



**ALPHA COGNITION INC.**

**Consolidated Financial Statements**

**(Expressed in United States Dollars)**

**For the Years Ended December 31, 2022 and 2021**

**ALPHA COGNITION INC.**  
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**(Expressed in United States Dollars)**

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**INDEPENDENT AUDITORS' REPORT**

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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, 2022 and 2021, and the consolidated statements of loss and comprehensive loss, changes in equity (deficiency) and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information (together, the "Financial Statements").

In our opinion, the accompanying Financial Statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, 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 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 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 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.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the Material Uncertainty Related to Going Concern section, we have determined that there are no key audit matters to communicate in our report.

**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 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 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 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 Financial Statements**

Management is responsible for the preparation and fair presentation of the 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 Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 Financial Statements**

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 Financial Statements, including the disclosures, and whether the 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 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are, therefore, the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

*Manning Elliott LLP*

CHARTERED PROFESSIONAL ACCOUNTANTS  
Vancouver, Canada  
March 8, 2023

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

	Note	December 31, 2022 \$	December 31, 2021 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		2,083,696	11,301,793
Prepaid expenses and other current assets		249,045	868,832
		2,332,741	12,170,625
<b>Equipment</b>		3,824	13,001
<b>Intangible asset</b>	4	614,386	696,762
		<b>2,950,951</b>	<b>12,880,388</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	5	2,845,381	726,850
Promissory note	7	1,211,463	1,075,820
		4,056,844	1,802,670
<b>Other long-term liabilities</b>	8	8,295	-
<b>Derivative liability</b>	9	205,989	2,048,127
		4,271,128	3,850,797
<b>EQUITY (DEFICIENCY)</b>			
Share capital	9	40,258,943	40,011,776
Reserves	9	8,492,459	7,153,252
Accumulated other comprehensive loss		(84,728)	(101,534)
Accumulated deficit		(49,986,851)	(38,033,903)
		(1,320,177)	9,029,591
		<b>2,950,951</b>	<b>12,880,388</b>

Note 1 – Nature of operations and going concern

Note 12 – Commitments

Note 18 - Subsequent events

Approved on behalf of the Board on March 8, 2023

\_\_\_\_\_/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	2022	2021
		\$	\$
<b>Operating expenses</b>			
Accretion expenses	6,7	135,643	494,554
Amortization expense	4	82,376	82,375
Consulting fees		162,287	48,758
Depreciation		8,547	7,502
Interest	6,7	37,237	33,606
Investor relations		191,515	376,116
Management fees and salaries	11	1,478,791	822,228
Marketing		31,733	103,250
Other general and administrative	11	324,871	227,887
Professional fees	11	899,271	825,101
Registrar and filing fees		57,336	106,860
Research and development	10,11	8,816,842	7,973,340
Share-based compensation	9	1,151,046	979,886
Subcontractors		243,316	-
Travel and related		17,693	15,425
		13,638,504	12,096,888
<b>Loss before other income (expenses)</b>		<b>(13,638,504)</b>	<b>(12,096,888)</b>
<b>Other income (expenses)</b>			
Foreign exchange gain (loss)		(296,057)	48,214
Interest income		1,925	2,074
Business investigation costs	3	-	(37,504)
Listing expense	3	-	(1,404,200)
Write-off of equipment		(5,506)	-
Gain (loss) on recognition and revaluation of derivative liability	6,9	1,823,444	(6,056,712)
		1,523,806	(7,448,128)
<b>Loss for the year</b>		<b>(12,114,698)</b>	<b>(19,545,016)</b>
<b>Other comprehensive loss that may be reclassified to net loss:</b>			
Currency translation adjustment		16,806	(101,534)
<b>Comprehensive loss for the year</b>		<b>(12,097,892)</b>	<b>(19,646,550)</b>
<b>Basic and diluted net loss per share</b>		<b>(0.18)</b>	<b>(0.37)</b>
<b>Basic and diluted weighted average number of shares outstanding</b>		<b>67,972,194</b>	<b>53,333,061</b>

