



Spectra7 Microsystems Inc.

Management's Discussion & Analysis

**For the Three Months Ended
March 31, 2022**

May 29, 2022

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This management's discussion and analysis ("MD&A") of financial condition and results of operations of Spectra7 Microsystems Inc. ("Spectra7" or the "Company") was prepared by management as at May 29, 2022. Throughout this MD&A, unless otherwise specified, "Spectra7", "the Company", "we", "us" or "our" refer to Spectra7 Microsystems Inc. and its subsidiaries. This MD&A should be read in conjunction with the audited consolidated financial statements of the Company and notes thereto as at December 31, 2021 (the "Annual Financial Statements") and the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2022 and 2021 (the "Interim Financial Statements" and, together with the Annual Financial Statements, the "Statements"). In preparing this MD&A, we have taken into account information available to us up to May 29, 2022 unless otherwise stated.

The Financial Statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). All amounts are expressed in U.S. dollars unless otherwise noted. Other information contained in this document has also been prepared by management and is consistent with information included in the Financial Statements. You will find the Financial Statements on SEDAR at www.sedar.com.

This MD&A contains commentary from the Company's management regarding the Company's strategy, operating results, financial position and outlook. Management is responsible for the accuracy, integrity, and objectivity of the MD&A, and develops, maintains and supports the necessary systems and controls to provide reasonable assurance as to the accuracy of the comments contained herein.

The Audit Committee and the Board of Directors provide an oversight role with respect to all public financial disclosures by the Company. The Board of Directors approves the Financial Statements and MD&A after the completion of its review and recommendation for approval by the Audit Committee, which meets periodically to review all financial reports, prior to filing.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking information and statements relating, but not limited to, the Company's future financial position and results of operations, strategies, plans, objectives, goals, targets, and future developments in the markets where the Company participates or is seeking to participate. Forward-looking information typically contains statements with words such as "consider", "anticipate", "believe", "expect", "plan", "intend", "may", "likely", or similar words suggesting future outcomes or statements regarding an outlook, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Readers should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results, performance or achievements of the Company to differ materially from those suggested by the forward-looking information and statements, some of which may be beyond the control of management.

Although the Company believes that the expectations, estimates, and projections reflected in such forward-looking information and statements are reasonable, such forward-looking information and statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information and statements. On this basis, readers are cautioned not to place undue reliance on such forward looking information and statements.

Factors which could cause actual results to differ materially from current expectations include, but are not limited to:

- the adverse impact of COVID-19 on our staffing, revenue, operations, manufacturing supply chain, project development and customer demand;
- availability of adequate product supplies and third party manufacturing in an environment of semiconductor industry supply shortages;
- our reliance on a limited number of third party manufacturers;

- the degree of competition in the business areas in which we operate;
- our ability to secure orders from a limited number of customers;
- the absence of long-term supply contracts with any of the Company's third-party vendors and potential disruption in supply of products or materials;
- our ability to make the substantial research and development investments required to remain competitive;
- our ability to charge prices that will result in favorable gross margins;
- our ability to introduce new or enhanced products on a timely basis;
- market demand and penetration of new markets for our products and services;
- our ability to contain and appropriately budget expenses, due to our limited operating history;
- the length of the sales cycle required to establish design wins and bring design wins to production;
- reliance on distributors;
- our ability to deliver our products in the correct product mix required by our customers and ability to control order and shipment uncertainties;
- the substantial quarterly and annual fluctuations in our operating results;
- our dependence on existing members of the senior management team;
- our ability to attract and retain qualified employees and contain payroll costs;
- unforeseen delays, expenses and damage to reputation caused by defects or bugs;
- potential claims of intellectual property infringement;
- our ability to protect our intellectual and intangible properties;
- the use of open source software;
- reliance on third parties to provide services and technology;
- going concern risk;
- impact of negative cash flow from operating activities;
- potential losses to our facilities or distribution system due to catastrophes;
- compliance with various governmental regulations and related costs of compliance;
- cyclicalities in the semiconductor industry;
- conformity of the Company's products to industry standards;
- unanticipated changes in our tax rates;
- fluctuation of share price;
- decline in share price due to the absence of, or negative reports, about the business by securities or industry analysts;
- adverse international economic conditions that adversely affect consumer spending;
- general political and economic conditions in the countries in which we operate;
- strain on our resources as a result of the requirements of being a public company;
- litigation risk;
- market price volatility and potential impact on share price;
- our potential need for additional financings in order to meet future capital requirements for our operations;
- our potential to breach certain covenants, representations and warranties in our loan arrangements;
- our ability to repay the Convertible Debentures (as defined below)
- our ability to declare dividends;
- our ability to meet significant research and development milestones; and
- our ability to enter into agreements with CRX Consortium members or the adoption of interconnects that use the Company's active copper cable technology.

We caution that this list is not exhaustive of all possible factors. For a detailed description of risk factors associated with the Company, refer to the "Risks Factors" section of the Company's Annual Information Form filed on May 2, 2022, which is available on SEDAR at www.sedar.com.

