



NEXOPTIC

NEXOPTIC TECHNOLOGY CORP.

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

FOR THE YEAR ENDED DECEMBER 31, 2016

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF NEXOPTIC TECHNOLOGY CORP.

We have audited the accompanying consolidated financial statements of NexOptic Technology Corp., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of NexOptic Technology Corp. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
March 22, 2017

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

	2016	2015
ASSETS		
Current		
Cash and cash equivalents	\$ 1,322,371	\$ 1,002,887
Accounts receivable	5,937	6,567
Prepaid expenses and deposits	12,478	29,289
	<u>1,340,786</u>	<u>1,038,743</u>
Deposits (Note 9)	33,544	33,544
Investment (Note 4)	1,505,219	610,000
Reclamation deposits (Note 5)	-	27,402
	<u>\$ 2,879,549</u>	<u>\$ 1,709,689</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 7)	\$ 50,625	\$ 79,115
Shareholders' equity		
Share capital (Note 6)	9,167,016	6,851,659
Reserve (Note 6)	983,087	502,229
Accumulated other comprehensive income	601,178	602,464
Deficit	(7,922,357)	(6,325,778)
	<u>2,828,924</u>	<u>1,630,574</u>
	<u>\$ 2,879,549</u>	<u>\$ 1,709,689</u>

Approved and authorized by the Board on March 22, 2017

"G.A. Armstrong" 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

	2016	2015
EXPENSES		
Consulting fees	\$ 40,063	\$ 66,201
Directors' fees (Note 7)	24,000	18,000
Insurance	7,232	12,203
Investor relations	277,113	143,619
Loss from investment in associate (Note 4)	102,781	-
Office and administration	156,215	111,829
Professional fees (Note 7)	101,524	116,917
Property costs	26,163	-
Salaries (Note 7)	161,975	141,038
Share-based payments (Notes 6 and 7)	580,567	305,169
Shareholder communications and filings	70,754	55,622
Transaction costs (Notes 4 and 7)	112,403	93,451
Travel	37,141	39,937
	<u>(1,697,931)</u>	<u>(1,103,986)</u>
OTHER INCOME (EXPENSE)		
Write-off of resource property (Note 5)	-	(2,247,627)
Interest and other income	2,352	-
	<u>2,352</u>	<u>(2,247,627)</u>
Net loss for the year	(1,695,579)	(3,351,613)
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that may be reclassified subsequently to profit or loss		
Foreign exchange gain (loss) on translating foreign operations	(1,286)	368,034
Comprehensive loss for the year	<u>\$ (1,696,865)</u>	<u>\$ (2,983,579)</u>
Basic and diluted loss per common share	<u>\$ (0.04)</u>	<u>\$ (0.13)</u>
Weighted average number of common shares outstanding	<u>44,686,441</u>	<u>25,248,567</u>

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

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	\$ (1,695,579)	\$ (3,351,613)
Non-cash items:		
Share-based payments	580,567	305,169
Loss from investment in associate	102,781	-
Write-off of resource property	-	2,247,627
Changes in non-cash working capital items:		
Accounts receivable	630	(655)
Prepaid expenses and deposits	16,758	(7,720)
Accounts payable and accrued liabilities	(28,490)	10,036
	<u>(1,023,333)</u>	<u>(797,156)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures on resource properties	-	(23,533)
Reclamation deposit	26,169	-
Funds to Spectrum	(998,000)	(490,000)
	<u>(971,831)</u>	<u>(513,533)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercised warrants	1,293,778	-
Proceeds from options	13,502	-
Proceeds from private placement	1,050,500	2,250,936
Share issue costs	(43,132)	(101,746)
	<u>2,314,648</u>	<u>2,149,190</u>
Effect of exchange rate changes on cash and cash equivalents	<u>-</u>	<u>561</u>
Change in cash and cash equivalents during the year	319,484	839,062
Cash and cash equivalents, beginning of year	<u>1,002,887</u>	<u>163,825</u>
Cash and cash equivalents, end of year	<u>\$ 1,322,371</u>	<u>\$ 1,002,887</u>
Supplementary cash flow information:		
Non-cash transactions:		
Shares issued or to be issued for finder's fees	\$ -	\$ 10,000
Broker warrants	\$ 15,380	\$ 34,310

