



ALPHA COGNITION INC.

Condensed Interim Consolidated Financial Statements

(Expressed in United States Dollars - Unaudited)

For the Three and Six Months Ended June 30, 2021 and 2020

ALPHA COGNITION INC.
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(Expressed in United States Dollars)

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ALPHA COGNITION INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in United States Dollars - Unaudited)

| | Note | June 30, 2021 | December 31, 2020 |
|---|------|------------------|----------------------|
| | | \$ | \$ |
| ASSETS | | | |
| Current assets | | | |
| Cash | | 5,253,596 | 5,926,350 |
| Subscription receipts receivable | 8 | - | 1,439,223 |
| Other receivable | | 24,439 | - |
| Tax recoverable | | 22,765 | 19,943 |
| Prepaid expenses and other current assets | | 360,114 | 314,715 |
| | | 5,660,914 | 7,700,231 |
| Equipment | | 16,202 | 6,837 |
| Intangible asset, net | 4 | 762,153 | 729,137 |
| | | 6,439,269 | 8,436,205 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 5 | 920,359 | 203,853 |
| Related parties payable | 7,10 | - | 11,542 |
| Refundable subscription receipts | 8 | - | 3,337,963 |
| Promissory note - current portion | 7 | 24,000 | 24,000 |
| | | 944,359 | 3,577,358 |
| Convertible debentures, net | 6 | - | 2,257,109 |
| Promissory note | 7 | 990,311 | 933,899 |
| Derivative liability | 6,8 | 5,560,407 | 1,651,831 |
| | | 7,495,077 | 8,420,197 |
| SHAREHOLDERS' EQUITY (DEFICIENCY) | | | |
| Share capital | 8 | 24,663,432 | 14,568,312 |
| Commitment to issue shares | 8 | 25,398 | - |
| Reserves | 8 | 4,844,812 | 3,936,583 |
| Accumulated other comprehensive income | | 5,712 | - |
| Accumulated deficit | | (30,595,162) | (18,488,887) |
| | | (1,055,808) | 16,008 |
| | | 6,439,269 | 8,436,205 |

Note 1 – Nature and Continuance of Operations
Note 11 – Commitments

Approved on behalf of the Board on August 30, 2021

_____/s/ Kenneth Cawkell_____, Director

_____/s/ Len Mertz_____, Director

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

ALPHA COGNITION INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INOCME (LOSS) AND
COMPREHENSIVE INCOME (LOSS)
(Expressed in United States Dollars - Unaudited)

| | | For the three months ended | | For the six months ended | |
|--|------|----------------------------|--------------------|--------------------------|--------------------|
| | Note | 2021 | June 30, 2020 | 2021 | June 30, 2020 |
| | | \$ | \$ | \$ | \$ |
| Operating expenses | | | | | |
| Accretion expenses | 6,7 | 28,851 | 69,635 | 433,045 | 93,921 |
| Amortization expense | 4 | 20,593 | 19,760 | 41,187 | 39,521 |
| Depreciation | | 2,093 | - | 2,424 | - |
| Interest | 6,7 | 6,440 | 24,575 | 18,442 | 30,946 |
| Management fees and salaries | 10 | 259,927 | 29,000 | 368,728 | 83,000 |
| Marketing | | 28,584 | - | 28,584 | - |
| Other general and administrative | 10 | 106,413 | 29,291 | 159,272 | 52,399 |
| Professional fees | 10 | 190,619 | 41,420 | 272,244 | 70,875 |
| Registrar and filing fees | | - | - | 43,210 | - |
| Research and development | 9 | 1,528,265 | 1,529,206 | 3,150,443 | 2,355,597 |
| Share-based compensation | 8 | 60,883 | 9,038 | 206,330 | 77,149 |
| Travel and related | | - | 171 | - | 171 |
| | | 2,232,668 | 1,752,096 | 4,723,909 | 2,803,579 |
| Loss before other items | | (2,232,668) | (1,752,096) | (4,723,909) | (2,803,579) |
| Other items | | | | | |
| Foreign exchange gain (loss) | | 22,999 | (2,694) | 41,148 | (4,346) |
| Interest income | | 322 | 2,319 | 1,641 | 20,249 |
| Business investigation costs | 3 | - | - | (37,504) | - |
| Listing expense | 3 | - | - | (1,851,194) | - |
| Gain (loss) on revaluation of derivative liability | 6,8 | 2,363,196 | 97,462 | (5,536,457) | 97,462 |
| | | 2,386,517 | 97,087 | (7,382,366) | 113,365 |
| Net income (loss) for the period | | 149,214 | (1,655,009) | (12,100,563) | (2,690,214) |
| Cumulative translation adjustment | | (4,635) | - | 5,712 | - |
| Comprehensive income (loss) for the period | | 153,849 | (1,655,009) | (12,106,275) | (2,690,214) |
| Basic and diluted net loss per share | | 0.00 | (0.04) | (0.25) | (0.06) |
| Basic and diluted weighted average number of shares outstanding | | 47,444,666 | 42,904,857 | 48,128,995 | 42,900,668 |

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

ALPHA COGNITION INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)
(Expressed in United States Dollars - Unaudited)

| | Common shares | | Class B Common shares | | Preferred shares | | Total share capital | | Reserves | Accumulated Deficit | Total |
|---------------------------------------|-------------------|-------------------|--------------------------|----------------|------------------|-----------|---------------------|-------------------|------------------|------------------------|------------------|
| | Number | Amount | Number | Amount | Number | Amount | Number | Amount | | | |
| | | \$ | | \$ | | \$ | | \$ | | | |
| Balance, December 31, 2019 | 40,416,190 | 14,336,137 | 2,480,334 | 115,376 | 7,916,380 | 62 | 50,812,904 | 14,451,575 | 3,532,914 | (12,740,194) | 5,244,295 |
| Share conversion | 2,480,334 | 115,376 | (2,480,334) | (115,376) | - | - | - | - | - | - | - |
| Options exercised | 50,000 | 58,368 | - | - | - | - | 50,000 | 58,368 | (57,868) | - | 500 |
| Stock-based compensation | - | - | - | - | - | - | - | - | 347,444 | - | 347,444 |
| Loss for the period | - | - | - | - | - | - | - | - | - | (2,690,214) | (2,690,214) |
| Balance, June 30, 2020 | 42,946,524 | 14,509,881 | - | - | 7,916,380 | 62 | 50,862,904 | 14,509,943 | 3,822,490 | (15,430,408) | 2,902,025 |
| Options exercised | 50,000 | 58,369 | - | - | - | - | 50,000 | 58,369 | (57,869) | - | 500 |
| Share-based compensation | - | - | - | - | - | - | - | - | 207,476 | - | 207,476 |
| Forfeited share options | - | - | - | - | - | - | - | - | (35,514) | 35,514 | - |
| Loss for the period | - | - | - | - | - | - | - | - | - | (3,093,993) | (3,093,993) |
| Balance, December 31, 2020 | 42,996,524 | 14,568,250 | - | - | 7,916,380 | 62 | 50,912,904 | 14,568,312 | 3,936,583 | (18,488,887) | 16,008 |

