



ALPHA COGNITION INC.

Consolidated Financial Statements

(Expressed in United States Dollars)

For the Years Ended December 31, 2021 and 2020

ALPHA COGNITION INC.
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(Expressed in United States Dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of Alpha Cognition Inc.

Opinion

We have audited the consolidated financial statements of Alpha Cognition Inc. and its subsidiaries (the "Company") which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

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

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 *Auditors' 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 of the accompanying consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about 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, which comprises the information included in the Company's Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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 as issued by the International Accounting Standards Board, 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.

Auditors' 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 auditors' 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditors' report is Michael Ryan Ayre.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada

April 26, 2022

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

	Note	December 31, 2021	December 31, 2020
		\$	\$
ASSETS			
Current assets			
Cash		11,301,793	5,926,350
Subscription receipts receivable		-	1,439,223
Prepaid expenses and other current assets		868,832	334,658
		12,170,625	7,700,231
Equipment		13,001	6,837
Intangible asset	4	696,762	729,137
		12,880,388	8,436,205
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	5	726,850	203,853
Related parties payable	7,10	-	11,542
Refundable subscription receipts	8	-	3,337,963
Promissory note - current portion	7	1,075,820	24,000
		1,802,670	3,577,358
Convertible debentures, net	6	-	2,257,109
Promissory note	7	-	933,899
Derivative liability	6,8	2,048,127	1,651,831
		3,850,797	8,420,197
SHAREHOLDERS' EQUITY			
Share capital	8	40,011,776	14,568,312
Reserves	8	7,153,252	3,936,583
Accumulated other comprehensive loss		(101,534)	-
Accumulated deficit		(38,033,903)	(18,488,887)
		9,029,591	16,008
		12,880,388	8,436,205

Note 1 – Nature of operations and going concern

Note 11 – Commitments

Note 17 – Subsequent events

Approved on behalf of the Board on April 26, 2022

_____/s/ Kenneth Cawkell_____, Director

_____/s/ Len Mertz_____, Director

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

ALPHA COGNITION INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in United States Dollars)

		For the year ended December 31,	
	Note	2021	2020
		\$	\$
Operating expenses			
Accretion expenses	6,7	494,554	660,915
Amortization expense	4	82,375	79,043
Consulting fees		48,758	-
Depreciation		7,502	2,401
Interest	6,7	33,606	109,456
Investor relations		376,116	-
Management fees and salaries	10	822,228	317,362
Marketing		103,250	-
Other general and administrative	10	227,887	133,141
Professional fees	10	825,101	364,807
Registrar and filing fees		106,860	-
Research and development	9, 10	7,973,340	4,673,022
Share-based compensation	8	979,886	135,132
Travel and related		15,425	272
		12,096,888	6,475,551
Loss before other items		(12,096,888)	(6,475,551)
Other items			
Foreign exchange gain (loss)		48,214	(1,703)
Interest income		2,074	22,590
Business investigation costs	3	(37,504)	(63,887)
Listing expense	3	(1,404,200)	-
Gain (loss) on recognition and revaluation of derivative liability	6,8	(6,056,712)	734,344
		(7,448,128)	691,344
Net loss for the year		(19,545,016)	(5,784,207)
Other comprehensive loss that may be reclassified to net loss:			
Currency translation adjustment		(101,534)	-
Comprehensive loss for the year		(19,646,550)	(5,784,207)
Basic and diluted net loss per share		(0.37)	(0.13)
Basic and diluted weighted average number of shares outstanding		53,333,061	42,947,207

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

ALPHA COGNITION INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in United States Dollars)

