

Consolidated Financial Statements of
SPECTRA7 MICROSYSTEMS INC.

Years Ended December 31, 2019 and 2018

(Expressed in United States Dollars)

SPECTRA7 MICROSYSTEMS INC.

Years Ended December 31, 2019 and 2018

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Independent Auditor's Report

To the Shareholders of Spectra7 Microsystems Inc.:

Opinion

We have audited the consolidated financial statements of Spectra7 Microsystems Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency and cash flows, for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a comprehensive loss of \$11,295,581 during the year ended December 31, 2019. As stated in Note 1, this event or condition, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially consistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report the fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Murad Bhimani.

MNP LLP

Toronto, Ontario
April 29, 2020

Chartered Professional Accountants
Licensed Public Accountants

MNP

SPECTRA7 MICROSYSTEMS INC.**Consolidated Statements of Loss and Comprehensive Loss****Years Ended December 31, 2019 and 2018****(Expressed in United States Dollars)**

	2019	2018
	\$	\$
Revenue	4,644,573	4,220,643
Cost of sales	2,072,071	1,977,455
Gross margin	2,572,502	2,243,188
Expenses (Income):		
Research and development, net of investment tax credits (Note 12) and including amortization of licenses	5,363,921	5,760,744
Sales and marketing	1,703,819	1,695,006
General and administrative	2,852,896	3,181,262
Depreciation of right-of-use assets (Note 4)	341,345	-
Depreciation of property and equipment (Note 15)	395,421	648,190
Share-based compensation (Note 8(b))	1,076,131	1,714,358
Interest on lease obligation of right-of-use asset (Note 5)	71,150	-
Accretion expense (Note 6 and 7)	1,863,945	1,653,580
Extinguishment of term loan (Note 7(c))	-	902,349
Change in derivative liability (Note 7)	(35)	(181,032)
Foreign exchange gain	(56,936)	(58,037)
Loss on disposal of property and equipment (Note 15)	2,901	235,121
Impairment of current assets (Note 14)	-	1,880,701
Total Expenses	13,614,558	17,432,242
Net Loss	(11,042,056)	(15,189,054)
Other comprehensive (loss) gain:		
Unrealized foreign currency translation	(253,525)	574,858
Total comprehensive loss	(11,295,581)	(14,614,196)
Loss per share		
Basic and diluted	(0.04)	(0.08)
Weighted average number of common shares outstanding		
Basic and diluted	298,520,049	191,090,320

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

SPECTRA7 MICROSYSTEMS INC.

Consolidated Statement of Changes in Shareholders' Deficiency
Years Ended December 31, 2019 and 2018
(Expressed in United States Dollars)

	Common shares	Share-based payment reserve	Convertible debentures- share conversion option	Warrants	Deficit	Accumulated other comprehensive loss	Total Shareholders' deficiency
	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2017 (Previously reported)	127,753,726	3,112,538	-	64,952	(134,611,895)	(258,971)	(3,939,650)
Impact of adopting IFRS 9 (Note 3)	-	-	-	-	(40,614)	-	(40,614)
Balance, December 31, 2017 (Restated)	127,753,726	3,112,538	-	64,952	(134,652,509)	(258,971)	(3,980,264)
<u>Public Offering of Convertible Debt Units (Note 6)</u>							
Equity component of convertible debentures, net of issuance costs	-	-	1,893,735	261,953	-	-	2,155,688
Special compensation options issued to brokers	-	69,379	(11,642)	(1,610)	-	-	56,127
Conversion of convertible debentures	2,350,928	-	(307,122)	-	-	-	2,043,806
<u>July Private Placement (Note 8(a)(ii))</u>							
Units issued on closing of 2018 July private placement	2,261,905	-	-	-	-	-	2,261,905
Allocation of warrant portion of Units	(266,858)	-	-	266,858	-	-	-
Warrants issued to finders	(11,147)	12,638	-	(1,491)	-	-	-
Shares issued as commission	10,914	-	-	-	-	-	10,914
Issuance costs in cash	(86,281)	-	-	(11,541)	-	-	(97,822)
Issuance costs in shares	(9,626)	-	-	(1,288)	-	-	(10,914)
<u>October Private Placement (Note 8(a)(iii))</u>							
Units issued on closing of October Private Placement	3,709,908	-	-	-	-	-	3,709,908
Allocation of warrant portion of Units	(344,152)	-	-	344,152	-	-	-
Issuance costs in cash	(230,971)	-	-	(23,617)	-	-	(254,588)
Warrants issued to finders	(28,680)	31,613	-	(2,933)	-	-	-
Shares issued under Restricted Share Unit Plan (Note 8(a)(iv))	1,020,260	(1,020,260)	-	-	-	-	-
Restricted share units issued on settlement of debt (Note 8(a)(iv))	-	26,373	-	-	-	-	26,373
Share-based compensation expense (Note 8(b)(iii))	-	1,714,358	-	-	-	-	1,714,358
Total comprehensive loss	-	-	-	-	(15,189,054)	574,858	(14,614,196)
Balance, December 31, 2018	136,129,926	3,946,639	1,574,971	895,435	(149,841,563)	315,887	(6,978,705)

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

SPECTRA7 MICROSYSTEMS INC.

Consolidated Statements of Changes in Shareholders' Deficiency

Years Ended December 31, 2019 and 2018

(Expressed in United States Dollars)

	Common shares	Share- based payment reserve	Convertible debentures – share conversion option	Warrants	Subscription received for units	Deficit	Accumulated other comprehensive loss	Total Shareholders' deficiency
	\$	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2018	136,129,926	3,946,639	1,574,971	895,435	-	(149,841,563)	315,887	(6,978,705)
Impact of adopting IFRS 16 (Note 3)	-	-	-	-	-	52,526	-	52,526
Adjusted balance, January 1, 2019	136,129,926	3,946,639	1,574,971	895,435	-	(149,789,037)	315,887	(6,926,179)
Shares issued under Restricted Share Unit plan (Note 8(b)(i))	1,519,168	(1,519,168)	-	-	-	-	-	-
Restricted share units granted to directors to settle unpaid directors' fees (Note 8(a)(i))	-	94,846	-	-	-	-	-	94,846
Non-broker warrants expired	-	64,952	-	(64,952)	-	-	-	-
Subscription received for common shares					(4,104)			(4,104)
Units issued pursuant August Private Placement (Note 8(a)(i))	3,504,607	-	-	-	-	-	-	3,504,607
Units issued pursuant to August Prospectus Offering	2,454,437	-	-	-	-	-	-	2,454,437
Allocation of warrants portion of August Units (Note 8(a)(i))	(397,601)	-	-	397,601	-	-	-	-
Cash paid for issuance costs (Note 8(a)(i))	(679,039)	-	-	(48,546)	-	-	-	(727,585)
Shares issued as commission on August Private Placement (Note 8(a)(i))	60,864	-	-	-	-	-	-	60,864
Shares issued as commission on August Prospectus (Note 8(a)(i))	81,941	-	-	-	-	-	-	81,941
Allocation of warrant portion of compensation shares (Note 8(a)(i))	(133,277)	-	-	(9,528)	-	-	-	(142,805)
Compensation options issued to brokers (Note 8(a)(i))	(112,919)	-	-	112,919	-	-	-	-
Share-based compensation expense (Note 8(b)(iii))	-	1,076,131	-	-	-	-	-	1,076,131
Total comprehensive loss	-	-	-	-	-	(11,042,056)	(253,525)	(11,295,581)
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)

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

SPECTRA7 MICROSYSTEMS INC.

