,491,258
<b>Balance – January 31, 2019</b>	42,600,593	5,180,324	10,000,002	-	1,562,099	1,307	(6,264,320)	479,410
Shares issued from private placement, net of share issuance costs	3,084,500	1,098,108	-	-	25,834	-	-	1,123,942
Shares issued from warrant exercised	42,000	18,143	-	-	(3,445)	-	-	14,698
Net loss and comprehensive loss for the period	-	-	-	-	-	(627)	(764,875)	(765,502)
<b>Balance – April 30, 2019</b>	45,727,093	6,296,575	10,000,002	-	1,584,488	680	(7,029,195)	852,548

*The accompanying notes are integral to interim condensed consolidated financial statements*

**Cognetivity Neurosciences Ltd.**

## Interim Condensed Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

	<b>For the Periods Ended April 30,</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>Cash provided by (used in) operating activities</b>		
Net loss for the period	(764,875)	(1,643,642)
Non-cash items:		
Depreciation	1,685	622
Shares-based payment	-	749,160
Changes in non-cash operating working capital:		
Interest and tax receivable	(14,209)	(6,339)
Prepays	(156,544)	(243,324)
Research and development credit	146,114	-
Accounts payable and accrued liabilities	(13,091)	201,143
Due to related parties	(18,346)	(66,213)
Net cash used in operating activities	(819,266)	(1,008,593)
Cash flows from investing activities:		
Acquisition of equipment	(1,813)	-
Redemption of short term investment	978,000	-
Purchase of short term investment	(880,000)	-
Net cash provided by (used in) investing activities	96,187	-
Cash flows from financing activities:		
Proceeds from private placement, net issuance costs	1,123,942	-
Proceeds from warrants exercised	14,698	-
Net cash provided by financing activities	1,138,640	-
Effect of foreign exchange on cash	(1,197)	(4,507)
Net increase in cash	414,364	(1,013,100)
Cash, beginning of the period	250,746	3,608,797
Cash, end of the period	665,110	2,595,697

Non-cash financing and investing activities (Note 9)

*The accompanying notes are integral to these interim condensed consolidated financial statements.*

## **Cognetivity Neurosciences Ltd.**

Notes to the Interim Condensed Consolidated Financial Statements

For the Period Ended April 30, 2019

(Expressed in Canadian dollars)

---

### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Cognetivity Neurosciences Ltd. (the “Company”) was incorporated on December 11, 2015 under the laws of British Columbia, Canada. Its head office is located at 1980-1075 W. Georgia St., Vancouver BC, V6E 3C9, Canada and registered office is located at 1500-1055 W. Georgia St., Vancouver, BC, V6E 4N7, Canada. The Company is a technology company developing a cognitive testing platform, the Integrated Cognitive Assessment (ICA), for use in medical and commercial environments for potentially allowing early diagnosis of dementia.

The Company’s common shares commenced trading on the Canadian Securities Exchange (the “CSE”) on March 19, 2018 under the stock symbol “CGN”. The Company also commenced trading on the Frankfurt Stock Exchange in Germany under the stock symbol “IUB” and the OTCQB in USA under the stock symbol “CGNSF” on May 3, 2018 and September 4, 2018 respectively.

These interim condensed consolidated financial statements have been prepared using International Financial Reporting Standards applicable to a going concern which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation.

The development of the Company’s business may take years to be successful and the amount of resulting income, if any, is difficult to determine with any certainty. On April 30, 2019, the Company had not yet achieved profitable operations, had an accumulated deficit of \$7,029,195 (2018 - \$6,264,320), and working capital of \$826,100 (2018 - \$453,464), and expects to incur losses in the development of its business. Accordingly, there is a material uncertainty that may cast significant doubt on Company’s ability to continue as going concern. The Company’s continuing operations, as intended, and its financial success may be dependent upon the extent to which it can successfully develop its business.

These interim condensed consolidated financial statements do not reflect any adjustments, which could be material, to the carrying amounts of assets and liabilities, reported expenses, and balance sheet classification used, that would be necessary if the Company were unable to continue as a going concern.

### **2. BASIS OF PREPARATION**

#### **Statement of Compliance**

These interim condensed consolidated financial statements are prepared in accordance with International Accounting Standards (“IAS”) 34, Interim Condensed Financial Reporting, as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) on a basis consistent with the significant accounting policies disclosed in note 2 of the most recent annual financial statements as at and for the year ended January 31, 2019 as filed on SEDAR at [www.sedar.com](http://www.sedar.com). The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements

These interim condensed consolidated financial statements were approved and authorized for issue by the Board of Directors on June \_\_\_\_\_, 2019.