	Class A		Class B		Preferred shares		Total share capital		Reserves	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total		
	Common shares		Restricted shares		Common shares		Preferred shares							
	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	100,000	116,737	-	-	-	-	-	-	100,000	116,737	(115,737)	-	-	1,000
Stock-based compensation	-	-	-	-	-	-	-	-	-	-	554,920	-	-	554,920
Forfeited share options	-	-	-	-	-	-	-	-	-	-	(35,514)	-	35,514	-
Loss for the year	-	-	-	-	-	-	-	-	-	-	-	-	(5,784,207)	(5,784,207)
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
Units issued for cash prior to RTO for ACI Canada	2,771,749	2,690,170	-	-	-	-	-	-	2,771,749	2,690,170	720,807	-	-	3,410,977
Shares issued for conversion of convertible promissory notes and interest	2,234,036	2,053,711	-	-	-	-	-	-	2,234,036	2,053,711	-	-	-	2,053,711
Units issued for conversion of convertible promissory notes and interest	1,613,186	2,686,104	-	-	-	-	-	-	1,613,186	2,686,104	-	-	-	2,686,104
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	1,685,085	-	-	-	-	-	-	1,640,057	1,685,085	62,749	-	-	1,747,834
Issuance of shares to former shareholders of ACI Canada	42,615,495	(3,103,620)	7,000,000	3,103,620	-	-	7,916,380	-	57,531,875	-	-	-	-	-
Units issued for cash prior to RTO for ACI	588,375	602,653	-	-	-	-	-	-	588,375	602,653	153,009	-	-	755,662
Units issued for cash after RTO	9,602,500	11,383,284	-	-	-	-	-	-	9,602,500	11,383,284	-	-	-	11,383,284
Share issuance costs	-	(1,716,505)	-	-	-	-	-	-	-	(1,716,505)	521,042	-	-	(1,195,463)
Options exercised	60,504	40,395	-	-	-	-	-	-	60,504	40,395	(33,870)	-	-	6,525
Warrants exercised	6,100,000	6,018,567	-	-	-	-	-	-	6,100,000	6,018,567	-	-	-	6,018,567
Share-based compensation	-	-	-	-	-	-	-	-	-	-	1,792,932	-	-	1,792,932
Foreign exchange on translation	-	-	-	-	-	-	-	-	-	-	-	(101,534)	-	(101,534)
Loss for the year	-	-	-	-	-	-	-	-	-	-	-	-	(19,545,016)	(19,545,016)
Balance, December 31, 2021	60,606,931	36,908,094	7,000,000	3,103,620	-	-	7,916,380	62	75,523,311	40,011,776	7,153,252	(101,534)	(38,033,903)	9,029,591

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

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

		For the year ended December 31,	
	Note	2021	2020
		\$	\$
Cash flows used in operating activities			
Loss for the year		(19,545,016)	(5,784,207)
Adjustments for non-cash items			
Amortization of intangible assets		82,375	79,043
Accretion of discount on convertible promissory notes		376,633	558,078
Accretion of discount on promissory note		117,921	102,837
Accrued interest		23,651	109,435
Depreciation of equipment		7,502	2,401
Listing expense	3	1,404,200	-
Loss (gain) on revaluation of derivative liability		6,056,712	(734,344)
Share-based compensation		1,792,932	554,920
		(9,683,090)	(5,111,837)
Changes in non-cash operating working capital items:			
Tax recoverable		-	13,189
Prepaid expenses and other current assets		(528,468)	(257,347)
Accounts payable and accrued liabilities		239,509	43,351
Corporate tax payable		-	(201)
Related parties payable		92,711	(124,815)
		(9,879,338)	(5,437,660)
Cash flows (provided by) used in investing activities			
Cash acquired in RTO	3	523,041	-
Acquisition of intangible assets		(50,000)	-
Acquisition of equipment		(13,666)	(9,238)
		459,375	(9,238)
Cash flows provided by financing activities			
Units issued for cash		13,651,183	-
Exercise of options		6,525	1,000
Exercise of warrants		2,440,000	-
Funds received for private placement		-	1,898,740
Interest paid on promissory notes		(24,000)	(24,000)
Proceeds from the issuance of convertible promissory notes		-	4,000,000
Share issuance costs		(1,195,463)	-
		14,878,245	5,875,740
Effect of foreign exchange on cash		(82,839)	-
Change in cash during the year		5,375,443	428,842
Cash, beginning of year		5,926,350	5,497,508
Cash, end of year		11,301,793	5,926,350

Note 14 – Supplemental disclosure with respect to cash flows

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

ALPHA COGNITION INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States Dollars)
December 31, 2021

NOTE 1 – NATURE OF OPERATIONS AND GOING CONCERN

Alpha Cognition Inc. (“ACI” or the “Company”), formerly Crystal Bridge Enterprises Inc., is in the business of researching and developing pharmaceutical treatments for neurological diseases. The Company operates from its three offices located in Charlottetown, Prince Edward Island; Vancouver, British Columbia; and West Palm Beach, Florida. 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 Alpha Cognition Canada Inc. (“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 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 December 31, 2021, had a deficit of \$38,033,903 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 not have sufficient working capital to meet the Company’s liabilities and commitments as they become due for the upcoming 12 months. Management intends to finance operating costs over the next twelve months with private placements and public offerings of the Company’s common shares and funds received from the exercise of warrants and share options. There is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These factors indicate the existence of a material uncertainty which causes significant doubt in the ability of the Company to continue as a going concern.

These 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 consolidated financial statements, adjustments would be necessary to the statement of financial position classifications used. Such adjustments could be material.

ALPHA COGNITION INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States Dollars)
December 31, 2021

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

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

Statement of compliance

These consolidated financial statements, including comparatives, have been prepared in accordance 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”).

These financial statements of the Company were approved and authorized for use by the Board of Directors on April 26, 2022.

Basis of presentation

The 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, which are measured at fair value. The consolidated financial statements are presented in United States dollars (“USD”) unless otherwise noted.

Basis of consolidation

These consolidated financial statements include the accounts of the Company, from March 18, 2021, the date of closing of the Transaction (Note 3), and its subsidiaries from inception which are as follows:

	Incorporation	Percentage owned	
		2021	2020
Alpha Cognition Canada Inc.	Canada	100%	100%
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 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 the functional currency 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.

