Unaudited Condensed Interim Consolidated Financial Statements of

SPECTRA7 MICROSYSTEMS INC.

For the Three and Nine Months Ended September 30, 2016 and 2015

(Expressed in United States Dollars)

SPECTRA7 MICROSYSTEMS INC.
(Unaudited)

For the Three and Nine Months Ended September 30, 2016 and 2015

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SPECTRA7 MICROSYSTEMS INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (Unaudited)
Three and Nine Months Ended September 30, 2016 and 2015
(Expressed in United States Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Revenue	**1,045,275**	938,074	**6,185,704**	2,678,480
Cost of sales	**474,084**	368,408	**2,597,052**	844,253
Gross margin	**571,191**	569,666	**3,588,652**	1,834,227
Expenses (Income):				
Research and development, net of investment tax credits and including amortization of licenses	**1,987,577**	2,525,940	**6,457,018**	5,958,851
Sales and marketing	**328,745**	531,434	**1,380,724**	1,213,580
General and administrative	**841,443**	747,420	**2,613,740**	2,168,534
Depreciation of property and equipment	**150,810**	91,302	**453,977**	238,539
Amortization of intangible assets other than licenses	**-**	743,523	**247,833**	2,230,569
Share-based compensation *(Note 5(b)(iii))*	**121,730**	193,724	**164,542**	562,384
Accretion expense *(Note 4)*	**227,794**	-	**454,940**	-
Change in derivative liability *(Note 4)*	**(51,798)**	-	**(105,342)**	-
Finance expense - interest and fees	**275**	17,713	**18,480**	114,028
Foreign exchange loss	**2,643**	8,369	**16,777**	223,658
Gain on disposal of property and equipment	**-**	-	**-**	(48,012)
	3,609,219	4,859,425	**11,702,689**	12,662,131
Net Loss	**(3,038,028)**	(4,289,759)	**(8,114,037)**	(10,827,904)
Other comprehensive (loss) gain:				
Unrealized foreign currency translation	**935**	(71,613)	**(11,198)**	(133,219)
Total comprehensive loss	**(3,037,093)**	(4,361,372)	**(8,125,235)**	(10,961,123)
Loss per share				
Basic and diluted	**(0.024)**	(0.035)	**(0.064)**	(0.098)
Weighted average number of common shares outstanding				
Basic and diluted	**127,116,979**	125,175,344	**127,028,979**	112,072,493

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 Equity (Unaudited)
Nine Months Ended September 30, 2016 and 2015
(Expressed in United States Dollars)

	Common shares	Share-based payment reserve	Warrants	Deficit	Accumulated other comprehensive loss	Total
	$	$	$	$	$	$
Balance, December 31, 2014	**105,078,025**	**1,532,063**	**232,778**	**(97,538,913)**	**(77,529)**	**9,226,424**
Shares and warrants issued on exercise of broker share and Unit purchase warrants *(Note 5(a)(i))*	457,603	(128,589)	2,339	-	-	331,353
Shares issued on exercise of non-broker warrants *(Note 5(a)(ii))*	7,031,425	-	(232,759)	-	-	6,798,666
Equity financing advisory fee *(Note 5(a)(iii))*	(1,334,163)	742,039	-	-	-	(592,124)
Exercise of stock options	4,201	(1,568)	-	-	-	2,633
Non-broker warrants expired	-	2,358	(2,358)	-	-	-
Shares and warrants issued on exercise of Special Warrants (net of issuance costs) *(Note 5(a)(iv))*	6,201,438	-	229,683	-	-	6,431,121
Special compensation options issued to brokers *(Note 5(a)(iv))*	(80,323)	83,298	(2,975)	-	-	-
Share-based compensation expense	-	562,384	-	-	-	562,384
Total comprehensive loss	-	-	-	(10,827,904)	(133,219)	(10,961,123)
Balance, September 30, 2015	**117,358,206**	**2,791,985**	**226,708**	**(108,366,817)**	**(210,748)**	**11,799,334**
Balance, December 31, 2015	**118,287,722**	**2,041,101**	**226,708**	**(111,774,406)**	**(217,932)**	**8,563,193**
Exercise of stock options	33,857	(7,025)	-	-	-	26,832
Shares issued under Restricted Share Unit plan	103,743	(103,743)	-	-	-	-
Share-based compensation expense	-	164,542	-	-	-	164,542
Total comprehensive loss	-	-	-	(8,114,037)	(11,198)	(8,125,235)
Balance, September 30, 2016	**118,425,322**	**2,094,875**	**226,708**	**(119,888,443)**	**(229,130)**	**629,332**

