



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in United States Dollars)

THREE AND NINE MONTH PERIOD ENDED SEPTEMBER 30, 2018 AND 2017

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

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

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

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

NANOSPHERE HEALTH SCIENCES INC. (Formerly Corazon Gold Corp.)
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Presented in United States Dollars)
(Unaudited)

AS AT	September 30, 2018	December 31, 2017
ASSETS		
Current		
Cash	\$ 116,815	\$ 3,701,673
Receivables (Note 5)	580,254	12,073
Prepayment	<u>42,214</u>	<u>34,000</u>
	739,283	3,747,746
Line of Credit Agreement (Note 7)	997,340	91,988
Equipment (Note 6)	<u>243,642</u>	<u>8,682</u>
	<u>\$ 1,980,265</u>	<u>\$ 3,848,416</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 8)	<u>\$ 404,287</u>	<u>\$ 167,400</u>
Shareholders' equity		
Share capital (Note 9)	15,418,104	15,174,964
Reserves (Note 9)	697,015	559,862
Accumulated other comprehensive income	23,042	52,207
Deficit	<u>(14,912,183)</u>	<u>(12,106,017)</u>
	<u>1,225,978</u>	<u>3,681,016</u>
	<u>\$ 1,630,265</u>	<u>\$ 3,848,416</u>

Nature of business and going concern (Note 1)

Subsequent events (Note 14)

Approved and authorized by the Audit Committee on November 29, 2018:

<u>“Toby Lim”</u> Toby Lim	Director	<u>“David Sutton”</u> David Sutton	Director
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The accompanying notes are an integral part of these condensed consolidated interim financial statements.

NANOSPHERE HEALTH SCIENCES INC. (Formerly Corazon Gold Corp.)
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Presented in United States Dollars)
(Unaudited)

	For the three months ended September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
REVENUE (Note 7)	\$ 380,081	\$ -	\$ 581,484	\$ -
EXPENSES				
Depreciation (Note 6)	14,062	303	28,529	909
Foreign exchange	153	-	1,929	8,387
Investor relations and marketing	244,274	-	824,175	-
Office and administrative	43,445	51,873	245,880	136,466
Professional fees	284,049	67,166	531,262	112,855
Regulatory and filing	3,000	-	26,917	-
Rent	20,964	18,207	96,564	47,269
Salaries and consulting (Note 8)	295,099	84,171	886,400	292,677
Share-based payment (Note 9)	74,378	-	210,518	-
Shipping and delivery	5,757	-	18,265	-
Supplies and materials	16,211	29,779	16,211	47,937
Travel	96,231	3,096	225,655	37,320
	(1,097,623)	(254,595)	(3,112,305)	(683,820)
OTHER				
Gain on settlement of debt	-	-	-	60,000
Interest (Note 7)	65,850	-	74,655	-
Loss for the period	(651,692)	(254,595)	(2,456,166)	(623,820)
Exchange differences on translating foreign operations	(1,357)	-	(29,165)	-
Loss and comprehensive loss for the period	\$ (653,049)	\$ (254,595)	\$ (2,485,331)	\$ (623,820)
Basic and diluted loss per share	\$ (0.01)	\$ -	\$ (0.02)	\$ -
Weighted average number of common shares outstanding	96,610,258	-	96,462,253	-

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

NANOSPHERE HEALTH SCIENCES INC. (Formerly Corazon Gold Corp.)
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Presented in United States Dollars)
(Unaudited)

For the nine months ended September 30	2018	2017
CASH FROM OPERATING ACTIVITIES		
Loss for the period	\$ (2,456,166)	\$ (623,820)
Items not affecting cash:		
Unrealized foreign exchange loss	(29,165)	8,387
Depreciation (Note 6)	28,529	909
Share-based payment (Note 9)	210,518	-
Gain on settlement of debt	-	(60,000)
Changes in non-cash working capital items:		
Receivables	(534,181)	-
Prepaid	(42,214)	-
Accounts payable and accrued liabilities	<u>236,887</u>	<u>(113,102)</u>
Net cash used in operating activities	<u>(2,585,792)</u>	<u>(787,626)</u>
CASH FROM INVESTING ACTIVITIES		
Purchase of equipment (Note 6)	<u>(263,489)</u>	<u>(5,085)</u>
Net cash provided by investing activities	<u>(263,489)</u>	<u>(5,085)</u>
CASH FROM FINANCING ACTIVITIES		
Exercise of warrants	83,913	-
Members contributions	-	150,000
Exercise of stock options	85,862	-
Line of credit advance	(905,352)	(55,728)
Notes payable	-	336,292
Advance of loan payable to Williston Trust	<u>-</u>	<u>(65,700)</u>
Net cash provided by financing activities	<u>(735,577)</u>	<u>364,864</u>
Change in cash during the period	(3,584,858)	(427,847)
Cash, beginning of period	<u>3,701,673</u>	<u>436,383</u>
Cash, end of period	<u>\$ 116,815</u>	<u>\$ 8,536</u>