For the purposes of presenting 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).

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting estimates and judgments

The preparation of the 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. Significant estimates and judgements made by management in the preparation of these consolidated financial statements are outlined below.

Uncertainty of COVID-19 Global Pandemics

The Company is subject to risks and uncertainties as a result of the ongoing COVID-19 pandemic. The Company is continuing to closely monitor the impact of the COVID-19 pandemic on its business and has taken and continues to take proactive efforts to protect the health and safety of its patients, clinical research staff and employees, and to maintain business continuity. The extent of the impact of the COVID-19 pandemic on the Company's activities remains uncertain and difficult to predict, as the response to the pandemic is ongoing and information continues to evolve. Capital markets and economies worldwide have been negatively impacted by the COVID-19 pandemic and may be further impacted in the future. Such economic disruption could have a material adverse effect on the Company's business. Policymakers around the globe have responded with fiscal policy actions to support the healthcare industry and economy as a whole. The magnitude and overall effectiveness of these actions remains uncertain.

The severity of the impact of the COVID-19 pandemic on the Company's activities will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic, including the severity of any additional periods of increases or spikes in the number of cases in the areas the Company its suppliers and its manufacturers operate and areas where the Company's clinical trial sites are located; the development and spread of COVID-19 variants, the timing, extent, effectiveness and durability of COVID-19 vaccine programs or other treatments; and new or continuing travel and other restrictions and public health measures, such as social distancing, business closures or disruptions. Accordingly, the extent and severity of the impact on the Company's existing and planned clinical trials, manufacturing, collaboration activities and operations is uncertain and cannot be fully predicted. The Company may experience delays in its existing and planned clinical trials due to the worldwide impacts of the pandemic. The Company's future results of operations and liquidity could be adversely impacted by delays in existing and planned clinical trials, continued difficulty in recruiting patients for these clinical trials, delays in manufacturing and collaboration activities, supply chain disruptions, the ongoing impact on its operating activities and employees, and the ongoing impact of any initiatives or programs that the Company may undertake to address financial and operational challenges. As of the date of issuance of these consolidated financial statements, the extent to which the COVID-19 pandemic may materially impact the Company's future financial condition, liquidity or results of operations remains uncertain

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.

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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting estimates and judgments

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.

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.

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.

Financial instruments

Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the financial asset's fair value in other comprehensive income.

The classification determines the method by which the financial assets are carried on the consolidated statement of financial position subsequent to initial recognition and how changes in value are recorded. Subscription receipts receivable is measured at amortized cost with subsequent impairments recognized in profit or loss. Cash is classified as FVTPL.

Impairment

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For the years presented, the Company did not record an expected credit loss.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities

Financial liabilities are designated as either: (i) fair value through profit or loss; or (ii) amortized cost. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Accounts payable, related parties payable, refundable subscription receipts, convertible debenture and promissory note are classified as other financial liabilities and carried on the statement of financial position at amortized cost. Derivative liability is measured at FVTPL.

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
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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.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Leases

As a lessee, the Company recognizes a right-of-use asset and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received. The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. The lease term is determined as the non-cancellable periods of a lease, together with periods covered by a renewal option if the Company is reasonably certain to exercise that option and a termination option if the Company is reasonably certain not to exercise that option. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices of purchase options if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension, or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit or loss.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit or loss on a straight-line basis over the lease term. During the years ended December 31, 2021 and 2020, all of the Company's leases are short-term leases with a term of 12 months or less and are charged directly to profit or loss on a straight-line basis over the lease term.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible debentures and derivative liability

Upon initial recognition, the Company determines whether the convertible debentures consist of liability and equity components, or if both components represent liabilities. For convertible debentures which provide conversion into a fixed number of shares (the “fixed-for-fixed” criteria), the liability component is initially recorded at fair value and subsequently at amortized cost using the effective interest rate method. The liability component is accreted to the face value over the term of the convertible debenture. The equity component is recognized as the difference between the fair value of the instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

For convertible debentures which provide conversion into a variable number of shares or into a fixed number shares for a variable amount of consideration, the conversion option is accounted for as an embedded derivative, which is separated from the host contract. The conversion option of the convertible debentures outstanding at December 31, 2020 met the criteria of a derivative instrument liability because the conversion price of the promissory notes varied depending on certain factors and thus did not meet the “fixed-for-fixed” criteria. As a result, the Company separately account for the conversion feature as a derivative liability recorded at fair value and marked-to-market each period with the changes in the fair value recognized in profit or loss. The liability component is recognized as the difference between the fair value of the instrument as a whole and the fair value of the derivative liability.

Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company’s preferred shares, common shares and options are classified as equity instruments.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The fair value of the common shares issued in private placements is determined to be the more easily measurable component as they are valued at their fair value which is determined by the closing price on the issuance date. The remaining balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded to reserves. If the warrants expire unexercised, the value attributed to the warrants is transferred to share capital.

Incremental costs directly attributable to the issue of new shares or options are recognized as a deduction from equity, net of tax.

Loss per share

Basic loss per share is computed by dividing net loss available to ordinary shareholders by the weighted-average number of ordinary shares outstanding during the reporting period where ordinary shares include Common shares and Class B common shares. If applicable, diluted income per share is computed similar to basic income per share except that the weighted average shares outstanding are increased to include potential ordinary shares for the assumed exercise of share options, warrants, and convertible debentures, if dilutive. The number of potential ordinary shares is calculated by assuming that outstanding share options, warrants and convertible debentures were exercised or converted and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting periods. For the years presented, this calculation proved to be anti-dilutive.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based compensation

Share-based compensation to employees is measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based compensation to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share option reserve. The Company records stock-based compensation expense for service-based stock options on a graded method over the requisite service period. The Company records stock-based compensation expense for non-market performance-based stock options on a graded method over the requisite service period, and only if performance-based conditions are considered probable to be satisfied.

The fair value of options is determined using the Black-Scholes Option Pricing Model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

The Company transfers the value of forfeited and expired unexercised vested stock options and compensatory warrants to deficit or share capital from reserves on the date of expiration based on the nature of the item.

Income taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the country where the Company operates and generates taxable income.

Deferred income tax

Deferred income tax is provided for based on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Current income and deferred tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development

Development expenditures can be capitalized only where a development project meets certain conditions, including technical feasibility of the intangible asset, intention to complete the project, ability to sell the intangible asset, probability that the intangible asset can produce future economic benefits, availability of resources to complete the project, and ability to reliably measure the expenditure attributable to the intangible asset. Development projects are reviewed as they arise and on an on-going basis to assess whether all conditions have been met. Amortization is calculated over the cost of the asset, or revalued amount, less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Accounting pronouncements not yet adopted

Accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's 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 1,640,507 common shares on completion of the transaction and the former ACI share option holders were deemed 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 year ended December 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 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 consolidated financial statements at their historical carrying value. The results of operations of ACI are included in these consolidated financial statements from the date of the reverse acquisition of March 18, 2021.

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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.

	Total
	\$
Cost of acquisition:	
Shares retained by public company shareholders - 1,640,057 shares at CAD \$1.28 x 0.8027	1,685,085
Fair value of stock options	62,749
	1,747,834
Allocated as follows:	
Cash	523,041
Prepaid expenses	5,706
Liabilities	(185,113)
	343,634
Allocated to listing expense	1,404,200
	1,747,834

Share options deemed 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 year ended December 31, 2021, the Company incurred costs of \$37,504 related to the reverse acquisition that were recorded as business investigation costs.

NOTE 4 – INTANGIBLE ASSET

	Licenses
	\$
Cost:	
At December 31, 2019 and 2020	1,185,633
Additions	50,000
At December 31, 2021	1,235,633
Amortization:	
At December 31, 2019	377,453
Additions	79,043
At December 31, 2020	456,496
Additions	82,375
At December 31, 2021	538,871
Net book value:	
At December 31, 2020	729,137
At December 31, 2021	696,762

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NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2021	December 31, 2020
	\$	\$
Accounts payable	454,992	27,542
Accrued liabilities	271,858	166,415
Salaries payable	-	9,896
	726,850	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	-	448,713	448,713
Conversion	(2,639,271)	(2,100,544)	(4,739,815)
Balance, December 31, 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 \$2,100,544 using the Black-Scholes Option Pricing model with the following assumptions:

Risk-free interest rate	0.03% - 0.23%
Dividend yield	-
Expected life	0.61-2.00 years
Volatility	121% - 141%
Probability of automatic conversion	-%
Probability of conversion at \$1.60 per share	-%
Probability of conversion at a 20% discount to the per share price of a Funding Transaction	100%

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NOTE 6 – CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY (continued)

During the year ended December 31, 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 year ended December 31, 2021, the Company recognized accretion of the debt discount of \$376,633 (2020 - \$nil) and loss on revaluation of derivative liability of \$448,713 (2020 – \$nil).

As at December 31, 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	-	(24,000)
Accretion	117,921	-
Accrued interest	-	24,229
Balance, December 31, 2021	1,075,820	2,771

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 year ended December 31, 2021, the Company recorded interest expense of \$24,229 (2020 - \$24,229) and amortization of the discount, included in accretion expense, of \$117,921 (2020 - \$102,837).

As at December 31, 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 \$135,643 (December 31, 2020 – \$253,564). As at December 31, 2020, \$933,899 was presented as a long-term liability.

