NEXOPTIC TECHNOLOGY CORP.

CONSOLID ATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

FOR THE YEAR ENDED DECEMBER 31, 2018

Smythe CPA

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF NEXOPTIC TECHNOLOGY CORP.

Opinion
We have audited the consolidated financial statements of NexOptic Technology Corp. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, 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 consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion
We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' 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 other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits 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 incurred a net loss of $12,287,021 during the year ended December 31, 2018. As stated in Note 1, this event or condition, 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 of Management's Discussion and Analysis.

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 identified above 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.

We obtained Management's Discussion and Analysis prior to the date of this auditors' 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 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.

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Auditors' 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 auditors' 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 auditors' 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 auditors' 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 auditors' report is Sukhjit Gill.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 30, 2019

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NEXOPTIC TECHNOLOGY CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
AS AT DECEMBER 31

		2018		2017
ASSETS				
Current				
Cash and cash equivalents (Note 13)	$	2,704,156	$	8,143,697
Accounts receivable		102,079		68,083
Prepaid expenses and deposits		94,486		36,688
		2,900,721		8,248,468
Deposits (Note 11)		16,809		39,794
Equipment (Note 6)		45,878		34,540
Intangible assets (Note 5)		49,367,942		54,956,765
	$	52,331,350	$	63,279,567
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities (Note 9)	$	261,744	$	334,068
Shareholders' equity				
Share capital (Note 8)		70,491,447		69,767,383
Reserve (Note 8)		10,003,112		9,731,094
Accumulated other comprehensive income		601,755		601,877
Deficit		(29,026,708)		(17,154,855)
		52,069,606		62,945,499
	$	52,331,350	$	63,279,567

Approved and authorized by the Board on April 30, 2019

"Arch Meredith" Director *"Paul McKenzie"* Director

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

NEXOPTIC TECHNOLOGY CORP.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31

	2018	2017
OPERATING EXPENSES		
Research and development (Note 7)	$ 8,613,085	$ 1,675,638
General and administrative (Note 7)	3,754,701	7,136,844
Total operating expenses	(12,367,786)	(8,812,482)
Interest and other income	80,765	30,864
Loss from investment in associate (Note 4)	-	(476,380)
	80,765	(445,516)
Net loss for the year	(12,287,021)	(9,257,998)
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that may be reclassified subsequently to profit or loss		
Foreign exchange gain (loss) on translating foreign operations	(122)	699
Comprehensive loss for the year	$ (12,287,143)	$ (9,257,299)
Basic and diluted loss per common share	$ (0.10)	$ (0.09)
Weighted average number of common shares outstanding	126,338,995	106,208,548

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

NEXOPTIC TECHNOLOGY CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	$ (12,287,021)	$ (9,257,998)
Non-cash items:		
Share-based payments	688,262	5,424,793
Amortization expense	5,588,823	931,471
Depreciation expense	22,261	9,415
Loss from investment in associate	-	476,380
Changes in non-cash working capital items:		
Accounts receivable	(33,996)	(27,042)
Prepaid expenses and deposits	(34,681)	(21,323)
Accounts payable and accrued liabilities	(72,578)	(384,537)
	(6,128,930)	(2,848,841)
CASH FLOWS FROM INVESTING ACTIVITIES		
Funds to Spectrum – share purchases	-	(1,412,133)
Spectrum acquisition, net of finder's fee	-	(59,462)
Equipment acquired	(33,599)	(4,899)
	(33,599)	(1,476,494)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercised warrants	722,988	3,573,537
Proceeds from options	-	250,701
Share issue costs	-	(53,033)
Proceeds from private placement	-	7,375,456
	722,988	11,146,661
Change in cash and cash equivalents during the year	(5,439,541)	6,821,326
Cash and cash equivalents, beginning of year	8,143,697	1,322,371
Cash and cash equivalents, end of year	$ 2,704,156	$ 8,143,697
Supplementary cash flow information:		
Non-cash transactions:		
Equity instruments issued for Spectrum acquisition	$ -	$ 52,502,420
Shares issued for finder's fees for Spectrum acquisition	-	300,000
Broker and finders' warrants for private placements	-	314,368
Interest paid	-	-
Income taxes paid	-	-

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

NEXOPTIC TECHNOLOGY CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)

