



COGNETIVITY NEUROSCIENCES LTD.
CONSOLIDATED FINANCIAL STATEMENTS
For the period ended July 31, 2020
(EXPRESSED IN CANADIAN DOLLAR)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements of Cognetivity Neurosciences Ltd. for the six months ended July 31, 2020, have been prepared by the management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors.

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indication that an auditor has not reviewed the financial statements.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these interim financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants for a review of the interim financial statements by an entity's auditor.

Cognetivity Neurosciences Ltd.

Interim Condensed Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

As at	Note	July 31, 2020	January 31, 2020
		\$	\$
ASSETS			
Current			
Cash		93,513	578,229
Interest and tax receivable		42,870	47,235
Prepays		46,320	85,555
Total Current Assets		182,703	711,019
Equipment	5	42,070	37,046
TOTAL ASSETS		224,773	748,065
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities		737,607	629,078
Convertible debentures	6	349,666	307,008
Due to related parties	8	75,413	75,014
Total Liabilities		1,162,686	1,011,100
SHAREHOLDERS' EQUITY			
Common shares	7	7,163,666	7,031,074
Equity portion of convertible debentures	6	41,028	41,028
Reserves	7	1,611,489	1,587,105
Deficit		(9,729,654)	(8,909,434)
Accumulative other comprehensive income (loss)		(24,442)	(12,808)
Total Shareholders' Equity (Deficiency)		(937,913)	(263,035)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		224,773	716,321

Nature of operations and going concern (Note 1)

Approved on Behalf of the Board of Directors on September 28, 2020:

"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)

		Three Months Ended		Six Months Ended	
	Notes	July 31, 2020	July 31, 2019	July 31, 2020	July 31, 2019
		\$	\$	\$	\$
Expenses					
Accretion expenses	6	22,248	-	42,658	-
Consulting fees		135,221	212,098	257,013	447,065
Depreciation	5	2,745	1,806	5,320	3,491
Foreign exchange loss (gain)		175	227	189	(555)
General and administration		18,347	36,688	55,679	55,571
Marketing and advertising		308	159,904	33,558	290,367
Professional fees		29,921	9,999	50,262	36,319
Rent		23,838	30,044	54,184	56,280
Research and development		112,537	199,399	(194,534)	414,710
Salaries and benefits		295,356	96,017	470,348	195,619
Share-based payment	7	5,014	-	24,384	-
Travel		193	16,833	3,430	19,237
Transfer agent and regulatory		13,363	26,796	26,556	38,221
		659,266	789,811	829,047	1,556,325
Other Expense (Income)					
Gain on debt settlement	7	-	-	(8,998)	-
Interest income		179	(1,442)	171	(3,081)
Net Loss		659,445	788,369	820,220	1,553,244
Other Comprehensive Loss (Income)					
<i>Items that will be reclassified subsequently to loss(income)</i>					
Unrealized loss on foreign exchange translation		(13,656)	4,572	(11,634)	5,199
Comprehensive loss		645,789	792,941	808,586	1,558,443
Basic and diluted loss per common share					
		0.01	0.02	0.02	0.03
Weighted average number of common shares outstanding					
		59,304,769	45,804,782	54,609,203	44,950,783

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

Cognetivity Neurosciences Ltd.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(Expressed in Canadian dollars)

	<u>Common Share</u>		<u>Class B Share</u>		Equity Portion of Convertible Debentures	Reserves	AOCI	Deficit	Shareholders' Equity (Deficiency)
	Number of Shares #	\$	Number of Shares #	\$					
Balance – January 31, 2019	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	327,800	129,892	-	-	-	(15,162)	-	-	114,730
Net loss and comprehensive loss for the period	-	-	-	-	-	-	(5,199)	(1,553,244)	(1,558,443)
Balance – July 31, 2019	46,012,893	6,408,323	10,000,002	-	-	1,572,771	(3,892)	(7,817,564)	159,638
Balance – January 31, 2020	49,466,487	7,031,074	10,000,002	-	41,028	1,587,105	(12,808)	(8,909,434)	(263,035)
Conversion of Class B Shares to common shares	10,000,002	-	(10,000,002)	-	-	-	-	-	-
Shares issued from debt settlement	721,568	132,592	-	-	-	-	-	-	132,592
Stock options granted and vested	-	-	-	-	-	19,370	-	-	19,370
Issuance of restricted share units	-	-	-	-	-	5,014	-	-	5,014
Net loss and comprehensive loss for the period	-	-	-	-	-	-	(11,634)	(820,220)	(831,854)
Balance – July 31, 2020	60,188,057	7,163,666	-	-	41,028	1,611,489	(24,442)	(9,729,654)	(937,913)

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

Cognetivity Neurosciences Ltd.

