IZOTROPIC CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
PREPARED AS OF DECEMBER 15, 2022

INTRODUCTION

The following management's discussion and analysis ("**MD&A**") is a review of operations, current financial position and outlook for the Company and should be read in conjunction with the Company's condensed interim consolidated financial statements for the six months ended October 31, 2022. Readers are encouraged to review the Company's financial statements in conjunction with this document. The Company prepares its financial statements in accordance with International Financial Reporting Standards ("**IFRS**").

As used in this MD&A and unless otherwise indicated, the terms "we", "us", "our", "Company", and refer to Izotropic Corporation. Unless otherwise specified, all dollar amounts are expressed in Canadian dollars.

This MD&A contains forward-looking statements. Forward-looking statements may also be made in the Company's other reports filed with or furnished to the Canadian securities commissions. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from such statements. The words "aim," "anticipate," "believe," "continue," "could," "expect," "intend," "likely", "may," "optimistic," "plan," "potential", "predict", "should," "would," and other similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance, and therefore you should not put undue reliance upon them. The material assumptions supporting these forward-looking statements include, among other things the Company's ability to:

- obtain any necessary financing on acceptable terms;
- satisfy the terms of the License Agreement and maintain the License in good standing,
- complete the design and development of the Commercial Unit, as well as create a physical prototype of the Commercial Unit,
- timely obtain and maintain important regulatory approvals for the Commercial Unit, including FDA approval or CE mark approval,
- timely secure patents relating to the Licensed Patent Rights,
- timely enter into leasing agreements with hospitals and clinics to lease the Izotropic Breast Imaging System,
- appropriately deal with the requirement to undergo the PMA process,
- successfully compete with other research-based imaging companies and organizations that develop proprietary diagnostic and imaging products for breast cancer, and
- follow general economic and financial market conditions.

Some of the factors that may cause actual results to differ materially from those indicated in these statements are found in the section "Risk Factors" in this prospectus.

The forward-looking statements contained in this MD&A reflect our views and assumptions only as of the date of this MD&A. The Company undertakes no obligation to update or revise any forward-looking statements after the date on which the statement is made, except as required by applicable laws, including the securities laws of Canada.

ABOUT THE COMPANY

Izotropic Corporation and its wholly owned U.S. operating subsidiaries, Izotropic Imaging Corp. and Izotropic Development Corp., have been established to commercialize the next generation of breast imaging technology for early diagnosis of breast cancer. The Izotropic Breast CT Imaging System produces high resolution breast images in 3D. A single 10 second breast CT scan acquires approximately 500 images, without painful breast compression, providing radiologists with fully 3D viewing of the scanned breast. Mammography scanning requires compression of the breast between 2 imaging plates, resulting in 2D images.

The Company has the exclusive worldwide license from the University of California, Davis to commercialize the technology developed by principal founder and Company director Dr. John M. Boone and researchers at UC Davis. The license includes all intellectual property, trade secrets, patents and patent-pending applications that are the foundation of the Company's breast CT imaging platform.

Approximately $30 million in research funding and over 15 years of research and development have been invested in developing this ground-breaking breast CT imaging technology. Research includes a current, ongoing $2.9M U.S. clinical trial at UC Davis Medical Center.

The Company founders believe that this technology will be a disruptive entry to the market, overcoming many of the challenges faced by existing breast imaging modalities.

Izotropic is a public company listed on Canadian Securities Exchange in Canada ("IZO"), the OTC market in the USA ("IZOZF"), and the Frankfurt Stock Exchange in Germany ("1R3").

CORPORATE ACTIVITIES

- On May 10, 2022, the Company unveiled the commercial prototype device design that will be used in forthcoming clinical studies for market authorization in the US. A photorealistic 3D animation detailing IzoView's design, functionality, and capabilities is now live on the Company's YouTube channel. The Company has begun filing patents to protect unique and important features of the IzoView Breast CT System.

- On June 29, 2022, the Company announced timeline updates for the initial IzoView commercial prototype build and commented on supply chain issues, engineering updates, and the design of the clinical study.

- On July 19, 2022, the Company announced it has engaged a world-leading clinical research organization (CRO) ICON plc to help prepare for its upcoming clinical study and submission for market authorization in the US.

- On August 11, 2022, the Company announced it has successfully relocated IzoView and associated components and completed the transition of all major medical device engineering and product development operations to California.

