

**IMAGIN MEDICAL INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2021**

**and**

**September 30, 2020**

**(Expressed in Canadian Dollars)**

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

## INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of Imagin Medical Inc.,**

### **Report on the Audit of the Consolidated Financial Statements**

#### **Opinion**

We have audited the consolidated financial statements of Imagin Medical Inc. ("the Company"), which comprise the consolidated statements of financial position as at September 30, 2021 and 2020 and the consolidated statements of loss and 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2021 and 2020 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

#### **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 Consolidated 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 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 in the consolidated financial statements, which indicates that the Company has no source of revenue and is considered to be involved in the research, development and commercialization of medical devices. As stated in Note 1, the Company's ability to continue as a going concern is dependent upon its ability to obtain additional funding through the future issuance of securities. These matters, 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.

#### **Other Information**

Management is responsible for the other information. The other information comprises the information included in "Management's Discussion and Analysis" but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. 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 Consolidated Financial Statements**

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

In preparing the consolidated 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 Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated 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.

The engagement partner on the audit resulting in this independent auditor's report is James D. Gray.

A handwritten signature in black ink that reads "De Visser Gray LLP". The signature is written in a cursive, flowing style.

**CHARTERED PROFESSIONAL ACCOUNTANTS**

Vancouver, BC

December 22, 2021

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

	September 30, 2021	September 30, 2020
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 3)	265,664	27,618
Amounts receivable and prepaids (Note 4)	385,821	46,200
	<u>651,485</u>	<u>73,818</u>
<b>Intangible asset (Note 5)</b>	<u>123,030</u>	<u>145,582</u>
	<u>774,515</u>	<u>219,400</u>
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Notes 6 and 8)	594,096	550,139
Convertible notes (Note 7)	11,721,098	-
	<u>12,315,194</u>	<u>550,139</u>
<b>Shareholders' equity</b>		
Share capital (Note 9)	17,539,590	17,366,716
Share-based payment reserve	3,045,307	2,954,709
Deficit	(32,125,576)	(20,652,164)
	<u>(11,540,679)</u>	<u>(330,739)</u>
	<u>774,515</u>	<u>219,400</u>
<b>Nature and continuance operations (Note 1)</b>		
<b>Basis of presentation (Note 2)</b>		
<b>Subsequent events (Note 13)</b>		

**Approved on behalf of the Board of Directors:**

“James Hutchens”, Director

“Robin Atlas”, Director

See notes to consolidated financial statements

**IMAGIN MEDICAL INC.**  
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

**For the Years Ended September 30, 2021 and 2020**

	2021	2020
	\$	\$
<b>General and administrative expenses:</b>		
Amortization of intangible asset	29,387	32,178
Bank charges and interest	6,929	7,917
Business development (Note 8)	-	17,697
Consulting fees	186,929	277,533
Convertible note expense (Note 7)	7,555,065	-
Corporate and administration fees	21,845	17,160
Directors' fees (Note 8)	18,000	16,500
Filing and transfer agent fees	34,327	26,143
Legal & accounting fees (Note 8)	582,213	464,831
Management fees (Note 8)	570,157	603,433
Office, rent and insurance	137,831	112,341
Product development	1,734,389	2,126,437
Shareholders' communication, & promotion	429,788	557,980
Travel, meals & entertainment	38,337	91,945
	(11,345,197)	(4,352,095)
<b>Other items:</b>		
Interest income	-	13,445
Foreign exchange	(37,617)	(4,260)
Stock-based compensation (Note 9 c)	(90,598)	(33,939)
	(11,473,412)	(4,376,849)
<b>Net loss and comprehensive loss</b>	<b>(11,473,412)</b>	<b>(4,376,849)</b>
<b>Basic and diluted loss per share</b>	<b>(1.27)</b>	<b>(0.53)</b>
<b>Weighted average – number of shares outstanding</b>	<b>9,049,948</b>	<b>8,297,096</b>