Consolidated Statements of Financial Position

December 31, 2019 and December 31, 2018

(Expressed in United States Dollars)

	December 31, 2019	December 31, 2018
	\$	\$
Assets		
Current assets:		
Cash	71,121	932,203
Trade and other receivables	650,573	592,944
Investment tax credits (Note 12)	11,884	59,881
Inventories (Note 13)	482,925	998,260
Prepaid expenses and other assets	216,524	303,222
	1,433,027	2,886,510
Non-current investment tax credits (Note 12)	24,245	24,245
Property and equipment (Note 15)	613,330	987,901
Right-of-use assets (Note 4)	608,604	-
Intangible assets (Note 16)	312,546	360,344
	2,991,752	4,259,000
Liabilities		
Current liabilities:		
Trade and other payables	3,830,582	2,625,961
License liabilities (Note 16)	269,908	284,162
Obligation under finance lease	4,482	40,386
Promissory notes to related parties (Note 11)	1,040,000	300,000
Deferred revenue	17,533	748,800
Convertible debentures (Note 6)	9,008,693	-
Lease obligation on right-of-use assets (Note 5)	345,874	-
	14,517,072	3,999,309
Convertible debentures (Note 6)	-	7,238,396
Non-current lease obligation on right-of-use assets (Note 5)	298,107	-
	14,815,179	11,237,705
Shareholders' Equity		
Common shares (Note 8(a))	142,428,107	136,129,926
Share-based payment reserve (Note 8(c))	3,663,400	3,946,639
Convertible debentures - share conversion option (Note 6)	1,574,971	1,574,971
Warrants (Note 8(d))	1,282,929	895,435
Subscription received for shares not issued	(4,104)	-
Deficit	(160,831,092)	(149,841,563)
Accumulated other comprehensive loss	62,362	315,887
	(11,823,427)	(6,978,705)
	2,991,752	4,259,000

Going concern (Note 1)

Subsequent events (Note 22)

Signed on behalf of the Board:

"Ron Pasek"

Director

"Raouf Halim"

Director

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

SPECTRA7 MICROSYSTEMS INC.

Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018
(Expressed in United States Dollars)

	Year Ended December 31,	
	2019	2018
	\$	\$
Operating activities:		
Net Loss	(11,042,055)	(15,189,054)
Items not involving cash:		
Amortization of licenses (Note 16)	593,057	625,132
Depreciation of property and equipment (Note 15)	455,185	679,571
Depreciation of right-of-use assets (Note 4)	341,345	-
Interest expense	-	412
Share-based compensation (Note 8(b))	1,076,131	1,714,358
Accretion expense (Note 6 and 7)	1,863,945	1,653,580
Extinguishment of term loan (Note 7)	-	902,349
Change in value of derivative liability (Note 7)	(35)	(181,032)
Loss on disposal of property	2,901	235,121
Impairment of current assets (Note 14)	-	1,880,701
	(6,709,526)	(7,678,862)
Net change in non-cash working capital items		
Trade and other receivables	(57,629)	443,096
Investment tax credits	47,997	74,665
Inventories	515,335	654,123
Prepaid expenses and other assets	86,698	65,865
Trade and other payables	1,334,923	(2,289,237)
Deferred revenue	(731,267)	748,800
	(5,513,469)	(7,981,550)
Interest paid (Note 5, 6 and 15)	(379,637)	(791,044)
	(5,893,106)	(8,772,594)
Financing activities:		
Proceeds from issuance of convertible debt units (Note 6)	-	12,012,346
Repayments of convertible debentures (Note 6)	-	(726,951)
Payment to extinguish term loan (Note 7(c))	-	(6,525,127)
Proceeds from promissory notes to related parties	1,342,106	300,000
Repayment of promissory notes	(76,294)	(465,000)
Repayment of obligation under finance lease (Note 5)	(35,904)	(65,115)
Repayment of license liabilities	(14,254)	(253,160)
Repayment of lease obligation on right-of-use assets (Note 5)	(305,968)	-
Proceeds from issuance of 2018 October Units, net of issuance costs	-	3,455,319
Proceeds from issuance of 2018 July Units, net of issuance costs	-	2,164,083
Issuance costs related to prospectus and private placement	(727,585)	-
Proceeds from issuance shares	5,429,130	-
	5,611,231	9,896,395
Investing activities:		
Acquisition of property and equipment (Note 15)	(83,491)	(327,664)
Acquisition of licenses (Note 16)	(545,259)	(37,654)
	(628,750)	(365,318)
Effect of foreign exchange rate changes on cash	49,543	(167,735)
(Decrease)/Increase in cash	(861,082)	590,748
Cash, beginning of year	932,203	341,455
Cash, end of year	71,121	932,203

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

SPECTRA7 MICROSYSTEMS INC.

Notes to the Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

(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 Toronto Stock Exchange (the "TSX"). 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, Canada M5J 2T9.

The Company's consolidated financial statements for the years ended December 31, 2019 and 2018 (the "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 \$11,295,581 for the year ended December 31, 2019 (December 31, 2018 - \$14,614,196) and has an accumulated deficit of \$160,831,427 (December 31, 2018 - \$149,841,563). In addition the Company has a negative working capital of \$13,084,045 for the year ended December 31, 2019 (December 31, 2018 - \$1,112,799). These factors represent material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. 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. The consolidated financial statements do not reflect adjustments, which could be material, that would be necessary if the going concern assumption were not appropriate.

2. Basis of presentation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were approved for issuance by the Board of Directors on April 29, 2020.

b) Basis of measurement

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

c) Basis of consolidation

The 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. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently throughout the Company.

SPECTRA7 MICROSYSTEMS INC.

Notes to the Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

(Expressed in United States Dollars)

Inventories

Inventories consist of microchip component parts. Raw material inventories, work in process and finished goods are recorded at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to its present location and condition.

An assessment is made of the net realizable value of inventory at each reporting period. Net realizable value is the estimated selling price less the estimated cost of completion and the estimated costs necessary to make the sale. When circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of any write down previously recorded is reversed so that the new carrying amount is the lower of the cost and the revised net realizable value. Raw materials are not written down unless the goods in which they are incorporated are expected to be sold for less than cost, in which case, they are written down by reference to replacement cost of the raw materials, as this is the best indicator of net realizable value.

Financial instruments

The Company has adopted IFRS 9 Financial Instruments ("IFRS 9") on January 1, 2018. On adoption of IFRS 9, the Company adopted and implemented the following accounting policy:

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading including all equity derivative instruments are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election on an instrument-by-instrument basis to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL or the Company has opted to measure them at FVTPL. The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 Financial Instruments: Recognition and Measurements ("IAS 39") and the new classification under IFRS 9:

Financial Instrument	Classification	Measurement
Financial Assets		
Cash	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Financial Liabilities		
Trade and other payables	Other liabilities	Amortized cost
Obligation under finance lease	Other liabilities	Amortized cost
License liabilities	Other liabilities	Amortized cost
Loan Facility	Other liabilities	Amortized cost
Promissory notes to related parties	Other liabilities	Amortized cost
Derivative liability	FVTPL	FVTPL
Convertible debentures	Other liabilities	Amortized cost

Measurement

Financial assets and liabilities at amortized cost:

Financial assets and liabilities at amortized cost are initially recognized at fair value, and subsequently carried at amortized cost less any impairment.