The forward-looking information and statements in this MD&A are, unless otherwise indicated, stated as of the date hereof and are presented for the purpose of assisting investors and others in understanding our financial position and results of operations as well as our objectives and strategic priorities, and may not be appropriate for other purposes. The Company does not undertake any obligation to update publicly or to revise any forward-looking information and statements, whether as a result of new information, future events or otherwise, except as required by law.

OVERVIEW OF THE COMPANY

Background

The Company delivers high performance analog semiconductors at unmatched bandwidth, speed and resolution to enable disruptive industrial design for leading electronics manufacturers in data centers, Virtual Reality (“VR”), Augmented Reality (“AR”), and other connectivity markets.

The Company was incorporated on October 12, 2010 as a capital pool company named “Chrysalis Capital VIII Corporation” (“Chrysalis”) pursuant to the filing of articles of incorporation under the *Canada Business Corporations Act*. The articles of incorporation of the Company were amended by the filing of articles of amendment dated April 19, 2011 to remove certain provisions. On February 5, 2013, the Company consolidated its common shares (the “common shares”) by a ratio of 3.86364:1 and to change its name to “Spectra7 Microsystems Inc.”. On July 16, 2021, the Company continued its corporate existence from the *Canada Business Corporations Act* to the *Business Corporations Act* (Ontario).

On February 5, 2013, the Company, then named Chrysalis Capital VIII Corporation, completed a reverse takeover transaction whereby Chrysalis acquired all of the issued and outstanding shares of Spectra7 Microsystems Corp. (formerly Fresco Microchip Inc.) (“Fresco”), a company incorporated in Ontario, and Spectra7 Microsystems (Ireland) Limited (formerly RedMere Technology Limited), a company incorporated in Ireland. As a result of such transaction, which constituted the Company’s qualifying transaction under the policies of the TSX Venture Exchange (the “TSXV”), the former shareholders of Fresco acquired control of the Company. From February 19, 2013 until July 22, 2015, the common shares of the Company were listed for trading on the TSXV under the symbol “SEV”. From July 23, 2015 to May 21, 2020, the common shares were listed for trading on the Toronto Stock Exchange (the “TSX”) under the symbol “SEV”. As of May 22, 2020, the common shares were again listed for trading on the TSXV under the symbol “SEV”. On June 21, 2021, the Company’s common shares commenced trading on the OTCQB Venture Market under the symbol “SPVNF”.

The registered office of the Company is located at 181 Bay Street, Suite 1800, Toronto, Ontario Canada, M5J 2T9 and its head office is in San Jose, California. The Company also has a design center in Cork, Ireland and a sales office in Dongguan, China. The Company is currently a reporting issuer in each of the provinces of Canada, excluding Québec.

Products

The Company’s family of products features a patented signal processing technology used in the design of active cables and specialty interconnects which enable longer, thinner and lighter interconnects in data centers, for VR, AR, and other connectivity products. The Company holds approximately 55 patents relating to its products.

Data Centers

GaugeChanger™ is an innovative and disruptive silicon technology that allows copper to extend much longer lengths without the cost and power penalty of optics that are used in data centers today. It works equally well at 25 Gbps NRZ, 50 Gbps PAM-4 and 112 Gbps PAM-4 enabling new connector standards of 100, 200, 400 and 800 Gbps.

At present, passive copper cables are struggling to meet the high speed connectivity demands of new data centers. Fiber optics are the primary alternative for data centers seeking high speed, at lengths longer than a few meters. GaugeChanger™, however, extends the use of copper with interconnects that are as fast and as thin as fiber optics, but at dramatically lower cost and power consumption. GaugeChanger™ enabled cables have a reach of up to seven meters to allow for top-of-rack and rack-to-rack applications in data centers.

Virtual Reality (VR)

The Company’s next-generation VR products include the VR7050 which the Company believes to be the industry’s first chip capable of enabling lightweight, ultra-thin active interconnects for gesture recognition and motion control backhaul. When used in conjunction with Spectra7’s VR7100 high speed video chip, the chipset delivers ultra-high bandwidth data, video, audio and power in a unified, ultra-light, super-thin wearable interconnect while

achieving the low latency for a truly immersive VR experience.

Augmented Reality (AR)

The Company has also developed AR products that provide similar benefit to the VR products on thinner, shorter 'wearable' interconnects.

AR-Connect™ is an AR interconnect product line that is powered by the Company's patented wearable network signal processing technology. The Company believes its patented AR-Connect™ is the industry's first integrated cable, connector and embedded chipset product line for AR vision systems and wearable computing devices. AR-Connect™ enables AR glasses to connect to a smart phone, proprietary processing device or a desktop GPU/laptop processing unit, with a single unified and ultra-thin link.