See notes to consolidated financial statements

**IMAGIN MEDICAL INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Years Ended September 30, 2021 and 2020**

	2021	2020
	\$	\$
<b>Cash provided by (used for):</b>		
<b>Operating activities</b>		
Net loss for the year	(11,473,412)	(4,376,849)
Adjustments which do not affect cash:		
Amortization of intangible asset	29,387	32,178
Convertible note expense	7,555,065	-
Stock-based compensation	90,598	33,939
	(3,798,362)	(4,310,732)
Net changes in non-cash working capital items:		
Amounts receivable and prepaids	(339,621)	30,988
Accounts payable and accrued liabilities	43,957	167,755
	(4,094,026)	(4,111,989)
<b>Investing activities</b>		
Purchase of intangible asset	(6,835)	(33,145)
	(6,835)	(33,145)
<b>Financing activities</b>		
Convertible note proceeds	4,338,907	-
Issue of share capital, net	-	1,899,982
	4,338,907	1,899,982
<b>Increase (decrease) in cash</b>	238,046	(2,245,152)
<b>Cash and cash equivalents - beginning of year</b>	27,618	2,272,770
<b>Cash and cash equivalents - end of year</b>	265,664	27,618

**Supplementary disclosures:**

Note 10 – Non-cash transactions

See notes to consolidated financial statements

**IMAGIN MEDICAL INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the Years Ended September 30, 2021 and 2020**

	Issued Share #	Capital \$	Share-Based Payment Reserve \$	Deficit \$	Total \$
<b>Balance, September 30, 2019</b>	<b>6,953,008</b>	<b>15,487,514</b>	<b>2,899,990</b>	<b>(16,275,315)</b>	<b>2,112,189</b>
Private placement, net	1,914,000	1,849,982	-	-	1,849,982
Exercise of warrants	50,000	50,000	-	-	50,000
Fair value of options granted	-	-	33,939	-	33,939
Fair value of brokers' warrants	-	(20,780)	20,780	-	-
Loss for the year	-	-	-	(4,376,849)	(4,376,849)
<b>Balance, September 30, 2020</b>	<b>8,917,008</b>	<b>17,366,716</b>	<b>2,954,709</b>	<b>(20,652,164)</b>	<b>(330,739)</b>
Conversion of debt	342,621	172,874	-	-	172,874
Fair value of options granted	-	-	90,598	-	90,598
Loss for the year	-	-	-	(11,473,412)	(11,473,412)
<b>Balance, September 30, 2021</b>	<b>9,259,629</b>	<b>17,539,590</b>	<b>3,045,307</b>	<b>(32,125,576)</b>	<b>(11,540,679)</b>

**Note:** On October 27, 2020, the Company consolidated the share capital on the basis of 20 pre-consolidation shares for 1 post-consolidation share. All figures have been adjusted to reflect this consolidation.

See notes to consolidated financial statements

**IMAGIN MEDICAL INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2021 and 2020**

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

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

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

There can be no assurance that the Company will be able to continue to raise funds in the future in which case the Company may be unable to meet its obligations. Should the Company be unable to realize on its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the statement of financial position. Furthermore, these conditions indicate the existence of a material uncertainty that raises substantial doubt as to the Company’s ability to continue as a going concern.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. It has adversely affected global workforces, economies, and financial markets, triggering an economic downturn. It is not possible at this time for the Company to predict the duration or magnitude of the adverse results of the outbreak nor its effects on the Company’s business or operations.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

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

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of December 22, 2021, the date the Board of Directors approved the consolidated financial statements.

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

**Adoption of new and revised standards and interpretations**

The Company did not adopt any new or revised standards or interpretations during the year ended September 30, 2021.

**Financial Instruments**

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of a financial instrument. On initial recognition, financial assets are classified and measured at amortized cost, fair value through profit or loss (“FVTPL”) or fair value through other comprehensive income (“FVOCI”).

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL: (i) it is held within a business model whose objective is to hold assets to collect contractual cash flows, and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**IMAGIN MEDICAL INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2021 and 2020**

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**2. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Financial Instruments** *(continued)*

A debt instrument is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL: (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities classified as FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in the statement of loss and comprehensive loss.

The Company's financial instruments are classified and subsequently measured as follows:

<u>Account</u>	<u>Classification</u>
Cash and cash equivalents	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Convertible notes	Amortized cost
Convertible notes – embedded derivative liability	FVTPL

Impairment of financial instruments

The Company recognizes an allowance using the Expected Credit Loss (“ECL”) model on financial assets classified as amortized cost. The Company has elected to use the simplified approach for measuring ECL by using a lifetime expected loss allowance for all amounts recoverable. Under this model, impairment provisions are based on credit risk characteristics and days past due. When there is no reasonable expectation of collection, financial assets classified as amortized cost are written off. Indications of credit risk arise based on failure to pay and other factors. Should objective events occur after an impairment loss is recognized, a reversal of impairment is recognized in the statement of loss and comprehensive loss.

