



**COGNETIVITY NEUROSCIENCES LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**For the years ended January 31, 2021 and 2020**  
**(EXPRESSED IN CANADIAN DOLLAR)**

## **Management's Responsibility for Financial Reporting**

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board of Directors is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

May 31, 2021

"Sina Habibi"  
Director

"David Velisek"  
Director

# Independent Auditor's Report

---

To the Shareholders of Cognetivity Neurosciences Ltd.:

## Opinion

We have audited the consolidated financial statements of Cognetivity Neurosciences Ltd. and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as at January 31, 2021 and January 31, 2020, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at January 31, 2021 and January 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

## Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company has not yet achieved profitable operations, and had an accumulated deficit as at January 31, 2021. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Vancouver, British Columbia

May 31, 2021

*MNP* LLP  
Chartered Professional Accountants

**Cognetivity Neurosciences Ltd.**  
Consolidated Statements of Financial Position  
(Expressed in Canadian dollars)

As at	Note	January 31, 2021	January 31, 2020
		\$	\$
<b>ASSETS</b>			
<b>Current</b>			
Cash		1,359,851	578,229
Due from related parties	<b>8</b>	14,939	-
Interest and tax receivable		67,402	47,235
Prepays		309,013	85,555
<b>Total Current Assets</b>		<b>1,751,205</b>	<b>711,019</b>
<b>Equipment</b>	<b>5</b>	44,415	37,046
<b>Patent</b>		32,179	-
<b>TOTAL ASSETS</b>		<b>1,827,799</b>	<b>748,065</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities		637,299	629,078
Convertible debentures	<b>6</b>	313,658	307,008
Due to related parties	<b>8</b>	13,931	75,014
<b>Total Liabilities</b>		<b>964,888</b>	<b>1,011,100</b>
<b>SHAREHOLDERS' EQUITY</b>			
Common shares	<b>7</b>	9,873,571	7,031,074
Equity portion of convertible debentures	<b>6</b>	34,851	41,028
Reserves	<b>7</b>	1,821,894	1,587,105
Deficit		(10,837,531)	(8,909,434)
Accumulative other comprehensive income (loss)		(29,874)	(12,808)
<b>Total Shareholders' Equity (Deficiency)</b>		<b>862,911</b>	<b>(263,035)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>1,827,799</b>	<b>748,065</b>

Nature of operations and going concern (Note 1)  
Subsequent events (Note 14)

Approved on Behalf of the Board of Directors on May 31, 2021:

"Sina Habibi" Director  
Sina Habibi

"David Velisek" Director  
David Velisek

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

**Cognetivity Neurosciences Ltd.**Consolidated Statements of Operations and Comprehensive Loss  
(Expressed in Canadian dollars)

		<b>For the Years Ended January 31,</b>	
	<b>Notes</b>	<b>2021</b>	<b>2020</b>
		<b>\$</b>	<b>\$</b>
<b>Expenses</b>			
Accretion expenses	<b>6</b>	62,338	31,101
Consulting fees		547,092	810,672
Depreciation	<b>5</b>	11,448	9,292
Foreign exchange gain		(5,616)	(487)
General and administration		117,840	100,176
Marketing and advertising		230,798	402,018
Professional fees		126,913	146,137
Rent		103,564	117,804
Research and development		70,996	492,181
Salaries and benefits		1,115,622	421,315
Share-based payment	<b>7</b>	75,536	12,200
Transfer agent and regulatory		52,973	62,104
Travel		4,909	31,680
		2,514,413	2,636,193
<b>Other Expense (Income)</b>			
Interest expense		500	24,874
Gain on debt settlement	<b>7</b>	(8,998)	-
Other income	<b>9</b>	(580,103)	(778)
<b>Net loss before income taxes</b>		1,925,812	2,660,289
<b>Income tax recovery</b>		2,285	(15,175)
<b>Net Loss</b>		1,928,097	2,645,114
<b>Other Comprehensive Loss</b>			
<i>Items that will be reclassified subsequently to loss</i>			
Unrealized loss on foreign exchange translation		17,066	18,641
<b>Comprehensive Loss</b>		1,945,163	2,630,999
<b>Basic and diluted loss per common share</b>		0.03	0.06
<b>Weighted average number of common shares outstanding – Basic and diluted</b>		58,675,419	45,598,134

