

Unaudited Condensed Interim Consolidated Financial Statements of
SPECTRA7 MICROSYSTEMS INC.

For the Three and Six Months Ended June 30, 2021 and 2020

(Expressed in United States Dollars)

The accompanying unaudited condensed consolidated interim 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 consolidated interim 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 Six Months Ended June 30, 2021 and 2020

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SPECTRA7 MICROSYSTEMS INC.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Revenue	733,413	257,025	1,289,526	373,027
Cost of sales	304,240	114,074	542,890	167,205
Gross margin	429,173	142,951	746,636	205,822
Research and development, net of investment tax credits including amortization of licenses	884,926	1,005,347	1,436,032	1,757,455
Sales and marketing	48,692	116,145	114,987	246,349
General and administrative	746,261	454,102	1,022,608	726,936
Depreciation of right-of-use assets	64,815	74,373	139,188	159,709
Depreciation of property and equipment	52,025	76,836	108,936	159,185
Share-based compensation	57,353	106,557	140,508	264,388
Interest on lease obligation of right-of-use asset	7,076	7,040	8,895	20,533
Accretion expense (Note 5)	409,598	540,158	951,101	1,039,523
Foreign exchange loss (gain)	3,631	6,365	2,696	(41,964)
Gain on disposal of property and equipment	(6,500)	-	(6,500)	-
Total Expenses	2,267,878	2,386,923	3,918,451	4,332,114
Grant income	(504,905)	(569,539)	(739,470)	(569,539)
Net Loss	(1,333,800)	(1,674,433)	(2,432,345)	(3,556,753)
Other comprehensive loss:				
Unrealized foreign currency translation	(57,353)	(316,445)	(73,933)	562,673
Total comprehensive loss	(1,391,153)	(1,990,878)	(2,506,278)	(2,994,080)
Loss per share				
Basic and diluted	(0.08)	(0.19)	(0.15)	(0.31)
Weighted average number of common shares outstanding				
Basic and diluted	17,140,583	10,503,684	16,213,184	9,548,301

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)

Six Months Ended June 30, 2021 and 2020

(Expressed in United States Dollars)

	Common shares	Share-based payment reserve	Convertible debentures - share conversion option	Warrants	Subscription received for shares not issued	Deficit	Accumulated other comprehensive loss	Total Shareholders' Deficiency
	\$	\$	\$	\$	\$	\$	\$	\$
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 (Note 6(b)(i))	109,638	(109,638)	-	-	-	-	-	-
Subscription received for common shares	-	-	-	-	34,044	-	-	34,044
Units issued in March Private Placement, net of issuance costs (Note 6(a)(iii))	1,102,344	-	-	-	-	-	-	1,102,344
Share-based compensation expense (Note 6(b)(iii))	-	264,388	-	-	-	-	-	264,388
Settlement of Promissory Notes (Note 6(a)(iv))	753,583	-	-	-	-	-	-	753,583
Total comprehensive loss	-	-	-	-	-	(3,556,753)	562,673	(2,994,080)
Balance, June 30, 2020	144,393,672	3,818,150	1,574,971	1,282,929	29,940	(164,387,845)	625,035	(12,663,148)

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)

Six Months Ended June 30, 2021 and 2020

(Expressed in United States Dollars)

	Common shares	Share-based payment reserve	Convertible debentures - share conversion option	Warrants	Subscription received for shares not issued	Deficit	Accumulated other comprehensive loss	Total Shareholders' Deficiency
	\$	\$	\$	\$	\$	\$	\$	\$
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 (Note 6(c)(i))	3,779	(3,779)	-	-	-	-	-	-
Subscription received for common shares	-	-	-	-	(740,161)	-	-	(740,161)
Units issued in January Private Placement, net of issuance costs (Note 6(a)(i))	2,985,964	-	-	-	-	-	-	2,985,964
Units issued in Spring Private Placement, net of issuance costs (Note 6(a)(ii))	4,261,853	-	-	-	-	-	-	4,261,853
Allocation of warrants portion of 2021 Units, net of issuance costs (Note 6(a)(i))	-	-	-	762,427	-	-	-	762,427
Allocation of warrants portion of Spring 2021 Units, net of issuance costs (Note 6(a)(ii))	-	-	-	478,196	-	-	-	478,196
Share-based compensation expense (Note 6(c)(iii))	-	140,508	-	-	-	-	-	140,508
Shares issued upon exercise of stock options	-	5,951	-	-	-	-	-	5,951
Conversions of convertible debt to shares	4,495,270	-	-	-	-	-	-	4,495,270
Total comprehensive loss	-	-	-	-	-	(2,432,345)	(73,933)	(2,506,278)
Balance, June 30, 2021	156,925,961	4,011,018	1,561,032	2,624,783	-	(169,421,071)	(94,614)	(4,392,891)

