NEXOPTIC

# NEXOPTIC TECHNOLOGY CORP.

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
**(Unaudited)**
**(Expressed in Canadian Dollars)**

## FOR THE THREE MONTHS ENDED MARCH 31, 2019

## NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

**NEXOPTIC TECHNOLOGY CORP.**
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited)
(Expressed in Canadian Dollars)
**AS AT**

| | | **March 31, 2019** | | **December 31, 2018** |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current** | | | | |
| Cash and cash equivalents (Note 11) | $ | 1,093,460 | $ | 2,704,156 |
| Accounts receivable | | 58,886 | | 102,079 |
| Prepaid expenses and deposits | | 222,304 | | 94,486 |
| | | 1,374,650 | | 2,900,721 |
| **Deposits** | | 16,809 | | 16,809 |
| **Equipment and right-of-use assets** (Note 5) | | 167,983 | | 45,878 |
| **Intangible assets** (Note 4) | | 47,970,736 | | 49,367,942 |
| | $ | 49,530,178 | $ | 52,331,350 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities (Note 9) | $ | 330,480 | $ | 261,744 |
| Lease liabilities (Note 6) | | 107,155 | | - |
| | | 437,635 | | 261,744 |
| **Lease liabilities** (Note 6) | | 21,686 | | - |
| | | 459,321 | | 261,744 |
| **Shareholders' equity** | | | | |
| Share capital (Note 8) | | 70,491,447 | | 70,491,447 |
| Reserve (Note 8) | | 9,650,738 | | 10,003,112 |
| Accumulated other comprehensive income | | 601,727 | | 601,755 |
| Deficit | | (31,673,055) | | (29,026,708) |
| | | 49,070,857 | | 52,069,606 |
| | $ | 49,530,178 | $ | 52,331,350 |

Approved and authorized by the Board on May 30, 2019

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

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

**NEXOPTIC TECHNOLOGY CORP.**
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Unaudited)
(Expressed in Canadian Dollars)
**FOR THE THREE MONTHS ENDED MARCH 31, 2019**

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **OPERATING EXPENSES** | | | | |
| Research and development (Note 7) | $ | 2,483,513 | $ | 2,125,384 |
| General and administrative (Note 7) | | 1,673,138 | | 833,026 |
| Total operating expenses | | (4,156,651) | | (2,958,410) |
| Finance expense (Note 6) | | (2,140) | | - |
| Interest income | | 15,428 | | 23,160 |
| | | 13,288 | | 23,160 |
| Net loss for the period | | (4,143,363) | | (2,935,250) |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| **Item that may be reclassified subsequently to profit or loss** | | | | |
| Foreign exchange gain (loss) on translating foreign operations | | (28) | | 61 |
| Comprehensive loss for the period | $ | (4,143,391) | $ | (2,935,189) |
| **Basic and diluted loss per common share** | $ | (0.03) | $ | (0.02) |
| **Weighted average number of common shares outstanding** | | 127,458,979 | | 125,506,910 |

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

**NEXOPTIC TECHNOLOGY CORP.**
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)
(Expressed in Canadian Dollars)
**FOR THE THREE MONTHS ENDED MARCH 31, 2019**

| | 2019 | 2018 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net loss for the period | $ (4,143,363) | $ (2,935,250) |
| Non-cash items: | | |
| Accrued finance expense | 2,140 | - |
| Amortization expense | 1,397,206 | 1,397,206 |
| Depreciation expense | 35,594 | 7,857 |
| Share-based payments | 1,144,642 | - |
| Changes in non-cash working capital items: | | |
| Accounts receivable | 43,193 | (13,768) |
| Prepaid expenses and deposits | (127,851) | (7,221) |
| Accounts payable and accrued liabilities | 68,741 | (114,180) |
| | (1,579,698) | (1,665,356) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Equipment acquired | - | (25,940) |
| | - | (25,940) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from exercised warrants | - | 96,250 |
| Lease payments | (30,998) | - |
| | (30,998) | 96,250 |
| **Change in cash and cash equivalents during the period** | (1,610,696) | (1,595,046) |
| **Cash and cash equivalents, beginning of period** | 2,704,156 | 8,143,697 |
| **Cash and cash equivalents, end of period** | $ 1,093,460 | $ 6,548,651 |

There were no significant non-cash investing or financing activities for the period ended March 31, 2019 and 2018.