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

ALPHA COGNITION INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)
(Expressed in United States Dollars - Unaudited)

| | Common shares | | Class A Restricted shares | | Preferred shares | | Total share capital | | Commitment | Reserves | Other | Accumulated | Total | |
|---|-------------------|-------------------|------------------------------|------------------|------------------|----------------|---------------------|-------------------|---------------|------------------|--------------|---------------------|--------------------|---------|
| | Number | Amount | Number | Amount | Number | Amount | Number | Amount | to issue | | Income | | | Deficit |
| | | | | | | | | | | | | | | |
| | | \$ | | \$ | | \$ | | \$ | \$ | \$ | \$ | \$ | \$ | |
| Balance, December 31, 2020 | 42,996,524 | 14,568,250 | - | - | 7,916,380 | 62 | 50,912,904 | 14,568,312 | - | 3,936,583 | - | (18,488,887) | 16,008 | |
| Shares issued for cash prior to RTO | 2,771,749 | 3,410,977 | - | - | - | - | 2,771,749 | 3,410,977 | - | - | - | - | 3,410,977 | |
| Shares issued for conversion of convertible promissory notes and interest | 2,234,036 | 1,971,133 | - | - | - | - | 2,234,036 | 1,971,133 | - | - | - | - | 1,971,133 | |
| Units issued for conversion of convertible promissory notes and interest | 1,613,186 | 2,296,019 | - | - | - | - | 1,613,186 | 2,296,019 | - | - | - | - | 2,296,019 | |
| Eliminate capital stock of Alpha Cognition Canada Inc. | (49,615,495) | - | - | - | (7,916,380) | - | (57,531,875) | - | - | - | - | - | - | |
| Opening balance of Alpha Cognition Inc. | 1,640,057 | - | - | - | - | - | 1,640,057 | - | - | - | - | - | - | |
| Issuance of shares to former shareholders of ACI Canada | 42,615,495 | 1,560,239 | 7,000,000 | 256,285 | 7,916,380 | 289,834 | 57,531,875 | 2,106,358 | - | 88,470 | - | - | 2,194,828 | |
| Reallocation of ACI Canada's common shares book value | - | (3,138,629) | - | 3,138,629 | - | - | - | - | - | - | - | - | - | |
| Shares issued for cash | 588,375 | 755,662 | - | - | - | - | 588,375 | 755,662 | - | - | - | - | 755,662 | |
| Share issuance costs | - | (445,029) | - | - | - | - | - | (445,029) | - | 101,662 | - | - | (343,367) | |
| Commitment to issue shares | - | - | - | - | - | - | - | - | 25,398 | (24,898) | - | - | 500 | |
| Share-based compensation | - | - | - | - | - | - | - | - | - | 742,995 | - | - | 742,995 | |
| Foreign exchange on translation | - | - | - | - | - | - | - | - | - | - | 5,712 | - | 5,712 | |
| Loss for the period | - | - | - | - | - | - | - | - | - | - | - | (12,106,275) | (12,106,275) | |
| Balance, June 30, 2021 | 44,843,927 | 20,978,622 | 7,000,000 | 3,394,914 | 7,916,380 | 289,896 | 59,760,307 | 24,663,432 | 25,398 | 4,844,812 | 5,712 | (30,595,162) | (1,055,808) | |

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

ALPHA COGNITION INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in United States Dollars - Unaudited)

| | Note | For the six months ended June 30, | |
|--|------|--------------------------------------|------------------|
| | | 2021 | 2020 |
| | | \$ | \$ |
| Cash flows used in operating activities | | | |
| Net loss for the period | | (12,106,275) | (2,690,214) |
| Adjustments for non-cash items | | | |
| Amortization of intangible assets | | 41,187 | 39,521 |
| Accretion of discount on convertible promissory notes | | 376,633 | 44,555 |
| Accretion of discount on promissory note | | 56,412 | 49,366 |
| Accrued interest | | 17,544 | 29,823 |
| Depreciation of equipment | | 2,424 | - |
| Listing expense | 3 | 1,851,194 | - |
| Loss (gain) on revaluation of derivative liability | | 5,536,457 | (97,462) |
| Share-based compensation | | 742,995 | 347,444 |
| Unrealized foreign exchange | | 5,108 | - |
| | | (3,476,321) | (2,276,967) |
| Changes in non-cash operating working capital items: | | | |
| Other receivables | | (24,439) | - |
| Tax recoverable | | (2,822) | 19,922 |
| Prepaid expenses and other current assets | | (39,693) | (73,119) |
| Accounts payable and accrued liabilities | | 427,125 | (132,833) |
| Related parties payable | | 92,711 | (31,348) |
| | | (3,023,439) | (2,494,345) |
| Cash flows used in investing activities | | | |
| Cash acquired in RTO | 3 | 523,041 | - |
| Acquisition of intangible assets | | (73,599) | - |
| Acquisition of equipment | | (11,789) | - |
| | | 437,653 | - |
| Cash flows provided by financing activities | | | |
| Shares issued for cash | | 2,267,899 | - |
| Exercise of options | | 500 | 500 |
| Interest paid on promissory notes | | (12,000) | (12,000) |
| Proceeds from the issuance of convertible promissory notes | | - | 2,000,000 |
| Share issuance costs | | (343,367) | - |
| | | 1,913,032 | 1,988,500 |
| Change in cash during the period | | (672,754) | (505,845) |
| Cash, beginning of period | | 5,926,350 | 5,497,508 |
| Cash, end of period | | 5,253,596 | 4,991,663 |

Note 14 – Supplemental disclosure with respect to cash flows

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

ALPHA COGNITION INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States Dollars - Unaudited)
For the three and six months ended June 30, 2021 and 2020

NOTE 1 – NATURE AND CONTINUANCE OF OPERATIONS

Alpha Cognition Inc. (“ACI” or the “Company”), formerly Crystal Bridge Enterprises Inc., is the parent company of Alpha Cognition Canada Inc. (“ACI Canada”), formerly Alpha Cognition Inc. The Company operates from its three offices located in Charlottetown, Prince Edward Island; Vancouver, British Columbia; and West Palm Beach, Florida and is in the business of researching and developing pharmaceutical treatments for neurological diseases. The head office and registered and records office of the Company is 301 – 1228 Hamilton Street, Vancouver, BC, V6B 6L2. The Company’s common shares trade on the TSX Venture Exchange (“TSX-V”) under the trading symbol “ACOG” and on the Over-The-Counter (“OTC”) under the trading symbol “ACOGF”.

On March 18, 2021, the Company announced the successful closing of its Qualifying Transaction with ACI Canada (the "Transaction" as defined in Note 3). Pursuant to the Transaction, ACI Canada was acquired by and became a wholly-owned subsidiary of ACI. As part of the Transaction, on March 18, 2021, ACI changed its name to Alpha Cognition Inc. and ACI Canada changed its name to Alpha Cognition Canada Inc. At the time of completion of the Transaction, ACI had 59,171,932 shares issued and outstanding which included 57,531,875 common shares issued to former ACI Canada shareholders, representing 97.23% of the Company’s issued and outstanding shares. Initially, the common shares of the Company issued in connection with the Transaction were listed on TSX-V under the ticker symbol “CRYS”. Effective March 30, 2021, the trading symbol of ACI was changed to “ACOG”.

