Unaudited Condensed Interim Consolidated Financial Statements of

SPECTRA7 MICROSYSTEMS INC.

For the Three and Six Months Ended June 30, 2017 and 2016

(Expressed in United States Dollars)

SPECTRA7 MICROSYSTEMS INC.
(Unaudited)

For the Three and Six Months Ended June 30, 2017 and 2016

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SPECTRA7 MICROSYSTEMS INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (Unaudited)
Three and Six Months Ended June 30, 2017 and 2016
(Expressed in United States Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Revenue	**3,081,694**	2,600,728	**5,743,664**	5,140,429
Cost of sales	**1,146,874**	1,166,723	**2,204,047**	2,122,968
Gross margin	**1,934,820**	1,434,005	**3,539,617**	3,017,461
Expenses (Income):				
Research and development, net of investment tax credits and including amortization of licenses	**1,586,326**	2,438,550	**3,347,121**	4,469,441
Sales and marketing	**430,911**	427,220	**867,691**	1,051,979
General and administrative	**953,767**	903,680	**1,935,809**	1,772,297
Depreciation of property and equipment	**152,895**	154,293	**307,697**	303,167
Amortization of intangible assets other than licenses	**-**	-	**-**	247,833
Share-based compensation *(Note 5(b)(iii))*	**364,028**	(125,468)	**688,564**	42,812
Accretion expense *(Note 4)*	**217,256**	223,896	**450,469**	227,146
Change in derivative liability *(Note 4)*	**(24,408)**	(53,544)	**(826)**	(53,544)
Finance expense - interest and fees	**208**	-	**439**	18,205
Foreign exchange (gain) loss	**(6,462)**	8,587	**(2,670)**	14,134
Loss on disposal of property and equipment	**15,590**	-	**15,590**	-
	3,690,111	3,977,214	**7,609,884**	8,093,470
Net Loss	**(1,755,291)**	(2,543,209)	**(4,070,267)**	(5,076,009)
Other comprehensive loss:				
Unrealized foreign currency translation	**(14,821)**	(1,973)	**(14,093)**	(12,133)
Total comprehensive loss	**(1,770,112)**	(2,545,182)	**(4,084,360)**	(5,088,142)
Loss per share				
Basic and diluted	**(0.01)**	(0.02)	**(0.03)**	(0.04)
Weighted average number of common shares outstanding				
Basic and diluted	**147,786,842**	126,984,520	**148,129,704**	126,984,496

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)
Six Months Ended June 30, 2017 and 2016
(Expressed in United States Dollars)

	Common shares	Share-based payment reserve	Warrants	Deficit	Accumulated other comprehensive loss	Total
	$	$	$	$	$	$
Balance, December 31, 2015	**118,287,722**	**2,041,101**	**226,708**	**(111,774,406)**	**(217,932)**	**8,563,193**
Exercise of stock options	1,776	(369)	-	-	-	1,407
Share-based compensation expense	-	42,812	-	-	-	42,812
Total comprehensive loss	-	-	-	(5,076,009)	(12,133)	(5,088,142)
Balance, June 30, 2016	**118,289,498**	**2,083,544**	**226,708**	**(116,850,415)**	**(230,065)**	**3,519,270**
Balance, December 31, 2016	**123,025,472**	**2,247,744**	**226,708**	**(122,940,314)**	**(242,787)**	**2,316,823**
Non-broker warrants expired	-	226,708	(226,708)	-	-	-
Units issued on public offering *(Note 5(a))*	3,487,349	-	-	-	-	3,487,349
Units issued on private placement for cash *(Note 5(a))*	786,397	-	-	-	-	786,397
Units issued on private placement for services *(Note 5(a))*	208,483	-	-	-	-	208,483
Allocation of warrants portion of Units *(Note 5(a))*	(71,734)	-	71,734	-	-	-
Issuance costs *(Note 5(a))*	(558,657)	-	(9,087)	-	-	(567,744)
Compensation options issued to brokers *(Note 5(a))*	(23,867)	24,255	(388)	-	-	-
Units issued to brokers as commission *(Note 5(a))*	112,644	-	1,832	-	-	114,476
Exercise of stock options	17,412	(5,134)	-	-	-	12,278
Share-based compensation expense	-	688,564	-	-	-	688,564
Total comprehensive loss	-	-	-	(4,070,267)	(14,093)	(4,084,360)
Balance, June 30, 2017	**126,983,499**	**3,182,137**	**64,091**	**(127,010,581)**	**(256,880)**	**2,962,266**

