

Izotropic Corporation

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended October 31, 2022

(Unaudited - Expressed in Canadian Dollars)

IZOTROPIC CORPORATION

Condensed Interim Consolidated Statements of Financial Position

Expressed in Canadian Dollars

(Unaudited – prepared by management)

	October 31, 2022	April 30, 2022
ASSETS		
Current		
Cash	\$ 907,412	\$ 1,856,573
GST receivable	16,811	41,261
Prepays (Note 4)	213,317	352,214
	<u>1,137,540</u>	<u>2,250,048</u>
Equipment (Note 3)	23,426	18,987
TOTAL ASSETS	<u>\$ 1,160,966</u>	<u>\$ 2,269,035</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Current		
Accounts payable and accrued liabilities (Notes 5 and 7)	\$ 623,088	\$ 615,470
Promissory notes (Note 12)	2,049,698	2,028,154
Total liabilities	<u>2,672,786</u>	<u>2,643,624</u>
Shareholders' equity		
Share capital (Note 6)	12,415,510	11,278,117
Reserves (Note 6)	2,154,466	2,327,291
Share subscription received (Note 13)	310,000	-
Deficit	(16,391,796)	(13,979,997)
Total shareholders' equity	<u>(1,511,820)</u>	<u>(374,589)</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 1,160,966</u>	<u>\$ 2,269,035</u>

Nature and continuance of operations (Note 1)

Subsequent events (Note 13)

Approved on behalf of the Board:

"Bob Thast"
Bob Thast, Director

"John McGraw"
John McGraw, Director

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

IZOTROPIC CORPORATION

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

Expressed in Canadian Dollars

(Unaudited – prepared by management)

	For the three months ended October 31,		For the six months ended October 31,	
	2022	2021	2022	2021
Operating expenses				
Depreciation (Note 3)	\$ 3,367	\$ 3,524	\$ 6,099	\$ 4,433
Accretion (Note 12)	82,538	-	144,544	-
Consulting (Note 7)	169,500	162,150	370,000	322,000
Filing and listing fees	26,862	25,636	41,231	47,838
Foreign exchange loss	9,373	24,821	25,846	33,010
Investor relations (recovery)	(10,000)	69,000	17,000	102,000
Office	15,471	19,804	29,921	26,313
Patent maintenance	9,405	15,010	9,405	15,010
Product development (Note 9)	771,372	1,778,586	1,244,820	2,266,298
Professional fees	141,849	132,826	196,002	164,106
Share-based payments (Notes 6, 7)	52,322	185,449	111,980	546,371
Promotional expenses	113,461	139,313	214,951	253,284
Loss and comprehensive loss	\$ 1,385,520	\$ 2,556,119	\$ 2,411,799	\$ 3,780,663
Basic and diluted loss per share	\$ 0.03	\$ 0.06	\$ 0.05	\$ 0.09
Weighted average number of common shares outstanding				
– basic and diluted	49,225,208	42,623,137	48,491,774	42,204,075

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

IZOTROPIC CORPORATION

Condensed Interim Consolidated Statement of Changes in Shareholders' Equity

For the six months ended October 31, 2022 and 2021

Expressed in Canadian Dollars

(Unaudited – prepared by management)

	Number of Shares	Share Capital			Share subscriptions	Deficit	Total
		Amount	Reserves				
Balance at April 30, 2021	42,006,078	\$ 10,041,597	\$ 1,801,081	\$ -	\$ (7,325,305)	\$ 4,517,373	
Restricted stock units (Note 6)	262,500	207,375	65,338	-	-	272,713	
Warrants exercised (Note 6)	819,300	256,975	-	-	-	256,975	
Share-based payments (Note 6)	-	-	273,658	-	-	273,658	
Net loss for the period	-	-	-	-	(3,780,663)	(3,780,663)	
Balance at October 31, 2021	43,087,878	\$ 10,505,947	\$ 2,140,077	\$ -	\$ (11,105,968)	\$ 1,540,056	
Balance at April 30, 2022	44,841,454	\$ 11,278,117	\$ 2,327,291	\$ -	\$ (13,979,997)	\$ (374,589)	
Shares issued on RSU vesting (Note 6)	187,500	230,625	(118,644)	-	-	111,981	
Warrants exercised (Note 6)	3,900,000	780,000	-	-	-	780,000	
Broker warrants exercised (Note 6)	51,067	61,136	(33,049)	-	-	28,087	
Options exercised (Note 6)	375,000	65,632	(21,132)	-	-	44,500	
Share subscription received (Note 13)	-	-	-	310,000	-	310,000	
Net loss for the period	-	-	-	-	(2,411,799)	(2,411,799)	
Balance at October 31, 2022	49,355,021	\$ 12,415,510	\$ 2,154,466	\$ 310,000	\$ (16,391,796)	\$ (1,511,820)	

