



**CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in United States Dollars)**

**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
Nanosphere Health Sciences Inc.

### *Opinion*

We have audited the accompanying consolidated financial statements of Nanosphere Health Sciences Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of operations and comprehensive loss, cash flows and changes in shareholders' equity (deficiency) for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its 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 Auditor's 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 of the consolidated financial statements, which indicates that the Company incurred a cumulative deficit of \$20,680,686 during the year ended December 31, 2020 and, as of that date, the Company's working capital deficit was \$1,493,241. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### *Other Information*

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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 auditor's 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.

### ***Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's 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.

The engagement partner on the audit resulting in this independent auditor's report is Peter Maloff.

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

April 30, 2021

**NANOSPHERE HEALTH SCIENCES INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Presented in United States Dollars)

AS AT	December 31, 2020	December 31, 2019
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 12,948	\$ 33,456
Receivables (Note 4)	2,791	47,494
Prepayment (Note 4)	<u>-</u>	<u>58,689</u>
	15,739	139,639
<b>Equipment and right-of-use asset, net (Note 6)</b>	-	44,789
<b>Investment in sublease, net (Note 8)</b>	<u>39,450</u>	<u>149,294</u>
	<u>\$ 55,189</u>	<u>\$ 333,722</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 9)	\$ 1,435,248	\$ 1,103,756
Current portion of lease liability (Note 7)	39,463	109,997
Short-term loan (Note 9)	<u>34,269</u>	<u>-</u>
	1,508,980	1,213,753
<b>Lease liability (Note 7)</b>	<u>-</u>	<u>39,463</u>
	<u>1,508,980</u>	<u>1,253,216</u>
<b>Shareholders' equity (deficiency)</b>		
Share capital (Note 10)	18,018,939	18,018,939
Reserves (Note 10)	1,236,385	1,147,716
Accumulated other comprehensive income	(28,429)	3,317
Deficit	<u>(20,680,686)</u>	<u>(20,089,466)</u>
	<u>(1,453,791)</u>	<u>(919,494)</u>
	<u>\$ 55,189</u>	<u>\$ 333,722</u>

**Nature of business and going concern (Note 1)**

Approved and authorized by the Board of Directors on April 30, 2021:

<u>"Toby Lim"</u>	Director	<u>"Michael Iverson"</u>	Director
Toby Lim		Michael Iverson	

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

**NANOSPHERE HEALTH SCIENCES INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
(Presented in United States Dollars)

For the years ended December 31	2020	2019
<b>REVENUE</b>		
Licensing, net (Note 5)	\$ -	\$ 194,760
Equipment lease, net (Note 6)	-	23,274
	-	218,034
<b>EXPENSES</b>		
Depreciation (Note 6)	13,762	134,243
Foreign exchange	(8,008)	2,715
Lease accretion (Note 7&8)	(153)	13,753
Investor relation and marketing	2,785	312,224
Office and administrative	26,721	63,815
Professional fees	189,865	300,136
Regulatory and filing	19,308	28,157
Research and development	-	4,844
Salaries and consulting (Note 9)	224,515	1,089,660
Share-based payment (Note 9)	88,669	320,463
Shipping and delivery	-	9,580
Supplies and materials	-	50,679
Travel	-	77,903
	(557,464)	(2,190,138)
<b>OTHER</b>		
Gain on settlement of debt	(2,729)	10,122
Impairment of equipment (Note 6)	(31,027)	(226,477)
Gain on recognizing investment on sublease (Note 8)	-	7,129
Allowance for note receivable (Note 5)	-	(1,069,380)
<b>Loss for the year</b>	(591,220)	(3,468,744)
Exchange differences on translating foreign operations	(31,746)	(14,685)
<b>Comprehensive loss for the year</b>	\$ (622,966)	\$ (3,483,429)
<b>Basic and diluted loss per share</b>	\$ (0.00)	\$ (0.03)
<b>Weighted average number of common shares outstanding</b>	108,355,051	107,388,033

