

# **Izotropic Corporation**

## **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**For the six months ended October 31, 2020  
(Unaudited - Expressed in Canadian Dollars)**

The accompanying unaudited condensed interim consolidated financial statements of Izotropic Corporation for the six months ended October 31, 2020, have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These condensed interim consolidated financial statements have not been reviewed by the Company's external auditors.

# IZOTROPIC CORPORATION

Condensed Interim Consolidated Statements of Financial Position

Expressed in Canadian Dollars

(Unaudited – prepared by management)

	October 31, 2020	April 30, 2020
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 3,122,590	\$ 613,572
Receivables (Note 6)	1,032,640	47,207
Prepays (Note 4)	86,504	113,171
	<u>4,241,734</u>	<u>773,950</u>
<b>Equipment (Note 3)</b>	<u>2,439</u>	<u>3,261</u>
<b>TOTAL ASSETS</b>	<u>\$ 4,244,173</u>	<u>\$ 777,211</u>
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Notes 5 and 7)	\$ 84,044	\$ 69,992
<b>Total liabilities</b>	<u>84,044</u>	<u>69,992</u>
 <b>Shareholders' equity</b>		
Share capital (Note 6)	6,671,062	2,729,503
Share subscriptions received (Note 11)	33,015	-
Reserves (Note 6)	625,368	326,895
Deficit	(3,169,316)	(2,349,179)
<b>Total shareholders' equity</b>	<u>4,160,129</u>	<u>707,219</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>\$ 4,244,173</u>	<u>\$ 777,211</u>

Nature and continuance of operations (Note 1)

Subsequent events (Note 11)

Approved on behalf of the Board:

"Bob Thast"  
Bob Thast, Director

"Ralph Proceviat"  
Ralph Proceviat, 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,	
	2020	2019	2020	2019
<b>Operating expenses</b>				
Depreciation (Note 3)	\$ 411	\$ 824	\$ 822	\$ 1,648
Consulting (Note 7)	132,378	21,046	379,355	48,388
Filing and listing fees	16,551	23	24,055	5,818
Investor relations	15,000	15,000	52,500	20,000
Office	12,365	5,059	20,696	8,044
Patent maintenance	1,176	-	1,413	-
Professional fees	31,369	67,691	54,417	70,323
Share-based payments (Notes 6, 7)	156,825	8,759	204,013	60,145
Travel, promotion and meals	5,244	36,983	82,866	87,440
<b>Loss and comprehensive loss</b>	<b>\$ 371,319</b>	<b>\$ 155,385</b>	<b>\$ 820,137</b>	<b>\$ 301,806</b>
<b>Basic and diluted loss per share</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>	<b>\$ 0.03</b>	<b>\$ 0.01</b>
<b>Weighted average number of common shares outstanding – basic and diluted</b>	<b>30,749,170</b>	<b>23,005,999</b>	<b>30,160,880</b>	<b>23,462,211</b>

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, 2020 and 2019

Expressed in Canadian Dollars

(Unaudited – prepared by management)

	Share Capital		Share Subscriptions	Reserves	Deficit	Total
	Number of Shares	Amount				
<b>Balance at April 30, 2019</b>	<b>23,190,499</b>	<b>\$ 1,437,003</b>	<b>\$ -</b>	<b>\$ 73,177</b>	<b>\$ (1,193,337)</b>	<b>\$ 316,843</b>
Warrants exercised (Note 6)	625,000	62,500	-	-	-	62,500
Share-based payments (Note 6)	-	-	-	60,145	-	60,145
Net loss for the period	-	-	-	-	(301,806)	(301,806)
<b>Balance at October 31, 2019</b>	<b>23,815,499</b>	<b>\$ 1,499,503</b>	<b>\$ -</b>	<b>\$ 133,322</b>	<b>\$ (1,495,143)</b>	<b>\$ 137,682</b>
	Share Capital		Share Subscriptions	Reserves	Deficit	Total
	Number of Shares	Amount				
<b>Balance at April 30, 2020</b>	<b>29,965,499</b>	<b>\$ 2,729,503</b>	<b>\$ -</b>	<b>\$ 326,895</b>	<b>\$ (2,349,179)</b>	<b>\$ 707,219</b>
Shares issued for cash (Note 6)	7,383,400	4,060,870	-	-	-	4,060,870
Share issuance costs (Note 6)	-	(242,602)	-	118,751	-	(123,851)
Options exercised (Note 6)	250,000	93,291	-	(24,291)	-	69,000
Warrants exercised (Note 6)	150,000	30,000	-	-	-	30,000
Share-based payments (Note 6)	-	-	-	204,013	-	204,013
Share subscriptions received (Note 11)	-	-	33,015	-	-	33,015
Net loss for the period	-	-	-	-	(820,137)	(820,137)
<b>Balance at October 31, 2020</b>	<b>37,748,899</b>	<b>\$ 6,671,062</b>	<b>\$ 33,015</b>	<b>\$ 625,368</b>	<b>\$ (3,169,316)</b>	<b>\$ 4,160,129</b>