## **Cognetivity Neurosciences Ltd.**

Notes to the Interim Condensed Consolidated Financial Statements

For the Period Ended April 30, 2019

(Expressed in Canadian dollars)

---

### **2. BASIS OF PREPARATION (continued)**

#### **Basis of Measurement**

These interim condensed consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at their fair value as explained in the accounting policies set out below. In addition, these interim condensed consolidated financial statements have been prepared using the accrual basis of accounting except cash flow information.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies set out below have been applied consistently to all periods presented in the interim condensed consolidated financial statements and are prepared using the same accounting policies and methods of computation as the annual audited consolidated financial statements of the Company for the year ended January 31, 2019, with the exception of the adoption of IFRS 9 as described below.

#### **a. Adoption of new accounting standards**

Commencing February 1, 2018, the Company adopted IFRS 9. The adoption of this new accounting standard did not have material impact to the Company's interim condensed consolidated financial statements.

IFRS 9 addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 Financial Instruments. The new standard contains three classifications for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVTOCI"), and fair value through profit and loss ("FVTPL"). The new standard eliminates the previous IAS 39 categories of held to maturity, loan and receivables, and available for sale.

Recognition and Measurement for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. Requirements for financial liabilities are largely carried forward from the existing requirements in IAS 39 except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

Following is the new accounting policy for financial instruments under IFRS 9:

##### **(i) Classification**

The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL.

For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

## Cognetivity Neurosciences Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

For the Period Ended April 30, 2019

(Expressed in Canadian dollars)

---

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### a. Adoption of new accounting standards (continued)

<b>Financial assets</b>	<b>Classification under IAS 39</b>	<b>Classification under IFRS 9</b>
Cash	FVTPL	Amortized cost
Short term investment	FVTPL	Amortized cost
Interest receivable	Loans and receivable	Amortized cost
<b>Financial liabilities</b>	<b>Classification under IAS 39</b>	<b>Classification under IFRS 9</b>
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Due to related parties	Other financial liabilities	Amortized cost

There were no adjustments to the carrying amounts of financial instruments as a result of the change in classification from IAS39 to IFRS 9.

#### (ii) Measurement

##### Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

#### (iii) Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to twelve month expected credit losses. The Company shall recognize in the Consolidated Statements of Operations and Comprehensive Loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

#### b. Basis of consolidation

These interim condensed consolidated financial statements incorporate the financial statements of the Company and Cognetivity Ltd., the Company's wholly owned subsidiary. Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases. All significant intercompany transactions and balances have been eliminated.



## **Cognetivity Neurosciences Ltd.**

Notes to the Interim Condensed Consolidated Financial Statements

For the Period Ended April 30, 2019

(Expressed in Canadian dollars)

---

### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **c. Foreign currency translation**

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company is the Canadian dollar (“C\$”) and Cognetivity Ltd. is the British Pounds (“GBP”). The reporting currency of the Company is Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, “The Effects of Changes in Foreign Exchange Rates”.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

#### **d. Cash**

Cash consists of cash balances with bank.

#### **e. Short term investments**

Short term investments consist of investments with market values closely approximating book values and original maturities between three and twelve months at the time of purchase.

#### **f. Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

#### **g. Research and development**

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the Consolidated Statements of Operations and comprehensive Loss.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is 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. No development costs have been capitalized to date.

## **Cognetivity Neurosciences Ltd.**

Notes to the Interim Condensed Consolidated Financial Statements

For the Period Ended April 30, 2019

(Expressed in Canadian dollars)

---

### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **h. Research and development (R&D) tax credit**

R&D tax credits are recorded as a reduction of the related research and development expenditures upon receipts from the tax authority in the UK. These non-repayable R&D tax credits are earned in respect to research and development costs incurred in the UK and are recorded as a reduction of the related research and development expenditures, provided that there is reasonable assurance that the credit will be recovered.

#### **i. Share capital**

Common shares, Class B Shares, and special warrants are classified as equity. Transaction costs directly attributable to the issuance of common shares, Class B Shares and special warrants are recognized as a deduction from equity.