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

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

	Common shares		Class A Restricted shares		Class B Preferred shares		Total share capital		Reserves	Accumulated Other Comprehensive	Accumulated	Total
	Number	Amount	Number	Amount	Number	Amount	Number	Amount		Loss	Deficit	
		\$		\$		\$		\$	\$	\$	\$	\$
<b>Balance, December 31, 2020</b>	<b>42,996,524</b>	<b>14,568,250</b>	-	-	<b>7,916,380</b>	<b>62</b>	<b>50,912,904</b>	<b>14,568,312</b>	<b>3,936,583</b>	-	<b>(18,488,887)</b>	<b>16,008</b>
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)
<b>Balance, December 31, 2021</b>	<b>60,606,931</b>	<b>36,908,094</b>	<b>7,000,000</b>	<b>3,103,620</b>	<b>7,916,380</b>	<b>62</b>	<b>75,523,311</b>	<b>40,011,776</b>	<b>7,153,252</b>	<b>(101,534)</b>	<b>(38,033,903)</b>	<b>9,029,591</b>

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

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

	Common shares		Class A Restricted shares		Class B Preferred shares		Total share capital		Reserves	Accumulated Other Comprehensive	Accumulated	Total
	Number	Amount	Number	Amount	Number	Amount	Number	Amount		Loss	Deficit	
		\$		\$		\$		\$		\$	\$	
<b>Balance, December 31, 2021</b>	<b>60,606,931</b>	<b>36,908,094</b>	<b>7,000,000</b>	<b>3,103,620</b>	<b>7,916,380</b>	<b>62</b>	<b>75,523,311</b>	<b>40,011,776</b>	<b>7,153,252</b>	<b>(101,534)</b>	<b>(38,033,903)</b>	<b>9,029,591</b>
Options exercised	416,519	247,167	-	-	-	-	416,519	247,167	(206,382)	-	-	40,785
Forfeited share options	-	-	-	-	-	-	-	-	(161,750)	-	161,750	-
Share-based compensation	-	-	-	-	-	-	-	-	1,707,339	-	-	1,707,339
Foreign exchange on translation	-	-	-	-	-	-	-	-	-	16,806	-	16,806
Loss for the year	-	-	-	-	-	-	-	-	-	-	(12,114,698)	(12,114,698)
<b>Balance, December 31, 2022</b>	<b>61,023,450</b>	<b>37,155,261</b>	<b>7,000,000</b>	<b>3,103,620</b>	<b>7,916,380</b>	<b>62</b>	<b>75,939,830</b>	<b>40,258,943</b>	<b>8,492,459</b>	<b>(84,728)</b>	<b>(49,986,851)</b>	<b>(1,320,177)</b>

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



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

	Note	For the year ended December 31,	
		2022	2021
		\$	\$
<b>Cash flows used in operating activities</b>			
Loss for the year		(12,114,698)	(19,545,016)
Adjustments for non-cash items			
Amortization of intangible assets		82,376	82,375
Accretion of discount on convertible promissory notes		-	376,633
Accretion of discount on promissory note		135,643	117,921
Accrued interest		24,230	23,651
Accrued bonus rights		8,295	-
Depreciation of equipment		8,547	7,502
Listing expense	3	-	1,404,200
Loss (gain) on revaluation of derivative liability		(1,823,444)	6,056,712
Share-based compensation		1,701,807	1,792,932
Write-off of equipment		5,506	-
Changes in non-cash operating working capital items:			
Prepaid expenses and other current assets		619,787	(528,468)
Accounts payable and accrued liabilities		2,110,301	239,509
		(9,241,650)	(9,879,338)
<b>Cash flows (provided by) used in investing activities</b>			
Cash acquired in RTO	3	-	523,041
Acquisition of intangible assets		-	(50,000)
Acquisition of equipment		(4,876)	(13,666)
		(4,876)	459,375
<b>Cash flows provided by financing activities</b>			
Units issued for cash		-	13,651,183
Exercise of options		40,785	6,525
Exercise of warrants		-	2,440,000
Interest paid on promissory notes		(16,000)	(24,000)
Share issuance costs		-	(1,195,463)
		24,785	14,878,245
<b>Effect of foreign exchange on cash</b>		3,644	(82,839)
<b>Change in cash during the year</b>		(9,218,097)	5,375,443
<b>Cash, beginning of year</b>		11,301,793	5,926,350
<b>Cash, end of year</b>		<b>2,083,696</b>	<b>11,301,793</b>

Note 15 – 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, 2022**

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**NOTE 1 – NATURE OF OPERATIONS AND GOING CONCERN**

Alpha Cognition Inc. (“ACI” or the “Company”) 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 Frisco, Texas. 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 Markets (“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.

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 at December 31, 2022, had a working capital deficiency of \$1,724,103 and accumulated deficit of \$49,986,851 (2021 - \$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. Additionally, the Company will also consider funding that may arise through partnerships activities and debt. There is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company to meet its obligations and fund continuing operations. 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, 2022**

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**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 consolidated financial statements of the Company were approved and authorized for use by the Board of Directors on March 8, 2023.