Supplemental disclosure with respect to cash flows (Note 13)

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

NANOSPHERE HEALTH SCIENCES INC. (Formerly Corazon Gold Corp.)
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
(Presented in United States Dollars)
(Unaudited)

	<u>Share capital</u>		Members contributions	Reserves	Accumulated other comprehensive income (loss)	Deficit	Total
	Number	Amount					
Balance at December 31, 2016	-	\$ -	\$ 1,334,000	\$ 533,040	\$ -	\$ (2,196,389)	\$ (329,349)
Contribution	-	-	75,000	-	-	-	75,000
Loss for the period	-	-	-	-	-	(623,820)	(623,820)
Balance at September 30, 2017	-	-	1,409,000	533,040	-	(2,820,209)	(878,169)
Acquisition of Corazon God Corp. (Note 4)	84,259,176	10,897,843	(1,409,000)	-	-	-	9,488,843
Private placements (Note 9)	11,811,370	4,545,017	-	-	-	-	4,545,017
Share issuance costs, warrants (Note 9)	-	(26,822)	-	26,822	-	-	-
Share issuance costs, cash (Note 10)	-	(241,074)	-	-	-	-	(241,074)
Accumulated other comprehensive income	-	-	-	-	52,207	-	52,207
Loss for the period	-	-	-	-	-	(9,285,808)	(9,285,808)
Balance at December 31, 2017	96,070,546	15,174,964	-	559,862	52,207	(12,106,017)	3,681,016
Exercise of warrants	273,185	83,913	-	-	-	-	83,913
Exercise of stock options	410,017	159,227	-	(73,365)	-	-	85,862
Share-based payment (Note 9)	-	-	-	210,518	-	-	210,518
Accumulated other comprehensive income	-	-	-	-	(29,165)	-	(29,165)
Loss for the period	-	-	-	-	-	(2,456,166)	(2,456,166)
Balance at September 30, 2018	96,753,748	\$ 15,418,104	-	\$ 697,015	\$ 23,042	\$ (14,562,183)	\$ 1,575,978

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

NANOSPHERE HEALTH SCIENCES INC. (Formerly Corazon Gold Corp.)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
June 30, 2018
(Presented in United States Dollars)

1. NATURE OF BUSINESS AND GOING CONCERN

Nanosphere Health Sciences Inc. (formerly Corazon Gold Corp.) (the “**Company**”), was incorporated on April 20, 2005, under the laws of the province of Alberta, Canada. The Company’s shares are listed on the Canadian Stock Exchange (“**CSE**”) under the symbol NSHS. The Company is a nano-biotechnology company focused on providing next generation delivery of nutritive elements and medicants through licensing arrangements. In March 2018, the Company was issued its patent for the NanoSphere Delivery System, protecting the Company’s core technology of nanoencapsulation and delivery of bioactive compounds.

The Company’s head office and principal address is 5445 DTC Parkway, Suite 1130 Greenwood Village, CO 80111 USA.

These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation.

As at September 30, 2018, the Company had a cumulative deficit of \$14,562,183, working capital of \$334,996 and cash of \$116,815. The Company believes it will have sufficient liquidity to fund its operating activities, capital expenditures, debt service and working capital needs for at least twelve months from September 30, 2018.

The Company plans to indirectly derive the majority of its revenues from the cannabis industry in certain United States (“**U.S.**”), which industry is illegal under U.S. federal law. The Company will be indirectly involved in the cannabis industry in the U.S. where local state law permits such activities, as well the medical cannabis industry in Canada.

Canada recently regulated medical use and commercial activity involving cannabis. Bill C-45, the Cannabis Act, was released on October 17. Subject to provincial or territorial restrictions, the enactment of the Cannabis Act allows for the production, distribution and sale of cannabis for unqualified adult use. Currently, the Company uses a licensing model for its technology and product offerings and is not directly engaged in the manufacture, importation, possession, use, distribution or sale of cannabis in the medicinal nor recreational cannabis marketplace in either the United States or Canada.