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

**NANOSPHERE HEALTH SCIENCES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Presented in United States Dollars)

For the years ended December 31,	2020	2019
<b>CASH FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (591,220)	\$ (3,468,744)
Items not affecting cash:		
Depreciation (Note 6)	13,762	134,243
Gain on settlement of debt	(3,078)	(10,122)
Impairment of equipment (Note 6)	31,027	226,478
Gain on recognizing net investment in sublease	-	(7,129)
Lease accretion	(153)	13,753
Share-based payment (Note 9)	88,669	320,463
Allowance for note receivable (Note 5)	-	1,069,380
Unrealized foreign exchange loss (gain)	(24,226)	(19,787)
Changes in non-cash working capital items:		
Receivables	44,703	(21,570)
Prepays	58,689	20,638
Accounts payable and accrued liabilities	<u>334,570</u>	<u>662,878</u>
Net cash used in operating activities	<u>(47,257)</u>	<u>(1,079,519)</u>
<b>CASH FROM INVESTING ACTIVITIES</b>		
Line of credit advance	-	(329,380)
Acquisition of equipment (Note 6)	<u>-</u>	<u>(52,998)</u>
Net cash used in investing activities	<u>-</u>	<u>(382,378)</u>
<b>CASH FROM FINANCING ACTIVITIES</b>		
Private placement (Note 10)	-	1,405,237
Share issuance costs (Note 10)	-	(40,654)
Payment of lease liabilities (Note 7)	-	(85,960)
Short-term loan	64,076	-
Short-term loan repayment	<u>(29,807)</u>	<u>-</u>
Net cash provided by financing activities	<u>34,269</u>	<u>1,278,623</u>
<b>Change in cash during the year</b>	<b>(20,508)</b>	<b>(183,274)</b>
<b>Effect on foreign exchange on cash</b>	<b>(7,520)</b>	<b>5,102</b>
<b>Cash, beginning of year</b>	<u>33,456</u>	<u>211,628</u>
<b>Cash, end of year</b>	<b>\$ 12,948</b>	<b>\$ 33,456</b>

**Supplemental disclosure with respect to cash flows (Note 14)**

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

**NANOSPHERE HEALTH SCIENCES INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICENCY)**  
(Presented in United States Dollars)

	<b>Share capital</b>		<b>Subscriptions received in advance</b>	<b>Reserves</b>	<b>Accumulated other comprehensive income (loss)</b>	<b>Deficit</b>	<b>Total</b>
	<b>Number</b>	<b>Amount</b>					
<b>Balance at December 31, 2018</b>	101,567,332	\$ 16,526,266	\$ 100,000	\$ 814,382	\$ 18,002	\$ (16,620,722)	\$ 837,928
Private placements	6,666,394	1,505,237	(100,000)	-	-	-	1,405,237
Shares for debt	121,325	40,961	-	-	-	-	40,961
Share issuance costs, cash	-	(40,654)	-	-	-	-	(40,654)
Share issuance costs, warrants	-	(12,871)	-	12,871	-	-	-
Share-based payments (Note 10)	-	-	-	320,463	-	-	320,463
Other comprehensive loss	-	-	-	-	(14,685)	-	(14,685)
Loss for the year	-	-	-	-	-	(3,468,744)	(3,468,744)
<b>Balance at December 31, 2019</b>	108,355,051	\$ 18,018,939	\$ -	\$ 1,147,716	\$ 3,317	\$ (20,089,466)	\$ (919,494)
Share-based payments (Note 10)	-	-	-	88,669	-	-	88,669
Other comprehensive loss	-	-	-	-	(31,746)	-	(31,746)
Loss for the year	-	-	-	-	-	(591,220)	(591,220)
<b>Balance at December 31, 2020</b>	108,355,051	\$ 18,018,939	\$ -	\$ 1,236,385	\$ (28,429)	\$ (20,680,686)	\$ (1,453,791)

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



**1. NATURE OF BUSINESS AND GOING CONCERN**

Nanosphere Health Sciences Inc. (the “**Company**”), was incorporated on April 20, 2005, under the laws of the province of Alberta, Canada and re-domiciled to British Columbia, 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 biologically active compounds through licensing and joint venture arrangements. The Company has a wholly owned subsidiary. NanoSphere Health Sciences, LLC (NanoSphere LLC) is the Company’s operating division in the United States. The Company’s operations were focused on developing nanoencapsulation technology for the delivery of nutritive elements and medicants through licensing arrangements on the United States (“**U.S.**”) and Canada cannabis industry.