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

**NEXOPTIC TECHNOLOGY CORP.**
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)
(Expressed in Canadian Dollars)

| | Share Capital | | | | | |
|---|---|---|---|---|---|---|
| | Number | Amount | Reserve | Accumulated Other Comprehensive Income | Deficit | Total |
| **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 | 275,000 | 96,250 | - | - | - | 96,250 |
| Net loss and comprehensive loss for the period | - | - | - | 61 | (2,935,250) | (2,935,189) |
| **Balance, March 31, 2018** | 125,668,299 | 69,863,633 | 9,731,094 | 601,938 | (20,090,105) | 60,106,560 |
| Warrants exercised | 1,790,680 | 627,814 | (1,076) | - | - | 626,738 |
| Share-based payments | - | - | 688,262 | - | - | 688,262 |
| Expiry of warrants | - | - | (415,168) | - | 415,168 | - |
| Net loss and comprehensive loss for the period | - | - | - | (183) | (9,351,771) | (9,351,954) |
| **Balance, December 31, 2018** | 127,458,979 | 70,491,447 | 10,003,112 | 601,755 | (29,026,708) | 52,069,606 |
| Share-based payments | - | - | 1,144,642 | - | - | 1,144,642 |
| Expiry of options | - | - | (347,936) | - | 347,936 | - |
| Expiry of warrants | - | - | (1,149,080) | - | 1,149,080 | - |
| Net loss and comprehensive loss for the period | - | - | - | (28) | (4,143,363) | (4,143,391) |
| **Balance, March 31, 2019** | 127,458,979 | $ 70,491,447 | $ 9,650,738 | $ 601,727 | $ (31,673,055) | $ 49,070,857 |

The accompanying notes are an integral part of these condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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 $4,143,363 (2018 - $2,935,250) and had an accumulated deficit of $31,673,055 (December 31, 2018 - $29,026,708) as at March 31, 2019. 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

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with IFRS issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The accounting policies and methods of computation applied by the Company in these condensed consolidated interim financial statements are the same as those applied in the Company's annual consolidated financial statements for the year ended December 31, 2018, except for the adoption of IFRS 16 as detailed in Note 3.

### Basis of consolidation and presentation

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial assets that are measured at fair value. All dollar amounts presented are in Canadian dollars unless otherwise specified.

These condensed consolidated interim financial statements incorporate the financial statements of the Company and its wholly controlled subsidiaries. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The condensed consolidated interim financial statements include the accounts of the Company and its direct wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

### Use of judgments and estimates

The preparation of these condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- 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 period ended March 31, 2019.

- 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.

The key areas of estimates applied in the preparation of the condensed consolidated interim 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.

## 2. BASIS OF PREPARATION (cont'd…)

**Use of judgments and estimates** (cont'd…)

- 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 Note 8.

## 3. SIGNIFICANT ACCOUNTING POLICIES

**New standard adopted**

*IFRS 16, Leases*

The Company adopted IFRS 16 - Leases ("IFRS 16") on January 1, 2019. The objective of the new standard is to eliminate the classification of leases as either operating or financing leases for a lessee and report all leases on the statement of financial position. The only exemption to this will be for leases that are one year or less in duration or for leases of assets with low values. Under IFRS 16 a lessee is required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligations to make lease payments. IFRS 16 also changes the nature of expenses relating to leases, as lease expenses previously recognized for operating leases are replaced with depreciation expense on capitalized right-of-use assets and finance or interest expense for the corresponding lease liabilities associated with the capitalized right-of-use leased assets.