	Share Capital					
	Number	Amount	Reserve	Accumulated Other Comprehensive Income	Deficit	Total
Balance, December 31, 2016	52,912,046	$ 9,167,016	$ 983,087	$ 601,178	$ (7,922,357)	$ 2,828,924
Acquisition of Spectrum (Note 4)	44,021,409	49,319,233	3,483,187	-	-	52,802,420
Private placement, net of share issue costs	6,915,920	7,008,055	314,368	-	-	7,322,423
Shares issued for options exercised	1,221,333	656,188	(405,487)	-	-	250,701
Shares issued for warrants exercised	20,322,591	3,616,891	(43,354)	-	-	3,573,537
Share-based payments	-	-	5,424,793	-	-	5,424,793
Expiry of stock options	-	-	(25,500)	-	25,500	-
Net loss and comprehensive loss for the year	-	-	-	699	(9,257,998)	(9,257,299)
Balance, December 31, 2017	125,393,299	69,767,383	9,731,094	601,877	(17,154,855)	62,945,499
Shares issued for warrants exercised	2,065,680	724,064	(1,076)	-	-	722,988
Share-based payments	-	-	688,262	-	-	688,262
Expiry of warrants	-	-	(415,168)	-	415,168	-
Net loss and comprehensive loss for the year	-	-	-	(122)	(12,287,021)	(12,287,143)
Balance, December 31, 2018	127,458,979	$ 70,491,447	$ 10,003,112	$ 601,755	$(29,026,708)	$ 52,069,606

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

1. NATURE OF OPERATIONS AND GOING CONCERN

NexOptic Technology Corp. (with its subsidiaries, collectively, the “Company” or “NexOptic”) is a technology company investing in the area of innovative optical and lens technologies. NexOptic was incorporated under the *Company Act* (British Columbia) on October 11, 2007. The Company name was changed from Elissa Resources Ltd. on February 12, 2016. The Company maintains its registered office at 2080 – 777 Hornby Street, Vancouver, British Columbia, Canada V6Z 1S4. The Company’s principal place of business is 500 – 666 Burrard Street, Vancouver, British Columbia, Canada V6C 3P6.

The Company is developing technologies relating to imagery and light concentration for lens and image capture systems. The business of technology investment involves a high degree of risk and there can be no assurance that projects under research and development will proceed through to achieve commercialization. Risks related to the value of the Company's investments and continued existence include the ability to protect intellectual property rights, the ability of the Company to raise alternative financing, and risks inherent to new technologies, such as risk of obsolescence, confirmation of feasibility, completion of prototypes, slow adoption and competing technological advances. Changes in future conditions could require material impairment of investments or intangible assets.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) on a going concern basis, which contemplates that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Accordingly, these consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

The Company reported a net loss of $12,287,021 (2017 - $9,257,998) and had an accumulated deficit of $29,026,708 (2017 - $17,154,855) as at December 31, 2018. The Company’s ability to continue as a going concern is dependent upon its ability to raise funds primarily through the issuance of shares or achieve profitable operations. The outcome of these matters cannot be predicted at this time. If the Company is unable to obtain additional financing, management may be required to curtail certain expenses. These material uncertainties may cast significant doubt about the Company’s ability to continue as a going concern.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements are prepared in accordance with IFRS, as issued by the International Accounting Standards Board (“IASB”).

Basis of consolidation and presentation

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments 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 accounting policies set out in Note 3 have been applied consistently by the Company and its subsidiaries to all periods presented.

Comparative financial results

Certain financial information from the comparative period has been reclassified to conform with the presentation of the statement of loss and comprehensive loss for the current period. The Company has determined to present the statement of loss and comprehensive loss by function to improve the relevancy of the disclosure following the acquisition of control of Spectrum Optix Inc. (“Spectrum”) on November 3, 2017 (Note 4).

Use of judgments and estimates

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported expenses during the period. Actual results could differ from these estimates.

2. BASIS OF PREPARATION (cont'd…)

Use of judgments and estimates (cont'd…)

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The key areas of judgment applied in the preparation of the consolidated financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- Assessment of control

  In determining whether the Company controls Spectrum, management is required to consider and assess the definition of significant influence in accordance with IAS 28 *Investment in Associates* and control in accordance with IFRS 10 *Consolidated Financial Statements.* There is judgment required to determine when and whether the rights of the Company result in control of Spectrum.

- Acquisition of Spectrum

  The acquisition of Spectrum required management to make a judgment as to whether Spectrum constituted a business combination or an asset acquisition under the definitions of IFRS 3 *Business Combinations*. The assessment required management to assess the inputs, processes and ability of Spectrum to produce outputs at the time of acquisition. Pursuant to the assessment, Spectrum was considered an asset acquisition (Note 4).

- Research and development expenditures

  Distinguishing the research and development phases of a technology or product and determining whether the recognition requirements for the capitalization of development costs are met requires judgment. After capitalization, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalized costs may be impaired. No research and development costs were capitalized during the year ended December 31, 2018 and 2017.

- Functional currency

  The functional currency of the Company and its subsidiaries is the currency of their respective primary economic environment, and the Company reconsiders the functional currency if there is a change in events and conditions, which determined the primary economic environment.

