

IMAGIN MEDICAL INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

(Unaudited - Prepared by Management)

Corporate Head Office

Suite 600, 890 West Pender St.

Vancouver, BC V6C 1L9

NOTICE

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these condensed interim consolidated financial statements they must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

IMAGIN MEDICAL INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited - Prepared by Management)

	December 31, 2017	September 30, 2017
	\$	\$
A S S E T S		
Current assets		
Cash (Note 3)	1,610,672	245,921
Amounts receivable and prepaids (Note 4)	230,984	776
Security deposit	5,750	5,750
	1,847,406	252,447
Equipment		
Intangible asset (Note 6)	1,854	2,005
	144,604	135,192
	1,993,864	389,644
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Notes 7 & 8)	170,591	795,423
Convertible debentures (Note 9)	38,000	100,000
Interest payable (Note 9)	3,227	5,375
	211,818	900,798
Shareholders' equity		
Share capital (Notes 10 & 14)	5,567,430	2,423,758
Obligation to issue shares	-	223,000
Share-based payment reserve	1,345,022	701,995
Deficit	(5,130,406)	(3,859,907)
	1,782,046	(511,154)
	1,993,864	389,644
Nature and continuance operations (Note 1)		
Basis of presentation (Note 2)		
Subsequent events (Note 14)		

Approved on behalf of the Board of Directors:

“James Hutchens”, Director

“Robin Atlas”, Director

See notes to condensed interim consolidated financial statements

IMAGIN MEDICAL INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
For the Three Months Ended December 31
(Unaudited - Prepared by Management)

	2017	2016
	\$	\$
General and administrative expenses:		
Amortization of intangible asset	3,345	3,345
Amortization of equipment	151	215
Bank charges and interest	2,817	662
Consulting fees	130,026	89,433
Corporate and administration fees	28,118	22,341
Directors' fees (Note 8)	8,750	4,500
Filing and transfer agent fees	17,742	9,186
Legal & accounting fees (Note 8)	27,490	31,155
Management fees (Note 8)	77,780	93,631
Office, rent and insurance	23,741	19,989
Product development	37,861	147,996
Shareholders' communication, & promotion	17,366	8,376
Travel, meals & entertainment	12,854	4,360
	(388,041)	(435,188)
Other items:		
Interest income	6	6
Foreign exchange	15,662	(3,929)
Stock-based compensation (Note 10 c)	(898,126)	(49,445)
	(882,458)	(54,368)
Net loss and comprehensive loss	(1,270,498)	(488,555)
Basic and diluted loss per share	(0.02)	(0.01)
Weighted average – number of shares outstanding	76,049,015	46,177,898

See notes to condensed interim consolidated financial statements

IMAGIN MEDICAL INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended December 31
(Unaudited - Prepared by Management)

	2017	2016
	\$	\$
Cash provided by (used for):		
Operating activities		
Net loss for the period	(1,270,498)	(488,555)
Adjustments which do not affect cash:		
Amortization	3,496	3,560
Stock-based compensation	898,126	49,445
	(368,876)	(435,550)
Net changes in non-cash working capital items:		
Amounts receivable and prepaids	(230,208)	(85,519)
Accounts payable and accrued liabilities	(624,832)	21,748
Interest payable	(2,148)	-
	(1,226,064)	(499,321)
Investing activities		
Purchase of intangible asset	(12,757)	-
	(12,757)	-
Financing activities		
Issue of share capital (net)	2,888,572	662,749
Convertible debenture	(62,000)	-
Subscription receivable	-	28,515
Obligation to issue shares	(223,000)	(159,600)
	2,603,573	503,149
Increase in cash	1,364,751	3,828
Cash - beginning of period	245,921	72,804
Cash - end of period	1,610,672	76,632

Supplementary disclosures:

Note 11– Non-cash transactions

IMAGIN MEDICAL INC.