SPECTRA7 MICROSYSTEMS INC.

Notes to the Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

(Expressed in United States Dollars)

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to twelve month expected credit losses. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the Consolidated Statements of Loss and Comprehensive Loss.

Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the Consolidated Statements of Loss and Comprehensive Loss.

Impact of adopting IFRS 9

Under IAS 39, the 2017 amendments to the term loan facility (note 7(b)) were accounted for as a modification such that the Company adjusted 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. Under IFRS 9, the Company recalculated the amortized cost of the modified term loan facility by discounting the modified contractual cash flows using the original effective interest rate. IFRS 9 requires that the difference between the amortized cost of the modified term loan facility and the carrying value of the term loan facility prior to amendment is recognized immediately through the profit or loss.

On adoption of IFRS 9, and in accordance with its transitional provisions, the Company has recognized the difference between the amortized cost of the modified term loan facility and the carrying value of the term loan facility prior to amendment of \$70,791 as an adjustment to opening deficit. In addition, the Company also recorded an adjustment to opening deficit for the change in accretion expense for the period from the modification date to December 31, 2017 of \$30,177.

Property and equipment

Property and equipment are carried at cost, less accumulated depreciation. The cost of an item of property and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is recognized based on the cost of an item of property and equipment, less its estimated residual value, using the straight-line method, over its estimated useful life at the following rates:

Computer software	1 year
Computer hardware, laboratory and testing equipment	3 years
Masks	Estimated life of the product, not to exceed 5 years
Office equipment	5 years
Leasehold improvements	Term of lease

SPECTRA7 MICROSYSTEMS INC.

Notes to the Consolidated Financial Statements

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(Expressed in United States Dollars)

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of loss and comprehensive loss. Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately are capitalized and depreciated over their estimated useful life. Repair and maintenance costs are recognized in the consolidated statements of loss and comprehensive loss as incurred.

The Company reviews the useful life, depreciation method and carrying value of its property and equipment annually with the effect of any changes in estimate accounted for on a prospective basis. Where the carrying value exceeds the estimated recoverable amount, an impairment is measured and recorded based on the higher of fair value less costs to sell or the asset's value in use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful life.

Intangible assets

Definite life intangible assets acquired in business combinations and pursuant to asset purchases are recorded at their fair values at the date of acquisition. Amortization is recognized on a straight-line basis over their estimated useful lives as follows:

Customer relationships	3 years
Software and technology	3 years

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The Company has no indefinite life intangibles.

Licenses

Licenses to use electronic design automation tools are recorded at the aggregate cost of the payments in the contract less accumulated amortization and accumulated impairment losses. Amortization commences in the year the license is put into use in the development of the microchip and is amortized on a straight-line basis over its remaining license term. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Liabilities due on license agreements are classified as other financial liabilities and are recognized initially at fair value and subsequently at amortized cost.

Impairment of tangible and intangible assets

The Company reviews at each reporting period the carrying amounts of its tangible and intangible assets which all have finite lives, to determine whether there are indicators that the carrying values are not recoverable. If such an indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs, the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other assets. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset or a cash generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not

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exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Government grants and investment tax credits

The Company is entitled to certain tax incentives for qualified scientific research and experimental development. These incentives are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to them and that the incentives will be received. The investment tax credits are recorded as a reduction of the relevant asset account or of research and development expenses in the period when the expenses occur.

Convertible debentures

The liability, equity and other (when applicable) components of convertible notes are presented separately on the statement of financial position, starting from initial recognition. The Company determines the carrying amount of the financial liability by discounting the stream of future payments at the prevailing market rate for a similar liability of comparable credit status and providing substantially the same cash flows. The liability component is then increased by accretion of the discounted amounts to reach the nominal value of the convertible notes at maturity which is recorded in the statement of comprehensive loss as accretion expense.

The carrying amount of other components (when applicable), such as warrants, is determined using the Black-Scholes option pricing model. The carrying amount of the equity component is calculated by deducting the carrying amount of the financial liability and the carrying amounts of any other components (when applicable) from the amount of the convertible notes, and is presented in Equity as an equity component of convertible notes. The equity component is not remeasured subsequent to initial recognition, except on conversion or expiry.

The transaction costs are distributed between liability, equity and other (when applicable) components, on a pro-rata basis according to their carrying amounts.

Borrowing costs

Borrowing costs comprise interest payable on borrowings calculated using the effective interest rate method, and the ascribed value of warrants, and are expensed when they are incurred unless they are directly attributable to the acquisition, construction or production of a qualifying asset.

Activity relating to various compensation options issued as commissions and fees to agents in relation to equity and debt financing are reflected within the warrants reserve on the consolidated statement of changes in equity.

Income taxes

Tax expense comprises current and deferred tax. Tax is recognized in the statements of comprehensive income except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current Tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that are enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred Tax

Deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In addition, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of loss and comprehensive loss in the period in which the enactment or substantive enactment takes place. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available to utilize such amounts. Deferred tax assets are reviewed at

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each reporting date and are adjusted to the extent that it is no longer probable that the related tax benefits will be realized.

The Company is subject to income tax assessment in multiple jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken in the ordinary course of business for which the ultimate tax determination is uncertain.

The Company recognizes liabilities based on the Company's current understanding of tax laws as applied to the Company's circumstances. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

The Company computes an income tax provision in each of the jurisdictions in which it operates. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of these financial statements. Additionally, estimating income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions against future taxable income before such deductions expire. The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period.

Foreign currencies

The consolidated financial statements are presented in United States dollars. The Company's functional currency is Canadian dollars. As such, an amount is recorded in other comprehensive loss for the translation to presentation currency. The functional currency of its subsidiaries is United States dollars given the majority of revenues and expenses are incurred in United States dollars. Transactions in currencies other than the functional currency are recorded at the rates of exchange at the date of the transaction. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost are translated using historical rates.

Exchange differences are recognized in profit or loss in the period in which they arise.

Revenue recognition

The Company has adopted IFRS 15 Revenue from Contracts with Customers ("IFRS 15") on a full retrospective basis as of January 1, 2018. Under the full retrospective method, the provisions of IFRS 15 are applied to each period presented in the financial statements, in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8"), subject to certain practical expedients that are outlined in IFRS 15.

On adoption of IFRS 15, the Company adopted and implemented the following accounting policy:

The Company's revenue is derived from one performance obligation which is to deliver the Company's product to its customers, being each individual distributor of the Company's product (the "Distributor"). Revenue is recognized when control of the Company's product is transferred to the Distributor and when the Distributor obtains control of the Company's product. The Company considers control to have passed at the point of shipment as all risk of loss or damage to the Company's product passes to the Distributor at this point.

In each period, the Company recognizes revenue, net of any variable consideration, including the right of return. The estimate of expected returns reflects the amount that the Company expects to repay or credit its Distributors, using the expected value method. Revenue includes amounts subject to returns only if it is highly probable that there will be no significant reversal of cumulative revenue if the estimate of expected returns changes.