The Company adopted IFRS 16 using the modified retrospective approach and did not restate comparative amounts for the year prior to first adoption. For all leases, the lease liability was measured at January 1, 2019 as the present value of any future minimum lease payments discounted using the appropriate incremental borrowing rate. The associated right of use assets was measured at the amount equal to the lease liability on January 1, 2019.

The following leases accounting policies have been applied as of January 1, 2019 on adoption of IFRS 16:

At inception of a contract, we assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. We assess whether the contract involves the use of an identified asset, whether we have the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement and if we have the right to direct the use of the asset.

As a lessee, we recognize a right-of-use asset, and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain measurements of the lease liability.

**3. SIGNIFICANT ACCOUNTING POLICIES** (cont'd…)

**New standards adopted** (cont'd…)

*IFRS 16, Leases* (cont'd…)

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices of purchase options if we are reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in our estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit.

As part of the initial application of IFRS 16, we have elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit on a straight-line basis over the lease term.

Impact of transition to IFRS 16:

Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. The cumulative effect of initial application is recognized in deficit at January 1, 2019. Comparative amounts for 2018 remains as previously reported under IAS 17 and related interpretations.

On initial application, the Company has elected to record right-of-use assets based on the corresponding lease liabilities. Lease liabilities have been measured by discounting future lease payments at the incremental borrowing rate at January 1, 2019. The incremental borrowing rate applied was 8.95% per annum and represents the Company's best estimate of the rate of interest that it would expect to pay to borrow, on a collateralized basis, over a similar term, an amount equal to the lease payments in the current economic environment.

As of the initial date of application of IFRS 16, the Company has three office leases outstanding. The remaining non-cancelable periods of the leases were 6 months, 12 months, and 19 months respectively. The Company has elected to apply the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.

The application of IFRS 16 to leases, previously classified as operating leases under IAS 17, resulted in the recognition of right-of-use assets of $157,699 (Note 5) and lease liabilities (Note 6) with no net impact on deficit.

(Expressed in Canadian Dollars)

## 4. INTANGIBLE ASSETS

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

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| **Cost** | | |
| Balance, beginning and end of period | $ 55,888,236 | $ 55,888,236 |
| **Accumulated Amortization** | | |
| Balance, beginning of period | $ 6,520,294 | $ 931,471 |
| Amortization expense | 1,397,206 | 5,588,823 |
| Balance, end of period | $ 7,917,500 | $ 6,520,294 |
| **Net Book Value** | $ 47,970,736 | $ 49,367,942 |

## 5. EQUIPMENT AND RIGHT-OF-USE ASSETS

| | Software | Computer equipment | Office equipment | Right-of-use assets (Office leases) | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| 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 |
| Adoption of IFRS 16 (Note 3) | - | - | - | 157,699 | 157,699 |
| Balance, March 31, 2019 | $ 19,596 | $ 49,037 | $ 8,921 | $ 157,699 | $ 235,253 |
| **Accumulated Depreciation** | | | | | |
| 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 |
| Depreciation expense | 2,416 | 2,260 | 409 | 30,509 | 35,594 |
| Balance, March 31, 2019 | $ 12,214 | $ 20,748 | $ 3,799 | $ 30,509 | $ 67,270 |
| **Net Book Value** | | | | | |
| Balance, December 31, 2018 | $ 9,798 | $ 30,549 | $ 5,531 | $ - | $ 45,878 |
| Balance, March 31, 2019 | $ 7,382 | $ 28,289 | $ 5,122 | $ 127,190 | $ 167,983 |

(Expressed in Canadian Dollars)