For the Three Months Ended December 31, 2017 and 2016

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Issued Share Capital		Share-Based Payment Reserve	Obligation to Issue Shares	Deficit	Total
	#	\$	\$	\$	\$	\$
Balance, September 30, 2016	41,372,634	1,770,961	512,952	159,600	(2,317,805)	125,708
Private Placement, net						
- Tranche 1	4,822,500	361,416	-	(159,600)	-	201,816
- Tranche 2	3,873,605	301,333	-	-	-	301,333
Fair value of options granted	-	-	49,445	-	-	49,445
Fair value of brokers' warrants	-	(29,022)	29,022	-	-	-
Loss for the period	-	-	-	-	(488,555)	(488,555)
Balance, December 31, 2016	50,068,739	2,404,688	591,419	-	(2,806,360)	(189,747)
Convertible debt conversion	211,890	19,070	-	-	-	19,070
Fair value of options granted	-	-	110,576	-	-	110,576
Obligation to issue shares	-	-	-	223,000	-	223,000
Loss for the year	-	-	-	-	(2,259,571)	(2,259,571)
Balance, September 30, 2017	50,280,629	2,423,758	701,995	223,000	(3,859,907)	(511,154)
Private Placement, net						
- Tranche 1	12,858,800	623,100	-	(223,000)	-	400,100
- Tranche 2	7,141,200	356,660	-	-	-	356,660
- Additional financing	800,000	120,000	-	-	-	120,000
Convertible debt conversion	739,241	66,531	-	-	-	66,531
Exercise of options	2,600,000	261,000	-	-	-	261,000
Exercise of warrants	10,360,402	1,461,282	-	-	-	1,461,282
Fair value of options granted	-	-	898,126	-	-	898,126
Fair value of options exercised	-	242,457	(242,457)	-	-	-
Fair value of brokers' warrants	-	(18,466)	18,466	-	-	-
Fair value of brokers' warrants exercised	-	31,108	(31,108)	-	-	-
Loss for the period	-	-	-	-	(1,270,498)	(1,270,498)
Balance, December 31, 2017	84,780,272	5,567,430	1,345,022	-	(5,130,406)	(1,782,046)

See notes to condensed interim consolidated financial statements

IMAGIN MEDICAL INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended December 31, 2017 and 2016

1. NATURE AND CONTINUANCE OF OPERATIONS

Imagin Medical Inc. (formerly Expedition Mining Inc.) is 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 (see Note 5).

These condensed interim 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.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Company’s condensed interim 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 condensed interim consolidated financial statements are based on IFRS issued and outstanding as of February 16, 2018, the date the Board of Directors approved the consolidated financial statements.

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

Statement of compliance to International Financial Reporting Standards

The condensed interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). Therefore, these financial statements comply with International Accounting Standard (“IAS”) 34 “interim Financial Reporting”.

This interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Company for the year ended September 30, 2017.

IMAGIN MEDICAL INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended December 31, 2017 and 2016

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

New standards amendments and interpretations to existing standards not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the September 30, 2017 reporting period. The Company has not early adopted the following new and revised standards, amendments and interpretations that have been issued but are not yet effective:

- IFRS 9 (Amended 2010) Financial Instruments (effective January 1, 2018)
- IFRS 16 Leases (effective January 1, 2019)

The Company anticipates that the application of the above new and revised standards, amendments and interpretations will have no material impact on its results and financial position.

3. **CASH AND CASH EQUIVALENTS**

	December 31, 2017	September 30, 2017
	\$	\$
Canadian chartered bank		
- Deposits in Canadian banks	1,610,672	245,921
	1,610,672	245,921

At the date of this report, the Company held US\$28,823 (included in the above).

4. **AMOUNTS RECEIVABLE AND PREPAIDS**

	December 31, 2017	September 30, 2017
	\$	\$
GST receivable	6,452	492
Interest receivable	290	284
Prepaid expenses	224,242	-
	230,984	776

5. **REVERSE ASSET ACQUISITION**

On February 9, 2016, the Company completed the acquisition of BSS. In connection with the closing, the Company issued 26,500,000 common shares to the shareholders of BSS (see note 11). As a result of the exchange, the transaction resulted in a reverse asset acquisition. Accordingly, BSS is considered the continuing entity for accounting and financial reporting purposes and the Company, the continuing public company, being the corporation acquired. As the Company was a public 'shell' company, there was, in the opinion of management, no basis to reliably measure the consideration paid for it by BSS, other than to use the current carrying values of its assets acquired and liabilities assumed.