- On October 25, 2022, the Company announced that the engineering and construction of IzoView was weeks away from completion and subsequent unveiling to existing shareholders, and the investment, medical and scientific communities.

- On October 26, 2022, the Company announced that the Annual General Meeting will be held on December 19, 2022.

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

- On November 10, 2022, the Company completed a non-brokered private placement financing (the "Offering") of 2,500,000 units (each, a "Unit") at a price of $0.40 per Unit for gross proceeds of $1,000,000. Each Unit consists of one common share (each, a "Share") and one-half of one transferable common share purchase "A" warrant (each whole "A" warrant, an "A Warrant") and one-half of one transferable common share purchase "B" warrant (each whole "B" warrant, a "B Warrant", and together with the A Warrants, the "Warrants"). Each A Warrant will entitle the holder thereof to acquire one Share (each, an "A Warrant Share") at a price of $0.70 per A Warrant Share for a period of two years following the closing of the Offering and each B Warrant will entitle the holder thereof to acquire one Share (each, a "B Warrant Share", and together with the A Warrant Shares, the "Warrant Shares") at a price of $0.80 per B Warrant Share for a period of two years following the closing of the Offering, subject to the terms and conditions contained in the applicable warrant certificate. The use of proceeds from the Offering will be used for final product developments, capital components, product testing and general working capital. The Company paid an aggregate of $25,942 and issued and aggregate of 64,855 broker warrants in connection with the closing of the Offering. Each broker warrant will entitle the holder to purchase one additional share at a price of $0.40 per share for a period of two years from closing of the Offering. All securities issued in connection with the Offering will be subject to a statutory hold period of four months and one day from the date of issuance in accordance with applicable securities legislation.

- On November 11, 2022, the Company announced that Advisor Mr. Alexander Tokman has joined the Company's Board of Directors.

- On December 1, 2022, the Company announced that it has completed the final engineering of IzoView.

A Summary of the Corporate Activities highlights from the year ended April 30, 2022 are included below:

- On June 30, 2021, the Company appointed Dr. Younes Achkire as Executive Vice-President of Product Engineering. Dr. Achkire was granted 200,000 stock options at a price of $0.74 with a two-year term.

- On September 8, 2021, the Company announced it has received a Notice of Allowance in response to a patent application from the United States Patent and Trademark Office ("USPTO") pertaining to a specialized 3D x-ray filter, known as a 3D-Beam Modulation Filter.

- On September 9, 2021, the Company announced that it received a semifinalist nomination for AuntMinnie.com's 2021 award campaign to recognize the best and brightest in medical imaging. Auntminnie.com is a leading radiology news website.

- On September 21, 2021, the Company announced it has entered into an agreement with Johns Hopkins University School of Medicine ("JHU") to develop image reconstruction software (deep machine learning algorithms) to further improve the image processing performance of Breast CT while minimizing computational burden.

- On November 5, 2021, the Company announced the appointment of Dr. Andrew M. Hernandez as Head of Imaging Technology.

- On November 22, 2021, the Company announced that its engineering teams have successfully built and assembled IzoView's radiation imaging subsystem, which is now taking static images, to be characterized and optimized for 360-degree image acquisition.

- On November 24, 2021, the Company filed their Annual Information Form ("AIF") for the year ended April 30, 2021 on SEDAR.

- On November 29, 2021, the Company announced that it has implemented a Quality Management System (QMS) for regulatory and manufacturing purposes.

- On March 7, 2022, the Company announced it is moving its medical device engineering and product development to its in-house facility located in Sacramento, California, USA.

- On March 14, 2022, the Company announced the addition of Dr. Shadi Aminololama-Shakeri, BD, FSBI to its Advisory Board and commercialization team as a clinical consultant. The Company granted Dr. Shakeri 100,000 stock options at an exercise price of $0.65 expiring in 5 years.

SELECTED ANNUAL INFORMATION

	Year ended April 30, 2022 (Audited) ($)	Year ended April 30, 2021 (Audited) ($)	Year ended April 30, 2020 (Audited) ($)
Continuing Operations			
Revenue	nil	nil	nil
General and Administrative Expenses	6,654,692	4,976,126	1,155,842
Net Loss	6,654,692	4,976,126	1,155,842
Basic and Diluted loss per share	0.15[3]	0.14[2]	0.05[1]

Notes:
(1) Based on 25,088,103 Common Shares issued and outstanding for the year ended April 30, 2020.
(2) Based on 35,304,860 Common Shares issued and outstanding for the year ended April 30, 2021.
(3) Based on 43,101,242 Common Shares issued and outstanding for the year ended April 30, 2022.