The Company records an adjustment to cost of sales and inventories representing the Company's right to receive goods back from the Distributor. The adjustment to inventories is initially measured at the carrying amount of the products at the time of sale, less any expected costs to recover the product and any expected reduction in value. In subsequent periods, the Company updates its expected level of returns, adjusting the measurement of the returns liability and inventories.

Costs to obtain or fulfill a contract

The Company capitalizes the incremental costs of obtaining a customer if the Company expects to recover those costs. The incremental costs of obtaining a contract are those that the Company incurs to obtain a contract with a

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customer that it would not have incurred if the contract had not been obtained.

The Company capitalizes the costs incurred to fulfill a contract only if these costs meet all of the following criteria:

- (i) The costs relate directly to a contract or to an anticipated contract that the Company can specifically identify.
- (ii) The costs generate or enhance resources of the Company that will be used to satisfy (or in continuing to satisfy) performance obligations in the future.
- (iii) The costs are expected to be recovered.

Contract acquisition and fulfillment costs are amortized using the straight-line method over the expected period of benefit. Costs to obtain or fulfill a contract, if any, are classified as contract costs in the Company's Consolidated Statements of Financial Position.

Impact of adopting IFRS 15

Based on management's assessment there are no material retrospective adjustments to the amounts recognized in the Company's Consolidated financial statements for the comparative periods presented.

Deferred revenue

Customer deposits are recorded as deferred revenue on the consolidated statement of financial position and recognized to revenue when the product is shipped to the customer.

Leases

Effective January 1, 2019, the Company adopted IFRS 16: Leases ("IFRS 16") which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date.

Where a lease has two or more separate lease components the Company has accounted for each lease component within the contract as a lease separately from non-lease components of the contract. The non-lease components are accounted for by applying other applicable standards.

The right of use asset is initially measured at cost which comprises of the lease liability, lease payments made at or before the commencement date, initial indirect costs and asset retirement obligations, less any lease incentives. The right of use asset is subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option.

The lease liability is initially measured at the present value of the future lease payments discounted using the interest rate implicit in the lease or if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Subsequently, the lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has adopted IFRS 16 using the modified retrospective approach. Under this approach, the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to opening deficit at the date of initial application. Comparative information as at December 31, 2018 are not restated to reflect the adoption of IFRS 16 but continue as reported under IAS 17. The Company has elected to not apply IFRS 16 for short term leases that

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are 12 months or less and for leases of low value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

The Company has applied IFRS 16 on two leases for office premises with a commencement date of January 1, 2019. Using an incremental borrowing rate of 8.75%, a right of use asset and lease obligation of \$949,949 was recorded on January 1, 2019 with a reduction to opening deficit of \$52,526 for lease inducements.

Share-based payments

Share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Share-based payments to non-employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reasonably, in which case they are measured at the fair value of the equity instruments granted.

The Company maintains two share-based compensation plans for the benefit of its directors, officers, employees and consultants. These plans are a restricted share unit plan (the "RSU Plan") and a stock option plan (the "Stock Option Plan").

The RSU Plan is described in Note 8(b)(i). The fair-value of restricted share units ("RSUs") issued without payment (or if payment is less than fair value) to directors, officers, employees and consultants is determined upon the date of grant and (the difference if less than fair value) recognized as compensation expense over the vesting period for directors, officers or employees and over the period of service for consultants with a corresponding increase in equity. RSUs issued at fair value are booked as equity.

The Stock Option Plan is described in Note 8(b)(ii). The fair-value of the stock options issued to directors, officers, employees and consultants is determined using the Black-Scholes option pricing model incorporating assumptions regarding risk-free interest rates, dividend yield, expected volatility of the Company's stock, and a weighted average expected life of options. For awards with graded vesting, each tranche in an award is considered a separate grant with a different fair value. The fair value of each tranche is recognized over its respective vesting period. For employees, officers and directors, the fair value of each tranche is estimated at the date of grant.

The estimated fair value of the options that are ultimately expected to vest are recorded over the option's vesting period and charged to profit or loss with a corresponding increase in share based payment reserve. When determining the number of options that are expected to vest the Company takes into account historical experience and trends in actual option forfeitures. For all stock options issued, if and when the stock options are exercised, the applicable amounts of share based payment reserve are transferred together with the proceeds to common shares within share capital.

For cash-settled share-based payments, a liability is recognized for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is re measured, with changes in fair value recognized in profit or loss.

If stock options or RSUs are repurchased from directors, officers or employees and consultants, the excess of the consideration paid over the carrying amount of the stock options or RSUs repurchased is charged to share based payment reserve and or deficit.

The Company has adopted the amended IFRS 2 Share-based payments ("IFRS 2") on January 1, 2018.

Based on management's assessment there are no material retrospective adjustments to the amounts recognized in the Company's Consolidated financial statements for the comparative periods presented.

Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential securities, which comprise of stock options, RSUs, warrants and special shares.

Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past

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event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Measurement uncertainty and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses for the periods presented herein. Management bases its judgments and estimates on historical experiences and on other various factors it believes to be reasonable under the circumstances, the results of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the recoverability of trade and other receivables and investment tax credits that are included in the consolidated statement of financial position;
- the net realizable value used to determine the carrying value of inventories and potential write downs or reversals of write-downs to inventories;
- the estimated useful lives and residual value of property and equipment, and licenses which are included in the consolidated statement of financial position and the related depreciation and amortization included in the consolidated statement of loss and comprehensive loss;
- the amount of deferred tax assets only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits to be recovered;
- the inputs and assumptions used in the valuation and recording of share-based payments;
- the inputs and assumptions used in the valuation and recording of derivative liability; and
- the assessment of Company's ability to continue as going concern

4. Right-of-use assets

The following table sets forth the right-of-use assets as at December 31, 2019:

	\$
Balance, January 1, 2019 (Note 3)	949,949
Depreciation	(341,345)
Balance, December 31, 2019	608,604

5. 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 at December 31, 2019 are as follows:

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Opening as at January 1, 2019 (Note 3)	\$ 949,949
Principal repayments during the year ended December 31, 2019	\$ (305,968)
Balance, December 31, 2019	\$ 643,981
Current	\$ 345,874
Non-current	\$ 298,107

Set out below is a maturity analysis of lease liabilities as at December 31, 2019:

	2019
	\$
Less than one year	328,715
One to five years	279,728
More than five years	-
Total undiscounted lease obligation	<u>608,443</u>

The following are the amounts recognized in the statement of loss and comprehensive loss:

	2019
	\$
Depreciation expense of right-of-use assets	<u>341,345</u>
Interest on lease obligation of right-of-use asset	71,150
Variable lease payments	<u>55,443</u>
Total amount recognized in profit or loss	<u>467,938</u>

The following amounts were recognized in statement of cash flows:

	2019
	\$
Total cash outflow for leases	<u>35,904</u>

The Company's property leases contain extension options exercisable by the Company. The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

6. Convertible debentures

	\$
Fair value of liability component at issuance	10,133,301
Less: issuance costs	<u>(1,059,720)</u>

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	9,073,581
Accretion expense	1,637,089
Repayments	(726,951)
Converted to common shares	(2,043,806)
Foreign exchange translation adjustment	(701,517)
Balance at December 31, 2018	7,238,396
Accretion expense	1,863,945
Repayment of interest	(368,913)
Foreign exchange translation adjustment	275,265
Balance at December 31, 2019	9,008,693

On January 9, 2018, the Company closed a bought deal public offering of 15,315 units (the "Convertible Debt Units") of the Company at a price of CDN \$1,000 per Convertible Debt Unit for aggregate gross proceeds of \$12,325,956 (CDN \$15,315,000), (the "2018 Offering"). Each Convertible Debt Unit issued pursuant to the 2018 Offering consists of CDN \$1,000 principal amount of 7.0% senior unsecured convertible debenture of the Company (each, a "Convertible Debenture") and 1,425 common share purchase warrants (each, a "2018 Warrant"). The principal amount of each Convertible Debenture is convertible into common shares at the option of the holder at any time prior to the close of business on the last business day immediately preceding the maturity date on January 9, 2021, at a conversion price of CDN \$0.35 per common share, subject to adjustment upon certain customary events. Holders converting their Convertible Debentures will receive accrued and unpaid interest thereon for the period from and including the date of the latest interest payment date to, but excluding, the date of conversion. Each 2018 Warrant will entitle the holder to acquire one common share at a price of CDN \$0.50 per common share until January 9, 2021, subject to adjustment upon certain customary events.

