



NEXOPTIC

NEXOPTIC TECHNOLOGY CORP.

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

FOR THE THREE MONTHS ENDED MARCH 31, 2021

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

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

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

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

NEXOPTIC TECHNOLOGY CORP.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Unaudited)

(Expressed in Canadian Dollars)

AS AT

	March 31, 2021	December 31, 2020
ASSETS		
Current		
Cash and cash equivalents (Note 7)	\$ 1,758,269	\$ 2,338,615
Accounts receivable	22,859	29,586
Prepaid expenses and deposits	46,530	79,547
	<u>\$ 1,827,658</u>	<u>\$ 2,447,748</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 6)	\$ 720,343	\$ 864,801
Accrued liabilities (Note 6)	-	11,591
Loans payable (Note 3)	49,187	47,832
	769,530	924,224
Shareholders' equity		
Share capital (Note 5)	78,255,444	78,255,444
Reserve (Note 5)	9,630,642	9,493,272
Accumulated other comprehensive income	601,219	601,058
Deficit	(87,429,177)	(86,826,250)
	<u>1,058,128</u>	<u>1,523,524</u>
	<u>\$ 1,827,658</u>	<u>\$ 2,447,748</u>

Approved and authorized by the Board on May 28, 2021.

"Richard Gerson" Director "Paul McKenzie" Director

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

NEXOPTIC TECHNOLOGY CORP.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Unaudited)

(Expressed in Canadian Dollars)

FOR THE THREE MONTHS ENDED MARCH 31

	2021	2020
EXPENSES		
Research and development (Note 4)	\$ 211,834	\$ 92,800
General and administrative (Note 4)	499,140	387,237
Business development	<u>56,030</u>	<u>-</u>
Total operating expenses	(767,004)	(480,037)
Accrued severance recovery (Note 6)	149,742	-
Recovery on accounts payable	14,358	-
Foreign exchange	1,333	(42,683)
Finance expense (Note 3)	(1,356)	-
Interest and other income	<u>-</u>	<u>39</u>
	164,077	(42,644)
Net loss for the period	(602,927)	(522,681)
OTHER COMPREHENSIVE INCOME		
Item that may be reclassified subsequently to profit or loss		
Foreign exchange loss on translating foreign operations	<u>161</u>	<u>166</u>
Comprehensive loss for the period	<u>\$ (602,766)</u>	<u>\$ (522,515)</u>
Basic and diluted loss per common share	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>
Weighted average number of common shares outstanding	<u>147,296,150</u>	<u>136,816,899</u>

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

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

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	\$ (602,927)	\$ (522,681)
Non-cash items:		
Accrued finance expense	1,356	-
Recovery on accounts payable	(14,358)	-
Severance liability recovery	(149,742)	-
Share-based payments	137,370	-
Changes in non-cash working capital items:		
Accounts receivable	6,727	20,966
Prepaid expenses and deposits	32,998	36,657
Accounts payable and accrued liabilities	8,230	45,525
	<u>(580,346)</u>	<u>(419,533)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercised warrants	-	842,651
	<u>-</u>	<u>842,651</u>
Change in cash and cash equivalents during the period	(580,346)	423,118
Cash and cash equivalents, beginning of period	<u>2,338,615</u>	<u>194,045</u>
Cash and cash equivalents, end of period	<u>\$ 1,758,269</u>	<u>\$ 617,163</u>

There were no significant non-cash investing or financing activities for the periods ended March 31, 2021 and 2020.

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

NEXOPTIC TECHNOLOGY CORP.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

(Unaudited)

(Expressed in Canadian Dollars)

	Share Capital			Accumulated Other Comprehensive Income	Deficit	Total
	Number	Amount	Reserve			
Balance, December 31, 2019	135,924,298	\$ 73,649,752	\$ 8,506,917	\$ 601,444	\$ (83,761,913)	\$ (1,003,800)
Warrants exercised	1,872,558	842,651	-	-	-	842,651
Expiry of options	-	-	(239,727)	-	239,727	-
Expiry of warrants	-	-	(77,147)	-	77,147	-
Net loss and comprehensive loss for the period	-	-	-	166	(522,681)	(522,515)
Balance, March 31, 2020	137,796,856	74,492,403	8,190,043	601,610	(83,967,720)	(683,664)
Share issue costs	-	(4,816)	-	-	-	(4,816)
Warrants exercised	7,767,294	2,879,567	(26,737)	-	-	2,852,830
Options exercised	1,732,000	888,290	(399,340)	-	-	488,950
Share-based payments	-	-	4,153,919	-	-	4,153,919
Expiry of options	-	-	(1,072,536)	-	1,072,536	-
Expiry of warrants	-	-	(1,352,077)	-	1,352,077	-
Net loss and comprehensive loss for this period	-	-	-	(552)	(5,283,143)	(53,191,984)
Balance, December 31, 2020	147,296,150	78,255,444	9,493,272	601,058	(86,826,250)	1,523,524
Share-based payments	-	-	137,370	-	-	137,370
Net loss and comprehensive loss for the period	-	-	-	161	(602,927)	(602,766)
Balance, March 31, 2021	147,296,150	\$ 78,255,444	\$ 9,630,642	\$ 601,219	\$ (87,429,177)	\$ 1,058,128