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, 2017 and December 31, 2016
(Expressed in United States Dollars)

	June 30, 2017	December 31, 2016
	$	$
Assets		
Current assets:		
Cash	**3,777,178**	2,113,700
Trade and other receivables	**2,605,472**	1,973,613
Investment tax credits	**90,491**	77,319
Inventories	**1,725,954**	1,878,255
Prepaid expenses and other assets	**739,858**	533,574
	8,938,953	6,576,461
Non-current investment tax credits	**72,551**	50,902
Goodwill	**1,648,454**	1,648,454
Property and equipment	**1,128,993**	1,191,971
Intangible assets	**567,285**	1,022,663
	12,356,236	10,490,451
Liabilities		
Current liabilities:		
Accounts payable and accrued charges	**3,579,105**	1,599,275
License liabilities	**28,032**	315,070
Obligation under finance lease	**47,560**	62,014
Term loan *(Note 4)*	**311,393**	2,166,887
Derivative liability *(Note 4)*	**107,328**	39,001
	4,073,418	4,182,247
Non-current license liabilities	**7,008**	21,024
Obligation under finance lease	**7,211**	10,671
Non-current portion of term loan *(Note 4)*	**5,306,333**	3,959,686
	9,393,970	8,173,628
Shareholders' Equity		
Common shares *(Note 5(a))*	**126,983,499**	123,025,472
Share-based payment reserve	**3,182,137**	2,247,744
Warrants	**64,091**	226,708
Deficit	**(127,010,581)**	(122,940,314)
Accumulated other comprehensive loss	**(256,880)**	(242,787)
	2,962,266	2,316,823
	12,356,236	10,490,451

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, 2017 and 2016
(Expressed in United States Dollars)

	Six Months Ended June 30,	
	2017	2016
	$	$
Operating activities:		
Net Loss	**(4,070,267)**	(5,076,009)
Items not involving cash:		
Amortization of licenses	**468,148**	571,928
Depreciation of property and equipment	**351,768**	337,253
Amortization of intangible assets other than licenses	**-**	247,833
Loss on disposal of property and equipment	**15,590**	-
Share-based compensation	**688,564**	42,812
Interest expense	**439**	8,983
Accretion expense	**450,469**	227,146
Change in value of derivative liability	**(826)**	(53,544)
	(2,096,115)	(3,693,598)
Net change in non-cash working capital items		
Trade and other receivables	**(631,859)**	(1,804,736)
Investment tax credits	**(34,821)**	122,780
Inventories	**152,301**	37,336
Prepaid expenses and other assets	**(206,284)**	(186,046)
Accounts payable and accrued charges	**1,965,900**	346,183
	(850,878)	(5,178,081)
Interest paid	**(300,085)**	(115,402)
	(1,150,963)	(5,293,483)
Financing activities:		
Repayment of term loan *(Note 4)*	**-**	(800,000)
(Repayment of)/proceeds from loan facility *(Note 4)*	**(541,667)**	6,500,000
Loan financing costs *(Note 4)*	**(48,850)**	(508,156)
Repayment of obligation under finance lease	**(56,306)**	(33,223)
Repayment of license liabilities	**(301,054)**	(385,841)
Proceeds from exercise of stock options	**12,278**	1,407
Proceeds from issuance of Units, net of issuance costs *(Note 5(a))*	**4,028,961**	-
	3,093,362	4,774,187
Investing activities:		
Acquisition of property and equipment	**(266,202)**	(290,677)
Acquisition of licenses	**(12,770)**	(20,565)
	(278,972)	(311,242)
Effect of foreign exchange rate changes on cash	**51**	4,527
Increase (decrease) in cash	**1,663,478**	(826,011)
Cash, beginning of period	**2,113,700**	2,949,525
Cash, end of period	**3,777,178**	2,123,514

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 high performance analog semiconductor company targeting large, high growth markets in Virtual Reality ("VR"), Augmented Reality ("AR"), Mixed Reality ("MR"), data centers and consumer connectivity.

