NEXOPTIC

NEXOPTIC TECHNOLOGY CORP.

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

FOR THE YEAR ENDED DECEMBER 31, 2020

Smythe CPA

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF NEXOPTIC TECHNOLOGY CORP.

Opinion

We have audited the consolidated financial statements of NexOptic Technology Corp. (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity (deficiency) for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the 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, 2020 and 2019, and its consolidated financial performance and 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 consolidated 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 $5,805,824 during the year ended December 31, 2020 and, as of that date, the Company has a deficit of $86,826,250. As stated in Note 1, these events or conditions, 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 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.

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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.

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.

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- 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 Michelle Chi Wai So.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia

March 8, 2021

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

		2020		2019
ASSETS				
Current				
Cash and cash equivalents (Note 13)	$	2,338,615	$	194,045
Accounts receivable		29,586		44,732
Prepaid expenses and deposits		79,547		66,283
	$	2,447,748	$	305,060
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)				
Current				
Accounts payable and accrued liabilities (Note 10)	$	864,801	$	1,308,860
Accrued liabilities (Note 10)		11,591		-
Loans payable (Note 4)		47,832		-
		924,224		1,308,860
Shareholders' equity (deficiency)				
Share capital (Note 9)		78,255,444		73,649,752
Reserve (Note 9)		9,493,272		8,506,917
Accumulated other comprehensive income		601,058		601,444
Deficit		(86,826,250)		(83,761,913)
		1,523,524		(1,003,800)
	$	2,447,748	$	305,060

Approved and authorized by the Board on March 8, 2021.

"Richard Geruson" 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

	2020	2019
EXPENSES		
Research and development (Note 8)	$ 569,690	$ 9,001,520
General and administrative (Note 8)	5,608,574	3,702,104
Business development	21,251	-
Total operating expenses	(6,199,515)	(12,703,624)
Accrued severance (provision) recovery (Note 10)	350,346	(568,000)
Finance expense (Notes 4 and 7)	(3,504)	(7,026)
Foreign exchange	11,086	7,250
Government assistance (Note 4)	35,672	-
Impairment of intangibles (Note 5)	-	(44,011,986)
Impairment of equipment (Note 6)	-	(25,256)
Interest and other income	91	16,498
Termination of lease (Note 7)	-	(42,920)
	393,691	(44,631,440)
Net loss for the year	(5,805,824)	(57,335,064)
OTHER COMPREHENSIVE LOSS		
Item that may be reclassified subsequently to profit or loss		
Foreign exchange loss on translating foreign operations	(386)	(311)
Comprehensive loss for the year	$ (5,806,210)	$ (57,335,375)
Basic and diluted loss per common share	$ (0.04)	$ (0.43)
Weighted average number of common shares outstanding	141,724,110	132,206,366

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 YEAR ENDED DECEMBER 31

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	$ (5,805,824)	$ (57,335,064)
Non-cash items:		
Accrued finance expense	3,504	7,026
Amortization expense	-	5,355,956
Depreciation expense	-	127,371
Government assistance	(35,672)	-
Impairment of intangibles	-	44,011,986
Impairment of equipment	-	25,256
Severance liability recovery	(350,346)	-
Share-based payments	4,153,919	1,161,663
Termination of lease	-	42,920
Changes in non-cash working capital items:		
Accounts payable and accrued liabilities	(82,477)	1,046,885
Accounts receivable	15,146	57,347
Prepaid expenses and deposits	(13,295)	28,124
	(2,115,045)	(5,470,530)
CASH FLOWS FROM INVESTING ACTIVITY		
Deposits refunded	-	16,809
CASH FLOWS FROM FINANCING ACTIVITIES		
Lease payments	-	(156,696)
Loan funds	80,000	-
Proceeds from exercised options	488,950	120,750
Proceeds from exercised warrants	3,695,481	-
Proceeds from private placement	-	3,087,894
Share issuance costs	(4,816)	(108,338)
	4,259,615	2,943,610
Change in cash and cash equivalents during the year	2,144,570	(2,510,111)
Cash and cash equivalents, beginning of year	194,045	2,704,156
Cash and cash equivalents, end of year	$ 2,338,615	$ 194,045
Supplementary cash flow information:		
Non-cash transactions:		
Shares issued for finders' fees for private placement	$ -	$ 65,724
Broker warrants issued for private placement	-	35,767
Interest paid	-	-
Taxes paid	-	-