## 6. LEASE LIABILITIES

Pursuant to the adoption of IFRS 16 (Note 3), the Company has recognized the impact of off-balance lease obligations as of December 31, 2018:

| **Reconciliation of lease liabilities** | | January 1, 2019 |
|---|---|---|
| Off-balance lease obligations as of December 31, 2018 | $ | 196,925 |
| Current leases with a term of 12 months or less (short-term leases) | | (30,000) |
| Gross lease liabilities as of January 1, 2019 | | 166,925 |
| Discounting | | (9,226) |
| Lease liabilities on application of IFRS 16 at January 1, 2019 | $ | 157,699 |

The Company has applied an incremental borrowing rate of 8.95%.

| **Lease liabilities** | | |
|---|---|---|
| **Balance, January 1, 2019** | $ | 157,699 |
| Accrued finance expense | | 2,140 |
| Lease payments | | (30,998) |
| **Balance, March 31, 2019** | $ | 128,841 |
| Current (less than one year) | $ | 107,155 |
| Long-term | $ | 21,686 |

The Company paid $15,000 on short-term leases in the three months ended March 31, 2019 included in office and administration expense.

## 7. OPERATING EXPENSES

| **Research and Development ("R&D")** | | **2019** | | **2018** |
|---|---|---|---|---|
| Amortization of intangible assets (Note 4) | $ | 1,397,206 | $ | 1,397,206 |
| Depreciation of equipment (Note 5) | | 5,085 | | 7,857 |
| R&D Consulting fees | | 53,435 | | 104,636 |
| Engineering and design | | 298,546 | | 384,080 |
| Management fees (Note 9) | | 85,000 | | 85,000 |
| Professional fees and patent costs | | 41,020 | | 60,018 |
| Salaries | | 82,000 | | 47,083 |
| Share-based payments (Note 8) | | 410,343 | | - |
| Supplies | | 73,002 | | 27,183 |
| Travel | | 37,876 | | 12,321 |
| | $ | (2,483,513) | $ | (2,125,384) |

(Expressed in Canadian Dollars)

## 7. OPERATING EXPENSES (cont'd…)

| **General and Administrative** | | **2019** | | **2018** |
|---|---|---|---|---|
| Consulting fees (Note 9) | $ | 149,782 | $ | 97,686 |
| Depreciation of right-of-use assets (Note 5) | | 30,509 | | - |
| Insurance | | 7,217 | | 7,720 |
| Investor relations | | 237,966 | | 235,281 |
| Management fees (Note 9) | | 57,000 | | 57,000 |
| Office and administration | | 94,683 | | 87,200 |
| Professional fees (Note 9) | | 13,169 | | 19,198 |
| Salaries (Note 9) | | 126,075 | | 76,442 |
| Share-based payments (Notes 8 and 9) | | 734,299 | | - |
| Shareholder communications and filings | | 31,158 | | 36,871 |
| Sales and marketing | | 79,266 | | 88,006 |
| Travel | | 112,014 | | 127,622 |
| | $ | (1,673,138) | $ | (833,026) |

## 8. SHARE CAPITAL AND RESERVE

a) Authorized share capital

Unlimited number of common shares without par value.

b) Issued share capital

The Company did not complete any private placements in the period ended March 31, 2019 or the year ended December 31, 2018.

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, 2017 | 7,997,000 | $ | 0.96 |
| Granted | 1,150,000 | | 0.99 |
| Balance, December 31, 2018 | 9,147,000 | | 0.97 |
| Forfeit | (320,000) | | 1.41 |
| Granted | 2,650,000 | | 0.65 |
| Balance outstanding, March 31, 2019 | 11,477,000 | $ | 0.88 |
| Balance exercisable, March 31, 2019 | 11,457,000 | $ | 0.88 |

(Expressed in Canadian Dollars)

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

c) Stock options (cont'd…)

