

Unaudited Condensed Interim Consolidated Financial Statements of

SPECTRA7 MICROSYSTEMS INC.

For the Three and Nine Months Ended September 30, 2021 and 2020

(Expressed in United States Dollars)

The accompanying unaudited condensed interim consolidated financial statements of Spectra7 Microsystems Inc. (the "Company") have been prepared by and are the responsibility of the Company's management and approved by the Board of Directors of the Company.

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

SPECTRA7 MICROSYSTEMS INC.
(Unaudited)

For the Three and Nine Months Ended September 30, 2021 and 2020

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SPECTRA7 MICROSYSTEMS INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (Unaudited)
Three and Nine Months Ended September 30, 2021 and 2020
(Expressed in United States Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Revenue	1,567,762	281,982	2,857,288	655,009
Cost of sales	667,979	126,122	1,210,869	293,327
Gross profit	899,783	155,860	1,646,419	361,682
Research and development, net of investment tax credits including amortization of licenses	1,006,147	573,551	2,442,179	2,331,006
Sales and marketing	233,757	63,579	348,744	309,928
General and administrative	717,623	293,502	1,740,231	1,020,438
Depreciation of right-of-use assets	60,037	74,373	199,225	234,083
Depreciation of property and equipment	24,467	68,740	133,403	227,925
Share-based compensation	766,921	(11,849)	907,429	252,539
Interest on lease obligation of right-of-use asset	9,309	5,342	18,204	25,875
Accretion expense (Note 5)	573,615	548,463	1,524,716	1,587,986
Foreign exchange loss (gain)	3,483	(4,842)	6,180	(46,807)
Gain on disposal of property and equipment	-	-	(6,500)	-
Total Expenses	3,395,359	1,610,859	7,313,811	5,942,973
Grant income	-	(206,546)	(739,470)	(776,085)
Net Loss	(2,495,576)	(1,248,453)	(4,927,922)	(4,805,206)
Other comprehensive loss:				
Unrealized foreign currency translation	(78,550)	(187,939)	(152,483)	374,734
Total comprehensive loss	(2,574,126)	(1,436,392)	(5,080,405)	(4,430,472)
Loss per share				
Basic and diluted	(0.12)	(0.13)	(0.27)	(0.44)
Weighted average number of common shares outstanding				
Basic and diluted	21,153,529	11,434,278	18,478,290	10,181,549

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

SPECTRA7 MICROSYSTEMS INC.

Condensed Interim Consolidated Statements of Changes in Deficiency (Unaudited)

Nine Months Ended September 30, 2021 and 2020

(Expressed in United States Dollars)

	Common shares \$	Share-based payment reserve \$	Convertible debentures share conversion option \$	Warrants \$	Subscription received for units \$	Deficit \$	Accumulated other comprehensive loss \$	Total Equity \$
Balance, December 31, 2019	142,428,107	3,663,400	1,574,971	1,282,929	(4,104)	(160,831,092)	62,362	(11,823,427)
Shares issued under Restricted Share Unit plan	281,789	(281,789)	-	-	-	-	-	-
Subscription received for common shares	-	-	-	-	4,104	-	-	4,104
Units issued on March Private Placement (Note 6(a))	1,102,344	-	-	-	-	-	-	1,102,344
Units issued on July Private Placement (Note 6(b))	604,447	-	-	-	-	-	-	604,447
Allocation of warrants portion of July Units (Note 6(b)(i))	-	-	-	10,826	-	-	-	10,826
Share-based compensation expense	-	252,539	-	-	-	-	-	252,539
Settlement of Promissory Notes (Note 6(b)(v))	753,583	-	-	-	-	-	-	753,583
Total comprehensive loss	-	-	-	-	-	(4,805,206)	374,734	(4,430,472)
Balance, September 30, 2020	145,170,270	3,634,150	1,574,971	1,293,755	-	(165,636,298)	437,096	(13,526,056)

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

SPECTRA7 MICROSYSTEMS INC.