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

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

	Share Capital									
	Number		Amount		Reserve		Accumulated Other Comprehensive Income		Deficit		Total
Balance, December 31, 2018	127,458,979	$	70,491,447	$	10,003,112	$	601,755	$	(29,026,708)	$	52,069,606
Private placement	7,531,449		3,087,894		-		-		-		3,087,894
Share issuance costs	128,870		(144,105)		35,767		-		-		(108,338)
Shares issued for options exercised	805,000		214,516		(93,766)		-		-		120,750
Share-based payments	-		-		1,161,663		-		-		1,161,663
Expiry of options	-		-		(1,219,385)		-		1,219,385		-
Expiry of warrants	-		-		(1,380,474)		-		1,380,474		-
Net loss and comprehensive loss for the year	-		-		-		(311)		(57,335,064)		(57,335,375)
Balance, December 31, 2019	135,924,298	$	73,649,752	$	8,506,917	$	601,444	$	(83,761,913)	$	(1,003,800)
Share issuance costs	-		(4,816)		-		-		-		(4,816)
Shares issued for options exercised	1,732,000		888,290		(399,340)		-		-		488,950
Shares issued for warrants exercised	9,639,852		3,722,218		(26,737)		-		-		3,695,481
Share-based payments	-		-		4,153,919		-		-		4,153,919
Expiry of options	-		-		(1,591,804)		-		1,591,804		-
Expiry of warrants	-		-		(1,149,683)		-		1,149,683		-
Net loss and comprehensive loss for the year	-		-		-		(386)		(5,805,824)		(5,806,210)
Balance, December 31, 2020	147,296,150	$	78,255,444	$	9,493,272	$	601,058	$	(86,826,250)	$	1,523,524

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 1500 – 409 Granville Street, Vancouver, British Columbia, Canada V6C 1T2.

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.

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 $5,805,824 (2019 - $57,335,064) and had an accumulated deficit of $86,826,250 (2019 - $83,761,913) as at December 31, 2020. 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.

COVID-19

Since January 2020, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility. The duration and enduring impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods. By January 2020, the Company had moved its personnel to remote working environments and has experienced minimal disruption to ongoing operations.

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.

These consolidated 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 consolidated financial statements include the accounts of the Company and its direct wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

2. BASIS OF PREPARATION (cont'd…)

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.

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:

- 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 years ended December 31, 2020 and 2019.

- Going concern

  The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay its ongoing operating 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.

- Intangible assets – impairment

  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.

  Determining the amount of impairment of intangible assets requires an estimation of the recoverable amount, which is defined as the higher of fair value less the cost of disposal or value in use. Many factors used in assessing recoverable amounts are outside of the control of management and it is reasonably likely that assumptions and estimates will change from period to period. In December 2019, the Company determined to record an impairment charge against intangibles (Note 5).

- Canada Emergency Business Account loan ("CEBA loan")

  In determining the initial fair value of the CEBA loan, the Company applied judgment to assume that the Company would repay $60,000 by December 31, 2022 and the Company used a discount rate of 12%, an estimate of its incremental borrowing interest rate.

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:

- 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. The assumptions and models used for estimating fair value for share-based payment transactions are discussed in Note 9.

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 Inc. ("Red Hill") which operates in the United States and Spectrum Optix Inc. ("Spectrum") which operates in Canada. 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. During the year ended December 31, 2019, 0875514 BC Ltd. (inactive wholly owned subsidiary) was dissolved.

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 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

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.

Financial instruments

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 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 category, fair value changes are recognized in OCI while dividends are recognized in profit or loss. 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 and loans payable.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

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.

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 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 and long term equity incentive plan that are described in Note 9(d). 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.

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 (Note 4).