Accordingly, the purchase price allocation of the acquisition is based on the fair value of the net liabilities assumed, which was charged to operations as a listing expense.

IMAGIN MEDICAL INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended December 31, 2017 and 2016

5. **REVERSE ASSET ACQUISITION** *(continued)*

The fair values of assets acquired and liabilities assumed are as follows:

Cash	\$	1,000
Other assets		120,301
Accounts payable		(504,077)
Net liabilities acquired, or listing expense	\$	(382,776)

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

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

- US\$5,000 (paid October 19, 2017) to be paid on or before February 28, 2017;
- US\$10,000 to be paid on or before February 28, 2018 (not paid);
- US\$10,000 to be paid on or before February 28, 2019; and
- US\$25,000 to be paid on or before February 28, 2019, and every February 28th 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.

IMAGIN MEDICAL INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended December 31, 2017 and 2016

6. **INTANGIBLE ASSET** *(continued)*

Continuity of the intangible asset is as follows:

	Patent License
Cost	
Balance, September 30, 2016	\$ 155,241
Additions for the year	6,713
Balance, September 30, 2017	161,954
Additions for the period	12,757
Balance, December 31, 2017	174,711
Accumulated depreciation	
Balance, September 30, 2016	13,381
Depreciation for the year	13,381
Balance, September 30, 2016	26,762
Depreciation for the period	3,345
Balance, December 31, 2017	30,107
Carrying amounts	
Balance, September 30, 2016	141,860
Balance, September 30, 2017	135,192
Balance, December 31, 2017	\$ 144,604

7. **ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	December 31, 2017	September 30, 2017
	\$	\$
Trade accounts payable	52,866	134,978
Accrued liabilities	25,500	46,285
Due to related parties	92,225	614,160
	170,591	795,423

8. **RELATED PARTY TRANSACTIONS**

During the three months ended December 31, 2017, the Company paid or accrued \$104,530 (December 31, 2016 - \$116,131) to directors and officers or companies controlled by directors and officers of the Company, for management, accounting, and directors fees incurred by the Company.

During the period, the Company granted a total of 1,950,000 incentive stock options to the directors and officers at exercise prices ranging from \$0.18 to \$0.25, vesting immediately and expiring within 5 years. The fair value of the options granted ranged from \$0.1658 to \$0.2244 for total stock-based compensation of \$364,200.

Included in accounts payable are fees and expenses due to directors and officers in the amount of \$92,224 (September 30, 2017 - \$614,160), which are non-interest bearing, unsecured, and payable on demand. Fair value cannot be reliably determined.

IMAGIN MEDICAL INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended December 31, 2017 and 2016

8. RELATED PARTY TRANSACTIONS *(continued)*

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

9. CONVERTIBLE DEBENTURE

During the year, the Company raised \$118,000 through the issuance of unsecured convertible notes (the "Notes"). Each Note had a principal balance of \$1,000.

The Notes provide the following terms:

- (i) Each Note shall be for a term of 12 months from the date of Closing (subject to the prepayment and conversion terms hereinafter set forth);
- (ii) The Notes will bear interest from the date of Closing at the rate of 10% per annum calculated annually and payable on maturity;
- (iii) The subscribers may at any time following the date of Closing elect to convert any portion of the Note, plus accrued interest to the date of conversion, into Units of the Issuer at the conversion price of \$0.09 per Unit; each Unit consisting of one share and one warrant exercisable for 12 months at \$0.12 per share; and
- (iv) At maturity (March 3, 2018), all unpaid principal and interest under the Notes shall be repaid in full, at the election of the Issuer, either:
 - (a) in cash;
 - (b) in Units priced at \$0.09 per Unit; or
 - (c) any combination thereof.

The Company's president and two directors invested a total of \$61,000 in this financing.

