



Consolidated Financial Statements

For the years ended April 30, 2023 and 2022

(In Canadian dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Independent Auditor's Report

To the Shareholders of Izotropic Corporation

Opinion

We have audited the consolidated financial statements of Izotropic Corporation (the "Company"), which comprise the consolidated statements of financial position as at April 30, 2023 and 2022, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which indicates that the Company's proposed business involves a high degree of risk and as of April 30, 2023, the Company's current liabilities exceeded its total assets by \$3,142,827. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters, that in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Except for the matter described in the Material Uncertainty Related to Going Concern section, we have determined that there are no other key audit matters to communicate in our report.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is David Goertz.



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

August 29, 2023

IZOTROPIC CORPORATION

Consolidated Statements of Financial Position

As at April 30, 2023 and 2022

(Expressed in Canadian dollars)

	Notes	2023	2022
		\$	\$
Assets			
Current			
Cash and cash equivalents		165,685	1,856,573
GST recoverable		13,406	41,261
Prepaid expenses and deposits	3	138,253	352,214
		317,344	2,250,048
Property and equipment	4	124,769	18,987
Total assets		442,113	2,269,035
Liabilities			
Current			
Accounts payable and accrued liabilities	5	1,376,948	615,470
Promissory notes	6	2,050,000	2,028,154
Lease liability	7	33,223	-
		3,460,171	2,643,624
Lease liability	7	55,701	-
Total liabilities		3,515,872	2,643,624
Shareholders' equity			
Share capital	8	13,353,439	11,278,117
Reserves	8	1,665,674	2,327,291
Accumulated other comprehensive loss		(822)	-
Deficit		(18,092,050)	(13,979,997)
Total equity		(3,073,759)	(374,589)
Total liabilities and equity		442,113	2,269,035
Nature of operations and going concern	1		
Subsequent events	8(d), 16		

Approved on behalf of the Board of Directors:

(Signed) "Bob Thast"

Director

(Signed) "Ralph Procevia"

Director

IZOTROPIC CORPORATION

Consolidated Statements of Comprehensive Loss

Years ended April 30, 2023 and 2022

(Expressed in Canadian dollars)

	Notes	2023	2022
		\$	\$
Operating expenses			
Consulting fees	9	720,727	601,417
Depreciation	4	30,883	6,872
Filing and regulatory fees		79,473	84,312
Investor relations		25,300	174,000
Office		61,698	78,244
Research and development	9	2,393,510	3,464,405
Professional fees	9	446,656	367,580
Share-based compensation	8(d), 8(e), 9	1,148,157	1,070,386
Travel and promotion		427,655	759,566
Loss before other items		(5,334,059)	(6,606,782)
Other items			
Bank charges		(6,929)	(5,942)
Accretion	6, 7	(47,457)	-
Interest	6	(246,955)	(19,928)
Foreign exchange loss		(25,750)	(22,040)
		(327,091)	(47,910)
Net loss		(5,661,150)	(6,654,692)
Other comprehensive loss			
Foreign currency translation		(822)	-
Comprehensive loss		(5,661,972)	(6,654,692)
Net loss per share - basic and diluted		(0.11)	(0.15)
Weighted average number of shares outstanding		50,091,083	43,101,242

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

IZOTROPIC CORPORATION

Consolidated Statements of Changes in Shareholders' Equity

Years ended April 30, 2023 and 2022

(Expressed in Canadian dollars)

	Notes	Share capital		Reserves			Total Reserves	Accumulated other Comprehensive loss	Deficit	Total
		Number	Amount	Options	RSUs/PSUs	Warrants				
		#	\$				\$	\$	\$	\$
Balance, April 30, 2022		44,841,454	11,278,117	1,571,490	583,324	172,477	2,327,291	-	(13,979,997)	(374,589)
Shares issued for cash	8(b)(i)	2,500,000	1,000,000	-	-	-	-	-	-	1,000,000
Share issuance costs	8(b)(i)	-	(62,071)	-	-	24,129	24,129	-	-	(37,942)
Warrants exercised	8(c)	3,900,000	780,000	-	-	-	-	-	-	780,000
Broker warrants exercised	8(c)	51,067	61,136	-	-	(33,049)	(33,049)	-	-	28,087
Expired broker warrants	8(c)	-	-	-	-	(98,037)	(98,037)	-	98,037	-
Stock options exercised	8(d)	375,000	65,632	(21,132)	-	-	(21,132)	-	-	44,500
Forfeited and expired options	8(d)	-	-	(1,266,560)	-	-	(1,266,560)	-	1,266,560	-
Shares issued on vested RSUs	8(e)	187,500	230,625	-	(415,125)	-	(415,125)	-	184,500	-
Share-based compensation	8(d)	-	-	967,772	180,384	-	1,148,157	-	-	1,148,157
Comprehensive loss for the year		-	-	-	-	-	-	(822)	(5,661,150)	(5,661,972)
Balance, April 30, 2023		51,855,021	13,353,439	1,251,570	348,583	65,520	1,665,674	(822)	(18,092,050)	(3,073,759)
Balance, April 30, 2021		42,006,078	10,041,597	1,226,771	416,230	158,080	1,801,081	-	(7,325,305)	4,517,373
Shares issued for services	8(b)(vi)	181,495	119,787	-	-	-	-	-	-	119,787
Share issuance costs		-	(13,079)	-	-	-	-	-	-	(13,079)
Shares issued on vested RSUs	8(e)	450,000	553,500	-	167,094	-	167,094	-	-	720,594
Warrants issued	6	-	-	-	-	41,391	41,391	-	-	41,391
Warrants exercised	8(c)	2,029,300	504,475	-	-	-	-	-	-	504,475
Broker warrants exercised	8(c)	49,581	54,264	-	-	(26,994)	(26,994)	-	-	27,270
Stock options exercised	8(d)	125,000	17,573	(5,073)	-	-	(5,073)	-	-	12,500
Share-based compensation	8(d)	-	-	349,792	-	-	349,792	-	-	349,792
Comprehensive loss for the year		-	-	-	-	-	-	-	(6,654,692)	(6,654,692)
Balance, April 30, 2022		44,841,454	11,278,117	1,571,490	583,324	172,477	2,327,291	-	(13,979,997)	(374,589)