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

## Cognetivity Neurosciences Ltd.

### Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(Expressed in Canadian dollars)

	<u>Common Share</u>		<u>Class B Share</u>		<u>Equity Portion of Convertible Debentures</u>	<u>Reserves</u>	<u>AOCI</u>	<u>Deficit</u>	<u>Shareholders' Equity (Deficiency)</u>
	<u>Number of Shares</u>		<u>Number of Shares</u>						
	<u>#</u>	<u>\$</u>	<u>#</u>	<u>\$</u>					
<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	6,087,477	1,594,233	-	-	-	39,686	-	-	1,633,919
Shares issued from warrant exercised	327,800	141,610	-	-	-	(26,880)	-	-	114,730
Shares issued from debt settlement	450,617	114,907	-	-	-	-	-	-	114,907
Equity component of convertible debentures	-	-	-	-	41,028	-	-	-	41,028
Stock options granted and vested	-	-	-	-	-	12,200	-	-	12,200
Net loss and comprehensive loss for the year	-	-	-	-	-	-	(14,115)	(2,645,114)	(2,659,229)
<b>Balance - January 31, 2020</b>	49,466,487	7,031,074	10,000,002	-	41,028	1,587,105	(12,808)	(8,909,434)	(263,035)
Shares issued from private placement, net of share issuance costs	8,984,167	2,366,351	-	-	-	172,082	-	-	2,538,433
Conversion of Class B Preferred Shares to Common shares	10,000,002	-	(10,000,002)	-	-	-	-	-	-
Shares issued from debt settlement	721,568	132,592	-	-	-	-	-	-	132,592
Shares issued from warrant exercised	951,300	238,453	-	-	-	(628)	-	-	237,825
Shares issued from option exercised	100,000	26,701	-	-	-	(12,201)	-	-	14,500
Shares issued for services	50,000	14,250	-	-	-	-	-	-	14,250
Shares issued for conversion debentures	214,183	64,150	-	-	(6,177)	-	-	-	57,973
Stock options granted and vested	-	-	-	-	-	59,537	-	-	59,537
Issuance of restricted share units	-	-	-	-	-	15,999	-	-	15,999
Net loss and comprehensive loss for the year	-	-	-	-	-	-	(17,066)	(1,928,097)	(1,945,163)
<b>Balance - January 31, 2021</b>	70,487,707	9,873,571	-	-	34,851	1,821,894	(29,874)	(10,837,531)	862,911

*The accompanying notes are integral to consolidated financial statements*

**Cognetivity Neurosciences Ltd.**  
**Consolidated Statements of Cash Flows**  
**(Expressed in Canadian dollars)**

	For the Years Ended January 31,	
	2021	2020
	\$	\$
Net loss for the year	(1,928,097)	(2,645,114)
Non-cash items:		
Accretion expense	62,338	31,101
Depreciation	11,448	9,292
Disposal of equipment	-	2,026
Gain on debt settlement	(8,998)	-
Income tax recovery	2,285	(15,175)
Shares-based payment	75,536	12,200
Shares issued for services	14,250	-
Foreign exchange gain or loss	(13,521)	-
Changes in non-cash operating working capital:		
Interest and tax receivable	(19,620)	9,819
Prepays	(223,159)	25,071
Research and development credit	-	142,136
Accounts payable and accrued liabilities	143,874	517,918
Due to related parties	(75,077)	54,123
Net cash used in operating activities	(1,958,741)	(1,856,603)
Cash flows from investing activities:		
Acquisition of equipment	(18,479)	(21,823)
Acquisition of patents	(31,602)	-
Redemption of short term investments	-	128,000
Net cash provided (used) by investing activities	(50,081)	106,177
Cash flows from financing activities:		
Proceeds from private placement, net issuance costs	2,538,433	1,633,919
Proceeds from warrants exercised	237,825	114,730
Proceeds from options exercised	14,500	-
Proceeds from issuance of convertible debentures	-	332,110
Net cash provided by financing activities	2,790,758	2,080,759
Effect of foreign exchange on cash	(314)	(2,850)
Net increase in cash	781,622	327,483
Cash, beginning of the year	578,229	250,746
Cash, end of the year	1,359,851	578,229

Non-cash financing and investing activities (Note 9)

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



## **Cognetivity Neurosciences Ltd.**

Notes to the Consolidated Financial Statements

For the Years Ended January 31, 2021 and 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.