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

IZOTROPIC CORPORATION

Condensed Interim Consolidated Statements of Cash Flows

For the six months ended October 31, 2022 and 2021

Expressed in Canadian Dollars

(Unaudited – prepared by management)

	2022	2021
Operating activities		
Loss for the period	\$ (2,411,799)	\$ (3,780,663)
Item not affecting cash:		
Depreciation	6,099	4,433
Share-based payments	111,981	546,371
Interest	144,544	-
Changes in non-cash working capital items:		
GST receivable	24,450	(58,244)
Accounts payable and accrued liabilities	7,618	1,107,606
Prepaid expense	138,897	543,133
Cash flows used in operating activities	(1,978,210)	(1,637,364)
Investing activities		
Purchase of equipment	(10,538)	(31,911)
Cash flows used in investing activities	(10,538)	(31,911)
Financing activities		
Interest paid on promissory notes	(123,000)	-
Proceeds from warrant exercises	780,000	256,975
Proceeds from option exercises	44,500	-
Proceeds from broker warrant exercises	28,087	-
Share subscriptions received	310,000	-
Cash flows provided by financing activities	1,039,587	256,975
Increase (decrease) in cash	(949,161)	(1,412,300)
Cash, beginning	1,856,573	4,063,756
Cash, ending	\$ 907,412	\$ 2,651,456
Interest paid in cash	\$ 123,000	\$ -
Income tax paid in cash	\$ -	\$ -

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

IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended October 31, 2022

Expressed in Canadian Dollars

(Unaudited – prepared by management)

1. NATURE AND CONTINUANCE OF OPERATIONS

Izotropic Corporation (the “Company” or “Izotropic”) was incorporated in the Province of British Columbia on May 19, 2016, under the Business Corporations Act of British Columbia. The Company’s head office is located at 800 – 15355 24 Avenue, Suite 424, Surrey, British Columbia, Canada. The Company specializes in cancer research and early detection for breast cancer. Izotropic is listed on Canadian Securities Exchange under the symbol (“IZO”), the OTC market in the USA (“IZOZF”), and the Frankfurt Stock Exchange in Germany (“1R3”).

On April 25, 2017, the Company entered into an agreement with the Regents of the University of California (the “Regents”) for an Exclusive License Agreement related to breast cancer detection and treatment (Note 8).

These condensed interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company’s financial success is dependent on management’s ability to raise adequate financing on reasonable terms and to commence profitable operations in the future. The proposed business of the Company involves a high degree of risk and there is no assurance that the Company will identify proper technologies or inventions that will be successful, and even if so identified and warranted, it may not be able to finance such technologies within the requisite time period. At October 31, 2022, the Company had a net working capital deficiency of \$1,535,246 (April 30, 2022 - \$393,576) and has no sources of cash from operations. These factors indicate the existence of a material uncertainty which may cast significant doubt about the Company’s ability to continue as a going concern. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded in these consolidated financial statements. These consolidated financial statements do not include adjustments that would be necessary should the Company be unable to continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

Basis of preparation

These condensed interim statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), applicable to the presentation of interim financial statements, including IAS 34, Interim Financial Reporting.

The condensed interim consolidated financial statements for the six months ended October 31, 2022 were authorized for issue by the Board of Directors on December 15, 2022.

IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended October 31, 2022

Expressed in Canadian Dollars

(Unaudited – prepared by management)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Basic of measurement

These financial statements are prepared on a historical cost basis except for financial instruments classified as fair value through profit or loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its controlled entities, Izotropic Imaging Corp., a wholly owned subsidiary based in Nevada, and Izotropic Development Corp., a wholly owned subsidiary based in California. The controlled entities are fully consolidated from the date of acquisition, being the date on which the Company obtains control and continues to be consolidated until the date such control ceases. Inter-company balances and transactions have been eliminated upon consolidation.