Assets measured at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

**2. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Research and development costs**

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

**Intangible assets**

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

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

**Principles of consolidation**

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

**Equipment**

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

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

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

The cost of major overhauls of parts of equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably.

The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of equipment are recognized in profit or loss as incurred.

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

**Foreign currency translation**

The reporting currency of the Company is the Canadian dollar.

**2. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Foreign Currency Translation** *(continued)*

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

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

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

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

**Derivative liability**

The Company evaluates its convertible debt, options, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for. This accounting treatment requires that the carrying amounts of embedded derivatives be marked-to-market at each statement of financial position date and carried at fair value. In the event that the fair value is recorded as a liability, the change in fair value during the period is recorded in the statement of loss and comprehensive loss as either income or expense. Upon conversion, exercise or modification to the terms of a derivative instrument, the instrument is marked to fair value at the conversion date and then the related fair value is reclassified to equity.

In circumstances where the embedded conversion option in a convertible instrument is required to be bifurcated and there are also other embedded derivative instruments in the convertible instrument that are required to be bifurcated, the bifurcated derivative instruments are accounted for as a single, compound derivative instrument.

The classification of financial instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period. Equity instruments that are initially classified as equity that become subject to reclassification are reclassified to liability at the fair value of the instrument on the reclassification date. Derivative instrument liabilities will be classified in the statement of financial position as current or non-current based on whether or not net-cash settlement of the derivative instrument is expected within 12 months of the statement of financial position date.

**Loss per share**

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

**Share capital**

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

**2. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Share capital** *(continued)*

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

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

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

**Income taxes**

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

**Share-based payments**

The Company accounts for stock options granted to directors, officers, employees and non-employees at fair value. Accordingly, the fair value of the options at the date of the grant is determined using the Black-Scholes option pricing model and stock-based compensation is recorded and charged to operations, with an offsetting credit to the share-based payment reserve, over the vesting periods. The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon re-measurement. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

**Critical accounting estimates and judgments**

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

**IMAGIN MEDICAL INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2021 and 2020**

**2. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Impairment of long-lived assets**

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

**3. CASH AND CASH EQUIVALENTS**

	September 30, 2021	September 30, 2020
	\$	\$
Canadian chartered bank		
- Deposits in Canadian banks *	265,664	27,618
	<b>265,664</b>	<b>27,618</b>

\* Included in this amount above is US\$195,245 converted to Canadian dollars at the year-end rate of 1.274.

**4. AMOUNTS RECEIVABLE AND PREPAIDS**

	September 30, 2021	September 30, 2020
	\$	\$
GST receivable	1,256	2,325
Trust account	1,700	-
Prepaid expenses	382,865	43,875
	<b>385,821</b>	<b>46,200</b>

**5. INTANGIBLE ASSET**

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

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

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

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

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

**IMAGIN MEDICAL INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2021 and 2020**

**5. INTANGIBLE ASSET** *(continued)*

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

- US\$5,000 (paid) to be paid on or before February 28, 2017;
- US\$10,000 (paid) to be paid on or before February 28, 2018;
- US\$10,000 (paid) to be paid on or before February 28, 2019; and
- US\$5,000 (paid) to be paid on or before February 28, 2020;
- US\$5,000 (paid) to be paid on or before February 28, 2021.
- US\$5,000 to be paid on or before February 28, 2022.
- US\$5,000 to be paid on or before February 28, 2023.
- US\$25,000 to be paid on or before February 28, 2024, and every February 28<sup>th</sup> thereafter.

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

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

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

Continuity of the intangible asset is as follows:

	Patent License
<b>Cost</b>	
Balance, September 30, 2019	\$ 207,859
Additions for the year	33,145
Balance, September 30, 2020	241,004
Additions for the year	6,835
<b>Balance, September 30, 2021</b>	<b>\$ 247,839</b>
<b>Accumulated depreciation</b>	
Balance, September 30, 2019	\$ 63,244
Depreciation for the year	32,178
Balance, September 30, 2020	95,422
Depreciation for the year	29,387
<b>Balance, September 30, 2021</b>	<b>\$ 124,809</b>
<b>Carrying amounts</b>	
Balance, September 30, 2020	\$ 145,582
<b>Balance, September 30, 2021</b>	<b>\$ 123,030</b>