Stock options outstanding as at March 31, 2019:

| | 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 |
| | 275,000 | 0.50 | September 14, 2021 |
| | 530,000 | 0.95 | January 10, 2022 |
| | 2,400,000 | 1.75 | June 7, 2022 |
| | 1,560,000 | 1.15 | November 20, 2022 |
| | 1,100,000 | 1.00 | June 26, 2023 |
| | 50,000 | 0.70 | December 19, 2023 |
| | 2,650,000 | 0.65 | January 30, 2024 |
| | 11,477,000 | $ 0.88 | |

As at March 31, 2019, the outstanding stock options had a weighted average remaining life of 3.32 (December 31, 2018 – 3.13) years.

d) Share-based payments

During the period ended March 31, 2019, the Company granted 2,650,000 (2018 – Nil) stock options with a weighted average fair value of $0.43 (2018 - $Nil) per option. The Company recognized share-based payments expense of $1,144,642 (2018 - $Nil) for options granted and vested during the period.

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

| | 2019 | 2018 |
|---|---|---|
| Risk-free interest rate | 1.83% | 1.97% |
| Expected life of options | 5 years | 5 years |
| Expected annualized volatility | 85.7% | 80.0% |
| 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, 2017 | 17,699,616 | $ 1.31 |
| Exercised | (2,065,680) | 0.35 |
| Expired | (1,179,982) | 1.10 |
| Balance, December 31, 2018 | 14,453,954 | 1.46 |
| Expired | (4,282,917) | 1.47 |
| Balance outstanding, March 31, 2019 | 10,171,037 | $ 1.46 |
| Balance exercisable, March 31, 2019 | 6,731,883 | $ 1.50 |

(Expressed in Canadian Dollars)

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

e) Warrants and Conditional Warrants (cont'd…)

Warrants and Conditional Warrants outstanding as at March 31, 2019:

| | Number outstanding | Number exercisable | Exercise price | | Expiry date |
|---|---|---|---|---|---|
| **Warrants** | 6,704,960 | 6,704,960 | $ 1.50 | (1) | February 23, 2020 |
| | 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 |
| | 10,171,037 | 6,731,883 | $ 1.46 | | |

(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, 2020.

(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.

**9. RELATED PARTY TRANSACTIONS**

**Management Compensation**

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

| **Payments to key management personnel** | 2019 | 2018 |
|---|---|---|
| Consulting fees – general and administrative | $ 39,711 | $ 21,225 |
| Management fees – general and administrative | 57,000 | 57,000 |
| Management fees – research and development | 85,000 | 85,000 |
| Salaries and short-term benefits – general and administrative | 45,000 | 45,000 |
| Share-based payments to officers – general and administrative | 86,388 | - |
| Share-based payments to directors – general and administrative | 431,940 | - |

During the period ended March 31, 2019, the Company was charged legal fees, included in professional fees, of $8,060 (2018 - $4,134) by S. Paul Simpson Law Corp., a law firm of which an officer of the Company is an employee.

As at March 31, 2019, the Company had balances outstanding with related parties of $27,308 (December 31, 2018 - $82,126) included in accounts payable. All balances are unsecured, non-interest-bearing, have no fixed repayment terms and are due on demand.

**10. SEGMENTED INFORMATION**

The Company operates in one segment, being technology investment. As at March 31, 2019, all of the Company's long-term assets are situated in Canada.

(Expressed in Canadian Dollars)

## 11. 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 March 31, 2019, the Company had cash equivalents of $786,470 (December 31, 2018 - $2,273,645) 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.

*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 March 31, 2019, the Company had a working capital of $714,711 (December 31, 2018 - $2,544,491). 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. 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 March 31, 2019, the Company's net foreign denominated financial assets are as follows:

| | Foreign currency | Canadian dollar equivalent |
|---|---|---|
| Cash - US dollar | $ 56,707 | $ 75,778 |

## 12. 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 $49,070,857 (December 31, 2018 - $52,069,606). 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 period ended March 31, 2019.

## 13. SUBSEQUENT EVENT

Subsequent to the period ended March 31, 2019, the Company issued 805,000 common shares for options exercised with total proceeds of $120,750.