Interim Condensed Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

	For the Periods Ended July 31,	
	2020	2019
	\$	\$
Cash provided by (used in) operating activities		
Net loss for the period	(820,220)	(1,553,244)
Non-cash items:		
Accretion expense	42,658	-
Depreciation	5,321	3,490
Gain on debt settlement	(8,998)	-
Shares-based payment	24,384	-
Changes in non-cash operating working capital:		
Interest and tax receivable	4,603	(5,298)
Prepays	39,521	(80,766)
Research and development credit	-	143,555
Accounts payable and accrued liabilities	241,784	(57,530)
Due to related parties	(267)	2,924
Net cash used in operating activities	(471,214)	(1,546,869)
Cash flows from investing activities:		
Acquisition of equipment	(9,907)	(7,145)
Redemption of short-term investments	-	1,008,000
Purchase of short-term investments	-	(880,000)
Net cash provided by investing activities	(9,907)	120,855
Cash flows from financing activities:		
Proceeds from private placement, net issuance costs	-	1,123,942
Proceeds from warrants exercised	-	114,729
Net cash provided by financing activities	-	1,238,671
Effect of foreign exchange on cash	(3,595)	(6,356)
Net increase in cash	(484,716)	(193,699)
Cash, beginning of the period	578,229	250,746
Cash, end of the period	93,513	57,047

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 July 31, 2020

(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 Suite 2250, 1055 West Hastings Street, Vancouver BC, V6E 2E9, Canada and registered office is located at Suite 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 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. As at July 31, 2020, the Company has not yet achieved profitable operations, has an accumulated deficit of \$9,729,654 (January 31, 2019 - \$8,909,434), and working capital deficiency of \$979,983 (January 31, 2019 –\$300,081), 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 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, 2020 as filed on SEDAR at 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 September 28, 2020.

Cognetivity Neurosciences Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

For the Period Ended July 31, 2020

(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 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, 2020, with the exception of the adoption of IFRS 16 as described below.

a. Adoption of new accounting standards

The Company adopted IFRS 16 effective from February 1, 2019 using modified retrospective approach. The adoption does not have impact on the Company's consolidated financial statements.

IFRS 16 Leases

On January 13, 2016, the International Accounting Standards Board published a new standard, IFRS 16, Leases, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted.

IFRIC 23 – Uncertainty Over Income Tax Treatments

The Company adopted IFRIC 23 on February 1, 2019 with retrospective application. IFRIC 23 clarifies the recognition and measurement requirements when there is uncertainty over income tax treatments. The effect of uncertain tax treatments is recognized at the most likely amount or expected value. The adoption of IFRIC 23 did not have any impact on the Company's financial results or disclosures.

b. Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and Cognetivity Ltd. ("Cog UK"), the Company's wholly owned subsidiary incorporated in United Kingdom ("UK"). 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 July 31, 2020

(Expressed in Canadian dollars)

2. 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 July 31, 2020

(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. Financial instruments

(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 classification of the Company's financial instruments:

Financial assets	Classification
Cash	Amortized cost
Short term investments	Amortized cost
Interest receivable	Amortized cost
Due from related parties	Amortized cost
Financial liabilities	Classification
Accounts payable and accrued liabilities	Amortized cost
Convertible debenture	Amortized cost
Due to related parties	Amortized cost

(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

Cognetivity Neurosciences Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

For the Period Ended July 31, 2020

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

j. Convertible debentures

Upon issuance, convertible debentures are separated into the debt and conversion feature components. The debt component of the convertible debenture is recognized initially at fair value of a similar debt instrument without a conversion feature. Subsequent to initial recognition, the debt component of a compound financial instrument is measured at amortized cost using the effective interest method.

The conversion feature of the convertible debentures is initially recognized at fair value. The convertible debentures are convertible into units of the Company at the holder's option. As a result of this obligation, the convertible debentures are convertible into equity, and accordingly, the conversion feature component of the convertible debentures is also equity.

k. 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.

l. 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.

Cognetivity Neurosciences Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

For the Period Ended July 31, 2020

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m. 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.

n. Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the consolidated statements of operation and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

o. 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 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.

Cognetivity Neurosciences Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

For the Period Ended July 31, 2020

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

p. Comprehensive loss

Comprehensive 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 loss is presented in the Consolidated Statements of Operations and Comprehensive Loss and the Consolidated Statements of Changes in Equity.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of these 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 consolidated financial statements include judgments and estimates which, by their nature, are uncertain. The impacts of such judgments and estimates are pervasive throughout the 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 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 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.

