



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

**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

## 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, 2021 and 2020 and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency, and cash flows 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, 2021 and 2020, 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 audit 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 audit 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 as at December 31, 2021, the Company has a cumulative deficit of \$21,036,956 and a working capital deficit of \$1,075,478. 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 Craig Jackson.

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 25, 2022

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

AS AT	December 31, 2021	December 31, 2020
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 130,757	\$ 12,948
Receivables (Note 4)	<u>1,757</u>	<u>2,791</u>
	132,514	15,739
<b>Investment in sublease, net (Note 6)</b>	<u>-</u>	<u>39,450</u>
	<u>\$ 132,514</u>	<u>\$ 55,189</u>
<b>LIABILITIES AND SHAREHOLDER' DEFICIENCY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 7)	\$ 1,207,992	\$ 1,435,248
Current portion of lease liability (Note 5)	-	39,463
Short-term loan (Note 7)	<u>-</u>	<u>34,269</u>
	<u>1,207,992</u>	<u>1,508,980</u>
<b>Shareholders' deficiency</b>		
Share capital (Note 8)	18,762,420	18,018,939
Reserves (Note 8)	1,259,689	1,236,385
Accumulated other comprehensive loss	(60,631)	(28,429)
Deficit	<u>(21,036,956)</u>	<u>(20,680,686)</u>
	<u>(1,075,478)</u>	<u>(1,453,791)</u>
	<u>\$ 132,514</u>	<u>\$ 55,189</u>

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

Approved and authorized by the Board of Directors on April 25, 2022:

<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 LOSS AND COMPREHENSIVE LOSS**  
(Presented in United States Dollars)

For the years ended December 31,	2021	2020
<b>EXPENSES</b>		
Depreciation	-	13,762
Foreign exchange	(2,088)	(8,008)
Lease accretion (Note 5&6)	(13)	(153)
Investor relation and marketing	1,050	2,785
Office and administrative	5,903	26,721
Professional fees	116,621	189,865
Regulatory and filing	29,927	19,308
Research and development	59,531	-
Salaries and consulting (Note 7)	149,665	224,515
Share-based payment (Note 7)	<u>23,304</u>	<u>88,669</u>
	(383,900)	(557,464)
<b>OTHER</b>		
Impairment of equipment	-	(31,027)
Gain on write-off of payables	<u>27,630</u>	<u>(2,729)</u>
<b>Loss for the year</b>	(356,270)	(591,220)
Exchange differences on translating foreign operations	<u>(32,202)</u>	<u>(31,746)</u>
<b>Comprehensive loss for the year</b>	<u>\$ (388,472)</u>	<u>\$ (622,966)</u>
<b>Basic and diluted loss per share</b>	<u>\$ (0.05)</u>	<u>\$ (0.11)</u>
<b>Weighted average number of common shares outstanding</b>	<u>6,815,100</u>	<u>5,417,751</u>

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,	2021	2020
<b>CASH FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (356,270)	\$ (591,220)
Items not affecting cash:		
Depreciation	-	13,762
Gain on write-off of payables	(27,630)	(3,078)
Impairment of equipment	-	31,027
Lease accretion	(13)	(153)
Share-based payment (Note 7)	23,304	88,669
Unrealized foreign exchange loss (gain)	(32,265)	(24,226)
Changes in non-cash working capital items:		
Receivables	1,034	44,703
Prepays	-	58,689
Accounts payable and accrued liabilities	<u>327,160</u>	<u>334,570</u>
Net cash used in operating activities	<u>(64,680)</u>	<u>(47,257)</u>
<b>CASH FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance shares	190,570	-
Share issuance costs	(8,144)	-
Short-term loan repayment	-	(29,807)
Short-term loan (Note 7)	<u>-</u>	<u>64,076</u>
Net cash provided by financing activities	<u>182,426</u>	<u>34,269</u>
<b>Change in cash during the year</b>	117,746	(12,988)
<b>Effect on foreign exchange on cash</b>	63	(7,520)
<b>Cash, beginning of year</b>	<u>12,948</u>	<u>33,456</u>
<b>Cash, end of year</b>	<u>\$ 130,757</u>	<u>\$ 12,948</u>
<b>Supplemental cash flow information</b>		
Shares for debt	\$ 561,055	\$ -
Lease payments settled via sublease	40,164	-
Interest paid	-	-
Taxes paid	-	-

