

Izotropic Corporation

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six months ended October 31, 2021
(Unaudited - Expressed in Canadian Dollars)**

The accompanying unaudited condensed interim consolidated financial statements of Izotropic Corporation for the six months ended October 31, 2021, 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, 2021	April 30, 2021
ASSETS		
Current		
Cash	\$ 2,651,456	\$ 4,063,756
GST receivable	102,138	43,894
Prepays (Note 4)	34,241	577,374
	<u>2,787,835</u>	<u>4,685,024</u>
Equipment (Note 3)	29,109	1,631
TOTAL ASSETS	<u>\$ 2,816,944</u>	<u>\$ 4,686,655</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities

Current

Accounts payable and accrued liabilities (Notes 5 and 7)	\$ 1,276,888	\$ 169,282
Total liabilities	<u>1,276,888</u>	<u>169,282</u>

Shareholders' equity

Share capital (Note 6)	10,505,947	10,041,597
Reserves (Note 6)	2,140,077	1,801,081
Deficit	(11,105,968)	(7,325,305)
Total shareholders' equity	<u>1,540,056</u>	<u>4,517,373</u>

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 2,816,944</u>	<u>\$ 4,686,655</u>
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Nature and continuance of operations (Note 1)

Subsequent events (Note 12)

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,	
	2021	2020	2021	2020
Operating expenses				
Depreciation (Note 3)	\$ 3,524	\$ 411	\$ 4,433	\$ 822
Consulting (Note 7)	162,150	132,378	322,000	379,355
Filing and listing fees	25,636	16,551	47,838	24,055
Investor relations	69,000	15,000	102,000	52,500
Office	44,625	12,365	59,323	20,696
Patent maintenance	15,010	1,176	15,010	1,413
Product development (Note 9)	1,778,586	-	2,266,298	-
Professional fees	132,826	31,369	164,106	54,417
Share-based payments (Notes 6, 7)	185,449	156,825	546,371	204,013
Travel, promotion and meals	139,313	5,244	253,284	82,866
Loss and comprehensive loss	\$ 2,556,119	\$ 371,319	\$ 3,780,663	\$ 820,137
Basic and diluted loss per share	\$ 0.06	\$ 0.01	\$ 0.09	\$ 0.03
Weighted average number of common shares outstanding – basic and diluted	42,623,137	30,749,170	42,204,075	30,160,880

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, 2021 and 2020

Expressed in Canadian Dollars

(Unaudited – prepared by management)

	Share Capital		Share subscriptions	Reserves	Deficit	Total
	Number of Shares	Amount				
Balance at April 30, 2020	29,965,499	\$ 2,729,503	\$ -	\$ 326,895	\$ (2,349,179)	\$ 707,219
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)
Balance at October 31, 2020	37,748,899	\$ 6,671,092	\$ 33,015	\$ 625,368	\$ (3,169,316)	\$ 4,160,129
	Share Capital		Share subscriptions	Reserves	Deficit	Total
	Number of Shares	Amount				
Balance at April 30, 2021	42,006,078	\$ 10,041,597	\$ -	\$ 1,801,081	\$ (7,325,305)	\$ 4,517,373
Share issued on vesting of RSU's (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

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, 2021 and 2020

Expressed in Canadian Dollars

(Unaudited – prepared by management)

	2021	2020
Operating activities		
Net loss for the period	\$ (3,780,663)	\$ (820,137)
Item not affecting cash:		
Depreciation	4,433	822
Share-based payments	546,371	204,013
Changes in non-cash working capital items:		
Amounts receivable	(58,244)	(985,433)
Accounts payable and accrued liabilities	1,107,606	14,052
Prepays	543,133	26,667
Cash flows used in operating activities	(1,637,364)	(1,560,016)
Investing activities		
Purchase of equipment	(31,911)	-
Cash flows used in investing activities	(31,911)	-
Financing activities		
Proceeds from issuance of shares	-	4,060,870
Proceeds from warrants exercises	256,975	30,000
Options exercised	-	69,000
Share subscriptions received	-	33,015
Share issuance costs	-	(123,851)
Cash flows provided by financing activities	256,975	4,069,034
Increase (decrease) in cash	(1,412,300)	2,509,018
Cash, beginning of period	4,063,756	613,572
Cash, end of period	\$ 2,651,456	\$ 3,122,590

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, 2021

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 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 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. 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.