Statement of Financial Position	As at April 30, 2022 (Audited) ($)	As at April 30, 2021 (Audited) ($)	As at April 30, 2020 (Audited) ($)
Assets			
Current assets	2,250,048	4,685,024	773,950
Total Assets	2,269,035	4,686,655	777,211
Liabilities			
Current liabilities	2,643,624	169,282	69,992
Total Shareholders' Equity (Deficiency)	(374,589)	4,517,373	707,219
Total Liabilities and Shareholders' Equity	2,269,035	4,686,655	777,211

DISCUSSION OF OPERATIONS

Six months ended October 31, 2022

Revenues

For the six months ended October 31, 2022, the Company did not generate any revenue.

Expenses

For the six months ended October 31, 2022, the Company recorded expenses of $2,411,799.

The Company reported a net loss of $2,411,799 during the six months ended October 31, 2022 (October 31, 2021 - $3,780,663). The decrease in loss compared to the prior year's period is due to reduction in share-based payments, investor relations, and product development expense, offset by increased accretion expense and consulting fees.

The main factors that contributed to the change in loss during the six months ended October 31, 2022 were:

- Accretion expense of $144,544 (2021 - $nil) increased as the Company is paying interest expense to the holders of the promissory notes;

- Consulting fees increased to $370,000 (2021 - $322,000) as the Company entered the development phase of the IzoView;

- Product development expenses decreased to $1,244,820 (2021 - $2,266,298) due to the timing of expenditures on the development of the IzoView, and

- share-based payments of $111,980 (2021 - $546,371) decreased due to fewer incentive options granted during the period.

During the six months ended October 31, 2022, and up to the date of this report, the Company issued the following common shares:

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

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

On July 11, 2022, the fourth and final vesting of the RSU's initially granted January 11, 2021 were vested. A total of 187,500 shares were issued to directors, officers, and consultants of the Company valued at $230,625, or $1.23 per share.
On August 2, 2022, 75,000 stock options priced at $0.10 were exercised for gross proceeds of $7,500.

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

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

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

On November 10, 2022, the Company completed a non-brokered private placement financing (the "Offering") of 2,500,000 units of the Company (each, a "Unit") at a price of $0.40 per Unit for gross proceeds of $1,000,000. Each Unit consists of one common share (each, a "Share") and one-half of one transferable common share purchase "A" warrant (each whole "A" warrant, an "A Warrant") and one-half of one transferable common share purchase "B"

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

For more details related to the Company's issuance of common shares, refer to the condensed interim financial statements for the six months ended October 31, 2022.

LIQUIDITY AND CAPITAL RESOURCES

To build our Company into a leading provider of breast CT imaging technology, we may need to continue to raise capital. As a young growth company, we are cognizant that as at October 31, 2022 we were not capable of sustaining our working capital requirements. In order to reach sustainable business operations, we will continue our plan to achieve the Milestones and a positive return to our shareholders.

Working Capital at October 31, 2022 and April 30, 2022

	At October 31, 2022 $	At April 30, 2022 $
Current assets	1,137,540	2,250,048
Current liabilities	2,672,786	2,643,624
Working capital surplus (deficiency)	(1,535,246)	(393,576)

The Company reported a working capital deficiency of $1,535,246 and cash on hand of $907,412 at October 31, 2022 compared to working capital deficiency of $393,576 and cash on hand of $1,856,573 at April 30, 2022. The current liabilities include promissory notes with a face value of $2,050,000.

The Company's future capital requirements will depend upon many factors including, without limitation, which regulatory approval path the Company will select. The Company has limited capital resources and may have to rely upon the sale of equity securities for cash required for development purposes, for additional costs and to fund the administration of the Company. Since the Company does not expect to generate any revenues from operations in the near future, it must continue to rely upon the sales of its equity and debt securities to raise capital, which would result in further dilution to the shareholders. There is no assurance that financing, whether debt or equity, will be available to the Company in the amount required by the Company at any particular time or for any period and that such financing can be obtained on terms satisfactory to the Company or at all. See "*Risk Factors*".