No Finder's fees were paid in this financing.

On September 28, 2017, one of the subscribers converted the debt into shares (\$18,000 plus accrued interest of \$1,070) for a total of 211,890 common shares, with 211,890 warrants at an exercise price of \$0.12, expiring on September 28, 2018.

During the three months ended December 3, 2017, two of the directors converted debt into shares (\$35,000 plus accrued interest of \$2,623) for a total of 418,036 common shares. Another subscriber converted debt into shares (\$27,000 plus accrued interest of \$1,908) for a total of 321,205 common shares. As per the terms of the conversion, a total of 739,241 warrants with an exercise price of \$0.12, expiring one year from the date of conversion were issued.

The Company used the residual method to estimate the equity component of these debentures. The liability portion represents an estimate of the present value of term debt discounted using an estimated interest rate applicable to equivalent non-convertible debt. The equity component was determined as the residual of the face value of the instrument less its liability component. The Company concluded that the fair value of the equity portion was immaterial to record.

IMAGIN MEDICAL INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended December 31, 2017 and 2016

10. **SHARE CAPITAL**

- a) Authorized: Unlimited number of common shares
- b) Issued:

During the three months ended December 31, 2017, the Company:

- closed Tranche one and two of a non-brokered private placement through the issuance of 20,000,000 units (the “Units”) at a price of \$0.05 per unit for gross proceeds of \$1,000,000. Each Unit consists of one common share of the Company and one warrant (“Warrant”), each Warrant entitling the holder thereof to acquire one additional common share of the Company at a price of \$0.10 within 12 months. Finders’ fees in the form of 404,800 warrants and cash payments of \$20,240 were paid for a portion of the financing attributable to certain finder’s efforts;
- closed a \$120,000 financing to raise funds to be used for the Company’s communications program (the “Financing”). The funds raised pursuant to the Financing will be specifically targeted for a communications and marketing program, allowing the Company to continue to maintain its existing cash for product development and commercialization. The Financing consisted of 800,000 units (the “Units”) at a price of \$0.15 per Unit, each Unit to be comprised of one common share and one half of one common share purchase warrant (the “Warrants”). Each whole Warrant will be exercisable into one common share in the equity of the Company (the “Warrant Shares”) at an exercise price of \$0.25 per Warrant Share. The Warrants expire one year from date of issuance;
- issued 732,241 common shares at a price of \$0.09 resulting from the conversion of debt (\$62,000 plus accrued interest of \$4,532);
- issued 10,360,402 common shares from the exercise of acquisition warrants, finance warrants and finders’ warrants, with prices ranging from \$0.12 to \$0.16;
- issued 2,600,000 common shares from the exercise of stock options, with prices ranging from \$0.06 to \$0.18.

- c) Stock options:

A summary of the Company’s stock options activity is presented below:

	Number of options	Weighted average exercise price
Outstanding at September 30, 2016	3,250,000	\$ 0.15
Options granted	2,650,000	0.09
Options expired or cancelled	(950,000)	0.13
Outstanding at September 30, 2017	4,950,000	\$ 0.12
Options granted	4,950,000	0.21
Options exercised	(2,600,000)	0.10
Outstanding at December 31, 2017	7,300,000	\$ 0.19

IMAGIN MEDICAL INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended December 31, 2017 and 2016

10. **SHARE CAPITAL** *(continued)*

c) Stock options *(continued)*:

The continuity of share purchase options is as follows:

Expiry Date	Exercise Price	30-Sep-17	Granted	Exercised	Expired/ Cancelled	31-Dec-17
09-Feb-21	0.15	1,850,000	-	(450,000)	-	1,400,000
30-Jun-21	0.15	1,200,000	-	(50,000)	-	1,150,000
14-Dec-21	0.15	300,000	-	-	-	300,000
25-Sep-22	0.06	1,600,000	-	(1,600,000)	-	-
26-Oct-22	0.18		2,250,000	(500,000)	-	1,750,000
30-Oct-22	0.19		400,000	-	-	400,000
28-Nov-22	0.25	-	2,000,000	-	-	2,000,000
14-Jun-18	0.24	-	300,000	-	-	300,000
		4,950,000	4,950,000	(2,600,000)	-	7,300,000
Weighted average exercise price		\$ 0.12	\$ 0.21	\$0.10	-	\$ 0.19