Upon closing of the Transaction, the shareholders of ACI Canada owned 97.23% of the shares of the Company, and as a result, the transaction is considered a reverse acquisition of the Company by ACI Canada. All previous common shares, share options, and warrants were exchanged at a ratio of one share of ACI Canada for one of ACI. For accounting purposes, ACI Canada is considered the acquirer and the Company, the acquiree. Accordingly, the consolidated financial statements are in the name of Alpha Cognition Inc.; however, they are a continuation of the financial statements of ACI Canada (Note 3).

On March 18, 2021, immediately before the Transaction, the Company completed a share consolidation on the basis of one new post-consolidation common share for every 7.14 pre-consolidation common shares. All current and comparative references to the number of common shares, weighted average number of common shares, loss per share, stock options and warrants have been restated to give effect to this share consolidation.

These condensed interim consolidated financial statements have been prepared with the assumption that 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 Company has not generated revenues from its operations to date and as at June 30, 2021, had a deficit of \$30,595,162 (December 31, 2020 - \$18,488,887) which has been primarily financed by equity. The Company’s continuing operations, as intended, are dependent upon its ability to generate cash flows or obtain additional financing. Management is of the opinion that it does have sufficient working capital to meet the Company’s liabilities and commitments as they become due for the upcoming 12 months. There is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company.

These condensed interim consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern assumption was not appropriate for these condensed interim financial statements, adjustments would be necessary to the statement of financial position classifications used. Such adjustments could be material.

ALPHA COGNITION INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States Dollars - Unaudited)
For the three and six months ended June 30, 2021 and 2020

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies used in the preparation of these condensed interim consolidated financial statements.

Statement of compliance

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounts Standards (“IAS”) 34, “Condensed Interim Financial Reporting” using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

This condensed interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the audited financial statements of Alpha Cognition Canada Inc. for the year ended December 31, 2020.

These condensed interim financial statements of the Company were approved and authorized for use by the Board of Directors on August 30, 2021.

Basis of presentation

The condensed interim consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, except for certain financial assets and liabilities, including derivative instruments that are measured at fair value.

Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its subsidiaries at the end of the reporting period as follows:

| | Incorporation | Percentage owned | |
|--|---------------|------------------|------|
| | | 2021 | 2020 |
| Alpha Cognition Canada Inc. (“ACI Canada”) | Canada | 100% | - |
| Companies owned by ACI Canada: | | | |
| Alpha Cognition USA Inc. (“ACI USA”) | USA | 100% | 100% |

All significant intercompany accounts and transactions between the Company and its subsidiaries have been eliminated upon consolidation.

Functional and presentation currency

The condensed interim consolidated financial statements are presented in United States dollars (“USD”) unless otherwise noted. 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 Canadian dollars (“CAD”) and its subsidiaries are USD. 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*.

Transactions in currencies other than USD are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate while non-monetary assets and liabilities in foreign currencies are translated at historical rates. Revenues and expenses are translated at the average exchange rates approximating those in effect during the reporting period.

ALPHA COGNITION INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States Dollars - Unaudited)
For the three and six months ended June 30, 2021 and 2020

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional and presentation currency (continued)

For the purposes of presenting condensed interim consolidated financial statements, the assets and liabilities of the Company's CAD operations are translated to USD at the exchange rate at the reporting date. The income and expenses are translated using average rates. Foreign currency differences that arise on translation for consolidation purposes are recognized in other comprehensive income (loss).

Significant accounting estimates and judgments

The preparation of the condensed interim consolidated financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported revenues and expenses during the period.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

COVID-19 Global pandemic

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. The Company's operations have not been drastically impacted by the pandemic, however, management of the Company continues to monitor the situation and is following the protocols and rules set in place by the provincial, state, and federal governments.

Functional currency

Management is required to assess the functional currency of each entity of the Company. In concluding on the functional currencies of the parent and its subsidiaries, management considered the currency that mainly influences the sale prices of goods and services and the cost of providing goods and services in each jurisdiction in which the Company operates. When no single currency was clearly dominant the Company also considered secondary indicators including the currency in which funds from financing activities are denominated and the currency in which funds are retained. As at June 30, 2021, the functional currency of the Company is CAD and its subsidiaries is the USD.

Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectation of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

Going concern

The assessment of the Company's ability to continue as a going concern involves management judgement about the Company's resources and future prospects.

Impairment of intangible assets

The application of the Company's accounting policy for intangible assets requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalized is written off in profit or loss in the period the new information becomes available.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting estimates and judgments (continued)

Information about assumptions and estimation uncertainties that have a risk of resulting in significant adjustments are as follows:

Share-based payment transactions and valuation of derivative liability

The Company uses the Black-Scholes Option Pricing Model to determine the fair value of stock options, standalone share purchase warrants issued and derivative liability. This model requires the input of subjective assumptions including expected share price volatility, interest rate, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings (loss) and equity reserves.

Useful lives of intangible assets

The Company records intangible assets acquired at their fair value. Determining fair value requires management to use estimates that could be material. Following initial recognition, the Company carries the value of intangible assets at cost less accumulated amortization and any accumulated impairment losses. Amortization is recorded on a straight-line basis based upon management's estimate of the useful life and residual value. The estimates are reviewed at least annually and are updated if expectations change as a result of technical obsolescence or legal and other limits to use.

Equipment

Equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

Amortization is charged over the estimated useful lives using the declining balance method as follows:

| | |
|--------------------|-----|
| Computer equipment | 55% |
| Other equipment | 20% |

Intangible assets

The Company has intangible assets as outlined below. Intangible assets are carried at cost less accumulated amortization and any impairment losses. The amortization method, useful life and residual values are assessed annually. Amortization expense is recorded on a straight-line basis beginning with the month the corresponding assets are available for use and over the estimated useful lives provided below:

| | |
|------------|----------|
| Licenses | 15 years |
| Trademarks | 10 years |

If, after expenditures are capitalized, events or changes in circumstances indicate that the carrying amount may not be recoverable, the amount capitalized is written off in profit or loss in the period the new information becomes available.

Upon retirement or disposal, the cost of the asset disposed of and the related accumulated amortization are removed from the accounts and any gain or loss is reflected in profit and loss.

ALPHA COGNITION INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States Dollars - Unaudited)
For the three and six months ended June 30, 2021 and 2020

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting pronouncements not yet adopted

A number of amendments to standards and interpretations applicable to the Company are not yet effective for the six months ended June 30, 2021, and have not been applied in preparing these condensed interim consolidated financial statements nor does the Company expect these amendments to have a significant effect on its condensed interim consolidated financial statements.

NOTE 3 – REVERSE ACQUISITION

On October 27, 2020, ACI Canada entered into an Arrangement Agreement with ACI whereby ACI would acquire 100% of the issued and outstanding shares of ACI Canada by issuing to the shareholders of ACI Canada one common share of ACI (“CPC Share”) for every one common share of ACI Canada share held by each ACI Canada shareholder (the “Transaction”). Certain US resident ACI Canada shareholders agreed to receive a restricted voting share (a “Restricted Voting Share”) in place of a CPC Share which is equivalent to a CPC Share except that it will not be counted in a shareholder vote for the election of directors. In addition, holders of Class C Preferred shares of ACI Canada received one Class B Preferred Share of ACI for each Class C Preferred share of ACI Canada held by such shareholder. The outstanding options and warrants of ACI Canada became convertible into options and warrants of ACI.