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

IZOTROPIC CORPORATION

Consolidated Statements of Cash Flows

Years ended April 30, 2023 and 2022

(Expressed in Canadian dollars)

	2023	2022
	\$	\$
Operating activities		
Net loss for the year	(5,661,150)	(6,654,692)
Items not affecting cash		
Depreciation	30,883	6,872
Interest	246,955	19,545
Accretion	47,457	-
Shares issued for services	-	119,787
Share-based payments	1,148,157	1,070,386
Changes in non-cash working capital items:		
GST recoverable	27,855	2,633
Prepaid expenses and deposits	213,961	225,160
Accounts payable and accrued liabilities	679,478	446,188
Cash flows used in operating activities	(3,266,404)	(4,764,121)
Investing activities		
Purchase of property and equipment	(36,184)	(24,228)
Cash flows used in investing activities	(36,184)	(24,228)
Financing activities		
Shares issued for cash, net of share issue costs	1,814,645	531,166
Proceeds from promissory notes	-	2,050,000
Interest paid on promissory notes	(184,500)	-
Payment of lease liability	(17,682)	-
Cash flows provided by financing activities	1,612,463	2,581,166
Decrease in cash	(1,690,125)	(2,207,183)
Effect of foreign currency translation on cash	(763)	-
Cash and cash equivalents, beginning of year	1,856,573	4,063,756
Cash and cash equivalents, end of year	165,685	1,856,573
Cash and cash equivalents consist of:		
Cash	136,935	1,856,573
GIC	28,750	-
Supplementary cash flow information		
Right-of-use asset addition	100,102	-
Cash paid for interest	184,500	-
Cash paid for taxes	-	-

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

IZOTROPIC CORPORATION

Notes to Consolidated Financial Statements

Years ended April 30, 2023 and 2022
(Expressed in Canadian dollars)

1. Nature of operations and going concern

(a) Nature 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. The common shares of Izotropic are listed on the Canadian Securities Exchange in Canada under the symbol “IZO”, on the OTC markets in the USA under the symbol “IZOZF” and the Frankfurt Stock Exchange in Germany under the symbol “1R3”.

On April 25, 2017, the Company entered into an agreement with the Regents of the University of California for an Exclusive License Agreement related to breast cancer detection and treatment (Note 11).

(b) Going concern

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company’s financial success is dependent on management’s ability to raise adequate financing on reasonable terms and to commence profitable operations in the future. The proposed business of the Company involves a high degree of risk and there is no assurance that the Company will identify proper technologies or inventions that will be successful, and even if so identified and warranted, it may not be able to finance such technologies within the requisite time period. At April 30, 2023, the Company had a net working capital deficiency of \$3,142,827 and has no sources of cash from operations. These factors indicate the existence of a material uncertainty which may cast significant doubt about the Company’s ability to continue as a going concern. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded in these consolidated financial statements. These consolidated financial statements do not include adjustments that would be necessary should the Company be unable to continue as a going concern.

2. Significant accounting policies

(a) Basis of presentation

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

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The presentation currency of the Company is the Canadian dollar.

IZOTROPIC CORPORATION

Notes to Consolidated Financial Statements

Years ended April 30, 2023 and 2022
(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(a) Basis of presentation (continued)

The consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on August 29, 2023.

(b) Basis of consolidation

The consolidated financial statements include the accounts of the Company and the following controlled entities:

Entity	Ownership	Jurisdiction	Functional Currency
Izotropic Imaging Corp.	100%	Nevada, USA	US Dollar
Izotropic Development Corp.	100%	California, USA	US Dollar

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial results of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany transactions and balances have been eliminated on consolidation.

(c) Foreign currency translation

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the parent company. The functional currencies of the Company's subsidiaries are outlined in Note 2(b).

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the consolidated statement of financial position date are translated to Canadian dollars at the foreign exchange rate applicable at that date. Realized and unrealized exchange gains and losses are recognized in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The assets and liabilities of foreign operations are translated into Canadian dollars at period end exchange rates. Income and expenses, and cash flows of foreign operations are translated into Canadian dollars using average exchange rates. Exchange differences arising on the translation of foreign operations are recognized in other comprehensive income and accumulated in equity.

(d) Cash and cash equivalents

Cash and cash equivalents include cash on deposit with banks, demand deposits, and money market instruments with maturities of three months or less, which are readily convertible into cash and are subject to insignificant changes in value. Cash and cash equivalents are designated as financial assets at amortized cost.