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	September 30, 2021	September 30, 2020
	\$	\$
Trade accounts payable	231,602	277,644
Accrued liabilities	28,745	35,535
Due to related parties	333,749	236,960
	<b>594,096</b>	<b>550,139</b>

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**7. CONVERTIBLE NOTES**

Convertible note #1:

During the year ended September 30, 2021, the Company issued convertible notes (the “Notes”) in the aggregate of US\$2,900,500. The notes bear interest at 10% annually, payable semi-annually in arrears, and mature 18 months following the date of issue, unless repurchased, redeemed or converted. The Notes are convertible at the holder’s discretion into common shares at a conversion price of US\$0.40 per share. In connection with the issuance of the Notes, the Company issued 3,625,625 warrants exercisable at US\$0.50 and 3,625,625 warrants exercisable at US\$0.60. All warrants are exercisable for five years from the date of issue.

Certain holders converted an aggregate of US\$133,000 in Note principal into common shares during the year (see Note 9).

Convertible note #2:

On September 3, 2021, the Company completed a second convertible note offering totaling US\$3,000,000. This offering will be received in three tranches, with the first tranche of US\$500,000 having been received during the year. This note matures 24 months following the date of issue, unless earlier repurchased or converted, and bears interest at the rate of 10% per annum, payable on maturity or conversion. The outstanding principal balance, plus any unpaid interest, will automatically convert into common shares of the Company upon the completion of not less than US\$2,000,000 in financings by the Company, at a conversion price of US\$0.40.

Upon receiving the first tranche of US\$500,000, the Company issued to the note holder 15,775,000 warrants, exercisable at US\$0.40 per share, and expiring five years from the date of issue.

As the convertible notes and associated warrants are denominated in \$US, and the functional currency of the Company is the \$Cdn, the convertible notes have been accounted for as a financial liability (debt host) with an embedded derivative (\$USD warrants).

The carrying value of the convertible notes is as follows at September 30, 2021:

	<b>Debt</b>	<b>Embedded Derivative</b>	<b>Total</b>
<b>Balance, October 1, 2020</b>	\$ -	\$ -	\$ -
Convertible note proceeds	1,321,309	3,017,598	4,338,907
Convertible note converted to common shares	(172,874)	-	(172,874)
Convertible note expense	1,328,736	6,226,329	7,555,065
<b>Balance, September 30, 2021</b>	<b>\$ 2,477,171</b>	<b>\$ 9,243,927</b>	<b>\$ 11,721,098</b>

**8. RELATED PARTY TRANSACTIONS**

During the year ended September 30, 2021, the Company paid or accrued \$926,391 (2020 - \$940,238) to directors and officers or companies controlled by directors and officers of the Company, for management, accounting, directors and consulting fees incurred by the Company.

Included in accounts payable are fees and expenses due to directors and officers in the amount of \$333,749 (2020 - \$236,960), which are non-interest bearing, unsecured, and payable on demand. Fair value cannot be reliably determined.

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

**IMAGIN MEDICAL INC.**  
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**9. SHARE CAPITAL**

a) Authorized: Unlimited number of common shares

b) Issued:

As at September 30, 2021, the Company reported issued and outstanding shares of 9,259,629 (2020 – 8,917,008).

On October 27, 2020, the Company completed a twenty (20) to one (1) share consolidation. All corresponding figures have been updated accordingly to reflect the consolidation.

On November 5, 2020, 50,178 common shares were issued pursuant to the conversion of Note principal balance in the amount of US\$20,000, plus accrued interest of US\$71. The Company recorded the transaction at \$26,377 using the foreign exchange rate at conversion date.

On January 22, 2021, 100,000 common shares were issued pursuant to the conversion of Note principal balance in the amount of US\$40,000. The Company recorded the transaction at \$49,807 using the foreign exchange rate at conversion date.

On June 25, 2021, 59,532 common shares were issued pursuant to the conversion of Note principal balance in the amount of US\$23,000, plus accrued interest of US\$813. The Company recorded the transaction at \$29,278 using the foreign exchange rate at conversion date.

