

IMAGIN MEDICAL INC.

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018

and

September 30, 2017

(Expressed in Canadian Dollars)

Corporate Head Office
Suite 600, 890 West Pender St.
Vancouver, BC V6C 1L9

See notes to consolidated financial statements

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Imagin Medical Inc.,

We have audited the accompanying consolidated financial statements of Imagin Medical Inc. which comprise the consolidated statements of financial position as at September 30, 2018 and 2017 and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Imagin Medical Inc. as at September 30, 2018 and 2017 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.



CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC
December 11, 2018

**IMAGIN MEDICAL INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	September 30, 2018	September 30, 2017
	\$	\$
A S S E T S		
Current assets		
Cash (Note 3)	5,818,840	245,921
Amounts receivable and prepaids (Note 4)	211,141	776
Security deposit	5,750	5,750
	<u>6,035,731</u>	<u>252,447</u>
Equipment	1,403	2,005
Intangible asset (Note 5)	134,568	135,192
	<u>6,171,702</u>	<u>389,644</u>
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Notes 6 & 7)	179,529	795,423
Convertible debentures (Note 8)	-	100,000
Interest payable (Note 8)	-	5,375
	<u>179,529</u>	<u>900,798</u>
Shareholders' equity		
Share capital (Notes 9 & 13)	14,962,227	2,423,758
Obligation to issue shares	-	223,000
Share-based payment reserve	2,847,939	701,995
Deficit	(11,817,993)	(3,859,907)
	<u>5,992,173</u>	<u>(511,154)</u>
	<u>6,171,702</u>	<u>389,644</u>
Nature and continuance operations (Note 1)		
Basis of presentation (Note 2)		
Subsequent events (Note 13)		

Approved on behalf of the Board of Directors:

"John Vacha", Director

"Robin Atlas", Director

See notes to consolidated financial statements

IMAGIN MEDICAL INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
For the Years Ended September 30

	2018	2017
	\$	\$
General and administrative expenses:		
Amortization of intangible asset	13,381	13,381
Amortization of equipment	602	859
Bank charges and interest	9,216	7,429
Business development (Note 7)	35,012	-
Consulting fees	1,786,998	348,512
Corporate and administration fees	90,125	58,462
Directors' fees (Note 7)	28,145	18,000
Filing and transfer agent fees	44,656	26,114
Legal & accounting fees (Note 7)	358,619	126,479
Management fees (Note 7)	1,642,857	342,283
Office, rent and insurance	89,954	59,612
Product development	806,849	327,357
Shareholders' communication, & promotion	59,569	29,297
Travel, meals & entertainment	32,356	19,752
	(4,998,339)	(1,377,537)
Other items:		
Interest income	19,276	26
Foreign exchange	36,331	(4,570)
Stock-based compensation (Note 9 c)	(2,963,098)	(160,021)
Other expenses	(52,256)	-
Net loss and comprehensive loss	(7,958,086)	(1,542,102)
Basic and diluted loss per share	(0.07)	(0.03)
Weighted average – number of shares outstanding	107,379,394	49,089,195

See notes to consolidated financial statements

IMAGIN MEDICAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended September 30

	2018	2017
	\$	\$
Cash provided by (used for):		
Operating activities		
Net loss for the year	(7,958,086)	(1,542,102)
Adjustments which do not affect cash:		
Amortization of intangible asset	13,381	13,381
Amortization of equipment	602	859
Interest expense	9,216	7,429
Interest paid	(6,544)	(2,054)
Stock-based compensation	2,963,098	160,021
Management bonus, paid by share issuance (Note 9 b)	1,175,000	-
	<u>(3,803,333)</u>	<u>(1,362,466)</u>
Net changes in non-cash working capital items:		
Amounts receivable and prepaids	(210,365)	127,107
Accounts payable and accrued liabilities	(615,894)	569,970
Interest payable	-	1,070
	<u>(4,629,592)</u>	<u>(664,319)</u>
Investing activities		
Purchase of intangible asset	(12,757)	(6,713)
	<u>(12,757)</u>	<u>(6,713)</u>
Financing activities		
Issue of share capital	10,458,775	536,089
Convertible debenture	-	118,000
Obligation to issue shares	-	223,000
Share issue costs	(243,507)	(32,940)
	<u>10,215,268</u>	<u>844,149</u>
Increase in cash	5,572,919	173,117
Cash - beginning of year	245,921	72,804
Cash - end of year	<u>5,818,840</u>	<u>245,921</u>

Supplementary disclosures:

Note 10 – Non-cash transactions

See notes to consolidated financial statements

IMAGIN MEDICAL INC.
For the Years Ended September 30, 2018 and 2017
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Issued Share Capital		Share-Based Payment Reserve	Obligation to Issue Shares	Deficit	Total
	#	\$	\$	\$	\$	\$
Balance, September 30, 2016	41,372,634	1,770,961	512,952	159,600	(2,317,805)	125,708
Private Placement, net						
- Tranche 1	4,822,500	361,416	-	(159,600)	-	201,816
- Tranche 2	3,873,605	301,333	-	-	-	301,333
Convertible debt conversion	211,890	19,070	-	-	-	19,070
Fair value of options granted	-	-	160,021	-	-	160,021
Fair value of brokers' warrants	-	(29,022)	29,022	-	-	-
Obligation to issue shares	-	-	-	223,000	-	223,000
Loss for the year	-	-	-	-	(1,542,102)	(1,542,102)
Balance, September 30, 2017	50,280,629	2,423,758	701,995	223,000	(3,859,907)	(511,154)
Private placement, net	40,233,709	5,258,854	-	(223,000)	-	5,035,854
Debt conversion	1,200,520	108,047	-	-	-	108,047
Exercise of options	5,600,000	952,000	-	-	-	952,000
Exercise of warrants	31,539,580	4,227,414	-	-	-	4,227,414
Management bonus	5,000,000	1,175,000	-	-	-	1,175,000
Fair value of options granted	-	-	2,963,098	-	-	2,963,098
Fair value of options exercised	-	975,691	(975,691)	-	-	-
Fair value of brokers' warrants	-	(232,156)	232,156	-	-	-
Fair value of warrants exercised	-	73,619	(73,619)	-	-	-
Loss for the year	-	-	-	-	(7,958,086)	(7,958,086)
Balance, September 30, 2018	133,854,438	14,962,227	2,847,939	-	(11,817,993)	5,992,173

See notes to consolidated financial statements

1. NATURE AND CONTINUANCE OF OPERATIONS

Imagin Medical Inc. (formerly Expedition Mining Inc.) is incorporated in the Province of British Columbia and its previous principal business activity was the acquisition and exploration of resource properties. On February 9, 2016, the Company completed the acquisition of BSS Life Sciences Inc. (“BSS”). BSS holds the intellectual property rights to a proprietary imaging technology developed for extremely accurate visualization of cancers. In connection with the acquisition, the Company changed its name to Imagin Medical Inc. and now focuses on the research, development and commercialization of medical devices in the bio-chemistry industry. For accounting purposes, the acquisition of BSS was treated as a reverse asset acquisition as the shareholders of BSS acquired control of the consolidated entity. BSS is considered the acquiring and continuing entity, and Imagin Medical Inc. was the acquired entity.

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The ability of the Company to continue as a going-concern depends upon its capacity in the near-term to raise additional equity financing and ultimately to develop profitable commercial operations.

There can be no assurance that the Company will be able to continue to raise funds in the future in which case the Company may be unable to meet its obligations. Should the Company be unable to realize on 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 on the statement of financial position.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Company’s consolidated financial statements, including comparatives, have been prepared in accordance with and using accounting policies in full compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of **December 11, 2018**, the date the Board of Directors approved the consolidated financial statements.

These consolidated financial statements are presented in the Company’s functional currency (which is the Canadian dollar) on a historical cost basis.

Financial instruments

(i) Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company’s accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized through profit or loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of loss and comprehensive loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized through profit or loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

The Company has classified its cash and security deposits at fair value through profit and loss. The Company's accounts receivable are classified as loans and receivables.

(ii) Financial liabilities

The Company classifies its financial liabilities in the following categories:

Other financial liabilities - Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method.

Other financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include accounts payable, accrued liabilities, interest payable and convertible debentures.

Derivative financial liabilities - Derivative financial liabilities are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting period with changes in the fair value recognized in profit or loss. Derivative financial liabilities include warrants issued by the Company denominated in a currency other than the Company's functional currency.

Research and development costs

Research costs, including costs for new patents and patent applications, are expensed in the period in which they are incurred. Development costs are expensed in the period in which they are incurred unless certain criteria, including technical feasibility, commercial feasibility, and intent and ability to develop and use the technology, are met for deferral and amortization.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

Intangible assets of the Company include technology rights and patents acquired from third parties, and are recorded at cost less accumulated amortization and accumulated impairment losses. Initial acquisition cost is based on the fair value of the consideration paid or payable, and will be amortized on a straight-line basis over the estimated useful life of the underlying technologies with finite lives. Once the Company commences research and development activities, the intangible assets will be amortized on a straight-line basis over the remaining life of the rights and patents. The Company reviews the estimated useful lives and carrying values of its technology rights and patents as part of its periodic assessment for impairment of non-financial assets.