The Company’s head office and principal address is 488-1090 West Georgia Street, Vancouver, British Columbia, V6E 3V7.

These consolidated 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 December 31, 2020, the Company had a cumulative deficit of \$20,680,686, working capital deficit of \$1,493,241 and cash of \$12,948. Management anticipates the need to raise additional funds within the next 12 months to pay operational costs and fund any investing activities. To the extent financing is not available, lease payments, rental payments, and other payments may not be satisfied and could result in a loss of earning opportunities for the Company. These material uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak and any related adverse public health developments may adversely affect workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or results of operations at this time.

Canada recently regulated medical use and commercial activity involving cannabis. Bill C-45, the Cannabis Act, which was released on October 17, 2018. 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 and joint venture 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.

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

There are 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 United States 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.

**2. BASIS OF PREPARATION**

**Statement of Compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("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 liabilities 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 of the Company are presented in U.S. dollars, which is the functional currency of NanoSphere 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 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 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:

**NANOSPHERE HEALTH SCIENCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2020  
(Presented in United States Dollars)

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

*Going concern*

The Company's consolidated financial statements have been prepared with the assumption 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. Ongoing operations of the Company are dependent upon its ability to receive continued financial support, complete public equity financings, or generate profitable operations in the future. The Company incurred a loss of \$591,220 during the year ended December 31, 2020 and as of that date, the Company's had an accumulated deficit of \$20,680,686. Management is actively targeting sources of additional financing which would assure the continuation of the Company's operations. The Company anticipates the need to raise additional funds within the next 12 months to pay operational costs and fund any investing activities. To the extent financing is not available, lease payments, rental payments, and other payments may not be satisfied and could result in a loss of earning opportunities for the Company. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

*Licensing agreement*

During the year ended December 31, 2019, the Company as licensor entered into two additional licensing arrangements for the use of its technology in Canada and Oregon. During the year ended December 31, 2020, the Company terminated the licensing arrangements for the use of its technology.

*Loans and Receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses. The carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance are recognized in profit or loss.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of consolidation**

These consolidated financial statements include the financial statements of the Company and its subsidiaries controlled by the Company. Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is transferred to the Company until the date that control ceases. All intercompany transactions and balances have been eliminated on consolidation.

**NANOSPHERE HEALTH SCIENCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2020  
(Presented in United States Dollars)

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

The consolidated financial statements include the financial statements of the Company and its subsidiaries:

<b>Company</b>	<b>Place of Incorporation</b>	<b>Effective Interest</b>	<b>Principal Activity</b>
Nanosphere Health Sciences LLC	United States	100%	Operating
Nanosphere Cannabis International Inc	Canada	100%	Operating

**Financial Instruments**

Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, amortized cost, or fair value through other comprehensive income. The Company determines the classification of its financial assets at initial recognition.

a) Fair value through profit or loss (“FVTPL”) – financial assets are classified as fair value through profit or loss if they do not meet the criteria of amortized cost or fair value through other comprehensive income. Changes in fair value are recognized in the consolidated statement of operations and comprehensive income (loss).

b) Amortized cost – financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as FVTPL: 1) The objective of the Company’s business model for these financial assets is to collect their contractual cash flows; and 2) the assets contractual cash flow represents solely payments of principal and interest.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized in earnings.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

The Company’s cash and cash equivalents, account receivables, accounts payable and accrued liabilities and loan are recorded at amortized cost.

**Impairment of financial assets**

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit loss for performing assets and the lifetime expected credit loss if the credit risk on the financial assets has increased significantly since initial recognition. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the expected credit losses are reversed after the impairment was recognized.