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. The Company incurred a comprehensive loss of $1,770,112 and $4,084,360 during the three and six month periods ended June 30, 2017, respectively and as of that date has an accumulated deficit of $127,010,581. To date, the Company has funded operations through debt financings and through private and public equity offerings. 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. These uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. During the three and six months ended June 30, 2017, the Company raised an aggregate of $4,028,961 in net cash proceeds through a public offering and private placement of units (see Note 5(a)). If the going concern assumption was not appropriate for these condensed interim consolidated 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 condensed interim consolidated statements 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 2016 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, 2016.

The condensed interim consolidated financial statements were approved for issuance by the Board of Directors on August 8, 2017.

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.
- 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 six months ended June 30, 2017 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 de-recognition 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 in the process of determining the impact of this standard on the Company's financial statements.

- 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 on the Company's financial statements.

- 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 in the process of determining the impact of this standard on the Company's financial statements.

- IFRS 2 – Share based payments

IFRS 2 has been amended to address (i) certain issues related to the accounting for cash settled awards, and (ii) the accounting for equity settled awards that include a "net settlement" feature in respect of employee withholding taxes. IFRS 2 is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of evaluating the impact of these amendments on the Company's financial statements.

(Expressed in United States Dollars)

4. Term loan

		$
(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	686,623
	Payments	(400,204)
	Liability component at December 31, 2016	**6,126,573**
	Accretion expense prior to Amendments *(b)*	309,195
	Payments prior to Amendments *(b)*	(792,598)
	Liability component prior to Amendments *(b)*	5,643,170
(b)	Refinancing costs	(118,003)
	Liability component after Amendments *(b)*	5,525,167
	Accretion expense	141,274
	Payments	(48,715)
	Liability component at June 30, 2017	**5,617,726**

(a) *Original Term Loan Facility*

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%. Prior to the Amendments (as defined below) becoming effective the loan facility was 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 included an early repayment option (the “prepayment option’) which provided 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 securing 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 until March 30, 2021 at a price of CDN $0.60 per share, subject to adjustment in certain circumstances.

At inception, since the number of common shares to be issued by the Company upon exercise of the Facility Warrants were not fixed and failed the "fixed for fixed" criteria for equity classification, the Facility Warrants were classified as a derivative liability and separated from the carrying value of the loan facility. In addition, since the interest rate floor exceeded the loan facility’s rate of 30 day LIBOR plus 8.5%, an embedded derivative resulted which required the value of the interest rate floor to 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 inception, the Company recognized each financial liability at its fair value plus, in the case of the loan facility, transaction costs directly attributable to its issuance. The fair values of the Facility Warrants, interest rate floor and prepayment option were determined using the Black-Scholes option pricing model. 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 Facility Warrants and embedded derivative liabilities. Financing costs noted above were proportionately allocated between the derivative liability and the loan facility. Those transaction costs allocated to the derivative liabilities

4. Term loan (continued)

were expensed immediately, whereas those allocated to the loan facility were added to its fair value at inception.

The derivative liability was revalued as at June 30, 2017, using the Black Scholes option pricing model with the following assumptions: risk free interest rate of 1.02%, expected life of 3.75 years and expected volatility of 36.11% at $37,137 with the decrease in fair value of the liability during the three and six months ended June 30, 2017 of $25,446 and $1,864, respectively recognized in the statement of loss and comprehensive loss.

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 inception and subsequently at June 30, 2017, the Company has determined that the interest rate floor derivative and prepayment option have a $Nil fair value.

Subsequent to initial recognition, the loan facility was being carried at amortized cost at an effective interest rate of 15.11% and the Facility Warrants and embedded derivative liabilities at fair value with the change in fair value being recorded in the statement of loss and comprehensive loss at the end of each reporting period.