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

	<u>Share Capital</u>		Obligation to Issue Shares	Reserve	Accumulated Other Comprehensive Income	Deficit	Total
	Number	Amount					
Balance, December 31, 2014	10,701,839	\$ 4,716,779	\$ 10,000	\$ 301,780	\$ 234,430	\$ (3,113,195)	\$ 2,149,794
Shares issued for finder's fees	123,809	20,000	(10,000)	-	-	-	10,000
Private placement, net of share issue costs	27,995,801	2,114,880	-	34,310	-	-	2,149,190
Share-based payments	-	-	-	305,169	-	-	305,169
Expiry of stock options	-	-	-	(139,030)	-	139,030	-
Net loss and comprehensive loss for the year	-	-	-	-	368,034	(3,351,613)	(2,983,579)
Balance, December 31, 2015	38,821,449	6,851,659	-	502,229	602,464	(6,325,778)	1,630,574
Private placement, net of share issue costs	4,202,000	991,988	-	15,380	-	-	1,007,368
Shares issued for options exercised	36,667	24,332	-	(10,830)	-	-	13,502
Shares issued for warrants exercised	9,851,930	1,299,037	-	(5,259)	-	-	1,293,778
Share-based payments	-	-	-	580,567	-	-	580,567
Expiry of stock options	-	-	-	(99,000)	-	99,000	-
Net loss and comprehensive loss for the year	-	-	-	-	(1,286)	(1,695,579)	(1,696,865)
Balance, December 31, 2016	52,912,046	\$ 9,167,016	\$ -	\$ 983,087	\$ 601,178	\$ (7,922,357)	\$ 2,828,924

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, 2016 AND 2015

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. The Company name was changed from Elissa Resources Ltd. on February 12, 2016. NexOptic was incorporated under the *Company Act* (British Columbia) on October 11, 2007. The Company maintains its registered office at 2080 – 777 Hornby Street, Vancouver, British Columbia, Canada V6Z 1S4. The Company's principal place of business is 1450 – 700 West Georgia Street, Vancouver, British Columbia, Canada V7Y 1K8.

During the year ended December 31, 2015, shareholders approved a share consolidation on the basis of one new common share for three old common shares. The consolidation has been applied retroactively to all share capital information presented. During the year ended December 31, 2016, the Company completed its transition from a Resource Issuer to a Technology Issuer within the meaning of such terms in the policies of the TSX Venture Exchange ("TSXV").

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 provide continued investment in Spectrum Optix Inc. ("Spectrum"), completing proof of concept studies, protecting intellectual property rights, the ability of the Company to raise alternative financing, and risks inherent to new technologies, such as risk of obsolescence, slow adoption and competing technological advances. Changes in future conditions could require material impairment of investments.

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. The Company reported a net loss of \$1,695,579 (2015 - \$3,351,613) for the year ended December 31, 2016 and had an accumulated deficit of \$7,922,357 (2015 - \$6,325,778) as at December 31, 2016. These circumstances may cast significant doubt as to the ability of the Company to meet its obligations as they come due, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

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 obtain 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 discretionary expenses. These material uncertainties may cast significant doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

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 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 accounting policies set out in Note 3 have been applied consistently by the Company and its subsidiaries to all periods presented.

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.

NEXOPTIC TECHNOLOGY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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

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

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

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

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

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

- Assessment of control

In determining whether the Company controls Spectrum, management is required to consider and assess the definition of significant influence in accordance with IAS 28 *Investment In Associates* and control in accordance with IFRS 10 *Consolidated Financial Statements*. There is judgment required to determine whether the rights of the Company result in control of Spectrum.

- Functional currency

The functional currency of the Company and its subsidiaries is the currency of their respective primary economic environment, and the Company reconsiders the functional currency if there is a change in events and conditions, which determined the primary economic environment.

- Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay its ongoing operation expenditures and to meet its liabilities for the ensuring year, involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

- Deferred income tax

The value of deferred tax assets is evaluated based on the probability of realization; the Company has assessed that it is improbable that such assets will be realized and has accordingly not recognized a value for deferred taxes.

