



NEXOPTIC TECHNOLOGY CORP.

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

FOR THE YEAR ENDED DECEMBER 31, 2022

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF NEXOPTIC TECHNOLOGY CORP.

Opinion

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

- ♦ the consolidated statements of financial position as at December 31, 2022 and 2021;
- ♦ 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, 2022 and 2021, 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 \$3,881,562 during the year ended December 31, 2022. 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined that there are no key audit matters to communicate in our auditors' report.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

VANCOUVER

1700-475 Howe St
Vancouver, BC V6C 2B3
T: 604 687 1231
F: 604 688 4675

LANGLEY

600-19933 88 Ave
Langley, BC V2Y 4K5
T: 604 282 3600
F: 604 357 1376

NANAIMO

201-1825 Bowen Rd
Nanaimo, BC V9S 1H1
T: 250 755 2111
F: 250 984 0886

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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.

VANCOUVER

1700-475 Howe St
Vancouver, BC V6C 2B3
T: 604 687 1231
F: 604 688 4675

LANGLEY

600-19933 88 Ave
Langley, BC V2Y 4K5
T: 604 282 3600
F: 604 357 1376

NANAIMO

201-1825 Bowen Rd
Nanaimo, BC V9S 1H1
T: 250 755 2111
F: 250 984 0886

- ♦ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ♦ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ♦ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ♦ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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
April 19, 2023

VANCOUVER

1700-475 Howe St
Vancouver, BC V6C 2B3
T: 604 687 1231
F: 604 688 4675

LANGLEY

600-19933 88 Ave
Langley, BC V2Y 4K5
T: 604 282 3600
F: 604 357 1376

NANAIMO

201-1825 Bowen Rd
Nanaimo, BC V9S 1H1
T: 250 755 2111
F: 250 984 0886

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

	2022	2021
ASSETS		
Current		
Cash and cash equivalents (Note 9)	\$ 762,336	\$ 337,027
Accounts receivable	45,233	25,420
Prepaid expenses and deposits	201,725	55,393
	<u>\$ 1,009,294</u>	<u>\$ 417,840</u>
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current		
Accounts payable and accrued liabilities (Note 7)	\$ 1,920,484	\$ 1,004,126
Loans payable (Note 4)	60,000	
	<u>1,980,484</u>	<u>1,004,126</u>
Loan payable (Note 4)	-	53,572
Employee obligation	<u>16,494</u>	<u>-</u>
	1,996,978	1,057,698
Shareholders' deficiency		
Share capital (Note 6)	81,604,286	78,375,453
Reserve (Note 6)	5,862,692	9,426,769
Accumulated other comprehensive income	599,106	598,204
Deficit	<u>(89,053,768)</u>	<u>(89,040,284)</u>
	<u>(987,684)</u>	<u>(639,858)</u>
	<u>\$ 1,009,294</u>	<u>\$ 417,840</u>

Subsequent event (Note 11)

Approved and authorized by the Board on April 19, 2023.

"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

	2022	2021
EXPENSES		
Research and development (Note 5)	\$ 1,014,285	\$ 936,739
General and administrative (Notes 5 and 7)	2,373,351	2,222,671
Business development (Note 5)	<u>405,102</u>	<u>373,862</u>
Total operating expenses	(3,792,738)	(3,533,272)
Accrued severance recovery (Note 7)	-	209,129
Recovery on accounts payable	-	14,358
Foreign exchange	(82,351)	(1,108)
Finance expense (Note 4)	<u>(6,473)</u>	<u>(5,740)</u>
	(88,824)	216,639
Net loss for the year	(3,881,562)	(3,316,633)
OTHER COMPREHENSIVE LOSS		
Item that may be reclassified subsequently to profit or loss		
Foreign exchange on translating foreign operations	<u>902</u>	<u>(2,854)</u>
Comprehensive loss for the year	\$ (3,880,660)	\$ (3,319,487)
Basic and diluted loss per common share	\$ (0.03)	\$ (0.02)
Weighted average number of common shares outstanding	153,473,503	147,335,725