**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 and its subsidiaries at the end of the reporting period as follows:

	Incorporation	Percentage owned	
		2022	2021
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 the functional currencies of its subsidiaries is 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 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 (continued)**

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 and whether any impairment indicators exist, 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

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, bonus rights 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.

Valuation of bonus rights

The Company uses the Black-Scholes Option Pricing Model to determine the fair value of the bonus rights. This model requires the input of subjective assumptions including expected share price volatility, interest rate, and forfeiture rate. Additionally, the Company applies a probability of the likelihood of certain thresholds being met. 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. Other current assets 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.

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

Impairment (continued)

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.

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 and promissory note are classified as other financial liabilities and carried on the statement of financial position at amortized cost. Bonus rights and 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**

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.

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

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**

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, 2022 and 2021, all of the Company's leases were short-term leases with a term of 12 months or less and were charged directly to profit or loss on a straight-line basis over the lease term. As at December 31, 2022, the Company did not have any outstanding leases.

**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.

**Derivative liability**

Share purchase warrants outstanding during the year ended December 31, 2022 and 2021 met the criteria of a derivative instrument liability because they were exercisable in a currency other than the functional currency of the Company and thus did not meet the “fixed-for-fixed” criteria. As a result, the Company was required to separately account for the warrants as a derivative instrument liability recorded at fair value and marked-to-market each period with the changes in the fair value each period charged or credited to loss. Changes in fair value are recognized as gain/loss on derivative liability until the warrants are exercised or expire.

**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, restricted shares, common shares, warrants 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.



**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 A restricted 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.

**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 previously expensed 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.

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Deferred income tax (continued)*

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.

**Research and development**

Research and development costs are typically expensed as incurred and can only be capitalized 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. For capitalized development assets, amortization is calculated over the cost of the asset, or revalued amount, less its residual value. Capitalized development 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 constituted 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 did 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 the net loss for the year ended December 31, 2021.

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**NOTE 3 – REVERSE ACQUISITION (continued)**

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.

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.

	<b>Total</b>
	<b>\$</b>
<b>Cost of acquisition:</b>	
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
	<b>1,747,834</b>
<b>Allocated as follows:</b>	
Cash	523,041
Prepaid expenses	5,706
Liabilities	(185,113)
	343,634
Allocated to listing expense	1,404,200
	<b>1,747,834</b>

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, 2022, the Company incurred costs of \$nil (2021 - \$37,504) related to the reverse acquisition that were recorded as business investigation costs.

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NOTE 4 – INTANGIBLE ASSET

	Licenses
	\$
<b>Cost:</b>	
At December 31, 2020	1,185,633
Additions	50,000
At December 31, 2021 and December 31, 2022	1,235,633
<b>Amortization:</b>	
At December 31, 2020	456,496
Additions	82,375
At December 31, 2021	538,871
Additions	82,376
At December 31, 2022	621,247
<b>Net book value:</b>	
At December 31, 2021	696,762
<b>At December 31, 2022</b>	<b>614,386</b>

NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2022	2021
	\$	\$
Accounts payable	2,016,057	454,992
Accrued liabilities	278,664	271,858
Accrued bonus and wages	550,660	-
	<b>2,845,381</b>	<b>726,850</b>

NOTE 6 – CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY

	Convertible Debentures	Derivative liability	Total
	\$	\$	\$
<b>Balance, December 31, 2020</b>	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)
<b>Balance, December 31, 2021 and 2022</b>	<b>-</b>	<b>-</b>	<b>-</b>

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**NOTE 6 – CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY (continued)**

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 could 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 had 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 remained outstanding at October 27, 2021, the promissory notes would automatically convert into Common shares of the Company at \$1.28 per Common share.

As the conversion price of the promissory notes varied 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 accreted 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 was 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.

In October 2020, the Company offered the holders of the First Note Warrants the option to purchase Subscription Receipts (defined in Note 9) 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 while the initial fair value of the embedded derivative for the Second Note was determined to be \$1,132,212.

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%

During the year ended December 31, 2022, the Company recognized interest expense of \$nil (2021 – \$1,733) to third party lenders and \$nil (2021 – \$3,796) to various directors and officers of the Company.

During the year ended December 31, 2022, the Company recognized accretion of the debt discount of \$nil (2021 - \$376,633) and loss on revaluation of derivative liability of \$nil (2021 – \$448,713).