NOTE 8 – SHARE CAPITAL

Authorized share capital

During the year ended December 31, 2021, the Company amended its articles to include additional classes of shares to its authorized share capital. As at December 31, 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 voting shares with a par value of \$0.25 per share, convertible on a 1:1 basis into Common shares (“Class B preferred shares”)

During the year ended December 31, 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 year ended December 31, 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. The Company allocated \$873,816 to reserves representing the value of the warrants issued. 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 with an estimated fair value of \$76,156 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 \$2,698,028 worth of net convertible debentures (Note 6).
- Concurrent to the Transaction, ACI Canada issued 2,139,763 Common shares on the conversion of \$1,962,976 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).
- 50,000 common shares at a price of \$0.01 per share for total proceeds of \$500 for the exercise of Common share options. As a result, the Company transferred \$24,898 from reserves to share capital.
- Completed a public offering by raising funds of \$11,383,284 (CAD\$14,403,750) for 9,602,500 subscription receipts at a price of CAD\$1.50 per subscription receipt with each subscription receipt consisting of one Common share and one warrant exercisable at a price of CAD\$1.75 per warrant for a term of 24 months from the closing date. In connection with the public offering, the Company agreed to pay cash commissions of \$852,094 and issue 659,627 warrants with an estimated fair value of \$444,886 to the agents. Each agent warrant is exercisable into Common shares of the Company at an exercise price of CAD\$1.50 for a term of 2 years.
- 6,100,000 Common shares for the exercise of 6,100,000 warrants at a price of \$0.40 per share for total proceeds of \$2,440,000. As a result, the Company transferred \$3,813,754 from the derivative liability to share capital.
- 10,504 Common shares for the exercise of 10,504 Common share options at a price of CAD\$0.714 per share for total proceeds of \$6,025 (CAD\$7,500). As a result, the Company transferred \$8,972 from reserves to share capital.

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.

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NOTE 8 – SHARE CAPITAL (continued)

Escrow shares

As at December 31, 2021, the Company had 28,524,110 (December 31, 2020 – nil) Common shares, 4,006,846 (December 31, 2020 – nil) Restricted Shares, and 6,859,782 (December 31, 2020 – nil) Class B preferred shares held in escrow.

Warrants

During the year ended December 31, 2021, ACI Canada issued the following warrants:

- 1,385,866 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.
- 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 year ended December 31, 2021, the Company:

- Issued 294,190 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.
- Issued 9,602,500 warrants with an exercise price of CAD\$1.75 and expiry of October 1, 2023, in connection with the public offering.
- Issued 659,627 warrants with an exercise price of CAD\$1.50 and an expiry of October 1, 2023, to the agents of the Company’s public offering.

A continuity of warrants is as follows:

	Number of Warrants	Weighted Average Exercise Price
		\$
Balance, December 31, 2019 and 2020	9,201,783	0.40
Issued	12,879,507	1.42 (CAD\$1.80)
Exercised	(6,100,000)	0.40
Balance, December 31, 2021	15,981,290	1.22

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NOTE 8 – SHARE CAPITAL (continued)

Warrants

A summary of the warrants outstanding and exercisable December 31, 2021, is as follows:

Warrants Outstanding	Exercise Price	Expiry Date
	\$	
40,000	0.40	July 5, 2023
3,061,783	0.40	August 30, 2024
2,486,647	1.66 (CAD\$2.10)	March 18, 2023
130,733	1.26 (CAD\$1.60)	March 18, 2023
9,602,500	1.38 (CAD\$1.75)	October 1, 2023
659,627	1.18 (CAD\$1.50)	October 1, 2023
15,981,290		

The weighted average life of warrants outstanding at December 31, 2021 was 1.84 years.

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 year ended December 31, 2021, the Company had the following share option transactions:

- In connection with the Transaction, the Company had deemed granted 108,543 share options, with an estimated fair value of \$62,749, 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 share 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 \$113,507 which vest quarterly over four tranches of 50,000 commencing June 18, 2021.
- In April 2021, the Company repriced 77,030 share 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. The Company recorded share-based compensation of \$9,272.
- In August 2021, the Company granted 3,150,000 share options to certain officers of the Company and employees of ACI USA with an exercise price of CAD\$0.90 per share. The options will be subject to the following vesting terms: 25% will vest 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. In October 2021, 450,000 of these share options were cancelled.
- In August 2021, the Company granted 400,000 share options with an exercise price of \$1.22 per share to an employee of ACI USA. The options will be subject to the following vesting terms: 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 certain performance criteria. In December 2021, the vesting terms were revised to: 100,000 options vest on date of grant, 100,000 options will vest quarterly over a 12 month period, and 200,000 options vest upon completion of certain performance criteria.