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

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

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	\$ (3,881,562)	\$ (3,316,633)
Non-cash items:		
Accrued finance expense	6,428	5,740
Recovery on accounts payable	-	(14,358)
Severance liability recovery	-	(209,129)
Share-based payments	1,385,397	1,090,005
Changes in non-cash working capital items:		
Accounts payable and accrued liabilities	910,515	351,861
Accounts receivable	(19,673)	4,045
Prepaid expenses and deposits	(146,227)	24,147
Employee obligation	16,494	-
	<u>(1,728,628)</u>	<u>(2,064,322)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from exercised options	-	66,100
Private placement	2,225,478	-
Share issuance costs	(71,394)	-
	<u>2,154,084</u>	<u>66,100</u>
Effect of foreign exchange on cash	(147)	(3,366)
Change in cash and cash equivalents during the year	425,309	(2,001,588)
Cash and cash equivalents, beginning of the year	<u>337,027</u>	<u>2,338,615</u>
Cash and cash equivalents, end of the year	<u>\$ 762,336</u>	<u>\$ 337,027</u>
Supplementary cash flow information:		
Broker's warrants issued as share issue costs	\$ 28,604	\$ -
Share issue costs in accounts payable and accrued liabilities	6,647	-
Non-cash transactions:		
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			Accumulated Other Comprehensive Income		
	Number	Amount	Reserve		Deficit	Total
Balance, December 31, 2020	147,296,150	\$ 78,255,444	\$ 9,493,272	\$ 601,058	\$ (86,826,250)	\$ 1,523,524
Options exercised	135,000	120,009	(53,909)	-	-	66,100
Expiry of options	-	-	(788,299)	-	788,299	-
Expiry of warrants	-	-	(314,300)	-	314,300	-
Share-based payments	-	-	1,090,005	-	-	1,090,005
Net loss and comprehensive loss for the year	-	-	-	(2,854)	(3,316,633)	(3,319,487)
Balance, December 31, 2021	147,431,150	\$ 78,375,453	\$ 9,426,769	\$ 598,204	\$ (89,040,284)	\$ (639,858)
Private placement	39,564,053	2,225,478				2,225,478
Share issuance costs		(106,645)	28,604			(78,041)
RSU exercised	1,500,000	1,110,000	(1,110,000)			-
Option expired	-	-	(3,321,117)	-	3,321,117	-
Warrants expired	-	-	(546,961)	-	546,961	-
Share-based payments	-	-	1,385,397	-	-	1,385,397
Net loss and comprehensive loss for the year	-	-	-	902	(3,881,562)	(3,880,660)
Balance, December 31, 2022	188,495,203	\$ 81,604,286	\$ 5,862,692	\$ 599,106	\$ (89,053,768)	\$ (987,684)

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

NEXOPTIC TECHNOLOGY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 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 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 \$3,881,562 (2021 - \$3,316,633) and had an accumulated deficit of \$89,053,767 (2021 - \$89,040,284) and a working capital deficiency of \$971,189 (2021 - \$586,286) as at December 31, 2022. 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 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

Statement of compliance

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

Basis of consolidation and presentation

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

The 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, NexOptic Asia Ltd. (“NexOptic Asia”) which is domiciled in South Korea, 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.

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 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 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 December 31, 2022 and 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.

- 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 6.

3. SIGNIFICANT ACCOUNTING POLICIES

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 functional currency of NexOptic Asia is the Korean Won. 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.

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.

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

Financial instruments (cont'd...)

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, employee obligation, 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.

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

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

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

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used are those that are enacted or substantively enacted by the reporting date.

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.

NEXOPTIC TECHNOLOGY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

4. 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 December 31, 2022, the Company has not made a payment to the loan. The loans have been discounted using an incremental borrowing rate of 12%. On January 22, 2022, the Initial Term Date has been extended to December 31, 2023.