IZOTROPIC CORPORATION

Notes to Consolidated Financial Statements

Years ended April 30, 2023 and 2022

(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(e) Property and equipment

Property and equipment is measured at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets, except in the year of acquisition, when half of the rate is used as follows:

Computer software and hardware	2 years
Furniture and fixtures	5 years
Leasehold improvements	term of lease

An asset's residual value, useful life and depreciation method are reviewed at each financial year-end and adjusted if appropriate.

Gains and losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the item and are recognized in profit or loss.

(f) Leased assets

The Company has entered into a lease agreement for its corporate office located in Sacramento, California. At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use assets are subsequently depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

IZOTROPIC CORPORATION

Notes to Consolidated Financial Statements

Years ended April 30, 2023 and 2022

(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(f) Leased assets (continued)

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

(g) Share capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares and common share warrants are classified as equity instruments. Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from share capital. Proceeds received for shares that have not yet been issued as at the reporting date are recorded as share subscriptions.

Shares issued for non-monetary consideration are recorded at fair value of the goods or services received. When such fair value cannot be estimated reliably, fair value is measured based on the quoted market value of the Company's shares on the date of share issuance. Warrants issued as purchase consideration in non-monetary transactions are recorded at fair value using the Black-Scholes option pricing model.

(h) Share-based compensation

Stock Options

Stock options issued to employees are measured at fair value at the grant date and are recognized as an expense over the relevant vesting periods with a corresponding credit to share reserves.

Stock options issued to non-employees are measured at the fair value of goods or services received or the fair value of equity instruments issued, if it is determined that the fair value of the goods or services cannot be reliably measured. The fair value of non-employee stock options is recorded as an expense at the date the goods or services are received with a corresponding credit to share reserves. When the stock options are forfeited or expire unexercised, the amount previously recognized in the reserve is transferred to deficit.

The fair value of options is calculated using the Black-Scholes option pricing model. When determining the fair value of stock options, management is required to make certain assumptions and estimates related to expected lives, volatility, risk-free rate, future dividend yields and estimated forfeitures at the initial grant date.

IZOTROPIC CORPORATION

Notes to Consolidated Financial Statements

Years ended April 30, 2023 and 2022
(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(h) Share-based compensation (continued)

The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Upon the exercise of stock options, proceeds received from stock option holders are recorded as an increase to share capital and the related share reserve is transferred to share capital.

Restricted Share Units ("RSUs"), Deferred Share Units ("DSUs") and Performance Share Units ("PSUs")

RSUs are equity-settled share-based payments. RSUs are measured at their intrinsic fair value on the date of grant based on the closing price of the Company's shares on the date prior to the grant, and is recognized as share-based compensation expense over the vesting period with a corresponding credit to share reserves.

Under IFRS, the Company's DSUs and PSUs are classified as equity-settled share-based payment transactions as they are settled in either cash or common shares at the sole discretion of the Company. As such, the DSUs and PSUs are measured in the same manner as RSUs.

The amount recognized for services received as consideration for the RSUs, DSUs and PSUs granted is based on the number of equity instruments that eventually vest. Upon the release of RSUs, DSUs and PSUs, the related share reserve is transferred to share capital.

(i) Loss per share

The Company calculates basic earnings or loss per share by dividing net income or loss by the weighted average number of common shares outstanding during the reporting period. The Company follows the treasury stock method for the calculation of diluted earnings per share. Stock options, share purchase warrants, and other equity instruments are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options, warrants and other equity instruments. When a loss has been incurred, basic and diluted loss per share is the same because the exercise of options and warrants would be anti-dilutive.

Diluted earnings per share is computed in a manner similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from restricted and deferred stock units and the assumed exercise of stock options and warrants, if dilutive.

(j) Financial instruments

Recognition and classification

The Company recognizes a financial asset or financial liability on the consolidated statement of financial position when it becomes party to the contractual provisions of the financial instrument. The Company classifies its financial instruments in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive (loss) income ("FVOCI") or at amortized cost.

IZOTROPIC CORPORATION

Notes to Consolidated Financial Statements

Years ended April 30, 2023 and 2022
(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(j) Financial instruments (continued)

The Company determines the classification of financial assets at initial recognition. The classification of financial assets is generally based on the business model in which the financial assets are managed and their contractual cash flow characteristics.

Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVOCI.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

Measurement

Initial measurement

On initial recognition, all financial assets and financial liabilities are measured at fair value adjusted for directly attributable transaction costs except for financial assets and liabilities classified as FVTPL, in which case the transaction costs are expensed as incurred.

Subsequent measurement

The following accounting policies apply to the subsequent measurement of financial instruments:

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses including any interest or dividend income, are recognized in profit or loss. Transaction costs are expensed as incurred.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

IZOTROPIC CORPORATION

Notes to Consolidated Financial Statements

Years ended April 30, 2023 and 2022
(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(j) Financial instruments (continued)

The following accounting policies apply to the subsequent measurement of financial instruments:

Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income is calculated using the effective interest rate method; foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Financial liabilities at amortized cost	These are subsequently measured at amortized cost using the effective interest method. Other financial liabilities are derecognized, when the obligations are discharged, cancelled or expired.