Almost half of the U.S. states have enacted legislation to regulate the sale and use of medical cannabis without limits on tetrahydrocannabinol (“**THC**”), while other states have regulated the sale and use of medical cannabis with strict limits on the levels of THC with nine states allowing the use of recreation cannabis. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the Controlled Substances Act (the “**CSA**”) in the United States and as such, may be in violation of federal law in the U.S.

As a result of the conflicting views between state legislatures and the federal government regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. Unless and until the U.S. Congress amends the CSA with respect to cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law, which may adversely affect the current and future investments of the Company in the United States. As such, there are a number of risks associated with the Company’s existing and future investments in the United States.

For the reasons set forth above, the Company’s existing interests in the U.S. cannabis market, and future investments, if any, may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada.

1. NATURE OF BUSINESS AND GOING CONCERN (cont'd...)

Reverse Takeover

On November 17, 2017, the Company and Nanosphere Health Sciences LLC (“**Nano LLC**”), entered in to a Share Exchange Agreement (“**SEA**”) whereby the Company acquired all of the outstanding units of Nano LLC in consideration for 60,000,000 common shares of the Company (Note 4). After completion of the SEA, the shareholders of Nano LLC held approximately 71.21% of the Company. Accordingly, Nano LLC is considered to have acquired the Company with the SEA being accounted as a reverse takeover of the Company by Nano LLC shareholders (the “**RTO**”).

As Nano LLC is deemed to be the accounting acquirer for accounting purposes, its assets and liabilities and operations since incorporation are included in the consolidated financial statements at their historical carrying value. The Company’s results of operations are included from November 17, 2017 onwards, the closing date.

Concurrent with the RTO, the Company completed a \$4,620,017 private placement (the “**Financing**”) (Note 9).

2. BASIS OF PREPARATION

Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and follow the same accounting policies and methods of application, except as explained in Note 3, as the Company’s most recent annual audited consolidated financial statements which were prepared in accordance with IFRS as issued by the IASB.

Basis of Presentation

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

The consolidated financial statements of the Company are presented in U.S. dollars, which is the functional currency of Nano LLC. The parent company, Nanosphere Health Sciences Inc., has a functional currency of the Canadian Dollar.

Significant accounting judgements, estimates and assumptions

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

Significant assumptions about the future and other sources of estimation and judgement uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to:

Going concern

The assessment of the Company’s ability to continue as a going concern involves critical judgement based on historical experience. Significant judgements are used in the Company’s assessment of its ability to continue as a going concern which is described in Note 1.

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

Significant accounting judgements, estimates and assumptions (cont'd...)

Licensing agreement

During the period ended September 30, 2018, the Company as licensor, entered into two licensing arrangements for the use of proprietary technology. Management concluded that licensing arrangement does not result in control of the licensee.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed in these condensed consolidated interim financial statements are consistent with those disclosed in Note 3 of the Company's audited consolidated financial statements for the year ended December 31, 2017 except for those policies noted below.

Certain prior period amounts have been reclassified to conform to current period classifications.

Adoption of IFRS 15 – Revenue from Contracts with Customers

For the period beginning January 1, 2018, the Company adopted IFRS 15 'Revenue from Contracts with Customers' was issued by the IASB in June 2014. The objective of IFRS 15 is to provide a single, comprehensive revenue recognition model for all contracts with customers. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. It also contains new disclosure requirements. Under IFRS 15, revenue from the sale of cannabis and medical cannabis is recognized at a point in time when control over the goods have been transferred to the customer. The Company transfers control and satisfied its performance obligation upon delivery and acceptance by the customer within the State of Colorado. With regard to the initial licensing fee, which is charged to the licensees outside of the State of Colorado, it is recognized upon execution of the license agreement. Royalties are recognized when received. The above-noted revenue recognition consistent with the Company's previous revenue recognition policy under IAS 18. IFRS 15 is effective for the Company on January 1, 2018. The adoption of this amendment did not have a material impact on the Company's condensed interim consolidated financial statements. Note that as a result of IFRS 15, The Company's revenue is reported on a disaggregated basis.

Adoption of IFRS 9 – Financial Instruments

The Company adopted IFRS 9 effective January 1, 2018. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into three measurement categories: those measured at fair value through profit and loss, at fair value through other comprehensive income, and at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in net earnings.