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

SPECTRA7 MICROSYSTEMS INC.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

June 30, 2021 and December 31, 2020

(Expressed in United States Dollars)

	June 30, 2021	December 31, 2020
	\$	\$
Assets		
Current assets:		
Cash	1,483,434	35,253
Trade and other receivables	394,088	89,224
Investment tax credits	4,033	4,033
Inventories	288,084	135,981
Prepaid expenses and other assets	1,147,525	309,563
	3,317,164	574,054
Non-current investment tax credits	7,886	7,886
Property and equipment	256,840	268,311
Right-of-use assets (Note 3)	440,268	99,164
Intangible assets	66,005	-
	4,088,163	949,415
Liabilities		
Current liabilities:		
Trade and other payables	3,438,802	5,219,130
Deferred revenue	147,373	69,183
Lease obligation on right-of-use assets (Note 4)	230,613	110,533
	3,816,788	5,398,846
Non-current lease obligation on right-of-use assets (Note 4)	213,350	-
Non-current Convertible debentures (Note 5)	4,450,916	9,827,191
	8,481,054	15,226,037
Shareholders' Equity		
Common shares (Note 6(a))	156,925,961	145,179,094
Share-based payment reserve	4,011,018	3,868,338
Convertible debentures - share conversion option	1,561,032	1,561,032
Warrants	2,624,783	1,384,160
Subscription received for shares not issued	-	740,161
Deficit	(169,421,071)	(166,988,726)
Accumulated other comprehensive loss	(94,614)	(20,681)
	(4,392,891)	(14,276,622)
	4,088,163	949,415
Going concern (Note 1)		
Signed on behalf of the Board:		
_____ "Ron Pasek"	Director	
_____ "Raouf Halim"	Director	

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)

Six Months Ended June 30, 2021 and 2020

(Expressed in United States Dollars)

	Six Months Ended June 30,	
	2021	2020
	\$	\$
Operating activities:		
Net Loss	(2,432,345)	(3,556,753)
Items not involving cash:		
Amortization of licenses	84,788	267,911
Depreciation of property and equipment	127,397	189,067
Depreciation of right-of-use assets	139,188	159,709
Termination of right of use assets	-	(14,132)
Share-based compensation	140,508	264,388
Accretion expense	951,101	1,040,816
Release of government grant	(739,470)	(569,539)
Gain on disposal of property equipment	(6,500)	-
	(1,735,333)	(2,218,533)
Net change in non-cash working capital items		
Trade and other receivables	(304,864)	595,481
Inventories	(152,103)	181,298
Prepaid expenses and other assets	(837,962)	(118,634)
Trade and other payables	(1,799,551)	677,217
Deferred revenue	78,190	131,614
	(4,751,623)	(751,558)
Grant funds received	739,469	776,085
Interest paid	(263,322)	(375,028)
	(4,275,476)	(350,500)
Financing activities:		
Subscription received for common shares net of issuance costs	-	34,044
Repayment of obligation under finance lease	-	(4,482)
Repayment of license liabilities	-	(263,418)
Repayment of lease obligation on right-of-use assets (Note 4)	(146,862)	(158,438)
Proceeds from issuance shares net of issuance costs	6,185,448	778,333
	6,038,586	386,039
Investing activities:		
Acquisition of property and equipment	(109,426)	(2,489)
Acquisition of licenses	(150,793)	-
	(260,219)	(2,489)
Effect of foreign exchange rate changes on cash	(54,709)	79,085
Increase in cash	1,448,181	112,135
Cash, beginning of period	35,253	71,121
Cash, end of period	1,483,434	183,256