(b) *Amendment to the Loan Facility*

On May 15, 2017, the Company signed an amendment to its $6.5 million senior secured term loan facility with MidCap (the "loan facility") which amendment became effective on June 27, 2017, which among other things, (i) extended the commencement date for principal payments under the Loan Facility from June 1, 2017 to June 1, 2018, and (ii) allows the Company to extend the maturity date of the Loan Facility by one year upon satisfaction of certain conditions precedent (together with the loan facility, the "amended loan facility").

In consideration for entering into the amended loan facility, the Company paid $48,850 of financing costs and issued warrants to purchase up to 750,000 common shares (the "Amendment Warrants") with each Amendment Warrant being exercisable into one common share in the capital of the Company until June 27, 2022 at a price of CDN $0.39 per share, subject to adjustment in certain circumstances. Since the number of common shares to be issued by the Company upon exercise of the Amendment Warrants are not fixed and fail the "fixed for fixed" criteria for equity classification, the Amendment Warrants have been classified as a derivative liability. On issuance of the Amendment Warrants, the fair value of the Amendment Warrants were determined using the Black Scholes option pricing model using the following assumptions: risk free interest rate of 0.85%, expected life of five years and expected volatility of 36.2%. The fair value of the derivative was $69,153 and $70,191 on June 27, 2017 and June 30, 2017 respectively. The increase in fair value of $1,038 was recognized in the statement of loss and comprehensive loss during the three and six months and ended June 30, 2017.

On entering into the amended loan facility, the Company completed an assessment that showed that the present value of the cash flows under the amended loan facility, including the financing costs and cost of warrants issued, differed less than 10% from the present value of the remaining cash flows of the loan facility. The amended loan facility has therefore been accounted for by adjusting the carrying value of the loan facility for both the financing costs paid and cost of the Amendment Warrants issued and by adjusting the effective interest rate such that the adjusted carrying amount and the revised estimate of future cash flows are discounted over the revised estimated life of the loan facility. The effective interest rate on the amended loan facility was determined to be 14.61%.

The loan facility imposes covenants and obligations on the Company, including a covenant to meet certain trailing revenue targets. In particular, the loan facility contains certain covenants and representations and warranties, the breach of which could result in a default and the acceleration of maturity of the loan facility, the lenders realizing on their security, or diminished availability of refinancing alternatives or increase the associated costs thereof. At June 30, 2017, the Company was in compliance with the covenants contained in the loan facility.

(Expressed in United States Dollars)

4. Term loan (continued)

(c) The term loan repayable in excess of one year is presented as long term liabilities:

	June 30, 2017	December 31, 2016
	$	$
Current portion - payable no later than one year	**311,393**	2,166,887
Non-current portion	**5,306,333**	3,959,686
	5,617,726	6,126,573

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, 2016	**147,440,171**	**123,025,472**
Units issued on public offering *(i)*	11,500,000	3,487,349
Units issued on private placement for cash *(i)*	2,593,250	786,397
Units issued on private placement for services *(i)*	687,500	208,483
Allocation of warrants portion of Units *(i)*	-	(71,734)
Issuance costs - shares portion *(i)*	-	(558,657)
Compensation options issued to brokers - shares portion *(i)*	-	(23,867)
Units issued to brokers as commission - shares portion *(i)*	377,500	112,644
Exercise of stock options	42,290	17,412
Balance, June 30, 2017	**162,640,711**	**126,983,499**
Balance, December 31, 2015	**126,984,471**	**118,287,722**
Exercise of stock options	4,500	1,776
Balance, June 30, 2016	**126,988,971**	**118,289,498**

(i) Offerings

On June 27, 2017, the Company closed a bought deal offering of 11,500,000 units (“Units”) at a price of CDN $0.40 per Unit, including the full exercise of the over-allotment option, for aggregate gross proceeds of $3,487,349 (CDN $4,600,000) (the “Public Offering”). The Public Offering was underwritten by a syndicate of underwriters led by Canaccord Genuity Corp. and including Eight Capital and Echelon Wealth Partners Inc. (the “Underwriters”). In addition to the Public Offering, the Company closed the first tranche of a private placement of 10,000,000 Units (the “Private Placement” and, together with the Public Offering, the “Offerings”) pursuant to which it issued 2,593,250 Units for additional gross proceeds of $786,397 (CDN $1,037,300), including the issuance of 687,500 Units for $208,482 (CDN $275,000) in services related to the Offerings.