In consideration for the services provided by the underwriter of the 2018 Offering, the Company paid a cash commission of \$862,817 (CDN \$1,072,050) and issued an aggregate of 3,063,000 non-transferable compensation options (the "2018 Compensation Options") to the underwriter. The 2018 Compensation Options were exercisable into common shares at a price CDN \$0.35 per common share until they expired on January 9, 2020. The fair value of the 2018 Compensation Options of \$69,379 was determined using the Black Scholes option pricing model with the following assumptions: risk free interest rate of 1.64%, expected life of 2 years and expected volatility of 22%.

Including the cash commission paid to the underwriter, the Company paid issuance costs of \$1,240,560 in connection to the 2018 Offering. Total issuance costs were \$1,309,939.

On January 9, 2018, proceeds from the 2018 Offering were used to repay the \$6,500,000 senior secured loan facility (the "Loan Facility") and applicable exit fee (Note 7(c)).

On January 11, 2018, the Company closed a private placement of 252 Convertible Debt Units pursuant to the 2018 Offering for aggregate gross proceeds of \$200,000 (CDN \$252,000), bringing the total aggregate gross proceeds from the issuance of Convertible Debt Units to \$12,525,956 (CDN \$15,567,000).

The Convertible Debentures are accounted for as a compound financial instrument with a liability component and separate equity components, being the share conversion option and 2018 Warrants. The liability component is initially recognized at fair value, determined at the net present value of future payments of interest and principal, discounted at the market rate for similar non-convertible liabilities at the time of issue (15.26%). The fair value of the liability component (\$10,133,301) is deducted from the face value of the instrument with the residual value (\$2,392,655) being allocated to the share conversion feature (\$2,101,906) and the 2018 Warrants (\$290,749) on a proportionate fair value basis. Issuance costs of \$1,309,939 have then been allocated on a pro rata basis between the liability component (\$1,059,720) and the share conversion feature and 2018 Warrants (\$250,219). The face value of the Convertible Debentures, net of issuance costs has been allocated as follows:

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	\$
Liability component	9,073,581
Conversion feature	1,882,093
2018 Warrants	260,343
	11,216,017

The liability component is subsequently carried at amortized cost at an effective interest rate of 18.79%.

During the year ended December 31, 2018, Convertible Debentures with an aggregate principal amount of \$2,043,806 (CDN\$ 2,540,000) were converted, by the holders thereof into 7,257,141 common shares. Accordingly, the Company derecognized \$2,043,806 of the liability for the Convertible Debentures, representing the amortized carrying cost of the liability immediately prior to conversion in respect of the Convertible Debentures for which the holders' exercised their right to convert, and recognized shareholders' capital of the same amount. The corresponding conversion option of \$307,122 was transferred from the reserve for conversion option to the shareholders' capital account. No gain or loss was recognized on conversion of the debentures.

The Company had not made its interest payment that was due to the holders of Debentures on December 31, 2019; as a result the Debentures was in default. As a result of the default, the Company has reclassified the convertible debt as a current liability as of December 31, 2019.

On March 4, 2020, the Company cured its default by issuing late interest payment with incremental interest to the Trustee who subsequently distributed the payment to holders of Debentures (Note 22).

7. 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)
(b) Liability component after Amendments ^(b)	5,525,167
Accretion expense	581,350
Payments	(342,585)
Liability component at December 31, 2017	5,763,932
Impact of adoption of IFRS 9	40,614
Derivative liability	46,697
Accretion expense prior to extinguishment of loan facility	16,492
Payments prior to extinguishment of loan facility	(63,889)
(c) Extinguishment of loan facility	902,349

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Payout of loan	(6,706,195)
Liability component at December 31, 2019 and December 31, 2018	-

(a) Original Loan Facility

On March 30, 2016, the Company closed 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 certain amendments becoming effective (see 5(b)), 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 was 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 of the Loan Facility, since the number of common shares to be issued by the Company upon exercise of the Facility Warrants was 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.

Also 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 were expensed immediately, whereas those allocated to the Loan Facility were added to its fair value at inception.

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) Amendments to the Loan Facility

On May 15, 2017, the Company signed an amendment to its Loan Facility which 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) allowed 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 was 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 was determined using the Black Scholes option pricing model with the following assumptions: risk free interest rate of 0.85%, expected life of five years and expected volatility of 36.2% at \$69,153. The Amendment Warrants were revalued as at December 31, 2017, using

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the Black Scholes option pricing model with the following assumptions: risk free interest rate of 1.57%, expected life of 4.5 years and expected volatility of 36.0% at \$38,455.

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. Under IAS 39, 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%.

On adoption of IFRS 9, the Company has recognized the difference between the amortized cost of the modified term loan facility and the carrying value of the term loan facility prior to amendment of \$70,791 as an adjustment to opening deficit on January 1, 2018. In addition, the Company also recorded an adjustment to opening deficit on January 1, 2018 for the change in accretion expense for the period from the modification date to December 31, 2017 of \$30,177.

(c) Extinguishment of Loan Facility

On December 20, 2017, the Company entered into a limited waiver (the "Waiver") to the Amended Loan Facility, which, among other things and subject to the satisfaction of certain conditions, (i) waived the applicable prepayment fee of 5% pursuant to the Loan Facility, and (ii) reduced the applicable exit fee in relation to the Amended Loan Facility. In consideration for entering into the Waiver, the lender agreed, subject to the conditions set forth in the Waiver, to surrender to the Company for cancellation outstanding Facility Warrants and Amendment Warrants to purchase up to 1,605,010 common shares and the Company agreed to issue new warrants to purchase up to 2,205,010 common shares (the "Waiver Warrants"). Each Waiver Warrant is exercisable until February 24, 2022 into one common share at an exercise price of CDN \$0.30 per share subject adjustment in certain circumstances.

Settlement of the Amended Loan Facility under the Waiver took place on the closing of the 2018 Offering on January 9, 2018 (refer to note 6). The Company used \$6,706,194 of the proceeds from the 2018 Offering to repay the remaining Amended Loan Facility balance of \$5,958,333, with the reduced exit fee under the Waiver of \$542,917. On settlement of the Amended Loan Facility, the Company recognized a loss of \$902,349 in the consolidated statement of loss and comprehensive loss.