Condensed Interim Consolidated Statements of Changes in Deficiency (Unaudited)

Nine Months Ended September 30, 2021 and 2020

(Expressed in United States Dollars)

	Common shares	Share-based payment reserve	Convertible debentures share conversion option	Warrants	Subscription received for units	Deficit	Accumulated other comprehensive loss	Total Equity
	\$	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2020	145,179,094	3,868,338	1,561,032	1,384,160	740,161	(166,988,726)	(20,681)	(14,276,622)
Shares issued under Restricted Share Unit plan	94,974	(94,974)	-	-	-	-	-	-
Subscription received for common shares	-	-	-	-	(740,161)	-	-	(740,161)
Units issued on January 2021 Private Placement (Note 6(a))	2,991,914	-	-	-	-	-	-	2,991,914
Units issued on Spring 2021 Private Placement (Note 6(b))	4,259,057	-	-	-	-	-	-	4,259,057
Allocation of warrants portion of January 2021 Units (Note 6(b)(i))	-	-	-	762,427	-	-	-	762,427
Allocation of warrants portion of Spring 2021 Units (Note 6(b)(i))	-	-	-	478,196	-	-	-	478,196
Conversions of convertible debt to shares	3,476,069	-	-	-	-	-	-	3,476,069
Share-based compensation expense	-	907,389	-	-	-	-	-	907,389
Shares issued upon exercise of stock options	16,680	-	-	-	-	-	-	16,680
Total comprehensive loss	-	-	-	-	-	(4,772,676)	(152,483)	(5,080,405)
Balance, September 30, 2021	156,017,788	4,680,753	1,561,032	2,624,783	-	(171,916,648)	(173,164)	(7,205,456)

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

SPECTRA7 MICROSYSTEMS INC.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

Nine Months Ended September 30, 2021 and 2020

(Expressed in United States Dollars)

	Nine Months Ended September 30,	
	2021	2020
	\$	\$
Operating activities:		
Net loss	(4,927,922)	(4,805,206)
Items not involving cash:		
Amortization of licenses	189,153	312,544
Depreciation of property and equipment	164,585	270,025
Depreciation of right-of-use assets	199,225	234,082
Termination of right of use assets	-	(14,132)
Share-based compensation	907,389	252,539
Accretion expense	1,524,716	1,587,986
Release of government grant	(739,470)	(776,085)
Gain on disposal of property equipment	(6,500)	-
	(2,688,824)	(2,938,247)
Net change in non-cash working capital items		
Trade and other receivables	(1,180,896)	643,850
Investment tax credits	-	3,856
Inventories	(905,251)	268,580
Prepaid expenses and other assets	550	(83,221)
Trade and other payables	(1,535,194)	848,666
Deferred revenue	426,227	281,364
	(5,883,388)	(975,152)
Grant funds received	739,470	776,085
Interest paid	(268,080)	(745,980)
	(5,411,998)	(945,046)
Financing activities:		
Proceeds from issuance shares net of issuance costs	6,199,331	1,397,711
Repayment of lease obligation on right-of-use assets (Note 4)	(202,352)	(237,514)
Repayment of license liabilities	-	(268,071)
Repayment of obligation under finance lease	-	(4,482)
	5,996,979	887,644
Investing activities:		
Acquisition of property and equipment	(152,959)	(8,042)
Acquisition of licenses	(217,460)	-
	(370,419)	(8,042)
Effect of foreign exchange rate changes on cash	(75,417)	78,672
Increase in cash	139,145	13,228
Cash, beginning of period	35,253	71,121
Cash, end of period	174,398	84,349

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

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Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and Nine Months Ended September 30, 2021 and 2020
(Expressed in United States Dollars)

1. Nature of operations, going concern and continuation of the business

Spectra7 Microsystems Inc. (the “Company” or “Spectra7”), is a publicly traded company listed on the TSX Venture Exchange (the “TSXV”). The Company is a high performance analog semiconductor company delivering unprecedented bandwidth, speed and resolution to enable disruptive industrial design for leading electronics manufacturers in Virtual Reality (“VR”), Augmented Reality (“AR”), Mixed Reality (“MR”), data centers and other connectivity markets.

