



NEXOPTIC

**NEXOPTIC TECHNOLOGY CORP.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE PERIOD ENDED MARCH 31, 2017**

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*Set out below is a review of the activities, results of operations and financial condition of NexOptic Technology Corp. (formerly Elissa Resources Ltd.) ("NXO", "NexOptic", or the "Company") and its subsidiaries for the three months ended March 31, 2017. The discussion below should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the three months ended March 31, 2017 and consolidated financial statements for the years ended December 31, 2016 and 2015. Those consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. All dollar figures included in the following Management Discussion and Analysis ("MD&A") are quoted in Canadian dollars unless otherwise indicated. This MD&A has been prepared as at May 30, 2017.*

*The Company is listed on the TSX Venture Exchange ("TSX-V") under the symbol NXO and OTCQB Venture Marketplace under the symbol "NXOPF".*

*Additional information related to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and the Company's website at [www.nexoptic.com](http://www.nexoptic.com).*

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## **BACKGROUND AND CORE BUSINESS**

NexOptic Technology Corp. and 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 maintains its registered office at 2080 – 777 Hornby Street, Vancouver, British Columbia, Canada V6Z 1S4.

The Company has identified a significant business opportunity in a private technology development company, Spectrum Optix Inc. ("Spectrum") of Calgary, Canada, and has secured an option to acquire in the aggregate, 100% of Spectrum.

NexOptic and Spectrum (together, the "Companies") work co-operatively. Paul McKenzie, CEO of the Company, and John Daugela, CEO of Spectrum, hold appointments on the board of directors of both the Company and Spectrum. This ensures alignment between the companies. Details regarding the Company's option agreement with Spectrum are included in the accompanying unaudited condensed consolidated interim financial statements for the period ending March 31, 2017.

Spectrum is developing technologies relating to imagery and light concentration for lens and image capture based systems. Spectrum's core, patent pending technology, referred to and trademarked by Spectrum as Blade Optics™, is focused on a novel approach to collecting and concentrating an electromagnetic wave, such as visible light, and, if required by the application, maintaining the original image at high levels of quality and compactness. Spectrum's technology employs flat surfaces and holds potential for significant consolidation to the length of lens stacks found in traditional light capture based systems such as cameras and telescope lenses in addition to potential improvements to quality, clarity and resolution of other imagery systems including those found in computer graphics, mobile devices and others. Due to anticipated reductions to the length of the lens stacks and the employment of flat surfaces, a potential decrease of lens manufacturing costs and the cost of the surrounding hardware is quite possible. Imaging applications are being explored by Spectrum that utilize both pre- and post-optical imaging solution improvements.

The building of a 5-inch aperture Proof-of-Concept (POC) prototype was commissioned by Spectrum in 2016. Alignment and assembly of the optics, construction of the casing and testing of the full lens stack were completed in the 1<sup>st</sup> quarter of 2017 (further details on the POC prototype can be found below as noted)

The Companies are pleased with the unprocessed imaging results from the POC prototype lens stack. Tests of the prototype delivered image resolutions comparable to conventional 5-inch-aperture telescopes while maintaining the device's unique form factor. The POC prototype incorporates the Companies' breakthrough Blade Optics™ system which allows the entire device to be housed in a body approximately 5 inches deep while keeping a diagonal aperture of roughly 5 inches. The prototype's lens stack depth is significantly thinner than comparable conventional telescopes on the market today. Imaging processing techniques specific to the demands of the POC prototype were completed in the 1<sup>st</sup> quarter of 2017.

The Companies commissioned electrical engineer Larry McNish, a member of the Royal Astronomical Society of Canada, to field test the prototype. McNish has been an amateur astronomer and astrophotographer for 30 years and has served as president of the Calgary Centre of the Royal Astronomical Society of Canada.

After field testing the prototype, Mr. McNish stated: "I've observed and imaged through a lot of different shapes and sizes of telescopes over the last 30 years. Having the opportunity to take images with the NexOptic prototype, I believe that they have potentially created a "paradigm shift" innovation in optical design."