The carrying amounts for technology rights and patents do not necessarily reflect present or future value and the ultimate amounts recoverable will be dependent upon the successful development and commercialization of products based on these underlying technologies.

Principles of consolidation

These consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiaries, BSS and Expedition Mining USA Inc. (inactive). All significant inter-company transactions and balances have been eliminated.

Equipment

Equipment is carried at cost, less accumulated amortization and accumulated impairment losses.

Cost comprises the fair value of consideration given to acquire or construct an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for putting it into use, along with the future cost of dismantling and removing the asset.

When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

The cost of major overhauls of parts of equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of equipment are recognized in profit or loss as incurred.

Equipment is amortized using the declining-balance method at a rate of 20% per annum for office equipment and 30% per annum for computer equipment.

Foreign currency translation

The reporting currency of the Company is the Canadian dollar.

The functional currency of each of the parent Company and its subsidiaries is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Canadian dollars which is the parent company's functional and presentation currency. The functional currency of the subsidiaries is the Canadian dollar.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currency translation *(continued)*

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of loss and comprehensive loss in the period in which they arise.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of loss and comprehensive loss to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

Loss per share

The Company uses the treasury stock method of calculating diluted per share amounts whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. The assumed conversion of outstanding common share options and warrants has an anti-dilutive impact in 2018 and 2017. Basic loss per share is calculated using the weighted-average number of shares outstanding during the period.

Share capital

The proceeds from the exercise of stock options, warrants and escrow shares are recorded as share capital in the amount for which the option, warrant or escrow share enabled the holder to purchase a share in the Company.

Commissions paid to underwriters, and other related share issue costs, such as legal, auditing, and printing, on the issue of the Company's shares are charged directly to share capital.

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 the private placements is considered to be the more easily measurable component and the common share are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as reserves.

Income taxes

The Company uses the balance sheet method of accounting for income taxes. Under the balance sheet method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets also result from unused loss carry forwards, resource related pools and other deductions. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments

The Company accounts for stock options granted to directors, officers, employees and non-employees at fair value. Accordingly, the fair value of the options at the date of the grant is determined using the Black-Scholes option pricing model and stock-based compensation is recorded and charged to operations, with an offsetting credit to the share-based payment reserve, over the vesting periods. The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon re-measurement. 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 expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

Critical accounting estimates and judgments

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the determination that the Company will continue as a going concern for the next year, the estimated useful lives of the intangible assets and the determination that there are no indicators of impairment indicating that the carrying amount exceeds the recoverable amount.

Impairment of long-lived assets

Management evaluates non-current assets at least annually for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present the recoverable amount of an asset is evaluated at the level of a cash generating unit (CGU), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, where the recoverable amount of a CGU is the greater of the CGU's fair value less costs to sell and its value in use. An impairment loss is recognized in income to the extent that the carrying amount exceeds the recoverable amount.

New standards amendments and interpretations to existing standards not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the September 30, 2018 reporting period. The Company has not early adopted the following new and revised standards, amendments and interpretations that have been issued but are not yet effective:

- IFRS 9 (Amended 2010) Financial Instruments (effective January 1, 2018)
- IFRS 16 Leases (effective January 1, 2019)

The Company anticipates that the application of the above new and revised standards, amendments and interpretations will have no material impact on its results and financial position.

IMAGIN MEDICAL INC.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2018 and 2017

3. CASH AND CASH EQUIVALENTS

	September 30, 2018 \$	September 30, 2017 \$
Canadian chartered bank		
- Deposits in Canadian banks	2,318,840	245,921
- Guaranteed Investment Certificate	3,500,000	-
	5,818,840	245,921

4. AMOUNTS RECEIVABLE AND PREPAIDS

	September 30, 2018 \$	September 30, 2017 \$
GST receivable	7,398	492
Interest receivable	19,560	284
Prepaid expenses	174,183	-
Trust account	10,000	-
	211,141	776

5. INTANGIBLE ASSET

On June 22, 2015, BSS and Lawrence Livermore National Security (“LLNS”) entered into a license agreement, whereby the Company has exclusive right to develop, manufacture and sell a medical imaging device designed to complement white light endoscopy by adding fluorescent imaging for more accurate detection and treatment of various conditions, including the detection and treatment of cancer.