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 applied against the cost of the asset and recognized in profit or loss on a systematic basis over the useful life of the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

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 probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(Expressed in Canadian Dollars)

4. LOANS PAYABLE

The Company received two $40,000 revolving lines of credit as part of the Canada Emergency Business Account (CEBA) program due to COVID-19 on April 30, 2020. The loans are interest-free and require no principal payments until December 2022 ("Initial Term Date"). The loan can be extended to December 2025 and 25% ($20,000) will be forgiven if the principal is repaid before the Initial Term Date. If the loan is extended past the Initial Term Date, it will carry an interest rate of 5% per annum beginning January 1, 2023 until the loan is repaid in full or the maximum maturity date of December 31, 2025. The Company has recognized the forgiveness in the year ended December 31, 2020 as the Company intends, with reasonable assurance, to repay the loans prior to the Initial Term Date. As at December 31, 2020, the Company has not made a payment to the loan. The loans have been discounted using an incremental borrowing rate of 12%.

The reconciliation of the loans payable is as follows:

Loans payable		
Balance, December 31, 2018 and 2019	$	-
Loan funds		80,000
Loan forgiveness		(20,000)
Discounting		(15,672)
Accrued finance expense		3,504
Balance, December 31, 2020	$	47,832

5. INTANGIBLE ASSETS

The intangible assets of Spectrum included patents issued to Spectrum for its wedge imaging technology. The assets had been acquired at a value of $55,888,236 in the year ended December 31, 2017. In the year ended December 31, 2019, the Company recorded amortization to research and development expenses of $5,355,956.

In December 2019, the Company determined not to make further investments or pursue its initial square aperture land prism lens designs after reviewing the costs, benefits and feasibility of commercializing such technology and as such, indicators of impairment existed leading to a test of recoverable amount, which resulted in an impairment expense of $44,011,986. A value in use calculation is not applicable as the Company does not have any expected cash flows from using the assets at this stage of operations. In estimating the fair value less costs of disposal, management did not have observable or unobservable inputs to estimate the recoverable amount greater than $Nil. As this valuation technique requires management's judgment and estimates of the recoverable amount, it is classified within Level 3 of the fair value hierarchy.

(Expressed in Canadian Dollars)

6. EQUIPMENT AND RIGHT-OF-USE ASSETS

	Software	Computer equipment	Office equipment	Right-of-use assets (Office leases)	Total
Cost					
Balance, December 31, 2018	19,596	49,037	8,921	-	77,554
Adoption of IFRS 16 *Leases*	-	-	-	157,699	157,699
Impairment of equipment	(19,596)	(49,037)	(8,921)	-	(77,554)
Termination of lease (Note 7)	-	-	-	(157,699)	(157,699)
Balance, December 31, 2019 and 2020	$ -	$ -	$ -	$ -	$ -
Accumulated Depreciation					
Balance, December 31, 2018	9,798	18,488	3,390	-	31,676
Depreciation expense	9,798	9,165	1,659	106,749	127,371
Impairment of equipment	(19,596)	(27,653)	(5,049)	-	(52,298)
Termination of lease (Note 7)	-	-	-	(106,749)	(106,749)
Balance, December 31, 2019 and 2020	$ -	$ -	$ -	$ -	$ -
Net Book Value					
Balance, December 31, 2019 and 2020	$ -	$ -	$ -	$ -	$ -

As at December 31, 2019, the Company wrote-down assets related to former office occupancies resulting in an impairment expense of $25,256.

7. LEASE LIABILITIES

Lease liabilities	
Balance, January 1, 2019	$ 157,699
Accrued finance expense	7,026
Lease payments	(111,696)
Termination of lease	(53,029)
Balance, December 31, 2019 and 2020	$ -

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

The Company paid $Nil (2019 - $55,000) on short-term leases in the year ended December 31, 2020 included in office and administration expense.

In the year ended December 31, 2019, the Company terminated an office lease and derecognized the associated right-of-use asset of $50,950 and lease liability of $53,029. The Company recognized a loss on the lease termination of $42,920 in the statement of loss and comprehensive loss and included in the loss are cash payments of $45,000 required to terminate the lease.