The Company is domiciled in Canada and its registered office is located at 181 Bay Street, Suite 1800, Toronto, Ontario, Canada M5J 2T9.

The Company's condensed interim consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and be able to realize the carrying value of its assets and discharge its liabilities in the normal course of operations. The Company incurred a comprehensive loss of \$2,574,126 and \$5,080,405 during the three and nine month periods ended September 30, 2021, respectively (\$1,436,392 and \$4,430,472 for the three and nine months ended September 30, 2020) and has an accumulated deficit of \$171,916,648 as of September 30, 2021 (\$166,988,726 as of December 31, 2020). To date, the Company has funded operations through debt financings and through private and public equity offerings. These factors represent material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing and/or achieve profitable operations in the future. The consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate.

Revenue for the year ended December 31, 2020 was significantly reduced as a result of the COVID-19 pandemic. In response to the material near-term revenue impact, the Company has significantly reduced operating expenses, including employee furloughs. The Company continues to pursue the best available paths to manage operational risk and preserve capital during this time.

The Company applied for enrollment in the Paycheck Protection Program (“PPP”) formed under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). On April 24, 2020, the Company received \$776,085 at an interest rate of 1%. On October 9, 2020, the Company applied for forgiveness of the funds received under the PPP. On March 21, 2021, the Company received notice of forgiveness for the full amount of the first grant from the PPP.

On February 19, 2021, the Company applied for enrollment in the 2nd Paycheck Protection Loan Program (the “Second PPP”) formed under the CARES Act. On March 5, 2021, the Company received a new government grant under the Second PPP in the amount of \$739,470. On July 28, 2021, the Company received notice of forgiveness for the full amount of the grant from the Second PPP.

At the Company's annual and special meeting of shareholders in June 2021, shareholders approved the consolidation of the Company's issued and outstanding common shares (“common shares”) at a ratio of up to 100 existing common shares for one new common share. On August 13, 2021, the Company completed a consolidation of its common shares on the basis of 50 existing common shares for one new common share (the “Consolidation”). Accordingly, the common share, per common share and basic and diluted earnings per common share are adjusted retrospectively to all periods presented.

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Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and Nine Months Ended September 30, 2021 and 2020
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2. Basis of presentation

a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), using International Accounting Standard 34, Interim Financial Reporting ("IAS 34").

These condensed interim consolidated financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2020 and 2019.

The Company has followed the same basis of presentation, accounting policies and method of computation for these condensed interim consolidated financial statements as were disclosed in the audited consolidated financial statements for the years ended December 31, 2020 and 2019.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Company's audit committee on November 26, 2021.

b) Basis of measurement

The condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments measured at fair value through profit or loss. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

These condensed interim consolidated financial statements are presented in United States dollars. The Company's functional currency is Canadian dollars.

c) Basis of consolidation

The condensed interim consolidated financial statements incorporate the financial statements of the Company and its wholly-owned subsidiaries:

- Spectra7 Microsystems Corp., a company incorporated under the laws of Ontario;
- Spectra7 Microsystems Ltd., a company incorporated under the laws of Delaware;
- Spectra7 Microsystems (Ireland) Limited, a company incorporated under the laws of Ireland; and
- Si Bai Ke Te (Dongguan) Electronics Trading Co. Ltd., a China wholly foreign-owned enterprise (WFOE).

All intercompany balances and transactions are eliminated in full on consolidation.

3. Right-of-use assets

The following table sets forth the right-of-use assets as of September 30, 2021:

	\$
Balance, January 1, 2020	608,604
Depreciation	(234,082)
Derecognition of right-of-use asset	(200,985)
Balance September 30, 2020	173,537
Depreciation	(74,373)
Balance December 31, 2020	99,164
Depreciation	(199,225)
Lease amendment	480,292
Balance September 30, 2021	380,231

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The Company entered into an amendment to the operating facility lease for its headquarters in May 2021, which extends the lease term until April 2023.