As consideration for the license agreement, BSS is required to pay a non-refundable license issue fee of US\$100,000 due on the effective date and payable as follows:

- US\$10,000 (paid) due on execution of the agreement;
- US\$30,000 (paid) due within five months after the effective date;
- US\$30,000 (paid) due within seven months after the effective date; and
- US\$30,000 (paid) due within nine months after the effective date.

In addition, BSS is required to pay to LLNS a non-refundable US Maintenance Patent Fee of US\$45,000 as follows:

- US\$15,000 (paid) to be paid on or before February 28, 2016;
- US\$15,000 to be paid on or before February 28, 2019; and
- US\$15,000 to be paid on or before February 28, 2023.

In addition, BSS is required to pay to LLNS minimum annual royalty payments as follows:

- US\$5,000 (paid) to be paid on or before February 28, 2017;
- US\$10,000 (paid) to be paid on or before February 28, 2018;
- US\$10,000 to be paid on or before February 28, 2019; and
- US\$25,000 to be paid on or before February 28, 2019, and every February 28th thereafter.

In the event that the Company grants a sublicense to a third party, the Company will pay to LLNS 50% of any issue fee from this sublicensing. The sublicensing fee charged by the Company to the third party must be equal to or greater than the license issue fee disclosed above (US\$100,000).

IMAGIN MEDICAL INC.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2018 and 2017

5. INTANGIBLE ASSET *(continued)*

In addition, the Company will pay LLNS an earned royalty of 3% on net sales.

The license agreement will remain in effect until the expiration or abandonment of the last of the patent rights and are being depreciated on a straight line basis over the remaining life of the patent rights.

Continuity of the intangible asset is as follows:

	Patent License
Cost	
Balance, September 30, 2016	155,241
Additions for the year	6,713
Balance, September 30, 2017	161,954
Additions for the year	12,757
Balance, September 30, 2018	174,711
Accumulated depreciation	
Balance, September 30, 2016	13,381
Depreciation for the year	13,381
Balance, September 30, 2017	26,762
Depreciation for the year	13,381
Balance, September 30, 2018	40,143
Carrying amounts	
Balance, September 30, 2016	141,860
Balance, September 30, 2017	135,192
Balance, September 30, 2018	\$ 134,568

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2018 \$	September 30, 2017 \$
Trade accounts payable	64,821	134,978
Accrued liabilities	99,932	46,285
Due to related parties	14,776	614,160
	179,529	795,423

7. RELATED PARTY TRANSACTIONS

During the year ended September 30, 2018, the Company paid or accrued \$1,918,415 (2017 - \$432,283) to directors and officers or companies controlled by directors and officers of the Company, for management, accounting, directors and consulting fees incurred by the Company.

During the year, the Company granted a total of 4,200,000 stock options to key management. The stock options expire after 5 years. The fair value of the options granted ranged from \$0.1743 to \$0.3954 for total stock-based compensation of \$1,191,910.

Included in accounts payable are fees and expenses due to directors and officers in the amount of \$14,776 (2017 - \$614,160), which are non-interest bearing, unsecured, and payable on demand. Fair value cannot be reliably determined.

Related party transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

8. CONVERTIBLE DEBENTURE

During the previous fiscal year, the Company raised \$118,000 through the issuance of unsecured convertible notes (the "Notes"). Each Note had a principal balance of \$1,000.

The Notes provide the following terms:

- (i) Each Note shall be for a term of 12 months from the date of Closing (subject to the prepayment and conversion terms hereinafter set forth);
- (ii) The Notes will bear interest from the date of Closing at the rate of 10% per annum calculated annually and payable on maturity;
- (iii) The subscribers may at any time following the date of Closing elect to convert any portion of the Note, plus accrued interest to the date of conversion, into Units of the Issuer at the conversion price of \$0.09 per Unit; each Unit consisting of one share and one warrant exercisable for 12 months at \$0.12 per share; and
- (iv) At maturity (March 3, 2018), all unpaid principal and interest under the Notes shall be repaid in full, at the election of the Issuer, either:
 - (a) in cash;
 - (b) in Units priced at \$0.09 per Unit; or
 - (c) any combination thereof.

The Company's president and two directors invested a total of \$61,000 in this financing.

No Finder's fees were paid in this financing.

The Company used the residual method to estimate the equity component of these debentures. The liability portion represents an estimate of the present value of term debt discounted using an estimated interest rate applicable to equivalent non-convertible debt. The equity component was determined as the residual of the face value of the instrument less its liability component. The Company concluded that the fair value of the equity portion was immaterial to record.

8. CONVERTIBLE DEBENTURE *(continued)*

On September 28, 2017, one of the subscribers converted the debt into units (\$18,000 plus accrued interest of \$1,070) for a total of 211,890 common shares and 211,890 warrants at an exercise price of \$0.12, expiring on September 28, 2018. See Note 9(d).