The key estimates applied in the preparation of the consolidated financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities is the provision for income taxes and recognition of deferred income tax assets and liabilities, assumptions applied to the Black-Scholes option pricing model to determine the fair value of options granted (Note 6), the recoverability of capitalized amounts of resource property and fair value of the Company's investment (Note 4), which requires management to make certain estimates regarding the value of those shares in relation to unquoted share prices (Note 11).

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 (US) Inc. ("Red Hill") and 0875514 BC Ltd. ("0875514"). 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.

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

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 0875514 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 for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;
- income and expenses for each consolidated statement of loss and comprehensive loss 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.

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.

Investment in associate

Associates are those entities over which the Company is able to exert significant influence, but which are neither subsidiaries nor interests in a joint venture. The Company accounts for its investment in associate using the equity method. Under the equity method, the Company's investment in an associate is initially recognized at cost and subsequently increased or decreased to recognize the Company's proportionate share of earnings and losses of the associate and for impairment losses after the initial recognition date. The Company's share of an associate's losses that are in excess of its investment in the associate are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. The Company's share of earnings and losses of associates are recognized through profit or loss for the period. Distributions received from an associate are accounted for as a reduction to the carrying amount of the Company's investment in the associate.

Intercompany transactions between the Company and its associates are recognized only to the extent of unrelated investors' interests in the associates

At the end of each reporting period, the Company assesses whether there is any objective evidence that an investment in an associate is impaired. Objective evidence includes observable data indicating that there is a measurable decrease in the estimated future cash flows of the associate's operations. When there is objective evidence that an investment in an associate is impaired, the carrying amount of such investment is compared to its recoverable amount, being the higher of its fair value less cost to sell and value in use (i.e., present value of its future cash flows). If the recoverable amount of an investment in associate is less than its carrying amount then an impairment loss is recognized in that period. When an impairment loss reverses in a subsequent period, the carrying amount of the investment in an associate is increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had an impairment loss not been previously recognized. A reversal of an impairment loss is recognized through profit or loss in the period that the reversal occurs.

NEXOPTIC TECHNOLOGY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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

Financial instruments

Financial assets

The Company classifies its financial assets in the following categories: fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at 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. Cash and cash equivalents are included in this category of financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are carried at amortized cost using the effective interest method, less any impairment. Loans and receivables are comprised of accrued interest.

Available-for-sale

Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive income (loss) and recognized in profit or loss.

All financial assets, except those measured at fair value through profit or loss, are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial liabilities

The Company classifies its financial liabilities in the following category:

Borrowings and other financial liabilities

Borrowings and other 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.

Borrowings and other financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include accounts payable and accrued liabilities.

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...)

Resource properties

Costs directly related to the acquisition, exploration and evaluation of resource properties are capitalized once the legal rights to explore the resource properties are acquired or obtained. When the technical and commercial viability of a mineral resource has been demonstrated and a development decision has been made, the capitalized costs of the related property are transferred to mining assets and depreciated using the unit-of-production method on commencement of commercial production.

If it is determined that capitalized acquisition, exploration and evaluation costs are not recoverable, or the property is abandoned or management has determined an impairment in value, the property is written down to its recoverable amount.

From time to time, the Company acquires or disposes of properties pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee, and accordingly, are recorded as mineral property costs or recoveries when the payments are made or received. After costs are recovered, the balance of the payments received is recorded as a gain on option or disposition of mineral property.

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 amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. 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 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 that is 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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

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 possible 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.

New standards not yet adopted

IFRS 9 Financial Instruments (Revised)

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

IFRS 16 Leases

IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation and disclosure of leases, including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases, as is required by IAS 17 *Leases*, and instead introduces a single lessee accounting model. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The impact of IFRS 16 on the Company's consolidated financial statements has not yet been determined.

4. INVESTMENT

During the year ended December 31, 2014, the Company entered into an agreement (the "Agreement"), as subsequently amended, with Spectrum, a private technology development company. Pursuant to the Agreement, the Company has been granted an option to acquire up to a 100% interest in Spectrum, as follows:

First Option: the Company has acquired a 6.6% interest in Spectrum having advanced \$200,000;

Second Option: Upon exercise of the First Option, the Company has the right to acquire a further 28.4% interest in Spectrum, for an aggregate interest of 35%, in exchange of the advancement of \$2,800,000 towards the development of Spectrum's lens technologies over a three-year period commencing on the date of the Agreement; and

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4. INVESTMENT (cont'd...)