Cash Flows for the six months ended October 31, 2022

Cash Flows Used in Operating Activities

The Company's cash flows used in operating activities for the six months ended October 31, 2022 was $1,978,210, compared to the Company's cash flows used in operating activities for the six months ended October 31, 2021 of $1,637,364, an increase of $340,846, primarily due to the change in accounts payable.

Cash Used in Investing Activities

The Company's cash used in investing activities for the six months ended October 31, 2022 was $10,538 (2021 - $31,911) for the purchase of equipment.

Cash Provided by Financing Activities

The Company's cash provided by financing activities for the six months ended October 31, 2022 was $1,039,587, compared to $256,975 during the six months ended October 31, 2021. This includes $780,000 (2021 - $256,975) from the exercise of warrants, $44,500 (2021 - $nil) from the exercise of stock options, $28,087 (2021: $nil) from the exercise of broker warrants, $310,000 (2021 - $nil) from share subscriptions received, and $123,000 (2021 - $nil) was spent on interest expense on the promissory notes.

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.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

TRANSACTIONS BETWEEN RELATED PARTIES

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 certain members of its Board of Directors.

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

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

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values unless otherwise stated.

Disclosure of Outstanding Security Data

The Company had the following common shares, share purchase warrants, and stock options outstanding as of the following dates:

	December 15, 2022	October 31, 2022	April 30, 2022
Common Shares	51,855,021	49,355,021	44,841,454
Stock Options	4,060,000	1,900,000	3,475,000
Warrants	5,351,094	2,786,239	13,486,753
Fully Diluted Shares	61,266,115	54,041,260	61,803,207

Risk Factors

An investment in the Company is speculative and involves a high degree of risk. Accordingly, prospective investors should carefully consider the specific risk factors set out below, in addition to the other information contained in this document, before making any decision to invest in the Company. The Directors consider the following risks and other factors to be the most significant for potential investors in the Company, but the risks listed do not necessarily comprise all those associated with an investment in the Company and are not set out in any particular order of priority. Additional risks and uncertainties not currently known to the Directors may also have an adverse effect on the Company's business.

If any of the following risks actually occur, the Company's business, financial condition, capital resources, results or future operations could be materially adversely affected. In such a case, the price of the Common Shares could decline and investors may lose all or part of their investment.

Risks Relating to the Company's Business

Negative Cash Flow from Operating Activities

The Company has no history of earnings and had negative cash flow from operating activities since inception. To date, the Company has not received and revenues from the sales of the Izotropic Breast Imaging System. The Company has accumulated net losses and expects to continue to incur such losses until such time as milestone payments from collaborative partners, licensing fees, product sales or royalty payments generate sufficient revenues to fund its continuing operations. The Company's ability to attain profitability will depend on a number of factors, some of which are outside its control. These factors include the following:

- its ability to obtain necessary government and regulatory approvals, including FDA market approval;
- its ability to successfully complete the design and development of the Commercial Unit;
- its ability to successfully commercialize the Izotropic Breast Imaging System;
- its ability to secure the Milestone Patents;
- its ability to protect the intellectual property granted to the Company under the License Agreement;
- the success of its sales and marketing efforts;
- its ability to maintain its competitive advantages;
- new developments in the area of cancer detections and the efficacy of competing technologies;
- market acceptance of its products and services; and
- its ability to raise additional capital as and when needed and on acceptable terms.

No Production History

The Company has no product sales history its ultimate success will depend on its operating ability to generate cash flow from sales of its products and services in the future. The Company has not generated any revenue to date and there is no assurance that it will do so in the future.

The Company's business operations are at an early stage of development and its success will be largely dependent upon the outcome of its ultimate strategy of successfully developing and marketing the Izotropic Breast Imaging System.

The ability of the Company to satisfy the terms of the License Agreement and maintain the License in good standing

The Company has been granted an exclusive license to the Inventions pursuant to the License Agreement. The Company's rights and obligations are outlined in the License Agreement. The License Agreement requires the Company to complete the License Agreement Milestones. Failure to complete the License Agreement Milestones could allow the Licensor to terminate the License Agreement. The License Agreement may also be terminated by the Licensor if certain other conditions occur. If the Company's relationship with the Licensor were to terminate, the Company would not be able to distribute and commercialize the Izotropic Breast Imaging System and might not be able to enter into another license agreement with an entity with similar technologies on acceptable terms or at all. As a result, the Company could experience delays in its ability to distribute and commercialize the Izotropic Breast Imaging System or a similar technology, all of which would have a material adverse effect on the Company's business, results of operations and financial condition.