Fair value calculation of liability portion of convertible debentures

The Company applied judgment and estimates when determining the fair value of its convertible debenture (see Note 6).

Cognetivity Neurosciences Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

For the Period Ended July 31, 2020

(Expressed in Canadian dollars)

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

COVID-19

Given the ongoing and dynamic nature of the circumstances surrounding the COVID-19 pandemic, it is difficult to predict how significant the impact of COVID-19, including any responses to it, will be on the global economy and the business of the Company or for how long any disruptions are likely to continue. The extent of such impact will depend on future developments, which are highly uncertain, rapidly evolving and difficult to predict, including new information which may emerge about COVID-19 and additional actions which may be taken to contain it. Such developments could have a material adverse effect on the Company's business, financial condition, results of operations and cash flow, and exposure to credit risk. The Company is constantly evaluating the situation and monitoring any impacts or potential impacts to its business.

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 consolidated financial statements for the period ended July 31, 2020. Management prepares the 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.

Cognetivity Neurosciences Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

For the Period Ended July 31, 2020

(Expressed in Canadian dollars)

5. EQUIPMENT

Cost	\$
As at January 31, 2019	31,583
Additions	21,823
Disposal	(2,826)
Effect of change in exchange rate with GBP	905
As at January 31, 2020	51,485
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Additions	9,908
Disposal	-
Effect of change in exchange rate with GBP	688
As at July 31, 2020	62,081
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Accumulated depreciation	
As at January 31, 2019	5,637
Additions	9,292
Disposal	(800)
Effect of change in exchange rate with GBP	309
As at January 31, 2020	14,438
Additions	5,320
Disposal	-
Effect of change in exchange rate with GBP	253
As at July 31, 2020	20,011
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Net book value	
January 31, 2019	25,946
January 31, 2020	37,046
July 31, 2020	42,070

Cognetivity Neurosciences Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

For the Period Ended July 31, 2020

(Expressed in Canadian dollars)

6. CONVERTIBLE DEBENTURES

- a) On August 14, 2019, the Company entered into convertible loan agreements with arm's length lenders and issued convertible notes (the "Notes") in the aggregate principal amount of \$168,000. The Notes bear interest at 8% per annum and matures 12 months from the date of issuance (the "Maturity Date"). The Notes can be converted into a number of units of the Company (the "Units") at \$0.26. Each Unit will be comprised of one share and one share purchase warrant of the Company. Each warrant entitles the holder thereof to acquire one share at \$0.30 per share for two years.
- b) On September 26, 2019, the Company entered into a convertible loan agreement with the CEO and Director of the Company and issued a convertible note (the "Note") in the aggregate principal amount of \$164,110. The Note bears interest at 8% per annum and matures 12 months from the date of issuance (the "Maturity Date"). The Note can be converted into a number of units of the Company (the "Units") at \$0.13. Each Unit will be comprised of one share and one share purchase warrant of the Company. Each warrant entitles the holder thereof to acquire one share at \$0.15 per share for two years.

The fair value allocated to the equity component of the Convertible Debentures is offset by deferred taxes of \$15,175.

Convertible Debentures	(a)	(b)	Total
Gross proceeds received in convertible debentures	\$168,000	\$164,110	\$332,110
Less: Equity component of convertible debentures	(28,431)	(27,772)	(56,203)
Liability component recognized in convertible debentures	139,569	136,338	275,907
Accretion and interest expense recognized during the year	18,087	13,014	31,101
January 31, 2020	\$157,656	\$149,352	\$307,008
Accretion and interest expense recognized during the period	21,925	20,733	42,658
July 31, 2020	\$179,581	\$170,085	\$349,666

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.

Cognetivity Neurosciences Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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(Expressed in Canadian dollars)

7. SHARE CAPITAL (continued)

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.

A. Issued shares

- a) On May 8, 2020, as a result of the conversion of Class B Shares, the Company issued 10,000,002 common shares.
- b) On May 4, 2020, the Company entered into a debt settlement agreement with an arms-length party to settle an aggregate \$56,340 in debt. In settlement of the debt, the Company issued an aggregate of 315,616 common shares in the capital of the Company at a deemed price of \$0.15 per share. The Company recognized a gain of \$8,998 at the time of the settlement. The debt has been completely satisfied and extinguished upon the issuance of the shares.
- c) On February 14, 2020, the Company entered into a debt settlement agreement with an arms-length party to settle an aggregate \$85,250 in debt. In settlement of the debt, the Company issued an aggregate of 405,952 common shares in the capital of the Company at a deemed price of \$0.21 per share. The debt has been completely satisfied and extinguished upon the issuance of the shares.
- d) On January 30, 2020, the Company completed a non-brokered private placement of 3,002,977 units at a price of \$0.18 per Unit for gross proceeds of \$540,536. Each unit consists of one common share and one-half common share purchase warrant. Each whole warrant will entitle the holder to purchase an additional share at a price of \$0.25 for a period of 24 months from closing. 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 \$30,558 in cash and issued 169,764 non-transferrable broker's warrants with the same terms as the warrant as finders' fees (see Note 7B).