4. Lease obligations on right-of-use assets

The present value of the remaining minimum lease payments on the obligations for right-of-use assets as of September 30, 2021 are as follows:

	\$
Opening as of January 1, 2021	110,533
Principal repayments during the nine month period ended September 30, 2021	(202,352)
Lease amendment	480,292
As of September 30, 2021	388,473
Current	237,508
Non-current	150,965

5. Convertible debentures

The following table sets forth the convertible debenture liabilities as of September 30, 2021:

	\$
Fair value of liability component at issuance	9,711,196
Less: issuance costs	(20,638)
	9,690,558
Accretion expense	46,151
Foreign exchange translation adjustment	90,482
Balance at December 31, 2020	9,827,191
Accretion expense	1,496,288
Converted to Common Shares	(3,141,993)
Repayments of Principal	(1,568,784)
Repayment of Interest	(573,726)
Foreign exchange translation adjustment	73,425
Balance at September 30, 2021	6,112,401

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In January 2018, the Company issued 7.0% senior unsecured convertible debentures of the Company (each, a "Convertible Debenture") in the aggregate principal amount of CDN \$15.567 million. Certain holders of Convertible Debentures have exercised their right to convert the Convertible Debentures into common shares, which reverse debenture liabilities and increases shareholders' equity.

The Company's Convertible Debentures are subject to certain covenants including restrictions against incurring certain additional indebtedness. On December 23, 2020, the Company entered into a first supplemental convertible debenture indenture (the "Supplemental Indenture") to amend the terms and condition of the Convertible Debentures. The Supplemental Indenture was recorded as a new compound financial instrument with a debt component of \$9,711,196 determined using present value of future cash flows and discount rate of 19.0%. The residual between the fair value of the Supplemental Indenture and amount attributed to the debt component was considered a conversion feature. The debt component is being amortized using an effective interest rate of approximately 20.0% over its term.

The Convertible Debentures have a maturity date of July 9, 2022, subject to acceleration to January 9, 2022 by a resolution of a majority of debentureholders in certain circumstances described in the Supplemental Indenture, at which time, a 10.0% bonus principal payment is also due.

As of September 30, 2021, CDN \$6,905,000 of principal amount of Convertible Debentures and CDN \$1,289,800 of Bonus Principal remains outstanding.

6. Shareholders' equity

(a) Common shares

Authorized share capital consists of an unlimited number of common shares.

The following table summarizes the changes to the issued and outstanding common shares during the nine months ended September 30, 2021:

	Shares	
	#	\$
Balance, December 31, 2020	11,854,355	145,179,094
Shares issued under Restricted Share Unit plan	35,765	94,974
Units issued in January 2021 Private Placement (i)	3,237,605	3,812,621
Units issued in Spring Private Placement (ii)	4,223,142	5,229,389
Cash paid for issuance costs	-	(550,415)
Allocation of warrant portion (ii)	-	(1,240,623)
Shares issued upon exercise of stock options	20,800	16,680
Convertible debt conversions	1,841,677	3,476,068
Balance, September 30, 2021	21,213,344	156,017,788

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The following table summarizes the changes to the issued and outstanding common shares during the nine months ended September 30, 2020:

	Shares	
	#	\$
Balance, December 31, 2019	8,191,144	142,428,107
Shares issued under Restricted Share Unit plan	54,342	281,789
Units issued in March 2020 Private Placement (iii)	2,000,000	1,102,344
Units issued in July 2020 Private Placement (iv)	754,496	616,623
Allocation of warrant portion (iv)	-	(12,176)
Settlement of Promissory Notes (v)	840,000	753,583
Balance, September 30, 2020	11,839,982	145,170,270