On April 4<sup>th</sup>, 2017 the POC prototype was unveiled in Vancouver, Canada at a 240 person media event, partially sponsored by a variety of corporations including Haywood Securities. Members of the media, some of NexOptic's shareholders and others were in attendance. Images taken with the device were subsequently shown at the event and posted to NexOptic's website: [www.nexoptic.com](http://www.nexoptic.com)

The POC prototype was completed by Ruda Cardinal who are well qualified to deliver to Spectrum the high-quality lens stack Prototype, and possible future imaging prototypes in a timely and cost effective manner. Ruda Cardinal of Tucson, Arizona is frequently engaged by Fortune 500 companies for advanced level optical design and prototype build assignments.

Spectrum is currently seeking patent protection for its core optical technologies. In September of 2015 Spectrum filed its first provisional patent application. Subsequent patent filings have followed.

In early April of this year the Companies announced via a joint news release that they had commenced an engineering trade study to examine the applications of a new lens design for certain mobile devices including smartphones. It is anticipated that this will be the first step towards the development of a physical prototype intended to demonstrate to industry participants a telephoto lens system for mobile devices. The Companies are encouraged by preliminary results of the trade study which could be an ideal alternative for smartphone telephoto lens systems.

Additional patent filings are anticipated to be made in the future by Spectrum specific to both hardware and computational designs in conjunction with existing Spectrum patent filings and/or altogether new designs. Spectrum's lead patent counsel is a partner attorney in the firm of Lewis Roca Rothgerber Christie, an established U.S. intellectual property law firm, who assist in developing the company's intellectual property patents and additional patent and overall business strategies. Risks associated with patentability and other aspects of the patenting processes can be found in the *Risk Factors* section of this document.

#### **Further Details on the POC Prototype**

The initial POC prototype is intended to demonstrate the marketable features of Spectrum's Blade Optics™ technology and its potential to serve as a platform to be used in various optical applications ranging from telescopes, cameras, surveillance equipment, mobile devices and other imaging verticals. Beyond the aforementioned Spectrum plans to initiate additional trade studies specific to vertical platforms that it hopes to positively impact in addition to the telescope market based on its now completed prototype.

Spectrum's POC prototype was designed to be a fixed magnification digital telescope with a narrow field of view and is similar in function to many conventional telescopes sold today. However, because of the application of Blade Optics™, a unique distinction of Spectrum's lens design is anticipated to be its reduced lens stack depth to aperture ratio compared to traditional curved lens systems for fixed magnification imaging. This could set Spectrum's Blade Optics™ technology apart from existing lens technologies in the fixed magnification lens market, which includes products such as spotting scopes, telescopes, binoculars, certain camera lenses and other consumer and industrial imaging products.

As at the date of this MD&A, the Company has a 30.16% ownership of Spectrum.

#### **OUTLOOK**

The Company's focus in the near term will be advancing its interest under the Spectrum Agreement and working collaboratively with Spectrum supporting the advancement of their core technologies.

#### **OUTSTANDING SHARE DATA**

At the date of this report the Company has 69,291,906 issued and outstanding common shares, 4,102,000 outstanding stock options with a weighted average exercise price of \$0.33 and 6,944,744 warrants with a weighted average exercise price of \$0.25.

**SELECTED FINANCIAL INFORMATION****Summary of Quarterly results**

	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016
Interest income	1,568	2,352	-	-
Net loss for the period	(938,690)	(359,560)	(703,999)	(268,606)
Comprehensive income (loss) for the period	(938,696)	(360,045)	(701,882)	(269,003)
Basic and diluted loss per share	(0.02)	(0.01)	(0.02)	(0.01)

  

	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
Interest income	-	-	-	-
Net loss for the period	(363,414)	(2,393,788)	(624,879)	(239,939)
Comprehensive income (loss) for the period	(365,935)	(2,251,364)	(519,152)	(287,405)
Basic and diluted loss per share	(0.01)	(0.09)	(0.02)	(0.01)

**Results of Operations for the three month period ended March 31, 2017 compared to 2016**

The comprehensive loss for the three month period ended March 31, 2017 was \$931,696 (2016 – \$365,935). Significant changes to the comprehensive loss are explained as follows:

- Equity investment pick up increased to \$94,398 (2016 – \$Nil) due to the treatment of Spectrum as an associate following the increased investment threshold.
- Advertising and promotion expenses including brand awareness for Spectrum's technologies to potential partner and/or end user companies and consumers was \$151,573 (2016 - \$58,344) increased for a communications consultant engaged by the Company in the current period and for investor outreach services.
- Salaries has increased to \$57,447 (2016 - \$38,838) resulting from an increased rent expense, office administration work and additional activity pursuant to the Change of Business ("COB").
- Share-based payments of \$520,072 (2016 - \$64,199) in the current period relate to the valuation of stock options granted and vesting.
- Transaction costs of \$115,028 were incurred in the period ended March 31, 2016 without a corresponding expense in the current period due to the COB completed in the prior year.