Upon the settlement of the Amended Loan Facility, the Facility Warrants and Amendment Warrants were cancelled and Waiver Warrants at a fair value of \$181,067 were issued to the former lender. The fair value of the Waiver Warrants was determined using the Black Scholes option pricing model with the following assumptions: risk free interest rate of 1.77%, expected life of 4.18 years and expected volatility of 36.8%. As the number of common shares to be issued by the Company upon exercise of the Waiver Warrants is not fixed, the Waiver Warrants have been classified as a derivative liability.

The Waiver Warrants were revalued as at December 31, 2019 at \$nil using the Black Scholes option pricing model with the following assumptions: risk free interest rate of 1.6%, expected life of 2.1 years and expected volatility of 20%.

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8. Shareholders' equity

(a) Common shares

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

The following table summarizes the changes to the issued and outstanding common shares during the year ended December 31, 2019:

	Common Shares	
	#	\$
Balance, December 31, 2018	237,738,585	136,129,926
Shares issued under Restricted Share Unit plan (Note 8(b)(i))	9,168,447	1,519,168
August Units issued - August Private Placement (i)	93,176,081	3,504,607
August Units issued - August Prospectus Offering (i)	65,255,480	2,454,437
Allocation of warrants portion of August Units (i)	-	(397,601)
Cash paid for issuance costs - shares portion (i)	-	(679,039)
Shares issued as commission - August Private Placement (i)	1,797,984	60,864
Shares issued as commission - August Prospectus Offering (i)	2,420,600	81,941
Allocation of warrant portion of compensation shares	-	(133,277)
Compensation Options issued to brokers - shares portion	-	-
August Private Placement and August Prospectus Offering (i)	-	(112,919)
Balance, December 31, 2019	409,557,177	142,428,107

The following table summarizes the changes to the issued and outstanding common shares during the year ended December 31, 2018:

	#	\$
Balance, December 31, 2017	165,058,531	127,753,726
Shares issued on conversion of convertible debentures (Note 6)	7,257,141	2,350,928
Units issued on July Private Placement (ii)	28,336,290	2,261,905
Allocation of warrants portion of July Units (ii)	-	(266,858)
Cash paid for issuance costs - shares portion (ii)	-	(86,281)
Shares issued as commission on July private placement (ii)	114,846	10,914
Shares issued as commission - shares portion (ii)	-	(9,626)
Compensation options issued to brokers - shares portion (ii)	-	(11,147)
Units issued on October Private Placement (iii)	32,412,228	3,709,908
Allocation of warrants portion of October Units (iii)	-	(344,152)
Cash paid for issuance costs - shares portion (iii)	-	(230,971)
Compensation options issued to brokers - shares portion (iii)	-	(28,680)
Shares issued under Restricted Share Unit plan (iii)	4,559,549	1,020,260
Balance, December 31, 2018	237,738,585	136,129,926

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(i) Private Placement and Prospectus Offering

On August 21, 2019, the Company closed its best efforts prospectus offering of 65,255,480 units ("August Units") at a price of CDN \$0.05 per Unit for aggregate gross proceeds to the Company of \$2,454,437 (CDN \$3,262,774) (the "August Prospectus Offering"). Each August Unit consists of one common share in the capital of the Company and one-half of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder thereof to acquire one common share at an exercise price of CDN \$0.08 until August 21, 2024 (the "Expiry Date").

Concurrently with the August Prospectus Offering, the Company closed a non-brokered private placement of 93,176,081 August Units, for gross proceeds of \$3,504,607 (CDN \$4,658,804) (the "August Private Placement" and, together with the August Prospectus Offering, the "Offerings"), bringing the aggregate gross proceeds to the Company from the Offerings to \$5,959,044 (CDN \$7,921,578).

Gross proceeds from the Offerings 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 1.49%, expected life of 5 years and expected volatility of 33.9%. \$5,561,443 and \$397,601 were attributed to the common shares and Warrants, respectively with the Warrants classified as equity in shareholders' equity.

In consideration for the services provided by the agents under the August Prospectus Offering, the Company paid commissions (the "Agents' Commission") equal to 6.0% of the proceeds of the August Prospectus Offering of which \$71,870 (CDN \$94,736) was payable in cash and a total of \$81,941 (CDN \$101,030) was payable by the issuance of 2,020,600 common shares at a fair value of CDN \$0.045 per share (the "Commission Shares") and 400,000 common shares to Haywood Securities Inc. ("Corporate Finance Fee Shares") at a fair value of \$0.045 per share.

The Company also issued to the agents an aggregate of 4,567,883 non-transferable compensation options (the "Compensation Options") equal to 7.0% of the total number of August Units sold under the August Prospectus Offering. Each Compensation Option is exercisable into one common share at an exercise price equal of CDN \$0.05 at any time prior to the Expiry Date. The fair value of the Compensation Options was determined at \$76,474 using the Black Scholes option pricing model with the following assumptions: risk free interest rate of 1.49%, expected life of 5 years and expected volatility of 33.9%.

In connection with the provision of certain financial advisory services, the Company also paid Haywood Securities Inc. a cash advisory fee and issued an aggregate of 5,900,000 non-transferable advisory options on the same terms as the Compensation Options.

In consideration for the services provided by certain finders in connection with the August Private Placement the Company issued an aggregate of 1,797,984 common shares at a fair value of \$0.045 per share. The Company also issued 2,097,648 Compensation Options to the finders, each Compensation Option is exercisable into one common share at an exercise price equal of CDN \$0.05 at any time from 5 years of the grant date. The fair value of the Compensation Options was determined at \$20,198 using the Black Scholes option pricing model with the following assumptions: risk free interest rate of 1.49%, expected life of 5 years and expected volatility of 33.9%. \$18,850 and \$1,348 were allocated to the common shares and Warrants respectively based on their relative fair values.

The Company paid \$727,585 of transaction costs related to the Offerings, with \$679,039 and \$48,546 being allocated to the common shares and Warrants, respectively.

Of the 65,255,480 August Units issued pursuant to the August Prospectus Offering, 13,290,000 August Units were issued for settlement of accounts payable and cash transaction costs of \$327,653 and there was no gain or loss recognized from these settlements. Also, of the 93,176,081 August Units issued pursuant to the August Private Placement, 15,728,452 August units were issued in settlement of promissory notes of \$475,000 and accounts payable of \$116,590 and there was no gain or loss recognized from these settlements.