Impairment of financial instruments

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For financial assets measured at amortized cost, and debt investments at FVOCI, the Company applies the expected credit loss model. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(k) Research and development

Research expenditures undertaken with the prospect of gaining new scientific or technical knowledge are expensed as incurred. Development expenditures are deferred when they meet the criteria for capitalization in accordance with IFRS, and the future benefits could be regarded as being reasonably certain. The criteria to be fulfilled in order to capitalize development costs are if such costs can be measured reliably, if the product or process is technically and commercially feasible, if future economic benefits are probable and if the Company intends to and has sufficient resources to complete the development and to use or sell the asset. As at April 30, 2023 and 2022, no development costs were deferred.

IZOTROPIC CORPORATION

Notes to Consolidated Financial Statements

Years ended April 30, 2023 and 2022
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2. Significant accounting policies (continued)

(l) Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the date of financial position.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset deferred tax assets against deferred tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis

(m) Significant accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires management to exercise judgments and to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses.

Estimates and associated assumptions are based on historical experience and other factors. Actual results may differ from these estimates. Estimates and underlying assumptions are continually evaluated for reasonableness and relevancy. Where revisions to accounting estimates are required, they are recognized in the period in which the estimates are revised for the current as well as future periods that are affected.

The Company has identified the following areas where significant estimates, assumptions and judgments are made and where actual results may differ from the estimates under different assumptions and conditions and may materially affect financial results of the Company reported in future periods.

Going concern

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company is aware that material uncertainties exist related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

IZOTROPIC CORPORATION

Notes to Consolidated Financial Statements

Years ended April 30, 2023 and 2022

(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(m) Significant accounting judgments, estimates and assumptions (continued)

Share-based compensation

The fair value of equity instruments is subject to the limitations of the Black-Scholes option pricing model as well as other pricing models that incorporate market data and involves uncertainty in estimates used by management in the assumptions. Because option pricing models require inputs of highly subjective assumptions, including the volatility of the Company's share price, expected life of options, rate of forfeiture of awards granted, changes in subjective input assumptions can materially affect the fair value estimate.

Deferred tax assets

Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. The Company has recorded a full valuation allowance against its deferred tax assets due to the uncertainty in the realization of these assets.

Functional currencies

The determination of an entity's functional currency is a matter of judgment based on an assessment of the specific facts and circumstances relevant to determining the primary economic environment of each entity within the group. The Company reconsiders the functional currencies used when there is a change in events or conditions considered in determining the primary economic environment of each entity.

(n) New accounting pronouncements

The Company has performed an assessment of new standards issued by the IASB that are not yet effective and has determined that any new standards that have been issued would have no or very minimal impact on the Company's consolidated financial statements.

IZOTROPIC CORPORATION

Notes to Consolidated Financial Statements

Years ended April 30, 2023 and 2022

(Expressed in Canadian dollars)

3. Prepaid Expenses and Deposits

	2023	2022
	\$	\$
Consulting	95,833	195,833
Filing and regulatory fees	12,272	7,743
Insurance	1,944	2,682
Lease	3,060	-
Legal retainers	6,505	15,424
Research and development	1,387	1,579
Promotional services	17,252	128,953
	138,253	352,214

4. Property and Equipment

	Furniture and equipment	Right-of-use lease asset (a)	Leasehold improvement	Total
	\$	\$	\$	\$
Cost				
Balance April 30, 2021	17,617	-	-	17,617
Additions	24,228	-	-	24,228
Balance, April 30, 2022	41,845	-	-	41,845
Additions	20,729	100,102	15,455	136,286
Foreign currency translation	-	683	70	753
Balance, April 30, 2023	62,574	100,785	15,525	178,884
Accumulated depreciation				
Balance April 30, 2021	15,986	-	-	15,986
Depreciation	6,872	-	-	6,872
Balance, April 30, 2022	22,858	-	-	22,858
Depreciation	13,164	14,955	2,764	30,883
Foreign currency translation	-	315	59	374
Balance, April 30, 2023	36,022	15,270	2,823	54,115
Net book value				
Balance, April 30, 2022	18,987	-	-	18,987
Balance, April 30, 2023	26,552	85,515	12,702	124,769

(a) The Company entered into a property lease on June 9, 2022 for a research and development facility in Sacramento, California. The lease was effective December 1, 2022 and expires on August 31, 2025.

IZOTROPIC CORPORATION

Notes to Consolidated Financial Statements

Years ended April 30, 2023 and 2022

(Expressed in Canadian dollars)

5. Accounts Payable and Accrued Liabilities

	2023	2022
	\$	\$
Accounts payable	1,145,942	378,011
Accrued interest (Note 6)	82,000	-
Accrued liabilities	149,006	237,459
	1,376,948	615,470

6. Promissory Notes

	\$
Balance, April 30, 2021	-
Notes issued	2,050,000
Allocated to warrants	(41,391)
Interest	19,545
Balance, April 30, 2022	2,028,154
Interest	226,455
Accretion	41,391
Interest payments	(184,500)
Accrued interest	(61,500)
Balance, April 30, 2023	2,050,000

On April 1, 2022, the Company completed an offering (the "Offering") of unsecured promissory notes ("Notes") in the aggregate principal amount of \$2,050,000. The Notes bear interest at 12% per annum and matured on March 31, 2023. Pursuant to the Offering, the Company issued 826,613 warrants exercisable at a price of \$0.62 per share expiring March 31, 2025.