**LIQUIDITY AND CAPITAL RESOURCES**

Cash has increased by \$1,592,657 to \$2,915,028 at March 31, 2017 from a balance of \$1,322,371 as at December 31, 2016. The Company had working capital of \$2,879,183 as at March 31, 2017.

Overall cash utilization for operating activities increased from 2016 to 2017. In 2016, the Company expended \$320,591 in operating activities as compared to \$284,581 in 2016. The increase is consistent with an increase in activity in the Company following completion of the COB in the prior year.

Investing activities resulted in a net cash outflow of \$575,000 in 2017 (2016 - \$193,000) which was forwarded to Spectrum pursuant to the Agreement.

Financing activities provided \$2,488,248 in the three-month period ended March 31, 2017. The Company generated funds of \$2,488,248 from exercised warrants and options, inclusive of an obligation of \$53,821 to issues shares. In the prior period, the Company generated \$172,000 from the exercise of warrants.

The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing.

Management is actively targeting sources of additional financing through financial transactions which would assure continuation of the Company's operations. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. If adequate financing is not available when required, the Company may be required to delay, scale back or eliminate expenditures and/or investments and may be unable to continue in operation. The Company may seek such additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests.

Management will apply funds from the private placements for investment according to the agreement with Spectrum over the short term and for working capital. Additional funds will be required to satisfy the investment in the Spectrum agreement, and to maintain general working capital. The contractual commitments of the Company are not significant and the Company may sustain operations by reducing overhead and delaying investment.

#### **OFF STATEMENT OF FINANCIAL POSITION ARRANGEMENTS**

At March 31, 2017, the Company had no material off statement of financial position arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

#### **PROPOSED TRANSACTIONS**

The Company does not have any proposed transactions in process other than as discussed elsewhere in this document.

#### **RELATED PARTY TRANSACTIONS**

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

	2017	2016
Payments to key management personnel:		
Salaries and short-term benefits	\$ 36,000	\$ 36,000
Share-based payments	316,682	12,603

During the period ended March 31, 2017, the Company was charged legal fees, included in professional fees and transaction costs, of \$22,426 (2016 - \$41,180) by S. Paul Simpson Law Corp., a law firm of which an officer of the Company is an employee.

During the period ended March 31, 2017, the Company was charged accounting fees of \$17,275 (2016 - \$9,413) by a company of which the CFO is a significant shareholder.

As at March 31, 2017, the amount of \$28,103 (December 31, 2016 - \$27,569) included in accounts payable is due to related parties. All balances are unsecured, non-interest-bearing, have no fixed repayment terms and are due on demand.

#### **CRITICAL ACCOUNTING ESTIMATES**

The Company's accounting policies are described in notes 2 and 3 of its consolidated financial statements for the year ended December 31, 2016. The preparation of the 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 financial statements and the reported expenses during the year. Actual results could differ from these estimates. Management considers the following estimates to be the most critical in understanding the judgments and estimates that are involved in the preparation of the Company's consolidated financial statements and the uncertainties that could impact the results of operations, financial condition, and cash flows:

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:

- Recoverability of the carrying value of the Company's investment

The fair value of the Company's investment (Note 4) requires management to determine whether there are any indications of impairment. Management evaluates the legal standing of the underlying assets of the investment and reviews the progress and development of the underlying assets in the period when making the assessment of whether there are indications of impairment for the investment.

- 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 whether the rights of the Company result in control of Spectrum.

- 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 ensuring 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 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 is the provision for income taxes and recognition of deferred income tax assets and liabilities, assumptions applied to the Black-Scholes option pricing model to determine the fair value of options granted, the recoverability of capitalized amounts of resource property and fair value of the Company's investment, which requires management to make certain estimates regarding the value of those shares in relation to unquoted share prices.