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)
September 30, 2016 and December 31, 2015
(Expressed in United States Dollars)

	September 30, 2016	December 31, 2015
	$	$
Assets		
Current assets:		
Cash	**725,135**	2,949,525
Trade and other receivables	**1,612,439**	911,289
Investment tax credits	**88,763**	227,061
Inventories	**2,102,853**	2,091,234
Prepaid expenses and other assets	**387,889**	615,628
	4,917,079	6,794,737
Non-current investment tax credits	**86,523**	60,255
Property and equipment	**1,343,032**	1,458,369
Goodwill	**1,648,454**	1,648,454
Intangible assets	**1,302,410**	1,806,476
	9,297,498	11,768,291
Liabilities		
Current liabilities:		
Accounts payable and accrued charges	**1,994,952**	1,800,651
Obligation under finance lease	**72,968**	66,446
License liabilities	**464,714**	419,202
Term loan *(Note 4)*	**6,043,219**	800,000
Derivative liability *(Note 4)*	**46,348**	-
	8,622,201	3,086,299
Obligation under finance lease	**17,933**	55,372
License liabilities	**28,032**	63,427
	8,668,166	3,205,098
Shareholders' Equity		
Common shares *(Note 5(a))*	**118,425,322**	118,287,722
Share-based payment reserve	**2,094,875**	2,041,101
Warrants	**226,708**	226,708
Deficit	**(119,888,443)**	(111,774,406)
Accumulated other comprehensive loss	**(229,130)**	(217,932)
	629,332	8,563,193
	9,297,498	11,768,291

Signed on behalf of the Board:

"Ron Pasek" *Director*

"Brian Antonen" *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)

Nine Months Ended September 30, 2016 and 2015

(Expressed in United States Dollars)

	Nine Months Ended September 30,	
	2016	2015
	$	$
Operating activities:		
Net Loss	**(8,114,037)**	(10,827,904)
Items not involving cash:		
Amortization of licenses	**887,901**	747,853
Depreciation of property and equipment	**507,996**	262,811
Amortization of intangible assets other than licenses	**247,833**	2,230,569
Amortization of deferred lease inducement against rent expense	**-**	(3,444)
Gain on disposal of property and equipment	**-**	(48,012)
Share-based compensation	**164,542**	562,384
Interest expense	**9,077**	65,439
Accretion expense	**454,940**	-
Change in value of derivative liability	**(105,342)**	-
	(5,947,090)	(7,010,304)
Net change in non-cash working capital items		
Trade and other receivables	**(701,150)**	591,597
Investment tax credits	**112,030**	290,982
Inventories	**(11,619)**	(1,542,162)
Prepaid expenses and other assets	**227,739**	(404,677)
Accounts payable and accrued charges	**187,483**	(154,706)
	(6,132,607)	(8,229,270)
Interest paid	**(264,996)**	(70,071)
	(6,397,603)	(8,299,341)
Financing activities:		
Repayment of term loan *(Note 4)*	**(800,000)**	(900,000)
Proceeds from loan facility *(Note 4)*	**6,500,000**	-
Loan financing costs *(Note 4)*	**(508,156)**	-
Repayment of obligation under finance lease	**(51,417)**	-
Repayment of license liabilities	**(600,986)**	(464,150)
Proceeds from exercise of stock options	**26,832**	2,633
Proceeds from exercise of non-broker warrants	**-**	6,206,542
Proceeds from exercise of Special Warrants	**-**	6,431,121
Proceeds from exercise of broker warrants	**-**	331,353
	4,566,273	11,607,499
Investing activities:		
Acquisition of property and equipment	**(372,159)**	(717,082)
Proceeds from disposal of property and equipment	**-**	48,012
Acquisition of licenses	**(20,565)**	-
	(392,724)	(669,070)
Effect of foreign exchange rate changes on cash	**(336)**	(147,752)
(Decrease) increase in cash	**(2,224,390)**	2,491,336
Cash, beginning of period	**2,949,525**	3,133,443
Cash, end of period	**725,135**	5,624,779

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

1. Nature of operations and continuation of the business

Spectra7 Microsystems Inc. (the “Company” or “Spectra7”), is a publicly traded company listed on the Toronto Stock Exchange (the “Exchange”). The Company is a consumer connectivity company delivering bandwidth, speed and resolution to enable disruptive industrial design for consumer electronics manufacturers in Virtual Reality (“VR”), Augmented Reality (“AR”) Wearable Computing, Data Centers and Ultra-HD 4K/8K Displays.