#### *Going Concern & Impact of COVID-19*

The Company’s operations have been adversely affected by the effects of a widespread global outbreak of the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the ultimate impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, the health crisis could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company’s operations and ability to finance its operations.

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 January 31, 2021, the Company has not yet achieved profitable operations, has an accumulated deficit of \$10,837,531 (January 31, 2020 - \$8,909,434), and working capital of \$786,317 (January 31, 2020 – working capital deficiency of \$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.

## **Cognetivity Neurosciences Ltd.**

Notes to the Consolidated Financial Statements  
For the Years Ended January 31, 2021 and 2020  
(Expressed in Canadian dollars)

---

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

#### **Statement of Compliance**

These consolidated financial statements are prepared in accordance with International Accounting Standards as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements were approved and authorized for issue by the Board of Directors on May 31, 2021.

#### **Basis of Measurement**

These 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 consolidated financial statements have been prepared using the accrual basis of accounting except cash flow information.

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

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The Company has initially applied IAS 1 Presentation of Financial Statements from February 1, 2020, but they do not have a material impact on these consolidated financial statements.

#### **a. 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.

#### **b. 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”.

## **Cognetivity Neurosciences Ltd.**

Notes to the Consolidated Financial Statements  
For the Years Ended January 31, 2021 and 2020  
(Expressed in Canadian dollars)

---

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

#### **b. Foreign currency translation (continued)**

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.

#### **c. Cash**

Cash consists of cash balances with bank.

#### **d. Equipment**

Equipment is stated at cost less accumulated amortization and any accumulated impairment losses. The cost of equipment includes the acquisition costs and any direct costs to bring the asset into productive use at its intended location.

Amortization of equipment is calculated using the straight-line method to write-off the cost, net of any estimated residual value, over their estimated useful life as follows:

Computer equipment	5 years
--------------------	---------

#### **e. Intangible assets**

Intangible assets include patents which represent the expenditures incurred. Patents are carried at cost less accumulated amortization. Patents are amortized over the term of 13 years using the straight-line method.

Intangible assets are tested for impairment on an annual basis or more frequently if there are indicators that intangible assets may be impaired.

#### **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.

## Cognetivity Neurosciences Ltd.

Notes to the Consolidated Financial Statements

For the Years Ended January 31, 2021 and 2020

(Expressed in Canadian dollars)

---

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

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.

#### h. 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:

<b>Financial assets</b>	<b>Classification</b>
Cash	Amortized cost
Interest receivable	Amortized cost
Due from related parties	Amortized cost

  

<b>Financial liabilities</b>	<b>Classification</b>
Accounts payable and accrued liabilities	Amortized cost
Convertible debentures	Amortized cost
Due to related parties	Amortized cost

## **Cognetivity Neurosciences Ltd.**

Notes to the Consolidated Financial Statements

For the Years Ended January 31, 2021 and 2020

(Expressed in Canadian dollars)

---

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

#### (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.

#### i. 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.

#### j. 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.

#### k. Share-based payments transactions

The Company's stock-based compensation includes grants of stock options and restricted share units ("RSUs"). 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,

## **Cognetivity Neurosciences Ltd.**

Notes to the Consolidated Financial Statements

For the Years Ended January 31, 2021 and 2020

(Expressed in Canadian dollars)

---

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

#### **k. Share-based payments transactions (continued)**

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.

The Company accounts for RSUs issued to employees and non-employees (consultants and advisory board members) based on the fair market value of the Company's common stock as of the date of issuance.

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.

#### **l. 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.

#### **m. 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.

## **Cognetivity Neurosciences Ltd.**

Notes to the Consolidated Financial Statements

For the Years Ended January 31, 2021 and 2020

(Expressed in Canadian dollars)

---

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

#### **m. Income taxes (continued)**

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.