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

NEXOPTIC TECHNOLOGY CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

FOR THE THREE MONTHS ENDED MARCH 31, 2021

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

The Company reported a net loss of \$602,927 (2020 - \$522,681) and had an accumulated deficit of \$87,429,177 (December 31, 2020 - \$86,826,250) as at March 31, 2021. 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 March 31, 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. By January 2020, the Company had moved its personnel to remote working environments and experienced minimal disruption to ongoing operations. The Company anticipates that travel bans, and self-imposed quarantine periods will continue to inhibit some measure of operational efficiency for some time. It is not possible to reliably estimate the length and severity of these conditions and the impact on the condition of the Company in future periods.

2. BASIS OF PREPARATION

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

The accounting policies and methods of computation applied by the Company in these condensed consolidated interim financial statements are the same as those applied in the Company’s annual consolidated financial statements for the year ended December 31, 2020.

Basis of consolidation and presentation

The condensed consolidated interim financial statements have been prepared on a historical cost basis, except for certain financial instruments measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

NEXOPTIC TECHNOLOGY CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

FOR THE THREE MONTHS ENDED MARCH 31, 2021

2. BASIS OF PREPARATION (cont'd...)

Basis of consolidation and presentation (cont'd...)

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. In the three months ended March 31, 2021, the Company incorporated its wholly-owned subsidiary NexOptic Asia Ltd. which is domiciled in South Korea and has the functional currency of the South Korean won (KRW).

Use of judgments and estimates

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

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

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

- Research and development expenditures

Distinguishing the research and development phases of a technology or product and determining whether the recognition requirements for the capitalization of development costs are met requires judgment. After capitalization, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalized costs may be impaired. No research and development costs were capitalized during the period March 31, 2021.

- 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 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.

- 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.

NEXOPTIC TECHNOLOGY CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

FOR THE THREE MONTHS ENDED MARCH 31, 2021

2. BASIS OF PREPARATION (cont'd...)

Use of judgments and estimates (cont'd...)

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

- 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 5.

3. LOANS PAYABLE

In the year ended December 31, 2020, the Company received two \$40,000 revolving lines of credit as part of the Canada Emergency Business Account (CEBA) program due to COVID-19. 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 March 31, 2021, 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, 2019	\$	-
Loan funds		80,000
Loan forgiveness		(20,000)
Discounting		(15,672)
Accrued finance expense		3,504
		<hr/>
Balance, December 31, 2020		47,832
Accrued finance expense		1,355
		<hr/>
Balance, March 31, 2021	\$	49,187

NEXOPTIC TECHNOLOGY CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

FOR THE THREE MONTHS ENDED MARCH 31, 2021**4. OPERATING EXPENSES**

Research and Development	2021	2020
Consulting fees	-	4,923
Engineering and design	85	3,405
Manufacturing contract	-	1,985
Professional fees	45,670	15,103
Tax credits and recoveries	-	(19,820)
Salaries	68,890	79,150
Share-based payments (Notes 5 and 6)	74,987	-
Supplies and resources	20,240	2,470
Travel	1,962	5,584
	<u>1,962</u>	<u>5,584</u>
	<u>\$ (211,834)</u>	<u>\$ (92,800)</u>

General and Administrative	2021	2020
Consulting fees (Note 6)	\$ 149,788	\$ 66,692
Insurance	9,500	6,950
Investor relations	84,055	125,420
Office and administration	26,297	18,138
Professional fees (Note 6)	18,418	26,259
Salaries (Note 6)	53,570	80,541
Share-based payments (Notes 5 and 6)	62,383	-
Shareholder communications and filings	35,433	30,628
Sales and marketing	57,740	25,876
Travel	1,956	6,733
	<u>1,956</u>	<u>6,733</u>
	<u>\$ (499,140)</u>	<u>\$ (387,237)</u>

5. 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 18% 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 6).

c) Issued Share Capital

Period ended March 31, 2021

The Company did not complete any private placements in the period ended March 31, 2021.