During the current year, the balance of the convertible debt (\$100,000) was converted to units. Three directors converted a total debt of \$61,000 plus interest of \$4,938. Two other subscribers converted a total of \$39,000 plus interest of \$3,108. The Company issued a total of 1,200,520 shares at the contract price of \$0.09 per share and a total of 1,200,520 warrants with an exercise price of \$0.12, expiring one year from the date of conversion.

9. SHARE CAPITAL

a) Authorized: Unlimited number of common shares

b) Issued:

As at year end September 30, 2018, the Company reported issued and outstanding shares of 133,854,438 (2017 - 50,280,629).

During the year ended September 30, 2018, the Company:

- closed Tranche one and two of a non-brokered private placement through the issuance of 20,000,000 units (the "Units") at a price of \$0.05 per unit for gross proceeds of \$1,000,000. Each Unit consists of one common share of the Company and one warrant ("Warrant"), each Warrant entitling the holder thereof to acquire one additional common share of the Company at a price of \$0.10 within 12 months. Finders' fees in the form of 404,800 warrants and cash payments of \$20,240 were paid for a portion of the financing attributable to certain finder's efforts;
- closed Tranche one and two of a non-brokered private placement through the issuance of 17,919,820 units (the "Units") at a price of \$0.22 per unit for gross proceeds of \$3,942,360. Each Unit consists of one common share of the Company and one warrant ("Warrant"), each Warrant entitling the holder thereof to acquire one additional common share of the Company at a price of \$0.38 within 24 months. Finders' fees in the form of 1,117,110 warrants and cash payments of \$223,267 were paid for a portion of the financing attributable to certain finder's efforts;
- closed a \$120,000 financing by issuing 800,000 units (the "Units") at a price of \$0.15 per Unit, each Unit to be comprised of one common share and one half of one common share purchase warrant (the "Warrants"). Each whole Warrant will be exercisable into one common share of the Company at an exercise price of \$0.25 within 12 months;
- closed a \$200,000 financing by issuing 625,000 shares at a price of \$0.32 per share;
- closed a \$240,000 financing by issuing 625,000 shares at a price of \$0.27 per share;
- issued 1,200,520 common shares at a price of \$0.09 and 1,200,520 warrants with an exercise price of \$0.12 related to the convertible debt and interest of \$108,047;
- issued 31,539,580 common shares from the exercise of acquisition warrants, finance warrants and finders' warrants, with prices ranging from \$0.10 to \$0.35;
- issued 5,600,000 common shares from the exercise of stock options, with prices ranging from \$0.06 to \$0.26;
- issued 5,000,000 common shares per corporate resolution dated August 15, 2017 with a deemed price of \$0.05 as a management bonus to the President. The Company recorded the transaction at a price of \$0.235 per share, which was the closing price of the stock at the date of issuance.

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9. **SHARE CAPITAL** *(continued)*

b) Issued *(continued)*:

During the year ended September 30, 2017, the Company:

- closed Tranche 1 of a non-brokered financing of 4,822,500 units (the “Units”) at a price of \$0.08 per unit for gross proceeds of \$385,800. Each Unit consists of one common share of the Company and one warrant (“Warrant”), with each Warrant entitling the holder thereof to acquire one additional common share of the Company at a price of \$0.12 in the first 12 months and \$0.16 in the 12 months thereafter. Finders’ fees in the form of 304,800 warrants and cash payments of \$24,384 were paid for a portion of the financing attributable to certain finders’ efforts;
- closed Tranche 2 of a non-brokered financing 3,873,605 units (the “Units”) at a price of \$0.08 per unit for gross proceeds of \$309,888. Each Unit consists of one common share of the Company and one warrant (“Warrant”), with each Warrant entitling the holder thereof to acquire one additional common share of the Company at a price of \$0.12 in the first 12 months and \$0.16 in the 12 months thereafter. Finders’ fees in the form of 106,960 warrants and cash payments of \$8,557 were paid for a portion of the financing attributable to certain finders’ efforts;
- issued 211,890 common shares at a price of \$0.09 and 211,890 warrants with an exercise price of \$0.12 related to the convertible debt and interest of \$19,070.

c) Stock options:

A summary of the Company’s stock options activity is presented below:

	Number of options	Weighted average exercise price
Outstanding at September 30, 2016	3,250,000	\$ 0.15
Options granted	2,650,000	0.09
Options expired or cancelled	(950,000)	0.13
Outstanding at September 30, 2017	4,950,000	\$ 0.12
Options granted	11,300,000	0.27
Options exercised	(5,600,000)	0.17
Options expired or cancelled	(550,000)	0.24
Outstanding at September 30, 2018	10,100,000	\$ 0.26

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9. **SHARE CAPITAL** *(continued)*

c) Stock options *(continued)*:

The continuity of share purchase options is as follows:

Expiry Date	Exercise Price	30-Sep-17	Granted	Exercised	Expired/ Cancelled	30-Sep-18
09-Feb-21	0.15	1,850,000	-	(650,000)	-	1,200,000
30-Jun-21	0.15	1,200,000	-	(50,000)	-	1,150,000
14-Dec-21	0.15	300,000	-	-	-	300,000
25-Sep-22	0.06	1,600,000	-	(1,600,000)	-	-
26-Oct-22	0.18	-	2,250,000	(900,000)	-	1,350,000
30-Oct-22	0.19	-	400,000	(300,000)	-	100,000
28-Nov-22	0.25	-	2,000,000	(800,000)	(500,000)	700,000
14-Jun-18	0.24	-	300,000	(300,000)	-	-
09-Jan-23	0.26	-	1,000,000	(1,000,000)	-	-
17-Jan-23	0.40	-	2,100,000	-	-	2,100,000
18-Apr-23	0.31	-	2,750,000	-	-	2,750,000
25-Jul-23	0.16	-	500,000	-	(50,000)	450,000
		4,950,000	11,300,000	(5,600,000)	(550,000)	10,100,000
Weighted average exercise price		\$ 0.12	\$ 0.27	\$ 0.17	\$ 0.24	\$ 0.26

Expiry Date	Exercise Price	30-Sep-16	Granted	Exercised	Expired/ Cancelled	30-Sep-17
09-Feb-21	0.15	1,850,000	-	-	-	1,850,000
30-Jun-21	0.15	1,400,000	-	-	(200,000)	1,200,000
14-Dec-21	0.08	-	200,000	-	(200,000)	-
14-Dec-21	0.15	-	550,000	-	(250,000)	300,000
10-Apr-22	0.12	-	300,000	-	(300,000)	-
25-Sep-22	0.06	-	1,600,000	-	-	1,600,000
		3,250,000	2,650,000	-	(950,000)	4,950,000
Weighted average exercise price		\$ 0.15	\$ 0.09	\$ -	\$ 0.13	\$ 0.12

IMAGIN MEDICAL INC.
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9. **SHARE CAPITAL** *(continued)*

c) Stock options *(continued)*:

During the year ended September 30, 2018, the Company granted a total of 11,300,000 incentive stock options (September 30, 2017 – 2,650,000) to directors, officers, and certain service providers. The incentive stock options have an exercise price ranging from \$0.16 to \$0.40 for a period ranging from six months to five years. The options are subject to a four month hold period from the date of issuance. The Company subsequently cancelled 550,000 incentive stock options to certain service providers. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions and resulting values:

	2018	2017
Number of options granted	11,300,000	2,650,000
Average Risk-free interest rate	1.846%	1.096%
Average Estimated life	5 years	5 years
Average Share price on grant date	\$0.256	\$0.073
Average Exercise price	\$0.249	\$0.098
Average Estimated annual volatility	163.208%	164.357%
Average Option fair value	\$0.2244	\$0.06506
Total Compensation cost	\$2,963,098	\$160,021

The weighted-average remaining life of the outstanding options was 3.91 years (2017 – 4.03 years).

d) Share purchase warrants

A summary of the Company's share purchase warrants activity is presented below:

	Number of warrants	Weighted average exercise price
Outstanding at September 30, 2016	15,913,199	\$ 0.19
Finance warrants issued	8,696,105	0.12
Finders' warrants issued	411,760	0.12
Debt conversion warrants issued	211,890	0.12
Outstanding at September 30, 2017	25,232,954	\$ 0.17
Finance warrants issued	38,164,157	0.23
Finders' warrants issued	1,521,910	0.31
Debt conversion warrants issued	1,356,183	0.12
Finance warrants exercised	(22,258,987)	0.12
Finders' warrants exercised	(872,886)	0.13
Acquisition warrants exercised	(7,560,000)	0.15
Debt conversion warrants exercised	(847,707)	0.12
Finance warrants expired	(5,454,747)	0.35
Outstanding at September 30, 2018	29,280,877	\$ 0.29

IMAGIN MEDICAL INC.
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9. **SHARE CAPITAL** *(continued)*

d) Share purchase warrants *(continued)*

The continuity of share purchase warrants is as follows:

Expiry Date	Exercise Price	30-Sep-17	Granted	Exercised	Expired/ Cancelled	30-Sep-18	
9-Feb-18	0.35	6,677,413	-	(1,552,666)	(5,124,747)	-	
9-Feb-19	0.15	8,660,000	-	(7,560,000)	-	1,100,000	
9-Feb-18	0.15	220,186	-	(220,186)	-	-	
23-Feb-18	0.35	330,000	-	-	(330,000)	-	
23-Feb-18	0.15	25,600	-	(25,600)	-	-	
18-Oct-18	0.12*	5,127,300	-	(4,544,800)	-	582,500	
9-Dec-18	0.12*	3,980,565	-	(1,964,250)	-	2,016,315	
28-Sep-18	0.12	211,890	-	(211,890)	-	-	
05-Oct-18	0.10	-	13,255,600	(10,086,300)	-	3,169,300	
16-Oct-18	0.10	-	7,149,200	(4,560,400)	-	2,588,800	
23-Oct-18	0.12	-	177,671	(177,671)	-	-	
01-Nov-18	0.25	-	400,000	-	-	400,000	
08-Nov-18	0.12	-	321,205	(321,205)	-	-	
19-Dec-18	0.12	-	240,365	-	-	240,365	
18-Jan-19	0.12	-	314,612	(314,612)	-	-	
23-Feb-19	0.12	-	146,667	-	-	146,667	
12-Apr-20	0.38	-	12,468,329	-	-	12,468,329	
19-Apr-20	0.38	-	6,568,601	-	-	6,568,601	
		25,232,954	41,042,250	(31,539,580)	(5,454,747)	29,280,877	
Weighted average exercise price	\$	0.20	\$	0.23	\$	0.13	
					\$	0.35	
						\$	0.29

Expiry Date	Exercise Price	30-Sep-16	Granted	Exercised	Expired/ Cancelled	30-Sep-17				
9-Feb-18	0.35	6,677,413	-	-	-	6,677,413				
9-Feb-19	0.15	8,660,000	-	-	-	8,660,000				
9-Feb-18	0.15	220,186	-	-	-	220,186				
23-Feb-18	0.35	330,000	-	-	-	330,000				
23-Feb-18	0.15	25,600	-	-	-	25,600				
18-Oct-18	0.12*	-	5,127,300	-	-	5,127,300				
9-Dec-18	0.12*	-	3,980,565	-	-	3,980,565				
28-Sep-18	0.12	-	211,890	-	-	211,890				
		15,913,199	9,319,755	-	-	25,232,954				
Weighted average exercise price	\$	0.19	\$	0.12	\$	-	\$	-	\$	0.17

*These warrants are exercisable at a price of \$0.12 in the first 12 months and \$0.16 in the 12 months thereafter.

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9. SHARE CAPITAL *(continued)*

d) Share purchase warrants *(continued)*

Included in the warrants granted in fiscal 2018 are 1,521,910 broker and finder warrants. The fair value for the warrants was determined using the Black-Scholes option-pricing model with the following assumptions:

	2018	2017
Number of warrants granted	1,521,910	411,760
Average Risk-free interest rate	1.70%	0.90%
Average Estimated life	\$0.229	\$0.093
Average Share price on grant date	\$0.24	\$0.12
Average Exercise price	1.5 years	2 years
Average Estimated annual volatility	137.95%	165.60%
Average Warrant fair value	\$0.2823	\$0.0674
Total Compensation cost	1,521,910	411,760

The weighted-average remaining life of the outstanding warrants was 1.04 years (2017 – 0.98 years).

c) Escrow shares

During the previous fiscal year, as part of the acquisition of BSS Life Sciences Inc, the Company issued 11,500,000 shares, which are subject to escrow and to be released over three years (10% on the closing date and an additional 15% every six months thereafter). As at year ended September 30, 2018, 9,775,000 shares were released from escrow and the remaining 1,725,000 are to be released on February 9, 2019.