On September 24, 2021, 132,911 common shares were issued pursuant to the conversion of Note principal balance in the amount of US\$50,000, plus accrued interest of US\$3,164. The Company recorded the transaction at \$67,412 using the foreign exchange rate at conversion date.

c) Stock options:

A summary of the Company's stock option activity is presented below:

	Number of options	Weighted average exercise price
<b>Outstanding at September 30, 2019</b>	<b>550,000</b>	<b>\$ 4.89</b>
Options granted	30,000	1.20
Options cancelled	(45,000)	2.00
<b>Outstanding at September 30, 2020</b>	<b>535,000</b>	<b>\$ 4.93</b>
Options granted	125,000	0.63
Options cancelled	(117,500)	3.00
<b>Outstanding at September 30, 2021</b>	<b>542,500</b>	<b>\$ 4.36</b>

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9. SHARE CAPITAL (continued)

c) Stock options: (continued)

The continuity of share purchase options is as follows:

Expiry Date	Exercise Price	30-Sep-20	Granted	Exercised	Expired/ Cancelled	30-Sep-21
09-Feb-21	3.00	60,000	-	-	(60,000)	-
30-Jun-21	3.00	57,500	-	-	(57,500)	-
14-Dec-21	3.00	15,000	-	-	-	**15,000
26-Oct-22	3.60	67,500	-	-	-	67,500
30-Oct-22	3.80	5,000	-	-	-	5,000
28-Nov-22	5.00	35,000	-	-	-	35,000
17-Jan-23	8.00	105,000	-	-	-	105,000
18-Apr-23	6.20	137,500	-	-	-	137,500
25-Jul-23	3.20	22,500	-	-	-	22,500
10-Jan-25	1.20	30,000	-	-	-	30,000
19-Jan-24	0.62	-	100,000	-	-	100,000
19-May-26	0.66	-	25,000	-	-	25,000
		<b>535,000</b>	<b>125,000</b>	-	<b>(117,500)</b>	<b>542,500</b>
<b>Weighted average exercise price</b>		<b>\$ 4.89</b>	<b>\$ 0.63</b>	-	<b>\$ 3.00</b>	<b>\$ 4.36</b>

\*\* These stock options expired unexercised subsequent to September 30, 2021.

The continuity of share purchase options for the previous fiscal year is as follows:

Expiry Date	Exercise Price	30-Sep-19	Granted	Exercised	Expired/ Cancelled	30-Sep-20
09-Feb-21	3.00	60,000	-	-	-	60,000
30-Jun-21	3.00	57,500	-	-	-	57,500
14-Dec-21	3.00	15,000	-	-	-	15,000
26-Oct-22	3.60	67,500	-	-	-	67,500
30-Oct-22	3.80	5,000	-	-	-	5,000
28-Nov-22	5.00	35,000	-	-	-	35,000
17-Jan-23	8.00	105,000	-	-	-	105,000
18-Apr-23	6.20	137,500	-	-	-	137,500
25-Jul-23	3.20	22,500	-	-	-	22,500
24-Jun-24	2.00	45,000	-	-	(45,000)	-
10-Jan-25	1.20	-	30,000	-	-	30,000
		<b>550,000</b>	<b>30,000</b>	-	<b>(45,000)</b>	<b>535,000</b>
<b>Weighted average exercise price</b>		<b>\$ 4.89</b>	<b>\$ 1.20</b>	-	<b>\$ 2.00</b>	<b>\$ 4.93</b>

**IMAGIN MEDICAL INC.**  
**Notes to the Consolidated Financial Statements**  
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**9. SHARE CAPITAL** *(continued)*

c) Stock options: *(continued)*

During the year ended September 30, 2021, the Company granted a total of 125,000 incentive stock options (September 30, 2020 – 30,000) to certain service providers. The incentive stock options have exercise prices ranging from \$0.62 to \$0.66 with expiry dates ranging from three to five years from the grant date. The options are subject to a four month hold period from the date of issuance. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions and resulting values:

	19-May-21	19-Jan-21	2020
Number of options granted	25,000	100,000	30,000
Average Risk-free interest rate	0.96%	1.79%	1.60%
Average Estimated life	5 years	3 years	5 years
Average Share price on grant date	\$0.59	\$0.77	\$1.40
Average Exercise price	\$0.66	\$0.62	\$1.20
Average Estimated annual volatility	223.58%	123%	128.5%
Average Option fair value	\$0.5824	\$0.7604	\$1.1313
Total Compensation cost	\$14,561	\$76,037	\$33,939

d) Share purchase warrants:

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

	Number of warrants	Weighted average exercise price
<b>Outstanding at September 30, 2019</b>	<b>951,847</b>	<b>\$ 7.60</b>
Finance warrants granted	1,914,000	3.00
Finders' warrants granted	52,790	3.00
Finance warrants exercised	(50,000)	1.00
Finance warrants expired	(845,991)	1.00
Finders' warrants expired	(55,856)	7.60
<b>Outstanding at September 30, 2020</b>	<b>1,966,790</b>	<b>\$ 3.00</b>
Note warrants granted (see Note 7)	23,026,250	0.57
<b>Outstanding at September 30, 2021</b>	<b>24,993,040</b>	<b>\$ 0.76</b>

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9. SHARE CAPITAL (continued)

d) Share purchase warrants: (continued)

The continuity of share purchase warrants is as follows:

Expiry Date	Exercise Price	30-Sep-20	Granted	Exercised	Expired/ Cancelled	30-Sep-21
21-Jan-22	3.00	1,966,790	-	-	-	1,966,790
20-Oct-25	0.64	-	25,000	-	-	25,000
20-Oct-25	0.76	-	25,000	-	-	25,000
22-Oct-25	0.64	-	875,000	-	-	875,000
22-Oct-25	0.76	-	875,000	-	-	875,000
09-Nov-25	0.64	-	37,500	-	-	37,500
09-Nov-25	0.76	-	37,500	-	-	37,500
15-Jan-26	0.64	-	175,000	-	-	175,000
15-Jan-26	0.76	-	175,000	-	-	175,000
19-Jan-26	0.64	-	62,500	-	-	62,500
19-Jan-26	0.76	-	62,500	-	-	62,500
22-Jan-26	0.64	-	50,000	-	-	50,000
22-Jan-26	0.76	-	50,000	-	-	50,000
25-Jan-26	0.64	-	62,500	-	-	62,500
25-Jan-26	0.76	-	62,500	-	-	62,500
27-Jan-26	0.64	-	37,500	-	-	37,500
27-Jan-26	0.76	-	37,500	-	-	37,500
28-Jan-26	0.64	-	25,000	-	-	25,000
28-Jan-26	0.76	-	25,000	-	-	25,000
29-Jan-26	0.64	-	125,000	-	-	125,000
29-Jan-26	0.76	-	125,000	-	-	125,000
01-Feb-26	0.64	-	393,750	-	-	393,750
01-Feb-26	0.76	-	393,750	-	-	393,750
04-Feb-26	0.64	-	12,500	-	-	12,500
04-Feb-26	0.76	-	12,500	-	-	12,500
05-Feb-26	0.64	-	784,375	-	-	784,375
05-Feb-26	0.76	-	784,375	-	-	784,375
08-Feb-26	0.64	-	6,250	-	-	6,250
08-Feb-26	0.76	-	6,250	-	-	6,250
12-Feb-26	0.64	-	28,750	-	-	28,750
01-Feb-26	0.76	-	28,750	-	-	28,750
16-Feb-26	0.64	-	6,250	-	-	6,250
16-Feb-26	0.76	-	6,250	-	-	6,250
30-Jun-26	0.64	-	668,750	-	-	668,750
30-Jun-26	0.76	-	668,750	-	-	668,750
02-Jul-26	0.64	-	62,500	-	-	62,500
02-Jul-26	0.76	-	62,500	-	-	62,500
17-Aug-26	0.64	-	187,500	-	-	187,500
17-Aug-26	0.76	-	187,500	-	-	187,500
03-Sep-26	0.51	-	15,775,000	-	-	15,775,000
		<b>1,966,790</b>	<b>23,026,250</b>	-	-	<b>24,993,040</b>
<b>Weighted average exercise price</b>		<b>\$ 3.00</b>	<b>\$ 0.57</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 0.76</b>

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

d) Share purchase warrants: *(continued)*

The continuity of share purchase warrants for the previous fiscal year is as follows:

<b>Expiry Date</b>	<b>Exercise Price</b>	<b>30-Sep-19</b>	<b>Granted</b>	<b>Exercised</b>	<b>Expired/ Cancelled</b>	<b>30-Sep-20</b>
30-Jun-20	1.00	586,139	-	(50,000)	(536,139)	-
12-Apr-20	7.60	37,278	-	-	(37,278)	-
30-Jun-20	1.00	309,852	-	-	(309,852)	-
19-Apr-20	7.60	18,578	-	-	(18,578)	-
21-Jan-20	3.00	-	1,966,790	-	-	1,966,790
		<b>951,847</b>	<b>1,966,790</b>	<b>(50,000)</b>	<b>(901,847)</b>	<b>1,966,790</b>
<b>Weighted average exercise price</b>	<b>\$ 7.60</b>	<b>\$ 3.00</b>	<b>\$ 1.00</b>	<b>\$ 1.41</b>	<b>\$ 3.00</b>	