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. 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 ultimate geographic spread of the disease, and 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.

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, 2021 were authorized for issue by the Board of Directors on December 30, 2021.

IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended October 31, 2021

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 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.

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.

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, 2021 and therefore, should be read in conjunction with the Company's audited financial statements for the year ended April 30, 2021.

IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended October 31, 2021

Expressed in Canadian Dollars

(Unaudited – prepared by management)

3. EQUIPMENT

	Computer Equipment
Cost:	
At April 30, 2020 and 2021	17,617
Change for the period	31,911
At October 31, 2021	\$ 49,528
Depreciation:	
At April 30, 2020	14,356
Change for the period	1,630
At April 30, 2021	15,986
Change for the period	4,433
At October 31, 2021	\$ 20,419
Net book value:	
At April 30, 2020	\$ 3,261
At April 30, 2021	\$ 1,631
At October 31, 2021	\$ 29,109

4. PREPAIDS

	October 31, 2021	April 30, 2021
Consulting	\$ -	\$ 60,000
Product development advances	-	501,400
Insurance	21,352	-
Legal retainers	6,504	9,589
Promotional services	6,385	6,385
Total	\$ 34,241	\$ 577,374

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	October 31, 2021	April 30, 2021
Accounts payable	\$ 1,276,888	\$ 94,666
Accrued liabilities	-	74,616
Total	\$ 1,276,888	\$ 169,282

IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended October 31, 2021

Expressed in Canadian Dollars

(Unaudited – prepared by management)

6. SHARE CAPITAL

Authorized

Unlimited number of common shares without par value.

Issued:

Issued share capital during the six months ended October 31, 2021

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

On May 17, 2021, 80,000 share purchase 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.

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

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

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

Issued share capital during the year ended April 30, 2021

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 such that: (i) at any time after the date that is four months and one day after the issue date of the Warrants, if, for at least ten (10) consecutive trading days, the closing price at which the Shares trade on the Canadian Securities Exchange (the "Exchange") each day exceeds \$1.25 per Share, the Company may issue a notice (the "Acceleration Notice") to the holder (which Acceleration Notice will be given to the holder by the Company by disseminating a press release) to accelerate the expiry date of the Warrants (the "First Acceleration Right"); (ii) 50% of the then unexercised Warrants will terminate on the date that is thirty (30) days from the date of the Acceleration Notice in the event that the holder has not exercised the Warrants in accordance with the terms of the Acceleration Notice by such date; (iii) at any time after the date that is four months and one day after the issue date, if, for at least ten (10) consecutive trading days, the closing price at which the Shares trade on the Exchange each day exceeds \$1.75 per Share, the Company may issue a notice (the "Second Acceleration Notice") to the holder (which Second Acceleration Notice will be given to the holder by the Company by disseminating a press release) to accelerate the expiry date of the Warrants (the "Second Acceleration Right" and together with the First Acceleration Right, the "Acceleration Right"), and 50% of the then outstanding Warrants will terminate on the date that is thirty (30) days from the date of the Second Acceleration Notice in the event that the holder has not exercised the Warrants in accordance with the terms of the Second Acceleration Notice by such date. Finders' fees of \$96,783 were paid and 165,723 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.

IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended October 31, 2021

Expressed in Canadian Dollars

(Unaudited – prepared by management)