The reconciliation of the loans payable is as follows:

Loans payable		
Balance, December 31, 2020	\$	47,832
Accrued finance expense		5,740
Balance, December 31, 2021		53,572
Accrued finance expense		6,428
Balance, December 31, 2022	\$	60,000

5. OPERATING EXPENSES

Research and Development	2022	2021
Consulting	\$ -	\$ 18,657
Engineering and design	247,418	89,782
Professional fees	100,439	189,050
Tax credits and recoveries	(78,243)	(141,974)
Salaries	322,881	333,753
Share-based payments (Notes 6)	402,158	402,095
Supplies and resources	15,192	39,716
Travel	4,440	5,660
	\$ (1,014,285)	\$ (936,739)
General and Administrative	2022	2021
Consulting fees (Note 7)	\$ 498,837	\$ 503,794
Directors' fee	20,000	20,000
Insurance	55,500	50,815
Investor relations	196,995	242,022
Office and administration	127,282	113,573
Professional fees (Note 7)	102,355	80,372
Property costs	57,063	190,250
Salaries (Note 7)	215,011	208,652
Share-based payments (Notes 6 and 7)	838,335	597,682
Shareholder communications and filings	71,866	80,933
Sales and marketing	179,684	118,960
Travel	10,423	15,618
	\$ (2,373,351)	\$ (2,222,671)

NEXOPTIC TECHNOLOGY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

5. OPERATING EXPENSES (cont'd...)

Business development (Korea office)	2022	2021
Office supplies	\$ 3,649	\$ 19,295
Professional fees and services	106,396	103,495
Salaries and benefits	142,704	152,862
Share-based payments (Notes 6)	144,904	90,228
Travel	<u>7,449</u>	<u>7,982</u>
	<u>\$ (405,102)</u>	<u>\$ (373,862)</u>

6. SHARE CAPITAL AND RESERVE

a) Authorized Share Capital

Unlimited number of common shares without par value.

b) Issued Share Capital

In the year ended December 31, 2022, the Company completed a non-brokered private placement of 39,564,053 units ("Units") for gross proceeds of \$2,225,478. Each Unit comprised one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.12 per share for a period of 24 months, subject to acceleration provisions. The Company paid finders' fees of \$32,032, incurred other share issuance costs of \$46,009 and issued 569,462 finders' warrants on the same terms as the Unit warrant. The finders' warrants were valued at \$28,604 using the following Black-Scholes methodology inputs: risk-free interest rate of 4.18%, term of 2 years, volatility of 118.96%, and dividend rate of 0%.

The Company did not complete any private placements in the year ended December 31, 2021.

c) 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 32,699,040 common shares for issuance under the Option Plan and 4,000,000 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.

d) Stock Options

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2020	20,255,000	\$ 0.57
Exercised	(135,000)	0.49
Expired	(1,610,000)	0.76
Granted	<u>1,840,000</u>	<u>0.75</u>
Balance, December 31, 2021	20,350,000	0.57
Expired and forfeit	<u>(3,520,000)</u>	<u>1.22</u>
Balance outstanding, December 31, 2022	16,830,000	\$ 0.43
Balance exercisable, December 31, 2022	<u>15,713,125</u>	<u>\$ 0.43</u>

NEXOPTIC TECHNOLOGY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

6. SHARE CAPITAL AND RESERVE (cont'd...)

d) Stock Options (cont'd...)

Stock options outstanding as at December 31, 2022:

	Number outstanding	Number exercisable	Exercise price	Expiry date
Options	300,000	300,000	1.00 ⁽¹⁾	June 26, 2023
	50,000	50,000	0.70 ⁽¹⁾	December 19, 2023
	1,100,000	1,100,000	0.65 ⁽¹⁾	January 30, 2024
	1,840,000	1,268,125	0.75 ⁽¹⁾	September 29, 2026
	<u>13,540,000</u>	<u>12,995,000</u>	0.36 ⁽¹⁾	May 26, 2030
	16,830,000	15,713,125		

(1) Subsequent to December 31, 2022, exercise price was amended to \$0.10 as approved at the annual general meeting on January 10, 2023.