During the year ended April 30, 2022, the Company calculated the present value of the Notes of 2,008,609, discounted by the Company's incremental borrowing rate of 15%. The residual value of \$41,391 was allocated to the warrants and recorded in reserves.

During the year ended April 30, 2023, the Company paid or accrued interests of \$246,955 (2022 - \$19,545) on the Notes, of which, \$82,000 was included in accrued liabilities as of April 30, 2023 (2022 - \$19,545).

The Notes are currently in default and are due and payable on demand. The Company is in discussions with the lenders to extend the Notes and repay the Notes and accrued interest in cash and/or equity in the future.

IZOTROPIC CORPORATION

Notes to Consolidated Financial Statements

Years ended April 30, 2023 and 2022
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7. Lease Liability

The changes in the carrying value of current and non-current lease liabilities are as follows:

	\$
As at April 30, 2022	-
Lease liability recognized	100,102
Lease payments	(17,682)
Accretion	6,066
Foreign currency translation	438
Balance April 30, 2023	88,924
Current portion	33,223
Long-term	55,701

The remaining life of the Company's property lease as of April 30, 2023 was 2.34 years. Lease payments were discounted using an incremental borrowing rate of 15%

The minimum annual lease payments, undiscounted, are as follows:

Years ending April 30,	\$
2024	32,696
2025 and after	45,294
	77,990

8. Share capital

(a) Authorized

The authorized share capital of the Company is an unlimited number of common shares without par value.

(b) Issued and outstanding

As at April 30, 2023, the Company's outstanding share capital consisted of 51,855,021 (2022 – 44,851,454) issued and fully paid common shares.

The following shares were issued during the year ended April 30, 2023:

- (i) On November 10, 2022, the Company completed a non-brokered private placement of 2,500,000 units at a price of \$0.40 per unit for gross proceeds of \$1,000,000 (the "Offering"). Each unit consisted of one common 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) of the Company. Each A Warrant and B Warrant is exercisable into one common share at a price of \$0.70 and \$0.80 per share, respectively, for a period of two years from the date of issuance.

IZOTROPIC CORPORATION

Notes to Consolidated Financial Statements

Years ended April 30, 2023 and 2022

(Expressed in Canadian dollars)

8. Share capital (continued)

(b) Issued and outstanding (continued)

Total share issue costs with respect of the Offering were \$62,071 which consisted of finder's fees of \$25,942, professional fees of \$12,000 and 64,855 broker's warrants with a fair value of \$24,129. The broker's warrants are exercisable at a price of \$0.40 per share for a period of two years. The fair value of the broker's warrants was estimated using the Black-Scholes option pricing model with the following assumptions: risk free rate of 3.82%; dividend yield of 0%; stock price volatility of 87.96%; and an expected life of 2 years.

- (ii) An aggregate of 375,000 common shares were issued at a weighted average exercise price of \$0.12 per share for gross proceeds of \$44,500 pursuant to options exercises. The fair value of the options of \$21,132 was reclassified from reserves to share capital on the exercise of these options.
- (iii) 187,500 common shares at a fair value of \$230,625 were issued for vested RSUs.
- (iv) An aggregate of 3,900,000 common shares were issued at a price of \$0.20 per share for gross proceeds of \$780,000 pursuant to warrants exercises.
- (v) An aggregate of 51,067 common shares were issued at a price of \$0.55 per share for gross proceeds of \$28,087 pursuant to broker warrants exercises. The fair value of the broker warrants of \$33,049 was reclassified from reserves to share capital on the exercise of these warrants.

The following shares were issued during the year ended April 30, 2022:

- (vi) 181,495 common shares were issued in connection with a marketing agreement at a fair value of \$119,787.
- (vii) An aggregate of 125,000 common shares were issued at a price of \$0.10 per share for gross proceeds of \$12,500 pursuant to stock option exercises. The fair value of the options of \$5,073 was reclassified from reserves to share capital on the exercise of the options.
- (viii) 450,000 common shares at a fair value of \$553,500 were issued pursuant to vested RSUs. \$167,094 was reclassified from reserves to share capital on the issuance of RSU shares.
- (ix) An aggregate of 2,029,300 common shares were issued at a weighted average exercise price of \$0.25 per share for gross proceeds of \$504,475 pursuant to warrants exercises.
- (x) 49,581 common shares were issued at a price of \$0.55 per share for gross proceeds of \$27,270 pursuant to broker warrants exercises. The fair value of the broker warrants of \$26,994 was reclassified from reserves to share capital on the exercise of these warrants.

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Notes to Consolidated Financial Statements

Years ended April 30, 2023 and 2022
(Expressed in Canadian dollars)

8. Share capital (continued)

(c) Share purchase warrants

Each whole warrant entitles the holder to purchase one common share of the Company.

	Warrants	Weighted average exercise price
	#	\$
Balance, April 30, 2021	14,739,021	0.62
Issued	826,613	0.62
Exercised	(2,078,881)	0.26
Balance, April 30, 2022	13,486,753	0.68
Issued	2,564,855	0.74
Exercised ⁽¹⁾	(3,951,067)	0.20
Expired ⁽²⁾	(8,709,073)	0.90
Balance, April 30, 2023	3,391,468	0.72

(1) The weighted average price of the shares on the dates of exercise of the warrants was \$0.50.

(2) This includes 156,294 expired broker warrants at a weighted average price of \$0.93 per share. The fair value of expired warrants of \$98,037 was reclassified from reserves to deficit.