The requirements in IAS 39 for classification and measurement were carried forward to IFRS 9 and the Company's accounting policy with respect to financial liabilities remains unchanged.

As a result of the adoption of this standard, the Company has changed its accounting policy for financial assets. The change did not impact the carrying value of any financial assets on the transition date, January 1, 2018.

All aspects of our accounting policies for financial instruments as disclosed in Note 3 to the audited consolidated financial statements for the year ended December 31, 2017 are unaffected.

NANOSPHERE HEALTH SCIENCES INC. (Formerly Corazon Gold Corp.)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
June 30, 2018
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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

New standards not yet adopted

Certain pronouncements were issued by the IASB or IFRIC that are not mandatory for accounting periods beginning on or after January 1, 2018 or later periods. They have not been early adopted in these condensed consolidated interim financial statements, and they are expected to affect the Company in the period of initial application. In all cases the Company intends to apply these standards from application date as indicated below:

IFRS 16 Leases will be effective for accounting periods beginning on or after January 1, 2019. Early adoption will be permitted. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

4. ACQUISITION OF CORAZON GOLD CORP.

On November 17, 2017, the Company and Nano LLC completed a share exchange agreement whereby the Company acquired all of the issued and outstanding shares of Nano LLC, in consideration for 60,000,000 common shares of the Company. After the completion of the SEA, the shareholders of Nano LLC held approximately 71.21% of the Company. Accordingly, Nano LLC is considered to have acquired the Company with the SEA being accounted as a reverse takeover of the Company by Nano LLC shareholders.

The acquisition constitutes an asset acquisition as the Company does not meet the definition of a business, as defined in IFRS 3, Business Combination. Additionally, as a result of the RTO, the statement of financial position has been adjusted for the elimination of the Company's share capital, contributed surplus and accumulated deficit within shareholders' equity.

As a result of this asset acquisition, a listing expense of \$8,805,042 has been recorded. This reflects the difference between the estimated fair value of the Nano LLC shares deemed to have been issued to the Company's shareholders less the net fair value of the assets of the Company acquired.

In accordance with reverse acquisition accounting:

- i) The assets and liabilities of Nano LLC are included in the statement of financial position at their carrying values.
- ii) The net assets of the Company are included at their fair value of \$683,801.

Net assets acquired:

Cash	\$ 4,601,319
Accounts receivable	5,993
Reclamation bond	3,911
Loan receivable	571,697
Subscription receipts	(4,449,010)
Accounts payable and accrued liabilities	<u>(50,109)</u>
Fair value of net assets	<u>\$ 683,801</u>

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4. ACQUISITION OF CORAZON GOLD CORP. (cont'd...)

iii) The listing expense of \$8,805,042 was determined as follows:

- a. The number of Company common shares held by former Nano LLC shareholders outstanding is 60,000,000 or 71.21% of the combined entity.
- b. Number of outstanding shares of the Company prior to the Financing was 24,259,176 or 28.79% of the combined entity.
- c. The fair value of the shares issued to acquire the Company under the reverse acquisition accounting was \$9,488,843 calculated as 24,259,176 common shares at approximately \$0.391 per share.
- d. The difference between the fair value of \$9,488,843 being the consideration paid, and the fair value of the net assets of the Company of \$683,801 amounted to a net listing expense of \$8,805,042.

5. RECEIVABLES

	September 30, 2018	December 31, 2017
GST receivable	\$ 8,851	\$ 12,073
License revenue receivable (Note 7)	771,403	-
Total	\$ 780,254	\$ 12,073

6. EQUIPMENT

	Equipment
Cost	
Balance, December 31, 2016	\$ 8,481
Additions	5,085
Balance, December 31, 2017	13,566
Additions	263,489
Balance, September 30, 2018	\$ 277,055
Accumulated depreciation	
Balance, December 31, 2016	3,369
Depreciation for the year	1,515
Balance, December 31, 2017	4,884
Depreciation for the period	28,529
Balance, September 30, 2018	\$ 33,413
Carrying amounts	
As at December 31, 2017	\$ 8,682
As at September 30, 2018	\$ 243,642

7. LINE OF CREDIT AGREEMENT AND LICENSING ARRANGEMENT

The Company entered into a revolving line of credit agreement (“LOC”) as the lender to CCBA LLC (“CCBA”), a laboratory with which the Company subsequently entered into a licensing arrangement (Note 8) with an interest rate set at 5%. During the nine month ended September 30, 2018, the Company and CCBA amended the terms of the LOC to increase in the maximum borrowing limit. The outstanding balance due to the Company as at September 30, 2018 was \$997,340 (December 31, 2017 - \$91,988) which includes accrued interest of \$75,655 (December 31, 2017 - \$Nil).