(ii) July 2018 Private placement

On July 6, 2018, the Company closed a private placement of 28,336,290 units (the "July Units") at a price of CDN\$ 0.105 per July Unit for gross proceeds of approximately \$2,261,905 (CDN \$2,975,310) (the "July Private Placement"). Each Unit consisted of one common share in the capital of the Company and one-half of one common share purchase warrant, with each whole warrant (each whole warrant, a "July Warrant") exercisable into one common share at an exercise price of CDN\$ 0.1575 for a period of five years, subject to adjustment upon certain

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customary events. The expiry date of the Warrants can be accelerated by the Company prior to the expiry date of the Warrants if the volume-weighted average price of the common shares on the Toronto Stock Exchange is greater than CDN \$0.25 for any 20 non-consecutive trading days following July 6, 2018. In connection with the July Private Placement, the Company paid an aggregate of \$97,822 in commissions and closing costs. In addition, certain agents received an aggregate of 114,846 common shares and 497,137 non-transferable compensation options ("July Compensation Options"). Each July Compensation Option is exercisable into one common share at a price of CDN \$0.1575 until July 6, 2023. The fair value of the July Compensation Options was determined at \$12,638 using the Black Scholes option pricing model with the following assumptions: risk free interest rate of 2.07%, expected life of 5 years and expected volatility of 36.02%. The gross proceeds from the July Private Placement and the related transaction costs were allocated to the common shares and the July Warrants based on their relative fair values. The fair value of the July Warrants was determined using the Black Scholes option pricing model with the following assumptions: risk free interest rate of 2.07%, expected life of 5 years and expected volatility of 36.02%

(iii) October 2018 Private placement

On October 30, 2018, the Company closed a private placement (the "October Private Placement") of 32,412,228 units (the "2018 October Units") at a price of CDN\$ 0.15 per Unit for gross proceeds of \$3,709,908 (CDN \$4,861,834). Each 2018 October Unit consists of one common share and one half of one common share purchase warrant (each, a "Warrant"), with each whole Warrant exercisable into one common share at an exercise price of CDN\$ 0.225 for a period of five (5) years from the date of issuance, subject to adjustment upon certain customary events. The expiry date of the Warrants can be accelerated by the Company at any time following March 4, 2019 and prior to the expiry date of the Warrants if the volume weighted average price of the common shares on the Toronto Stock Exchange is greater than CDN\$ 0.33 for any 20 non consecutive trading days.

In connection with the October Private Placement, the Company paid an aggregate of \$254,588 in commissions and closing costs. In addition, certain agents received an aggregate of 1,447,051 purchase warrants ("Finders Warrants"). Each Finders Warrant is exercisable into one common share at a price of CDN \$0.225 until October 30, 2023. The fair value of the Finders Warrants was determined at \$31,613 using the Black Scholes option pricing model with the following assumptions: risk free interest rate of 2.29%, expected life of 5 years and expected volatility of 36.67%.

The gross proceeds from the October Private Placement and the related transaction costs were allocated to the common shares and July Warrants based on their relative fair values. The fair value of the October Warrants was determined using the Black Scholes option pricing model with the following assumptions: risk free interest rate of 2.29%, expected life of 5 years and expected volatility of 36.67%.

(iv) Shares issued under RSU Plan 2018

During the year ended December 31, 2018, the Company issued 4,559,549 common shares on the settlement of 4,559,549 vested RSUs that were awarded under the RSU Plan, of which 266,498 common shares were issued on RSUs granted to the Company's directors in November 2018 as settlement of unpaid directors' fees. Share-based payment reserve of \$1,020,260 was re-allocated to the common shares.

(v) January 2018 Prospectus Offering

On January 9, 2018, the Company closed a bought deal offering of 15,315 units ("Convertible Units") of the Company at a price of CDN \$1,000 per Convertible Debt Unit, for an aggregate gross proceeds of \$12.3 million (CDN \$15.3 million) (the January 2018 Offering). Proceeds for the January 2018 Offering were used to repay the Amended Loan Facility and applicable exit fee. Each Convertible Debt Unit issued pursuant to the January 2018 Offering consists of one 7.0% senior unsecured convertible debenture of the Company (each, a "Convertible Debenture") and 1,425 common share purchase warrants (each, a "January 2018 Warrant"). The principal amount of each Convertible Debenture is convertible into common shares at the option of the holder at any time prior to the close of business on the last business day immediately preceding the maturity date of January 9, 2021, at a conversion price of CDN \$0.35 per share, subject to adjustment upon certain customary events. Holders converting their Convertible Debentures will receive accrued and unpaid interest thereon for the period from and including the date of the latest interest payment date to, but excluding, the date of conversion. Each January 2018 Warrant will entitle the holder to acquire one common share at an exercise price of CDN \$0.50 per share until January 9, 2021, subject to adjustment upon certain customary events. In consideration for the services provided by the underwriter of the January 2018 Offering, the Company paid a cash commission of CDN \$1.0 million and issued an aggregate of 3,063,000 non-transferable compensation options (the "January Compensation Options") to the underwriter. The January Compensation Options are exercisable into one common share at a price of CDN \$0.35 per share until January 9, 2020. Including the cash commission paid to the underwriter, the Company paid issuance costs of \$1.3

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million in connection to the January 2018 Offering.

(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 2019, 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 47,838,517 (December 31, 2018 - 29,450,000 common shares). The combined aggregate number of common shares reserved under the Stock Option Plan and the RSU Plan at December 31, 2019 was 39,332,300 common shares (December 31, 2018 - 23,563,710 common shares).

(i) Restricted Share Units (RSU)

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

The following table summarizes information about the Company's outstanding RSUs as at December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
	#	#
Balance, opening	17,135,257	6,830,153
Granted	29,166,114	15,828,270
Forfeited	(27,263)	(4,559,549)
Vested and common shares issued	(9,168,447)	(963,617)
Balance, ending	37,105,661	17,135,257

The 29,166,114 RSUs were granted to the Company's CEO and other key employees with vesting terms of 4 years and fair value of \$762,982 which is determined by the stock price on the date of grant.

The value of the 9,168,447 RSU settlement was \$1,519,168, which was transferred to common shares from share-based payment reserve.

(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 at December 31, 2019 and 2018:

	December 31, 2019		December 31, 2018	
	Number of Options	Weighted Average Price	Number of Options	Weighted Average Price
	#	CDN \$	#	CDN \$
Options outstanding, opening	6,428,453	0.43	7,523,632	0.44
Granted	-	-	645,000	0.21
Forfeited	(4,201,814)	0.36	(1,740,179)	0.39
Options outstanding, ending	2,226,639	0.56	6,428,453	0.43

During the year ended December 31, 2019, the Company has reversed share-based compensation expenses of \$119,602 (year ended December 31, 2018 - \$6,172) as a result of the forfeitures.

The following table is a summary of the Company's stock options outstanding as at December 31, 2019:

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 \$
0.00 - 0.20	100,000	5.61	0.19	33,332	0.19
0.21 - 0.40	385,000	4.64	0.22	226,763	0.22
0.41 - 0.60	747,500	3.16	0.48	603,534	0.47
0.61 - 0.80	556,639	2.18	0.69	536,353	0.69
0.81 - 1.00	437,500	0.41	0.93	437,500	0.93
Balance, December 31, 2019	2,226,639	2.74	0.56	1,837,482	0.61

The following table is a summary of the Company's stock options outstanding as at December 31, 2018:

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 \$
0.00 - 0.20	100,000	6.6	0.19	-	-
0.21 - 0.40	4,434,942	7.3	0.33	2,761,282	0.34
0.41 - 0.60	764,396	4.2	0.48	490,843	0.47
0.61 - 0.80	639,115	3.1	0.70	552,016	0.70
0.81 - 1.00	490,000	1.4	0.93	490,000	0.93
Balance, December 31, 2018	6,428,453	6.1	0.43	4,294,141	0.47

(iii) Share based compensation expense

For its RSU Plan and Option Plan, the Company recognized share-based compensation expense of \$1,076,131 for the year ended December 31, 2019 (\$1,714,358 for the year ended December 31, 2018) with a corresponding amount recognized as share-based payment reserve.