As at April 30, 2023, the weighted average contractual life of the warrants was 1.63 years (2022 – 0.46 years).

The following table summarizes the warrants outstanding as at April 30, 2023:

Exercise Price	Expiry date	Warrants
\$		#
0.40	November 10, 2024	64,855
0.70	November 10, 2024	1,250,000
0.80	November 10, 2024	1,250,000
0.62	March 31, 2025	826,613
		3,391,468

(d) Stock Options

On June 15, 2017, the Company adopted a Stock Option Plan, as amended on September 1, 2020, which provides that the Board of Directors of the Company may from time to time, at its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants stock options ("Options") to purchase common shares of the Company. The aggregate maximum number of common shares that may be issued under the Option Plan upon the exercise of Options shall not exceed 10% of the Company's issued and outstanding common shares from time to time.

IZOTROPIC CORPORATION

Notes to Consolidated Financial Statements

Years ended April 30, 2023 and 2022
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8. Share capital (continued)

(d) Stock options (continued)

A summary of the status of the options outstanding is as follows:

	Stock options	Weighted average exercise price
	#	\$
Balance, April 30, 2021	3,350,000	0.55
Granted	950,000	0.73
Exercised	(125,000)	0.10
Cancelled and expired	(700,000)	1.22
Balance, April 30, 2022	3,475,000	0.52
Granted	2,160,000	0.61
Exercised ⁽¹⁾	(375,000)	0.12
Forfeited ⁽²⁾	(100,000)	0.84
Expired ⁽²⁾	(2,100,000)	0.59
Balance, April 30, 2023	3,060,000	0.59

⁽¹⁾ The weighted average price of the shares on the dates of exercise of the Options was \$0.45.

⁽²⁾ The aggregate fair value of forfeited and expired options of \$1,266,560 was reclassified from reserves to deficit.

The following table summarizes the Options outstanding and exercisable as at April 30, 2023:

Exercise Price	Expiry date	Options outstanding	Options exercisable
\$		#	#
0.74	June 30, 2023	450,000	450,000
0.20	January 22, 2025	200,000	200,000
0.37	February 11, 2025	150,000	150,000
0.61	October 31, 2027	2,160,000	2,160,000
0.65	March 10, 2027	100,000	100,000
		3,060,000	3,060,000

As at April 30, 2023, the weighted average contractual life of the stock options was 2.01 years (2022 – 1.2 years).

During the year ended April 30, 2023, the Company recorded share-based compensation of \$967,772 (2022 – \$349,792) for stock options granted and vested during the period.

Subsequent to April 30, 2023, 450,000 stock options expired unexercised.

IZOTROPIC CORPORATION

Notes to Consolidated Financial Statements

Years ended April 30, 2023 and 2022
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8. Share capital (continued)

(d) Stock options (continued)

The fair value of stock options granted was determined using the Black-Scholes option pricing model based on the following assumptions at the time of grant:

	2023	2022
Risk-free annual interest rate	3.54%	1.49%
Expected annual dividend yield	0%	0%
Expected stock price volatility	96.7%	89.91%
Expected life of options (years)	5.00	2.10

The fair value of stock options granted during the year ended April 30, 2023 was \$0.45 (2022 - \$0.40) per option.

(e) Long-term Incentive Plan

On July 10, 2020, the Company adopted a long-term incentive plan (the "LTIP") which provides that the Board of Directors of the Company may from time to time, at its discretion, and in accordance with the Exchange requirements, grant to directors, key employees and consultants of the Company, LTIP in the form of restricted share units, performance share units and deferred share units. The LTIP provides that the aggregate maximum number of common shares that may be issued upon the settlement of awards granted under the LTIP shall not exceed 2,996,549 common shares, being 10% of the Company's issued and outstanding common shares on the date of adoption of the LTIP.

(i) Restricted stock units ("RSU's")

Each RSU gives the participant the right to receive one common share of the Company. A summary of the status of the RSUs outstanding is as follows:

	RSU	Weighted average issue price
	#	\$
Balance, April 30, 2021	1,550,000	1.23
Shares issued on vesting	(1,112,500)	1.23
Cancelled	(150,000)	1.23
Balance, April 30, 2022	287,500	1.23
Shares issued on vesting ⁽¹⁾	(187,500)	1.23
Balance, April 30, 2023	100,000	1.23

⁽¹⁾ The closing price of the shares on the date of issuance of RSU shares was \$0.43.

IZOTROPIC CORPORATION

Notes to Consolidated Financial Statements

Years ended April 30, 2023 and 2022
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8. Share capital (continued)

(e) Long-term Incentive Plan (continued)

(i) Restricted stock units ("RSU's") (continued)

The following table summarizes the RSUs outstanding as at April 30, 2023:

Issue Price	Vesting date	RSUs outstanding
\$		#
1.23	August 31, 2024	50,000
1.23	August 31, 2025	50,000
		100,000

As at April 30, 2023, the weighted average remaining contractual life of the RSUs is 1.84 years (2022 – 1.96 years).

During the year ended April 30, 2023, the Company recorded share-based compensation of \$60,010 (2022 – \$463,837) for RSUs vested during the period.

During the year ended April 30, 2022, the Company recorded share-based compensation of \$136,383 related to the accelerated vesting of 150,000 cancelled RSUs.