The ability of the Company to complete the design and development of the Commercial Unit, as well as create a physical prototype of the Commercial Unit

The Company, in partnership with researchers at UC Davis and third party engineers, continues to design and develop the Commercial Unit. The Company expects the design and development of the Commercial Unit to be completed by July 2018. There are no assurances that the design and development of the Commercial Unit will be completed by this deadline. As a result, the Company could experience delays in its ability to distribute and commercialize the Izotropic Breast Imaging System, all of which would have a material adverse effect on the Company's business, results of operations and financial condition.

The Company's ability to timely obtain regulatory approvals, including FDA approval or CE approval, in order to satisfy the terms of the License Agreement

Under the License Agreement, the Company is required to submit an application covering a product or service to be offered by the Licensee in connection with the License Agreement to the FDA or equivalent foreign agency by June 30, 2018 and obtain FDA or equivalent foreign agency approval by December 31, 2021 (subsequently extended to 2027 – see "Licensing Agreement"). The FDA might not approve the Commercial Unit, might delay approval, or might require premarket approval (previously defined as "**PMA**") rather than the less stringent 501(k) approval. If the FDA requires PMA for the Commercial Unit, the Company might seek reclassification of the Commercial Unit by the FDA through the de novo process, might elect to seek CE mark approval in Europe, or extend the deadlines to make a regulatory application and obtain a form of regulatory approval as outlined in the License Agreement Milestones. As a result, the Company could experience delays in its ability to distribute and commercialize the Izotropic Breast Imaging System, all of which would have a material adverse effect on the Company's business, results of operations and financial condition. 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

The Company's products and operations are subject to extensive regulation in the United States by the U.S. Food and Drug Administration or FDA. The FDA regulates the development, bench and clinical testing, manufacturing, labeling, storage, record keeping, promotion, sales, distribution and postmarket support and reporting of medical devices in the United States to ensure that medical products distributed in the United States are safe and effective for their intended uses. In order for us to market certain products for use in the United States, the Company generally must first obtain clearance from the FDA pursuant to the the Federal Food, Drug and Cosmetic Act (previously defined as the "**FDCA**"). Clearance under Section 510(k) requires demonstration that a new device is substantially

equivalent to another device with 510(k) clearance or grandfathered status. Clearance under the de novo review requires that a new device presents a moderate or low risk.

In addition, if the Company develops products in the future that are not considered to be substantially equivalent to a device with 510(k) clearance or grandfathered status or presenting more than a moderate or low risk, the Company will be required to obtain FDA approval by submitting a PMA. The FDA may not act favorably or quickly in its review of the Company's 510(k), de novo review or PMA submissions, or the Company may encounter significant difficulties and costs in the Company's efforts to obtain FDA clearance or approval, all of which could delay or preclude sale of new products in the United States. Furthermore, the FDA may request additional data or require us to conduct further testing, or compile more data, including clinical data and clinical studies. Regulatory policy affecting the Company's products can change at any time. The changes and their impact on the Company's business cannot be accurately predicted. Changes in the FDA 510(k) or de novo review process could make approval more difficult to obtain, increase delay, add uncertainty and have other significant adverse effects on the Company's ability to obtain and maintain approval for the Company's products. The FDA may also, instead of accepting a 510(k) or de novo review submission, require us to submit a PMA, which is typically a much more complex, lengthy and burdensome application. To support a PMA, the FDA would likely require that the Company conduct one or more clinical studies to demonstrate that the device is safe and effective. In some cases such studies may be requested for non-PMA submissions as well. We may not be able to meet the requirements to obtain 510(k) or de novo review clearance or PMA approval, in which case the FDA may not grant any necessary clearances or approvals. In addition, the FDA may place significant limitations upon the intended use of the Company's products as a condition to a 510(k) or de novo review clearance or PMA approval. Product applications can also be denied or withdrawn due to failure to comply with regulatory requirements or the occurrence of unforeseen problems following clearance or approval. Any delays or failure to obtain FDA clearance or approvals of new products the Company develops, any limitations imposed by the FDA on new product use, or the costs of obtaining FDA clearance or approvals could have a material adverse effect on the Company's business, financial condition and results of operations.