(i) January 2021 Private Placement

On January 15, 2021, the Company completed the first tranche of a non-brokered private placement (the "January 2021 Private Placement") of 2,280,275 units ("January 2021 Units") at a price of CDN \$1.50 per January 2021 Unit for gross proceeds of \$2,682,466 (CDN \$3,420,413). On February 12, 2021, the Company completed the second tranche of the January 2021 Private Placement, which consisted of the issuance of 759,917 January 2021 Units for gross proceeds of \$893,951 (CDN \$1,139,876) and the issuance 197,413 January 2021 Units to settled CDN \$296,119 owing to an arm's length party. Each January 2021 Unit consists of one common share and one-half common share purchase warrant (each whole warrant, a "January 2021 Warrant") with each January 2021 Warrant being exercisable into one common share at an exercise price of CDN \$2.50 for a period of five years from the date of issuance, subject to adjustment upon certain customary events. The expiry date of the January 2021 Warrants can be accelerated by the Company at any time following the date that is four (4) months and one day after closing of the January 2021 Private Placement and prior to the expiry date of the January 2021 Warrants if the closing price of the common shares on the TSXV is greater than CDN \$4.00 for any 10 non-consecutive trading days.

(ii) Spring 2021 Private Placement

On May 14, 2021, the Company completed the first tranche of a brokered private placement (the "Spring 2021 Private Placement") of 3,413,791 units (the "Spring 2021 Units"). The Company also completed a concurrent non-brokered offering of 254,016 Spring 2021 Units. On June 11, 2021, the Company completed the second non-brokered tranche of the Spring 2021 Private Placement, which consisted of the issuance of 555,334 Spring 2021 Units. The price per Spring 2021 Unit for both tranches was CDN \$1.50. Together, the Company has issued a total of 4,223,142 Spring 2021 Units in the Spring 2021 Private Placement for gross proceeds of \$5,229,389 (CDN \$6,334,711). Each Spring 2021 Unit consists of one common share and one common share purchase warrant (each, a "Spring 2021 Warrant") with each Spring 2021 Warrant being exercisable into one common share at an exercise price of CDN \$2.50 until May 14, 2026, subject to adjustment upon certain customary events. The expiry date of the Spring 2021 Warrants can be accelerated by the Company to the date that is thirty (30) days following the delivery of the acceleration notice to the holders of the Spring 2021 Warrants if, at any time following the date that is four months and one day following the closing date of the Spring 2021 Private Placement, the closing price of the common shares is greater than CDN \$4.00 for a period of 10 non-consecutive trading days on the TSXV.

In connection with the first tranche of the Spring 2021 Private Placement, the Company paid a commission of \$280,664 (CDN \$340,948) and issued 227,299 broker warrants, with each broker warrant being exercisable into a Spring 2021 Unit at a price of CDN \$1.50 for a period of two years. In connection with the second tranche of the Spring 2021 Private Placement, the Company paid finder's fees in cash totaling \$26,165 (CDN \$31,785) and issued 15,190 finder's warrants (each, a "Finder's Warrant"), with each Finder's Warrant entitling the holder to purchase one Spring 2021 Unit at a price of CDN \$1.50 until May 14, 2023.

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Gross proceeds from the January 2021 Private Placement and the Spring 2021 Private Placement were allocated to the common shares and warrants based on their relative fair values. The fair value of the warrants was determined using the Black Scholes option pricing model with the following assumptions: risk free interest rate of 0.75%, expected life of 5 years and expected volatility of 67.1%. \$478,196 were attributed to the warrants with the warrants classified as equity in shareholders' equity.

(iii) March 2020 Private Placement

On March 10, 2020, the Company closed the first tranche of a non-brokered private placement (the "March 2020 Private Placement") of 1,615,968 common shares at a price of CDN \$0.75 per common share for gross proceeds of \$882,657 (CDN \$1,211,976). On April 20, 2020, the Company closed the second tranche of the March 2020 Private Placement, which consisted of the issuance of 384,032 common shares for aggregate gross proceed of \$219,687 (CDN \$288,024). The Company paid \$17,105 in related transaction costs in the March 2020 Private Placement.