- Going concern

  The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay its ongoing operation expenditures and to meet its liabilities for the ensuing year, involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

- Deferred income tax

  The value of deferred tax assets is evaluated based on the probability of realization; the Company has assessed that it is improbable that such assets will be realized and has accordingly not recognized a value for deferred taxes.

2. BASIS OF PREPARATION (cont'd…)

Use of judgments and estimates (cont'd…)

The key areas of estimates applied in the preparation of the consolidated financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- Intangible assets – impairment and amortization

  The application of the Company's accounting policy for intangible assets expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalized is written off in profit or loss in the period the new information becomes available.

  Following initial recognition, the Company carries the value of intangible assets at cost less accumulated amortization and any accumulated impairment losses. Amortization is recorded on a straight-line basis based upon management's estimate of the useful life and residual value. Management estimates that intangible assets acquired will have a useful life of 10 years. The estimates are reviewed at least annually and are updated if expectations change as a result of technical obsolescence or legal and other limits to use. A change in the useful life or residual value will impact the reported carrying value of the intangible assets resulting in a change in related amortization expense.

- Share-based payments and compensation

  The Company has applied estimates with respect to the valuation of shares issued for non-cash consideration. Shares are valued at the fair value of the equity instruments granted at the date the Company receives the goods or services for share-based payments made to those other than employees or others providing similar services.

  The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted for share-based payments made to employees or others providing similar services. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the fair value of the underlying common shares, the expected life of the share option or warrant, volatility and dividend yield and making assumptions about them. Additional estimates were made with respect to the vesting of the conditional warrants issued for the acquisition of Spectrum. The assumptions and models used for estimating fair value for share-based payment transactions are discussed in Notes 4 and 8.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Red Hill Energy (US) Inc. ("Red Hill"), 0875514 BC Ltd. ("0875514") and Spectrum. All material intercompany transactions have been eliminated upon consolidation. A subsidiary is an entity over which the Company has control, where control indicates exposure or rights to variable returns and the ability to affect those returns through power over the investee.

Currency Translation

IFRS requires that the functional currency of each entity in the consolidated group be determined separately in accordance with the indicators as per International Accounting Standards ("IAS") 21 *The Effects of Changes in Foreign Exchange Rates* and should be measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company, 0875514 and Spectrum is the Canadian dollar; the US subsidiary's functional currency is the US dollar. The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Currency Translation (cont'd…)

Under IFRS, the results and financial position of all the Company's entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of the consolidated statement of financial position;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the date of the transaction); and
- all resulting exchange differences are recognized as a separate component of equity.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Cash equivalents

Cash equivalents consist of a cashable guaranteed investment certificate that is readily convertible into a known amount of cash within 90 days or less.

Investment in associate

Associates are those entities over which the Company is able to exert significant influence, but which are neither subsidiaries nor interests in a joint venture. The Company accounts for its investment in associate using the equity method. Under the equity method, the Company's investment in an associate is initially recognized at cost and subsequently increased or decreased to recognize the Company's proportionate share of earnings and losses of the associate and for impairment losses after the initial recognition date. The Company's share of an associate's losses that are in excess of its investment in the associate are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. The Company's share of earnings and losses of associates are recognized through profit or loss for the period. Distributions received from an associate are accounted for as a reduction to the carrying amount of the Company's investment in the associate.

Intercompany transactions between the Company and its associates are recognized only to the extent of unrelated investors' interests in the associates.

At the end of each reporting period, the Company assesses whether there is any objective evidence that an investment in an associate is impaired. Objective evidence includes observable data indicating that there is a measurable decrease in the estimated future cash flows of the associate's operations. When there is objective evidence that an investment in an associate is impaired, the carrying amount of such investment is compared to its recoverable amount, being the higher of its fair value less cost to sell and value in use (i.e., present value of its future cash flows). If the recoverable amount of an investment in associate is less than its carrying amount then an impairment loss is recognized in that period. When an impairment loss reverses in a subsequent period, the carrying amount of the investment in an associate is increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had an impairment loss not been previously recognized. A reversal of an impairment loss is recognized through profit or loss in the period that the reversal occurs.

Financial instruments

On January 1, 2018, the Company adopted IFRS 9 *Financial Instruments* ("IFRS 9") which replaced IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking 'expected loss' impairment model. IFRS 9 also includes significant changes to hedge accounting. The Company adopted the standard retrospectively. IFRS 9 did not impact the Company's classification and measurement of financial assets and liabilities. The following accounting policies with respect to financial instruments reflect the adoption of IFRS 9.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments (cont'd…)

Financial assets

The Company classifies its financial assets in the following categories: fair value through profit or loss, amortized cost or fair value through other comprehensive income. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are initially recognized at fair value with changes in fair value recorded in profit or loss.