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, 2020 and 2019

Expressed in Canadian Dollars

(Unaudited – prepared by management)

	2020	2019
<b>Operating activities</b>		
Loss for the period	\$ (820,137)	\$ (301,806)
Item not affecting cash:		
Depreciation	822	1,648
Share-based payments	204,013	60,145
Changes in non-cash working capital items:		
Amount receivable	(985,433)	2,649
Accounts payable and accrued liabilities	14,052	(12,143)
Prepaid expense	26,667	(14,365)
<b>Cash flows (used in) operating activities</b>	<b>(1,560,016)</b>	<b>(263,872)</b>
<b>Financing activities</b>		
Proceeds from issuance of shares	4,060,870	-
Warrants exercised	30,000	62,500
Options exercised	69,000	-
Share subscriptions received	33,015	-
Share issuance costs	(123,851)	-
<b>Cash flows provided by financing activities</b>	<b>4,069,034</b>	<b>62,500</b>
<b>Increase (decrease) in cash</b>	<b>2,509,018</b>	<b>(201,372)</b>
<b>Cash, beginning</b>	<b>613,572</b>	<b>308,504</b>
<b>Cash, ending</b>	<b>\$ 3,122,590</b>	<b>\$ 107,132</b>
<b>Interest paid in cash</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Income tax paid in cash</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Supplemental cash flow information</b>		
Share subscription receivable	\$ 1,022,951	\$ -

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, 2020

Expressed in Canadian Dollars

(Unaudited – prepared by management)

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## 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 is a research and development company specializing in cancer research and early detection for breast cancer. Izotropic listed on Canadian Securities Exchange in Canada (“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 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. 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

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The consolidated financial statements for the six months ended October 31, 2020 were authorized for issue by the Board of Directors on December 17, 2020.

### 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 entity, Izotropic Imaging Corp., a wholly owned subsidiary based in Nevada. The controlled entity is 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.

# IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended October 31, 2020

Expressed in Canadian Dollars

(Unaudited – prepared by management)

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

### 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 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.

### Presentation and functional currency

The functional and presentation currency, as determined by management, of the Company and its subsidiary is the Canadian dollar.

### 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, 2020 and therefore, should be read in conjunction with the Company's audited financial statements for the year ended April 30, 2020.

## 3. EQUIPMENT

	<b>Computer Equipment</b>
<b>Cost:</b>	
At October 31, 2020 and April 30, 2020	\$ 17,617
<b>Depreciation:</b>	
At April 30, 2020	14,356
Change for the period	822
At October 31, 2020	\$ 15,178
<b>Net book value:</b>	
At April 30, 2020	\$ 3,261
At October 31, 2020	\$ 2,439

# IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended October 31, 2020

Expressed in Canadian Dollars

(Unaudited – prepared by management)

## 4. PREPAIDS

	October 31, 2020	April 30, 2020
Consulting	\$ -	\$ 56,667
Product development	80,000	-
Legal retainer	6,504	6,504
Promotional services	-	50,000
Total	\$ 86,504	\$ 113,171

## 5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	October 31, 2020	April 30, 2020
Accounts payable	\$ 66,526	\$ 61,492
Accrued liabilities	17,518	8,500
Total	\$ 84,044	\$ 69,992

## 6. SHARE CAPITAL

### Authorized

Unlimited number of common shares without par value.

### Issued:

#### Issued share capital during the six months ended October 31, 2020

During the six months ending October 31, 2020, 150,000 stock options priced at \$0.26 and 100,000 stock options priced at \$0.30 were exercised for gross proceeds of \$39,000 and \$30,000, respectively.