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

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

	<u>Share capital</u>		Reserves	Accumulated other comprehensive income (loss)	Deficit	Total
	Number	Amount				
<b>Balance at December 31, 2019</b>	5,417,751	\$ 18,018,939	\$ 1,147,716	\$ 3,317	\$ (20,089,466)	\$ (919,494)
Share-based payments (Note 7)	-	-	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>	5,417,751	18,018,939	1,236,385	(28,429)	(20,680,686)	(1,453,791)
Private Placement (Note 8)	1,231,578	190,570	-	-	-	190,570
Shares for debt (Note 8)	3,625,876	561,055	-	-	-	561,055
Share issuance cost, cash	-	(8,144)	-	-	-	(8,144)
Share-based payments (Note 7)	-	-	23,304	-	-	23,304
Other comprehensive loss	-	-	-	(32,202)	-	(32,202)
Loss for the year	-	-	-	-	(356,270)	(356,270)
<b>Balance at December 31, 2021</b>	10,275,205	\$ 18,762,420	\$ 1,259,689	\$ (60,631)	\$ (21,036,956)	\$ (1,075,478)

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.

On June 11, 2021, the Company consolidated its issued and outstanding capital on the basis of one (1) post-consolidation share for each twenty (20) pre-consolidation shares. All share and per share amounts have been retroactively restated.

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, 2021, the Company had a cumulative deficit of \$21,036,956, working capital deficit of \$1,075,478 and cash of \$130,757. 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.

**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.

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

**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:

*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 \$356,270 during the year ended December 31, 2021 and as of that date, the Company's had an accumulated deficit of \$21,036,956. 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.

**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.

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

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

Fair value through other comprehensive income - Upon initial recognition of equity securities, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate its equity securities that would otherwise be measured at FVTPL to present subsequent changes in fair value in other comprehensive income. Designation at fair value through other comprehensive income (“FVTOCI”) is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other OCI. The cumulative gain or loss is not reclassified to profit or loss on disposal of the instrument; instead, it is transferred to retained earnings. The Company has no financial assets designated as FVTOCI.

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, receivables, accounts payable and accrued liabilities and short-term loan are recorded at amortized cost.

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

**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.

**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. Currently, the Company has no cash equivalents for years presented.

**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.

**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.

**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.

**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.

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

**Intangible assets**

Intangible assets consist of patents. No intangible assets arising from the research phase can be recognised. Intangible assets arising from the development phase are recognised when the entity can demonstrate:

- 1) Completion of the intangible asset is technically feasible so that it will be available for use or sale.
- 2) The Company intends to complete the intangible asset and use or sell it and also has the ability to use or sell it.
- 3) The intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself.
- 4) There are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- 5) The expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting these criteria for capitalization are expensed as incurred.

**Loss per share**

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

**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.

**NANOSPHERE HEALTH SCIENCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2021  
(Presented in United States Dollars)

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

**Leases (cont'd...)**

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.

**New accounting standards, amendments and interpretations issued**

The Company did not adopt any new accounting standards, amendments or interpretations for the year ended December 31, 2021. Accounting standards, amendments or interpretations of existing standards that have been issued but have future effective dates, are either not applicable to the Company or are not expected to have a significant impact on the Company's consolidated financial statements.

**4. RECEIVABLES**

	December 31, 2021	December 31, 2020
GST receivable	\$ 1,757	\$ 1,791
Lease revenue receivable, net	-	1,000
<b>Total Receivables</b>	<b>\$ 1,757</b>	<b>\$ 2,791</b>

**NANOSPHERE HEALTH SCIENCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2021  
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**5. LEASE LIABILITIES**

During the year ended December 31, 2021, the Company has \$nil lease liabilities and Right-of-Use assets. The following is a reconciliation of the changes in the lease liabilities :

	December 31, 2021	December 31, 2020
Opening balance	\$ 39,463	\$ 149,460
Lease accretion	701	8,514
Payments	(40,164)	(118,511)
Lease liabilities	-	39,463
Lease liabilities, current portion	-	39,463
Lease liabilities, non-current portion	\$ -	\$ -

**6. 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. The following is a reconciliation of the changes in the net investment in sublease:

Balance, December 31, 2019	\$ 149,294
Lease accretion	8,667
Payments	(118,511)
Balance, December 31, 2020	\$ 39,450
Lease accretion	714
Payments	(40,164)
Balance, December 31, 2021	\$ -



## **7. RELATED PARTY TRANSACTIONS**

### **Key management compensation**

Key management personnel comprise the interim Chief Executive officer, interim Chief Financial Officer, and directors.

During the year ended December 31, 2021, the Company paid or accrued the following to key management personnel:

- a) Management, salaries, and consulting fees of \$99,000 (2020 - \$182,062) of which \$24,000 was accrued to an independent director and \$75,000 was accrued to a company controlled by the interim CFO;
- b) Professional fees of \$69,020 was accrued to a legal firm controlled by a director of the Company (2020 - \$106,456); and
- c) Share-based compensation of \$4,272 (2020 - \$65,405) to the officers and directors of the Company.