## **CHANGES IN ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are disclosed in Note 3 of the Company's annual consolidated financial statements for the year ended December 31, 2016.

### **New standards not yet adopted**

#### *IFRS 9 Financial Instruments (Revised)*

IFRS 9 was issued by the IASB in October 2010. It incorporates revised requirements for the classification and measurement of financial liabilities and carrying over the existing derecognition requirements from IAS 39 *Financial instruments: recognition and measurement*. The revised financial liability provisions maintain the existing amortised cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The impact of IFRS 9 on the Company's consolidated financial statements has not yet been determined.

## 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 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 leases has not yet been determined.

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

### Financial instruments

Cash and cash equivalents is carried in the statement of financial position at fair value using a level 1 fair value measurement. Receivables, 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.

The Company's investment in Spectrum is valued using a level 3 fair value measurement. The Company evaluates the fair value of the investment in the equity of Spectrum by reference to recent equity placements in Spectrum, based on negotiated prices between the Company and Spectrum, an unrelated party, and by evaluating the fair value changes relative to changes in Spectrum's net assets.

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 a high-credit quality financial institution. As at March 31, 2017, the Company had cash equivalents of \$1,250,000 (December 31, 2016 - \$750,000) in cashable term deposits.

#### *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, 2017, the Company had a working capital of \$2,879,183 (December 31, 2016 - \$1,290,161). 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 assets exposed to interest rate risk consist 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 property development and exploration work occurs in the USA in US dollars. As such, the Company is exposed to foreign currency risk in fluctuations. Fluctuations in the exchange rate between the Canadian dollar and US dollar may have a material adverse effect on the Company's business and financial condition. The Company has transitioned away from US dollar exposure following its change to a technology company. The Company is now able to reduce its foreign currency risk by working with Canadian vendors.

## c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. The Company closely monitors commodity prices to determine the appropriate strategic action to be taken by the Company.

**RISK FACTORS**

The principal activity of the Company will be, for the present and near term, to continue exercising its options to acquire, in the aggregate, 100% of Spectrum Optix which owns Blade Optics™ (the "Technology", which relates to a high efficiency optical concept, including the use of flat lenses. Herein, the "Company" refers to NexOptic and Spectrum Optix jointly.

*Competition*

The lens industry is highly competitive with a number of well-established market participants. Competition in this industry occurs on many fronts, including developing and bringing new products to market before others, developing new technologies to improve existing products, developing new products to provide the same benefits as existing products at less cost, developing new products to provide benefits superior to those of existing products, and acquiring or licensing complementary or novel technologies from other companies or individuals. The Company may be unable to contend successfully with current or future competitors which include major technology companies, many of which are large, well-established companies with access to financial, technical and marketing resources significantly greater than the Company and substantially greater experience in developing, licensing and manufacturing products, conducting research and development activities and obtaining regulatory approvals. The Company's competitors may develop or acquire new or improved products that are similar to those offered by the Company, while not necessarily being direct competitors currently, or may make technological advances that reduce their cost of production so that they may engage in price competition.

*Development Risk*

Substantial corporate resources will be expended on the development of the Technology. The Technology remains in the research and development stages and has not yet been commercialized. There can be no guarantee that the Technology will achieve the objectives which the Company believes are necessary for it to result in a successful product in the market. In addition, the Technology is in early stages of development and there can be no guarantee that technical milestones can be achieved. There are significant risks, expenses, delays and difficulties frequently encountered in establishing new products in the technology industry, which is characterized by an increasing number of market entrants, intense competition and high failure rate. Further, there is always the risk in product development that the products will fail to function as intended or that the market for such products will not develop as anticipated or when anticipated. There is often a lengthy time period between the time of technology conceptualization to technology commercialization, and there can be no assurances that development of new technologies will be completed at all, on time or within budget. Failure to successfully commercialize the Technology may materially and adversely affect the Company's financial condition and results of operations.

*Limited Protection of Patents and Proprietary Rights*

The Company's success will depend in part on its ability to protect its proprietary rights and technologies, including, but not limited to the Technology. The Company will rely on a combination of contractual arrangements, licenses, patents, trade secrets and know-how to protect its proprietary technology and rights and the Company's failure to protect its intellectual property rights may result in the loss of valuable technologies and undermine its competitive position. However, not all of these measures may apply or may afford only limited protection. In addition, the laws of some foreign countries do not protect proprietary technology rights to the same extent as do the laws of Canada and the United States. A failure of the Company to adequately protect its proprietary rights may adversely affect the business of the Company.