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

**Income taxes**

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the date of statement of financial position.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**Cash and equivalents**

Cash consists of cash on hand and demand deposits that are subject to an insignificant risk of change in value.

**Equipment**

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. The following table outlines the methods used to depreciate property, plant and equipment:

Production equipment	Straight line 7 years
Computer equipment	Straight line 3 years

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

**Impairment**

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 the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**Provisions**

Provisions are recorded when a present legal, statutory or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimate to settle the present obligation, if the effect is material, its carrying amount is the present value of those cash flows.

**Share-based payments**

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital. In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

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

**Share capital**

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects. Common shares issued for consideration other than cash, are valued based on their market value at the date the shares are issued.

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Share capital is reduced by the average per-common-share carrying amount, with the difference between this amount and the consideration paid, added to or deducted from reserves.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in a private placement to be the more easily measurable component and the common shares are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as reserves.

**Licensing fees**

License fee revenues are generated Company's patented nanoencapsulation technology for the delivery of nutritive elements and medicants through licensing arrangements. The license agreements may vary between each licensee, to comply with jurisdictional legal requirements. For the base license fee revenue is recognized on a pro rata basis over the term of the license. Royalties, in jurisdictions where legally allowed, are recognized when the licensee has transferred the significant risks and rewards of ownership to the customer, and it is probably that the Company will received the agreed upon payment.

**Revenue Recognition**

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.

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

**Leases**

The Company leases office. Under IFRS 16 Leases (“IFRS 16”), the Company assesses whether a contract to rent an item of property and equipment is, or contains, a lease. For contracts that are, or contain, leases, the Company recognizes a right-of-use asset and lease liability at the commencement date.

Pursuant to IFRS 16 lessee accounting model, the right-of-use asset is initially measured at cost, which includes the initial amount of the liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and estimates of costs to remove or dismantle the underlying asset or to restore the underlying asset or site on which the asset is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method. The lease liability is initially measured at the present value of the lease payments that are not paid as of the lease commencement date, discounted using the rate implicit in the lease or, if the implicit rate cannot be readily determined, the Company’s incremental borrowing rate.

The measurement of lease liabilities includes the following types of lease payments:

- 1) fixed payments, including in-substance fixed payments;
- 2) variable lease payments that depend on an index or rate, initially measured using the index or rate as of the commencement date;
- 3) amounts expected to be payable under any residual value guarantees; and
- 4) exercise price for options that the Company is reasonably certain to exercise for an extension or option to buy, and penalties for early termination of a lease unless the Company is reasonably certain that it will not terminate the lease early. The lease liability is measured at amortized costs using the effective interest method.

The lease liability is remeasured in the following circumstances:

- 1) if there is a change in the future lease payments resulting from a change in index or rate;
- 2) if there is a change in the Company’s estimation of the amount expected to be payable under a residual value guarantee; and
- 3) if the Company changes its assessment of whether it will exercise an option to purchase, extend or terminate.

The Company has elected not to recognize right-of-use assets and liabilities for short-term leases that have a term of 12 months or less and for low-value assets.

**4. RECEIVABLES AND PREPAID EXPENSES**

	December 31, 2020	December 31, 2019
GST receivable	\$ 1,791	\$ 46,494
Lease revenue receivable, net	1,000	1,000
<b>Total Receivables</b>	<b>\$ 2,791</b>	<b>\$ 47,494</b>

As at December 31, 2019, prepayments consisted of \$25,000 in prepaid rent and \$33,689 in legal fee retainer.



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**5. LINE OF CREDIT AGREEMENT AND LICENSING ARRANGEMENT**

The Company has terminated the agreement between Evergreen and CCBA during the year ended December 31, 2020. The outstanding balance due to the Company as at December 31, 2020 was \$Nil (December 31, 2019 - \$Nil). During the year ended December 31, 2020, the Company recognized a provision against LOC receivable of \$Nil (December 31, 2019 - \$1,069,380) as a result of an assessment of the collectability of LOC.