Amortized cost

Financial assets are classified at amortized cost if both of the following criteria are met and the financial assets are not classified or designated as at fair value through profit and loss: 1) the Company's objective for these financial assets is to collect their contractual cash flows and 2) the asset's contractual cash flows represent 'solely payments of principal and interest'. The Company's cash and cash equivalents, and receivables are recorded at amortized cost as they meet the required criteria.

Fair value through other comprehensive income ("OCI")

For financial assets that are not held for trading, the Company can make an irrevocable election at initial recognition to classify the instruments at fair value through other comprehensive income ("FVOCI"), with all subsequent changes in fair value being recognized in other comprehensive income. This election is available for each separate investment. Under this new FVOCI category, fair value changes are recognized in OCI while dividends are recognized in profit or loss. On disposal of the investment the cumulative change in fair value is not recycled to profit or loss, rather transferred to deficit. The Company does not have any financial assets designated as FVOCI.

Financial liabilities

Financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method.

Financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include accounts payable and accrued liabilities.

Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs in making the measurements. The levels of the fair value hierarchy are defined as follows.

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 – Inputs for the asset or liability that are not based on observable market data.

Impairment of non-current assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Impairment of non-current assets (cont'd…)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs.

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Capital stock

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced, and any excess is allocated to warrants.

Shares issued as consideration for goods or services provided by to those other than employees or others providing similar services are measured at the fair value of the goods or services received, except where the fair value cannot be measured reliably, in which case they are measured at the fair value of the equity instruments granted.

Share-based payments

The Company has a stock option plan that is described in Note 8(c). Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to reserve.

Consideration received on the exercise of stock options is recorded as share capital and the related reserve is transferred to share capital. Charges for options that are forfeited before vesting are reversed from reserve. For those unexercised options that expire, the recorded value is transferred to deficit.

Equipment

The Company has acquired office and computer equipment for use in its research and business activities.

Depreciation is recognized using the straight-line method at the rate of 30% per annum for computer equipment, 100% for software, and 20% for office equipment.

Intangible assets

The Company owns intangible assets consisting of patents. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred.

The Company does not hold any significant intangible assets with indefinite lives.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization method and amortization period of an intangible asset with a finite life is reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in general and administrative expenses.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Intangible assets (cont'd…)

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use to the end of their useful lives.

Government assistance

Government grants, including grants from similar bodies, consisting of investment tax credits are recorded as a reduction of the related expense or cost of the asset acquired. Government grants are recognized when there is reasonable assurance that the Company has met the requirements of the approved grant program and there is reasonable assurance that the grant will be received.

Research grants that compensate the Company for expenses incurred are recognized in profit or loss in reduction thereof on a systematic basis in the same years in which the expenses are recognized. Grants that compensate the Company for the cost of an asset are recognized in profit or loss on a systematic basis over the useful life of the asset.

Research and development costs

Expenditures on research and development activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Investment tax credits related to current expenditures are included in the determination of net income as the expenditures are incurred when there is reasonable assurance the income tax credits will be realized.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. These criteria will be deemed by the Company to have been met when revenue is received by the Company and a determination that it has sufficient resources to market and sell its product offerings. Upon a determination that the criteria to capitalize development expenditures have been met, the expenditures capitalized will include the cost of materials, direct labour, and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures will be expensed as incurred.

Capitalized development expenditures will be measured at cost less accumulated amortization and accumulated impairment losses. No development costs have been capitalized to date.

Loss per share

Basic loss per share is calculated by dividing the loss available to common shareholders by the weighted average number of shares outstanding in the period. For all periods presented, the loss available to common shareholders equals the reported loss. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. In the Company's case, diluted loss per share is the same as basic loss per share, as the effects of including all outstanding options and warrants would be anti-dilutive.

Income taxes

The Company uses the balance sheet method of accounting for income taxes. Under this 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 basis. 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 income 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 possible 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.

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Standards issued or amended but not yet effective

IFRS 16 *Leases*

IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation and disclosure of leases, including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases, as is required by IAS 17 *Leases*, and instead introduces a single lessee accounting model. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The impact of IFRS 16 on the Company's consolidated financial statements has not yet been determined.

IFRIC 23 *Uncertainty Over Income Tax Treatments*

IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. It is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The Company does not expect that the adoption of this standard will have a material effect on the Company's consolidated financial statements.

4. INVESTMENT

During the year ended December 31, 2014, the Company entered into an agreement (the "Agreement"), as subsequently amended, with Spectrum Optix Inc. ("Spectrum"), a private technology development company. Pursuant to the Agreement, the Company was granted an option to acquire up to a 100% interest in Spectrum, as follows:

First Option: the Company has acquired a 6.6% interest in Spectrum having advanced $200,000;

Second Option: the Company exercised the Second Option and acquired a further 28.4% interest in Spectrum, for an aggregate interest of 35%, in exchange of the advancement of $2,800,000 towards the development of Spectrum's lens technologies in the year ended December 31, 2017; and

Third Option: the Company exercised, effective November 3, 2017, the Third Option and acquired the remaining 65% interest in Spectrum, for an aggregate interest of 100% in exchange for the issuance by the Company of 43,767,172 common shares ("Acquisition Shares") and 8,461,816 conditional warrants ("Conditional Warrants").