(Expressed in Canadian Dollars)

8. OPERATING EXPENSES

Research and Development	**2020**	**2019**
Amortization of intangible assets (Note 5)	$ -	$ 5,355,956
Depreciation of equipment (Note 6)	-	20,622
Consulting fees	10,226	155,227
Engineering and design	74,263	989,385
Management fees (Note 10)	-	283,333
Manufacturing contract	1,985	1,222,908
Professional fees	101,975	184,798
Tax credits and recoveries	(218,395)	(201,878)
Salaries	276,244	366,111
Share-based payments (Note 9)	302,718	410,343
Supplies	15,071	111,670
Travel	5,603	103,045
	$ (569,690)	$ (9,001,520)

General and Administrative	**2020**	**2019**
Consulting fees (Note 10)	$ 330,963	$ 454,403
Depreciation (Note 6)	-	106,749
Directors' fees (Note 10)	40,000	60,000
Insurance	34,175	30,361
Investor relations	679,914	904,422
Management fees (Note 10)	-	190,000
Office and administration	98,875	287,656
Professional fees (Note 10)	114,743	121,955
Property costs	29,029	28,713
Salaries (Note 10)	230,185	367,101
Share-based payments (Notes 9 and 10)	3,851,201	751,320
Shareholder communications and filings	104,883	84,502
Sales and marketing	81,199	144,650
Travel	13,407	170,272
	$ (5,608,574)	$ (3,702,104)

9. SHARE CAPITAL AND RESERVE

a) Authorized share capital

Unlimited number of common shares without par value.

b) Voting Support Agreement

The Company entered into a voting support agreement ("Support Agreement") with 3DB, Inc. ("3DB"), a private company jointly owned by the former CEO and former Chairman which owns approximately 26% of the outstanding common shares of the Company. The Support Agreement requires that 3DB vote with all recommendations of the Company with certain exceptions. The Support Agreement is for a period of three years and may be terminated by 3DB earlier in certain events including the issuance of a cease-trade order for a period of more than 60 trading days in any 12-month period, the Company's common shares cease to be listed on a recognized stock exchange in Canada or a default in the settlement agreements (Note 10).

(Expressed in Canadian Dollars)

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

c) Issued share capital

Year ended December 31, 2020

The Company did not complete any private placements in the year ended December 31, 2020.

Year ended December 31, 2019

In June 2019, the Company completed a private placement of 7,531,449 units at a price of $0.41 per unit for gross proceeds of $3,087,894. 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 $0.60 for a period of 18 months, subject to accelerated expiry provisions ("Warrant").

The Company paid finders' fees of $76,886, issued 128,870 common shares as finders' fees valued at $65,724 and issued 316,397 brokers' warrants. Each broker's warrant entitles the holder to acquire one common share at a price of $0.60 for a period of 18 months. The broker's warrants were valued at $35,767 based on a Black-Scholes valuation with a risk-free interest rate of 1.39%, term of 1.5 years, volatility of 56.7% and a dividend rate of 0%. The Company incurred other share issuance costs of $31,452.

d) Stock Options and Long-Term Equity Incentive Plan

The Company has a stock option plan ("Option Plan") and long term equity incentive plan ("Incentive Plan") in place that allows for the reservation of 27,921,716 common shares for issuance under the Option Plan and 1,500,000 common shares under the Incentive Plan. The Incentive Plan allows for the issuance of stock appreciation rights, deferred share units, restricted share units and other share-based awards. As at December 31, 2020, there have been no grants under the Incentive Plan.