DreamWeVR

DreamWeVR is an extensive product line targeted at next generation 4K Ultra-HD and 5K resolution VR and AR platforms for gaming, health care, architecture and business telepresence applications. The product line includes four new chips (VR8181, VR8050, VR8200 and VR8300) featuring SpectraLinear™ technology, new VR-specific connectors and three new head-mounted display ("HMD") interconnect configurations to support high-bandwidth (up to 50Gbps), near-zero latency VR HMDs and AR glasses with reduced weight and complexity.

USB 3.2 consumer interconnects

The Company's active VR8050 and VR8051 chips are the industry's first for ultra-thin implementations of USB 3.2 consumer interconnects, reducing the conductor cross section by up to 90% compared to passive cable implementations. Applications for this interconnect implemented with the new Type-C connector include ultra-thin laptops, tablets, mobile devices, solid state disks and wearable computing devices. The resulting ultra-thin cable enabled by this new Spectra7 technology allows the cable to transfer data at supercomputer speeds (up to 10 times faster) with a plug shell or over-mold and cable strain relief dimension that is thinner than the mobile device itself, a critical dimension when implementing Type-C connectors in tablets and smart phones, and up to 90% lighter than passive cable conductors that would need to be much larger in diameter.

Overall Financial Performance

Net loss for the three months ended March 31, 2022 was \$2.8 million compared to a net loss of \$1.1 million in the same period in the prior year. Revenue for the three month period ended March 31, 2022 increased by 275% compared to the same period in the prior year. The increased revenue was driven primarily by the ramping product demand on our GaugeChanger™ products from hyperscaler data center operators and our DreamWeVR product.

Gross margin percentage for the three month period ended March 31, 2022 decreased from the same period in 2021 by approximately 14%, due mainly to premiums paid to secure wafers and supply chain availability as well as additional fees to expedite delivery in order to meet customers' demand for data center and VR products. Expenditures during the three month period ended March 31, 2022 are approximately \$3.7 million representing an increase of 158% from the same period in the prior year due to higher personnel costs compared to the prior year in which employees were furloughed, higher consulting fees for IT and investor relations, and costs to support customers' ramp to production for our DreamWeVR products. This led to increases in research and development, sales and marketing and general and administrative expenditures. In addition, shared-based compensation also increased as more equity awards were issued to existing and new employees.

Impact of COVID-19 outbreak

We rely on third-party suppliers and manufacturers. Currently, the Company's silicon products are manufactured at foundries by companies in Taiwan and the United States, and are packaged and tested in Taiwan and China. PCBs for active cable products are manufactured by a corporation in Hong Kong, China. The Company also uses third-party contractors for assembly of active cable products including contractors in China and Taiwan. This pandemic has resulted in the extended shutdown of certain businesses in certain jurisdictions, which have resulted in disruptions or delays to our supply chain. These include disruptions from the temporary closure of third-party supplier and manufacturer facilities, interruptions in product supply or restrictions on the export or shipment of our products. As a result of COVID-19, we have been unable to satisfy certain customer orders on a timely basis, with some customers experiencing delays in receiving our products. There is uncertainty around the duration and

breadth of the COVID-19 pandemic, and therefore the ultimate impact on our business, financial condition and operating results cannot be reasonably estimated at this time. The outbreak of COVID-19 may also impact customer demand, the availability of key components sourced from certain jurisdictions, logistics flows and the availability of other resources to support critical operations in the Asia Pacific region.

The Company may incur expenses or delays relating to such events outside of our control, which could have a material adverse impact on our business, operating results and financial condition. The future impact of the pandemic is uncertain and cannot be predicted, and there is no assurance that the pandemic will not have a material adverse impact on the future results of the Company. The extent of the impact will depend on future developments, including actions taken to contain COVID-19.

Key Customers

During the three month period ended March 31, 2022, the Company derived approximately 98% of its revenue from three customers (three months ended March 31, 2021 – 97% from two customers).

Selected Financial Information

The table below sets forth certain key financial results for the three month period ended March 31, 2022 and 2021.

	Three Months Ended March 31,			
	<i>(In thousands, except for loss per share)</i>			
	2022	2021	Change	
	\$	\$	\$	%
Revenue	2,084	556	1,528	275%
Cost of sales	1,191	239	952	398%
Gross profit	893	317	576	182%
Expenses and other income	3,655	1,416	2,239	158%
Other Gain				
Net loss	(2,762)	(1,099)	(1,663)	151%
Other comprehensive loss	19	(27)	46	(171%)
Total comprehensive loss	(2,743)	(1,125)	(1,617)	144%
Basic and diluted loss per share	(0.08)	(0.07)		
Weighted average number of shares outstanding	33,082	15,275		

	As at			
	(In thousands)			
	March 31	December 31,	Change	
	2022	2021	\$	%
	\$	\$	\$	%
Total assets	10,640	12,222	(1,582)	(13%)
Total liabilities	8,969	8,667	302	3%
Equity	1,671	3,555	(1,884)	(53%)
Total liabilities and equity	10,640	12,222	(1,582)	(13%)

Revenue and Gross Margin

The table below sets forth the details of revenue and gross margin for the three month period ended March 31, 2022 and 2021.