ALPHA COGNITION INC.
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NOTE 8 – SHARE CAPITAL (continued)

Share options (continued)

Common share options (continued)

- In August 2021, the Company granted 300,000 share options with an exercise price of \$0.80 per share to an employee of the Company. The options will be subject to the following vesting terms: 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 certain performance criteria. In December 2021, the Company amended the number of options granted to 131,250 options which will vest immediately.
- In December 2021, the Company granted 300,000 share options to a certain officer of the Company with an exercise price of CAD\$1.12 per share. The options will be subject to the following vesting terms: 100,000 options vest on date of grant and 200,000 options vest upon the completion of certain performance criteria.
- In December 2021, the Company granted 450,000 share options to employees of ACI USA with an exercise price of CAD\$1.12 per share. The options will be subject to the following vesting terms: 25% will vest on the first anniversary of the date of grant and remaining 75% will vest in equal monthly instalments until the third anniversary of the date of grant.
- In December 2021, the Company granted 940,000 share options to certain directors of the Company with an exercise price of CAD\$1.12 per share. The options will be subject to the following vesting terms: 50% will vest on date of grant and the remaining 50% will vest quarterly over a 24 month period.

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:

	December 31, 2021	December 31, 2020
Risk-free interest rate	1.26%	0.60%
Dividend yield	-	-
Forfeiture rate	-	-
Expected life	9.61 years	10 years
Volatility	87%	139%
Weighted average fair value per option	\$0.58	\$1.14

For the year ended December 31, 2021, share-based compensation expense relating to service condition awards amounted to \$1,093,704 (year ended December 31, 2020 - \$nil) of which \$276,381 was allocated to research and development and \$817,323 to general and administrative.

ALPHA COGNITION INC.
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NOTE 8 – SHARE CAPITAL (continued)

Share options (continued)

Common share options (continued)

Common share option continuity is as follows:

	Year ended December 31, 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	5,848,543	0.81	39,154	0.40
Cancelled	(618,750)	-	-	-
Exercised	(10,504)	-	-	-
Balance, end of year	5,297,597	0.81	78,308	0.40
Options exercisable, end of year	1,127,597		78,308	

A summary of the common share options outstanding at December 31, 2021, is as follows:

Options Outstanding	Options Exercisable	Exercise Price	Expiry Date
		\$	
66,526	66,526	0.56 (CAD\$0.714)	March 18, 2022
200,000	150,000	1.66 (CAD\$2.10)	March 29, 2023
31,513	31,513	0.56 (CAD\$0.714)	September 21, 2023
39,154	39,154	0.40	June 1, 2029
39,154	39,154	0.40	July 22, 2030
2,700,000	-	0.71 (CAD\$0.90)	August 3, 2031
400,000	100,000	1.22	August 16, 2031
131,250	131,250	0.80	August 16, 2031
1,690,000	570,000	0.88 (CAD\$1.12)	December 20, 2031
5,297,597	1,127,597		

The weighted average life of common share options outstanding at December 31, 2021, was 9.22 years.

ALPHA COGNITION INC.
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NOTE 8 – SHARE CAPITAL (continued)

Share options (continued)

ACI Canada legacy performance options

The Company retained ACI Canada’s stock option plan whereby ACI Canada could grant share 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 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 year ended December 31, 2021, share-based compensation expense relating to service condition awards for the ACI Canada legacy performance options amounted to \$44,510, of which \$32,797 was allocated to research and development and \$11,713 to general and administrative (year ended December 31, 2020 - \$418,859, of which \$326,082 was allocated to research and development and \$92,777 to general and administrative).

For the year ended December 31, 2021, share-based compensation expense relating to performance condition options for the ACI Canada legacy performance options amounted to \$654,718, of which \$503,868 was allocated to research and development and \$150,850 to general and administrative (year ended December 31, 2020 – \$136,061, of which \$93,705 was allocated to research and development and \$42,365 to general and administrative).

ACI Canada legacy performance option continuity is as follows:

	Year ended December 31, 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 year	9,941,057	0.01	9,991,057	0.01
Options exercisable, end of year	8,861,057		6,123,557	

ALPHA COGNITION INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 – SHARE CAPITAL (continued)

Share options (continued)

ACI Canada legacy performance options (continued)

A summary of the Common share options outstanding at December 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	3,890,000	0.01	September 1, 2028
3,800,000	3,380,000	0.01	June 1, 2029
9,941,057	8,861,057		

The weighted average life of Common share options outstanding at December 31, 2021, was 9.92 years.

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 was recorded 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 \$8,215,823 to recognize the derivative liability. As at December 31, 2021, the Company revalued the derivative liability to \$2,048,127 and recorded a loss on revaluation of \$5,608,000. During the year ended December 31, 2021, 6,100,000 warrants with an exercise price of \$0.40 per warrant were exercised, which resulted in \$3,578,567 of the derivative liability being reallocated to share capital.