6. SHARE CAPITAL (continued)

Issued share capital during the year ended April 30, 2021 (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 such that: (i) at any time after the date that is four months and one day after the issue date of the Warrants, if, for at least ten (10) consecutive trading days, the closing price at which the Shares trade on the Canadian Securities Exchange (the “Exchange”) each day exceeds \$1.25 per Share, the Company may issue a notice (the “Acceleration Notice”) to the holder (which Acceleration Notice will be given to the holder by the Company by disseminating a press release) to accelerate the expiry date of the Warrants (the “First Acceleration Right”); (ii) 50% of the then unexercised Warrants will terminate on the date that is thirty (30) days from the date of the Acceleration Notice in the event that the holder has not exercised the Warrants in accordance with the terms of the Acceleration Notice by such date; (iii) at any time after the date that is four months and one day after the issue date, if, for at least ten (10) consecutive trading days, the closing price at which the Shares trade on the Exchange each day exceeds \$1.75 per Share, the Company may issue a notice (the “Second Acceleration Notice”) to the holder (which Second Acceleration Notice will be given to the holder by the Company by disseminating a press release) to accelerate the expiry date of the Warrants (the “Second Acceleration Right” and together with the First Acceleration Right, the “Acceleration Right”), and (iv) 50% of the then outstanding Warrants will terminate on the date that is thirty (30) days from the date of the Second Acceleration Notice in the event that the holder has not exercised the Warrants in accordance with the terms of the Second Acceleration Notice by such date. 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.

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 such that in the event that the common shares of the Company have a closing price on the Canadian Securities Exchange (or such other exchange on which the common shares may be traded at such time) of \$1.85 or greater per common share for a period of ten (10) consecutive trading days at any time from the date that is four months and one day after the closing date of the Offering, the Company may accelerate the expiry date of the Warrants by giving notice to the holders thereof (by disseminating a news release advising of the acceleration of the expiry date of the Warrants) and, in such case, 100% of the then unexercised Warrants will expire on the thirtieth day after the date of such notice (the “Acceleration Provision”). Finders’ fees of \$64,087 were paid and 62,947 broker’s warrants were issued with a fair value of \$37,159. 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.

During the year ending April 30, 2021, 150,000 stock options priced at \$0.26, 100,000 stock options priced at \$0.30, 400,000 stock options priced at \$0.235, and 200,000 stock options priced at \$0.36 were exercised for total gross proceeds of \$235,000. Also during the year ending April 30, 2021, 400,000 share purchase warrants priced at \$0.20 were exercised for gross proceeds of \$80,000 and 848,000 share purchase warrants priced at \$0.75 were exercised for gross proceeds of \$636,000.

IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended October 31, 2021

Expressed in Canadian Dollars

(Unaudited – prepared by management)

6. SHARE CAPITAL (continued)

Stock Options

Stock option transactions during the six months ended October 31, 2021

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.

Stock option transactions during the year ended April 30, 2021

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 December 1, 2020, 300,000 of the stock options issued to the consultant were cancelled.

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.

On November 1, 2020, the Company issued 700,000 stock options to consultants, priced at 1.32 expiring on November 1, 2022. On December 1, 2020, the Company cancelled 300,000 of these stock options.

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

On January 7, 2021, the Company granted a total of 100,000 stock options to a consultant at an exercise price of \$1.25 for a period of 2 years.

On February 19, 2021, the Company granted a total of 400,000 stock options at an exercise price of \$1.08 for a period of 2 years. Of the total, 100,000 stock options were granted to an officer of the Company.

All options granted during the six months ended October 31, 2021 and the year ended April 30, 2021 vest immediately.

IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended October 31, 2021

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 \$0.40 per option, estimated using the Black-Scholes option pricing model with the following weighted average assumptions: expected life of 1.5 - 2 years, volatility of 105-107%, dividend yield of 0% and risk-free interest rate of 0.40 – 0.45%. The Company recognized share-based compensation expense of \$273,658 (October 31, 2020 - \$204,013) in connection with the vesting of stock options.

As at October 31, 2021, 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	1,000,000
October 20, 2017	October 20, 2022	\$ 0.10	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 22, 2020	April 21, 2022	\$ 0.22	200,000	200,000
May 20, 2020	May 19, 2022	\$ 0.20	200,000	200,000
June 4, 2020	June 3, 2022	\$ 0.17	100,000	100,000
September 15, 2020	September 14, 2022	\$ 0.72	100,000	100,000
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
September 7, 2021	March 7, 2023	\$ 0.84	100,000	100,000
September 7, 2021	September 7, 2023	\$ 0.84	100,000	100,000
			3,600,000	3,600,000