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

SPECTRA7 MICROSYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 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 \$1,391,153 and \$2,506,278 during the three and six month periods ended June 30, 2021, respectively (\$1,990,878 and \$2,994,080 for the three and six months ended June 30, 2020) and has an accumulated deficit of \$169,421,071 as of June 30, 2021 (\$160,831,092 as of June 30, 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 second grant from the 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 Six Months Ended June 30, 2021 and 2020
(Expressed in United States Dollars)

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 August 27, 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 June 30, 2021:

	\$
Balance, January 1, 2020	608,604
Depreciation	(159,709)
Derecognition of right-of-use asset	(200,985)
Balance June 30, 2020	247,910
Depreciation	(148,746)
Balance December 31, 2020	99,164
Depreciation	(139,188)
Lease amendment	480,292
Balance June 30, 2021	440,268

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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 June 30, 2021 are as follows:

	\$
Opening as of January 1, 2021	110,533
Principal repayments during the six month period ended June 30, 2021	(146,862)
Lease amendment	480,292
As of June 30, 2021	443,963
Current	230,613
Non-current	213,350

5. Convertible debentures

The following table sets forth the convertible debenture liabilities as of June 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	927,429
Converted to Common Shares	(6,064,054)
Repayment of Interest	(239,650)
Foreign exchange translation adjustment	-
Balance at June 30, 2021	4,450,916

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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.

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 six months ended June 30, 2021:

	Shares	
	#	\$
Balance, December 31, 2020	11,854,355	145,179,094
Shares issued under Restricted Share Unit plan	2,000	3,779
Units issued in January 2021 Private Placement (i)	3,237,605	3,751,769
Units issued in Spring Private Placement (ii)	4,223,141	5,229,389
Cash paid for issuance costs (i)	-	(1,255,144)
Allocation of warrant portion	-	(478,196)
Convertible debt conversions	1,813,677	4,495,270
Balance, June 30, 2021	21,130,778	156,925,961

The following table summarizes the changes to the issued and outstanding common shares during the six Months ended June 30, 2020:

	Shares	
	#	\$
Balance, December 31, 2019	8,191,144	142,428,107
Shares issued under Restricted Share Unit plan	23,492	109,638
Units issued in March Private Placement (iii)	2,000,000	1,102,344
Settlement of Promissory Notes (iv)	840,000	753,583
Balance, June 30, 2020	11,054,636	144,393,672

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Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2021 and 2020
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(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 555,333 Spring 2021 Units. The price per Spring 2021 Unit for both tranches was CDN \$1.50. Together, the Company has issued a total of 4,223,141 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.

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) 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.

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Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
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(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 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 shares. The combined aggregate number of common shares reserved under the Stock Option Plan and the RSU Plan as of June 30, 2021 was 1,739,077 common shares (874,661 common shares as of December 31, 2020).

(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 June 30, 2021 and 2020:

	June 30, 2021	June 30, 2020
	#	#
Balance, opening	541,307	742,113
Granted	90,000	-
Forfeited	(1,693)	(17,171)
Vested and Shares issued	(2,000)	(23,492)
Balance, ending	627,614	701,450

During the six months ended June 30, 2021, 2,000 RSUs were settled and \$3,779 was transferred to common shares from share-based payment reserve (six month period ended June, 2020 – 23,492 RSUs were settled for \$109,638).

(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 June 30, 2021 and 2020:

	June 30, 2021		June 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	28.00
Granted	-	-	199,423	1.50
Forfeited	(54,423)	(1.47)	(18,213)	20.00
Options outstanding, ending	278,932	3.00	225,743	5.00

During the three and six month periods ended June 30, 2021, the Company reversed share-based compensation expenses of \$2,560 and \$2,560, respectively (three and six month periods ended June 30, 2020 - \$28,603 and \$37,135, respectively) as a result of forfeitures.