Year ended December 31, 2020

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

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

FOR THE THREE MONTHS ENDED MARCH 31, 2021**5. SHARE CAPITAL AND RESERVE (cont'd...)**

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 March 31, 2021, 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, 2019	9,322,000	\$ 0.95
Exercised	(1,732,000)	0.28
Expired	(2,075,000)	0.98
Granted	<u>14,740,000</u>	<u>0.36</u>
Balance outstanding, December 31, 2020 and March 31, 2021	20,255,000	\$ 0.57
Balance exercisable, March 31, 2021	<u>17,532,500</u>	<u>\$ 0.60</u>

Stock options outstanding as at March 31, 2021:

	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
	<u>14,050,000</u>	<u>11,327,500</u>	<u>0.36</u>	May 26, 2030
	<u>20,255,000</u>	<u>17,532,500</u>	<u>\$ 0.60</u>	

As at March 31, 2021, the outstanding stock options had a weighted average remaining life of 6.91 (December 31, 2020 – 7.15) years.

e) Share-Based Payments

The Company recognized share-based payments expense of \$137,370 (2020 - \$nil) for options granted and vested during the period ended March 31, 2021.

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.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

FOR THE THREE MONTHS ENDED MARCH 31, 2021**5. SHARE CAPITAL AND RESERVE (cont'd...)**

e) Share-Based Payments (cont'd...)

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

	2021	2020
Risk-free interest rate	1.45%	-
Expected life of options	8.9 years	-
Expected annualized volatility	94.0%	-
Dividend rate	-	-
Forfeiture rate	-	-

f) Warrants and Conditional Warrants

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
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 and March 31, 2021	1,379,539	\$ 1.46
Balance exercisable, March 31, 2021	35,000	\$ 1.12

Warrants and Conditional Warrants outstanding as at March 31, 2021:

	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
	<u>748,462</u>	<u>-</u>	<u>1.75</u> ⁽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 has 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.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

FOR THE THREE MONTHS ENDED MARCH 31, 2021

6. 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	2021	2020
Consulting fees – general and administrative	\$ 110,098	\$ 25,554
Salaries and short-term benefits – general and administrative	45,000	45,000
Share-based payments to officers – general and administrative	23,231	-
Share-based payments to directors – general and administrative	31,554	-

During the three months ended March 31, 2021, the Company was charged legal fees, included in professional fees, of \$8,088 (2020 - \$10,000) by S. Paul Simpson Law Corp., a law firm of which an officer of the Company is an employee.

As at March 31, 2021, the Company had balances outstanding with related parties of \$152,676 (December 31, 2020 - \$83,172) 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 March 31, 2021 is an accrued severance liability of \$59,386 (December 31, 2020 - \$209,129) 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 5(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. During the three months ended March 31, 2021, the Company recognized a recovery of \$149,742 with respect to the Settlement Agreements. Subsequent to March 31, 2021, the severance liability was discharged by the former employees and the underlying promissory notes released.

7. 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.

NEXOPTIC TECHNOLOGY CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

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FOR THE THREE MONTHS ENDED MARCH 31, 2021

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Risk Factors

Credit Risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets, including cash and cash equivalents and receivables. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and cash equivalents with high-credit quality financial institutions. As at March 31, 2021, the Company had cash equivalents of \$5,844 (December 31, 2020 - \$5,793) 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 refunds on office deposits 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 March 31, 2021, the Company had a working capital of \$1,107,316 (December 31, 2020 – working capital of \$1,582,947). 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 \$59,386 (Note 6). The Company's loans payable have an Initial Term Date of December 31, 2022 with the possibility of extending to December 31, 2025 (Note 3).

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 March 31, 2021, the Company's net foreign denominated financial assets are as follows:

	Foreign currency	Canadian dollar equivalent
US dollar	\$ (360,633)	\$ (453,370)
South Korean won	100,000,000	115,500

NEXOPTIC TECHNOLOGY CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited)

(Expressed in Canadian Dollars)

FOR THE THREE MONTHS ENDED MARCH 31, 2021

8. 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 \$1,058,128 (December 31, 2020 - \$1,523,524). In order to maintain or adjust the capital structure, the Company may from time to time issue shares, seek debt financing and adjust its capital spending to manage current and working capital requirements. The Company is not subject to externally imposed capital requirements.

There were no changes to the Company's approach to capital management during the period ended March 31, 2021.