Each Unit issued pursuant to the Offerings consists of one common share of the Company and one half of one Common Share purchase warrant (each whole warrant, a “Warrant”). Each Warrant entitles the holder to acquire one Common Share at an exercise price of CDN $0.55 per Common Share until June 27, 2019. The expiry date of the Warrants may be accelerated by the Company at any time if the volume weighted average trading price of the Common Shares on the facilities of the Toronto Stock

(Expressed in United States Dollars)

5. Shareholders' equity (continued)

(b) Share-based compensation (continued)

(ii) Stock options (continued)

Exchange (or such other exchange on which the Common Shares trade) is greater than CDN $0.85 for any 10 consecutive trading days following October 28, 2017.

In consideration for the services provided by the Underwriters, the Company paid commissions to the Underwriters in the form of $94,765 (CDN $125,000) in cash and 377,500 Units at CDN $0.40 per Unit. In addition, the Company issued to the Underwriters an aggregate of 690,000 non transferable compensation options (the "Compensation Options"). Each Compensation Option is exercisable into one common share at a price of CDN $0.40 until June 27, 2019. The fair value of the Compensation Options was determined at $24,255 using the Black Scholes option pricing model with the following assumptions: risk free interest rate of 0.69%, expected life of 2 years and expected volatility of 24.5%.

Proceeds from the Offerings, net of transaction costs in the amount of $591,999 and Units issued to the brokers for commission 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 0.69%, expected life of 2 years and expected volatility of 24.5%. Of the total combined net proceeds of $3,890,231 including Units issued for services related to the Offerings, $62,259 was attributed to the Warrants and classified as warrants in shareholders' equity. The issuance of Units to the brokers for a portion of the commission was allocated to common shares and Warrants at $112,644 and $1,832, 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)

At the annual and special meeting of holders of common shares (the "Shareholders") held on June 15, 2017 (the "Shareholders' Meeting"), Shareholders approved amendments to both the Option Plan and the RSU Plan to provide that the combined maximum number of common shares reserved for issuance under both the Option Plan and the RSU Plan, inclusive of existing stock options and RSUs, shall not exceed 29,450,000 common shares. The aggregate number of common shares reserved under the RSU Plan at June 30, 2016 was 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.

The following table summarizes information about the Company's outstanding RSUs as at June 30, 2017 and 2016:

	June 30, 2017	June 30, 2016
	#	#
Balance, opening	**6,098,431**	**2,027,601**
Granted	1,520,583	1,064,100
Forfeited	(133,853)	(1,241,110)
Balance, ending	**7,485,161**	**1,850,591**

(ii) Stock options

At the Shareholders' Meeting, Shareholders approved amendments to both the Option Plan and the RSU

(Expressed in United States Dollars)

5. Shareholders' equity (continued)

(b) Share-based compensation (continued)

(ii) Stock options (continued)

Plan to provide that the combined maximum number of common shares reserved for issuance under both the Option Plan and the RSU Plan, inclusive of existing stock options and RSUs, shall not exceed 29,450,000 common shares. The aggregate number of common shares reserved under the Option Plan at June 30, 2016 was 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 June 30, 2017 and 2016:

	June 30, 2017		June 30, 2016	
	Number of Options	Weighted Average Price	Number of Options	Weighted Average Price
	#	CDN $	#	CDN $
Options outstanding, opening	**6,551,251**	**0.51**	**4,508,030**	**0.71**
Granted	440,000	0.50	1,164,100	0.68
Exercised	(42,290)	0.39	(4,500)	0.41
Forfeited	(880,431)	0.80	(1,241,110)	0.75
Options outstanding, ending	**6,068,530**	**0.47**	**4,426,520**	**0.69**