On March 18, 2021, the Transaction completed resulting in ACI acquiring 100% of the shares of ACI Canada and ACI Canada’s shareholders receiving 42,615,495 post-consolidated common shares, 7,000,000 restricted voting shares, 7,916,380 preferred shares, 11,819,169 warrants, and 10,069,365 share options of ACI. The ACI shareholders retained 1,604,507 common shares on completion of the transaction and the former ACI share option holders were granted 108,543 share options.

The transaction constitutes a reverse acquisition of ACI and has been accounted for as a reverse acquisition transaction in accordance with the guidance provided under IFRS 2, *Share-based Payment* and IFRS 3, *Business Combinations*. As ACI did not qualify as a business according to the definition in IFRS 3, *Business Combination*, this reverse acquisition does not constitute a business combination; rather the transaction was accounted for as an asset acquisition by the issuance of shares of the Company, for the net assets of ACI and its public listing. Accordingly, the transaction has been accounted for at the fair value of the equity instruments granted by the shareholders of ACI Canada to the shareholders and option holders of ACI. The sum of the fair value of the consideration paid (based on the fair value of the ACI shares just prior to the reverse acquisition) less the ACI net assets acquired, has been recognized as a listing expense in profit or loss for the three month period ended March 31, 2021.

For accounting purposes, ACI Canada was treated as the accounting parent company (legal subsidiary) and ACI has been treated as the accounting subsidiary (legal parent) in these condensed interim consolidated financial statements. As ACI Canada was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these condensed interim consolidated financial statements at their historical carrying value. The results of operations of ACI are included in these condensed interim consolidated financial statements from the date of the reverse acquisition of March 18, 2021.

ALPHA COGNITION INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States Dollars - Unaudited)
For the three and six months ended June 30, 2021 and 2020

NOTE 3 – REVERSE ACQUISITION (continued)

The following represents management's estimate of the fair value of the ACI net assets acquired as at March 18, 2021 as a result of the reverse acquisition and is subject to final valuation adjustments.

| | Total |
|---|------------------|
| | \$ |
| Cost of acquisition: | |
| Shares retained by public company shareholders - 1,640,057 shares at CAD \$1.60 x 0.8027 | 2,106,358 |
| Fair value of stock options | 88,470 |
| | 2,194,828 |
| Allocated as follows: | |
| Cash | 523,041 |
| Prepaid expenses | 5,706 |
| Liabilities | (185,113) |
| | 343,634 |
| Allocated to listing expense | 1,851,194 |
| | 2,194,828 |

Share options granted were valued using the Black Scholes model using the following weighted average assumptions: risk free rate of 0.23%, volatility of 123%, dividend yield of \$nil, and expected lives of 1.85 years.

During the six months ended June 30, 2021, the Company incurred costs of \$37,504 (six months ended June 30, 2020 - \$nil) related to the reverse acquisition that were recorded as business investigation costs.

NOTE 4 – INTANGIBLE ASSET

| | Licenses | Trademark | Total |
|-------------------------------|-----------------|------------------|----------------|
| | \$ | \$ | \$ |
| Cost: | | | |
| At December 31, 2019 and 2020 | 1,185,633 | - | 1,185,633 |
| Additions | 50,000 | 23,599 | 73,599 |
| Net exchange differences | - | 604 | 604 |
| At June 30, 2021 | 1,235,633 | 24,203 | 1,259,836 |
| Amortization: | | | |
| At December 31, 2019 | 377,453 | - | 377,453 |
| Additions | 79,043 | - | 79,043 |
| At December 31, 2020 | 456,496 | - | 456,496 |
| Additions | 41,187 | - | 41,187 |
| At June 30, 2021 | 497,683 | - | 497,683 |
| Net book value: | | | |
| At December 31, 2020 | 729,137 | - | 729,137 |
| At June 30, 2021 | 737,950 | 24,203 | 762,153 |

During the six months ended June 30, 2021, the Company paid \$23,599 (CAD \$30,000) for the assignment of a Canadian Trademark Application which is pending approval, as such, no amortization has been recorded during the period.

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NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | June 30, 2021 | December 31, 2020 |
|---------------------|------------------|----------------------|
| | \$ | \$ |
| Accounts payable | 681,971 | 27,542 |
| Accrued liabilities | 197,421 | 166,415 |
| Salaries payable | 40,967 | 9,896 |
| | 920,359 | 203,853 |

NOTE 6 – CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY

| | Convertible Debentures | Derivative liability | Total |
|--|---------------------------|-------------------------|-------------|
| | \$ | \$ | \$ |
| Balance, December 31, 2019 | - | - | - |
| Proceeds | 4,000,000 | - | 4,000,000 |
| Allocation of proceeds to derivative liability | (2,386,175) | 2,386,175 | - |
| Accretion | 558,078 | - | 558,078 |
| Accrued interest | 85,206 | - | 85,206 |
| Revaluation of derivative liability | - | (734,344) | (734,344) |
| Balance, December 31, 2020 | 2,257,109 | 1,651,831 | 3,908,940 |
| Accretion | 376,633 | - | 376,633 |
| Accrued interest | 5,529 | - | 5,529 |
| Revaluation of derivative liability | - | (23,950) | (23,950) |
| Conversion | (2,639,271) | (1,627,881) | (4,267,152) |
| Balance, June 30, 2021 | - | - | - |

On April 27, 2020, the Company received \$212,299 from various third party lenders and \$1,787,701 from various directors and officers of the Company for the issuance of convertible debentures (“First Note”) bearing interest at 5% per annum, minimum six months interest guaranteed, and expiring on October 27, 2021, and one warrant (“First Note Warrant”) giving the lender the right to purchase a second convertible promissory note (“Second Note”) having the same terms as the First Note, upon payment equal to the principal amount of the First Note and expiring October 30, 2020. At the option of the lender, the lender can convert their promissory note and any accrued interest into Common shares of the Company, for a price equal to the lower of 20% discount to the per share price of a Value Transaction, being any transaction which has the effect directly or indirectly of valuing the Company, its assets or undertaking including but not limited to a merger or acquisition, a private placement of the Company, issuance of convertible debentures, an initial public offering (“IPO”), a reverse take-over or merger (“RTO”), or a valuation report completed by an independent banker or certified business valuator, or \$1.60. In the event the convertible promissory notes remain outstanding at October 27, 2021, the promissory notes will automatically convert into Common shares of the Company at \$1.28 per Common share.

As the conversion price of the promissory notes varies depending on certain factors, the Company recorded an embedded derivative liability on its consolidated statements of financial position with a corresponding debt discount which is netted against the principal amount of the convertible debentures. The Company accretes the debt discount associated with the embedded derivative liability to accretion expense over the term of the convertible debentures using the effective interest rate method. The embedded derivative liability is initially measured at fair value and re-measured at the end of each reporting period with any changes in fair value reported in profit and loss.