	Three Months Ended March 31,			
	(In thousands)			
	2022	2021	Change	
	\$	\$	\$	%
Revenue	2,084	556	1,528	275%
Cost of sales	1,191	239	952	398%
Gross profit	893	317	576	182%
Gross margin %	43%	57%	(14%)	

Revenue for the three months ended March 31, 2022 increased by \$1,528,000 representing an increase of 275% over the same period in the previous year as the Company ramped up shipments to the data center market following COVID-19 business impacts.

Gross margin percentage for the three month period ended March 31, 2022 decreased from the same period in 2021 by approximately 14% due mainly to premiums paid to secure wafers and supply chain availability as well as additional fees to expedite delivery in order to meet customers' demand for data center and VR products.

Gross margin is a non-IFRS measure that does not have a standardized meaning prescribed by IFRS. Gross margin provides additional information to readers of the MD&A and Financial Statements to enhance their understanding of the Company's financial performance. Gross margin is computed as revenue less cost of sales divided by revenue.

Expenses and Other Income

The table below sets forth the details of expenses and other income for the three month period ended March 31, 2022 and 2021.

Three Months Ended March 31,

(In thousands)

	2022	2021	Change	
	\$	\$	\$	%
Research and development, net of investment tax credits and including amortization of licenses	1,115	551	564	102%
Sales and marketing	165	66	99	150%
General and administrative	1,124	276	848	307%
Depreciation of right-of-use assets	60	74	(14)	(19%)
Depreciation of property and equipment	21	57	(36)	(63%)
Share-based compensation	853	83	770	928%
Interest on lease obligation of right-of-use assets	7	2	5	242%
Accretion expense	355	542	(187)	(34%)
Other Income	-	(234)	234	(100%)
Foreign exchange gain (loss)	(45)	(1)	(44)	4420%
	<u>3,655</u>	<u>1,416</u>	<u>2,239</u>	<u>158%</u>

Research and Development

Research and development expenses consist of salaries and related expenses, design software tool costs, travel, consumable materials used in product development, such as experimental wafers, non-production tape-out costs, technical services costs and contracted technical personnel.

Research and development expenses for the three month period ended March 31, 2022 increased by 102% from the same period the previous year, driven mainly by higher personnel costs compared to the prior year in which employees were furloughed, increased non-recurring engineering (“NRE”) and supplies expenditure to support customer product ramps.

The Company is eligible for Irish refundable Scientific Research and Experimental Development (“SR&ED”) investment tax credits for certain eligible expenditures incurred in Ireland. These tax refunds have not been significant and are netted against the Company’s research and development expenses.

Sales and Marketing

Sales and marketing expenses consist primarily of salaries and related expenses, travel and the cost of trade shows, product promotion, customer technical support and market research.

Sales and marketing expenditures for the three month period ended March 31, 2022 increased by 150% from the same period the previous year. The increase for the periods was driven by higher personnel costs compared to the prior year in which employees were furloughed and increased headcount to meet customers’ interests on the Company’s products.

General and Administrative

General and administrative expenses relate to finance and administration and consist of salaries and related expenses, legal and audit fees, insurance, expenses related to public reporting and compliance, travel and other corporate expenses.

General and administrative expenses for the three month period ended March 31, 2022 increased by 307% from the same period in the previous year. The increase is mainly due to higher personnel costs compared to the prior year in which employees were furloughed and higher consulting fees related to IT and investor relations.

Depreciation of Right-of-use Assets

The Company's right-of-use assets recognized on adoption of IFRS 16 on January 1, 2019 are amortized over their remaining lease term. Depreciation of right-of-use assets for the three month period ended March 31, 2022 compared to the same period in the previous year decreased by 19% due to reduced lease amounts in 2022.

Depreciation of Property and Equipment

Depreciation of property and equipment for the three months ended March 31, 2022 compared to the same period in the previous year decreased by 63%. The lower depreciation expense is due to fewer capital investments made in 2022 and certain property and equipment being fully depreciated.

Share-based Compensation

Share-based compensation recognizes the expense associated with the fair value of stock options and restricted share units granted to employees, officers, directors and consultants which are estimated at the date of grant using the Black Scholes option pricing model and recognized over the period in which the options vest.

Share-based compensation expense for the three months ended March 31, 2022 increased by \$0.8 million over the same period in the previous year due to new and catch-up grants under the Company's restricted share unit plan in 2021.

Accretion Expense

Accretion expense represents the change in the stated value of the Convertible Debentures (as defined below) measured at amortized cost and also includes interest expense for the period. The Convertible Debentures are carried at amortized cost at an effective interest rate of 23.6%. Under the effective interest rate method, the accretion becomes higher as maturity approaches.

Foreign Exchange Loss

The loss or gain on foreign exchange is caused by changes in the value of the Canadian dollar, Euro and Chinese Yuan relative to the US dollar, the amount of exposed assets and liabilities such as cash and accounts payable and the difference in the exchange rate at the time expenses in Canadian dollars, Euros and Chinese Yuan are booked and paid. Gains occur when the non-US currency strengthens, and the Company holds exposed net assets in those funds or when the non-US currency weakens and the Company holds net exposed liabilities. Conversely, losses occur when the non-US currency weakens and the Company holds net exposed assets in those funds or when the non-US currency strengthens and the Company holds net exposed liabilities.