(iv) July 2020 Private Placement

On June 18, 2020, the Company announced a non-brokered private placement of up to 800,000 units of the Company ("July 2020 Units") at a price of CDN \$1.25 per July 2020 Unit for gross proceeds of up to \$759,071 (CDN \$1,000,000) (the "July 2020 Private Placement"). Each July 2020 consists of one common and one-half of one common share purchase warrant (each whole warrant, a "July 2020 Warrant") with each July 2020 Warrant being exercisable into one common share at an exercise price of \$2.50 for a period of five years from the date of issuance, subject to adjustment upon certain customary events. The expiry date of the July 2020 Warrants can be accelerated by the Company at any time following the date that is 4 month and one day after closing of the July 2020 Private Placement and prior to the expiry date of the July 2020 Warrants if the closing price of the common shares on the TSXV is greater than \$4.00 for any 10 non-consecutive trading days.

On July 15, 2020, the Company completed the first tranche of the July 2020 Private Placement, which consisted of the issuance of 420,938 July 2020 Units for gross proceeds of \$343,917 (CDN \$526,173), net of issuance costs. On September 25, 2020, the Company completed a second tranche of the July 2020 Private Placement, which consisted of the issuance of 333,558 July 2020 Units for gross proceeds of \$260,530 (CDN \$416,948), net of issuance costs.

Gross proceeds from the various private placements were allocated to the common shares and warrants based on their relative fair values. The fair value of the warrants was determined using the Black Scholes option pricing model. For the fair value of the warrants issued in 2021, the following assumptions were used: risk free interest rate from 0.60% to 0.75%, expected life ranging from 5 to 7 years and expected volatility from 148% to 167%. For the fair value of the warrants issued in 2020, the following assumptions were used: 0.33%, expected life of 5 years and expected volatility of 25.6%. Accordingly, \$1,240,623 and \$12,176 were attributed to the common shares and warrants, respectively with the warrants classified as equity in shareholders' equity for the nine months ended September 30, 2021 and 2020, respectively.

(v) Promissory Notes

On May 22, 2020, the Company issued an aggregate of 840,000 common shares to directors of the Company at a deemed issuance price of CDN \$1.25 per common share to settle \$750,000 of promissory notes.

(b) Share-based compensation

The Company has established a stock option plan ("Option Plan") and a restricted share unit plan ("RSU Plan") with the intention of attracting, retaining and motivating employees, officers and directors.

The Company's Board of Directors determines, among other things, the eligibility of individuals to participate in the RSU Plan and the Option Plan and the term, vesting periods, and the exercise price of options granted under the Option Plan.

At the annual and special meeting of shareholders in June 2021, shareholders approved amendments to both the Stock Option Plan and the RSU Plan to provide that the combined maximum number of common shares reserved

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for issuance under both the Stock Option Plan and the RSU Plan, inclusive of existing stock options and RSUs, shall not exceed 20% of the then outstanding common shares or 4,226,155 common shares. The combined aggregate number of common shares that remain available for grant under the Stock Option Plan and the RSU Plan as of September 30, 2021 was 2,040,048 common shares.

(i) *Restricted Share Units (RSU)*

Vesting is determined by the Company's Board of Directors at the time of grant. Vesting is contingent upon continuous service/employment through the specific vesting date. The fair value as of the grant date is used to determine the value.

The following table summarizes information about the Company's outstanding RSUs as of September 30, 2021 and 2020:

	September 30, 2021	September 30, 2020
	#	#
Balance, opening	541,307	742,113
Granted	1,325,638	26,000
Forfeited	(52,428)	(171,452)
Vested and Shares issued	(35,790)	(54,342)
Balance, ending	1,778,899	542,319

During the nine months ended September 30, 2021, 35,790 RSUs were settled and \$94,974 was transferred to common shares from share-based payment reserve (nine month period ended September, 2020 – 54,342 RSUs were settled for \$281,789).