Unpatented trade secrets, improvements, confidential know-how and continuing technological innovation may be important to the Company's scientific and commercial success. Although the Company will attempt to, and will continue to attempt to, protect proprietary information through reliance on trade secret laws and the use of confidentiality agreements with collaborators, contract manufacturers, licensees, clinical investigators, employees and consultants and other appropriate means, these measures may not effectively prevent disclosure of or access to proprietary information, and, in any event, others may develop independently, or obtain access to, the same or similar information.

Despite the Company's efforts to protect its proprietary rights, there can be no assurance that the Technology will not be infringed upon, that the Company would have adequate remedies for any such infringement or adequate funds to take action against those infringing the Technology, or that its trade secrets will not otherwise become known or independently developed by its competitors. There can also be no assurance that any patents now or hereafter issued to, licensed by or applied for by the Company will be upheld, if challenged, or that the protections afforded thereby will



not be circumvented by others. There can be no assurance that the Company's competitors will not independently develop technologies that are substantially equivalent or superior to the Technology.

#### *Infringement of Intellectual Property Rights*

While the Company believes that its intellectual property does not infringe upon the proprietary rights of third parties, its commercial success depends, in part, upon the Company not infringing intellectual property rights of others. A number of the Company's competitors and other third parties have been issued or may have filed patent applications or may obtain additional patents and proprietary rights for technologies similar to those utilized by the Company. Some of these patents may grant very broad protection to the owners of the patents.

The Company may become subject to claims by third parties that its technology infringes their intellectual property rights due to the growth of products in its target markets, the overlap in functionality of those products and the prevalence of products.

Litigation may be necessary to determine the scope, enforceability and validity of third party proprietary rights or to establish the Company's proprietary rights. Some of its competitors have, or are affiliated with companies having, substantially greater resources than the Company and these competitors may be able to sustain the costs of complex intellectual property litigation to a greater degree and for a longer period of time than the Company.

Regardless of their merit, any such claims could be time consuming to evaluate and defend, result in costly litigation, divert management's attention and focus away from the business, subject the Company to significant liabilities and equitable remedies, including injunctions, require the Company to enter into costly royalty or licensing agreements and require the Issuer to modify or stop using infringing technology.

#### *Regulatory Approvals*

The Company may be subject to various laws, regulations, regulatory actions and court decisions in Canada, the United States and in other countries that may have negative effects on the Company. Failure to obtain regulatory approvals or delays in obtaining regulatory approvals by the Company, its collaborators, customers, vendors or service providers would adversely affect the marketing of products and services developed by the Company, and the Company's ability to generate revenues. Changes in the regulatory environment imposed upon the Company could adversely affect the ability of the Company to attain its corporate objectives.

#### *No Assurance of Commercial Production*

The Company will be a research and development company with no history of production or sale. There is no assurance that it will seek or achieve commercial production of any product or the sale of any product.

#### *Slow Acceptance of the Company's Technology*

It should be understood that the marketplace may be slow to accept or understand the significance of the Company's Technology due to its unique nature and the competitive landscape. Market confusion may slow sales and acceptance of the Company's potential products. If the Company is unable to promote, market and monetize the Technology and secure relationships with industry professionals and product manufacturers, the Company's business and financial condition would be adversely affected.

#### *Experimental Field*

The Company will be engaged in the research and development of the Technology with the goal of commercializing viable products. The development of the Technology will require extensive experimental effort and can require significant investment. Customers may be hesitant to implement any new technologies developed without extensive and time-consuming testing.

#### *Expansion Risk*

Any expansion of the Company's business may place a significant strain on its financial, operational and managerial resources. There can be no assurance that the Company will be able to implement and subsequently improve its operations and financial systems successfully and in a timely manner in order to manage any growth it experiences. There can be no assurance that the Company will be able to manage growth successfully. Any inability of the Company to manage growth successfully could have a material adverse effect on the Company's business, financial condition and results of operations.

### *Technological Advancements*

The markets for the Company's Technology are characterized by rapidly changing technology and evolving industry standards, which could result in product obsolescence or short product life cycles. Accordingly, the Company's success will be dependent upon its ability to anticipate technological changes in the industries it serves and to successfully identify, obtain, develop and market new products that satisfy evolving industry requirements.