The Company is domiciled in Canada and its registered office and principal place of business is located at Suite 202 - 110 Cochrane Drive, Markham, Ontario, L3R 9S1.

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 in operation 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. To date, the Company has funded operations through debt financings and public and private placement equity offerings. During the nine months ended September 30, 2016, $6,500,000 was raised through a loan facility (see Note 4). Subsequent to the quarter ended September 30, 2016, the Company raised equity financing (See Note 8). The Company’s ability to continue as a going concern is dependent about its ability to obtain additional financing and/or achieve profitable operations in the future. These uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern. If the going concern assumption was not appropriate for these interim financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported net loss, and the classifications used in the statement of financial position.

The condensed interim consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate.

2. Basis of presentation

a) Statement of compliance

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

These condensed interim consolidated financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company’s 2015 audited consolidated financial statements and accompanying notes.

Other than the new accounting standards in effect for the Company (Note 3), 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 year ended December 31, 2015.

The condensed interim consolidated financial statements were approved for issuance by the Board of Directors on November 10, 2016.

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.

2. Basis of presentation (continued)

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).

Intercompany balances, transactions, revenues and expenses are eliminated upon consolidation.

3. Accounting standards update

The following new standards, amendments to standards and interpretations have been issued but are not yet effective for the three and nine months ended September 30, 2016 and accordingly, have not been applied in preparing these condensed interim consolidated financial statements:

- IFRS 9, Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the impact of this standard.

- IFRS 15, Revenue from Contracts

The IASB has issued IFRS 15 *Revenue from Contracts with Customers*. The standard replaces IAS 11 *Construction Contracts*, IAS 18 Revenue, *IFRIC 13 Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets From Customers* and SIC 31 *Revenue – Barter Transactio*ns Involving Advertising Services. IFRS 15 establishes principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contract with customers. This standard is effective for annual periods beginning on or after January 1, 2018, and permits early adoption. The Company is in the process of determining the impact of this standard.

- IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 – Leases which establishes the principles that an entity should use to determine the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17, Leases, and related Interpretations. IFRS 16 is effective from January 1, 2019 though a company can choose to apply IFRS 16 before that date but only in conjunction with IFRS 15 Revenue from Contracts with Customers. The Company is currently assessing the impact of this standard.

(Expressed in United States Dollars)

4. Term loan

		September 30, 2016	December 31, 2015
		$	$
(a)	Balance at issuance	**6,500,000**	-
	Less: financing costs	**508,156**	-
		5,991,844	-
	Fair value of derivative liability on initial recognition	**(151,690)**	-
	Net liability component on initial recognition	**5,840,154**	-
	Accretion expense	**454,940**	-
	Payments	**(251,875)**	-
	Liability component at September 30, 2016	**6,043,219**	-
(b)	$3,000,000 term loan bearing interest at bank prime plus 2.5% payable in 30 equal monthly principal installments of $100,000 starting on March 1, 2014, loan was fully repaid on March 30, 2016	**-**	800,000
		6,043,219	800,000
Current portion - payable no later than one year		**6,043,219**	800,000
		-	-

(a) On March 30, 2016, the Company closed a $6,500,000 senior secured 36 month term loan facility (the "loan facility") bearing interest at the 30 day LIBOR, subject to a LIBOR floor of 0.50% (the "interest rate floor"), plus 8.50%. The loan facility is an interest only facility for the first 12 months of the term with 24 equal monthly principal installments of $270,833 plus interest thereafter until the maturity date on March 30, 2019. The loan facility also includes an early repayment option (the "prepayment option") which provides for the early repayment of all or part of the outstanding principal and accrued interest, subject to early repayment terms and fees. In connection with the establishment of the loan facility, the Company incurred $508,156 in financing costs.

The loan facility is secured by a first charge over all of the existing and subsequently acquired assets of the Company and each of its subsidiaries other than its subsidiary located in China.