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NOTE 6 – CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY (continued)

In October 2020, the Company offered the holders of the First Note Warrants the option to purchase Subscription Receipts (defined in Note 8) at a 20% discount through the exercising of their warrants, conditional on the closing of the Transaction. If the Transaction terminated or did not complete by December 31, 2020 or such later date as agreed to by ACI Canada and ACI, the holders would receive the Second Note. The Company received \$2,000,000 for the exercise of the First Note Warrants of which \$59,319 was received for a Second Note and \$1,940,681 was received for the elected Subscription Receipts. In March 2021, the Transaction closed and all First Note Warrant holders were issued Subscription Receipts.

The initial fair value of the embedded derivative for the First Note and warrant was determined to be \$1,253,963 using the Black- Scholes Option Pricing model with the following assumptions:

| | |
|---|----------------|
| Risk-free interest rate | 0.15% - 0.24% |
| Dividend yield | - |
| Expected life | 0.43-1.5 years |
| Volatility | 139% |
| Probability of automatic conversion | 25% |
| Probability of conversion at \$1.60 per share | 25% |
| Probability of conversion at a 20% discount to the per share price of a Funding Transaction | 50% |

The initial fair value of the embedded derivative for the Second Note was determined to be \$1,132,212 using the Black-Scholes Option Pricing model with the following assumptions:

| | |
|---|-----------------|
| Risk-free interest rate | 0.09% - 0.13% |
| Dividend yield | - |
| Expected life | 0.25-2.08 years |
| Volatility | 122% - 173% |
| Probability of automatic conversion | 2.5% |
| Probability of conversion at \$1.60 per share | 2.5% |
| Probability of conversion at a 20% discount to the per share price of a Funding Transaction | 95% |

As of December 31, 2020, the fair value of the embedded derivative for the First Note and Second Note was determined to be \$1,651,831 using the Black- Scholes Option Pricing model with the following assumptions:

| | |
|---|-----------------|
| Risk-free interest rate | 0.08% - 0.13% |
| Dividend yield | - |
| Expected life | 0.33-2.13 years |
| Volatility | 90% - 141% |
| Probability of automatic conversion | 2.5% |
| Probability of conversion at \$1.60 per share | 2.5% |
| Probability of conversion at a 20% discount to the per share price of a Funding Transaction | 95% |

Prior to the conversion into units on March 18, 2021, the fair value of the embedded derivative for the First and Second Note was determined to be \$1,627,881 using the Black-Scholes Option Pricing model with the following assumptions:

| | |
|---|-----------------|
| Risk-free interest rate | 0.03% - 0.16% |
| Dividend yield | - |
| Expected life | 0.61-3.00 years |
| Volatility | 125% - 141% |
| Probability of automatic conversion | 2.5% |
| Probability of conversion at \$1.60 per share | 2.5% |
| Probability of conversion at a 20% discount to the per share price of a Funding Transaction | 95% |

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NOTE 6 – CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY (continued)

During the six months ended June 30, 2021, the Company recognized interest expense of \$1,733 (2020 – \$nil) to third party lenders and \$3,796 (2020 – \$nil) to various directors and officers of the Company.

During the six months ended June 30, 2021, the Company recognized accretion of the debt discount of \$376,633 (2020 - \$nil) and gain on revaluation of derivative liability of \$23,950 (2020 – \$nil).

As at June 30, 2021, the principal and accrued interest balance owing to third party lenders was \$nil (December 31, 2020 - \$491,984) and the principal and accrued interest balance owing to various directors and officers of the Company was \$nil (December 31, 2020 - \$3,593,222).

NOTE 7 – PROMISSORY NOTE

The following is a continuity schedule of the carrying value of the promissory notes and accrued interest:

| | Principal | Accrued Interest |
|-------------------------------|------------------|-------------------------|
| | \$ | \$ |
| Balance, December 31, 2019 | 855,062 | 2,313 |
| Interest payments | - | (24,000) |
| Accretion | 102,837 | - |
| Accrued interest | - | 24,229 |
| Balance, December 31, 2020 | 957,899 | 2,542 |
| Interest payments | - | (12,000) |
| Accretion | 56,412 | - |
| Accrued interest | - | 12,015 |
| Balance, June 30, 2021 | 1,014,311 | 2,557 |
| Current portion | 24,000 | 2,557 |
| Long-term portion | 990,311 | - |

In March 2015, the Company issued a promissory note of \$1,400,000 to Neurodyn Life Sciences Inc (“NLS”), a former related party through common shareholders, for the acquisition of the Alpha-1062 Technology (“NLS Promissory Note”) (Note 11). The NLS Promissory Note bore an interest rate of 6% and had a term of 2 years with no fixed repayment schedule. The Company may pay all or any portion of the note and accrued interest prior to the maturity date. The NLS Promissory Note was issued as a discount of \$214,367, which will be amortized over the term of the note at an effective interest rate of 15%.

In April 2015, the Company and NLS entered into an amendment to the License Agreement (defined in Note 11) pursuant to which the interest rate was reduced to 2% and the maturity date was extended to December 31, 2022 with interest only payments commencing April 1, 2019 at the rate of \$2,000 per month. The Company may pay all or any portion of the note and accrued interest prior to the maturity date.

In March 2019, the Company issued 600,000 Common Shares at a price of \$0.50 per share for a total value of \$300,000 as prepayment on the NLS Promissory Note for all interest outstanding and a portion of the principal amount. The prepayment was determined to be an extinguishment transaction with a related party which was in essence a capital transaction. As a result, the resulting difference of \$116,161 in net present value of the cash flows was recognized in the consolidated statement of changes in equity (deficiency) during the year ended December 31, 2019.

During the six months ended June 30, 2021, the Company recorded interest expense of \$12,015 (2020 - \$12,015) and amortization of the discount of \$56,412 (2020 - \$49,366) which is included in accretion expense.

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NOTE 7 – PROMISSORY NOTE (continued)

As at June 30, 2021, the principal balance owing on the promissory note was \$1,211,463 (December 31, 2020 - \$1,211,463) and the remaining debt discount was \$197,152 (December 31, 2020 – \$253,564)

NOTE 8 – SHARE CAPITAL

Authorized share capital

During the six months ended June 30, 2021, the Company amended its articles to include additional classes of shares to its authorized share capital. As at June 30, 2021, the Company is authorized to issue the following share capital:

- Unlimited common voting shares without par value (“Common share”)
- Unlimited Class A restricted voting shares without par value (“Restricted share”)
- Unlimited Class B preferred Series A shares without par value (“Class B preferred shares”)

During the six months ended June 30, 2021, the Company completed a share consolidation on the basis of one new post-consolidation common share for every seven and fourteenths pre-consolidation common shares. All current and comparative references to the number of common shares, weighted average number of common shares, loss per share, stock options and warrants have been restated to give effect to this share consolidation.