#### **j. Share-based payments transactions**

The stock option plan allows Company directors, officers, employees and consultants to acquire shares of the Company. The fair value of share purchase options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. The fair value is measured at grant date and the share-based compensation is expensed based on graded vesting. When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value of the share purchase options granted is measured using the Black-Scholes Option Pricing Model taking into account the terms and conditions upon which the share purchase options were granted. Forfeiture rates are estimated in advance and are used in the estimate of the share-based expense for the financial statement period.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

#### **k. Warrants**

Proceeds from issuances by the Company of units consisting of common shares and warrants other than the special warrants are allocated based on the residual method, whereby the carrying amount of the warrants is determined based on any difference between gross proceeds and the estimated fair market value of the common shares. If the proceeds from the offering are less than or equal to the estimated fair market value of common shares issued, a nil carrying amount is assigned to the warrants.

#### **l. Loss per share**

The Company presents the basic and diluted earnings or loss per share data for its common shares, calculated by dividing the earnings or loss attributable to common shareholders of the Company by

## **Cognetivity Neurosciences Ltd.**

Notes to the Interim Condensed Consolidated Financial Statements

For the Period Ended April 30, 2019

(Expressed in Canadian dollars)

---

### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **l. Loss per share (continued)**

the weighted average number of common shares outstanding during the period. Diluted earnings or loss per share is determined by adjusting the earnings or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

#### **m. Comprehensive income (loss)**

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net profit such as unrealized gains or losses on FVTOCI, gains or losses on certain derivative instruments and foreign currency gains or losses related to self-sustaining operations. The Company's comprehensive income (loss) is presented in the Consolidated Statements of Operations and Comprehensive Loss and the Consolidated Statements of Changes in Equity.

#### **n. Accounting standards issued but not yet adopted**

The IASB has replaced IAS 17, Leases in its entirety with IFRS 16, Leases, which will require lessees to recognize nearly all leases on the balance sheet to reflect their right to use an asset for a period of time and the associated lease liability. IFRS 16 is effective for annual periods commencing on or after January 1, 2019. The Company does not expect the adoption of this standard will have a material impact to the Company's interim condensed consolidated financial statements.

### **4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of these interim condensed consolidated financial statements requires management to make judgments and estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these judgments and estimates. The interim condensed consolidated financial statements include judgments and estimates which, by their nature, are uncertain. The impacts of such judgments and estimates are pervasive throughout the interim condensed consolidated financial statements and may require accounting adjustments based on future occurrences.

Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

The following are the critical judgments and areas involving estimates, that management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amount recognized in the interim condensed consolidated financial statements.

#### **a. Key sources of estimation uncertainty**

##### Recoverability of deferred tax assets

The Company recognizes the deferred tax benefit related to deferred tax assets to the extent recovery is probable. Assessing the recoverability of deferred tax assets requires management to

## **Cognetivity Neurosciences Ltd.**

Notes to the Interim Condensed Consolidated Financial Statements

For the Period Ended April 30, 2019

(Expressed in Canadian dollars)

---

### **4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)**

#### **a. Key sources of estimation uncertainty (continued)**

##### Recoverability of deferred tax assets (continued)

make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in the future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

##### Fair value calculation of share-based payments

The fair value of share-based payments in relation to the reverse takeover is calculated using a Black Scholes option pricing model. There are a number of estimates used in the calculation such as the expected option life and the future price volatility of the underlying security which can vary from actual future events. The factors applied in the calculation are management's best estimates based on industry average and future forecasts.

#### **b. Critical judgments in applying accounting policies**

Management has applied judgments in the assessment of the Company's ability to continue as a going concern when preparing its interim condensed consolidated financial statements for the period ended April 30, 2019. Management prepares the interim condensed consolidated financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management considered a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing. As a result of the assessment, management concluded the going concern basis of accounting is appropriate based on its access to replacement financing for the future twelve months.

### **5. SHORT TERM INVESTMENT**

As at April 30, 2019, the Company has a short term investment of \$30,000 (January 31, 2019 - \$128,000) with a major financial institution and mature on March 25, 2020. The short term investment has an annual yield of 2% (January 31, 2019 - prime minus 2.7%).