To be able to provide the Company's products in other countries, the Company must obtain regulatory approvals and comply with the regulations of those countries which may differ substantially from those of the United States. These regulations, including the requirements for approvals and the time required for regulatory review, vary from country to country. Obtaining and maintaining foreign regulatory approvals is complex, and the Company cannot be certain that it will receive regulatory approvals in any foreign country in which the Company plans to market the Company's products, or to obtain such approvals on a favorable schedule. If the Company fails to obtain or maintain regulatory approval in any foreign country in which the Company plans to market the Company's products, the Company's ability to generate revenue will be harmed.

The EU requires that manufacturers of medical products obtain the right to affix the CE mark to their products before selling them in member countries of the EU. The CE mark is an international symbol of adherence to quality assurance standards and compliance with applicable European medical device directives. In order to obtain the authorization to affix the CE mark to products, a manufacturer must obtain certification that its processes meet certain European quality standards. If the Company is unable to obtain permission to affix the CE mark to the Company's products, the Company will not be able to sell the Company's products in member countries of the EU and many affiliated countries that accept the CE mark, which would have a material adverse effect on the Company's results of operations. Some member states of the European Union have additional requirements for registration and notification which may add to the time and effort to obtain market access. In addition, the regulations applied to end users of the Company's products may increase over time, forcing us to provide additional solutions to regulations which do not apply directly to us, but which apply indirectly as they may limit the Company's customers' ability to use the Company's products.

The Company's ability to successfully secure patents relating to the Licensed Patent Rights

Under the License Agreement, the Company has agreed to fund the Licensor's applications for the patents under the Licensed Patent Rights. The USPTO might not approve the Milestone Patents or might delay approval. As a result, the Company could experience delays in its ability to distribute and commercialize the Izotropic Breast Imaging

System, all of which would have a material adverse effect on the Company's business, results of operations and financial condition.

Additional Requirements for Capital

Substantial additional financing may be required if the Company is to be successful in pursuing its ultimate strategy of successfully developing and marketing the Izotropic Breast Imaging System. No assurances can be given that the Company will be able to raise the additional capital that it may require for its anticipated future operations. Revenues, taxes, costs, capital expenditures, operating expenses, regulatory approvals, and the political environment are all factors which will have an impact on the amount of additional capital that may be required. Any additional equity financing may be dilutive to investors and debt financing, if available, may involve restrictions on financing and operating activities. There is no assurance that additional financing will be available on terms acceptable to the Company, if at all. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion, incur financial penalties, or reduce or terminate its operations.

The Company's ability to timely enter into leasing agreements with hospitals and clinics to lease the Izotropic Breast Imaging System

Neither the Company nor IIC has entered into any revenue generating agreements with hospitals or clinics for the Izotropic Breast Imaging System. The Company's success will be largely dependent upon the outcome of its strategy of successfully developing and marketing the Izotropic Breast Imaging System and entering into revenue generating agreements with hospitals and clinics once it has obtained necessary regulatory approvals.

Use of Funds

The Company has prepared a detailed budget setting out the way in which it proposes to expend the funds raised under the Offering. However, the quantum and timing of expenditure will necessarily be dependent upon the Company's ultimate strategy of successfully developing and marketing the Izotropic Breast Imaging System. As the Company continues to develop the Izotropic Breast Imaging System, it is possible that circumstances may dictate a departure from the pre-existing budget. Further, the Company may, from time to time as opportunities arise, utilize part of its financial resources (including the funds raised as part of the Offering) to participate in additional opportunities that arise and fit within the Company's broader objectives, as a means of advancing shareholder value.

The possible requirement to undergo the PMA process rather than the much shorter and less capital intensive 510(k) process for FDA regulatory approval of the Commercial Unit

The Company's Commercial Unit may not be approved for the 510(k) FDA process. The PMA pathway is estimated to take up to 24 months at a cost of up to approximately US$2 million. Since there is a distinct advantage to seeking a PMA, as it is a higher approval process that would facilitate faster approvals outside the United States and medical insurers in the United States do not dispute costs associated with a technology that has FDA clearance through a PMA, the Company may elect to undertake a PMA approval process instead of a less expensive alternative such as CE mark approval in Europe. In the event the Company elects to undertake a PMA, it may seek an industry partner to fund associated costs in exchange for select marketing rights, or the Company may conduct a financing sufficient to fund PMA when and if elected. The Company may not be able to find an industry partner to fund associated costs for the PMA approval process and may not be able to arrange financing sufficient to fund PMA. As a result, the Company could experience delays in its ability to distribute and commercialize the Izotropic Breast Imaging System, all of which would have a material adverse effect on the Company's business, results of operations and financial condition.