Stock option transactions are summarized as follows:

	Number of Options		Weighted Average Exercise Price
Balance, December 31, 2018	9,147,000	$	0.97
Exercised	(805,000)		0.15
Expired	(1,670,000)		0.98
Granted	2,650,000		0.65
Balance, December 31, 2019	9,322,000		0.95
Exercised	(1,732,000)		0.28
Expired	(2,075,000)		0.98
Granted	14,740,000		0.36
Balance outstanding, December 31, 2020	20,255,000	$	0.57
Balance exercisable, December 31, 2020	16,830,000	$	0.61

(Expressed in Canadian Dollars)

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

d) Stock Options and Long-Term Equity Incentive Plan (cont'd…)

Stock options outstanding as at December 31, 2020:

	Number outstanding	Number exercisable	Exercise price	Expiry date
Options	410,000	410,000	$ 0.40	July 5, 2021
	125,000	125,000	0.50	September 14, 2021
	395,000	395,000	0.95	January 10, 2022
	1,390,000	1,390,000	1.75	June 7, 2022
	1,035,000	1,035,000	1.15	November 20, 2022
	1,100,000	1,100,000	1.00	June 26, 2023
	50,000	50,000	0.70	December 19, 2023
	1,700,000	1,700,000	0.65	January 30, 2024
	14,050,000	10,625,000	0.36	May 26, 2030
	20,255,000	16,830,000	$ 0.57	

As at December 31, 2020, the outstanding stock options had a weighted average remaining life of 7.15 (2019 – 2.58) years.

e) Share-based payments

During the year ended December 31, 2020, the Company granted 14,740,000 (2019 – 2,650,000) stock options with a weighted average fair value of $0.31 (2019 - $0.43) per option. The Company recognized share-based payments expense of $4,153,919 (2019 - $1,161,663) for options granted and vested during the year.

Share-based payments expense is estimated using the following assumptions. The expected volatility assumption is based on the historical and implied volatility of the Company's common share price on the TSX-V. The risk-free interest rate assumption is based on yield curves on Canadian government zero-coupon bonds with a remaining term equal to the stock options' expected life. The Company uses historical data to estimate option exercise, forfeiture and employee termination within the valuation model. The Company has not paid and does not anticipate paying dividends on its common shares.

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

	2020	2019
Risk-free interest rate	0.56%	1.83%
Expected life of options	10 years	5 years
Expected annualized volatility	91.1%	85.7%
Dividend rate	-	-
Forfeiture rate	-	-

(Expressed in Canadian Dollars)

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

f) Warrants and Conditional Warrants

Warrant transactions are summarized as follows:

	Number of Warrants		Weighted Average Exercise Price
Balance, December 31, 2018	14,453,954	$	1.46
Granted	7,847,846		0.60
Expired	(4,643,686)		1.36
Balance, December 31, 2019	17,658,114		1.08
Exercised	(9,639,852)		0.38
Expired	(6,638,723)		0.34
Balance outstanding, December 31, 2020	1,379,539	$	1.46
Balance exercisable, December 31, 2020	35,000	$	1.12

Warrants and Conditional Warrants outstanding as at December 31, 2020:

	Number outstanding	Number exercisable	Exercise price		Expiry date
Warrants	283,769	21,538	$ 1.12	(1)	July 5, 2021
	121,154	-	1.12	(1)	September 14, 2021
	226,154	13,462	1.12	(1)	January 10, 2022
	748,462	-	1.75	(1)	June 7, 2022
	1,379,539	35,000	$ 1.46		

(1) 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.

g) Custodial and Rights Agreement

The Company entered into a custodial and rights agreement ("Rights Agreement") with Computershare Trust Company of Canada ("Computershare"), as custodial agent whereby 3DB has deposited 8,000,000 shares of the Company held by Computershare and has agreed that the Company may issue "incentive rights" (the "Rights") to acquire such shares to such persons as the Company designates at an exercise price equal to the greater of $0.25 per share or average closing price of the Company's shares for the five days preceding the issuance of the incentive right. The Rights Agreement has an overall seven-year term from May 15, 2020 (the "Term"). The overall number of Rights the Company may issue is unlimited, provided that the aggregate number of Right issued and outstanding or exercised during the Term may not exceed the 8,000,000 shares so deposited. The Rights will be non-transferable and will expire on the earlier of the expiry date fixed by the Company at the time of issuance, the end of the Term or within a specified time of the recipient of the Rights ceasing to be an "eligible person" as defined in the Rights Agreement.