The following table is a summary of the Company's stock options outstanding as at June 30, 2017:

	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	3,638,485	9.1	0.34	77,500	0.38
0.41 - 0.60	990,322	5.5	0.49	363,359	0.46
0.61 - 0.80	874,723	4.2	0.69	599,239	0.70
0.81 - 1.00	565,000	3.0	0.93	513,651	0.93
Balance, June 30, 2017	**6,068,530**	**7.3**	**0.47**	**1,553,749**	**0.71**

(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 June 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	6.3	0.39	15,624	0.36
0.41 - 0.60	813,830	4.5	0.46	454,701	0.45
0.61 - 0.80	2,022,100	2.5	0.68	1,553,062	0.67
0.81 - 1.00	1,270,590	4.1	0.93	1,101,331	0.93
Balance, June 30, 2016	**4,426,520**	**3.6**	**0.69**	**3,124,718**	**0.73**

(iii) Share based compensation expense

For its RSU Plan and Option Plan, the Company recognized share-based compensation expense of $364,028 and expense of $688,564 for the three and six months ended June 30, 2017, respectively (June 30, 2016 - $125,468 expense recovery and $42,812 expense, respectively) with a corresponding amount recognized as share-based payment reserve. The share-based compensation expense recovery recognized in the three months ended June 30, 2016 was as a result of the cancellation of unvested stock options and RSUs. 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 six months ended June 30, 2017 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,	
	2017	2016
Dividend yield	0%	0%
Expected volatility	40%	41%
Risk free rate of return	1.39%	1.10%
Forfeiture rate	10%	10%
Expected life	7.0 years	6.8 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 June 30, 2017 and 2016:

	June 30, 2017		June 30, 2016	
	Number of Warrants	Weighted Average Price	Number of Warrants	Weighted Average Price
	#	CDN $	#	CDN $
Balance, opening	**9,242,228**	**0.77**	**7,185,867**	**0.88**
Finance warrants issued *(Note 4(a))*	750,000	0.39	855,010	0.60
Finance warrants expired	-	-	(160,600)	0.93
Non-broker warrants issued	7,579,125	0.55	-	-
Non-broker warrants expired	(6,247,382)	0.90	-	-
Broker warrants (Compensation options) issued	690,000	0.40	-	-
Broker warrants (Compensation options) expired	(728,895)	0.70	-	-
Balance, ending	**11,285,076**	**0.51**	**7,880,277**	**0.85**

The following is a summary of the warrants outstanding as at June 30, 2017:

Number of warrants outstanding	**Exercise Price**	**Expiry Date**
Non-broker Warrants		
7,579,125	CDN $0.55	June 27, 2019
Broker Warrants (Compensation options)		
1,410,941	CDN $0.34	October 26, 2018
690,000	CDN $0.40	June 27, 2019
Facility Warrants		
855,010	CDN $0.60	March 30, 2021
Amendment Warrants		
750,000	CDN $0.39	June 27, 2022

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

Number of warrants outstanding	**Exercise Price**	**Expiry Date**
Non-broker Warrants		
6,247,382	CDN $0.90	May 4, 2017
Broker Warrants (Compensation options)		
728,895	CDN $0.70	May 4, 2017
Facility Warrants		
855,010	CDN $0.60	March 30, 2021
48,990	CDN $0.41	August 5, 2016

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 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.

(Expressed in United States Dollars)

6. Related party transactions (continued)

Certain directors and officers of the Company purchased an aggregate of 843,250 Units pursuant to the first tranche of the Private Placement which closed on June 27, 2017.

Key management personnel compensation is comprised of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Salaries, fees and short-term benefits	**434,999**	431,112	**859,870**	804,783
Share-based benefits	**337,139**	(193,152)	**632,822**	(106,805)
	772,138	237,960	**1,492,692**	697,978

7. Subsequent event

On July 21, 2017, the final tranche of the Private Placement (see Note 5(a)) closed pursuant to which an aggregate of 200,000 Units were issued representing gross proceeds of CDN $80,000.