Competition

The Company competes with numerous other research-based imaging companies and organizations that develop, manufacture, market, and sell proprietary imaging technologies, solutions, and products that may possess greater financial resources and technical facilities than the Company in proprietary diagnostic and imaging products for breast cancer, as well as the recruitment and retention of suitably qualified individuals. These competitors may introduce new products or develop technological advances that compete with the Company. The Company cannot predict the timing or impact of competitors introducing new products or technological advances. Such competing products may be safer, more effective, more effectively marketed or sold, or have lower prices or superior performance features than the Company's products, and this could negatively impact the Company's business and results of operations.

Laws and regulations affecting government benefit programs could impose new obligations on the Company, require it to change its business practices, and restrict its operations in the future

The healthcare industry is subject to various federal, state and international laws and regulations pertaining to government benefit programs reimbursement, rebates, price reporting and regulation, and healthcare fraud and abuse. Violations of these laws may be punishable by criminal and/or civil sanctions, including, in some instances, substantial fines, imprisonment, and exclusion from participation in federal and state healthcare programs. These laws and regulations are broad in scope and they are subject to change and evolving interpretations, which could require the Company to incur substantial costs associated with compliance, or to alter one or more of its sales or marketing practices. In addition, violations of these laws, or allegations of such violations, could disrupt the Company's business and result in a material adverse effect on its business and results of operations.

The international nature of the Company's business subjects it to additional business risks that may cause its revenue and profitability to decline

The Company's business is subject to risks associated with doing business internationally, including in emerging markets. As the Company's market is global, the Company faces risks that may include:

- Fluctuations in currency exchange rates;
- Multiple legal and regulatory requirements that are subject to change and that could restrict the Company's ability to manufacture, market, and sell its products;
- Trade-protection measures and import or export licensing requirements;
- Difficulty in establishing staffing and managing operations;
- Differing labour regulations;
- Inflation, recession, and fluctuations in interest rates;
- Political and economic instability; and,
- Price and currency exchange controls, limitations on participation in local enterprises, expropriation, nationalization, and other governmental action.

The aforementioned risks may have a material adverse effect on the Company's revenues and profitability.

Technological change

The digital imaging industry is susceptible to technological advances and the introduction of new products utilizing new technologies. Further, the digital imaging industry is also subject to changing industry standards, market trends and customer preferences, and to competitive pressures which can, among other things, necessitate revisions in pricing strategies, price reductions and reduced profit margins. The Company's success will depend on its ability to secure technological superiority in its products and maintain such superiority in the face of new products. While the Company believes that its products will be competitive, no assurances can be given that the Company's products will be commercially viable or that further modification or additional products will not be required to meet demands or to make changes necessitated by competitors' developments that might render the Company's products less competitive, less marketable, or even obsolete over time.

Management of growth

The Company may be subject to growth-related risks, including capacity constraints and pressure on its internal systems and controls. The Company's ability to manage its growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train, and manage its employee base. Inability of the Company to deal with this growth could have a material adverse impact on its business, operations, and prospects.

Protection of intellectual property

Although the Company does not believe that its products infringe on the proprietary rights of any third parties, there can be no assurance that infringement or invalidity claims (or claims for indemnification resulting from infringement claims) will not be asserted or prosecuted against the Company or the Licensor or that any such assertions or prosecutions will not materially adversely affect the Company's business, financial condition, or results of operations. Regardless of the validity or the successful assertion of such claims, the Company could incur significant costs and diversion of resources with respect to the defense thereof, which could have a material adverse effect on the Company's business, financial condition, or results of operations. The Company's performance and ability to compete are dependent to a significant degree on the proprietary technology licensed to it under the License Agreement. The Company relies on the patents and a combination of copyright and trade secret laws, as well as confidentiality agreements and technical measures, to establish and protect the proprietary rights of the Inventions. As part of its confidentiality procedures, the Company generally enters into agreements with its employees and consultants and limits access to and distribution of its documentation and other proprietary information.

Accordingly, while the Company will endeavor to protect the intellectual property licensed to it under the License Agreement, there can be no assurance that the steps taken by the Company will prevent misappropriation of that technology or that agreements entered into for that purpose will be enforceable. The laws of other countries may afford the Company little or no effective protection of its intellectual property or the intellectual property of the Licensor.