As at December 31, 2022, the outstanding stock options had a weighted average remaining life of 6.45 (December 31, 2021 - 6.46) years.

e) Restricted Share Units

	Number of Restricted Share Units	Weighted average fair value per share at grant date
Balance, December 31, 2020	-	\$ -
Granted	<u>1,500,000</u>	0.74
Balance December 31, 2021	1,500,000	
Shares issued	<u>(1,500,000)</u>	0.74
Balance outstanding December 31, 2022	-	\$ -

f) Share-Based Payments

Stock Options

During the year ended December 31, 2021, the Company granted 1,840,000 stock options with a weighted average fair value of \$0.50 per option. The Company recognized share-based payments expense of \$558,218 (2021 - \$807,183) for options vesting during the year ended December 31, 2022.

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 vesting during the periods:

	2022	2021
Risk-free interest rate	-	1.26%
Expected life of options	-	5 years
Expected annualized volatility	-	97.1%
Dividend rate	-	-
Forfeiture rate	-	-

NEXOPTIC TECHNOLOGY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

6. SHARE CAPITAL AND RESERVE (cont'd...)

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

Restricted Share Units

As the performance conditions of the RSU granted were not market-related, the fair value per RSU used to calculate compensation expense for the RSUs granted in the year ended December 31, 2021 is determined to be \$0.74, equal to the market price on the date of grant.

Share-based payments expense

The share-based payments expense for the year was allocated as follows:

	Stock option expense	RSU expense	Total share-based payments expense
For the year ended December 31, 2022			
Research and development	\$ 333,226	\$ 68,932	\$ 402,158
General and administrative	80,088	758,247	838,335
Business development	<u>144,904</u>	<u>-</u>	<u>144,904</u>
	\$ 558,218	\$ 827,179	\$ 1,385,397

	Stock option expense	RSU expense	Total share-based payments expense
For the year ended December 31, 2021			
Research and development	\$ 378,527	\$ 23,568	\$ 402,095
General and administrative	338,428	259,254	597,682
Business development	<u>90,228</u>	<u>-</u>	<u>90,228</u>
	\$ 807,183	\$ 282,822	\$ 1,090,005

g) Warrants

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2020	1,379,539	\$ 1.46
Expired	<u>(404,923)</u>	<u>1.12</u>
Balance, December 31, 2021	974,616	\$ 1.60
Expired	<u>(974,616)</u>	<u>1.60</u>
Granted	<u>40,133,515</u>	<u>0.12</u>
Balance outstanding and exercisable, December 31, 2022	40,133,515	\$ 0.12

Warrants outstanding as at December 31, 2022:

	Number outstanding	Number exercisable	Exercise price	Expiry date
Warrants	40,133,515	40,133,515	\$ 0.12	November 7, 2024

NEXOPTIC TECHNOLOGY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

6. SHARE CAPITAL AND RESERVE (cont'd...)

h) Custodial and Rights Agreement and Voting Support Agreement

The Company entered into a custodial and rights agreement ("Rights Agreement") with Computershare Trust Company of Canada ("Computershare"), as custodial agent whereby 3DB, Inc. ("3DB"), a private company jointly owned by the former CEO and former Chairman, has deposited 8,000,000 shares of the Company held by Computershare. 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 Rights 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.

The Company entered into a voting support agreement ("Support Agreement") with 3DB. 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 (May 2023) 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). The shares deposited under the Rights Agreement are subject to the Support Agreement.

7. RELATED PARTY TRANSACTIONS

Management Compensation

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

Payments to key management personnel	2022	2021
Consulting fees – general and administrative	\$ 237,193	\$ 345,414
Directors' fees – general and administrative	20,000	20,000
Salaries and short-term benefits – general and administrative	180,000	180,000
Share-based payments to officers – general and administrative	343,329	177,676
Share-based payments to directors – general and administrative	401,231	197,473

During the year ended December 31, 2022, the Company was charged legal fees, included in professional fees, of \$84,903 (2021 - \$35,030) by S. Paul Simpson Law Corp., a law firm of which an officer of the Company is an employee.