	December 31, 2021
	\$
Initial recognition of derivative liability	7,810,547
Conversion	(3,578,567)
Revaluation of derivative liability	(2,183,853)
Balance, end of year	2,048,127

A summary of the warrants with USD exercise prices outstanding and exercisable at December 31, 2021, is as follows:

Warrants Outstanding	Exercise Price	Expiry Date
	\$	
40,000	0.40	July 5, 2023
3,061,783	0.40	August 30, 2024
3,101,783		

ALPHA COGNITION INC.
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NOTE 8 – SHARE CAPITAL (continued)

Derivative liability (continued)

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 December 31, 2021:

	December 31, 2021	March 18, 2021
Risk-free interest rate	0.62%	0.48%
Dividend yield	-	-
Forfeiture rate	-	-
Expected life	3.21 years	3.40 years
Volatility	114%	113%
Weighted average fair value per warrant	\$0.80	\$1.07

NOTE 9 – RESEARCH AND DEVELOPMENT

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

	Note	For the year ended December 31,	
		2021	2020
		\$	\$
Consulting fees		442,393	769,636
Legal and patent costs		297,802	119,679
Management fees and salaries	10	1,116,622	495,000
Other research and development		60,723	92,142
Product development		4,304,612	2,511,140
Share-based compensation	8,10	813,046	419,788
Salaries and benefits		226,684	265,637
Subcontractors		711,459	-
		7,973,340	4,673,022

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 its Board of Directors.

In September 2018, the Company signed a management agreement with CMI Cornerstone Management Corp. ("CMI"), a company controlled by Ken Cawkell, the former Chief Executive Officer and a director of the Company, which requires monthly payments of \$15,000. In June 2019, the Company amended the agreement to increase the monthly fees to \$18,000. Included in the agreement is a provision for a termination payment equal to the greater of (i) \$432,000 less any fees previously paid under the agreement between June 1, 2019 and the date of termination or (ii) \$54,000.

In September 2018, the Company signed a management agreement with 9177 – 586 Quebec Inc. ("9177 Quebec"), a company controlled by Denis Kay, the Chief Scientific Officer of the Company, which requires monthly payments of \$13,333 per month for an effective term of two years. In June 2019, the Company amended the agreement to increase the monthly fees to \$15,000. Included in the agreement is a provision for a termination payment equal to the greater of (i) \$360,000 less any fees previously paid under the agreement between June 1, 2019 and the date of termination or (ii) \$45,000.

In September 2018, the Company signed a management agreement with Clearway Global, LLC ("Clearway Global"), a company controlled by Fred Sancilio, the former President and a director of the Company, which requires monthly payments of \$10,000 per month for an effective term of two years. In June 2019, the Company amended the agreement to increase the monthly fees to \$20,000. Included in the agreement is a provision for a termination payment equal to the greater of (i) \$480,000 less any fees previously paid under the agreement between June 1, 2019 and the date of termination or (ii) \$60,000. In February 2021, the Company amended the agreement to increase the monthly fees to \$24,166. On December 22, 2021, Fred Sancilio resigned as the President and director of the Company.

In August 2020, the Company signed a management agreement with Seatrend Strategy Group, ("Seatrend"), a company controlled by Jeremy Wright, the Chief Financial Officer of the Company, which requires monthly payments of \$6,000. In October 2020, the Company amended the agreement to increase the monthly fees to \$15,000. Included in the agreement is a provision for a termination payment of six's month's fees. On April 12, 2022, Jeremy Wright resigned as the CFO of the Company and was paid a termination payment of \$90,000.

In February 2021, the Company signed a consulting agreement with Michael McFadden, the CEO of the Company, requiring an annual base compensation of \$500,000. Included in the agreement is a provision for a termination payment upon termination without just cause and an equity provision upon the sale or merger of the Company. The termination payment is to be paid semi-monthly over a one year period, as follows: the first six months at the current base compensation, followed by three months at ½ of the current base compensation, followed by three months at ¼ of the current base compensation. The equity provision provides for the following:

- i) in the event the Company is sold or merged at a value between \$200 million and \$500 million, equity with a value of 2% of the difference between the transaction price and \$200,000,000;
- ii) in the event the Company is sold or merged at a value between \$500 million and \$1 billion, equity with a value of 2.5% of the difference between the transaction price and \$200,000,000;
- iii) in the event the Company is sold or merged at a value above \$1 billion, equity with a value of 3% of the difference between the transaction price and \$200,000,000;
- iv) if the Company is neither sold nor merged, but is up-listed to the Nasdaq Exchange within 3 years of the agreement, an equity distribution equal to the value per paragraphs i) – iii) above, to be paid on the 3 year anniversary of the agreement.

In May 2021, Mr. McFadden became an employee of the Company. All other terms of his contract remained the same.

In May 2021, the Company hired Lauren D'Angelo, the Chief Commercial Officer of the Company, requiring an annual base compensation of \$350,000.

In November 2021, the Company signed an employment agreement with Cedric O'Gorman, the Chief Medical Officer of the Company, requiring an annual base compensation of \$400,000. Included in the agreement is a provision for a termination payment without just cause an amount equal to annual base compensation for a period of three months.