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**NOTE 7 – PROMISSORY NOTE**

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

	<b>Principal</b>	<b>Accrued Interest</b>
	<b>\$</b>	<b>\$</b>
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
Interest payments	-	(16,000)
Accretion	135,643	-
Accrued interest	-	24,230
<b>Balance, December 31, 2022</b>	<b>1,211,463</b>	<b>11,001</b>

In March 2015, the Company issued a promissory note of \$1,400,000 to Neurodyn Life Sciences Inc (“NLS”), a related party through a common director, for the acquisition of the Alpha-1062 Technology (“NLS Promissory Note”) (Note 12). In April 2015, the Company and NLS entered into an amendment to the License Agreement (defined in Note 12) 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.

During the year ended December 31, 2022, the Company recorded interest expense of \$24,230 (2021 - \$24,229) and amortization of the discount, included in accretion expense, of \$135,643 (2021 - \$117,921).

As at December 31, 2022, the principal balance owing on the promissory note was \$1,211,463 (2021 - \$1,211,463) and the remaining debt discount was \$nil (2021 - \$135,643). Additionally, the accrued interest of \$11,001 (2021 - \$2,771) is included in accrued liabilities. As at December 31, 2022, the promissory note remained unpaid and continued to incur interest at 2% per annum.

On March 6, 2023, the Company and NLS agreed to an amendment to the promissory note (Note 18).

**NOTE 8 – OTHER LONG-TERM LIABILITIES**

The Company adopted a cash bonus policy which may grant bonus rights to certain eligible participants, which include employees, officers or consultants of the Company, that are payable in cash. These bonus rights are cash-settled share-based payment awards recognized over the vesting period and are revalued at each reporting date with the amount recognized included in management fees and salaries on the Company’s consolidated statement of loss and comprehensive loss.

During the year ended December 31, 2022, Officers of the Company were granted the ability to earn up to 9,261,196 bonus rights entitling them to a cash bonus equal to an amount by which the fair market value of one common share of the Company (calculated as the 30-day Volume Weighted Average Price (“VWAP”) per common share) exceeds \$1.58 multiplied by the number of bonus rights vested. The bonus rights earned will vest on the earlier of the date of a change of control or April 15, 2024 and will be payable upon vesting. The bonus rights will be earned in tranches based on the price of the Company’s common share exceeding certain thresholds. As at December 31, 2022, the Officers had earned 2,376,764 bonus rights.

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**NOTE 8 – OTHER LONG-TERM LIABILITIES (continued)**

On initial recognition, the Company recorded an expense of \$56,988 to recognize the proportionate unvested bonus rights. As at December 31, 2022, the Company revalued the bonus rights and reduced the expense by \$48,693.

	<b>2022</b>
	\$
<b>Balance, beginning of year</b>	-
Initial recognition of bonus rights	56,988
Adjustment	(48,693)
<b>Balance, end of year</b>	<b>8,295</b>

On initial valuation, the outstanding bonus rights had a value of \$677,555 which was revalued to \$24,352 at December 31, 2022. The following weighted average assumptions were used in the Black-Scholes option-pricing model for the initial valuations and the valuation of the bonus rights as at December 31, 2022:

	<b>December 31, 2022</b>	<b>Initial Valuation</b>
Risk-free interest rate	4.51%	1.47%
Dividend yield	-	-
Forfeiture rate	-	-
Expected life	1.29 years	1.13 years
Volatility	94%	60%
Weighted average fair value per bonus right	\$0.01	\$0.16
Number of probable bonus rights to vest	2,444,625	2,434,134

A continuity of bonus rights is as follows:

	<b>Number of Bonus Rights Outstanding</b>	<b>Number of Bonus Rights Earned</b>
Balance, December 31, 2020 and 2021	-	-
Issued	9,261,186	2,376,764
<b>Balance, December 31, 2022</b>	<b>9,261,186</b>	<b>2,376,764</b>

**NOTE 9 – SHARE CAPITAL**

**Authorized share capital**

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”)

**NOTE 9 – SHARE CAPITAL (continued)**

**Issued share capital**

During the year ended December 31, 2022, the Company issued the following shares:

- 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. As a result, the Company transferred \$174,285 from reserves to share capital.
- 66,519 Common shares for the exercise of 66,519 Common share options at a price of CAD\$0.714 per share for total proceeds of \$37,285 (CAD\$47,495). As a result, the Company transferred \$32,097 from reserves to 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.