Third Option: Upon exercise of the Second Option, the Company has the right to acquire the remaining 65% interest in Spectrum, for an aggregate interest of 100% in exchange for the issuance by the Company of such number of common shares as equals 35% of the issued and outstanding shares of the Company and such number of conditional warrants to acquire common shares of the Company as equals 35% of the warrants then outstanding in the Company up to a maximum of 72,096,977 common shares and 72,096,977 warrants, respectively.

Following the exercise of the First Option, the Company has continued to pursue the acquisition of Spectrum. The pursuit of the exercise of the Second Option is considered a Change of Business ("COB") in accordance with the policies of the TSXV, which was completed in the period. During the year ended December 31, 2016, the Company incurred \$112,403 (2015 - \$93,451) in transaction costs related to the COB.

In connection with the Agreement, the Company signed a finder's fee agreement payable as to:

- a) \$10,000 at the time the Company purchases a 3.3% interest payable in shares (66,666 common shares issued);
- b) \$10,000 upon the acquisition of a cumulative 6.6% interest payable in shares (57,143 common shares issued); and
- c) 5% of the number of common shares of the Company issued pursuant to the Third Option; 50% of this portion will be payable in shares and 50% payable in cash, such payment not to exceed \$200,000 in cash and \$300,000 value in common shares.

On October 14, 2016, NexOptic increased its interest in Spectrum to 19.97%. Concurrently, it was determined that the Company exercises significant influence over Spectrum. From October 14, 2016, the Company accounts for its investment in Spectrum on an equity basis. As at December 31, 2016, the Company had advanced \$1,588,000 (2015 - \$590,000) to Spectrum under the terms of the Agreement and earned share ownership of 20.68% (2015 - 10.6%) in Spectrum.

Investment in associate is as follows:

	Investment in Spectrum
Balance, December 31, 2014	\$ -
Funds invested in Spectrum	590,000
Finders' fees	<u>20,000</u>
Balance, December 31, 2015	610,000
Funds invested in Spectrum	998,000
Loss from investment in associate from October 14, 2016 to December 31, 2016	<u>(102,781)</u>
Balance, December 31, 2016	\$ 1,505,219

The table below discloses selected financial information for Spectrum on a 100% basis.

	2016
Loss for the period from October 14, 2016 to December 31, 2016	\$ (500,042)
Current and total assets	\$ 167,171
Current and total liabilities	\$ 406,064
Deficit	\$ (236,893)

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5. RESOURCE PROPERTIES

Thor REE Property

On March 15, 2009, Red Hill agreed to acquire the Thor REE Property located in southwestern Nevada. In consideration for a 100% interest in the property, the Company provided a deposit as security against potential future reclamation work relating to its Thor REE Property. The deposit was returned to the Company during the year ended December 31, 2016.

As at December 31, 2015, the Company has written off deferred acquisition and exploration expenditures of \$2,247,627 to reflect the Company's change in focus.

December 31, 2016	Thor REE
Balance, December 31, 2014	\$ 1,861,319
Exploration expenditures	
Staking and maintenance fees	23,533
Foreign exchange on translation	362,775
Write-off of property	<u>(2,247,627)</u>
Property total, December 31, 2015 and 2016	\$ -

Title to resource properties

Although the Company has taken steps to verify the title to resource properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

6. SHARE CAPITAL AND RESERVE

a) Authorized share capital

Unlimited number of common shares without par value.

b) Issued share capital

Year ended December 31, 2016

In June 2016, the Company completed a private placement of 4,202,000 units at a price of \$0.25 per unit for gross proceeds of \$1,050,500. Each unit is comprised of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at an exercise price of \$0.35 until June 21, 2018.

The Company paid finders' fees of \$27,440 and issued 109,760 broker warrants exercisable at a price of \$0.35 for a period of two years subject to accelerated expiry provisions. The broker warrants were valued at \$15,380 based on a Black-Scholes valuation with a risk-free interest rate of 0.60%, term of 2 years, volatility of 125% and a dividend rate of 0%. An additional \$15,692 was incurred as share issuance costs.

Year ended December 31, 2015

Shareholders approved a share consolidation on the basis of one new common share for three old common shares. The consolidation has been applied retroactively to all share capital information presented.