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

Exercise price range CDN \$	Number outstanding #	Options Outstanding		Options Exercisable	
		Weighted average remaining contractual life (years) #	Weighted average exercise price CDN \$	Number exercisable #	Weighted average exercise price CDN \$
0.0 - 10.0	257,000	5.89	1.50	257,000	1.50
10.5 - 20.0	3,900	2.62	11.00	3,585	11.00
20.5 - 30.0	10,350	2.27	25.50	10,350	25.50
30.5 - 40.0	6,182	1.37	33.50	6,182	33.50
40.5 - 50.0	1,500	0.39	46.00	1,500	46.00
Balance, June 30, 2021	278,932	5.58	3.00	278,617	3.00

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

Exercise price range	Options Outstanding			Options Exercisable		
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price	
CDN \$	#	#	CDN \$	#	CDN \$	
0.0 - 10.0	191,548	5.77	1.50	76,798	1.50	
10.5 - 20.0	6,612	4.05	11.00	4,685	11.00	
20.5 - 30.0	14,950	2.66	24.00	13,371	24.00	
30.5 - 40.0	11,132	1.68	34.50	11,132	34.50	
40.5 - 50.0	1,500	1.39	46.00	1,500	46.00	
Balance, June 30, 2020	225,742	5.28	5.00	107,486	8.50	

(iii) *Share based compensation expense*

For its RSU Plan and Option Plan, the Company recognized share-based compensation expense of \$57,353 and \$140,508 for the three and six months ended June 30, 2021 respectively (June 30, 2020 - \$106,557 and \$264,388) with a corresponding amount recognized as share-based payment reserve.

The fair value of the RSUs is determined based upon the Company's share price on the date of grant. There were nil and 199,423 stock options granted during the six months ended June 30, 2021 and 2020, respectively. The fair value of stock options granted during the six months ended June 30, 2021 was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Six Months Ended June 30,	
	2021	2020
Dividend yield	N/A	0%
Expected volatility	N/A	34%
Risk free rate of return	N/A	1.19%
Forfeiture rate	N/A	10%
Expected life	N/A	6.2 years

Expected volatility is based on comparable companies listed on various exchanges. There was no activity during the six months ended June 30, 2021.

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(c) Warrants

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

	June 30, 2021		June 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 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	-	-
Warrants expired	(443,660)	25.00	-	-
Broker warrants expired	-	-	(61,260)	17.50
Balance, ending	8,745,287	3.46	2,969,755	8.50

The following is a summary of the warrants outstanding as of June 30, 2021:

Number of warrants outstanding	Exercise Price	Expiry Date
Warrants ⁽¹⁾		
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
1,618,803	CDN \$2.50	January 15, 2026
4,223,141	CDN \$2.50	May 14, 2026
Broker Warrants (Compensation Options)		
242,489 ⁽²⁾	CDN \$1.50	May 14, 2023
9,943	CDN \$7.875	July 6, 2023
28,941	CDN \$11.25	October 30, 2023
251,311	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 June 30, 2020:

Number of warrants outstanding	Exercise Price	Expiry Date
Warrants ⁽¹⁾		
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
Broker Warrants (Compensation Options)		
9,943	CDN \$7.875	July 6, 2023
28,941	CDN \$11.25	October 30, 2023
251,311	CDN \$2.50	August 21, 2024
Waiver Warrants		
44,100	CDN \$15.00	February 24, 2022

⁽¹⁾ Subject to acceleration in certain circumstances.

⁽²⁾ Convertible into Spring 2021 Units. See Note 6(a)(ii)

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 June 30		Six Months Ended June 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Salaries, fees and short-term benefits	177,746	114,505	258,745	1,303,543
Share-based benefits	284,731	110,804	679,205	251,126
Total	462,477	225,309	937,950	1,554,669

8. Economic dependence

During the three and six month periods ended June 30, 2021, the Company derived approximately 99% and 98% of its revenue from two customers, respectively (three and six months ended June 30, 2020 – 100% and 99% from two customers, respectively).

9. Subsequent Events

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 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

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shares on the basis of 50 existing common shares for one new common share. Accordingly, the share, per share and basic and diluted earnings per share are adjusted retrospectively to all periods presented.