#### **n. Government grant**

Government grant is recognized when there is reasonable assurance that the Company will comply with any conditions attached to the grant and the grant will be received. Government grant is recognized in profit or loss to offset the corresponding expenses on a systematic basis over the periods in which the Company recognizes expenses for the related costs for which the grants are intended to compensate, which in the case of grants related to assets requires setting up the grant as deferred income or deducting it from the carrying amount of the asset.

#### **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.

#### **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.

#### **q. New accounting standard adopted**

##### **IAS 1 Presentation of Financial Statements**

Amendments to IAS 1, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS standards and other publications.

The amendments are effective for annual periods beginning on or after February 1, 2020 and are required to be applied prospectively. The adoption of this standard did not have material impact to the Company's consolidated financial statements.

## **Cognetivity Neurosciences Ltd.**

Notes to the Consolidated Financial Statements

For the Years Ended January 31, 2021 and 2020

(Expressed in Canadian dollars)

---

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

#### **r. Recent accounting pronouncements not yet effective**

Certain pronouncements have been issued by the IASB or the IFRS Interpretations Committee (“IFRIC”) that are mandatory for accounting periods ending after these consolidated financial statements. Some are not applicable or do not have a significant impact to the Company and have been excluded from the discussion below.

#### **IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform (Phase 2)**

In August 2020, the IASB issued Interest Rate Benchmark Reform (Phase 2), which amends IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and measurement, IFRS 7 Financial Instruments: Disclosures and IFRS 16 Leases. The Phase 2 amendments address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. These amendments complement those issued in 2019 and focus on issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments are effective for annual periods beginning on or after January 1, 2021, with earlier application permitted. The Company has concluded that no significant impact will result from the application of the Phase 2 amendments.

### **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.



## **Cognetivity Neurosciences Ltd.**

Notes to the Consolidated Financial Statements

For the Years Ended January 31, 2021 and 2020

(Expressed in Canadian dollars)

---

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

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

##### 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).

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 year ended January 31, 2021. 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 Consolidated Financial Statements  
For the Years Ended January 31, 2021 and 2020  
(Expressed in Canadian dollars)

---

**5. EQUIPMENT**

	\$
<b>Cost</b>	
As at January 31, 2019	31,583
Additions	21,823
Disposal	(2,826)
Effect of change in exchange rate with GBP	904
<u>As at January 31, 2020</u>	<u>51,484</u>
Additions	18,479
Disposal	-
Effect of change in exchange rate with GBP	630
<u>As at January 31, 2021</u>	<u>70,593</u>
 <b>Accumulated depreciation</b>	
As at January 31, 2019	5,637
Additions	9,292
Disposal	(800)
Effect of change in exchange rate with GBP	309
<u>As at January 31, 2020</u>	<u>14,438</u>
Additions	11,450
Disposal	-
Effect of change in exchange rate with GBP	290
<u>As at October 31, 2021</u>	<u>26,178</u>
 <b>Net book value</b>	
January 31, 2020	37,046
<u>January 31, 2021</u>	<u>44,415</u>

## Cognetivity Neurosciences Ltd.

Notes to the Consolidated Financial Statements  
For the Years Ended January 31, 2021 and 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. During the year ended January 31, 2021, \$50,000 of Notes with unpaid interest of \$5,688 were converted into the Company's common shares and a total of 214,183 common shares were issued upon conversion. The equity component of the Notes of \$8,462 with the fully accreted debt component was reclassified into share capital of the Company upon the conversion. During the year ended January 31, 2021, \$118,000 of Notes matured. Upon its maturity, the outstanding loan balance became unsecured, due on demand and bear interest at of 8% per annum.
- 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. During the year ended January 31, 2021, the Note matured. Upon its maturity, the outstanding loan balance became unsecured, due on demand and bear interest at of 8% per annum.

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

<b>Convertible Debentures</b>	(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
<b>January 31, 2020</b>	<b>\$157,656</b>	<b>\$149,352</b>	<b>\$307,008</b>
Accretion and interest expense recognized during the year	29,894	32,448	62,338
Conversion to common shares	(55,688)	-	(55,688)
<b>January 31, 2021</b>	<b>\$131,862</b>	<b>\$181,796</b>	<b>\$313,658</b>

### 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.

## **Cognetivity Neurosciences Ltd.**

Notes to the Consolidated Financial Statements

For the Years Ended January 31, 2021 and 2020

(Expressed in Canadian dollars)

---

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

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.