**Escrow shares**

As at December 31, 2022, the Company had 19,754,347 (2021 – 28,524,110) Common shares, 3,116,518 (2021 – 4,006,846) Restricted Shares, and 5,099,866 (2021 – 6,859,782) Class B preferred shares held in escrow.



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NOTE 9 – SHARE CAPITAL (continued)

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 the following warrants:

- 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.
- 9,602,500 warrants with an exercise price of CAD\$1.75 and expiry of October 1, 2023, in connection with the public offering.
- 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, 2020	9,201,783	\$ 0.40
Issued	12,879,507	1.42 (CAD\$1.80)
Exercised	(6,100,000)	0.40
<b>Balance, December 31, 2021 and 2022</b>	<b>15,981,290</b>	<b>1.15</b>

A summary of the warrants outstanding and exercisable December 31, 2022, is as follows:

Warrants Outstanding	Exercise Price	Expiry Date
	\$	
2,486,647	1.55 (CAD\$2.10)	March 18, 2023
130,733	1.18 (CAD\$1.60)	March 18, 2023
40,000	0.40	July 5, 2023
9,602,500	1.29 (CAD\$1.75)	October 1, 2023
659,627	1.11 (CAD\$1.50)	October 1, 2023
3,061,783	0.40	August 30, 2024
<b>15,981,290</b>		

The weighted average life of warrants outstanding at December 31, 2022 was 0.84 years.

**NOTE 9 – SHARE CAPITAL (continued)**

**Share Options**

Common share options

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

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

During the year ended December 31, 2022, the Company had the following share option transactions:

- In February 2022, the Company granted 230,000 share options with an exercise price of CAD\$1.05 per share to certain employees of ACI USA and a consultant of ACI Canada. 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.
- In April 2022, the Company granted 450,000 share options to the CFO 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 in equal monthly instalments until April 11, 2023 and the remaining 75% will vest in equal monthly instalments until April 11, 2025.
- In May 2022, the Company granted 400,000 share options to certain directors of the Company with an exercise price of CAD\$0.64 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.
- In May 2022, the Company granted 90,000 share options with an exercise price of CAD\$0.64 per share. The options will be subject to the following vesting terms: 25% will vest on date of grant and the remaining 75% will vest in equal monthly instalments over a 24-month period.
- During the year ended December 31, 2022, 895,007 stock options were forfeited, of which \$161,750 reallocated from reserves to deficit, \$5,532 was reallocated from reserves to share-based compensation under general and administrative, and \$112,017 was reallocated from reserves to share-based compensation under research and development.

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.

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**NOTE 9 – 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 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.

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

	<b>2022</b>	<b>2021</b>
Risk-free interest rate	2.62%	1.26%
Dividend yield	-	-
Forfeiture rate	-	-
Expected life	10 years	9.61 years
Volatility	84%	87%
Weighted average fair value per option	\$0.56	\$0.58

For the year ended December 31, 2022, share-based compensation expense relating to service condition awards amounted to \$1,597,788 (2021 - \$1,093,704) of which \$446,742 (2021 - \$276,381) was allocated to research and development and \$1,151,046 (2021 - \$817,323) to general and administrative, the latter which has been presented in share-based compensation expense.

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NOTE 9 – SHARE CAPITAL (continued)

Share options (continued)

Common share options (continued)

Common share option continuity is as follows:

	Year ended December 31, 2022			Year ended December 31, 2021		
	Number of Options	Weighted Average Exercise Price	Weighted Average Share Price on Exercise	Number of Options	Weighted Average Exercise Price	Weighted Average Share Price on Exercise
Balance, beginning of year	5,297,597	\$ 0.81	\$ -	78,308	\$ 0.40	\$ -
Granted	1,170,000	0.61	-	5,848,543	0.81	-
Cancelled	(895,007)	0.64	-	(618,750)	0.73	-
Exercised	(66,519)	0.53	0.81	(10,504)	0.56	0.95
<b>Balance, end of year</b>	<b>5,506,071</b>	<b>0.72</b>	<b>-</b>	<b>5,297,597</b>	<b>0.81</b>	<b>-</b>
<b>Options exercisable, end of year</b>	<b>2,546,071</b>			<b>1,127,597</b>		

A summary of the common share options outstanding at December 31, 2022, is as follows:

Options Outstanding	Options Exercisable	Exercise Price	Expiry Date
		\$	
200,000	200,000	1.55 (CAD\$2.10)	March 29, 2023
31,513	31,513	0.53 (CAD\$0.714)	September 21, 2023
39,154	39,154	0.40	June 1, 2029
39,154	39,154	0.40	July 22, 2030
2,600,000*	975,000	0.66 (CAD\$0.90)	August 3, 2031
131,250	131,250	0.80	August 16, 2031
1,340,000**	805,000	0.83 (CAD\$1.12)	December 20, 2031
215,000*	-	0.78 (CAD\$1.05)	February 14, 2032
450,000*	75,000	0.69 (CAD\$0.93)	April 11, 2032
460,000***	250,000	0.47 (CAD\$0.64)	May 31, 2032
<b>5,506,071</b>	<b>2,546,071</b>		

\* cancelled and reissued in January 2023 (see Note 18).