Expiry Date	Exercise Price	30-Sep-16	Granted	Exercised	Expired/ Cancelled	30-Dec-16
09-Feb-21	0.15	1,850,000	-	-	-	1,850,000
30-Jun-21	0.15	1,400,000	-	-	-	1,400,000
14-Dec-21	0.08	-	200,000	-	-	200,000
14-Dec-21	0.15	-	550,000	-	-	550,000
		3,250,000	750,000	-	-	4,000,000
Weighted average exercise price		\$ 0.15	\$ 0.13	-	-	\$ 0.15

During the three months ended December 31, 2017, the Company granted a total of 4,950,000 incentive stock options to directors, officers, and certain service providers. The incentive stock options have an exercise price ranging from \$0.18 to \$0.25 for a period ranging from six months to five years. 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:

	14-Dec-17	28-Nov-17	30-Oct-17	26-Oct-17
Number of options granted	300,000	2,000,000	400,000	2,250,000
Risk-free interest rate	1.35%	1.22%	1.22%	1.70%
Estimated life	6 mths	5 yrs	5 yrs	5 yrs
Share price on grant date	\$0.235	\$0.245	\$0.19	\$0.18
Exercise price	\$0.24	\$0.25	\$0.19	\$0.18
Estimated annual volatility	33.09%	153.73%	155.20%	155.38%
Option fair value	\$0.0421	\$0.2244	\$0.1748	\$0.1658
Compensation cost	\$12,617	\$448,875	\$69,903	\$373,039

IMAGIN MEDICAL INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended December 31, 2017 and 2016

10. **SHARE CAPITAL** (continued)

d) Share purchase warrants

A summary of the Company's outstanding warrants at December 31, 2017 and the changes during the period then ended is presented below:

Expiry Date	Exercise Price	30-Sep-17	Granted	Exercised	Expired/ Cancelled	31-Dec-17
9-Feb-18	0.35	6,677,413	-	-	-	6,677,413
9-Feb-19	0.15	8,660,000	-	(4,970,000)	-	3,690,000
9-Feb-18	0.15	220,186	-	(220,186)	-	-
23-Feb-19	0.35	330,000	-	-	-	330,000
23-Feb-18	0.15	25,600	-	-	-	25,600
18-Oct-18	0.12*	5,127,300	-	(2,628,200)	-	2,499,100
9-Dec-18	0.12*	3,980,565	-	(1,831,250)	-	2,149,315
28-Sep-18	0.12**	211,890	-	(211,890)	-	-
05-Oct-18	0.10		13,255,600			13,255,600
16-Oct-18	0.10		7,149,200			7,149,200
23-Oct-18	0.12**		177,671	(177,671)		-
01-Nov-18	0.25		400,000			400,000
08-Nov-18	0.12**		321,205	(321,205)		-
19-Dec-18	0.12**		240,365			240,365
		25,232,954	21,544,041	(10,360,402)	-	36,416,593
Weighted average exercise price		\$ 0.17	\$ 0.10	\$0.14	\$ -	\$ 0.14

*These warrants are exercisable at a price of \$0.12 in the first 12 months and \$0.16 in the 12 months thereafter.

**See Note 9

Included in the warrants granted in during the period are 404,800 broker and finder warrants from Tranche 1 and 2 of the private placement. Using the Black-Scholes option-pricing model, the fair value for these warrants issued during the period was determined to be \$17,915 for the Tranche 1 grant and \$551 for the Tranche 2 grant.