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

- a) On January 14, 2021, as a result of the conversion of convertible debentures, the Company issued 214,183 common shares (see Note 6a).
- b) On December 22, 2020, the Company completed a non-brokered private placement of 8,984,167 units at a price of \$0.30 per Unit for gross proceeds of \$2,695,250. Each unit consists of one common share and one-half of one common share purchase warrant. (each whole common share purchase warrant, a "Warrant"). Each whole warrant will entitle the holder to purchase an additional share at a price of \$0.40 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.

In connection with the Offering, the Company has paid finders' fees equal to \$156,818 in cash and 522,725 non-transferrable warrants (the "Finder's Warrants"). Each Finder's Warrant has the same terms as the Warrants issued under the Offering (see Note 7B).

- c) On October 5, 2020, the Company issued 50,000 common shares at a price of \$0.285 per common share to a consultant for services provided to the Company.
- d) On May 8, 2020, as a result of the conversion of Class B Shares, the Company issued 10,000,002 common shares.
- e) 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.

## **Cognetivity Neurosciences Ltd.**

Notes to the Consolidated Financial Statements

For the Years Ended January 31, 2021 and 2020

(Expressed in Canadian dollars)

---

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

- f) 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.
- g) During the year ended January 31, 2021, 100,000 stock options were exercised at \$0.145 each for a total of \$14,500. In relation to the exercise of the stock option, the fair value of \$12,201 was allocated from reserves.
- h) During the year ended January 31, 2021, 951,300 warrants were exercised at \$0.25 each for a total of \$237,825. In relation to the exercise of the warrants, the proportionate fair value of \$628 was allocated from reserves (see Note 7B).
- i) 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).

- j) 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.
- k) 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).
- l) 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).

**Cognetivity Neurosciences Ltd.**  
Notes to the Consolidated Financial Statements  
For the Years Ended January 31, 2021 and 2020  
(Expressed in Canadian dollars)

---

**7. SHARE CAPITAL (continued)**

**B. Warrants**

- a) During the year ended January 31, 2021, 951,300 warrants were exercised at \$0.25 each for a total of \$237,825. In relation to the exercise of the warrants, the proportionate fair value of \$628 was allocated from reserves (see Note 7A).
- b) On December 22, 2020, as part of the private placement, the Company issued 4,492,084 warrants which were valued at \$nil (see Note 7A(b)).

The Company issued 522,725 non-transferrable broker's warrants with the same terms as the warrants as finder's fees. The broker's warrants were valued at \$172,082 using the Black-Scholes Option Pricing Model with the following assumption at the issue date: risk free interest rate of 0.22%; dividend yield of 0%; expected volatility of 138.97% and expected life of 2 years.

- c) On January 14, 2021, as a result of the conversion of convertible debentures, the Company issued 214,183 warrant at exercise price of 0.30 for a period of 7 months.
- d) 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.
- e) 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.

- f) 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.**

Notes to the Consolidated Financial Statements  
For the Years Ended January 31, 2021 and 2020  
(Expressed in Canadian dollars)

**7. SHARE CAPITAL (continued)**

The following table reflects the continuity of warrants for the years ended January 31, 2021 and 2020:

	January 31, 2021		January 31, 2020	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Warrants outstanding, beginning of the year	3,340,263	0.40	8,469,829	0.35
Issued	5,228,992	0.40	3,340,263	0.40
Exercised	(951,300)	0.25	(327,800)	0.35
Expired	(1,669,010)	0.55	(8,142,029)	0.35
Warrants outstanding, end of the year	5,948,945	0.38	3,340,263	0.40

The warrants outstanding at January 31, 2021 are as follows:

Number Outstanding	Exercise Price	Grant Date	Expiry Date
719,953	\$0.25	January 30, 2020	January 30, 2022
5,014,809	\$0.40	December 22, 2020	December 22, 2022
214,183	\$0.30	January 14, 2021	August 14, 2021