The lens industry is subject to significant technological advancements, changing industry standards, market trends, customer preferences and competitive pressures which can, among other things, necessitate revisions in pricing strategies, price reductions and reduced profit margins.

The success of the Company will depend on its ability to secure technological superiority in its services and maintain such superiority in the face of new technologies. No assurance can be given that further modification of product offerings of the Company will not be required in order to meet demands or to remain competitive. The future success of the Company will be influenced by its ability to continue to adapt its products. Although the Company has committed resources to improve its products, there can be no assurance that these efforts will increase profits.

### *Risk of Obsolescence*

New developments in technology may negatively affect the development or sale of some or all of the Company's products or make its products obsolete. The inability of the Company to enhance existing products in a timely manner or to develop and introduce new products that incorporate new technologies, conform to increasingly regulatory requirements, and achieve market acceptance in a timely manner could negatively impact the Company's competitive position. New product development or modification is costly, involves significant research, development, time and expense, and may not necessarily result in the successful commercialization of any new products.

### *Additional Funding Requirements*

The Company will require additional financing to implement its business plan. The Company may raise additional funds through gap financing, debt financing and/or subsequent equity financing. The Company may also borrow funds from a financial institution(s) using the assets of the Company as security for said loan(s). The Company may also obtain additional financing through certain government subsidies or tax incentives available in certain geographic areas, if available, at the Company's discretion. Failure to obtain such additional capital on terms acceptable to the Company could restrict its ability to implement its growth plans. Further, a shortage of funds may prevent or delay the Company from getting its products to the marketplace, achieving profitability or enabling the Company to pay distributions to its shareholders. There is no assurance that the Company will have adequate capital to conduct its business or satisfy its financial obligations.

The ability of the Company to arrange financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing, if needed, on terms satisfactory to the Company. If additional financing is raised by the issuance of shares from the treasury of the Company, control of the Company may change and shareholders may suffer additional dilution. There can be no assurance that the Company will generate cash flow from operations necessary to support the continuing operations of the Company.

### *Limited Operating History*

The Issuer and the Target have each incurred losses since their inception and the Company is expected to continue to incur losses. As such, the Company will be subject to all of the business risks and uncertainties associated with any new business enterprise, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources and lack of revenues. The Company's ability to reach and then sustain profitability depends on a number of factors, including the growth rate of the developmental lens industry, the continued market acceptance of the Technology and the competitiveness of the Company. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of its success must be considered in light of its early stage of operations.

### *Lack of Operating Cash Flow*

The Company currently has no source of operating cash flow, which is expected to continue for the immediately foreseeable future. The Company's failure to achieve profitability and positive operating cash flows could have a material adverse effect on its financial condition and results of operations.

*Dependence on Management and Key Personnel*

The Company's management will make all decisions with respect to the Company's assets, including investment decisions and the day-to-day operations of the Company. As a result, the success of the Company for the foreseeable future will depend largely upon the ability of its management team, employees and consultants, including, but not limited to, Paul McKenzie and John Daugela. The loss of any one of these individuals could have a material adverse effect on the Company. If the Company lost the services of one or more of its executive officers or key employees and consultants, it would need to devote substantial resources to finding replacements, and until replacements were found, the Company would be operating without the skills or leadership of such personnel, any of which could have a significant adverse effect on the Company's business. The Company currently does not carry "key-man" life insurance policies covering any of these officers or consultants.

The future success of the Company depends in significant part on the contributions of its executive officers and scientific and technical personnel. The loss of the services of one or more key individuals may significantly delay or prevent achievement of scientific or business objectives. Competition for qualified and experienced personnel in the technology field is generally intense, and the Company will rely heavily on its ability to attract and retain qualified personnel in order to successfully implement its scientific and business objectives. The failure to attract or retain key executives and personnel could impact the Company's operations, including failure to achieve targets and advancement of the Technology.