(ii) Performance Stock Units ("PSUs")

A summary of the status of the PSUs outstanding is as follows:

	PSU	Weighted average issue price
	#	\$
Balance, April 30, 2023 and 2022	500,000	1.23

The following table summarizes the PSUs outstanding and vested as at April 30, 2023:

Issue Price	Vesting date	PSUs outstanding
\$		#
1.23	August 31, 2025	250,000
1.23	August 31, 2026	250,000
		500,000

As at April 30, 2023, the weighted average remaining contractual life of PSUs is 2.84 years (2022 – 3.84 years).

During the year ended April 30, 2023, the Company recorded share-based compensation of \$120,375 (2022 – \$120,374) for PSUs vested during the period.

IZOTROPIC CORPORATION

Notes to Consolidated Financial Statements

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9. 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. Key management compensation for the years ended April 30, 2023 and 2022 consisted of:

(a) Compensation of key management personnel

	2023	2022
Consulting and professional fees	\$	\$
President & CEO ⁽¹⁾	360,000	359,000
Former CFO	68,000	112,000
	428,000	471,000
Share-based compensation ⁽²⁾	336,476	375,340

⁽¹⁾ Included consulting fees under research and development of \$82,500 during the year ended April 30, 2023 (2022 - \$179,400).

⁽²⁾ Share-based compensation represents the fair value of options and RSUs/PSUs granted and vested to directors and officers of the Company.

(b) Related party transactions

	2023	2022
	\$	\$
Consulting fees ⁽¹⁾	274,000	175,000
Administration ⁽²⁾	57,500	133,000
Consulting fees ⁽³⁾	100,000	-
	431,500	308,000

⁽¹⁾ Paid or accrued to a company controlled by a director and former President & CEO of the Company. Of this amount, \$220,500 (2022 - \$175,000) was allocated to the a director and former President & CEO of the Company for business development services, strategic capital markets and corporate strategic financing advisory services, \$49,500 (2022 - \$Nil) was allocated to the Company's Corporate Secretary for corporate secretarial, office administration, accounting, shareholder communications, marketing and branding services and \$4,000 to rent (2022 - \$Nil).

⁽²⁾ Paid to the Corporate Secretary of the Company for corporate secretarial, office administration, accounting, shareholder communications, marketing and branding services.

⁽³⁾ Paid to a director of the Company.

IZOTROPIC CORPORATION

Notes to Consolidated Financial Statements

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9. Related party transactions

(c) Related party balances

As at April 30, 2023, included in prepaid expenses and deposits was \$95,833 (2022 - \$195,833) paid to a company controlled by a director of the Company for consulting, marketing and investor relations services.

As at April 30, 2023, included in accounts payable and accrued liabilities were amounts due to directors and officers of \$583,649 (2022 - \$54,477). The amounts are unsecured, non-interest-bearing and without fixed terms of repayment.

10. Research and development

For the years ended April 30, 2023 and 2022, the Company's research and development costs consisted of the following:

	2023	2022
	\$	\$
Clinical study	114,368	-
Consulting	493,900	1,119,906
Contractor fees	1,355,069	2,268,980
Freight and logistics	34,893	-
Materials	318,353	23,017
Patient maintenance	12,384	52,502
Software	64,543	-
	2,393,510	3,464,405

11. License Agreement

On April 25, 2017, the Company entered into a license agreement (the "License Agreement") with the Regents for the University of California (the "Licensor") which granted the Company an exclusive worldwide license for the Biopsy Systems for breast computed tomography patent and other related patents ("Licensed Patent Rights").

In consideration for the license, the Company paid an aggregate of US\$210,000 (CAD \$275,639) and reimbursed US\$79,872 of patent costs to the Licensor. In addition, the Company agreed to pay the Licensor:

- 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 sales of all products produced by the Licensee in connection with the License Agreement and sold by the Company in the U.S.;
- 3% of net sales from the sale of the first 15 commercial sales of all products produced by the Licensee in connection with the License Agreement in any other country excluding the U.S.; and
- 1% royalty of net sales of all methods and services sold by the Licensee in connection with the License Agreement.

IZOTROPIC CORPORATION

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Years ended April 30, 2023 and 2022

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11. License Agreement (continued)

Under the License Agreement, the Company may grant a sublicense to affiliates of the Company, or to third parties. The Company has agreed to pay the Licensor 25% of any cash consideration, or the cash equivalent of any other form of consideration, due to the Licensee for the grant of rights under a sublicense.

Under the License Agreement, the Company is obligated to further development, manufacture, marketing and sale of products, methods, and services offered by the Company in connection with the License Agreement in quantities sufficient to meet the market demand ("Milestones") as follows:

- submit an application covering a product or service to the U.S. Food and Drug Administration ("FDA") or equivalent foreign agency by June 30, 2018. The timeline to accomplish this condition was later revised and extended and the Company initially engaged with the FDA in the third quarter of 2020;
- obtain FDA or equivalent foreign agency approval by December 31, 2021. This condition has also been revised and timeline extended for up to 7 years. The Company will make annual payments of up to \$15,000 until this milestone is accomplished; and
- achieve commercial sale and fill the market demand by June 30, 2022. This milestone timeline has also been revised for up to 7 years based on a number of factors.