### **6. EQUIPMENT**

<b>Cost</b>	<b>\$</b>
As at January 31, 2018	12,142
Additions	21,109
Disposal	(1,476)
Effect of change in exchange rate with GBP	(192)
As at January 31, 2019	31,583

---

**Cognetivity Neurosciences Ltd.**

Notes to the Interim Condensed Consolidated Financial Statements

For the Period Ended April 30, 2019

(Expressed in Canadian dollars)

**6. EQUIPMENT (continued)**

Additions	1,813
Effect of change in exchange rate with GBP	464
As at April 30, 2019	33,860

**Accumulated depreciation**

As at January 31, 2018	1,726
Additions	3,942
Effect of change in exchange rate with GBP	(31)
As at January 31, 2019	5,637
Additions	1,685
Effect of change in exchange rate with GBP	90
As at April 30, 2019	7,412

**Net book value**

January 31, 2018	10,416
January 31, 2019	25,946
April 30, 2019	26,448

**7. SHARE CAPITAL**

Authorized:           Unlimited common shares without par value  
                              Unlimited Class B Shares without par value

The holders of the Class B Shares are not entitled to receive notice of and to attend any meeting of the shareholders of Cognetivity or to vote on any matter at any meetings of shareholders of Cognetivity. The holders of Class B Shares are not entitled to receive dividends. The holders of the Class B Shares shall be entitled, in the event of any liquidation, dissolution or winding up, whether voluntary or involuntary, or any other distribution of assets among the Company's shareholders for the purpose of winding up its affairs, to share rateably, together with the holders of common shares in such assets of Cognetivity as are available for distribution.

Each Class B Share shall automatically convert into one common share, without payment of additional consideration, upon Cognetivity attaining the CE Marketing approval for the cognitive assessment tool kit as a medical device.

All Class B Shares are not subject to any pre-emptive rights, retraction or surrender provisions, sinking or purchase fund provisions, provisions permitting or restricting the issuance of additional securities or provisions requiring a shareholder to contribute additional capital. The Class B Shares shall not be subdivided, consolidated, reclassified or otherwise changed unless contemporaneously therewith the common shares are adjusted proportionately.

## **Cognetivity Neurosciences Ltd.**

Notes to the Interim Condensed Consolidated Financial Statements

For the Period Ended April 30, 2019

(Expressed in Canadian dollars)

---

### **7. SHARE CAPITAL (continued)**

#### **A. Issued shares**

- a) During the period ended April 30, 2019, 42,000 warrants were exercised at \$0.35 each for a total of \$14,700. In relation to the exercise of the warrants, the proportionate fair value of \$3,445 was allocated from reserves (see Note 8C).
- b) On March 19, 2019, the Company completed a non-brokered private placement of 3,084,500 units (the "Units") at a price of \$0.38 per Unit for gross proceeds of \$1,172,110. Each Unit consists of one common share (a "Share") and one-half common share purchase warrant (a "Warrant"). Each whole Warrant will entitle the holder to purchase an additional Share at a price of \$0.55 for a period of 18 months from closing, subject to acceleration. The fair values of warrants issued pursuant to the private placement financings have been estimated at the issue date using the residual method valuation. Given the market price of the Company's common shares on the date of closing of the private placements was in excess of the unit offering price, the residual value assigned to the warrants is \$nil.

The Company paid \$48,169 in cash and issued 126,760 non-transferrable broker's warrants with the same terms as the Warrant as finders' fees (see Note 8B).

- c) On March 2, 2018, as a result of the conversion of special warrants, the Company issued 16,670,000 common shares and 8,335,000 warrants. The common shares were valued at \$3,484,031 which is determined by using the Black-Scholes option pricing model assuming a risk-free interest rate of 1.43%, a dividend yield of 0%, an expected volatility of 96.96% and an expected life of two years.

#### **B. Warrants**

- a) On March 19, 2019, as part of the private placement, the Company issued 1,542,250 warrants which were valued at \$nil (see Note 8A).

The Company issued 126,760 non-transferrable broker's warrants with the same terms as the Warrant as finders' fees. The broker's warrants were valued at \$25,834 using the Black-Scholes Option Pricing Model with the following assumption at the issue date: risk free interest rate of 1.65%; dividend yield of 0%; expected volatility of 125.59% and expected life of 1.5 years.

- b) On March 2, 2018, as part of the conversion of the special warrants 8,335,000 warrants were issued with a fair value of \$683,470 recorded as reserves, in share capital. The fair value of warrants was estimated using the Black-Scholes Option Pricing Model with the following assumptions at the issue date: risk free interest rate of 1.43%; dividend yield of 0%; expected volatility of 96.96%; and expected life of two years.