Net Loss and Other Comprehensive Loss

Net loss for three month period ended March 31, 2022 was \$2.8 million compared to a net loss of \$1.1 million in the same period in the prior year. The increase in net loss is attributed to higher operating expenses related to personnel costs, consulting expenses, NRE and supplies expenditure to support customer production ramp and higher share-based compensation, partially offset by higher revenue and gross profit. The other comprehensive loss relates to the unrealized foreign currency effect of translating the Company, whose functional currency is Canadian dollars, to US dollars for financial reporting purposes.

The operating results of Si Bai Ke Te (Dongguan) Electronics Trading Co. Ltd, a wholly-owned subsidiary of the Company, are translated from its functional currency of Chinese Yuan Renminbi (CNY) into the Company's presentation currency of US dollars at the end of each reporting period, with the difference being recorded in other comprehensive income. During the three month period ended March 31, 2022, the Company recorded an other comprehensive loss of \$0.1 million (March 31, 2021: \$0.2 million) related to unrealized foreign currency translation.

Loss per Share

Basic earnings and loss per share is calculated by dividing the profit and loss attributable to common shares of the

Company by the weighted average number of common shares outstanding during the period. Diluted earnings and loss per share is calculated by adjusting the earnings and number of common shares for the effects of dilutive options and other potentially dilutive securities. The weighted average number of common shares used as the denominator in calculating diluted loss per common share excludes un-issued common shares related to warrants, restricted share units and employee stock options, as they are anti-dilutive.

Basic and diluted loss per share for the three months ended March 31, 2022 was \$0.08, compared to \$0.07 per common share for the three months ended March 31, 2021.

Summary of Quarterly Data

The table below sets forth selected financial data for the most recent eight quarters ended March 31, 2022.

	Fiscal 2020			Fiscal 2021				Fiscal 2022
	Jun 30	Sept 30	Dec 31	Mar 31	Jun 30	Sept 30	Dec 31	Mar 31
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	257	282	377	556	733	1,568	2,604	2,084
Cost of sales	114	126	211	239	304	668	1,089	1,191
Gross profit	143	156	166	317	429	900	1,515	893
Expenses and other income	1,817	1,404	1,519	1,416	1,763	3,395	2,372	3,655
Net loss	(1,674)	(1,248)	(1,353)	(1,099)	(1,334)	(2,496)	(857)	(2,762)
Other comprehensive (loss) gain	(316)	(188)	(458)	(27)	(57)	(79)	(245)	19
Total comprehensive loss	(1,990)	(1,436)	(1,811)	(1,126)	(1,391)	(2,574)	(1,102)	(2,743)
Loss per share								
Basic and Dilutive	(0.19)	(0.13)	(0.15)	(0.07)	(0.08)	(0.12)	(0.04)	(0.08)

Revenues in the semiconductor industry are subject to seasonality driven by consumer purchasing cycles and manufacturers' unique product development cycles.

Historically, the Company's operating results have fluctuated on a quarterly basis and management believes they will continue to fluctuate. If anticipated sales and shipments in any quarter do not occur as and when expected, expenses and inventory levels can be disproportionately high and operating results for that quarter and future quarters may be adversely affected. In addition, because of historical variations in the operating results, the limited operating history of the Company and the rapid evolving nature of the business, period to period comparisons of the Company's operating results, including gross margin and operating expenses as a percentage of total revenue, are not necessarily meaningful and should not be relied upon as indication of future performance.

Non-GAAP Measures

In addition to IFRS reporting, the Company provides non-GAAP financial measures excluding the income statement effects of share-based compensation, interest, depreciation and taxes. These non-GAAP measures help analyze the Company's financial results, establish budgets and operating goals for managing its business and to evaluate performance. The Company also believes that these non-GAAP financial measures provide an additional tool for investors to use in comparing our core business and results of operations over multiple periods with other companies in the industry, many of which present similar non-GAAP financial measures to investors. However, the non-GAAP financial measures presented may not be comparable to similarly titled measures reported by other companies due to differences in the way that these measures are calculated. The non-GAAP financial measures presented should not be considered as the sole measure of the Company's performance and should not be considered in isolation from, or a substitute for, comparable financial measures calculated in accordance with IFRS.

(i) Non-IFRS Operating Expenses

Non-IFRS operating expenses is a non-GAAP measure which includes research and development, sales and marketing, general and administrative expenses and depreciation and amortization for capital equipment and right-of-use assets, and excludes share-based compensation expense, non-recurring termination costs, interest and

related financing costs, change in fair value of warrant liabilities, foreign exchange gain/loss and gain/loss from property and equipment disposal.