The Company completed a private placement of 15,000,000 units at a price of \$0.05 per unit for gross proceeds of \$750,000. Each unit is comprised of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at an exercise price of \$0.10 until April 16, 2017. The Company issued 488,000 common shares fair valued at \$24,400 and paid \$18,902 as finders' fees.

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(Expressed in Canadian Dollars)

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**6. SHARE CAPITAL AND RESERVE (cont'd...)****b) Issued share capital (cont'd...)**

In September 2015, the Company completed a private placement of 12,507,801 units at a price of \$0.12 per unit for gross proceeds of \$1,500,936. Each unit is comprised of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at an exercise price of \$0.20 until September 21, 2017.

The Company paid finders' fees of \$54,177 and issued 450,640 broker warrants exercisable at a price of \$0.20 for a period of two years subject to accelerated expiry provisions. The broker warrants were valued at \$34,310 based on a Black-Scholes valuation with a risk-free interest rate of 0.52%, term of 2 years, volatility of 115% and a dividend rate of 0%. The Company incurred other share issue costs of \$28,667.

c) Stock options

The Company has a stock option plan (the "Plan") in place that allows for the reservation of common shares issuable under the Plan to a maximum of 10% of the number of issued and outstanding common shares of the Company at any given time. The exercise price of each option is required to be set at the closing price of the Company's common shares on the trading day prior to the date of grant.

Stock option transactions are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2014	841,667	\$ 0.46
Granted	2,620,000	0.15
Expired	(566,667)	0.33
Balance, December 31, 2015	2,895,000	0.20
Granted	1,800,000	0.34
Exercised	(36,667)	0.37
Expired	(150,000)	0.81
Balance outstanding, December 31, 2016	4,508,333	\$ 0.24
Balance exercisable, December 31, 2016	4,414,583	\$ 0.24

Stock options outstanding as at December 31, 2016:

	Number	Exercise price	Expiry date
Stock Options	75,000	\$ 0.63	January 6, 2017
	33,333	0.63	February 1, 2017
	2,600,000	0.15	September 21, 2020
	565,000	0.15	February 22, 2021
	910,000	0.40	July 5, 2021
	325,000	0.50	September 14, 2021
	4,508,333	\$ 0.24	

As at December 31, 2016, the outstanding stock options had a weighted average remaining life of 3.92 (2015 - 4.34) years.

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FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**6. SHARE CAPITAL AND RESERVE (cont'd...)****d) Share-based payments**

During the year ended December 31, 2016, the Company granted 1,800,000 (2015 - 2,620,000) stock options with a weighted average fair value of \$0.33 (2015 - \$0.12). The Company recognized share-based payments expense of \$580,567 (2015 - \$305,169) for options granted and vesting during the period.

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

	2016	2015
Risk-free interest rate	0.66%	0.83%
Expected life of options	4.88 years	5 years
Expected annualized volatility	125.00%	134.41%
Dividend	-	-

e) Warrants

Warrant transactions are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2014	4,088,250	\$ 0.90
Issued	<u>27,958,441</u>	\$ 0.15
Balance, December 31, 2015	32,046,691	\$ 0.24
Issued	4,311,760	\$ 0.35
Exercised	(9,851,930)	\$ 0.13
Expired	<u>(4,088,250)</u>	\$ 0.90
Balance, December 31, 2016	22,418,271	\$ 0.19

Warrants outstanding as at December 31, 2016:

	Number	Exercise price	Expiry date
Warrants	8,130,000	\$ 0.10	April 16, 2017
	398,640	0.20	September 16, 2017
	9,647,151	0.20	September 21, 2017
	<u>4,242,480</u>	0.35	June 21, 2018
	22,418,271		

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7. RELATED PARTY TRANSACTIONS

Management Compensation

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

	2016	2015
Payments to key management personnel:		
Salaries and short-term benefits	\$ 161,975	\$ 142,000
Share-based payments	205,818	269,115
Directors' fees	24,000	18,000

During the year ended December 31, 2016, the Company was charged legal fees, included in professional fees and transaction costs, of \$82,551 (2015 - \$121,401) by S. Paul Simpson Law Corp., a law firm of which an officer of the Company is an employee.