In connection with the Agreement, the Company signed a finder's fee agreement payable for which 123,809 common shares were issued during the First Option and $200,000 in cash and common shares valued at $300,000 were paid and issued concurrent with the exercise of the Third Option.

Investment in Associate

On October 14, 2016, NexOptic increased its interest in Spectrum to 19.97%. Concurrently, it was determined that the Company exercises significant influence over Spectrum. From October 14, 2016 to November 3, 2017, the Company accounted for its investment in Spectrum on an equity basis.

Investment in associate is as follows:

		Investment in Spectrum
Balance, December 31, 2016 (ownership – 20.68%)	$	1,505,219
Funds invested in Spectrum		1,412,133
Loss from investment in associate from January 1, 2017 to November 3, 2017		(476,380)
Balance, November 3, 2017	$	2,440,972

(Expressed in Canadian Dollars)

4. INVESTMENT (cont'd…)

Acquisition of Control

On November 3, 2017, the Company executed the Third Option and acquired the remaining outstanding shares of Spectrum by issuing 43,767,172 common shares and 8,461,816 Conditional Warrants. The financial results of Spectrum are consolidated as of November 3, 2017.

This transaction has been accounted for as an acquisition of net assets, rather than a business combination, as the net assets acquired did not represent a separate business operation. The Company applied IFRS 2 *Share-based Payments* in accounting for and assessing the transaction.

The acquisition of control of Spectrum is allocated as follows:

Purchase Price	
Fair value of 43,767,172 common shares of NexOptic[1]	$ 49,019,233
Fair value of the 8,461,816 Conditional Warrants	3,483,187
Fair value of the 254,237 shares issued for finder's fee	300,000
Finder's fee paid in cash	200,000
Investment in associate as of November 3, 2017	2,440,972
	$ 55,443,392
Net Assets Acquired	
Cash	$ 140,537
Accounts receivable	35,105
Prepaids	9,243
Equipment	39,056
Patents	55,888,236
Accounts payable and accrued liabilities	(668,785)
Net assets	$ 55,443,392

(1) The Acquisition Shares have been deposited into escrow to be released over a period of 36 months beginning February 19, 2016; 26,260,304 Acquisition Shares have been released from escrow.

Conditional Warrants

Each Conditional Warrant issued pursuant to the acquisition of Spectrum is exercisable into a common share or unit of the Company. Exercise of the Conditional Warrants is conditional upon and subject to the exercise of corresponding classes of options and warrants of the Company outstanding prior to the acquisition of Spectrum, such that for each 65 shares of the Company issued on the existing options and warrants, the holders of the Conditional Warrants may exercise in the aggregate only 35 corresponding Conditional Warrants.

The following table sets forth the exercise prices and expiry dates of the Conditional Warrants issued for the acquisition:

Number	Exercise price	Expiry date
1,149,982	$ 1.12	June 21, 2018
118,354	1.12 [1]	February 23, 2019
3,727,403	1.50	February 23, 2019
1,136,154	1.12	September 21, 2020
53,846	1.12	February 22, 2021
404,923	1.12	July 5, 2021
175,000	1.12	September 14, 2021
296,154	1.12	January 10, 2022
1,400,000	1.75	June 7, 2022
8,461,816		

(1) Each warrant entitles the holder to acquire a Unit. Each Unit contains a common share and a share purchase warrant exercisable at $1.50 until February 23, 2019.

(Expressed in Canadian Dollars)

4. INVESTMENT (cont'd…)

Conditional Warrants (cont'd…)

The Conditional Warrants were valued using option pricing models. The weighted average inputs to value the Conditional Warrants were as follows: risk-free interest rate of 1.50%, term of 2.25 years, volatility of 103.7% and a dividend rate of 0%. Further, the Company applied a discount factor to the distinctive tranches of Conditional Warrants to reflect the conditional exercise pending exercise of the corresponding options and warrants relative to estimates of future share prices and anticipated exercise behaviour.

5. INTANGIBLE ASSETS

The intangible assets of Spectrum include patents issued to Spectrum for its wedge imaging technology.