Product Liability Claims

The Company may become subject to liability in connection with the use of the Izotropic Breast Imaging System such as unusual litigation claims that cannot be insured against or against which it may elect not to be so insured because of high premium costs or other reasons. The Company has agreed to indemnify the Licensor under the License Agreement with respect to certain types of claims. However, the Company may incur a liability to third parties (in excess of any insurance coverage) arising from damage or injury.

Risks Relating to the Company's Management

Conflicts of Interest

The Company's Directors and officers may act as directors and/or officers of other companies engaged in the development diagnostic products for the early detection of breast cancer. As such, the Company's Directors and officers may be faced with conflicts of interests when evaluating alternative opportunities. In addition, the Company's Directors and officers may prioritize the business affairs of another Company over the affairs of the Company

The Company's future performance is dependent on its management team

The Company has a small management team and the loss of any key individual could affect the Company's business. Any inability to secure and/or retain appropriate personnel may have a materially adverse impact on the business and operations of the Company.

Risks Relating to the Company's Common Shares

Substantial Number of Authorized but Unissued Shares

The Company has an unlimited number of Common Shares that may be issued by the Board of Directors without further action or approval of the Company's shareholders. While the Board of Directors is required to fulfill its fiduciary obligations in connection with the issuance of such shares, the shares may be issued in transactions with which not all shareholders agree, and the issuance of such shares will cause dilution to the ownership interests of the Company's shareholders.

Dilution

The financial risk of the Company's future activities will be borne to a significant degree by purchasers of the Common Shares. If the Company issues Common Shares from its treasury for financing purposes, control of the Company may change and purchasers may suffer additional dilution.

No Market for Securities

There is currently no market through which any of the Common Shares, may be sold and there is no assurance that such securities of the Company will be listed for trading on a stock exchange, or if listed, will provide a liquid market for such securities. Until the Common Shares are listed on a stock exchange, holders of the Common Shares may not be able to sell their Common Shares. Even if a listing is obtained, there can be no assurance that an active public market for the Common Shares will develop or be sustained after completion of the Offering. The offering price determined by negotiation between the Company and the Agent was based upon several factors, and may bear no relationship to the price that will prevail in the public market. The holding of Common Shares involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. Common Shares should not be purchased by persons who cannot afford the possibility of the loss of their entire investment.

Liquidity of the Common Shares

Listing on the Exchange should not be taken as implying that there will be a liquid market for the Common Shares. Thus, an investment in the Common Shares may be difficult to realize. Investors should be aware that the value of the Common Shares may be volatile. Investors may, on disposing of Common Shares, realize less than their original investment, or may lose their entire investment. The Common Shares, therefore, may not be suitable as a short-term investment.

The market price of the Common Shares may not reflect the underlying value of the Company's net assets. The price at which the Common Shares will be traded, and the price at which investors may realize their Common Shares, will be influenced by a large number of factors, some specific to the Company and its proposed operations, and some which may affect the sectors in which the Company operates. Such factors could include the performance of the Company's operations, large purchases or sales of the Common Shares, liquidity or the absence of liquidity in the Common Shares, legislative or regulatory changes relating to the business of the Company, and general market and economic conditions.

Volatility of the Common Shares

The share price of publicly traded smaller companies can be highly volatile. The value of the Common Shares may go down as well as up and, in particular, the share price may be subject to sudden and large falls in value given the restricted marketability of the Common Shares.

Current Market Volatility

The securities markets in the United States and Canada have recently experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It may be anticipated that any market for the Common Shares will be subject to market trends generally, notwithstanding any potential success of the Company. The value of the Common Shares distributed hereunder will be affected by such volatility.

Tax Issues

Income tax consequences in relation to the securities offered will vary according to the circumstances of each purchaser. Prospective purchasers should seek independent advice from their own tax and legal advisers prior to subscribing for the securities.

General

Although management believes that the above risks fairly and comprehensibly illustrate all material risks facing the Company, the risks noted above do not necessarily comprise all those potentially faced by the Company as it is impossible to foresee all possible risks.

Although the Directors will seek to minimize the impact of the risk factors, an investment in the Company should only be made by investors able to sustain a total loss of their investment. Investors are strongly recommended to consult a person who specializes in investments of this nature before making any decision to invest.