(ii) *Stock options*

Vesting is determined by the Company's Board of Directors at the time of grant. Vesting is contingent upon continuous service/employment through the specific vesting date and have an exercise price as set forth in the option certificate issued in respect of such option and in any event shall not be less than market price of the common shares as of the award date.

The expiry date of an option is fixed by the Board of Directors at the time the particular option is awarded, provided that the expiry date shall be no later than the date that is 10 years following the award date of such option, subject to earlier termination upon the option holder ceasing to be a director, officer, employee or consultant of the Company.

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The following table summarizes information about the Company's outstanding stock options as of September 30, 2021 and 2020:

	September 30, 2021		September 30, 2020	
	Number of Options #	Weighted Average Price CDN \$	Number of Options #	Weighted Average Price CDN \$
Options outstanding, opening	333,355	3.50	44,533	28.24
Granted	100,000	1.83	356,423	1.24
Exercised	(20,800)	1.02	-	-
Forfeited	(58,412)	(4.98)	(48,314)	8.61
Options outstanding, ending	354,143	2.93	352,642	3.64

During the three and nine month periods ended September 30, 2021, the Company reversed share-based compensation expenses of nil and \$33,434 respectively (three and nine month periods ended September 30, 2020 - \$4,014 and \$2,593, respectively) as a result of forfeitures.

The following table is a summary of the Company's stock options outstanding as of September 30, 2021:

Exercise price range CDN \$	Options Outstanding			Options Exercisable		
	Number outstanding #	Weighted average remaining contractual life (years) #	Weighted average exercise price CDN \$	Number exercisable #	Weighted average exercise price CDN \$	
1.00 - 1.83	331,000	5.42	1.42	231,000	1.24	
9.50 - 16.25	5,954	2.86	10.70	17,189	10.77	
21.50 - 46.70	17,189	1.54	29.25	5,234	29.25	
Balance, September 30, 2021	354,143	5.19	2.93	253,423	3.34	

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The following table is a summary of the Company's stock options outstanding as of September 30, 2020:

Exercise price range	Number outstanding	Options Outstanding		Options Exercisable	
		Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
CDN \$	#	#	CDN \$	#	CDN \$
1.00 – 1.50	319,173	6.13	1.21	139,173	1.26
9.50 – 46.00	33,469	2.18	25.23	34,449	26.10
Balance, September 30, 2020	352,642	5.28	3.64	173,622	5.97

(iii) *Share based compensation expense*

For its RSU Plan and Option Plan, the Company recognized a share-based compensation expense of \$766,921 and \$907,429 for the three and nine months ended September 30, 2021, respectively (September 30, 2020 - a negative \$11,849 due to terminated employees and \$252,539), with a corresponding amount recognized as share-based payment reserve.

The fair value of the RSUs is determined based upon the common share price on the date of grant. There were 226,920 and 1,728,968 stock options granted during the nine months ended September 30, 2021 and 2020, respectively. The fair value of stock options granted during the nine months ended September 30, 2021 was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Nine Months Ended September 30,	
	2021	2020
Dividend yield	0%	0%
Expected volatility	193 - 243%	36%
Risk free rate of return	0.71 - 1.12%	0.84%
Forfeiture rate	0%	10%
Expected life	10.0 years	6.5 years

Expected volatility is based on comparable companies listed on various exchanges.