Issued share capital

During the six months ended June 30, 2021, the Company issued the following shares:

- Concurrent to the Transaction, ACI Canada and ACI completed a brokered private placement by raising \$4,166,639 by way of the sale of 3,360,124 subscription receipts at a price of CAD\$1.60 per subscription receipt (“Subscription Receipt”) with each Subscription Receipt consisting of one common share and one-half warrant (“Private Placement”). Each whole warrant is exercisable at a price of CAD\$2.10 per warrant for a term of 24 months from the closing date. Of the funds raised, \$3,410,977 was raised by ACI Canada for 2,771,749 Subscription Receipts and \$755,662 was raised by ACI for 588,375 Subscription Receipts. In connection with the Private Placement, ACI Canada agreed to pay a cash commission of \$209,174 and issue 130,733 warrants under the Private Placement to the agents. Each agent warrant is exercisable into common shares of ACI at an exercise price of CAD\$1.60 for a term of 2 years.
- Concurrent to the Transaction, ACI Canada issued 1,613,186 Subscription Receipts on the conversion of \$2,296,019 worth of net convertible debentures (Note 6).
- Concurrent to the Transaction, ACI Canada issued 2,139,763 Common shares on the conversion of \$1,880,398 worth of net convertible debentures and 94,273 Common shares on the conversion of \$90,735 worth of interest on the convertible debentures (Note 6)

During the year ended December 31, 2020, the Company issued the following shares:

- 100,000 Common shares at a price of \$0.01 per share for total proceeds of \$1,000 for the exercise of Common share options. As a result, the Company transferred \$115,737 from reserves to share capital; and
- 2,480,334 Common shares for the conversion of 2,480,334 Class B common shares.

Escrow shares

As at June 30, 2021, the Company had 28,794,424 (December 31, 2020 – nil) shares held in escrow.

Commitment to issue shares

As at June 30, 2021, the Company was committed to issuing \$25,398 (December 31, 2020 – \$nil) worth of common shares for the exercise of 50,000 ACI Canada legacy performance options. The shares were issued in full in July 2021

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NOTE 8 – SHARE CAPITAL (continued)

Warrants

During the six months ended June 30, 2021, ACI Canada issued the following warrants:

- 1,680,062 warrants with an exercise price of CAD\$2.10 and an expiry of March 18, 2023, in connection with the Company’s private placement.
- 130,733 warrants with an exercise price of CAD\$1.60 and an expiry of March 18, 2023, to the agents of the Company’s Private Placement. These warrants were valued at \$101,662.
- 806,591 warrants with an exercise price of CAD\$2.10 and an expiry of March 18, 2023, in connection with the conversion of the convertible debentures into Subscription Receipts.

All warrants outstanding in ACI Canada were transferred and assigned to ACI upon completion of the Transaction.

During the six months ended June 30, 2021, the Company issued 294,187 warrants with an exercise price of CAD\$2.10 and an expiry of March 18, 2023, in connection with the conversion of the convertible debentures into Subscription Receipts.

A summary of the Common share warrant transactions are summarized as follows:

| | Number of Warrants | Weighted Average Exercise Price |
|-------------------------------------|-----------------------|--|
| Balance, December 31, 2019 and 2020 | 9,201,783 | \$ 0.40 |
| Issued | 2,617,386 | 1.67 (CAD\$2.08) |
| Balance, June 30, 2021 | 11,819,169 | 0.68 |

A summary of the Common share warrants outstanding and exercisable at June 30, 2021, is as follows:

| Warrants Outstanding | Exercise Price | Expiry Date |
|-------------------------|------------------|-----------------|
| | \$ | |
| 440,000 | 0.40 | July 5, 2023 |
| 8,761,783 | 0.40 | August 30, 2024 |
| 2,486,653 | 1.69 (CAD\$2.10) | March 18, 2023 |
| 130,733 | 1.29 (CAD\$1.60) | March 18, 2023 |
| 11,819,169 | | |

The weighted average life of warrants outstanding at June 30, 2021 was 4.97 years.

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NOTE 8 – SHARE CAPITAL (continued)

Share options

Common share options

The Company has a Stock Option Plan for its directors, officers, employees and consultants under which the Board of Directors of the Company may grant non-transferable share options totaling in aggregate up to 10% of the Company's issued and outstanding common shares, exercisable for a period of up to ten years from the date of grant, and at an exercise price which is not less than that permitted by the TSX-V.

All stock options outstanding in ACI Canada were transferred and assigned to ACI upon completion of the Transaction.

During the six months ended June 30, 2021, the Company had the following share option transactions:

- In connection with the Transaction, the Company granted 108,543 share options, with a total value of \$119,116, to former option holders of ACI of which all have been vested. The total fair value granted was considered to be part of the cost of acquisition of ACI. Of these stock options 31,513 are exercisable up to September 21, 2023, and 77,030 were exercisable up to June 16, 2021. In April 2021, the Company extended the life of the 77,030 share options to March 18, 2022.
- The Company granted 200,000 common share options to a consultant of the Company with an estimated fair value of \$145,920 which 50,000 vest quarterly commencing June 18, 2021.
- In April 2021, the Company repriced 77,030 stock options with an exercise price of CAD\$0.714 for the extension of the expiry date to March 18, 2022 from June 16, 2021. All other terms remained unchanged. During the six months ended June 30, 2021, the Company recorded share-based compensation of \$9,272.

During the year ended December 31, 2020, the Company had the following share option transactions:

- On June 30, 2020, the Company's directors elected to convert all 900,000 outstanding Class B Common share options to Common share options on the same terms and conditions as originally issued on a 1:1 basis. The Class B Common share option plan was cancelled.
- During the year ended December 31, 2020, the Company granted 39,154 Common share options to a consultant of the Company with an estimated fair value of \$44,194 which vested immediately. Additionally, the Company cancelled 300,000 common shares.

The following weighted average assumptions were used in the Black-Scholes option-pricing model for the valuation of the share options issued:

| | June 30, 2021 | December 31, 2020 |
|--|--------------------------|------------------------------|
| Risk-free interest rate | 0.23% | 0.60% |
| Dividend yield | - | - |
| Expected life | 1.95 years | 10 years |
| Volatility | 125% | 139% |
| Weighted average fair value per option | \$1.00 | \$1.14 |

For the six months ended June 30, 2021, share-based compensation expense relating to service condition awards amounted to \$93,562 (six months ended June 30, 2020 - \$nil).

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NOTE 8 – SHARE CAPITAL (continued)

Share options (continued)

Common share options (continued)

Common share option transactions are summarized as follows:

| | Six months ended June 30, 2021 | | Year ended December 31, 2020 | |
|---|-----------------------------------|--|---------------------------------|--|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| | | \$ | | \$ |
| Balance, beginning of year | 78,308 | 0.40 | 39,154 | 0.40 |
| Granted | 308,543 | 1.10 | 39,154 | 0.40 |
| Balance, end of period | 386,851 | 1.12 | 78,308 | 0.40 |
| Options exercisable, end of period | 236,851 | | 78,308 | |

A summary of the common share options outstanding at June 30, 2021, is as follows:

| Options Outstanding | Options Exercisable | Exercise Price | Expiry Date |
|------------------------|------------------------|-------------------|--------------------|
| | | \$ | |
| 77,030 | 77,030 | 0.58 (CAD\$0.714) | March 18, 2022 |
| 200,000 | 50,000 | 1.69 (CAD\$2.10) | March 29, 2023 |
| 31,513 | 31,513 | 0.58 (CAD\$0.714) | September 21, 2023 |
| 39,154 | 39,154 | 0.40 | June 1, 2029 |
| 39,154 | 39,154 | 0.40 | July 22, 2030 |
| 386,851 | 236,851 | | |

The weighted average life of common share options outstanding at June 30, 2021, was 2.95 years.