**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 years ended January 31, 2021 and 2020 is as follows:

	January 31, 2021		January 31, 2020	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Options outstanding and exercisable, beginning of the year	4,100,000	0.27	4,000,000	0.27
Granted	618,000	0.27	100,000	0.15
Exercised	(100,000)	0.145	-	-
Options outstanding, end of the year	4,618,000	0.26	4,100,000	0.27
Options exercisable, end of the year	4,100,000	0.26	4,100,000	0.27

**Cognetivity Neurosciences Ltd.**

Notes to the Consolidated Financial Statements  
For the Years Ended January 31, 2021 and 2020  
(Expressed in Canadian dollars)

---

**7. SHARE CAPITAL (continued)****C. Options (continued)**

The options outstanding at January 31, 2021 are as follows:

Number of Options Outstanding	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	0.21	February 14, 2020	February 14, 2025
518,000	0.285	October 5, 2020	October 5, 2025

- a) On October 5, 2020, the Company granted 518,000 options to employees of the Company. The options are exercisable at \$0.285, and will vest and become exercisable on or after October 5, 2021. The Company valued the options at \$123,543 using the Black-Scholes Option Pricing Model to estimate the fair value of the options using the following assumptions: risk free interest rate of 0.33%; dividend yield of 0%; expected volatility of 124.67%; and expected option life of 5 years. During the year ended January 31, 2021, the Company recorded a total share-based payment amount of \$40,168.
- 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.
- c) 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.



## **Cognetivity Neurosciences Ltd.**

Notes to the Consolidated Financial Statements  
For the Years Ended January 31, 2021 and 2020  
(Expressed in Canadian dollars)

---

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

#### **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.

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.

During the year ended January 31, 2021, the Company recorded a total share-based payment of \$15,999 for the RSUs granted.

#### **E. Escrow shares**

As at January 31, 2021, the Company had 2,447,803 common shares held in escrow (January 31, 2020 – 4,895,605)

### **8. RELATED PARTY TRANSACTIONS**

During the years ended January 31, 2021 and 2020, the Company incurred the following expenses to related parties:

		<b>2021</b>		<b>2020</b>
Consulting fees – CEO and a director	\$	206,665	\$	203,292
Salaries and wages – CMO and a director		61,999		60,988
Salaries and wages – CSO		61,999		60,988
Consulting fees – CCO and a director		61,999		60,988
Consulting fees – COO		61,999		60,988
	\$	454,661	\$	447,244

As at January 31, 2021 and 2020, the Company has the following balance owing to (due from) related parties:

## Cognetivity Neurosciences Ltd.

Notes to the Consolidated Financial Statements  
For the Years Ended January 31, 2021 and 2020  
(Expressed in Canadian dollars)

---

### 8. RELATED PARTY TRANSACTIONS (continued)

	January 31, 2021	January 31, 2020
	\$	\$
CEO and a director	(2,648)	25,931
CMO and a director	-	4,674
CSO	(12,291)	8,777
CCO and a director	5,260	19,940
COO	8,671	15,692

---

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).

### 9. GOVERNMENT GRANT

During the year ended January 31, 2021, the Company received \$580,103 payment from Innovate UK which has been recognized as other income. Innovate UK is a public body funded by the UK government.

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

	January 31, 2021	January 31, 2020
Shares issued for debt settlement (Note 7A)	\$ 132,592	\$ 114,907
Shares issued from warrants exercised (Note 7A)	628	26,880
Shares issued from option exercised (Note 7A)	12,201	-
Share issue cost – broker's warrants (Note 7B)	172,082	39,687
Share issued for services (Note 7A)	14,250	-

### 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 January 31, 2021 and 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. Risk associated with cash is managed through the use of major banks which are high credit quality financial institutions as determined by rating agencies.

## **Cognetivity Neurosciences Ltd.**

Notes to the Consolidated Financial Statements

For the Years Ended January 31, 2021 and 2020

(Expressed in Canadian dollars)

---

### **11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)**

#### *Credit risk*

#### *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. 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.

Contractual maturities of financial liabilities as at January 31, 2021 are presented below and all the liabilities will be due within 1 year:

#### **Contractual Obligations**

Accounts payable and accrued liabilities	\$ 637,229
Convertible debenture	313,658
<hr/>	
Total	<u>\$ 950,887</u>

#### *Interest rate risk*

The Company has cash balances. 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.