		2018		2017
Cost				
Balance, beginning of the year	$	55,888,236	$	-
Acquired with Spectrum		-		55,888,236
Balance, end of year	$	55,888,236	$	55,888,236
Accumulated Amortization				
Balance, beginning of year	$	931,471	$	-
Amortization expense		5,588,823		931,471
Balance, end of year	$	6,520,294	$	931,471
Net Book Value	$	49,367,942	$	54,956,765

6. EQUIPMENT

		Software		Computer equipment		Office equipment		Total
Cost								
Balance, December 31, 2016	$	-	$	-	$	-	$	-
Acquired with Spectrum		-		33,359		5,697		39,056
Additions		-		4,899		-		4,899
Balance, December 31, 2017		-		38,258		5,697		43,955
Additions		19,596		10,779		3,224		33,599
Balance, December 31, 2018	$	19,596	$	49,037	$	8,921	$	77,554
Accumulated Depreciation								
Balance, December 31, 2016	$	-	$	-	$	-	$	-
Depreciation expense		-		7,705		1,710		9,415
Balance, December 31, 2017		-		7,705		1,710		9,415
Depreciation expense		9,798		10,783		1,680		22,261
Balance, December 31, 2018	$	9,798	$	18,488	$	3,390	$	31,676
Net Book Value								
Balance, December 31, 2017	$	-	$	30,553	$	3,987	$	34,540
Balance, December 31, 2018	$	9,798	$	30,549	$	5,531	$	45,878

(Expressed in Canadian Dollars)

7. OPERATING EXPENSES

The financial results of Spectrum are consolidated as of November 3, 2017.

Research and Development ("R&D")	2018	2017
Amortization of intangible assets (Note 5)	$ 5,588,823	$ 931,471
Depreciation of equipment (Note 6)	22,261	9,415
R&D Consulting fees	456,623	-
Engineering and design	1,380,728	639,288
Management fees (Note 9)	345,000	38,833
Professional fees and patent costs	226,655	40,589
Salaries	240,250	16,042
Supplies	249,231	-
Travel	103,514	-
	$ 8,613,085	$ 1,675,638

General and Administrative	2018	2017
Consulting fees (Note 9)	$ 325,186	$ 147,132
Directors' fee (Note 9)	60,000	36,000
Insurance	21,967	11,923
Investor relations	823,203	524,386
Management fees (Note 9)	228,000	48,000
Office and administration	435,567	213,445
Professional fees (Note 9)	91,561	172,104
Property cost	24,249	24,303
Salaries (Note 9)	375,401	224,489
Share-based payments (Notes 8 and 9)	688,262	5,424,792
Shareholder communications and filings	108,537	78,155
Sales and marketing	269,485	118,211
Travel	303,283	113,904
	$ 3,754,701	$ 7,136,844

8. SHARE CAPITAL AND RESERVE

a) Authorized share capital

Unlimited number of common shares without par value.

b) Issued share capital

Year ended December 31, 2018

The Company did not complete any private placements in the year ended December 31, 2018.

Year ended December 31, 2017

In August 2017, the Company completed a private placement of 6,704,960 units at a price of $1.10 per unit for gross proceeds of $7,375,456. Each unit is comprised of one common share and one share purchase warrant ("Unit"). Each warrant entitles the holder to purchase one additional common share of the Company at an exercise price of $1.50 until February 23, 2019 ("Warrant").

(Expressed in Canadian Dollars)

8. SHARE CAPITAL AND RESERVE (cont'd…)

b) Issued share capital (cont'd…)

Year ended December 31, 2017 (cont'd…)

The Company paid finders' fees of $14,458 and issued 210,960 finders' units bearing the same terms as the Units. Upon issuance, the finders' units were granted as 210,960 common shares fair valued at $232,056 and 210,960 Warrants. The Company also issued 6,400 finders' warrants bearing the same terms as the Warrants. The 217,360 Warrants were valued at $96,596 based on a Black-Scholes valuation with a risk-free interest rate of 1.27%, term of 1.5 years, volatility of 94.7% and a dividend rate of 0%.

The Company issued a further 219,800 broker's warrants. Each broker's warrant entitles the holder to acquire one Unit at a price of $1.10 until February 23, 2019. The broker's warrants were valued at $217,772 based on a Black-Scholes valuation with a risk-free interest rate of 1.27%, term of 1.5 years, volatility of 94.7% and a dividend rate of 0% and consideration to the embedded Warrant. The Company incurred other share issuance costs of $38,575.

c) Stock options

The Company has a stock option plan (the "Plan") in place that allows for the reservation of common shares issuable under the Plan to a maximum of 10% of the number of issued and outstanding common shares of the Company at any given time. The exercise price of each option is required to be set at the closing price of the Company's common shares on the trading day prior to the date of grant.