Significant estimates and assumptions

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

- the determination whether material uncertainties exist that the Company will continue as a going concern for the next year.

Key sources of estimation uncertainty include the following:

- the recoverability and measurement of deferred tax assets; and
- measurement of share-based transactions.

Accounting policies

The policies applied in these condensed interim consolidated financial statements are consistent with policies disclosed in Note 2 of the financial statements for the year ended April 30, 2022 and therefore, should be read in conjunction with the Company's audited financial statements for the year ended April 30, 2022.

IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended October 31, 2022

Expressed in Canadian Dollars

(Unaudited – prepared by management)

3. EQUIPMENT

	Computer Equipment
Cost:	
At April 30, 2021	17,617
Additions for the year	24,228
At April 30, 2022	41,845
Additions for the period	10,538
At October 31, 2022	\$ 52,383
Depreciation:	
At April 30, 2021	15,986
Charge for the year	6,872
At April 30, 2022	22,858
Charge for the period	6,099
At October 31, 2022	\$ 28,957
Net book value:	
At April 30, 2022	\$ 18,987
At October 31, 2022	\$ 23,426

4. PREPAIDS

	October 31, 2022	April 30, 2022
Consulting	\$ 145,833	\$ 195,833
Product development advances	23,171	-
Software	-	1,579
Insurance	11,799	2,682
Filing fees	8,758	7,743
Legal retainers	6,504	15,424
Promotional services	17,252	128,953
Total	\$ 213,317	\$ 352,214

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	October 31, 2022	April 30, 2022
Accounts payable	\$ 623,088	\$ 378,011
Accrued liabilities	-	237,459
Total	\$ 623,088	\$ 615,470

IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended October 31, 2022

Expressed in Canadian Dollars

(Unaudited – prepared by management)

6. SHARE CAPITAL

Authorized - Unlimited number of common shares without par value.

Issued share capital during the six months ended October 31, 2022

On May 24 and 25, 2022 respectively, 1,000,000 and 2,900,000 share purchase warrants priced at \$0.20 were exercised for gross proceeds of \$780,000.

On July 6, 2022, 100,000 stock options priced at \$0.17 were exercised for total gross proceeds of \$17,000.

On July 11, 2022, the fourth and final vesting of the RSU's initially granted January 11, 2021 were vested. A total of 187,500 shares were issued to directors, officers, and consultants of the Company valued at \$230,625, or \$1.23 per share.

On August 2, 2022, 75,000 stock options priced at \$0.10 were exercised for gross proceeds of \$7,500.

On September 13, 2022, 39,772 broker warrants priced at \$0.55 were exercised for gross proceeds of \$21,875

On September 15, 2022, 200,000 options priced at \$0.10 were exercised for gross proceeds of \$20,000.

On October 31, 2022, 11,295 broker warrants priced at \$0.55 were exercised for gross proceeds of \$6,212.

Issued share capital during the year ended April 30, 2022

On May 5, 2021, 48,000 warrants priced at \$0.75 were exercised for gross proceeds of \$36,000.

On May 17, 2021, 80,000 warrants priced at \$0.75 were exercised for gross proceeds of \$60,000.

On July 11, 2021, the second vesting of the RSU's initially granted January 11, 2021 were vested. A total of 262,500 shares were issued to directors, officers, and consultants of the Company valued at \$322,875, or \$1.23 per share.

On July 30, 2021, 150,000 warrants priced at \$0.20 were exercised for gross proceeds of \$30,000.

On October 18, 2021, 500,000 warrants priced at \$0.20 and 31,300 warrants priced at \$0.75 were exercised for gross proceeds of \$123,475.

On October 25, 2021, 10,000 warrants priced at \$0.75 were exercised for gross proceeds of \$7,500.

On November 17, 2021, 10,000 warrants priced at \$0.75 were exercised for gross proceeds of \$7,500.

On November 29, 2021, 30,000 warrants priced at \$0.20 were exercised for gross proceeds of \$6,000.

On November 30, 2021, 49,581 broker warrants priced at \$0.55 were exercised for gross proceeds of \$27,270.

On December 2, 2021, 50,000 stock options priced at \$0.10 were exercised for gross proceeds of \$5,000.

IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

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Expressed in Canadian Dollars

(Unaudited – prepared by management)

6. SHARE CAPITAL (continued)

Issued share capital during the year ended April 30, 2022 (continued)

On January 11, 2022, the third vesting of the RSU's initially granted January 11, 2021 were vested. A total of 187,500 shares were issued to directors, officers, and consultants of the Company valued at \$230,625, or \$1.23 per share.

On February 16, 2022, 1,000,000 warrants priced at \$0.20 were exercised for gross proceeds of \$200,000.

On February 17, 2022, 170,000 warrants priced at \$0.20 were exercised for gross proceeds of \$34,000.

On March 23, 2022, 75,000 stock options priced at \$0.10 were exercised for gross proceeds of \$7,500.

On April 19, 2022, 181,495 shares were issued in connection with a marketing agreement. The fair value of the shares issued is \$119,787.

Stock Options

Stock option transactions during the six months ended October 31, 2022

On July 6, 2022, 100,000 stock options priced at \$0.17 were exercised for total gross proceeds of \$17,000.

On August 2, 2022, 75,000 stock options priced at \$0.10 were exercised for gross proceeds of \$7,500.

On September 15, 2022, 200,000 options priced at \$0.10 were exercised for gross proceeds of \$20,000.

On July 31, 2022, 100,000 stock options priced at \$0.84 were cancelled.

During the six months ended October 31, 2022, 100,000 options priced at \$0.84, 100,000 options priced at \$0.72, 200,000 options priced at \$0.20, and 800,000 options priced at \$0.10 expired unexercised.

Stock option transactions during the year ended April 30, 2022

On June 30, 2021, the Company granted 450,000 stock options to consultants with an exercise price of \$0.74 and expiring on June 30, 2023.

On September 7, 2021, 100,000 stock options priced at \$0.84 and expiring March 7, 2023 and 100,000 stock options priced at \$0.84 and expiring September 7, 2023 were granted to consultants.

On September 7, 2021, the Company cancelled 400,000 stock options previously issued to consultants that are no longer engaged by the Company.

On March 7, 2022, the Company cancelled 100,000 stock options previously issued to an investor relations consultant no longer engaged by the Company.

On March 14, 2022, the Company granted 100,000 stock options at a price of \$0.65 for a term of 5 years.

On April 18, 2022, the Company granted 200,000 stock options at a price of \$0.65 for a term of 1 year.

IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended October 31, 2022

Expressed in Canadian Dollars

(Unaudited – prepared by management)

6. SHARE CAPITAL (continued)

Stock Options (continued)

The weighted average grant date fair value of stock option granted during the period was \$nil (October 31, 2021 - \$0.40) per option, estimated using the Black-Scholes option pricing model with the following weighted average assumptions: expected life of 1.5 - 5 years, volatility of 70-107%, dividend yield of 0% and risk-free interest rate of 0.40 – 2.43%. The Company recognized share-based compensation expense of \$6,174 (October 31, 2021 - \$273,658) in connection with the vesting of stock options.

As at October 31, 2022, the Company had the following options outstanding and exercisable:

Date of Grant	Expiry Date	Exercise Price	Number of Options Outstanding	Number of Options Exercisable
January 22, 2020	January 22, 2025	\$ 0.20	200,000	200,000
February 11, 2020	February 11, 2025	\$ 0.37	150,000	150,000
December 9, 2020	December 8, 2022	\$ 1.17	300,000	300,000
January 7, 2021	January 6, 2023	\$ 1.25	100,000	100,000
February 19, 2021	February 17, 2023	\$ 1.08	400,000	400,000
June 30, 2021	June 30, 2023	\$ 0.74	450,000	450,000
March 14, 2022	March 10, 2027	\$ 0.65	100,000	100,000
April 18, 2022	April 18, 2023	\$ 0.65	200,000	200,000
			1,900,000	1,900,000

A continuity of the Company's options is as follows:

	October 31, 2022		April 30, 2022	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	3,475,000	\$0.52	3,350,000	\$0.55
Granted	-	-	950,000	0.73
Exercised	(375,000)	0.12	(125,000)	0.10
Cancelled/expired	(1,200,000)	0.23	(700,000)	1.22
Outstanding, end of period	1,900,000	\$0.81	3,475,000	\$0.52

IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended October 31, 2022

Expressed in Canadian Dollars

(Unaudited – prepared by management)

6. SHARE CAPITAL (continued)

Share Purchase Warrants

As at October 31, 2022, the Company had the following warrants outstanding:

Date issued	Expiry date	Exercise price	Number of warrants outstanding
December 9, 2020	December 9, 2022	\$ 1.50	1,896,679
December 9, 2020	December 9, 2022*	\$ 1.50	62,947
April 1, 2022	March 31, 2025	\$ 0.62	826,613
			2,786,239

*These are broker warrants

A continuity of the Company's warrants is as follows:

	October 31, 2022		April 30, 2022	
	Number of Warrants	Exercise Price	Number of Warrants	Exercise Price
Outstanding, beginning of period	13,486,753	\$0.68	14,739,021	\$0.62
Issued	-	-	826,613	0.62
Expired	(6,749,447)	0.72	-	-
Exercised	(3,951,067)	0.20	(2,078,881)	0.26
Outstanding, end of period	2,786,239	\$1.24	13,486,753	\$0.68

On May 24 and 25, 2022 respectively, 1,000,000 and 2,900,000 share purchase warrants priced at \$0.20 were exercised for gross proceeds of \$780,000.

On September 13, 2022 and October 31, 2022 respectively, 39,772 and 11,295 broker warrants priced at \$0.55 were exercised for gross proceeds of \$28,087.

During the six months ended October 31, 2022, 300,000 warrants priced at \$0.20, 6,356,100 warrants priced at \$0.75, and 93,347 broker warrants priced at \$0.55 expired unexercised.

During the year ending April 30, 2022, 1,850,000 share purchase warrants priced at \$0.20 were exercised for gross proceeds of \$370,000, 179,300 share purchase warrants priced at \$0.75 were exercised for gross proceeds of \$134,475, and 49,581 broker warrants priced at \$0.55 were exercised for gross proceeds of \$27,270.

See Note 12.

IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended October 31, 2022

Expressed in Canadian Dollars

(Unaudited – prepared by management)

6. SHARE CAPITAL (continued)

Reserves

Reserves include items recognized as share-based payment and other stock compensation payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

Long-term Incentive Plan

On July 10, 2020, the Company announced that its board of directors has adopted a long-term incentive plan (the "LTIP"). A total of 2,996,549 common shares, being 10% of the total number of issued and outstanding common shares on the date of adoption of the LTIP, are issuable under the LTIP.

On January 11, 2021, the Company issued 1,550,000 Restricted Stock Units ("RSU" or "RSU's") to advisors, consultants and a director. The RSU's vest either four tranches over 1.5 years or based on achieving performance milestones. At October 31, 2022, 1,300,000 (April 30, 2022 – 1,112,500) of the RSU's had vested and 150,000 RSU's had been cancelled. The Company recognizes the share-based payment expense over the vesting terms and for the six months ended October 31, 2022 recognized share-based compensation of \$29,991 (October 31, 2021 - \$219,007). For the six months ended October 31, 2022, the Company recognized share-based compensation of \$nil (October 31, 2021 - \$nil) as a result of acceleration of vesting due to the cancellation of 150,000 RSU's. The share-based compensation costs for RSUs granted are based on the share price at the date of grant at a price of \$1.23 per RSU. On January 11, 2021, 500,000 Performance Stock Units ("PSU" or "PSU's") to the Company's Commercial Operations Executive, with a vesting schedule determined by performance (milestone) based incentives. For the six months ended October 31, 2022, the Company recognized share-based payment expense of \$75,815 (October 31, 2021 - \$53,705) relating to the PSU's. As at October 31, 2022, nil of the 500,000 PSU's had vested.

7. RELATED PARTY TRANSACTIONS

Key management includes those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including the Company's executive officers and members of its Board of Directors.

	October 31, 2022	October 31, 2021
Consulting fees, director (former President and CEO)	\$ 100,000	\$ 85,000
Consulting fees, Corporate Secretary	57,500	64,000
Consulting fees, current President and CEO	130,500	71,600
Product development, President and CEO	49,500	107,400
Professional fees, CFO	51,000	61,000
Restricted stock units	79,818	128,899
Total	\$ 468,318	\$ 517,899

As at October 31, 2022, included in accounts payable and accrued liabilities is \$26,250 (April 30, 2022: \$18,430) due to a director (the former President and CEO), \$65,902 (April 30, 2022: \$36,047) due to the President and CEO, and \$8,925 (April 30, 2022: \$nil) due to the CFO. The amounts are non- interest bearing, unsecured and have no set repayment terms.

IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended October 31, 2022

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8. LICENSING AGREEMENT

On April 25, 2017, the Company entered into a licensing agreement with the Regents granting the Company an exclusive worldwide license for the Biopsy Systems for breast computed tomography patent and other related patents.

In consideration for this license, the Company agreed to the following terms:

- cash payment of USD \$10,000 (CDN \$13,971 - paid) due within 30 days;
- cash payment of USD \$200,000 (CAD \$261,668 – paid during the year ended April 30, 2021) due 30 days of the earlier of the following:
 - change of control transaction (“Change of Control”), which means the acquisition, merger, reorganization or other transactions where the Company transfers more than 50% of the voting power of the Company is transferred to a third party; and,
 - licensee financing which means the issuance of debt or equity securities of the Company, in bona fide financing transactions with cumulative proceeds of USD \$3,000,000.
- cash payment of 2% of total consideration received by the Company within 30 days of the completion of a Change of Control;
- 3% of net sales from the first 15 commercial sales of all licensed products, in any country;
- 1% royalty of net sales of all licensed services; and
- Reimbursement of \$79,872 USD in patent costs incurred prior to agreement effective date, as follows per the license agreement and as amended on February 26, 2020:
 - 1/3 on or before the 1st anniversary of agreement effective date, amended to May 12, 2017 (paid).
 - 1/3 on or before the 2nd anniversary of agreement effective date, amended to October 25, 2019 (paid).
 - 1/3 on or before the 3rd anniversary of agreement effective date, amended to October 25, 2020 (paid).

The Company is obligated to further develop, manufacture, and market the licensed products and services to meet market demand (“Milestones”) as follows:

- to submit an application covering a licensed product or licensed services to the U.S. Food and Drug Administration (“FDA”) or equivalent foreign agency by June 30, 2018;
- to obtain FDA or equivalent foreign agency approval by December 31, 2021; and,
- to achieve commercial sale and fill the market demand by June 30, 2022.

The June 30, 2018 milestone has been extended by mutual agreement with licensor to allow for the inclusion of a new patent application, that is in the process of being filed, that will form part of the commercial unit that will be submitted for FDA approval. On February 26, 2020, the Company announced that it had extended the terms of its licensing agreement and now has until January 2027 to execute on the terms agreed to under the commercialization plan.

If the Company is unable to meet the above Milestones, the Company has the right to extend the target date of any Milestones for 1 year for USD \$10,000. The Company has a further right to extend the target date of any Milestone for an additional 1 year upon a payment of USD \$15,000. Furthermore, three additional 1 year extensions may be granted upon written agreement by the parties for USD \$20,000 per extension.

IZOTROPIC CORPORATION

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(Unaudited – prepared by management)

9. PRODUCT DEVELOPMENT

For the six months ended October 31, 2022 and 2021, the Company's product development costs consists of the following:

	October 31, 2022	October 31, 2021
Clinical Study	\$ 45,650	\$ -
Consulting	190,280	118,903
Contractors	737,267	1,716,484
Facilities and furniture	2,292	-
Freight and logistics	8,948	-
Instruments	9,763	-
Materials	224,296	430,911
Software	26,324	-
Total	\$ 1,244,820	\$ 2,266,298

10. CAPITAL MANAGEMENT

The Company manages its capital, consisting of share and working capital, in a manner consistent with the risk characteristic of the assets it holds. All sources of financing are analyzed by management and approved by the board of directors. The Company's objectives when managing capital is to safeguard the Company's ability to continue as a going concern. The Company is meeting its objective of managing capital through preparing short- term and long-term cash flow analysis to ensure an adequate amount of liquidity. The Company is not subject to any externally imposed capital restrictions. There were no changes in the Company's approach to capital management during the period. The Company is not subject to any external restrictions on its capital.

11. FINANCIAL RISK MANAGEMENT

The Company is exposed in varying degrees to a variety of financial instrument related risks.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash. Cash is held with the same financial institution giving rise to a concentration of credit risk. This risk is managed by using a major Canadian bank that is a high credit quality financial institution.