#### *Foreign exchange risk*

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company does not have significant exposure to foreign exchange risk because it has minimum transactions in foreign currency.

### **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 year ended January 31, 2021.

**Cognetivity Neurosciences Ltd.**

Notes to the Consolidated Financial Statements

For the Years Ended January 31, 2021 and 2020

(Expressed in Canadian dollars)

**13. INCOME TAXES**

The following table reconciles the expected income tax expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of operations and comprehensive loss for the years ended January 31, 2021 and 2020.

		January 31 2021		January 31 2020
Net loss before tax	\$	(1,925,812)	\$	(2,660,289)
Statutory tax rate		27.00%		27%
Expected income tax expenses (recovery)		(519,970)		(718,279)
Non-deductible items		(54,743)		185,333
Research and development		(311,971)		-
Foreign tax rate difference		12,839		194,291
Change in deferred tax assets not recognized		876,128		323,480
Total income tax expense (recovery)	\$	2,283	\$	(15,175)

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. Deferred tax assets (liabilities) at January 31, 2021 and 2020 are comprised of the following:

		January 31 2021		January 31 2020
Net trading loss carryforwards (UK)	\$	8,439	\$	6,298
Net non-capital loss carryforwards (Canada)		-		6,778
Equipment (UK)		(8,439)		(6,778)
Convertible debentures (Canada)		-		(6,298)
Net deferred tax assets (liabilities)	\$	-	\$	-

The unrecognized deductible temporary differences at January 31, 2021 and 2020 are as follows:

		January 31 2021		January 31 2020
Non-capital loss carryforwards (Canada)	\$	2,986,620	\$	2,220,851
Trading loss carryforwards (UK)		5,914,567		2,675,293
Eligible capital property		2,006		2,006
Financing costs		399,640		226,069
Total unrecognized deductible temporary differences	\$	9,302,833	\$	5,124,219

As at January 31, 2021, the Company has not recognized a deferred tax asset in respect of non-capital loss carry forwards of approximately \$2,986,620 (2020: \$2,220,851) which may be carried forward to apply against future income for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

## Cognetivity Neurosciences Ltd.

Notes to the Consolidated Financial Statements  
For the Years Ended January 31, 2021 and 2020  
(Expressed in Canadian dollars)

---

### 13. INCOME TAXES (continued)

Expiry		Total
2036	\$	3,792
2037		197,305
2038		71,234
2039		1,186,815
2040		817,514
2041		709,960
Total	\$	2,986,620

As at January 31, 2021, the Company has not recognized a deferred tax asset in respect of net operating loss carry forwards of \$5,914,567 (2020: \$2,675,293) which may be carried forward indefinitely to apply against future income for UK income tax purposes, subject to final determination by taxation authorities.

### 14. SUBSEQUENT EVENTS

- a. Subsequent to year ended January 31, 2021, Cog UK has been granted a loan facility of up to GBP £740,000 (CAD \$1.28m) to support the Company in its product development and commercialisation activities through the coming year. The Company has previously received grant funding through the UK Government Innovate UK program, and this new facility will be made available through Innovate UK's Innovation Continuity Loans scheme.

The loan itself allows draw-downs throughout 2021 in an initial availability period of 12 months, followed by a 24 month extension period where no repayment needs to be made, carrying a deferred interest rate of 3.7% per annum, followed by a 36 month repayment period.

- b. Subsequent to year ended January 31, 2021, the Company also entered into a consulting contract with Toronto-based marketing firm, North Equities Corp. The contract has an associated fee of \$75,000, which has been paid by the issuance of 115,132 shares.
- c. Subsequent to year ended January 31, 2021, the Company issued 384,946 common shares pursuant to the exercise of 334,946 share purchase warrants for proceeds of \$104,295 and the exercise of 50,000 share purchase options for proceeds of \$21,500.
- d. On March 1, 2021, the Company granted 80,000 common share purchase options exercisable at \$0.84 per share expiring in five years to employees of the Company.