Included in revenue reported on the statement of operations and comprehensive loss was \$551,403 (2017 - \$Nil) that related to licensing agreement with CCBA

8. RELATED PARTY TRANSACTIONS

Key management compensation consists of the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Science Officer, Chief Marketing Officer, the President and the Board of Directors.

During the nine months ended September 30, 2018, the Company paid or accrued:

Salaries and consulting fees of \$112,500 (2017 - \$72,000) to manager of the Company, \$120,000 (2017 - \$43,000) to the Chief Science Officer of the Company, \$58,500 (2017 - \$58,500) to the Chief Marketing Officer of the Company, \$112,500 (2017 - \$Nil) to the President of the Company, \$34,000 (2017 - \$Nil) to the Chief Operating Officer of the Company, \$83,900 (2017 - \$47,848) to Vice President of Finance of the Company, \$34,427 (2017 - \$Nil) to Investor Relations Manager, and \$17,479 (2017 - \$9,805) to a company that employs the Chief Financial Officer.

Share-based payment of \$129,680 (2017 - \$Nil) to the officers and directors of the Company was recorded.

Included in accounts payable and accrued liabilities is \$7,833 (2017 - \$Nil) due to directors, officers, and companies controlled by directors and officers of the Company that is non-interest bearing and due on demand.

On April 2, 2018, the Company entered into a license agreement with Evergreen Biosciences, LLC (“Evergreen”) to sub-license the Company’s patented NanoSphere Delivery technology to CCBA. Evergreen is partially owned by Chief Operating Officer of the Company.

9. SHARE CAPITAL AND RESERVES

Members contributions

Prior to the SEA (Note 4), members’ equity of the Company was governed by the terms and conditions of a limited liability company agreement.

As of December 31, 2016, the Company issued members’ units in return for \$1,334,000. Of this total, \$75,000 was received in the year ended December 31, 2017.

As of December 31, 2017, the Company issued additional members’ units shares for contributions of \$75,000. As part of the RTO (Note 4), common shares were issued to replace all classes of members’ units.

Authorized share capital

The Company’s authorized share capital consists of an unlimited number of common shares without par value.

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9. SHARE CAPITAL AND RESERVES (cont'd...)

Issued share capital

As at September 30, 2018, the Company had 96,555,563 common shares issued and outstanding.

Pursuant to the SEA (Note 4), an aggregate of 59,000,000 common shares were issued to NanoSphere's members, and 1,000,000 common shares were issued as a finder fee.

Escrow

At September 30, 2018, the Company has 29,215,051 common shares subject to escrow restrictions.

Pooling

Upon closing of the SEA, the Company had 60,000,000 common shares subject to certain restrictions as a result of a pooling agreement dated November 17, 2017. Of these, 10% were released January 1, 2018, 10% are expected to be released November 17, 2019, and the final 80% are expected to be released November 17, 2020.

Private placements

There were no private placements during the nine months ended September 30, 2018.

During the year ended December 31, 2017, the Company issued 11,811,370 units at CAD\$0.50 per unit for gross proceeds of \$4,620,017 (CAD\$5,905,685). Each unit consisted of one common share and one half of one share purchase warrant entitling the holder to purchase one common share at a price of CAD\$0.75. In connection with the financing, 284,550 finder warrants with a fair value of \$26,822 using the Black-Scholes pricing model with a risk-free interest rate of 1.72%, term of 1 year, volatility of 36.62% and dividend rate of 0%. and cash of \$241,074 (CAD\$273,873) was recorded as share issuance costs.

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9. SHARE CAPITAL AND RESERVES (cont'd...)