Pursuant to the terms of the loan facility, the Company issued to the lenders an aggregate of 855,010 common share purchase warrants (each, a "Facility Warrant") with each Facility Warrant being exercisable into one common share in the capital of the Company for a period of five years at a price of CDN $0.60 per share.

At inception, since the number of common shares to be issued by the Company upon exercise of the Facility Warrants was not fixed and fail the "fixed-for-fixed" criteria for equity classification, the Facility Warrants have been classified as a derivative liability and accounted for separately from the loan facility. The fair value of the loan facility was then determined as the difference between the face value of the loan facility and the fair value of the derivative liability. Subsequently, the loan facility is being carried at amortized cost. Transaction fees noted above have been proportionately allocated between the derivative liability and the loan facility. The derivative liability was revalued at September 30, 2016 with the decrease in value of $51,978 and $105,342 recognized in the statement of financial position and statement of loss and comprehensive loss for the three and nine month periods ended September 30, 2016, respectively.

At inception of the loan facility, since the interest rate floor exceeded the loan facility's rate of 30 day LIBOR plus 8.5%, an embedded derivative resulted which requires the value of the interest rate floor be separated from the carrying value of the loan facility. The prepayment option as described above also resulted in an embedded derivative that required bifurcation. At March 30, 2016, the Company classified these embedded derivative liabilities associated with the interest rate floor and the prepayment option as financial liabilities at fair value through profit or loss. At March 30, 2016, the Company has determined that the interest rate floor

(Expressed in United States Dollars)

4. Term loan (continued)

derivative and prepayment option had a $Nil fair, value which remained at $Nil as at September 30, 2016.

The loan facility imposes covenants and obligations on the Company, including a covenant to meet certain trailing revenue targets. At September 30, 2016, the Company was in default of a covenant regarding a change in senior management and of the trailing revenue covenant. On October 11, 2016, the Company entered into a conditional waiver and first amendment to the loan facility in order to waive the current events of default, bring the revenue covenants in line with the current business forecast and to address the risk of future defaults. The waiver and amendment was subject to a condition requiring receipt by the Company of CDN $6,000,000 in gross proceeds by October 26, 2016 in connection with a bought deal public offering of common shares of the Company, which condition was met on October 26, 2016 (see Note 8). As of September 30, 2016, the lender maintained its right to demand repayment of the loan and therefore the full balance of the loan facility has been classified as current.

(b) On February 5, 2013, the Company secured a $3,000,000 term loan (the "term loan") with a Schedule III foreign bank (the "bank"). Pursuant to the agreement governing the term loan (the "loan agreement"), the bank was granted 160,600 warrants to purchase common shares at an exercise price of CDN $0.934 per share. The warrants expired on February 5, 2016.

On September 25, 2014, pursuant to a loan amendment agreement with the bank, certain financial terms in the loan agreement were amended and the bank was granted 48,990 warrants to purchase common shares at an exercise price of CDN $0.41 per share exercisable at any time up to August 5, 2016. The fair value attributed to the warrants recorded as "Finance expense - warrants" was determined using the Black Scholes valuation model with the following assumptions: risk free interest rate of 1.09%, expected life of 1.9 years and expected volatility of 34%.

On March 30, 2016, the Company used a portion of the net proceeds received from the loan facility to repay the term loan in full.

Included in “Finance expenses - interest and fees” is an interest expense related to the term loan of $8,893 for the three and nine months ended September 30, 2016, respectively ($17,713 and $114,028 for the three and nine months ended September 30, 2015, respectively).

5. Shareholders' equity

(a) Common shares

- Authorized share capital consists of an unlimited number of common shares.
- Issued and outstanding common shares:

	Common Shares	
	#	$
Balance, December 31, 2015	**126,984,471**	**118,287,722**
Shares issued under Restricted Share Unit plan	153,508	103,743
Exercise of stock options	85,000	33,857
Balance, September 30, 2016	**127,222,979**	**118,425,322**

(Expressed in United States Dollars)

5. Shareholders' equity (continued)

(a) Common shares (continued)

	Common Shares	
	#	$
Balance, December 31, 2014	**92,762,669**	**105,078,025**
Shares issued on exercise of broker share and unit purchase warrants *(i)*	1,007,100	457,603
Shares issued on exercise of non-broker warrants *(ii)*	18,902,700	7,031,425
Equity financing advisory fee *(iii)*	-	(1,334,163)
Exercise of stock options	8,124	4,201
Shares issued on exercise of Special Warrants *(iv)*	12,494,765	6,201,438
Special compensation options issued to brokers *(iv)*	-	(80,323)
Balance, September 30, 2015	**125,175,358**	**117,358,206**