Below is a reconciliation of total IFRS expenses to non-IFRS operating expenses:

(In thousands)

	Fiscal 2020			Fiscal 2021				Fiscal 2022
	Jun 30	Sept 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31
	\$	\$	\$	\$	\$	\$	\$	\$
Expenses and other income	1,819	1,404	1,519	1,416	1,763	3,395	2,372	3,655
Other income	570	207	-	235	505	-	-	-
Total expenses - IFRS	2,389	1,611	1,519	1,651	2,268	3,395	2,372	3,655
Share-based compensation	107	(12)	240	83	57	767	957	853
Interest on lease obligation of right-of-use asse	7	5	3	2	7	9	8	7
Accretion expense	540	548	557	542	410	574	4	355
(Gain)/Loss on disposal of capital equipment	-	-	13	-	(7)	-	-	-
Foreign exchange gain (loss)	6	(5)	(6)	(1)	4	3	(81)	(45)
Extinguishment of original convertible debt	-	-	(228)	-	-	-	(379)	-
Non-IFRS operating expenses	1,729	1,075	940	1,025	1,797	2,042	1,864	2,485

(ii) EBITDA

EBITDA or earnings before interest, tax, depreciation, and amortization is a non-GAAP measure. EBITDA excludes share-based compensation, amortization, depreciation, interest, and tax expenses.

Below is a reconciliation of net loss to EBITDA:

(In thousands)

	Fiscal 2020			Fiscal 2021				Fiscal 2022
	Jun 30	Sept 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31
	\$	\$	\$	\$	\$	\$	\$	\$
Net loss	(1,676)	(1,248)	(1,353)	(1,099)	(1,334)	(2,495)	(858)	(2,762)
Depreciation of right-of-use assets	74	74	102	74	65	60	60	60
Depreciation of property and equipment	77	69	85	57	52	24	24	21
Depreciation expense - COGS	149	57	(41)	9	9	13	13	7
Amortization - intangible assets	-	-	-	-	85	104	104	162
Share-based compensation	107	(12)	240	83	57	767	957	853
Interest on lease obligation of right-of-use asse	7	5	3	2	7	9	8	7
Accretion expense	540	548	557	542	410	574	4	355
(Gain)/Loss on disposal of capital equipment	-	-	13	-	(7)	-	-	-
Foreign exchange gain (loss)	6	(5)	(6)	(1)	4	3	(81)	(45)
Extinguishment of original convertible debt	-	-	(228)	-	-	-	(379)	-
Other income	(570)	(207)	-	(235)	(505)	-	-	-
EBITDA	(1,286)	(719)	(628)	(568)	(1,157)	(940)	(147)	(1,342)

Forward Looking Information

The Company previously provided guidance that revenue for the first half of 2022 was expected to be in the range of \$5.5 million to \$7.0 million. The Company has updated its revenue outlook to be in the range of \$5.3 million to \$5.6 million. The change in guidance is primarily as a result of an adjustment to the Company's assumption regarding the products to be delivered from its suppliers in the first half of 2022 due mainly to the availability of supplies and services.

Issued and Outstanding Share Capital

The Company's authorized capital consists of an unlimited number of common shares. 33,082,030 common

shares were issued and outstanding as of March 31, 2022 and 33,553,038 common shares were issued and outstanding as of the date of this MD&A.

Stock Options and Restricted Share Units

At the annual and special meeting of shareholders held on June 18, 2021, the shareholders approved amendments to both the Stock Option Plan and the RSU Plan to provide that the combined maximum number of common shares reserved for issuance under both the Stock Option Plan and the RSU Plan, inclusive of existing stock options and restricted share units (“RSUs”), shall not exceed 4,226,155 common shares, representing 20% of the issued and outstanding common shares as of June 18, 2021.

As at March 31, 2022, 3,102,822 RSUs and options to purchase an aggregate of up to 293,780 common shares were outstanding. As of the date of this MD&A, 2,367,941 RSUs and options to purchase an aggregate of up to 280,168 common shares were outstanding.

Warrants

As of the date of this MD&A, the Company has outstanding warrants to purchase common shares or units:

Expiry Date	Number of warrants outstanding	Exercise Price
May 14, 2023 ¹	242,489	CDN \$1.50
July 6, 2023	293,306	CDN \$7.875
October 26, 2023	411,028	CDN \$1.32
October 30, 2023	353,063	CDN \$11.25
August 21, 2024	1,584,316	CDN \$4.00
August 21, 2024	251,310	CDN \$2.50
July 15, 2025	210,469	CDN \$2.50
September 25, 2025	166,779	CDN \$2.50
January 15, 2026	1,140,138	CDN \$2.50
February 12, 2026	478,665	CDN \$2.50
May 14, 2026	4,223,141	CDN \$2.50
Total	9,354,704	

Note:

¹ Warrants are convertible into Spring 2021 Units. See description under the heading “Equity Financings”.