The fair value for the warrants was determined using the Black-Scholes option-pricing model with the following assumptions:

	16-Oct-17	05-Oct-17
Number of warrants	8,000	396,800
Risk-free interest rate	0.89%	.89 %
Share price on grant date	\$0.15	\$0.12
Exercise price	\$0.10	\$0.10
Expected life	1 year	1 year
Expected volatility	79.9%	79.33%
Warrant fair value	\$0.0689	\$0.0451

IMAGIN MEDICAL INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended December 31, 2017 and 2016

10. **SHARE CAPITAL** *(continued)*

e) Escrow shares

During the previous fiscal year 2016, as part of the BSS Life Sciences Inc, the Company issued 11,500,000 shares, which are subject to escrow and to be released over three years (10% on the closing date and an additional 15% every six months thereafter). As at year ended September 30, 2017, 6,325,000 shares were released from escrow and the remaining 5,175,000 are to be released as follows:

- i. 1,725,000 to be released on February 9, 2018;
- ii. 1,725,000 to be released on August 9, 2018
- iii. 1,725,000 to be released February 9, 2019.

11. **NON CASH TRANSACATIONS**

The following non-cash transactions were recorded:

	December 31, 2017	December 31, 2016
Financing activities		
Brokers warrants issued in connection with the private placements	\$ 18,466	\$ 29,022

12. **CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS**

(a) Capital Management Objectives

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.

IMAGIN MEDICAL INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended December 31, 2017 and 2016

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

There were no changes in the Company's approach to capital management during the three months ended December 31, 2017.

(b) Carrying Amounts and Fair Values of Financial Instruments

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.

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 following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at December, 2017.

	Level 1	Level 2	Level 3	Total
Cash	\$ 1,610,672	\$ –	\$ –	\$ 1,610,672
Security deposits	\$ 5,750	\$ –	\$ –	\$ 5,750

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at September 30, 2017.

	Level 1	Level 2	Level 3	Total
Cash	\$ 245,922	\$ –	\$ –	\$ 245,922
Security deposits	\$ 5,750	\$ –	\$ –	\$ 5,750

14. **SUBSEQUENT EVENTS**

Subsequent to the period, the following occurred:

- As per corporate resolution dated August 15, 2017, the Company issued 5,000,000 bonus shares to the president and CEO of the Company. The shares were granted in consideration of past services and the success of the Company with respect to the most recent financing. The bonus shares were granted at an issue price of \$0.05. For financial statement purposes, the shares will be recorded at \$0.235, which was the closing trading price at the date of issuance;
- 314,612 shares at the price of \$0.09 were issued in connection with the conversion of debt by a director. The units issued included one share and one warrant, each warrant exercisable at \$0.12 with expiry date of January 17, 2019;
- 3,350,000 warrants with an exercise price of 0.10 were exercised for gross proceeds of \$335,000;
- 314,612 warrants (related to the above debt conversion by a director) with an exercise price of \$0.12 were exercised for gross proceeds of \$37,753;
- 212,700 finders' warrants with an exercise prices ranging from \$0.15 to \$0.16 were exercised for gross proceeds of \$33,776;

IMAGIN MEDICAL INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended December 31, 2017 and 2016

14. **SUBSEQUENT EVENTS** *(continued)*

- 1,775,000 warrants with an exercise price of \$0.16 were exercised for gross proceeds of \$284,000;
- 1,552,666 warrants with an exercise price of \$0.35 were exercised for gross proceed of \$543,433;
- 2,590,000 acquisition warrants with an exercise price of \$0.15 were exercised for gross proceeds of \$388,500;
- 5,124,747 warrants with an exercise price of \$0.35 expired on February 9, 2018;
- 2,400,000 options with exercise prices ranging from \$0.15 to \$0.26 were exercised for total proceeds of \$553,000. Included in these exercises were 400,000 options with exercise prices ranging from \$0.15 to \$0.25 exercised by a director;
- The Company granted 1,000,000 incentive stock options to a service provider with exercise price of \$0.26 per share and exercisable for a period of five years. All options vest immediately;
- The Company granted 2,100,000 incentive stock options to directors and service providers with exercise price of \$0.40 per share and exercisable for a period of five years. All options vest immediately;
- The Company closed a non-brokered private placement that raised \$200,000 through the issuance of 625,000 shares at a price of \$0.32 per share. The funds are specifically allocated for the Company's ongoing communications and marketing program.