ACI Canada legacy performance options

The Company retained ACI Canada's stock option plan whereby ACI Canada could grant stock options to directors, officers, employees and consultants enabling them to acquire common shares. Options granted had a maximum term of ten years and the board of directors determined the vesting requirements. From time to time, the Company granted performance-based share options to management and consultants. These options vest based on the Company's achievement of certain performance goals and operational metrics, as applicable, subject to continuous employment by each recipient.

During the three months ended March 31, 2021, 50,000 options with an exercise price of \$0.01 per share were exercised for proceeds of \$500.

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NOTE 8 – SHARE CAPITAL (continued)

Share options (continued)

ACI Canada legacy performance options (continued)

During the year ended December 31, 2020, the Company had the following ACI Canada legacy performance option transactions:

- On June 30, 2020, the Company’s directors elected to convert all 900,000 outstanding Class B common share options to common share options, subsequently included in the ACI Canada legacy performance option pool, on the same terms and conditions as originally issued on a 1:1 basis. The Class B common share option plan was cancelled.
- During the year ended December 31, 2020, the Company cancelled 300,000 common shares.

For the six months ended June 30, 2021, share-based compensation expense relating to service condition awards for the ACI Canada legacy performance options amounted to \$44,510 (six months ended June 30, 2020 - \$293,457).

For the six months ended June 30, 2021, share-based compensation expense relating to performance condition options for the ACI Canada legacy performance options amounted to \$604,923 (six months ended June 30, 2020 – \$53,986).

ACI Canada legacy performance option transactions are summarized as follows:

| | Six months ended June 30, 2021 | | Year ended December 31, 2020 | |
|---|-----------------------------------|--|---------------------------------|--|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| | | \$ | | \$ |
| Balance, beginning of year | 9,991,057 | 0.01 | 9,491,057 | 0.01 |
| Converted from Class B Common share options | - | - | 900,000 | 0.001 |
| Exercised | (50,000) | 0.01 | (100,000) | 0.01 |
| Cancelled | - | - | (300,000) | 0.01 |
| Balance, end of period | 9,941,057 | 0.01 | 9,991,057 | 0.01 |
| Options exercisable, end of period | 7,598,557 | | 6,123,557 | |

A summary of the Common share options outstanding at June 30, 2021, is as follows:

| Options Outstanding | Options Exercisable | Exercise Price | Expiry Date |
|------------------------|------------------------|----------------|-------------------|
| | | \$ | |
| 900,000 | 900,000 | 0.001 | February 1, 2026 |
| 691,057 | 691,057 | 0.01 | December 31, 2027 |
| 4,550,000 | 2,990,000 | 0.01 | September 1, 2028 |
| 3,800,000 | 3,017,500 | 0.01 | June 1, 2029 |
| 9,941,057 | 7,598,557 | | |

The weighted average life of Common share options outstanding at June 30, 2021, was 7.19 years.

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NOTE 8 – SHARE CAPITAL (continued)

Derivative liability

Due to the Company acquiring warrants from ACI Canada on the completion of the Transaction with an exercise price in a currency different from its functional currency, a derivative liability occurs on the date of the transfer of ACI Canada's previously issued warrants with USD exercise prices. This derivative liability is being revalued at each reporting period.

On initial recognition, the Company recorded a loss of \$10,488,499 to set up the derivative liability. As at June 30, 2021, the Company revalued the derivative liability to \$5,560,407 and recorded a gain of \$4,928,092.

| | June 30, 2021 |
|---|--------------------------|
| | \$ |
| Initial recognition of derivative liability | 10,488,499 |
| Change in fair value | (5,560,407) |
| Currency translation adjustment | 632,315 |
| Balance, end of period | 5,560,407 |

A summary of the warrants with USD exercise prices outstanding and exercisable at June 30, 2021, is as follows:

| Warrants Outstanding | Exercise Price | Expiry Date |
|---------------------------------|-----------------------|--------------------|
| | \$ | |
| 440,000 | 0.40 | July 5, 2023 |
| 8,761,783 | 0.40 | August 30, 2024 |
| 9,201,783 | | |

The following weighted average assumptions were used in the Black-Scholes option-pricing model for the initial valuation and the valuation of the derivative liability as at June 30, 2021:

| | June 30, 2021 | March 18, 2021 |
|---|--------------------------|---------------------------|
| Risk-free interest rate | 0.56% | 0.48% |
| Dividend yield | - | - |
| Expected life | 3.26 years | 3.40 years |
| Volatility | 115% | 113% |
| Weighted average fair value per warrant | \$1.35 | \$2.20 |

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NOTE 9 – RESEARCH AND DEVELOPMENT

The Company’s research and development expenses are summarized below:

| | | For the six months ended | |
|--------------------------------|-------------|---------------------------------|------------------|
| | Note | 2021 | June 30, |
| | | | 2020 |
| | | \$ | \$ |
| Consulting fees | | 297,656 | 547,521 |
| Legal and patent costs | | 109,764 | 68,502 |
| Management fees and salaries | 10 | 441,786 | 195,000 |
| Other research and development | | 18,935 | 23,539 |
| Product development | | 1,362,754 | 1,249,122 |
| Share-based compensation | 10 | 536,665 | 270,295 |
| Salaries and benefits | | 382,883 | 1,618 |
| | | 3,150,443 | 2,355,597 |

NOTE 10 – RELATED PARTY TRANSACTIONS AND BALANCES

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company’s executive officers and members of it’s Board of Directors.

Summary of key management personnel compensation:

| | | For the six months ended | |
|---|--|---------------------------------|-----------------|
| | | 2021 | June 30, |
| | | | 2020 |
| | | \$ | \$ |
| Other general and administrative | | 18,000 | 22,500 |
| Management fees and salaries | | 337,718 | 83,000 |
| Professional fees | | 3,642 | 503 |
| Research and development - management fees and salaries | | 347,928 | 195,000 |
| Share-based compensation | | 642,931 | 254,556 |
| | | 1,350,219 | 555,559 |

Amounts due to related parties are unsecured, non-interest bearing and have no specific terms of repayment. Below is a summary of related party balances:

| | June 30, | December 31, |
|---|-----------------|---------------------|
| | 2021 | 2020 |
| | \$ | \$ |
| Related parties payable | | |
| Due to NLS | - | 9,000 |
| Accrued interest - NLS Promissory Note (Note 7) | - | 2,542 |
| | - | 11,542 |

A summary of related party convertible debentures transactions is included in Note 6. A summary of the promissory note held by a former related party is included in Note 7.