During the six months ended October 31, 2020, 150,000 share purchase warrants priced at \$0.20 were exercised for gross proceeds of \$30,000.

On October 20, 2020, the Company closed the first tranche of a non-brokered private placement of 4,517,066 units (each, a "Unit") at a price of \$0.55 per Unit for aggregate proceeds of \$2,484,386. Each Unit consists of one common share of the Company (each, a "Share") and one common share purchase warrant (each, a "Warrant"), with each Warrant entitling the holder to purchase one Share at a price of \$0.75 per Share for a period of two years following the closing of the Offering, subject to an Acceleration Right (see news release dated October 20, 2020 for more details). Finders' fees of \$96,783 were paid and 165,6723 broker's warrants were issued with a fair value of \$90,226. The broker's warrants have the same terms and conditions of the warrants. All securities issued in connection with the Offering will be subject to a statutory hold period expiring four months and one day after closing of the offering.



# IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended October 31, 2020

Expressed in Canadian Dollars

(Unaudited – prepared by management)

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## 6. SHARE CAPITAL (continued)

### Issued share capital during the six months ended October 31, 2020 (continued)

On October 30, 2020, the Company closed the second and final tranche of a non-brokered private placement of 2,866,334 units (each, a “Unit”) at a price of \$0.55 per Unit for aggregate proceeds of \$1,576,484. Each Unit consists of one common share of the Company (each, a “Share”) and one common share purchase warrant (each, a “Warrant”), with each Warrant entitling the holder to purchase one Share at a price of \$0.75 per Share for a period of two years following the closing of the Offering, subject to an Acceleration Right (see news release dated October 30, 2020 for more details). Finders’ fees of \$15,459 were paid and 28,272 broker’s warrants were issued with a fair value of \$28,525. The broker’s warrants have the same terms and conditions of the warrants. All securities issued in connection with the Offering will be subject to a statutory hold period expiring four months and one day after closing of the offering. At October 31, 2020, \$1,022,951 of proceeds from the second tranche were included as Receivables. All of the receivables have been collected as of the date of this report.

### Issued share capital during the year ended April 30, 2020

On May 24, 2019, 550,000 warrants priced at \$0.10 were exercised for proceeds of \$55,000.

On June 4, 2019, 75,000 warrants priced at \$0.10 were exercised for proceeds of \$7,500.

On February 11, 2020, 6,150,000 shares were issued for warrants that were exercised at a price of \$0.20 per share for proceeds of \$1,230,000 due to a warrant exercise incentive program, whereby for each warrant exercised before February 7, 2020, the holder will receive one additional warrant (an “Incentive Warrant”). Each Incentive Warrant will entitle the warrant holder to purchase one additional common share at a price of \$0.20 per share for a period of two years from the date of issuance.

### Stock Options

#### *Stock option transactions during the six months ended October 31, 2020*

On May 7, 2020, the Company granted 150,000 stock options to a consultant with an exercise price of \$0.26 and expiring on November 6, 2020.

On May 20, 2020, the Company granted 100,000 stock options to a consultant and 100,000 stock options to an investor services provider with an exercise price of \$0.20 and expiring on May 19, 2022.

On June 4, 2020, the Company granted 100,000 stock options to a consultant with an exercise price of \$0.17 and expiring on June 3, 2022.

On August 28, 2020, the Company granted 300,000 stock options to a consultant with an exercise price of \$0.75 and expiring on August 26, 2022.

On September 15, 2020, the Company granted 100,000 stock options to a consultant with an exercise price of \$0.72 and expiring on September 14, 2022.

# IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended October 31, 2020

Expressed in Canadian Dollars

(Unaudited – prepared by management)

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## 6. SHARE CAPITAL (continued)

### Stock Options (continued)

*Stock option transactions during the year ended April 30, 2020*

On April 22, 2020, the Company granted a total of 200,000 stock options to an advisor of the Company. These options have an exercise price of \$0.22 per share, vest immediately, and may be exercised for a period of 2 years from the date of grant.

On April 22, 2020, the Company cancelled 100,000 stock options that were previously issued to a director and 50,000 stock options that were previously issued to a consultant.

On April 14, 2020, the Company granted a total of 200,000 stock options to a consultant of the Company. These options have an exercise price of \$0.32, vest immediately, and may be exercised for a period of 2 years from the date of grant.