During the year ended December 31, 2020, the Company did not recognize any licensing revenue.

During the year ended December 31, 2019, the Company signed Definitive Master Licensing Agreements with Delta 9 Cannabis Inc. and Pure Cascade LLC. and received \$263,060. The Company recognized licensing revenue of \$188,060 related to agreement with Delta 9 Cannabis Inc.

During the year ended December 31, 2019, the Company and Pure Cascade LLC terminated the agreement and the Company recognized \$75,000 accounts payable for license revenue refund.

**6. EQUIPMENT AND RIGHT-OF-USE ASSET**

	Equipment	Right-of-use asset	Total
<b>Cost</b>			
Balance, December 31, 2018	\$ 315,735	\$ -	\$ 315,735
Additions	59,927	-	59,927
Adoption of IFRS 16 (Note 3)	-	247,339	247,339
<b>Balance, December 31, 2019 and 2020</b>	<b>\$ 375,662</b>	<b>\$ 247,339</b>	<b>\$ 623,001</b>
<b>Accumulated depreciation</b>			
Balance, December 31, 2018	\$ 49,654	\$ -	\$ 49,654
Depreciation for the year	54,742	79,502	134,244
Recognition of impairment loss	226,477	-	226,477
Recognition of net investment on sublease	-	167,837	167,837
Balance, December 31, 2019	\$ 330,873	\$ 247,339	\$ 578,212
Depreciation for the year	13,762	-	13,762
Recognition of impairment loss	31,027	-	31,027
<b>Balance, December 31, 2020</b>	<b>\$ 375,662</b>	<b>\$ 247,339</b>	<b>\$ 623,001</b>
<b>Carrying amounts</b>			
As at December 31, 2019	\$ 44,789	\$ -	\$ 44,789
As at December 31, 2020	\$ -	\$ -	\$ -

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**6. EQUIPMENT AND RIGHT-OF-USE ASSET (cont'd...)**

During the year ended December 31, 2019, the Company was in negotiation with CCBA and other licensee to return the equipment. The Company recognized an impairment loss of \$226,477 on equipment.

During the year ended December 31, 2020, the Company has recognized depreciation of \$13,762 (2019 - \$54,742). The Company recognized an impairment loss of \$31,027 on equipment.

**7. LEASE LIABILITIES**

Pursuant to the adoption of IFRS 16 in fiscal 2019, the Company has recorded an office lease right-of-use asset of \$247,339 within property, plant and equipment, measured at either an amount equal to the lease liability or their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the incremental borrowing rate at 8.66% on January 1, 2019. The following is a reconciliation of the changes in the lease liabilities:

	December 31, 2019	December 31, 2020
Opening balance	\$ -	\$ 149,460
Adoption of IFRS 16	247,339	-
Lease accretion	17,292	8,514
Payments	(115,171)	(118,511)
Lease liabilities	\$ 149,460	\$ 39,463
Lease liabilities, current portion	109,997	39,463
Lease liabilities, non-current portion	\$ 39,463	\$ 0

**8. NET INVESTMENT IN SUBLEASE**

During the year ended December 31, 2019, the Company sub-leased the office space to an arm's length tenant with the same terms of the original office head lease. The Company has recorded a net investment in sublease of \$174,966, measured at either an amount equal to the lease asset or their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the incremental borrowing rate on January 1, 2019. In 2019, the Company recognized a gain of \$7,129 as difference between the right-of-use asset and the net investment in the sublease and derecognized the right-of-use asset of \$167,837. The following is a reconciliation of the changes in the net investment in sublease:

Opening balance, October 1, 2019	\$ -
Recognition of sublease	174,966
Lease accretion	3,602
Receipts	(29,274)
Balance, December 31, 2019	\$ 149,294
Lease accretion	8,667
Receipts	(118,511)
Balance, December 31, 2020	\$ 39,450

## **9. RELATED PARTY TRANSACTIONS**

### **Key management compensation**

Key management personnel comprise the Chief Executive officer, Chief Financial Officer, former Chief Executive officers, former Chief Marketing Officer and former President.