During the year ended December 31, 2016, the Company was charged accounting fees of \$40,063 (2015 - \$46,920) by a company of which the CFO is a significant shareholder.

As at December 31, 2016, the amount of \$27,569 (2015 - \$51,697) included in accounts payable is due to related parties. All balances are unsecured, non-interest-bearing, have no fixed repayment terms and are due on demand.

8. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 26.00% (2015 - 26.00%) to income before income taxes. The reasons for the differences are as follows:

	2016	2015
Income before income tax	\$ (1,695,579)	\$ (3,351,613)
Statutory income tax rate	26.00%	26.00%
Income tax expense computed at Canadian statutory rates	(440,851)	(871,419)
Items not deductible for tax purposes	152,420	80,463
Differences between Canadian and foreign tax rates	(226)	(673)
Change in timing differences	13,154	(117,793)
Unused tax losses and tax offsets not recognized in tax assets	275,503	909,422
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:

	2016	2015
Non-capital losses	\$ 3,996,050	\$ 2,898,816
Resource properties	3,820,670	3,412,908
Equipment	56,851	56,287
Share issue costs	95,553	81,397
Unrecognized deductible temporary differences	\$ 8,020,516	\$ 6,449,408

As at December 31, 2016, the Company has US non-capital losses of \$290,972 and Canadian non-capital losses of \$3,227,966 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, 2035.

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9. COMMITMENTS

The Company has a lease agreement for office space expiring in 2018. A total of \$33,544 has been classified as deposits in the consolidated statements of financial position.

The approximate annual minimum lease commitments are as follows:

	Total
2017	\$ 46,865
2018	<u>50,770</u>
	<u>\$ 97,635</u>

10. SEGMENTED INFORMATION

The Company has recently transitioned to a technology company from the mineral exploration industry. As at December 31, 2016, all of the Company's long-term assets are situated in Canada.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

Cash and cash equivalents are carried in the consolidated statements of financial position at fair value using a Level 1 fair value measurement. Accounts receivable and accounts payable and accrued liabilities are carried at amortized cost. The Company considers that the carrying amount of these financial assets and liabilities measured at amortized cost to approximate their fair value due to the short-term nature of the financial instruments.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

Financial risk factors

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets, including cash and cash equivalents and receivables. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and cash equivalents with a high-credit quality financial institution. As at December 31, 2016, the Company had cash equivalents of \$750,000 (2015 - \$800,000) in term deposits.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2016, the Company had a working capital of \$1,290,161 (2015 - \$959,628). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in market factors, such as interest rates, foreign exchange rates, and commodity and equity prices. The Company does not have a practice of trading derivatives.

a) **Interest rate risk**

The Company's financial asset exposed to interest rate risk consists of cash. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. Management believes the interest rate risk is low given the current low global interest rate environment.

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

Financial risk factors (cont'd...)

Market risk (cont'd...)

b) Foreign currency risk

The Company's property development and exploration work occurs in the USA in US dollars. As such, the Company is exposed to foreign currency risk in fluctuations. Fluctuations in the exchange rate between the Canadian dollar and US dollar may have a material adverse effect on the Company's business and financial condition. The Company has transitioned away from US dollar exposure following its change to a technology company. The Company has reduced its foreign currency risk by working with Canadian vendors.

As at December 31, 2016, the Company's net foreign denominated financial assets are as follows:

	Foreign currency		Canadian dollar equivalent	
US dollar	\$	15,056	\$	5,160

c) Price risk

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

12. CAPITAL MANAGEMENT

The Company's capital management policy is to maintain a strong but flexible capital structure that optimizes the cost of capital, creditor and market confidence while sustaining the future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. The Company's capital structure includes shareholders' equity of \$2,828,924 (2015 - \$1,630,574). In order to maintain or adjust the capital structure, the Company may from time to time issue shares, seek additional 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, 2016.

13. SUBSEQUENT EVENTS

Subsequent to the year ended December 31, 2016, the Company:

- a) Received gross proceeds of \$199,700 for the exercise of 906,333 options;
- b) 50,000 options exercisable at \$0.63 expired unexercised;
- c) Granted 550,000 options exercisable at \$0.95;
- d) Received proceeds of \$2,018,625 for the exercise of 12,502,527 warrants and broker warrants; and
- e) Contributed \$575,000 in funds to Spectrum.