Included in accounts payable and accrued liabilities is \$364,680 (December 31, 2020 - \$672,155) due to directors, officers, and companies controlled by directors and officers of the Company that is non-interest bearing and due on demand. During the year ended December 31, 2021, the Company settled an aggregate of \$196,484 in accounts payable and accrued liabilities to an officer and a director through the issuance of 1,302,914 common shares valued at \$196,484.

As at December 31, 2021, the Company had short term loans of \$nil (2020 - \$34,269). The loans were settled via shares for debt issuance during the year.

## **8. 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, 2021, the Company had 10,275,205 common shares issued and outstanding.

### **Share issuances**

During the year ended December 31, 2021, the Company:

- a) completed a non-brokered private placement by issuing 1,231,578 units at CAD\$0.19 per unit for gross proceeds of \$190,570 (CAD\$234,000). Each unit consisted of one common share and one share purchase warrant entitling the holder to purchase one half common share at a price of CAD\$0.35 per common share for a period of two years from the date of issue and is subject to certain acceleration provision. Pursuant to the offering, the Company incurred share issuance costs of \$8,144 (CAD\$10,000).
- b) and issued 3,625,876 common shares valued at CAD\$0.19 per unit to settle outstanding liabilities of \$547,097 (CAD\$688,916).

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

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**8. 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, 2019	871,627	\$ 10.36	318,000	\$ 7.46
Expired/ Cancelled	<u>(223,479)</u>	10.00	<u>(201,000)</u>	7.19
Outstanding, December 31, 2020	648,148	\$ 10.48	117,000	\$ 7.91
Granted	2,428,727	0.35	-	-
Expired/ Cancelled	<u>(648,148)</u>	10.48	<u>(28,000)</u>	12.14
Outstanding, December 31, 2021	2,428,727	\$ 0.35	89,000	\$ 6.57
Exercisable, December 31, 2021	2,428,727	\$ 0.35	71,125	\$ 6.97

**Stock options outstanding**

The following incentive stock options were outstanding at December 31, 2021:

Number	Exercisable	Exercise price	Expiry date
17,500	17,500	\$ CAD 13.00	May 17, 2023
71,500	<u>53,625</u>	\$ CAD 5.00	July 16, 2029
89,000	71,125		

**Warrants outstanding**

The following warrants were outstanding and exercisable at December 31, 2021:

Number	Exercisable	Exercise price	Expiry date
2,428,727	<u>2,428,727</u>	\$ CAD 0.35	September 17, 2023
2,428,727	2,428,727		

**8. 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 vesting terms are determined by the board of directors.

During the year ended December 31, 2021, the Company granted \$Nil options (2020 – \$Nil). Total share-based payments recognized in the statement of shareholders' equity for the year ended December 31, 2021 was \$Nil (2020 - \$Nil) for incentive options vested and was recognized in profit or loss. The fair value of options at the date of grant was estimated using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

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

	December 31, 2021	December 31, 2020
Risk-free interest rate	-	-
Expected life of options	-	-
Annualized volatility	-	-
Dividend rate	-	-
Forfeiture rate	-	-

**9. 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.

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

**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, 2021, the Company had a cash balance of \$130,757 (December 31, 2020 - \$12,948) to settle current liabilities of \$1,207,992 (December 31, 2020 - \$1,508,980). 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 December 31, 2021, 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. A 10% change in the foreign exchange rate would result in a \$20,058 (Canadian dollar equivalent) change in profit or loss.

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**10. 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, 2021 remains fundamentally unchanged.

**11. INCOME TAXES**

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

	2021	2020
Loss before income taxes	\$ (383,900)	\$ (591,220)
Expected income tax (recovery) at statutory tax rates	\$ (107,000)	\$ (160,000)
Non-deductible and other items	6,000	(134,000)
Impact of change in foreign exchange and income tax rates	(3,000)	12,000
Change in unrecognized deductible temporary differences	<u>104,000</u>	<u>282,000</u>
Income tax recovery	\$ -	\$ -

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:

	2021	Expiry Dates	2020	Expiry Dates
Share issue costs	\$ 27,000	2042 to 2045	\$ 63,000	2041 to 2044
Non-capital loss carry-forwards	<u>3,297,000</u>	2026 to 2041	<u>2,879,000</u>	2026 to 2040
Total	<u>\$ 3,326,000</u>		<u>\$ 2,942,000</u>	
Canada	3,132,000		2,713,000	
USA	167,000		166,000	

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