During the year ended December 31, 2020, the Company paid or accrued the following to key management personnel:

- a) Management, salaries, and consulting fees of \$182,062 (2019 - \$ 580,132) for services provided by the key management;
- b) Professional fees of \$106,456 to a director of the Company (2019 - \$132,779);
- c) Share-based compensation of \$65,405 (2019 - \$248,063) to the officers and directors of the Company was recorded.

Included in accounts payable and accrued liabilities is \$672,155 (December 31, 2019 - \$403,209) due to directors, officers, and companies controlled by directors and officers of the Company that is non-interest bearing and due on demand. As at December 31, 2020, the Company recorded a short-term loan of \$34,269 from a director of the Company.

## **10. SHARE CAPITAL AND RESERVES**

### **Authorized share capital**

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

### **Issued share capital**

As at December 31, 2020, the Company had 108,355,051 common shares issued and outstanding.

### **Escrow**

At December 31, 2020, the Company has Nil common shares subject to escrow restrictions.

### **Pooling**

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% were released November 17, 2019, and the final 80% were released on November 17, 2020.

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**10. SHARE CAPITAL AND RESERVES (cont'd...)**

**Share issuances**

No common shares were issued during the year ended December 31, 2020.

During the year ended December 31, 2019, the Company:

- a) completed a non-brokered private placement by issuing 6,666,394 units at CAD\$0.30 per unit for gross proceeds of \$1,505,237 (CAD\$1,999,918). Of the total proceeds, \$100,000 (CAD\$132,000) was received in advance as at December 31, 2018. The proceeds received after advances and the portion related to shares for debt, the Company received a net amount of approximately \$1,154,400 (CAD\$1,560,000). Each unit consisted of one common share and one share purchase warrant entitling the holder to purchase one common share at a price of CAD\$0.50. In connection with the financing, 106,050 finder warrants with a fair value of \$12,871 using the Black-Scholes pricing model with a risk-free interest rate of 1.77%, term of 2 years, volatility of 77.54% and dividend rate of 0%. and cash of \$40,654 (CAD\$54,118) was issued and paid;
- b) and issued 121,325 common shares to settle outstanding liabilities of \$36,750 (CAD\$48,750). The shares were valued at \$0.34 per share, and the Company recognized a loss on debt settlement of \$4,211.

**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, 2018	10,659,989	\$ 0.53	4,715,555	\$ 0.55
Expired/ Cancelled	-	-	(2,065,555)	0.54
Granted / Issued	<u>6,772,717</u>	0.50	<u>3,710,000</u>	0.25
Outstanding, December 31, 2019	17,432,539	\$ 0.52	6,360,000	\$ 0.37
Expired/ Cancelled	<u>(4,469,754)</u>	0.50	<u>(4,020,000)</u>	0.36
Outstanding, December 31, 2020	12,962,679	\$ 0.52	2,340,000	\$ 0.40
Exercisable, December 31, 2020	12,962,679	\$ 0.52	1,568,750	\$ 0.41

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**10. SHARE CAPITAL AND RESERVES (cont'd...)**

**Stock options outstanding**

The following incentive stock options were outstanding at December 31, 2020:

Number	Exercise price	Expiry date
850,000	\$ CAD 0.65	May 17, 2023
1,490,000	\$ CAD 0.25	July 16, 2029
2,340,000	\$ CAD 0.40	

**Warrants outstanding**

The following warrants were outstanding and exercisable at December 31, 2020:

Number	Exercise price	Expiry date
6,190,235	\$ CAD 0.55	December 5, 2021
6,772,444	\$ CAD 0.50	February 21, 2021 <sup>(1)</sup>
12,962,679	\$ CAD 0.52	

(1) subsequent to the year ended December 31, 2020, all of these warrants expired unexercised.