On April 14, 2020, the Company granted a total of 200,000 stock options to an investor relations consultant of the Company. These options have an exercise price of \$0.32, vest quarterly, and may be exercised for a period of 2 years from the date of grant.

On February 11, 2020, the Company cancelled 200,000 stock options that were previously issued to two directors.

On February 11, 2020, the Company the Company granted 300,000 stock options to consultants and 100,000 stock options to a director. These options have an exercise price of \$0.37 per share, vest immediately, and may be exercised for a period of 5 years from the date of grant. On April 14, 2020, 250,000 of these stock options issued to consultants were cancelled.

On January 22, 2020, the Company granted a total of 200,000 stock options to an advisor of the Company. These options have an exercise price of \$0.20 per share, vest immediately, and may be exercised for a period of 5 years from the date of grant.

On July 1, 2019, the Company granted a total of 200,000 stock options to an investor relations consultant of the Company. These options have an exercise price of \$0.36, vest immediately, and may be exercised for a period of 2 years from the date of grant. On December 31, 2019, the 200,000 options granted to the consultant were cancelled at the expiry of the contract.

On June 1, 2019, the Company granted a total of 300,000 stock options, 100,000 to an officer and 200,000 to a consultant of the Company. These options have an exercise price of \$0.30 per share, vest immediately, and may be exercised for a period of 2 years from the date of grant.

The fair value of stock options granted for the six months ended October 31, 2020 was \$204,013 (October 31, 2019 - \$60,145), estimated using the Black-Scholes option pricing model with the following weighted average assumptions: expected life of 0.5-2 years, volatility of 98-115%, dividend yield of 0% and risk-free interest rate of 0.26-.32%.

# IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended October 31, 2020

Expressed in Canadian Dollars

(Unaudited – prepared by management)

## 6. SHARE CAPITAL (continued)

### Stock Options (continued)

As at October 31, 2020, the Company had the following options outstanding and exercisable:

Date of Grant	Expiry Date	Exercise Price	Number of Options Outstanding	Number of Options Exercisable
September 20, 2017	September 20, 2022	\$ 0.10	1,000,000	750,000
October 20, 2017	October 20, 2022	\$ 0.10	200,000	150,000
June 1, 2019	May 31, 2021	\$ 0.30	-	100,000
July 1, 2019	June 30, 2021	\$ 0.36	200,000	200,000
January 22, 2020	January 22, 2025	\$ 0.20	200,000	200,000
February 11, 2020	February 11, 2025	\$ 0.37	150,000	150,000
April 14, 2020	April 13, 2022	\$ 0.32	400,000	200,000
April 22, 2020	April 21, 2022	\$ 0.22	200,000	200,000
May 7, 2020	November 6, 2020	\$ 0.26	-	150,000
May 20, 2020	May 19, 2022	\$ 0.20	200,000	200,000
June 4, 2020	June 3, 2022	\$ 0.17	100,000	100,000
August 28, 2020	August 26, 2022	\$ 0.75	300,000	-
September 15, 2020	September 14, 2022	\$ 0.72	100,000	-
			3,050,000	2,650,000

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

	October 31, 2020		April 30, 2020	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	2,450,000	\$0.20	1,550,000	\$0.10
Granted	850,000	0.46	1,700,000	0.31
Exercised	(250,000)	0.27	-	-
Cancelled	-	-	(800,000)	0.23
Outstanding, end of period	3,050,000	\$0.27	2,450,000	\$0.20

# IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended October 31, 2020

Expressed in Canadian Dollars

(Unaudited – prepared by management)

## 6. SHARE CAPITAL (continued)

### Share Purchase Warrants

As at October 31, 2020, the Company had the following warrants outstanding:

Date issued	Expiry date	Exercise price	Number of warrants outstanding
October 12, 2017	October 12, 2022**	\$ 0.20	300,000
February 11, 2020	May 26, 2022	\$ 0.20	6,000,000
October 20, 2020	October 20, 2022	\$ 0.75	4,517,066
October 20, 2020	October 20, 2022*	\$ 0.75	165,723
October 30, 2020	October 30, 2022	\$ 0.75	2,866,334
October 30, 2020	October 30, 2022*	\$ 0.75	28,272
			13,877,395

\*These are broker warrants

\*\*On June 2, 2020, the Company extended the expiry date of 300,000 warrants with an exercise price of \$0.10, issued to an officer, from May 31, 2020 to October 12, 2022.