*Adverse General Economic Conditions*

The unprecedented events in global financial markets in the past several years have had a profound impact on the global economy. Some of the key impacts of the financial market turmoil included contraction in credit markets resulting in a widening of credit risk, devaluations, high volatility in global equity, commodity, foreign exchange and precious metal markets and a lack of market liquidity. A similar slowdown in the financial markets or other economic conditions, including but not limited to, inflation, fuel and energy costs, lack of available credit, the state of the financial markets, interest rates and tax rates, may adversely affect the Company's operations. Specifically, a global credit/liquidity crisis could impact the cost and availability of financing and overall liquidity, volatile energy, commodity and consumables prices and currency exchange rates could impact costs and the devaluation and volatility of global stock markets could impact the valuation of the Company's equity and other securities. These factors could have a material adverse effect on the Company's financial condition and results of operations.

*Conflicts of Interest*

Certain of the directors and officers of the Company will be engaged in, and will continue to engage in, other business activities on their own behalf and on behalf of other companies (including technology companies) and, as a result of these and other activities, such directors and officers of the Company may become subject to conflicts of interest. The BCBCA provides that in the event that a director has a material interest in a contract or proposed contract or agreement that is material to the issuer, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement, subject to and in accordance with the BCBCA. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the BCBCA. To the proposed management of the Company's knowledge, as at the date hereof there are no existing or potential material conflicts of interest between the Company and a proposed director or officer of the Company except as otherwise disclosed herein.

*Substantial Control by Insiders*

In the event that all of the Target Options are exercised and the Company acquires a 100% interest in the Target, the Vendors will beneficially own approximately 35% of the Company Shares. As a result, the Vendors will be able to influence or control matters requiring approval by the Company's shareholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may also have interests that differ from those of investors and may vote in a manner that is adverse to investors' interests. This concentration of ownership may have the effect of deterring, delaying or preventing a change of control of the Company, could deprive the Company's shareholders of an opportunity to receive a premium for their Company Shares as part of a sale of the Company, and might ultimately affect the market price of the Company Shares.

*Dividends*

To date, the Issuer has not paid any dividends on their outstanding shares. Any decision to pay dividends on the shares of the Company will be made by its board of directors on the basis of the Company's earnings, financial requirements and other conditions.

### *Uninsured Risks*

The Company may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs. Furthermore, the Company may incur a liability to third parties (in excess of any insurance coverage) arising from any damage or injury caused by the Company's operations.

### *Market for Securities and Volatility of Share Price*

There can be no assurance that an active trading market in the Company's securities will be established or sustained. The market price for the Company's securities could be subject to wide fluctuations. Factors such as announcements of quarterly variations in operating results, as well as market conditions in the industry, may have a significant adverse impact on the market price of the securities of the Company. The stock market has from time to time experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance of particular companies.

## **INFORMATION REGARDING FORWARD LOOKING STATEMENTS**

Certain statements contained in this Management Discussion and Analysis constitute "forward-looking statements". These statements relate to future events or the Company's future performance, business prospects or opportunities. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Information concerning the interpretation of drill results, mineral resource and reserve estimates and capital cost estimates may also be deemed as forward-looking statements as such information constitutes a prediction of what mineralization might be found to be present and how much capital will be required if and when a project is actually developed. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward looking statements included in this Management Discussion and Analysis should not be relied upon. These statements speak only as of the date of this Management Discussion and Analysis. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by forward-looking statements contained in this Management Discussion and Analysis. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about:

- general business and economic conditions;
- the potential applications of Spectrum's technologies;
- the timing and expenditures required to develop such technologies, including development of any future prototype vertical;
- the ability of the Company to procure patent or other intellectual property protection for its technologies and to license or enforce such patents, if any;
- the ability to attract and retain skilled staff;
- foreign currency and exchange rates;
- market competition; and
- tax benefits and tax rates.

These forward-looking statements involve risks and uncertainties relating to, among other things, risks related to international operations, actual results of current exploration activities, conclusions of economic evaluations, changes in project parameters as plans continue to be refined, as well as those factors discussed in the section "Risk Factors". Factors that could cause actual results to differ materially include, but are not limited to, the risk factors discussed in the section. The Company cautions that the foregoing list of important factors is not exhaustive. Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company does not undertake to update any forward-looking statements that are incorporated by reference herein, except in accordance with applicable securities laws.

## **ADDITIONAL INFORMATION**

Additional information regarding the Company can be found at [www.sedar.com](http://www.sedar.com) and the Company's website [www.nextopic.com](http://www.nextopic.com).