(Expressed in Canadian Dollars)

10. 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		2020		2019
Consulting fees – general and administrative	$	155,738	$	198,838
Directors' fees – general and administrative		40,000		60,000
Management fees – general and administrative (1)		-		71,250
Management fees – research and development (1)		-		106,250
Salaries and short-term benefits – general and administrative		177,000		180,000
Share-based payments to officers – general and administrative		1,073,895		86,388
Share-based payments to directors – general and administrative		1,765,956		431,940
Accrual of severance provision		-		568,000

(1) The former CEO and former Chairman resigned as key management personnel on April 24, 2019 to become employees of the Company until their termination later in 2019. They continue to be related parties of the Company due to a significant shareholding.

During the year ended December 31, 2020, the Company was charged legal fees, included in professional fees, of $43,041 (2019 - $64,028) by S. Paul Simpson Law Corp., a law firm of which an officer of the Company is an employee.

As at December 31, 2020, the Company had balances outstanding with related parties of $83,172 (2019 - $120,040) included in accounts payable. These balances are unsecured, non-interest-bearing, have no fixed repayment terms and are due on demand

Settlement Agreements

Included in accounts payable and accrued liabilities as at December 31, 2020 is an accrued severance liability of $209,129 (2019 - $568,000) due to the former CEO and former Chairman of the Company. Effective May 15, 2020, the Company entered into indemnity and settlement agreements ("Settlement Agreements") which provide for the severance liability to be settled over a 36-month period and to be offset, on a monthly basis, by proceeds from sales of the Company's securities as held by 3DB. 3DB is restricted under the Support Agreement (Note 9(b)) to dispose of the lesser of 25,000 shares or 10% of the aggregate trading valued on the TSX-V on the prior trading day, subject to certain conditions. The severance liability is non-interest bearing and is secured by promissory notes. During the year ended December 31, 2020, the Company paid $8,525 and recognized a recovery of $350,346 with respect to the Settlement Agreements.

11. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 27.00% (2019 - 27.00%) to income before income taxes. The reasons for the differences are as follows:

		2020		2019
Income before income tax	$	(5,805,824)	$	(57,335,064)
Statutory income tax rate		27.00%		27.00%
Income tax expense computed at Canadian statutory rates		(1,567,572)		(15,480,467)
Items not deductible for tax purposes		1,019,092		474,298
Differences between Canadian and foreign tax rates		2,089		1,806
Change in timing differences		(134,418)		47,399,852
True-up of tax losses to statutory returns		106,512		(57,355)
Unused tax losses and tax offsets not recognized in tax assets		574,297		(32,338,134)
Income tax recovery	$	-	$	-

(Expressed in Canadian Dollars)

11. INCOME TAXES (cont'd…)

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:

		2020		2019
Non-capital losses	$	21,333,450	$	18,991,328
Resource properties		3,977,978		3,905,972
Equipment		173,574		179,000
Share issue costs and other		130,168		133,921
Non-refundable income tax credits		2,716,840		2,934,810
Unrecognized deductible temporary differences	$	28,332,010	$	26,145,031

As at December 31, 2020, the Company has US non-capital losses of $406,379 and Canadian non-capital losses of $20,927,071 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, 2040.

12. SEGMENTED INFORMATION

The Company operates in one segment, being technology investment. As at December 31, 2020, 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. The loans payable are carried at amortized cost and carried at the Company's estimated settlement value.

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, 2020, the Company had cash equivalents of $5,844 (2019 - $69,437) 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 and some third party receivables which are anticipated to be recoverable. 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 December 31, 2020, the Company had a working capital of $1,582,947 (2019 – working capital deficiency of $1,003,800). The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms with the exception of accrued severance of $209,129 (Note 10). The Company's loans payable have an Initial Term Date of December 31, 2022 with the possibility of extending to December 31, 2025 (Note 4).

(Expressed in Canadian Dollars)

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

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 mitigate its foreign currency risk by substituting Canadian vendors for certain services. Foreign currency risk is considered low relative to the overall financial operating plan.

As at December 31, 2020, the Company's net foreign denominated financial assets are as follows:

	Foreign currency	Canadian dollar equivalent
US dollar	$ (373,034)	$ (474,947)

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 $1,523,524 (2019 – deficiency of $1,003,800). 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, 2020.