**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:

	December 31, 2020	December 31, 2019
Risk-free interest rate	-	1.49%
Expected life of options	-	10 years
Annualized volatility	-	100%
Dividend rate	-	0.00%
Forfeiture rate	-	0.00%

## **11. 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.

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through its capital management as outlined below. Accounts payable and accrued liabilities are due within one year. As at December 31, 2020, the Company had a cash balance of 12,948 (December 31, 2019 - \$33,456) to settle current liabilities of \$1,508,980 (December 31, 2019 - \$1,213,753). 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.

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

### **Financial risk factors (cont'd...)**

#### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and 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 December 31, 2020, 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.

## **12. 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 utility system. 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. The Company's overall strategy with respect to management of capital at December 31, 2020 remains fundamentally unchanged.

## **13. SEGMENTED INFORMATION**

Operating segments are components of an entity that engage in business activities from which they incur expenses. During the year ended December 31, 2020, the Company has minimal operation in both US and Canada.

**14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

There were no non-cash transactions during the year ended December 31, 2020.

During the year ended December 31, 2019, the Company:

- a) recognized \$247,339 in right-of-use assets and lease liabilities on the adoption of IFRS 16;
- b) granted 106,050 finder warrants in connection with a private placement and recognized a fair value of \$12,871;  
and
- c) issued 121,325 common shares valued at \$40,961 to settle accounts payable and accrued liabilities.

**15. COMMITMENTS AND CONTINGENCIES**

A liquidating trust acting on behalf of the creditors of a company that declared bankruptcy in 2006 has initiated a lawsuit against a former director-officer of the Company in the Federal District Court of Colorado. The claim alleges that the former director-officer made fraudulent disclosures of his financial resources to the trust in connection with the settlement of prior litigation relating to the bankruptcy, resulting in the trust being defrauded into executing the settlement and releasing the former director-officer from the litigation. The trust has named the Company and NanoSphere Health Sciences, LLC ("Nano LLC"), as well as a number of other individuals and business entities, as third party defendants in the current action based on the trust's assertion that Nano LLC, established in 2013, was founded on funds received from the former director-officer and thus conspired in the fraud. The trust has made no attempt to quantify the claim or amount of damages it is asserting versus the Company. The Company vigorously denies any wrongdoing or liability to the trust and considers the claim against the Company to be frivolous. Based on advice received from litigation counsel, the Company considers the prospect for judgement against the Company to be remote as the claim appears to lack merit, and the Company will vigorously defend itself and seek dismissal from the action. The parties to the litigation have entered into a settlement agreement, and the action and all pending claims have been dismissed with prejudice and the case closed.

The Company did not accrue any loss contingencies in this respect as of December 31, 2020 and 2019, as the Company did not consider an unfavorable outcome in any material respects in these legal proceedings and litigations to be probable.



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**16. INCOME TAXES**

A reconciliation of income taxes (recovery) at statutory rates with the reported taxes is as follows:

	2020	2019
Loss before income taxes	\$ (591,220)	\$ (3,468,744)
Expected income tax (recovery) at statutory tax rates	\$ (160,000)	\$ (937,000)
Non-deductible and other items	(134,000)	146,000
Impact of change in foreign exchange and income tax rates	12,000	141,000
Impact of SEA	-	-
Change in unrecognized deductible temporary differences	<u>282,000</u>	<u>650,000</u>
Income tax recovery	\$ -	\$ -

During the fiscal year 2016, the Company was organized and registered as a LLC in the State of Colorado and had elected to be taxed as a partnership under the Internal Revenue Code for federal and state income tax reporting purposes. The Company elected to be taxed as a corporation on completion of the SEA.

Significant components of deductible temporary differences, unused tax losses, and unused tax credits that have not been included on the consolidated statement of financial position are as follows:

	2020	Expiry Dates	2019	Expiry Dates
Share issue costs	\$ 63,000	2040 to 2044	\$ -	2039 to 2042
Non-capital loss carry-forwards	<u>2,879,000</u>	2026 to 2039	<u>4,137,000</u>	2026 to 2038
Total	\$ 2,942,000		\$ 4,137,000	
Canada	2,713,000		1,859,000	
USA	167,000		2,278,000	

Tax attributes are subject to review and potential adjustments by tax authorities.