As at December 31, 2022, the Company had balances outstanding with related parties of \$688,029 (2021 - \$204,867) included in accounts payable and accrued liabilities. These balances are unsecured, non-interest-bearing, have no fixed repayment terms and are due on demand.

Settlement Agreements

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(h)) 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 was non-interest bearing and 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 year ended December 31, 2021, the Company recognized a recovery of \$209,129 with respect to the Settlement Agreements and the severance liability was discharged by the former employees and the underlying promissory notes released.

NEXOPTIC TECHNOLOGY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

8. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 27.00% (2021 - 27.00%) to income before income taxes. The reasons for the differences are as follows:

	2022	2021
Income before income tax	\$ (3,881,562)	\$ (3,316,633)
Statutory income tax rate	<u>27.00%</u>	<u>27.00%</u>
Income tax expense computed at Canadian statutory rates	(1,048,022)	(895,491)
Items not deductible for tax purposes	376,302	356,897
Differences between Canadian and foreign tax rates	23,141	25,427
Change in timing differences	(1,736)	(1,550)
True-up of tax losses to statutory returns	(200,778)	203,509
Unused tax losses and tax offsets not recognized in tax assets	<u>851,093</u>	<u>311,208</u>
Income tax recovery	\$ -	\$ -

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

	2022	2021
Non-capital losses	\$ 29,679,671	\$ 26,362,194
Equipment	173,629	173,202
Share issue costs and other	86,025	46,225
Non-refundable income tax credits	<u>3,026,049</u>	<u>2,716,840</u>
Unrecognized deductible temporary differences	\$ 32,965,374	\$ 29,298,461

As at December 31, 2022, the Company has US non-capital losses of \$4,703,737, Korean non-capital losses of \$448,079, and Canadian non-capital losses of \$24,527,855 that may be applied to reduce future taxable income. If these losses are not used to offset future income, they will expire starting December 31, 2030 through the year ended December 31, 2042.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and employee obligation 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 CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)

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. The Company considers the risk of financial loss on cash and cash equivalents to be remote. The Company's receivables consist materially of GST input tax credits recoverable from the government of Canada. The Company considers credit risk with respect to these amounts to be low.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2022, the Company had a working capital deficiency of \$971,189 (2021 - \$586,286). The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. Employee obligations are due upon departure of the related employee. The Company's loans payable have an Initial Term Date of December 31, 2023 with the possibility of extending to December 31, 2025.

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. The Company is not exposed to any substantial interest rate risk and does not rely on interest income for its operations. Risk with respect to interest rates is considered low.

b) Foreign currency risk

The Company's has established a business development team in South Korea. As such, the Company is exposed to some foreign currency risk. Fluctuations in the exchange rate between the Canadian dollar, South Korean won and US dollar may have an adverse effect on the Company's business. The Company may mitigate its foreign currency risk by substituting Canadian vendors for certain services. Foreign currency risk is moderate relative to the overall financial operating plan with an increase in the current year relative to changing economic conditions and the Company's current reliance on certain foreign vendors.

As at December 31, 2022, the Company's net foreign denominated financial liabilities are as follows:

	Foreign currency		Canadian dollar equivalent
US dollar	\$	(834,249)	\$ (1,129,907)
South Korean won	₩	(12,359,301)	\$ (13,323)

NEXOPTIC TECHNOLOGY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

10. 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 deficiency \$987,683 (2021 - deficiency of \$639,858). 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, 2022.

11. SUBSEQUENT EVENT

The Company has completed the settlement of an aggregate of \$436,960 in debt owed to various parties, including \$333,620 in advances made to the Company by its CEO (the "Debt Settlement"). An aggregate of 6,722,472 common shares were issued at a price of \$0.065 (the "Settlement Shares"), of which 5,132,626 Settlement Shares were issued to the CEO.

On January 30, 2023, following receipt of TSX-V approval, the Company repriced of a total of 16,830,000 incentive stock options of the Company from their original exercise prices ranging from \$0.36 per share to \$1.00 per share to \$0.10 per common share.