(i) Exercise of broker warrants

During the nine month period ended September 30, 2015, 367,144 common share purchase broker warrants and 639,956 unit purchase broker warrants were exercised for total proceeds of $331,353. Each unit entitled the holder to purchase one common share and one warrant to purchase one common share at a price of CDN $0.45 until March 28, 2015. As a result of the exercise of the common share and unit purchase broker warrants, the Company issued 1,007,100 common shares and 639,956 common share purchase warrants. $126,250 and $2,339 of share-based payment reserve was re-allocated to common shares and warrants in equity, respectively.

(ii) Exercise of non-broker warrants

During the nine month period ended September 30, 2015, 18,902,700 non-broker warrants were exercised for total gross proceeds of $6,798,666, resulting in the issuance by the Company of 18,902,700 common shares. $232,759 of share-based payment reserve was re-allocated to the common shares.

(iii) Equity financing advisory fee

According to the terms of an advisory services agreement dated November 11, 2014, an advisory fee in the amount of CDN $750,000 was to be paid if, by March 31, 2015, the Company received at least CDN $10,000,000 in gross proceeds from (i) a new non-brokered offering of equity securities; or (ii) upon the exercise of convertible securities that were outstanding as of October 8, 2014. At March 31, 2015, the Company had received CDN $13,519,776 from the exercise of broker and non-broker warrants that were outstanding on October 8, 2014, thereby meeting the second condition for the payment of the fee. On April 1, 2015, the advisory fee in the amount of $592,124 (CDN $750,000) was paid.

On March 30, 2015, the advisory services agreement was amended to grant the advisor (i) options to purchase up to 1,123,000 common shares (being equal to 1% of the issued and outstanding common shares as at the close of business on March 30, 2015), vesting immediately at an exercise price of CDN $0.66 per share until November 11, 2016; and (ii) 1,123,000 restricted share units (“RSUs”) (representing 1% of the issued and outstanding common shares as at the close of business on March 30, 2015), vesting fully on November 11, 2015. The fair value of the 1,123,000 options, recorded as share issuance costs on the vesting date of March 30, 2015, was estimated at $159,128 using the Black Scholes option pricing method with following assumptions: dividend yield of 0%, risk free interest rate of 0.46% and expected volatility of 35%. The fair value of the 1,123,000 RSUs will be recognized as share issuance costs over the vesting period from April 1, 2015 to November 11, 2015 and will be determined based on the Company's common share price on the grant date of CDN$ 0.75 per share.

5. Shareholders' equity (continued)

(a) Common shares (continued)

(iv) Exercise of Special Warrants

On May 4, 2015, the Company issued (i) 12,322,250 special warrants ("Special Warrants") of the Company at CDN $0.70 per Special Warrant on a bought deal private placement basis led by a syndicate of underwriters (the "Underwriters"), and (ii) 172,515 Special Warrants on a non-brokered private placement basis directly to a director of the Company (together, the "Special Warrant Offering"). As a result, a total of 12,494,765 Special Warrants were issued for gross proceeds of $7,221,849 (CDN $8,746,336). The Company incurred $790,728 in issuance costs for net proceeds of $6,431,121.

Each Special Warrant was exercisable, for no additional consideration into one unit ("Unit"), with each Unit consisting of one common share and one-half of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder thereof to purchase one common share at an exercise price of CDN $0.90 at any time up to May 4, 2017, subject to acceleration in certain circumstances. All Special Warrants were deemed exercised on June 5, 2015 (the "Deemed Exercise Date") following the Company obtaining a receipt for a final short form prospectus on June 4, 2015 qualifying the distribution of the common shares and Warrants underlying the Special Warrants.

In consideration of the services provided by the Underwriters, the Company paid a cash fee equal to 6% of the gross proceeds raised in the Special Warrant Offering and issued to the Underwriters 728,895 special compensation options ("Special Compensation Options"). Each Special Compensation Option was automatically converted into one compensation option (the "Compensation Option") on the Deemed Exercise Date, and each Compensation Option is exercisable to acquire one Unit at an exercise price of CDN $0.70, at any time up to May 4, 2017. The fair value of the Compensation Options estimated at $83,298 was recorded as part of the issuance costs of the Special Warrant Offering.