- e) On November 8, 2019, the Company entered into a debt settlement agreement with an arms-length party (the "Creditor") to settle an aggregate \$114,907 in debt (the "Debt"). In settlement of the Debt, the Company issued an aggregate of 450,617 common shares in the capital of the Company (the "Debt Shares") at a deemed price of \$0.255 per Debt Share. The debt has been completely satisfied and extinguished upon the issuance of the Debt Shares.

Cognetivity Neurosciences Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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(Expressed in Canadian dollars)

7. SHARE CAPITAL (continued)

A. Issued shares (continued)

- f) On March 19, 2019, the Company completed a non-brokered private placement of 3,084,500 units at a price of \$0.38 per Unit for gross proceeds of \$1,172,110. Each unit consists of one common share and one-half common share purchase 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 7B).

- g) During the year ended January 31, 2020, 327,800 warrants were exercised at \$0.35 each for a total of \$114,730. In relation to the exercise of the warrants, the proportionate fair value of \$26,880 was allocated from reserves (see Note 7B).

B. Warrants

- a) During the year ended January 31, 2020, 327,800 warrants were exercised at \$0.35 each for a total of \$114,730. In relation to the exercise of the warrants, the proportionate fair value of \$26,880 was allocated from reserves.
- b) On January 30, 2020, as part of the private placement, the Company issued 1,501,489 warrants which were valued at \$nil (see Note 7A).

The Company issued 169,764 non-transferrable broker's warrants with the same terms as the warrants as finder's fees. The broker's warrants were valued at \$13,853 using the Black-Scholes Option Pricing Model with the following assumption at the issue date: risk free interest rate of 1.51%; dividend yield of 0%; expected volatility of 101.64% and expected life of 2 years.

- c) On March 19, 2019, as part of the private placement, the Company issued 1,542,250 warrants which were valued at \$nil (see Note 7A).

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 \$25,833 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.

Cognetivity Neurosciences Ltd.

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For the Period Ended July 31, 2020

(Expressed in Canadian dollars)

7. SHARE CAPITAL (continued)

The following table reflects the continuity of warrants for the period ended July 31, 2020 and the year ended January 31, 2020:

	July 31, 2020		January 31, 2020	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Warrants outstanding, beginning of the period	3,340,263	0.40	8,469,829	0.35
Issued	-	-	3,340,263	0.40
Exercised	-	-	(327,800)	0.35
Expired	-	-	(8,142,029)	0.35
Warrants outstanding, end of the period	3,340,263	0.40	3,340,263	0.40

The warrants outstanding at July 31, 2020 are as follows:

Number Outstanding	Exercise Price	Grant Date	Expiry Date
1,669,010	\$0.55	March 19, 2019	September 19, 2020
1,671,253	\$0.25	January 30, 2020	January 30, 2022

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 July 31, 2020 and the year ended January 31, 2020 is as follows:

	July 31, 2020		January 31, 2020	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Options outstanding exercisable, beginning of the period	4,100,000	0.27	4,000,000	0.27
Granted	100,000	0.21	100,000	0.15
Options outstanding and exercisable, end of the period	4,200,000	0.26	4,100,000	0.27

Cognetivity Neurosciences Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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(Expressed in Canadian dollars)

7. SHARE CAPITAL (continued)

C. Options (continued)

The options outstanding at July 31, 2020 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
100,000	0.145	October 22, 2019	October 22, 2022
100,000	0.21	February 14, 2020	February 14, 2025

- a) On October 22, 2019, the Company granted 100,000 options to a consultant of the Company. The options are exercisable at \$0.145, fully vested immediately and expire on October 22, 2022. The Company recorded a share-based payment amount of \$12,200. 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 1.65%; dividend yield of 0%; expected volatility of 161.98%; and expected option life of 3 years.
- b) On February 14, 2020, the Company granted 100,000 options to an employee of the Company. The options are exercisable at \$0.21, fully vested immediately and expire on February 14, 2025. The Company recorded a share-based payment amount of \$19,370. 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 1.42%; dividend yield of 0%; expected volatility of 157.50%; and expected option life of 5 years.