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NOTE 10 – RELATED PARTY TRANSACTIONS AND BALANCES

Summary of key management personnel compensation:

	For the year ended December 31,	
	2021	2020
	\$	\$
Other general and administrative	40,028	49,500
Management fees and salaries	822,228	317,362
Professional fees	3,642	917
Research and development - management fees and salaries	957,764	435,000
Share-based compensation	1,485,601	444,315
	3,309,263	1,247,094

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:

	December 31, 2021	December 31, 2020
	\$	\$
Related parties payable		
Due to NLS (former related party)	-	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.

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).

ALPHA COGNITION INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11 – COMMITMENTS (continued)

a) Alpha-1062 Technology (continued)

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.

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, subscription receipts receivable, other current assets, accounts payable, related parties payable, refundable subscription receipts, convertible debentures, derivative liability, and promissory note. The fair values of subscription receipts receivable, other current assets, accounts payable, related parties payable, refundable subscription receipts, convertible debentures and promissory note approximates their carrying values either due to their current 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.

NOTE 13 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 December 31, 2021, the Company had net monetary assets of approximately \$13,400,000 denominated in Canadian dollars. 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 \$1,060,000. 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 tax recoverable is due from the Government of Canada; therefore, the credit risk exposure is low. The Company's maximum credit risk is equal to the carrying value of cash and other current assets at December 31, 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 December 31, 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.

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. As at December 31, 2021, the Company had a cash balance of \$11,301,793 to settle current financial liabilities of \$1,802,670.

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NOTE 13 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

d) Liquidity risk

Contractual undiscounted cash flow requirements for financial liabilities as at December 31, 2021 are as follows:

	≤1 Year	>1-3 Years	Total
	\$	\$	\$
Accounts payable and accrued liabilities	726,850	-	726,850
Promissory note	1,211,463	-	1,211,463
	1,938,313	-	1,938,313

NOTE 14 – SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

	For the year ended December 31,	
	2021	2020
	\$	\$
Supplemental non-cash disclosures		
Subscription receipts receivable	-	1,439,223
Shares issued for funds previously received	1,898,740	-
Shares issued for conversion of convertible debentures and interest	4,739,815	-
Warrants issued for share issuance costs	521,042	-
Reallocation of fair value of share options upon exercise	33,870	-
Reallocation of fair value of warrants upon exercise	3,578,567	-

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 December 31, 2021		
	Canada	United States of America	Total
	\$	\$	\$
Non-current assets other than financial instruments	698,075	11,688	709,763

	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 – INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2021	2020
	\$	\$
Net loss before income taxes	(19,545,016)	(5,784,207)
Canadian statutory income tax rate	27.00%	27.00%
Expected income tax recovery at statutory rate	(5,277,000)	(1,561,736)
Tax effect of:		
Permanent differences and others	2,364,000	160,243
Change in unrecognized deferred income tax assets	2,913,000	1,401,493
Income tax recovery	-	-

The significant components of deferred income tax assets and liabilities are as follows:

	2021	2020
	\$	\$
Deferred income tax assets:		
Non-capital losses carried forward	5,803,000	3,119,585
Intangible assets	73,000	194,913
Promissory notes	(37,000)	(68,463)
Convertible promissory notes	-	(52,440)
Share issue costs	264,000	-
Property and equipment	3,000	-
Total gross deferred income tax assets	6,106,000	3,193,595
Unrecognized deferred tax assets	(6,106,000)	(3,193,595)
Net deferred income tax assets	-	-

At December 31, 2021, the Company had, for Canadian tax purposes, non-capital losses aggregating approximately \$21,492,000. These losses are available to reduce taxable income earned by the Alpha Cognition Canada Inc. in future years and expire between 2035 and 2040.

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NOTE 17 – SUBSEQUENT EVENTS

- a) In January 2022, the Company issued 21,008 Common shares for the exercise of 21,008 Common shares options at a price of CAD\$0.714 per share for total proceeds of \$11,851 (CAD\$15,000).
- b) In February 2022, the Company granted 230,000 share options to certain employees of the Company with an exercise price of CAD\$1.05 per share. The options will be subject to the following vesting terms: 25% will vest on February 14, 2023 and the remaining 75% will vest in equal monthly instalments until February 14, 2025.
- c) In February 2022, the Company issued 350,000 Common shares for the exercise of 350,000 ACI Canada legacy performance options at a price of \$0.01 per share for total proceeds of \$3,500.
- d) In March 2022, the Company issued 45,511 Common shares for the exercise of 45,511 Common shares options at a price of CAD\$0.714 per share for total proceeds of \$25,570 (CAD\$32,495).
- e) In April 2022, the Company granted 450,000 share options to certain employee of the Company with an exercise price of CAD\$0.93 per share for a period of ten years from date of grant. The options will be subject to the following vesting terms: 25% will vest on April 11, 2023 and the remaining 75% will vest in equal monthly instalments until April 11, 2025.