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

	October 31, 2021		April 30, 2021	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	3,350,000	\$0.55	2,450,000	\$0.20
Granted	650,000	0.77	2,350,000	0.92
Exercised	-	-	(850,000)	0.28
Cancelled	(400,000)	1.32	(600,000)	1.04
Outstanding, end of period	3,600,000	\$0.50	3,350,000	\$0.55

IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended October 31, 2021

Expressed in Canadian Dollars

(Unaudited – prepared by management)

6. SHARE CAPITAL (continued)

Share Purchase Warrants

As at October 31, 2021, 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	5,100,000
October 20, 2020	October 20, 2022	\$	0.75	4,061,766
October 20, 2020	October 20, 2022*	\$	0.75	165,723
October 30, 2020	October 30, 2022	\$	0.75	2,304,334
October 30, 2020	October 30, 2022*	\$	0.75	28,272
December 9, 2020	December 9, 2022	\$	1.50	1,896,679
December 9, 2020	December 9, 2022*	\$	1.50	62,947
				13,919,721

*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, 2021		April 30, 2021	
	Number of Warrants	Exercise Price	Number of Warrants	Exercise Price
Outstanding, beginning of period	14,739,021	\$0.62	6,459,500	\$0.20
Expired	-	-	(9,500)	0.10
Issued	-	-	9,537,021	0.90
Exercised	(819,300)	0.31	(1,248,000)	0.57
Outstanding, end of period	13,919,721	\$0.64	14,739,021	\$0.62

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

During the year ending April 30, 2021, 400,000 share purchase warrants priced at \$0.20 were exercised for gross proceeds of \$80,000 and 848,000 share purchase warrants priced at \$0.75 were exercised for gross proceeds of \$636,000.

During the six months ending October 31, 2021, 650,000 share purchase warrants priced at \$0.20 were exercised for gross proceeds of \$130,000 and 169,300 share purchase warrants priced at \$0.75 were exercised for gross proceeds of \$126,975.

See Note 12.

IZOTROPIC CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended October 31, 2021

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, 2021, 925,000 (April 30, 2021 - 662,500) of the RSU’s had vested. The Company recognizes the share-based payment expense over the vesting terms and for the six months ended October 31, 2021 recognized \$219,007 (October 31, 2020 - \$nil, April 30, 2021 - \$1,192,849). 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 for the initial grant and \$0.79 per share for the vesting on July 11, 2021. 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, 2021, the Company recognized share-based payment expense of \$53,705 (October 31, 2020 - \$nil, April 30, 2021 - \$38,256) relating to the PSU’s.

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, 2021	October 31, 2020
Consulting fees, director (former President and CEO)	\$ 85,000	\$ 60,000
Consulting fees, Corporate Secretary	64,000	45,000
Consulting fees, current President and CEO	71,600	-
Product development, President and CEO	107,400	-
Professional fees, Director	-	6,000
Professional fees, CFO	61,000	4,000
Restricted stock units	128,899	-
Total	\$ 517,899	\$ 115,000

As at October 31, 2021, included in accounts payable and accrued liabilities is \$nil (April 30, 2021: \$4,888) due to a director (the former President and CEO), and \$36,012 (April 30, 2021: \$nil) due to the President and CEO. The amounts are non-interest bearing, unsecured and have no set repayment terms.

IZOTROPIC CORPORATION

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Expressed in Canadian Dollars

(Unaudited – prepared by management)

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.

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9. PRODUCT DEVELOPMENT

On May 13, 2020, the Company engaged StarFish Medical to complete the final design and development of the Company's commercial breast CT model. As at October 31, 2021 and April 30, 2021, the Company's product development costs consists of the following:

	October 31, 2021	April 30, 2021
Product development – management	\$ 107,400	\$ 130,475
Product development – consultants	388,460	-
Design engineering	1,765,965	662,561
Supplies	4,473	-
Total	\$ 2,266,298	\$ 793,036

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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(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. SUBSEQUENT EVENTS

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

On November 29, 2021, 30,000 share purchase warrants priced at \$.20 were exercised for gross proceeds of \$6,000.

On November 30, 2021, 49,581 broker warrants priced at \$.75 were exercised for gross proceeds of \$37,186.

On December 2, 2021, 50,000 stock options priced at \$.10 were exercised for gross proceeds of \$5,000.