The following table reflects the continuity of warrants for the period ended April 30, 2019 and the year ended January 31, 2019:

**Cognetivity Neurosciences Ltd.**

Notes to the Interim Condensed Consolidated Financial Statements

For the Period Ended April 30, 2019

(Expressed in Canadian dollars)

**7. SHARE CAPITAL (continued)****B. Warrants (continued)**

	April 30, 2019		January 31, 2019	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Warrants outstanding, beginning of the period	8,469,829	0.29	988,400	0.35
Issued	1,669,010	0.09	8,335,000	0.35
Exercised	(42,000)	0.00	(853,571)	0.35
Warrants outstanding, end of the period	10,096,839	0.38	8,469,829	0.35

The warrants outstanding at April 30, 2019 are as follows:

Number Outstanding	Exercise Price	Grant Date	Expiry Date
8,427,829	\$0.35	October 26, 2017	October 26, 2019
1,669,010	\$0.55	March 19, 2019	September 19, 2020

**C. Options**

The Company has adopted a Stock Option Plan (the “Plan”) pursuant to which options may be granted to directors, officers and consultants of the Company. Under the terms of the Plan, the Company can issue a maximum of 10% of the issued and outstanding common shares at the time of the grant, and the exercise price of each option is equal to or above the market price of the common shares on the grant date. Options granted under the Plan including vesting and the term, are determined by, and at the discretion of, the Board of Directors.

The continuity of stock options for the period ended April 30, 2019 and the year ended January 31, 2019 is as follows:

	April 30, 2019		January 31, 2019	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Options outstanding exercisable, beginning of the period	4,000,000	0.27	-	-
Granted	-	-	4,000,000	0.27
Options outstanding and exercisable, end of the period	4,000,000	0.27	4,000,000	0.27

## Cognetivity Neurosciences Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

For the Period Ended April 30, 2019

(Expressed in Canadian dollars)

---

### 7. SHARE CAPITAL (continued)

#### C. Options (continued)

The options outstanding at April 30, 2019 are as follows:

Number of Options Outstanding and Exercisable	Exercise Price \$	Grant Date	Expiry Date
3,600,000	0.25	March 19, 2018	March 19, 2023
100,000	0.43	June 22, 2018	June 22, 2023
50,000	0.39	September 25, 2018	September 25, 2021
150,000	0.41	December 11, 2018	December 11, 2021
100,000	0.41	December 11, 2018	December 11, 2023

- a) On March 19, 2018, the Company granted 3,600,000 options to directors, officers and consultants of the Company. The options are exercisable at \$0.25, fully vested immediately and expire on March 19, 2023. The Company recorded a share based payment amount of \$749,160. The Company used the Black-Scholes Option Pricing Model to estimate the fair value of the options using the following assumptions: risk free interest rate of 1.96%; dividend yield of 0%; expected volatility of 104.90%; and expected option life of 5 years.
- b) On June 22, 2018, the Company granted 100,000 options to public relations consultants of the Company. The options are exercisable at \$0.43, fully vested immediately and expire on June 22, 2023. The Company recorded a share based payment amount of \$33,636. The Company used the Black-Scholes Option Pricing Model to estimate the fair value of the options using the following assumptions: risk free interest rate of 1.94%; dividend yield of 0%; expected volatility of 109.68%; and expected option life of 5 years.
- c) On September 25, 2018, the Company granted 50,000 options to a consultant of the Company. The options are exercisable at \$0.39, fully vested immediately and expire on September 25, 2021. The Company recorded a share based payment amount of \$12,260. The Company used the Black-Scholes Option Pricing Model to estimate the fair value of the options using the following assumptions: risk free interest rate of 2.19%; dividend yield of 0%; expected volatility of 102.33%; and expected options life of 3 years.
- d) On December 11, 2018, the Company granted a total of 250,000 stock options to an employee and a consultant of the Company. The 100,000 options to the employee are exercisable at \$0.41 and expire on December 11, 2023. The Company recorded a share based payment amount of \$33,290. The Company used the Black-Scholes Option Pricing Model to estimate the fair value of the options to the employee using following assumptions: risk free interest rate of 2.03%; dividend yield of 0%; expected volatility of 117.16%; and expected options life of 5 years.