During the year ended September 30, 2021, as per the Note agreements, the Company granted 7,251,250 warrants with exercise price ranging from US\$0.50 to US\$0.60. In addition, the Company entered into a separate convertible note for up to US\$3,000,000. The Company received the initial tranche of the new note on September 3, 2021 and issued 15,775,000 warrants with an exercise price of US\$0.40. All warrants expire five years from the date of issuance.

The Company did not issue broker's or finder's warrants during the year ended September 30, 2021. Included in the warrants granted in fiscal 2020 are 52,790 broker's and finder's warrants. The fair value for the warrants was determined using the Black-Scholes option-pricing model with the following assumptions:

	<b>2020</b>
Number of warrants granted	52,790
Average Risk-free interest rate	1.62%
Average Estimated life	2 years
Average Share price on grant date	\$1.60
Average Exercise price	\$3.00
Average Estimated annual volatility	76.42%
Average Warrant fair value	\$0.3936
Total Compensation cost	\$20,780

**10. NON-CASH TRANSACTIONS**

The following non-cash transactions were recorded:

	<b>September 30, 2021</b>	<b>September 30, 2020</b>
	<b>\$</b>	<b>\$</b>
Financing activities:		
Common shares issued upon conversion of note	172,874	-
Brokers warrants issued in connection with the private placements	-	20,780

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**11. INCOME TAXES**

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

	<b>September 30, 2021</b>	<b>September 30, 2020</b>
Net loss for the year	\$(11,473,412)	\$ (4,376,849)
Statutory rate	27.25%	27.00%
Income tax recovery computed at statutory rate	(3,126,505)	(1,181,749)
Adjustment for deductible and non-deductible items	2,100,386	2,934
Unused tax losses and tax offsets not recognized in tax asset	1,026,119	1,178,815
Total income taxes	\$ -	\$ -

Significant unrecognized tax benefits and unused tax losses for which no deferred tax asset is recognized as of September 30, 2021 and September 30, 2020 were as follows:

	<b>September 30, 2021</b>	<b>September 30, 2020</b>
Deferred income tax assets:		
Mineral properties	\$ 12,794,000	\$ 12,794,000
Equipment	10,000	10,000
Intangible asset	85,000	56,000
Non-capital loss carry-forward	24,825,000	21,002,000
Capital loss carry-forward	1,554,000	1,554,000
Share issue costs	49,000	155,000
	\$ 39,317,000	\$ 35,571,000

The Company did not recognize the deferred tax assets for the years ended September 30, 2021 and September 30, 2020 as future taxable profits are uncertain.

The Company has non-capital losses of approximately \$24,825,000 which may be carried forward and applied against taxable income in future years. These losses, if not utilized, will expire through to 2041. Subject to certain restrictions, the Company also has mineral property expenditures of approximately \$12,794,000 available to reduce taxable income in future years. Future tax benefits which may arise as a result of these losses and resource deductions have not been recognized in these financial statements and have been offset by a valuation allowance.

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**11. INCOME TAXES** *(continued)*

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

Year of Origin	Year of Expiry	Non-Capital Losses
		\$
2007	2027	2,000
2008	2028	-
2009	2029	793,000
2010	2030	677,000
2011	2031	609,000
2012	2032	519,000
2013	2033	379,000
2014	2034	563,000
2015	2035	469,000
2016	2036	1,677,000
2017	2037	1,439,000
2018	2038	5,049,000
2019	2039	4,439,000
2020	2040	4,389,000
2021	2041	3,821,000
		<u>24,825,000</u>

**12. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS**

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

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

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

There were no changes in the Company's approach to capital management during the year ended September 30, 2021.

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

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

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2—Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3—Inputs that are not based on observable market data

The Company did not have any financial instruments measured at fair value at September 30, 2021 and 2020.

**13. SUBSEQUENT EVENTS**

Subsequent to the year ended September 30, 2021:

- The Company received US\$500,000 as full payment of the second tranche of the US\$3,000,000 convertible note (see Note 7).
- The Company issued 737,247 common shares pursuant to the conversion of Note principal balance in the amount of US\$289,938, plus interest of US\$12,402 (see Note 7).