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

	October 31, 2020		April 30, 2020	
	Number of Warrants	Exercise Price	Number of Warrants	Exercise Price
Outstanding, beginning of period	6,459,500	\$0.20	10,759,499	\$0.18
Expired	(9,500)	0.10	(3,674,999)	0.14
Issued	7,577,395	0.75	6,150,000	0.20
Exercised	(150,000)	0.30	(6,775,000)	0.20
Outstanding, end of period	13,877,395	\$0.27	6,459,500	\$0.20

On January 28, 2020, the Company announced a warrant incentive program to encourage the exercise of the warrants expiring on May 31, 2020. For each warrant exercised before February 7, 2020, the holder will receive one additional warrant (an "Incentive Warrant"). Each incentive warrant will entitle the warrant holder to purchase one additional common share at a price of \$0.20 per share for a period of two years from the date of issuance. The expiry date of the incentive warrants is May 26, 2022.

On May 31, 2020, 9,500 broker warrants priced at \$0.10 expired unexercised.

During the six months ended October 31, 2020, 150,000 share purchase warrants priced at \$0.20 were exercised for gross proceeds of \$30,000.

# IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended October 31, 2020

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.

## 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, 2020	October 31, 2019
Consulting fees, President and CEO	\$ 60,000	\$ 18,000
Consulting fees, Corporate Secretary	45,000	32,580
Professional fees, director	6,000	-
Professional fees, CFO	4,000	4,000
Share-based payments, directors and officers	-	11,900
Total	\$ 115,000	\$ 66,480

As at October 31, 2020, included in accounts payable and accrued liabilities is \$10,000 (April 30, 2020: \$10,000) due to the VP Marketing, \$10,000 (April 30, 2020: \$nil) due to the CEO, and \$9,500 (April 30, 2020: \$3,500) due to a director. The amounts are non-interest bearing, unsecured and have no set repayment terms.

## 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) due within 30 days (paid);
- cash payment of USD \$200,000 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.

# IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended October 31, 2020

Expressed in Canadian Dollars

(Unaudited – prepared by management)

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## 8. LICENSING AGREEMENT (continued)

- 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 \$79,871.80 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 1<sup>st</sup> anniversary of agreement effective date, amended to May 12, 2017 (paid).
  - 1/3 on or before the 2<sup>nd</sup> anniversary of agreement effective date, amended to October 25, 2019 (paid).
  - 1/3 on or before the 3<sup>rd</sup> anniversary of agreement effective date, amended to October 25, 2020.

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 of the above Milestones may be granted upon written agreement by the parties for USD \$20,000 per extension.

## 9. 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.

# IZOTROPIC CORPORATION

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Expressed in Canadian Dollars

(Unaudited – prepared by management)

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## 10. 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.

### **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.

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## 11. SUBSEQUENT EVENTS

On November 1, 2020, the Company issued 700,000 stock options to consultants, priced at 1.32 expiring on November 1, 2022.

On November 2, 2020, 200,000 stock options priced at \$0.32 were exercised for gross proceeds of \$64,000.

On December 1, 2020, the Company cancelled 600,000 stock options previously granted to consultants of the Company.

On December 9, 2020, the Company closed a non-brokered private placement of 1,896,679 units (each, a “Unit”) at a price of \$0.90 per Unit for aggregate proceeds of \$1,707,011. Each Unit consists of one common share of the Company (each, a “Share”) and one common share purchase warrant (each, a “Warrant”), with each Warrant entitling the holder to purchase one Share at a price of \$1.50 per Share for a period of two years following the closing of the Offering, subject to an Acceleration Right (see news release dated December 9, 2020 for more details). Finders’ fees of \$64,087 were paid and 62,937 broker’s warrants were issued. The broker’s warrants have the same terms and conditions of the warrants. All securities issued in connection with the Offering will be subject to a statutory hold period expiring four months and one day after closing of the offering.

On December 9, 2020, the Company granted a total of 300,000 stock options to two third party consultants at an exercise prices of \$1.17 for a period of 2 years.

On December 10, 2020, 150,000 share purchase warrants priced at \$0.20 were exercised for gross proceeds of \$30,000.

There continues to be a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. As a result, global equity markets have experienced significant volatility and weakness. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.