The 150,000 options to the consultant are exercisable at \$0.41 and expire on December 11, 2021. The Company recorded a share based payment amount of \$40,215. The Company used the Black-Scholes Option Pricing Model to estimate the fair value of the options to the consultant using following assumptions: risk free interest rate of 2.01%; dividend yield of 0%; expected volatility of 107.96%; and expected options life of 3 years.



## Cognetivity Neurosciences Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

For the Period Ended April 30, 2019

(Expressed in Canadian dollars)

### 7. SHARE CAPITAL (continued)

#### D. Escrow shares

As at April 30, 2019, the Company had 6,527,473 common shares held in escrow (January 31, 2019 – 8,159,341).

### 8. RELATED PARTY TRANSACTIONS

During the periods ended April 30, 2019 and 2018, the Company incurred the following expenses to related parties:

		<b>2019</b>		<b>2018</b>
Consulting fees – CEO and a director	\$	52,245	\$	53,589
Salaries and wages – CMO and a director		15,674		16,077
Salaries and wages – CSO		15,674		16,077
Consulting fees – CCO and a director		15,674		16,077
Consulting fees – COO		15,674		28,581
Share-based payments – directors and officers		-		624,300
	\$	114,941	\$	754,701

As at April 30, 2019 and January 31, 2019, the Company has the following balance owing to (due from) related parties:

		<b>April 30, 2019</b>		<b>January 31, 2019</b>
CEO and a director	\$	4,986	\$	4,151
CMO and a director		-		2,380
CSO		(4,038)		(13)
CCO and a director		-		7,410
COO		-		5,173
	\$	948	\$	19,101

Due to/from related parties are unsecured, non-interest bearing, and due on demand with no specific terms of repayment.

### 9. NON-CASH INVESTING AND FINANCING ACTIVITIES

		<b>April 30, 2019</b>		<b>April 30, 2018</b>
Broker's warrants issued from private placement (Note 8B)	\$	25,834	\$	-
Shares issued from warrants exercised (Note 8A)		3,445		-
Shares issued from special warrants conversion (Note 8A)		-		3,156,670
Warrants issued from special warrants conversion (Note 8B)		-		683,470

### 10. COMMITMENT

On January 21, 2019, the Company signed a commercial agreement with Dementias Platform UK (DPUK). The Company will supply the use of its cognitive testing platform and associated hardware

## **Cognetivity Neurosciences Ltd.**

Notes to the Interim Condensed Consolidated Financial Statements

For the Period Ended April 30, 2019

(Expressed in Canadian dollars)

---

### **10. COMMITMENT (continued)**

of up to \$431,000 (GBP 250,000) to DPUK on an as-needed basis. The Company can terminate the agreement at any time without any penalty.

### **11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK**

#### **Fair value of financial instruments**

Financial instruments of the Company carried on the Interim Condensed Consolidated Statements of Financial Position are all carried at amortized cost. There are no significant differences between the carrying value of these financial instruments carried at amortized cost and their estimated fair values as at April 30, 2019 and January 31, 2019 due to the short term nature of the instruments.

The Company's financial instruments are exposed to certain financial risks, which include the following:

#### ***Credit risk***

Credit risk is the risk of loss due to the counterparty's inability to meet its obligations. The Company's exposure to credit risk is on its cash and short term investment. Risk associated with cash and short term investment is managed through the use of major banks which are high credit quality financial institutions as determined by rating agencies.

#### ***Liquidity risk***

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations when they become due. The Company aims to ensure that there is sufficient capital in order to meet short-term operating requirements, after taking into account the Company's holdings of cash and short term investment. The Company believes that the capital sources will be sufficient to cover the expected short and long-term cash requirements by obtaining financing through the issuance of debt or common shares.

#### ***Interest rate risk***

The Company has cash balances and short term investment. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company is not exposed to significant interest rate risk.

### **12. CAPITAL MANAGEMENT**

The Company considers its cash and share capital as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash. In order to maximize ongoing development efforts, the Company does not pay out dividends.

**Cognetivity Neurosciences Ltd.**

Notes to the Interim Condensed Consolidated Financial Statements

For the Period Ended April 30, 2019

(Expressed in Canadian dollars)

---

**12. CAPITAL MANAGEMENT (continued)**

The Company is not subject to any externally imposed capital restructure. There was no change in the Company's approach to capital management during the period ended April 30, 2019

**13. SUBSEQUENTS EVENT**

On June 24, 2019, 143,000 warrants were exercised at \$0.35 per warrant for a total of \$50,050.