If the Company is unable to meet any of the above License Agreement Milestones, the Company has the right to extend the target date of any of the above Milestones by 1 year upon payment of US\$10,000 to the Licensor. The Company has a further right to extend the target date of any Milestones for an additional 1 year for US\$15,000. Under the License Agreement, the total period of time to complete any Milestone must not exceed seven years from the date of the License Agreement, unless the parties mutually agree in writing otherwise. If the Company does not complete a Milestone and does not opt to extend the period to complete the Milestone, or opts to extend the period to complete the Milestone and does not complete the Milestone within the extended time period, then the Licensor has the right to terminate the License Agreement, or reduce the Company's exclusive License to a non-exclusive license.

12. Fair value of financial instruments

As at April 30, 2023, the Company's financial instruments consist of cash, accounts payable and accrued liabilities, promissory notes and lease liability which were measured at amortized cost. The carrying amounts of cash and accounts payable and accrued liabilities approximate fair value due to their immediate or short-term maturity. The carrying values of promissory notes and lease liability were measured at the effective interest rate which approximate fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

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Notes to Consolidated Financial Statements

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12. Fair value of financial instruments (continued)

The Company uses the following hierarchy for determining fair value measurements:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Inputs for the asset or liability that are not based on observable market data.

During the period, there were no transfers of amounts between level 1, 2 and 3 of the fair value hierarchy.

13. Financial instruments risk

The Company is exposed to a variety of financial instrument related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes.

(a) Credit risk

Credit risk is the risk of a potential loss to the Company associated with a counterparty's inability to fulfill its contractual obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and other assets. The risk for cash and cash equivalent balances are mitigated by holding these instruments with highly rated and reputable Canadian financial institutions.

(b) Liquidity risk

As at April 30, 2023, the Company's contractual obligations consist of:

	Total	<1 year	1 - 3 years	3 - 5 years
	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,376,948	1,376,948	-	-
Promissory notes	2,050,000	2,050,000	-	-
Lease liability	88,924	33,223	55,701	-
	3,515,872	3,460,171	55,701	-

(b) Liquidity risk (continued)

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with its financial liabilities as they come due. The Company's approach to managing liquidity risk is to ensure that it has sufficient liquidity to settle obligations and liabilities when they are due. As at April 30, 2023, the Company had working capital deficiency of \$3,142,827 (2022 - \$393,576). The Company's promissory notes which matured on March 31, 2023 are currently in default and due on demand. The Company is pursuing additional sources of financing to ensure that it can meet its ongoing operating requirements and development of its product. There is no assurance that additional financing will be available on terms acceptable to the Company, if at all. Note 1(b)

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13. Financial instruments risk (continued)

(c) Currency risk

Currency risk is the risk that foreign exchange rates will fluctuate significantly from expectations. The Company's exposure to currency risk arises from its operations in the US where payments to vendors and consultants are in local currency. Further, the Company holds a portion of its cash in currencies other than Canadian. To manage this risk, the Company holds as small of an amount as practical in foreign currencies.

The operating results and financial position of the Company are reported in Canadian dollars. As the Company operates in an international environment, some of the Company's financial instruments and transactions are denominated in currencies other than the Canadian dollar. The results of the Company's operations are subject to currency transaction and translation risks.

The Company holds cash in Canadian and US dollars. The Company's main risk is associated with fluctuations in the US dollars and assets and liabilities are translated based on the foreign currency translation policy described in Note 2(c).

The Company has determined that an effect of a 10% increase or decrease in the USD against the Canadian dollar on financial assets and liabilities, as at April 30, 2023, including cash, accounts payable and accrued liabilities and lease liability denominated in USD, would result in an increase or decrease of approximately \$77,049 (2022 - \$9,904) to the net loss and comprehensive loss for the year April 30, 2023.

At April 30, 2023, the Company had no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

(d) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. It arises when the Company invests in interest bearing financial instruments. As at April 30, 2023, the Company did not have any financial instruments subject to significant interest rate risk.

14. 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.

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15. Income taxes

The Company and its subsidiaries are subject to income taxes in Canada on its taxable income as reported in its statutory accounts at a tax rate in accordance with the relevant income tax laws.

A reconciliation of the combined federal and provincial income taxes at statutory rates and the Company's effective income tax expense is as follows:

	2023	2022
	\$	\$
Net loss before tax	(5,661,150)	(6,654,693)
Statutory tax rate	27%	27%
Income tax recovery at statutory rate	(1,528,511)	(1,796,767)
Increase (reduction) in income taxes:		
Deductible and non-deductible items	331,267	341,731
Change in tax assets not recognized	1,199,293	1,312,943
Share issuance costs	(2,049)	(50,898)
Total income tax expense	-	-

Deferred income taxes result primarily from differences in the recognition of certain revenue and expense items for financial and income tax reporting purposes. The Company has temporary differences between the tax and accounting bases of assets.

The temporary differences that give rise to deferred income tax assets (liabilities) at April 30, 2023 and 2022, are as follows:

	2023	2022
	\$	\$
Losses carried forward	2,888,629	2,555,430
Share issuance costs	19,118	50,568
Deferred tax assets not recognized	(2,907,748)	(2,605,997)
	-	-

The Company has Canadian non-capital losses carried forward of approximately \$10,698,000 as at April 30, 2023. The non-capital losses expire from 2038 to 2043.

16. Subsequent event

Subsequent to April 30, 2023, the Company granted 400,000 stock options to a consultant of the Company exercisable at a price of \$0.275 per share until June 26, 2025.