10. NON CASH TRANSACATIONS

The following non-cash transactions were recorded:

	September 30, 2018	September 30, 2017
Financing activities:		
Management bonus	\$ 1,175,000	\$ -
Brokers warrants issued in connection with the private placements	\$ 232,156	\$ 29,022

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11. INCOME TAXES

A reconciliation of Canadian income taxes at statutory rates is as follows:

	September 30, 2018	September 30, 2017
Net loss for the year	\$ (7,958,086)	\$ (1,542,102)
Statutory rate	26.75%	26%
Income tax recovery computed at statutory rate	(2,128,788)	(400,946)
Adjustment for deductible and non-deductible items	726,427	43,092
Unused tax losses and tax offsets not recognized in tax asset	1,402,361	357,854
Total income taxes	\$ -	\$ -

Significant unrecognized tax benefits/(liabilities) and unused tax losses for which no deferred tax asset is recognized as of September 30, 2018 and September 30, 2017 were as follows:

	September 30, 2018	September 30, 2017
Deferred income tax assets/(liabilities):		
Mineral properties	\$ 12,794,000	\$ 12,794,000
Equipment	8,000	8,000
Intangible asset	(8,000)	(14,000)
Non-capital loss carry-forward	12,198,000	7,065,000
Capital loss carry-forward	1,554,000	1,554,000
Share issue costs	247,000	75,000
	\$ 26,793,000	\$ 21,482,000

The Company did not recognize the deferred tax assets for the years ended September 30, 2018 and September 30, 2017 as future taxable profits are uncertain.

The Company has non-capital losses of approximately \$12,198,000 which may be carried forward and applied against taxable income in future years. These losses, if not utilized, will expire through to 2037. Subject to certain restrictions, the Company also has mineral property expenditures of approximately \$12,794,000 available to reduce taxable income in future years. Future tax benefits which may arise as a result of these losses and resource deductions have not been recognized in these financial statements and have been offset by a valuation allowance.

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11. INCOME TAXES *(continued)*

The Company's non-capital loss carry-forwards expire as follows:

Year of Origin	Year of Expiry	Non-Capital Losses \$
2007	2027	2,000
2008	2028	-
2009	2029	793,000
2010	2030	677,000
2011	2031	609,000
2012	2032	519,000
2013	2033	379,000
2014	2034	563,000
2015	2035	469,000
2016	2036	1,677,000
2017	2037	1,439,000
2018	2038	5,071,000
		<u>12,198,000</u>

12. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS

(a) Capital Management Objectives

The Company considers the components of shareholders' equity, as well as its cash as capital. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk of characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue equity, sell assets, or return capital to shareholders as well as issue or repay debt. The Board of Directors has not established quantitative capital structure criteria management, but will review on a regular basis the capital structure of the Company to ensure its appropriateness to the stage of development of the business.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the company, is reasonable.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets, which are updated as necessary and are reviewed and approved by the Company's Board of Directors. In addition, the Company may issue new equity, incur additional debt, or dispose of certain assets. When applicable, the Company's investment policy is to hold cash in interest bearing accounts at high credit quality financial institutions to maximize liquidity. In order to maximize ongoing development efforts, the Company does not pay dividends. The Company expects to continue to raise funds, from time to time, to continue meeting its capital management objectives.

There were no changes in the Company's approach to capital management during the year ended September 30, 2018.

(b) Carrying Amounts and Fair Values of Financial Instruments

The fair value of a financial instrument is the price at which a party would accept the rights and/or obligations of the financial instruments from an independent third party. Given the varying influencing factors, the reported fair values are only indicators of the prices that may actually be realized for these financial instruments.

12. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

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—Inputs that are not based on observable market data

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at September 30, 2018.

	Level 1	Level 2	Level 3	Total
Cash	\$ 5,818,840	\$ —	\$ —	\$ 5,818,840
Security deposits	\$ 5,750	\$ —	\$ —	\$ 5,750

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at September 30, 2017.

	Level 1	Level 2	Level 3	Total
Cash	\$ 245,922	\$ —	\$ —	\$ 245,922
Security deposits	\$ 5,750	\$ —	\$ —	\$ 5,750

13. SUBSEQUENT EVENTS

Subsequent to the year end, the following occurred:

- 5,133,340 finance warrants with an exercise price of \$0.10 were exercised for gross proceeds of \$513,334;
- 8,000 finder's warrants with an exercise price of \$0.10 were exercised for gross proceed of \$800;
- 62,500 finance warrants with and exercise price of \$0.16 were exercised for gross proceeds of \$10,000;
- 2,000 finder's warrants with an exercise price of \$0.16 were exercised for gross proceeds of \$320;
- 616,760 finance warrants with an exercise price of \$0.10 expired on October 16, 2018
- 475,000 finance warrants with an exercise price of \$0.16 expired on October 18, 2018;
- 82,500 finders' warrants with an exercise price of \$0.16 expired on October 18, 2018;
- 400,000 finance warrants with an exercise of price of \$0.25 expired on November 1, 2018;
- 1,879,855 finance warrants with an exercise price of \$0.16 expired on December 9, 2018;
- 96,960 finders' warrants with an exercise price of \$0.16 expired on December 9, 2018.