D. Restricted share units

The Company approved the implementation of a restricted share units (the “RSU”) plan on May 21, 2019, which RSU is designed to provide certain directors, officers, consultants and other key employees of the Company and its related entities with the opportunity to acquire restricted share of the Company. RSU may be exercised by any holder of RSU to receive an award payout of either: (a) one common share of the Company for each whole vested RSU; or (b) a cash amount equal to the defined date value of such vested RSU.

The Company uses the fair value method to recognize the obligation and compensation expense associated with the RSU’s. The fair value of RSU’s issued is determined on the grant date based on the market price of the common shares on the grant date multiplied by the number of RSUs granted. The fair value is expensed over the vesting term. Upon conversion of the RSU, the carrying amount is recorded as an increase in common share capital and a reduction in the RSU reserve.

On May 8, 2020, the Company granted 332,000 RSUs to a consultant of the Company, in which 332,000 RSUs can be converted into common shares after May 1, 2022, and will expire on September 30, 2023.

Cognetivity Neurosciences Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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7. SHARE CAPITAL (continued)**D. Restricted share units (continued)**

As at July 31, 2020, the Company recognized a fair value of \$5,014. As at July 31, 2019, there were no RSUs outstanding.

E. Escrow shares

As at July 31, 2020, the Company had 4,895,605 common shares held in escrow (January 31, 2020 – 4,895,605)

8. RELATED PARTY TRANSACTIONS

During the periods ended July 31, 2020 and 2019, the Company incurred the following expenses to related parties:

	Six Months Ended		Three Months Ended	
	2020	2019	2020	2019
Consulting fees – CEO and a director	\$ 103,182	\$ 102,660	\$ 51,273	\$ 50,415
Salaries and wages – CMO and a director	30,955	30,798	15,382	15,124
Salaries and wages – CSO	30,955	30,798	15,382	15,124
Consulting fees – CCO and a director	30,955	30,798	15,382	15,124
Consulting fees – COO	30,955	30,798	15,382	15,124
	<u>\$ 227,002</u>	<u>\$ 225,852</u>	<u>\$ 112,801</u>	<u>\$ 110,911</u>

As at July 31, 2020 and January 31, 2020, the Company has the following balance owing to (due from) related parties:

	July 31, 2020	January 31, 2020
CEO and a director	\$ 34,230	\$ 25,931
CMO and a director	(789)	4,674
CSO	809	8,777
CCO and a director	25,331	19,940
COO	15,832	15,692
	<u>\$ 75,413</u>	<u>\$ 75,014</u>

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

On September 26, 2019, the Company entered into a convertible loan agreement with the CEO and Director of the Company and issued a convertible note in the aggregate principal amount of \$164,110 (see Note 6).

Cognetivity Neurosciences Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

For the Period Ended July 31, 2020

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9. NON-CASH INVESTING AND FINANCING ACTIVITIES

	July 31, 2020	July 31, 2019
Shares issued for debt settlement (Note 7A)	\$ 132,592	\$ -
Shares issued from warrants exercised (Note 7A)	-	15,162
Share issue cost – broker’s warrants (Note 7B)	-	25,834

10. COMMITMENT

On January 21, 2019, Cog UK signed a commercial agreement with Dementias Platform UK (“DPUK”). Cog UK will supply the use of its cognitive testing platform and associated hardware of up to \$431,000 (GBP 250,000) to DPUK on an as-needed basis. Cog UK can terminate the agreement at any time without any penalty. During the period ended April 30, 2020, \$nil has been supplied to DPUK (2020: \$nil).

On April 30, 2019, Cog UK signed a consultant agreement with Tarragon Commercial Solutions Limited (“Tarragon”). Cog UK shall issue Tarragon a total of 200,000 ordinary shares in the Company. The shares shall be held by the Company in escrow and these shares shall be released on quarterly basis upon achievement of each of the performance criteria identified in the milestones schedule included in the consultant agreement. During the period ended April 30, 2020, no milestone has been met and no share has been issued to Tarragon.

11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK

Fair value of financial instruments

Financial instruments of the Company carried on the 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 July 31, 2020 and January 31, 2020 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.

Cognetivity Neurosciences Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)

Contractual maturities of financial liabilities as at July 31, 2020 are presented below and all the liabilities will be due within 1 year:

Contractual Obligations

Accounts payable and accrued liabilities	\$ 737,607
Convertible debenture	349,666
Due to related parties	75,413
Total	\$ 1,162,686

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.

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 July 31, 2020.