Of the total net proceeds of $6,431,121, $229,683 was allocated to the Warrants based on their fair value as determined pursuant to the Black Scholes option pricing model and assuming a dividend yield of 0%, a risk free interest rate of 0.49% and expected volatility of 35%, with the remaining proceeds of $6,201,438 allocated to the common shares. The fair value of the Compensation Options was allocated to warrants in equity and to common shares at the same proportion at $2,975 and $80,323, respectively.

(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.

(i) Restricted Share Units (RSU)

The RSU Plan provides that the aggregate number of common shares that may be reserved for issuance may not exceed 6,750,000 common shares (September 30, 2015 - 6,750,000 common shares).

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.

(Expressed in United States Dollars)

5. Shareholders' equity (continued)

(b) Share-based compensation (continued)

(i) Restricted Share Units (RSU) (continued)

The following table summarizes information about the Company's outstanding RSUs as at September 30, 2016 and 2015:

	September 30, 2016	September 30, 2015
	#	#
Balance, opening	**2,027,601**	**1,980,077**
Granted	6,094,100	1,678,000
Vested and common shares issued	(153,508)	-
Forfeited	(1,335,953)	(166,363)
Balance, ending	**6,632,240**	**3,491,714**
Units available for issuance	**117,760**	**3,258,286**

(ii) Stock options

The Company's Option Plan provides that the number of common shares reserved for issuance may not exceed 8,750,000 common shares (September 30, 2015 - 6,750,000 common shares). At the annual and special meeting of holders of common shares held on June 16, 2016, the shareholders approved an increase in the fixed maximum number of common shares reserved for issuance under the Stock Option Plan from 6,750,000 common shares to 8,750,000 common shares.

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.

The following table summarizes information about the Company's outstanding stock options as at September 30, 2016 and 2015:

	September 30, 2016		September 30, 2015	
	Number of Options	Weighted Average Price	Number of Options	Weighted Average Price
	#	CDN $	#	CDN $
Options outstanding, opening	**4,508,030**	**0.71**	**2,612,276**	**0.83**
Granted	1,194,100	0.68	1,763,000	0.62
Exercised	(85,000)	0.41	(8,124)	0.36
Forfeited	(1,258,711)	0.75	(246,876)	0.80
Options outstanding, ending	**4,358,419**	**0.69**	**4,120,276**	**0.75**
Options available for issuance	**4,391,581**		**2,629,724**	

(Expressed in United States Dollars)

5. Shareholders' equity (continued)

(b) Share-based compensation (continued)

(ii) Stock options (continued)

The following table is a summary of the Company's stock options outstanding as at September 30, 2016:

	Options Outstanding			Options Exercisable	
Exercise price range	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
CDN $	#	#	CDN $	#	CDN $
0.21 - 0.40	320,000	6.0	0.39	17,499	0.36
0.41 - 0.60	753,645	4.7	0.47	427,409	0.46
0.61 - 0.80	2,017,100	2.3	0.67	1,575,099	0.67
0.81 - 1.00	1,267,674	3.8	0.93	1,140,180	0.93
Balance, September 30, 2016	**4,358,419**	**3.4**	**0.69**	**3,160,187**	**0.73**

The following table is a summary of the Company's stock options outstanding as at September 30, 2015:

	Options Outstanding			Options Exercisable	
Exercise price range	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
CDN $	#	#	CDN $	#	CDN $
0.21 - 0.40	30,000	5.7	0.36	10,000	0.36
0.41 - 0.60	685,000	6.1	0.48	74,085	0.51
0.61 - 0.80	1,690,500	2.5	0.68	1,261,559	0.67
0.81 - 1.00	1,714,776	5.0	0.93	683,090	0.93
Balance, September 30, 2015	**4,120,276**	**4.2**	**0.75**	**2,028,734**	**0.75**

(iii) Share based compensation expense

For its RSU Plan and Option Plan, the Company recognized share-based compensation expense of $121,730 and expense of $164,542 for the three and nine months ended September 30, 2016, respectively (September 30, 2015 - $193,724 expense and $562,384 expense, respectively) with a corresponding amount recognized as share-based payment reserve. Stock options and RSUs granted in connection with the issuance of equity instruments are deducted from equity. The fair value of stock options granted during the nine months ended September 30, 2016 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,	
	2016	2015
Dividend yield	0%	0%
Expected volatility	41%	39%
Risk free rate of return	1.10%	0.75%
Forfeiture rate	10%	10%
Expected life	6.8 years	3.4 years