Convertible Debt

In January 2018, the Company issued 7.0% senior unsecured convertible debentures of the Company (each, a “Convertible Debenture”) in the principal amount of CDN \$15.567 million. The principal amount of each Convertible Debenture was convertible into common shares at the option of the holder at any time prior to the close of business on the last business day immediately preceding the maturity date of January 9, 2021, at a conversion price of CDN \$17.50 per common share, subject to adjustment upon certain customary events. Holders converting their Convertible Debentures will receive accrued and unpaid interest thereon for the period from and including the date of the latest interest payment date to, but excluding, the date of conversion.

On December 23, 2020, the Company entered into a first supplemental debenture indenture (the “Supplemental Indenture”) which amended certain terms of the Company’s existing Convertible Debentures which were due to mature in January 2021. Pursuant to the Supplemental Indenture, the maturity date of the Convertible Debentures was extended 18 months from January 9, 2021 to July 9, 2022, and the conversion price of the principal amount of the Convertible Debentures was reduced from CDN \$17.50 per common share to CDN \$2.50 per common share until January 9, 2022 and to CDN \$5.00 per common share until July 9, 2022. In consideration for the amendments, the Company increased the outstanding principal obligations of the Convertible Debentures by 10%. The additional 10% of principal obligations is not convertible into common shares (the “Bonus Principal”).

On December 9, 2021, the Company entered into a Second Supplemental Convertible Debenture Indenture (the "Second Supplemental Indenture") to amend the terms and conditions for the above debentures to reduce the conversion price of the debentures from CDN \$5.00 per common share to CDN \$2.50 per common share from January 10, 2022 to July 9, 2022.

During the twelve months ended December 31, 2021, the Company prepaid CDN \$1,995,000 of principal of the Convertible Debentures and the holders of the Convertible Debentures converted an aggregate of CDN \$4,125,000 of principal at a conversion price of CDN \$2.50 per common share, resulting in the issuance of 1,650,000 common shares. The Company issued an additional 242,477 common shares and CDN \$38,834 in payment of the make-whole interest amount owing pursuant to the converted Convertible Debentures.

The Company treated the modifications as an extinguishment of the existing instrument and recorded a gain of \$379,140.

The Second Supplemental Indenture was recorded as a new compound financial instrument with a debt component of \$6,354,099 determined using present value of future cash flows and a discount rate of 18.0%. The debt component is being amortized using effective interest rate of approximately 23.6% over its remaining term.

As of the date of this MD&A, CDN \$6,778,000 of principal amount of Convertible Debentures and CDN \$1,289,800 of Bonus Principal remains outstanding.

Equity Financings

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 of the Company ("January 2021 Units") at a price of CDN \$1.50 per January 2021 Unit for gross proceeds of approximately \$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 \$232,232 (CDN \$296,119) owing to an arm's length party. Each January 2021 Unit consists of one common share and one-half of one 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 4 month 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 \$0.08 for any 10 non-consecutive trading days.

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 tranche of the Spring Private Placement of 555,333 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 for gross proceeds of \$5,229,389 (CDN \$6,334,711). Each Spring 2021 Unit consists of one common share in the capital of the Company 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.

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.

Liquidity and Capital Resources

Historically, the Company has funded its operations from the sale of equity securities and from debt financing.

The Company’s objectives are to grow revenue by expanding its product lines and entering new markets, to finance investment in research and development and to ensure that capital resources are readily available to meet obligations as they become due. Liquidity risk arises when the Company is challenged to fund its on-going operations through working capital or either the sale of equity or bank loans.

The Company may face challenges in generating sufficient amounts of cash and cash equivalents in the short-term and potentially beyond due to such factors as:

- challenges in the supply chain whereby lead times to secure components can run between 8-20 weeks and often require the Company to prepay or make deposits to secure the components;
- delays in the development of new products which can delay market entry dates;
- acceptance of new products in the market and sales volatility as a result of transitions to new product lines;
- lower than expected adoption of the products of our end customers in newer markets could impact the orders received by the Company and its revenue outlook;
- payments of accrued interest due on the conversions by the holders of the Convertible Debentures to common shares; and
- repayment of outstanding Convertible Debentures on July 9, 2022.

The following table summarizes the working capital and cash as at March 31, 2022 and December 31, 2021:

	As at			
	(In thousands)			
	March 31	December 31,	Change	
	2022	2021	\$	%
Current assets	9,433	10,957	(1,524)	(14%)
Current liabilities	8,947	8,579	368	4%
Working capital	486	2,378	(1,892)	(80%)
Cash	5,168	5,944	(776)	(14%)

As at March 31, 2022, the Company had working capital of \$0.5 million, compared to a working capital of \$2.4 million as at December 31, 2021 mainly due to higher inventory balance, offset by lower account receivable and higher interest payable balances.

The Company is dependent on growth in revenue in the next year to fund future operations. Should expected revenues not materialize, the Company may require further sale of debt or equity securities, additional bank financing or other sources of funds in order to meet its obligations. See the section “Risks Factors” section of the Company’s most recent Annual Information Form.