Stock option transactions are summarized as follows:

	Number of Options		Weighted Average Exercise Price
Balance, December 31, 2016	4,508,333	$	0.24
Granted	4,760,000		1.46
Exercised	(1,221,333)		0.21
Expired	(50,000)		0.63
Balance, December 31, 2017	7,997,000		0.96
Granted	1,150,000		0.99
Balance outstanding, December 31, 2018	9,147,000	$	0.97
Balance exercisable, December 31, 2018	9,097,000	$	0.73

Stock options outstanding as at December 31, 2018:

	Number		Exercise price	Expiry date
Stock Options	2,060,000	$	0.15	September 21, 2020
	100,000		0.15	February 22, 2021
	752,000		0.40	July 5, 2021
	325,000		0.50	September 14, 2021
	550,000		0.95	January 10, 2022
	2,600,000		1.75	June 7, 2022
	1,610,000		1.15	November 20, 2022
	1,100,000		1.00	June 26, 2023
	50,000		0.70	December 19, 2023
	9,147,000	$	0.97	

As at December 31, 2018, the outstanding stock options had a weighted average remaining life of 3.13 (2017 – 3.93) years.

(Expressed in Canadian Dollars)

8. SHARE CAPITAL AND RESERVE (cont'd…)

d) Share-based payments (cont'd…)

During the year ended December 31, 2018, the Company granted 1,150,000 (2017 – 4,760,000) stock options with a weighted average fair value of $0.61 (2017 - $1.14) per option. The Company recognized share-based payments expense of $688,262 (2017 - $5,424,792) for options granted and vesting during the year ended December 31, 2018.

The following weighted average assumptions were used for the Black-Scholes option-pricing model valuation of stock options granted during the year:

	2018	**2017**
Risk-free interest rate	1.97%	1.20%
Expected life of options	5 years	4.98 years
Expected annualized volatility	80.00%	111.99%
Dividend rate	-	-
Forfeiture rate	-	-

e) Warrants and Conditional Warrants

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2016	22,418,271	$ 0.19
Issued	15,603,936	1.44
Exercised	(20,322,591)	0.18
Balance, December 31, 2017	17,699,616	1.31
Exercised	(2,065,680)	0.35
Expired	(1,179,982)	1.10
Balance outstanding, December 31, 2018	14,453,954	$ 1.46
Balance exercisable, December 31, 2018	7,169,043	$ 1.49

Warrants and Conditional Warrants outstanding as at December 31, 2018:

	Number outstanding	Number exercisable	Exercise price		Expiry date
Warrants	219,800	219,800	$ 1.10	(1)	February 23, 2019
	118,354	-	1.12	(1) (2)	February 23, 2019
	3,727,403	-	1.50	(2)	February 23, 2019
	6,922,320	6,922,320	1.50	(3)	February 23, 2019
	1,136,154	26,923	1.12	(2)	September 21, 2020
	53,846	-	1.12	(2)	February 22, 2021
	404,923	-	1.12	(2)	July 5, 2021
	175,000	-	1.12	(2)	September 14, 2021
	296,154	-	1.12	(2)	January 10, 2022
	1,400,000	-	1.75	(2)	June 7, 2022
	14,453,954	7,169,043			

(1) Each warrant entitles the holder to acquire a Unit. Each Unit contains a common share and a share purchase warrant exercisable at $1.50 until February 23, 2019.

(2) Exercise of the Conditional Warrants is conditional upon and subject to the exercise of corresponding classes of options and warrants of the Company outstanding prior to the acquisition of Spectrum, such that for each 65 shares of the Company issued on the existing options and warrants, the holders of the Conditional Warrants may exercise in the aggregate only 35 corresponding Conditional Warrants.

(3) Subsequent to the year ended December 31, 2018, the expiry date of 6,704,960 warrants were extended to February 23, 2020.

(Expressed in Canadian Dollars)

9. RELATED PARTY TRANSACTIONS

Management Compensation

Key management personnel comprise the Chairman, Chief Executive Officer, President & Chief Business Officer, Chief Financial Officer, and directors of the Company. The remuneration of the key management personnel is as follows:

Payments to key management personnel		2018		2017
Consulting fees – general and administrative	$	106,014	$	81,475
Directors' fees – general and administrative		60,000		36,000
Management fees – general and administrative		228,000		48,000
Management fees – research and development		345,000		38,333
Salaries and short-term benefits – general and administrative		180,000		156,000
Share-based payments to officers – general and administrative		186,206		1,414,459
Share-based payments to directors – general and administrative		496,550		1,204,902

During the year ended December 31, 2018, the Company was charged legal fees, included in professional fees, of $23,273 (2017 - $93,977) by S. Paul Simpson Law Corp., a law firm of which an officer of the Company is an employee.

During the year ended December 31, 2018, the Company was charged management fees of $114,000 (2017 - $5,800) and research and development fees of $nil (2017 - $52,200) by a company jointly owned by the CEO and the Chairman of the Company.

As at December 31, 2018, the Company had balances outstanding with related parties of $82,126 (2017 - $77,917) included in accounts payable. All balances are unsecured, non-interest-bearing, have no fixed repayment terms and are due on demand.

10. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 27.00% (2017 - 26.00%) to income before income taxes. The reasons for the differences are as follows:

		2018		2017
Income before income tax	$	(12,287,021)	$	(9,257,998)
Statutory income tax rate		27.00%		26.00%
Income tax expense computed at Canadian statutory rates		(3,317,496)		(2,407,079)
Items not deductible for tax purposes		192,844		1,478,519
Differences between Canadian and foreign tax rates		1,676		(2,679)
Change in timing differences		714,531		121,273
Effect of change in tax rates		495,362		-
True-up of tax losses to statutory returns		120,152		29,142
Unused tax losses and tax offsets not recognized in tax assets		1,792,931		780,824
Income tax recovery	$	-	$	-

The Company recognizes tax benefits on losses or other deductible amounts where the probable criteria for the recognition of deferred tax assets has been met. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

(Expressed in Canadian Dollars)

10. INCOME TAXES (cont'd…)

	2018	2017
Non-capital losses	$ 13,319,141	$ 9,449,486
Resource properties	3,786,091	3,845,458
Equipment	96,757	74,617
Share issue costs	258,044	109,004
Long term investments	3,549,728	755,316
Non-refundable income tax credits	1,957,407	258,359
Unrecognized deductible temporary differences	$ 22,967,168	$ 14,492,240

As at December 31, 2018, the Company has US non-capital losses of $297,580 and Canadian non-capital losses of $13,021,561 that may be applied to reduce future taxable income. If these losses are not used to offset future income, they will expire through the year ended December 31, 2038.

11. COMMITMENTS

The Company has lease agreements for office space expiring through July 2020. A total of $15,569 has been classified as deposits in the consolidated statements of financial position. The minimum annual lease payments required is as follows:

For the year ending December 31	
2019	$ 158,264
2020	38,660
Total	$ 196,924

12. SEGMENTED INFORMATION

The Company operates in one segment, being technology investment. As at December 31, 2018 and 2017, all of the Company's long-term assets are situated in Canada.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

Cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities are carried at amortized cost. The Company considers that the carrying amount of these financial assets and liabilities measured at amortized cost to approximate their fair value due to the short-term nature of the financial instruments.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

Financial risk factors

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets, including cash and cash equivalents and receivables. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and cash equivalents with high-credit quality financial institutions. As at December 31, 2018, the Company had cash equivalents of $2,273,645 (2017 - $6,539,037) in term deposits. The Company considers the risk of financial loss on cash and cash equivalents to be remote. The Company's receivables consist materially of GST input tax credits recoverable from the government of Canada. The Company considers credit risk with respect to these amounts to be low.

(Expressed in Canadian Dollars)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd…)

Financial risk factors (cont'd…)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2018, the Company had a working capital of $2,638,977 (2017 - $7,914,400). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in market factors, such as interest rates, foreign exchange rates, and commodity and equity prices. The Company does not have a practice of trading derivatives.

a) Interest rate risk

The Company's financial asset exposed to interest rate risk consists of cash and cash equivalents. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. Management believes the interest rate risk is low given the current low global interest rate environment.

b) Foreign currency risk

The Company's has engaged a number of vendors in the pursuit of research and development activities in the US. As such, the Company is exposed to some foreign currency risk. Fluctuations in the exchange rate between the Canadian dollar and US dollar may have an adverse effect on the Company's business and costs to proceed with preferred vendors. The Company may reduce its foreign currency risk as needed by substituting Canadian vendors as required. Foreign currency risk is considered low relative to the overall financial operating plan.

As at December 31, 2018, the Company's net foreign denominated financial assets are as follows:

	2018		2017	
	Foreign currency	Canadian dollar equivalent	Foreign currency	Canadian dollar equivalent
Cash - US dollar	$ 57,293	$ 78,159	$ 49,478	$ 62,070

14. CAPITAL MANAGEMENT

The Company's capital management policy is to maintain a strong but flexible capital structure that optimizes the cost of capital, creditor and market confidence while sustaining the future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. The Company's capital structure includes shareholders' equity of $52,069,606 (2017 - $62,945,499). In order to maintain or adjust the capital structure, the Company may from time to time issue shares, seek debt financing and adjust its capital spending to manage current and working capital requirements. The Company is not subject to externally imposed capital requirements.

There were no changes to the Company's approach to capital management during the year ended December 31, 2018.

15. SUBSEQUENT EVENTS

Subsequent to the year ended December 31, 2018, the Company:

a) Granted 2,650,000 options exercisable at $0.65 for a period of five years.

b) Extended the expiry date of 6,704,960 warrants exercisable at a price of $1.50 per common share to February 23, 2020.

c) 219,800 warrants with an exercise price of $1.10, 118,354 warrants with an exercise price of $1.12 and 3,944,763 warrants with an exercise price of $1.50 expired on February 23, 2019.

d) 805,000 options have been exercised with a total proceeds of $120,750.