Stock options and warrants

Stock option and warrant transactions are summarized as follows:

	Warrants		Stock options	
	Number	Weighted Average Exercise Price (CAD)	Number	Weighted Average Exercise Price (CAD)
Outstanding, December 31, 2016	2,634,538	\$ 0.40	2,390,017	\$ 0.27
Exercised	(359,000)	0.40	-	-
Expired/ Cancelled	(299,000)	0.40	(775,000)	0.27
Granted / Issued	<u>6,190,235</u>	0.75	<u>-</u>	-
Outstanding, December 31, 2017	8,166,773	\$ 0.66	1,615,017	\$ 0.27
Exercised	(273,185)	0.40	(410,017)	0.27
Expired/ Cancelled	(1,703,353)	0.40	-	-
Granted / Issued	<u>-</u>	<u>-</u>	<u>3,165,555</u>	0.65
Outstanding, September 30, 2018	6,190,235	\$ 0.75	4,370,555	\$ 0.54
Number currently exercisable	6,190,235	\$ 0.75	2,182,315	\$ 0.44

Stock options outstanding

The following incentive stock options were outstanding at September 30, 2018:

Number	Exercise price	Expiry date
1,050,000	\$ CAD 0.27	September 21, 2021
155,000	\$ CAD 0.27	November 17, 2018
3,065,555	\$ CAD 0.65	May 17, 2023
100,000	\$ CAD 0.50	May 17, 2023
<u>4,370,555</u>	<u>\$ CAD 0.54</u>	

Warrants outstanding

The following incentive warrants were outstanding at September 30, 2018:

Number	Exercise price	Expiry date
6,190,235	\$ CAD 0.75	December 4, 2019

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9. SHARE CAPITAL AND RESERVES (cont'd...)

Share-based payments

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan the exercise price of each option equals the market price of the Company's stock, less applicable discount, as calculated on the date of grant.

The following weighted average assumptions were used for the valuation of stock options:

	September 30, 2018	December 31, 2017
Risk-free interest rate	2.11%	-
Expected life of options	5 years	-
Annualized volatility	78.13%	-
Dividend rate	0.00%	-
Forfeiture rate	0.00%	-

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect placement within the fair value hierarchy levels. The hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quotes prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of cash, receivables and accounts payable and accrued liabilities approximate their carrying value due to the short-term maturity.

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

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

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 receivables. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions.

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

Liquidity risk

The Company has in place a planning and budgeting process to manage its liquidity risk and ensure it has sufficient liquidity to meet liabilities when due. As at September 30, 2018, the Company had a cash balance of \$116,815 (December 31, 2017 - \$3,701,673) to settle current liabilities of \$404,287 (December 31, 2017 - \$167,400). All of the Company's accounts payable and accrued liabilities and loans payable have contractual maturities of 30 days or due on demand 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 equity prices. The Company does not have a practice of trading derivatives.

a) Interest rate risk

The Company's financial assets exposed to interest rate risk consist of cash balances. 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. As at September 30, 2018, the Company did not have any investments in investment-grade short-term deposit certificates or long term payables with floating interest rates.

b) Foreign currency risk

The Company's foreign exchange risk arises from transactions denominated in other currencies. Through this, the Company is exposed to foreign currency risk on fluctuations related to cash, receivables, accounts payable and accrued liabilities that are denominated in United States Dollar and Canadian Dollars. The Company does not use derivative instruments to reduce its exposure to foreign currency risk nor has it entered into foreign exchange contracts to hedge against gains or losses from foreign exchange fluctuations.

11. CAPITAL MANAGEMENT

The Company's primary objectives in capital management are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain sufficient funds to finance current production of the Company's patented NanoSphere Delivery System and development of future products. Capital is comprised of the Company's shareholders' equity. The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities.

The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on management to sustain future development and commercialization of the business. The Company will continue to assess sources of financing available and to assess the potential for collaboration with interested partners with a view to managing its current financial resources in the interest of sustaining the long-term viability of the Company's operations.

Management reviews its capital management approach on an on-going basis and believes that this approach, given the stage of the Company, is reasonable.

12. SEGMENTED INFORMATION

The Company's operating activities are all located in the United States, with its registered office in Canada. All of the Company's capital assets, including property, plant and equipment are located in the United States.

13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

There were no non-cash transactions for the nine months ended September 30, 2018 and 2017.

14. SUBSEQUENT EVENT

Subsequent to September 30, 2018, the Company:

- a) Announced a non-brokered private placement of up to 7,500,000 units at a price of CAD\$0.30 per unit for total proceeds of CAD\$2,250,000. Each unit consisted of one common share and one full purchase warrant that is exercisable at CAD\$0.50 for 24 months from date of closing;
- b) Granted 500,000 stock options to consultants;
- c) Received CAD\$41,850 from the exercise of 155,000 stock options; and
- d) Formed a wholly owned subsidiary company, NanoSphere Cannabis International Inc.