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

(Expressed in United States Dollars)

5. Shareholders' equity (continued)

(c) Warrants

The following table summarizes information about the Company's outstanding warrants as at September 30, 2016 and 2015:

	September 30, 2016		September 30, 2015	
	Number of Warrants	Weighted Average Price	Number of Warrants	Weighted Average Price
	#	CDN $	#	CDN $
Balance, opening	**7,185,867**	**0.88**	**19,946,685**	**0.45**
Finance warrants issued *(Note 4(a))*	855,010	0.60	-	-
Finance warrants expired	(209,590)	0.81	-	-
Non-broker warrants issued	-	-	639,956	0.45
Non-broker warrants exercised	-	-	(18,902,700)	0.45
Non-broker warrants expired	-	-	(191,565)	0.45
Non-broker warrants issued (1)	-	-	6,247,382	0.90
Broker warrants (Compensation options) issued	-	-	728,895	0.70
Broker unit purchase warrants exercised	-	-	(639,956)	0.30
Broker share purchase warrants exercised	-	-	(367,144)	0.55
Broker share purchase warrants expired	-	-	(149,080)	0.60
Balance, ending	**7,831,287**	**0.85**	**7,312,473**	**0.87**

The following is a summary of the warrants outstanding as at September 30, 2016:

Number of warrants outstanding	**Exercise Price**	**Expiry Date**
Non-broker Warrants		
6,247,382 (1)	CDN $0.90	May 4, 2017 (1)
Broker Warrants		
728,895 (Compensation options)	CDN $0.70	May 4, 2017
Finance Warrants		
855,010	CDN $0.60	March 30, 2021

The following is a summary of the warrants outstanding as at September 30, 2015:

Number of warrants outstanding	**Exercise Price**	**Expiry Date**
Non-broker Warrants		
6,247,382 (1)	CDN $0.90	May 4, 2017 (1)
Broker Warrants		
728,895 (Compensation options)	CDN $0.70	May 4, 2017
126,606	CDN $0.55	December 12, 2015
Finance Warrants		
160,600	CDN $0.93	February 5, 2016
48,990	CDN $0.41	August 5, 2016

(1) Each warrant entitles the holder to purchase one common share at an exercise price of CDN $0.90 until May 4, 2017, subject to acceleration in certain circumstances.

6. 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

(Expressed in United States Dollars)

6. Related party transactions (continued)

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,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Salaries, fees and short-term benefits	**355,871**	214,583	**1,151,654**	644,255
Share-based compensation	**113,903**	141,607	**7,098**	408,526
	469,774	356,190	**1,158,752**	1,052,781

7. Reclassification of comparative figures

Certain comparative figures have been reclassified to conform to the current period's presentation.

8. Subsequent event

On October 4, 2016, the Company announced that it had entered into an agreement with a syndicate of underwriters led by Canaccord Genuity Corp. (together, the "Underwriters"), to purchase on a bought deal basis, 17,650,000 common shares of the Company at a price of CDN $0.34 per common share (the "Offering Price") for gross proceeds to the Company of CDN $6,000,000 (the "Offering"). The Company also granted the Underwriters an option to increase the size of the Offering by up to 15% at any time up to 30 days following the closing of the Offering. On October 11, 2016, the Company announced that the Offering was amended to increase the number of common shares to 19,705,883 representing aggregate gross proceeds of CDN $6,700,000. The Company closed the Offering on October 26, 2016.

In consideration of the services provided by the Underwriters, the Company paid a cash commission of CDN $360,040 and reimbursed the Underwriters for their expenses in connection with the Offering. The Company also issued to the Underwriters an aggregate of 1,410,941 non-transferable compensation options (the “2016 Compensation Options”), with each 2016 Compensation Option entitling the holder thereof to acquire one common share at the Offering Price until October 26, 2018.

In addition, on closing of the Offering, the Company granted options to purchase an aggregate of 3,453,485 common shares to Raouf Halim, the Chief Executive Officer of the Company. The options granted to Mr. Halim are exercisable at a price of $0.34 per share until October 26, 2026.