The Company is actively considering different financing options to provide additional capital for the Company to meet its business objectives. Although the Company has, in the past, been successful in obtaining financing including the October 2021 Private Placement which raised \$11.8 million (CDN \$14.8 million), there are inherent risks related to the Company's ability to raise capital in the future and there is no assurance that the Company will be able to continue to do so in the future on similar terms as past financings, or at all.

The following table summarizes the cash inflows and outflows by activity for the periods indicated:

	Three Months Ended March 31,			
	<i>(in thousands)</i>			
	2022	2021	Change	
	\$	\$	\$	%
Cash generated by (used in)				
Operating activities	(554)	(1,180)	626	(53%)
Financing activities	(56)	1,707	(1,763)	(103%)
Investing activities	(185)	(7)	(178)	2547%
Effect of exchange rate change:	19	(21)	40	100%
Increase (decrease) in cash	(776)	499	(1,275)	(256%)

Operating Activities

Cash used in operating activities for the three months ended March 31, 2022 of \$0.6 million, compared to the same period in 2021 of \$1.2 million, decreased by \$0.6 million, as the Company collected from accounts receivable balance, offset by funds used for inventory and prepayment to secure supplies. Without external sources of financing, the viability of the Company as an operating business is dependent on its ability to generate positive cash flows from operating activities in the short and long-term.

Financing Activities

Net cash used in financing activities was related to interest payments. A decrease of \$1.8 million during the three months ended March 31, 2022 compared to the same period in 2021 consisted of cash received from the January 2021 Private Placement in 2021.

Investing Activities

Cash used in investing activities in the three months ended March 31, 2022 compared to the same period in 2021 increased by \$0.2 million due to payments for licenses and laboratory equipment.

Off-Balance Sheet Arrangements

The Company currently has no off-balance sheet arrangements.

Transactions Between Related Parties

The Company transacts with key individuals from management and 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 consists of the Board of Directors and current and former members of the executive team of the Company.

Key management personnel compensation consists of the following:

Three Months Ended March 31,		
	2022	2021
	\$	\$
Salaries, fees and short-term benefits	320,500	80,999
Share-based benefits	447,428	65,933
Total	767,928	146,932

Critical Accounting Estimates

The Company's significant accounting policies and accounting estimates under IFRS are contained in the Financial Statements (see Note 3 to the Annual Financial Statements). Certain of these policies involve critical accounting estimates as they require us to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

Changes in Accounting Policies

The Statements are prepared in accordance with IFRS. There were no changes in accounting policies for the three months ended March 31, 2022 and no adoption in new accounting standards resulting in significant impact to the financials.

Financial Instruments and Risk Management

The Company may be exposed to risks of varying degrees of significance that affect its ability to achieve its strategic objectives. The main objectives of the Company's risk processes are to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed to are as follows:

Foreign currency risk

The Company's revenues and cost of sales are denominated in United States dollars. The Company incurs expenses in United States dollars, Euros, Canadian dollars and Chinese Yuan. The Company has historically raised capital denominated in Canadian dollars. The Company is therefore exposed to gains or losses due to fluctuations in foreign currency exchange rates. Management actively monitors the movement in foreign exchange rates and their potential impact on the Company's financial results but does not actively hedge its foreign currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk associated with the Company's Convertible Debentures arises from fluctuations in interest rates and the degree of volatility of these rates. The Convertible Debentures provides for an annual rate of 7%. The Company does not use derivative financial instruments to reduce its exposure to interest rate risk.

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to trade and other receivables and money held in the Company's bank accounts. The Company mitigates this risk by monitoring the credit worthiness of its

customers and only dealing with creditworthy counterparties.

Liquidity risk

The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash, managing cash from operations and if required through financing activities.

Fair value

The fair value of cash and cash equivalents, trade and other receivables, investment tax credits, trade and other payables, obligations under finance lease, lease obligations, promissory notes to related parties, and license liabilities approximate their carrying values due to their immediate or short-term maturity.

Internal Control over Financial Reporting

Internal control over financial reporting ("ICFR") is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable IFRS. Internal control over financial reporting should include those policies and procedures that establish the following:

- maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and dispositions of assets;
- reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable IFRS;
- receipts and expenditures are only being made in accordance with authorizations of management or the Board of Directors; and
- reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial instruments.

The Company's management, with the participation of the CEO and CFO, assessed the effectiveness of the Company's internal controls over financial reporting and concluded that as at December 31, 2021, the Company's internal control over financial reporting was effective.

During the three months ended March 31, 2022, the Company did not make any significant changes to its internal controls over financial reporting that would have materially affected, or be reasonably likely to materially affect, its internal controls over financial reporting.

Limitations of Disclosure Controls and Procedures and Internal Control over Financial Reporting

The Company's management, including the CEO and CFO, believe that due to inherent limitations, any disclosure controls and procedures or internal control over financial reporting, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that any design will not succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected. Additionally, management is required to use judgment in evaluating controls and procedures.

Additional Information

Additional information relating to the Company can be found on SEDAR at www.sedar.com.

Approval

The Board of Directors has approved the disclosure contained in this MD&A.