\*\* 940,000 options were cancelled and reissued in January 2023 (see Note 18).

\*\*\* 450,000 options were cancelled and reissued in January 2023 (see Note 18).

The weighted average life of common share options outstanding at December 31, 2022, was 8.47 years.

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NOTE 9 – 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.

For the year ended December 31, 2022, share-based compensation expense relating to service condition awards for the ACI Canada legacy performance options amounted to \$nil (2021 - \$44,510, of which \$32,797 was allocated to research and development and \$11,713 to general and administrative, the latter which has been presented in share-based compensation expense).

For the year ended December 31, 2022, share-based compensation expense relating to performance condition options for the ACI Canada legacy performance options amounted to \$109,551 (2021 – \$654,718) of which \$109,551 (2021 - \$503,868) was allocated to research and development and \$nil (2021 - \$150,850) to general and administrative, the latter which has been presented in share-based compensation expense.

ACI Canada legacy performance option continuity is as follows:

	Year ended December 31, 2022			Year ended December 31, 2021		
	Number of Options	Weighted Average Exercise Price	Weighted Average Share Price on Exercise	Number of Options	Weighted Average Exercise Price	Weighted Average Share Price on Exercise
Balance, beginning of year	9,941,057	\$ 0.01	\$	9,991,057	\$ 0.01	\$
Cancelled	(70,000)	0.01		-	-	
Exercised	(350,000)	0.01	0.83	(50,000)	0.01	0.68
<b>Balance, end of year</b>	<b>9,521,057</b>	<b>0.01</b>		<b>9,941,057</b>	<b>0.01</b>	
<b>Options exercisable, end of year</b>	<b>8,731,057</b>			<b>8,861,057</b>		

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NOTE 9 – SHARE CAPITAL (continued)

Share options (continued)

ACI Canada legacy performance options

A summary of the Common share options outstanding at December 31, 2022, 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
4,400,000	3,960,000	0.01	September 1, 2028
3,530,000	3,180,000	0.01	June 1, 2029
<b>9,521,057</b>	<b>8,731,057</b>		

The weighted average life of ACI Canada legacy performance options outstanding at December 31, 2022 was 5.66 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 \$7,810,547 to recognize the derivative liability. As at December 31, 2022, the Company revalued the derivative liability to \$205,989 (2021 - \$2,048,127) and recorded a gain on revaluation of \$1,842,138 (2021 -\$2,183,853). 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.

	2022	2021
	\$	\$
Balance, beginning of year	2,048,127	-
Initial recognition of derivative liability	-	7,810,547
Conversion	-	(3,578,567)
Revaluation of derivative liability	(1,842,138)	(2,183,853)
<b>Balance, end of year</b>	<b>205,989</b>	<b>2,048,127</b>

A summary of the warrants with USD exercise prices outstanding and exercisable at December 31, 2022, is as follows:

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

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**NOTE 9 – 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 re-valuations as at December 31, 2021 and 2022:

	December 31, 2022	December 31, 2021	March 18, 2021
Risk-free interest rate	4.03%	0.62%	0.48%
Dividend yield	-	-	-
Forfeiture rate	-	-	-
Expected life	1.65 years	3.21 years	3.40 years
Volatility	93%	114%	113%
Weighted average fair value per warrant	\$0.07	\$0.80	\$1.07

**NOTE 10 – RESEARCH AND DEVELOPMENT**

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

	Note	For the year ended December 31,	
		2022	2021
		\$	\$
Consulting fees		343,408	442,392
Legal and patent costs		168,828	297,802
Management fees and salaries	11	1,127,095	1,116,622
Other research and development		19,516	60,723
Product development		5,737,915	4,304,612
Share-based compensation	9,11	556,293	813,046
Salaries and benefits		-	226,684
Subcontractors		863,787	711,459
		<b>8,816,842</b>	<b>7,973,340</b>

**NOTE 11 – 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. On September 1, 2022, the Company amended the agreement to decrease the monthly fees to \$9,000 and include a provision that if a change of control or significant financing is initiated prior to December 31, 2022, CMI will receive a one-time payment equal to number of months worked subsequent to September 1, 2022 multiplied by \$9,000.