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NOTE 11 – COMMITMENTS

a) Alpha-1062 Technology

In March 2015, the Company entered into the Memogain Technology License Agreement (“License Agreement”) with NLS for the exclusive right and license to further develop and exploit the Alpha 1062, formerly Memogain, Technology. The License Agreement set out the consideration as follows:

- The Company assumed all of NLS’s obligations under the Memogain Asset Purchase Agreement which consisted of cumulative total payments to Galantos Pharma GmbH of €10,000,000, the cumulative total may be increased to €15,000,000 subject to certain provisions, which is to be paid as follows (collectively the “Galantos Royalty Payments”):
 - 3% of the net sales revenue received by the Company from the sale of any products relating to the Alpha-1062 Technology;
 - 10% of any sublicensing revenue; and
 - 25% of an upfront payment or milestone payment paid by a sub-licensee to the Company;
- Upon completion of the Galantos Royalty Payments, a royalty payment to NLS of 1% of the revenue received from the Alpha-1062 Technology by the Company over \$100 million per annum and
- The issuance of a promissory note of \$1,400,000 to NLS (Note 7).

On January 1, 2016, the Company assumed NLS’s obligations under a Royalty Agreement with Galantos Consulting dated August 31, 2013, which consisted of cumulative total payments to Galantos Consulting of €2,000,000, the cumulative total may be increased to €3,000,000 subject to certain provisions, which is to be paid as follows:

- 1% of the net sales revenue received by the Company from the sale of any products relating to the Alpha-1062 Technology;
- 2% of any sublicensing revenue; and
- 2% of an upfront payment or milestone payment paid by a sub-licensee to the Company.

b) Alpha-602 Technology

In November 2020, the Company entered into a license agreement with NLS for the world-wide exclusive right to the Progranulin (“Alpha-602”) Technology. In accordance with the agreement, the Company will pay the following:

- \$50,000 to NLS before January 15, 2021 (paid);
- a royalty of 1.5% of the commercial sales, capped at \$2,000,000, to NLS;
- 10% of any Upfront Payments in excess of \$2,000,000.

The total amount payable to NLS under this agreement shall not exceed \$2,000,000.

NOTE 12 – CAPITAL DISCLOSURE AND MANAGEMENT

The Company defines its capital as all components of shareholders’ equity. The Company’s objective when managing capital is to safeguard the Company’s ability to continue as a going concern. The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital. The Company is not subject to externally imposed capital requirements.

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NOTE 13 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Unobservable inputs that are supported by little or no market activity, therefore requiring an entity to develop its own assumptions about the assumption that market participants would use in pricing.

The Company's financial instruments consist of cash, other receivable, accounts payable, related parties payable, convertible debentures, derivative liability, and promissory note. The fair values of other receivable, accounts payable, related parties payable, convertible debentures and promissory note approximates their carrying values either due to their nature or current market rates for similar instruments. Cash is measured at fair value on a recurring basis using level 1 inputs. Derivative liability is measured at fair value on a recurring basis using level 3 inputs. The continuity and valuation techniques that are used to determine the fair value of the derivative liability are described in Notes 6 and 8.

The Company is exposed to a variety of financial risks by virtue of its activities including currency, credit, interest rate, and liquidity risk.

a) Currency risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company's operations are carried out in Canada and the United States. As at June 30, 2021, the Company had net monetary assets of approximately \$2,900,000 denominated in Canadian dollars and net liabilities of approximately €15,000. These factors expose the Company to foreign currency exchange rate risk, which could have an adverse effect on the profitability of the Company. A 10% change in the exchange rate with the Canadian dollar would change net loss and comprehensive loss by approximately \$240,000 and 10% change in exchange rate with the Euro would change net loss and comprehensive loss by approximately \$1,800. At this time, the Company currently does not have plans to enter into foreign currency future contracts to mitigate this risk, however it may do so in the future.

b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company's cash is held in a large Canadian financial institution and a United States of America based financial institution. The Company maintains certain cash deposits with Schedule I financial institutions, which from time to time may exceed federally insured limits. The Company has not experienced any significant credit losses and believes it is not exposed to any significant credit risk. The Company's maximum credit risk is equal to the carrying value of cash at June 30, 2021 and December 31, 2020.

c) Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to interest rate cash flow risk. The Company does not hold any financial liabilities with variable interest rates. Financial assets and liabilities with fixed interest rates expose the Company to interest rate price risk. As at June 30, 2021, the promissory note bears interest of 2% per annum and is subject to interest rate price risk. The Company maintains bank accounts which earn interest at variable rates but it does not believe it is currently subject to any significant interest rate risk.

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NOTE 13 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

d) Liquidity risk

The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances and through short-term borrowing. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

Contractual undiscounted cash flow requirements for financial liabilities as at June 30, 2021 are as follows:

| | <1 Year | 2-3 Years | Total |
|--|-------------------|------------------|------------------|
| | \$ | \$ | \$ |
| Accounts payable and accrued liabilities | 818,648 | - | 818,648 |
| Related parties payable | 101,711 | - | 101,711 |
| Promissory note | 24,000 | 1,187,463 | 1,211,463 |
| | 944,359 | 1,187,463 | 2,131,822 |

NOTE 14 – SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

| | For the six months ended | |
|---|---------------------------------|-------------|
| | June 30, | |
| | 2021 | 2020 |
| | \$ | \$ |
| Supplemental non-cash disclosures | | |
| Shares issued for funds previously received | 1,898,740 | - |
| Shares issued for conversion of convertible debentures and interest | 4,267,152 | - |
| Reallocation of fair value of share options upon exercise | 24,898 | - |

NOTE 15 – SEGMENTED INFORMATION

The Company currently operates in a single reportable operating segment, being the researching and developing pharmaceutical treatments for neurological diseases. Geographic information is as follows:

| | As at June 30, 2021 | | |
|---|----------------------------|-------------------------------------|--------------|
| | Canada | United States of America | Total |
| | \$ | \$ | \$ |
| Non-current assets other than financial instruments | 764,268 | 14,087 | 778,355 |

| | As at December 31, 2020 | | |
|---|--------------------------------|-------------------------------------|--------------|
| | Canada | United States of America | Total |
| | \$ | \$ | \$ |
| Non-current assets other than financial instruments | 732,247 | 3,727 | 735,974 |

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NOTE 16 – SUBSEQUENT EVENTS

- a) In July 2021, a total of 5,175,000 warrants with an exercise price of \$0.40 per share were exercised for total proceeds of \$2,070,000.
- b) In August 2021, the Company granted 3,150,000 stock options to certain officers and employees of the Company with an exercise price of CAD\$0.90 per share. The options will be subject to vesting terms of 25% on the first anniversary of the date of grant, and the remaining 75% will vest in equal monthly instalments until the third anniversary of the date of grant.
- c) In August 2021, the Company granted 400,000 stock options with an exercise price of \$1.22 per share to a certain employee of the Company. The options will be subject to the vesting terms of 25,000 options vest on date of grant, 175,000 options will vest quarterly over a 24 month period and 200,000 options vest upon the completion of performance criteria.
- d) In August 2021, the Company granted 300,000 stock options with an exercise price of \$0.80 per share to an employee of the Company. The options will be subject to the vesting terms of 37,500 options vest on date of grant, 112,500 options will vest quarterly over a 24 month period and 150,000 options vest upon the completion of performance criteria.