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements. The Company's sole source of funding will be the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. During the year ended April 30, 2017, the Company entered into a licensing agreement denominated in US dollars. The Company does not hedge its exposure to fluctuations in foreign exchange rates.

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Expressed in Canadian Dollars

(Unaudited – prepared by management)

11. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk

Interest rate risk refers to the risk that fair values of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk as cash earn interest income at variable rates. The fair value of cash is minimally affected by changes in short term interest rates.

Classification of financial instruments

The Company uses the following hierarchy for determining and disclosing fair value of financial instruments:

Level 1 — quoted prices in active markets for identical assets and liabilities.

Level 2 — observable inputs other than quoted prices in active markets for identical assets and liabilities.

Level 3 — unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions.

The Company has classified its cash as measured at fair value in the statement of financial position using level 1 inputs. Accounts payable is carried at amortized cost.

12. PROMISSORY NOTES

On April 1, 2022, the Company completed an offering (the “Offering”) of unsecured promissory notes (each, a “Note”) pursuant to which the Company will issue: (i) Notes purchased for an aggregate price of \$2,050,000 with the option for the Company to acquire an additional \$2,000,000 subject to terms that will be determined at a later date, and (ii) 826,613 warrants (each, a “Warrant”), 403 for every \$1,000 of principal of the Notes. Each Warrant is exercisable into one common share at an exercise price of \$0.62 for two (2) years from the date of closing, being March 31, 2023. The Notes will mature on the date that is one year from the date of issuance. The Notes will either: (i) bear simple interest at 1% per month, from the date of issuance (the “Closing”), payable every three months. It is the intention of the Company that the proceeds from the Offering will be used for completing the initial IzoView device build, engaging a clinical research organization to undertake the clinical study for FDA market authorization, and working capital. All securities issued in connection with the Offering will be subject to a statutory hold period of four months and one day from the date of issuance in accordance with applicable securities legislation. The Company did not pay any finder’s fees in connection with the Offering.

During the year ended April 30, 2022, the Company calculated a present value of the note to be \$2,008,609 by discounting it using an effective rate of 15%. The residual of \$41,391 was allocated to the warrants. During the six months ended October 31, 2022, the Company recognized interest expense of \$144,544 (October 31, 2021 - \$nil) in connection with the interest payable on the promissory notes and paid \$123,000 (October 31, 2021 - \$nil) in interest payments.

Balance, April 30, 2021	-
Issued during the year	\$ 2,050,000
Allocated to warrants	(41,391)
Interest accretion	19,545
Balance, April 30, 2022	\$2,028,154
Interest accretion	144,544
Interest payments made	(123,000)
Balance, October 31, 2022	\$2,049,698

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13. SUBSEQUENT EVENTS

On November 1, 2022, the Company granted 2,160,000 options to engineering personnel, a technical advisor, and a director, at a price of \$0.61 for five years. The options vest immediately.

The Company completed a non-brokered private placement financing (the "Offering") of 2,500,000 units (each, a "Unit") at a price of \$0.40 per Unit for gross proceeds of \$1,000,000. Each Unit consists of one common share (each, a "Share") and one-half of one transferable common share purchase "A" warrant (each whole "A" warrant, an "A Warrant") and one-half of one transferable common share purchase "B" warrant (each whole "B" warrant, a "B Warrant", and together with the A Warrants, the "Warrants"). Each A Warrant will entitle the holder thereof to acquire one Share (each, an "A Warrant Share") at a price of \$0.70 per A Warrant Share for a period of two years following the closing of the Offering and each B Warrant will entitle the holder thereof to acquire one Share (each, a "B Warrant Share", and together with the A Warrant Shares, the "Warrant Shares") at a price of \$0.80 per B Warrant Share for a period of two years following the closing of the Offering, subject to the terms and conditions contained in the applicable warrant certificate. The use of proceeds from the Offering will be used for final product developments, capital components, product testing and general working capital. The Company paid an aggregate of \$25,942 and issued an aggregate of 64,855 broker warrants in connection with the closing of the Offering. Each broker warrant will entitle the holder to purchase one additional share at a price of \$0.40 per share for a period of two years from closing of the Offering. All securities issued in connection with the Offering will be subject to a statutory hold period of four months and one day from the date of issuance in accordance with applicable securities legislation