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**NOTE 11 – RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

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. On August 15, 2022, the Company amended the agreement to decrease the monthly fees to \$7,500 and to include a provision that if a change of control or significant financing is initiated prior to December 31, 2022, 9177 Quebec will receive a one-time payment equal to number of months worked subsequent to August 15, 2022 multiplied by \$7,500.

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 through December 31, 2022. On December 22, 2021, Fred Sancilio resigned as the President and director of the Company. The management agreement was replaced with a consulting agreement which no longer contains a provision for a termination payment.

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 required 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 was 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. A new employment agreement was signed in March 2022 which included in the agreement is a provision for termination payment without just cause of:

- a) Severance payments for a period of twelve months with the following terms:
  - i) Months 1 through 6: 100% of annual base salary;
  - ii) Months 7 through 9: 50% of annual base salary; and
  - iii) Months 10 through 12: 25% of annual base salary.
- b) Bonus severance equal to the average of bonuses paid of the two most recent full fiscal years prior to termination plus the bonus that would have been paid in the fiscal year of termination.

Also included in the agreement is a provision for termination payment due to a change of control, the CEO will receive:

- a) a cash payment equal to the annual base salary;
- b) a full bonus payable in cash immediately, irrespective of whether targets have been met; and
- c) continuation of healthcare benefits for twelve months from date of change of control event.

In April 2022, Mr. McFadden was granted the ability to earn up to 8,195,740 bonus rights of which 1,639,148 bonus rights had been earned at December 31, 2022 (Note 8).

In May 2021, the Company hired Lauren D’Angelo, the Chief Commercial Officer (“CCO”) of the Company, requiring an annual base compensation of \$350,000. Included in the agreement is a provision for termination payment due to a change of control, the CCO will receive:

- a) a cash payment equal to the annual base salary;
- b) a full bonus payable in cash immediately, irrespective of whether targets have been met; and
- c) continuation of healthcare benefits for twelve months from date of change of control event.

In May 2022, Ms. D’Angelo was granted the ability to earn up to 1,065,446 bonus rights of which 737,616 bonus rights had been earned at December 31, 2022 (Note 8).



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**NOTE 11 – RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

In November 2021, the Company signed an employment agreement with Cedric O’Gorman, the Chief Medical Officer (“CMO”) 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 of an amount equal to annual base compensation for a period of six months. If termination is due to a change of control, the CMO will receive:

- a) a cash payment equal to the annual base salary;
- b) a cash bonus equal to 50% of the annual base salary; and
- c) continuation of healthcare benefits for twelve months from date of change of control event.

In April 2022, the Company signed an employment agreement with Donald Kalkofen, the Chief Financial Officer (“CFO”) of the Company, requiring an annual base compensation of \$420,000. Included in the agreement is a provision for termination payment due to a change of control, the CFO will receive:

- a) a cash payment equal to the annual base salary;
- b) a cash bonus equal to 50% of the annual base salary; and
- c) continuation of healthcare benefits for twelve months from date of change of control event.

As at December 31, 2022, \$619,361 (2021 - \$182,086) is owing to directors and officers of the Company and has been included in accounts payable and accrued liabilities. These balances are in relation to fees and management compensation and are non-interest bearing, unsecured and due on demand.

As at December 31, 2022, the Company owed NLS \$1,211,463 for an outstanding promissory note (Note 7).

Summary of key management personnel compensation:

	<b>For the year ended</b>	
	<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Other general and administrative	9,555	40,028
Management fees and salaries	1,166,371	822,228
Professional fees	-	3,642
Research and development - management fees and salaries	939,712	957,764
Share-based compensation	1,576,235	1,485,601
	<b>3,691,873</b>	<b>3,309,263</b>

**NOTE 12 – COMMITMENTS**

**a) Alpha-1062 Technology**

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

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

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

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

**b) Alpha-602 Technology**

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

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

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

**NOTE 13 – CAPITAL DISCLOSURE AND MANAGEMENT**

The Company defines its capital as all components of 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 14 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

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

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

The Company's financial instruments consist of cash, other current assets, accounts payable, bonus rights (presented in other long-term liabilities), derivative liability, and promissory note. The fair values of other current assets, accounts payable, 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. Bonus rights and derivative liability are measured at fair value on a recurring basis using level 3 inputs. The continuity and valuation techniques that are used to determine the fair values of the bonus rights and derivative liability are described in Notes 8 and 9.