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(c) Warrants

The following table summarizes information about the Company's outstanding warrants as of September 30, 2021 and 2020:

	September 30, 2021		September 30, 2020	
	Number of Warrants #	Weighted Average Price CDN \$	Number of Warrants #	Weighted Average Price CDN \$
Balance, opening	3,347,003	8.00	3,031,015	8.50
Warrants component of July 2020 Private Placement	-	-	377,248	2.50
Warrants component of January 2021 Private Placement (Note 6(a))	1,618,803	2.50	-	-
Warrants component of Spring 2021 Private Placement (Note 6(a))	4,223,141	2.50	-	-
Broker Warrants ⁽¹⁾ component of Spring 2021 Private Placement	242,489	1.50	-	-
Warrants expired	(443,660)	25.00	-	-
Broker warrants expired	-	-	(61,260)	17.50
Balance, ending	8,987,776	3.32	3,347,003	8.00

The following is a summary of the warrants outstanding by exercise price as of September 30, 2021:

Number of warrants outstanding	Exercise Price	Expiry Date
Warrants ⁽²⁾		
283,363	CDN \$7.875	July 6, 2023
324,122	CDN \$11.25	October 30, 2023
1,584,316	CDN \$4.00	August 21, 2024
210,469	CDN \$2.50	July 15, 2025
166,779	CDN \$2.50	September 25, 2025
1,140,138	CDN \$2.50	January 15, 2026
478,665	CDN \$2.50	February 12, 2026
4,223,141	CDN \$2.50	May 14, 2026
Broker Warrants (Compensation Options)		
242,489 ⁽¹⁾	CDN \$1.50	May 14, 2023
9,943	CDN \$7.875	July 6, 2023
28,941	CDN \$11.25	October 30, 2023
251,310	CDN \$2.50	August 21, 2024
Waiver Warrants		
44,100	CDN \$15.00	February 24, 2022

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The following is a summary of the warrants outstanding as of September 30, 2020:

Number of warrants outstanding	Exercise Price	Expiry Date
Warrants ⁽²⁾		
443,660	CDN \$25.00	January 9, 2021
283,363	CDN \$7.875	July 6, 2023
324,122	CDN \$11.25	October 30, 2023
1,584,316	CDN \$4.00	August 21, 2024
210,469	CDN \$2.50	July 15, 2025
166,779	CDN \$2.50	September 25, 2025
Broker Warrants (Compensation Options)		
9,943	CDN \$7.875	July 6, 2023
28,941	CDN \$11.25	October 30, 2023
251,310	CDN \$2.50	August 21, 2024
Waiver Warrants		
44,100	CDN \$15.00	February 24, 2022

⁽¹⁾ Convertible into Spring 2021 Units. See Note 6(a)(ii)

⁽²⁾ Subject to acceleration in certain circumstances.

7. Related party transactions

The Company transacts with key individuals from management and with its directors who have authority and responsibility to plan, direct and control the activities of the Company. The nature of these dealings was in the form of payments for services rendered in their capacity as employees and as directors of the Company.

The Company's key management personnel are comprised of the Board of Directors and current and former members of the executive team of the Company.

Key management personnel compensation is comprised of the following:

	Three Months Ended September 30		Nine Months Ended September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Salaries, fees and short-term benefits	307,788	80,249	604,693	1,383,792
Share-based benefits	321,790	98,154	606,521	349,281
Total	629,578	178,403	1,211,214	1,733,073

8. Economic dependence

During the three and nine months ended September 30, 2021, the Company derived approximately 99% and 99% of its revenue from two customers, respectively (three and nine months ended September 30, 2020 – 98% and 95% from two customers, respectively).

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9. Subsequent Events

On October 26, 2021, the Company completed a brokered private placement (the "October 2021 Private Placement") of 11,183,990 common shares at a price of CDN \$1.32 per common share for gross proceeds of \$11,810,293 (CDN \$14,762,866). In connection with the October 2021 Private Placement, the Company paid a commission of \$434,046 (CDN \$542,558) and issued 411,028 broker warrants. Each broker warrant is exercisable into one common share at an exercise price of CDN \$1.32 for a period of two years from the date of issuance, subject to adjustment upon certain customary events.

On November 16, 2021, the Company announced that the TSXV had approved the amendment of the conversion price of the Convertible Debentures from CDN \$5.00 to CDN \$2.50 per common share during the period from January 10, 2022 to July 9, 2022. Such amendment remains subject to the approval of debentureholders.