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, 2022, the Company had net monetary assets of approximately \$690,000 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 \$51,000. 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, 2022 and 2021.

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, 2022, the promissory note bears interest of 2% per annum and is subject to interest rate price risk. The Company maintains bank accounts which earn interest at variable rates but it does not believe it is currently subject to any significant interest rate risk.

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**NOTE 14 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

d) Liquidity risk

The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances and through short-term borrowing. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. As at December 31, 2022, the Company had a working capital deficiency of \$1,724,103 (see Note 1).

Contractual undiscounted cash flow requirements for financial liabilities as at December 31, 2022 are as follows:

	≤1 Year	>1-3 Years	Total
	\$	\$	\$
Accounts payable	2,845,381	-	2,845,381
Promissory note	1,211,463	-	1,211,463
	4,056,844	-	4,056,844

**NOTE 15 – SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS**

	For the year ended December 31,	
	2022	2021
	\$	\$
Supplemental non-cash disclosures		
Forfeited share options	161,750	-
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	206,382	33,870
Reallocation of fair value of warrants upon exercise	-	3,578,567

**NOTE 16 – 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, 2022		
	Canada	United States of America	Total
	\$	\$	\$
Non-current assets other than financial instruments	614,977	3,233	618,210

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

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**NOTE 17 – INCOME TAXES**

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

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Net loss before income taxes	(12,114,698)	(19,545,016)
Canadian statutory income tax rate	27.00%	27.00%
Expected income tax recovery at statutory rate	(3,271,000)	(5,277,000)
Tax effect of:		
Permanent differences and others	225,000	2,364,000
Change in unrecognized deferred income tax assets	3,046,000	2,913,000
Income tax recovery	-	-

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

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Deferred income tax assets:		
Non-capital losses carried forward	8,823,000	5,803,000
Intangible assets	135,000	73,000
Promissory notes	-	(37,000)
Share issuance costs	194,000	264,000
Property and equipment	-	3,000
Total gross deferred income tax assets	9,152,000	6,106,000
Unrecognized deferred tax assets	(9,152,000)	(6,106,000)
Net deferred income tax assets	-	-

At December 31, 2022, the Company had, for Canadian tax purposes, non-capital losses aggregating approximately \$32,259,000. These losses are available to reduce taxable income earned by the ACI and ACI Canada in future years and expire between 2035 and 2042. Additionally, at December 31, 2022, the Company had, for United States of America tax purposes, non-capital losses aggregating approximately \$539,000. These losses are available to reduce taxable income earned by the ACI USA in future years and expire in 2042.

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**NOTE 18 – SUBSEQUENT EVENTS**

On January 16, 2023, the Company repriced 4,655,000 stock options with exercise prices ranging from CAD\$0.64 to CAD\$1.05. The new options have an exercise price of \$0.28 per share and vest in monthly installments over either an 8 month, 18 month or 24-month term.

On February 8, 2023, the Company commenced a brokered private placement financing whereby the Company may issue up to 26,666,667 units at a price of CAD\$0.255 per unit for gross proceeds of up to CAD\$6,800,000 (“February 2022 PP”). Each unit consists of a common share and a share purchase warrant with each share purchase warrant entitling the holder to purchase an additional common share at a price of CAD\$0.39 per common share for a period of five years. In connection with the brokered private placement, the Company is to incur share issuance costs of commissions up to 7% of gross proceeds and issuance of warrants equal up to 5% of units issued in offering.

On February 16, 2023, the Company closed the first tranche of the February 2022 PP by issuing 16,795,221 units of the Company at a price of CAD\$0.255 per unit, for gross proceeds of CAD\$4,282,781. The Company also announced as of February 16, 2023 it has also entered into subscription agreements towards a second tranche closing for an additional 6.48 million units or CAD\$1.65 million under the Offering. The second tranche is expected to close early March 2023.

On March 6, 2023, the Company and NLS agreed to an amendment to the promissory note pursuant to which the interest rate was increased from 2% to 5.5% and the maturity date was extended from December 31, 2022 to July 2024. The amended agreement is effective March 1, 2023 and requires monthly interest only payments until maturity. In addition, the amendment now incorporates both Alpha Cognition Inc. and Alpha Cognition Canada Inc. under the Memogain Technology Agreement and added clarity to certain terms and definitions under the license agreement.