The fair value of the RSUs is determined based upon the Company's stock price on the date of grant. There was no grant of stock options during the year ended December 31, 2019. The fair value of stock

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options granted during the year ended December 31, 2018 was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Year Ended December 31,	
	2019	2018
Dividend yield	N/A	0%
Expected volatility	N/A	39%
Risk free rate of return	N/A	2.19%
Forfeiture rate	N/A	10%
Expected life	N/A	6.7 years

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

(c) Share-based payment reserve

The following is a continuity schedule for the years ended December 31, 2019 and December 31, 2018:

	\$
Balance, December 31, 2017	3,112,538
Special compensation options issued to brokers on public offering of convertible debt	69,379
Compensation options issued to brokers on July Private Placement	12,638
Compensation options issued to brokers on October Private Placement	31,613
Shares issued pursuant to settlement of RSUs	(1,020,260)
RSUs issued on settlement of debt	26,373
Share-based compensation expense	1,714,358
Balance, December 31, 2018	3,946,639
Shares issued pursuant to settlement of RSUs	(1,519,168)
RSUs issued on settlement of debt	94,846
Non-broker warrants expired	64,952
Share-based compensation expense	1,076,131
Balance, December 31, 2019	3,663,400

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(d) Warrants

The following table summarizes information about the Company's outstanding warrants as at December 31, 2019 and 2018:

	December 31, 2019		December 31, 2018	
	Number of Warrants	Weighted Average Price	Number of Warrants	Weighted Average Price
	#	CDN \$	#	CDN \$
Balance, opening	68,138,557	0.35	11,385,076	0.51
Waiver Warrants issued (Note 7(c))	-	-	2,205,010	0.30
Facility warrants cancelled (Note 7(c))	-	-	(855,010)	0.60
Amendment warrants cancelled (Note 7(c))	-	-	(750,000)	0.39
Warrants component of convertible debt units issued (Note 6)	-	-	22,182,975	0.50
Compensation Options issued on 2018 Offering (Note 6)	-	-	3,063,000	0.35
Warrants component of July Private Placement (i)	-	-	14,168,145	0.16
Compensation options issued on July Private Placement (i)	-	-	497,137	0.16
Compensation Options issued on October 2018 Private Placement	-	-	1,447,051	0.23
Warrants component of October Private Placement (i)	-	-	16,206,114	0.23
Compensation options expired	-	-	(1,410,941)	0.34
Compensation options issued on August Prospectus/ Private Placement (Note 8(a))	12,565,531	0.05	-	-
Warrants component of August Prospectus (Note 8(a))	32,627,740	0.08	-	-
Warrants component of August Private Placement (Note 8(a))	46,588,041	0.08	-	-
Non-broker warrants expired	(7,679,125)	0.55	-	-
Broker warrants (Compensation options) expired	(690,000)	0.40	-	-
Balance, ending	151,550,744	0.17	68,138,557	0.35

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The following is a summary of the warrants outstanding as at December 31, 2019:

Number of warrants outstanding	Exercise Price	Expiry Date
Non-broker Warrants ⁽¹⁾		
22,182,975	CDN \$0.50	January 9, 2021
14,168,145	CDN \$0.1575	July 6, 2023
16,206,114	CDN \$0.225	October 30, 2023
79,215,781	CDN \$0.08	August 21, 2024
Broker Warrants (Compensation Options)		
3,063,000	CDN \$0.35	January 9, 2020
497,137	CDN \$0.1575	July 6, 2023
1,447,051	CDN \$0.225	October 30, 2023
12,565,531	CDN \$0.05	August 21, 2024
Waiver Warrants		
2,205,010	CDN \$0.30	February 24, 2022

The following is a summary of the warrants outstanding as at December 31, 2018:

Number of warrants outstanding	Exercise Price	Expiry Date
Non-broker Warrants		
7,679,125 ⁽¹⁾	CDN \$0.55	June 27, 2019
22,182,975	CDN \$0.50	January 9, 2021
14,168,145	CDN \$0.1575	July 6, 2023
16,206,114	CDN \$0.225	October 30, 2023
Broker Warrants (Compensation Options)		
690,000	CDN \$0.40	June 27, 2019
3,063,000	CDN \$0.35	January 9, 2020
497,137	CDN \$0.1575	July 6, 2023
1,447,051	CDN \$0.225	October 30, 2023
Waiver Warrants		
2,205,010	CDN \$0.30	February 24, 2022

⁽¹⁾ Subject to acceleration in certain circumstances.

9. 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.

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Key management personnel compensation is comprised of the following:

	Year Ended December 31,	
	2019	2018
	\$	\$
Salaries, fees and short-term benefits	2,257,166	1,854,859
Share-based benefits	867,353	1,345,139
	3,124,519	3,199,998

During the year ended December 31, 2019, the Company received loans of \$1,342,106 from the directors of the Company represented by non-interest bearing promissory notes due August 31, 2020 (See Note 11) (year ended December 31, 2018 - \$300,000). At December 31, 2019, the Company had non-interest bearing promissory notes payable to certain directors of the Company in the amount of \$1,040,000 (December 31, 2018 - \$300,000).

During the year ended December 31, 2019, the Company granted Restricted share units to directors to settle unpaid directors' fees in the amount of \$94,846 (December 31, 2018 - \$Nil)

In addition, insiders of the Company subscribed for an aggregate of 23,070,633 August Units in connection with the Offerings.

10. Economic dependence

During the year ended December 31, 2019, the Company derived approximately 96% of its revenue from four customers (year ended December 31, 2018 – 96% from five customers).

11. Promissory Notes

During the year ended December 31, 2019, the Company received proceeds of \$1,342,106 from issuance of non-interest bearing promissory notes to the directors and related parties of the Company. During the same period, the Company made cash repayments of \$76,294 and settled \$525,812 of such promissory notes with August Units issued pursuant to the August Private Placement as described in note 8(a)(i). As at December 31, 2019, the balance of the promissory notes is \$1,040,000 (December 31, 2018 - \$300,000). The issuance of such promissory notes is considered to be a "related party transaction" as defined under "Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions ("MI 61-101")" however, the Company is relying on exemptions from the formal valuation and minority shareholder approval requirements provided under MI 61-101 on the basis that the aggregate value of the promissory notes did not exceed 25% of the fair market value of the Company's market capitalization as at the date of issuance (See Note 9).

12. Investment tax credits receivable

The Company claims research and development deductions and related investment tax credits ("ITCs") for Irish income tax purposes based on management's interpretation of the applicable legislation of the respective countries. These claims are subject to audit by tax authorities and any adjustments that result could adjust the investment tax credits recorded.

Irish investment tax credits denominated in Euros are first available for offset against the Company's corporate tax liability of the current and preceding accounting periods. Any excess that remains is repaid to the Company in equal instalments over three years.

Tax credits receivable expected to be recovered within twelve months of the statement of financial position date are presented as current assets. All other investment tax credits receivable are presented as non-current assets.

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(Expressed in United States Dollars)

	2019	2018
	\$	\$
Recoverable amount - current	11,884	59,881
Recoverable amount - non-current	24,245	24,245
	36,129	84,126

Investment tax credits recognized as a reduction of research and development expense:

	2019	2018
	\$	\$
Estimate of investment tax credits claimed for current year	13,000	14,000
Decrease in investment tax credits as a result of actual amounts received over amounts accrued for prior year's claims	(601)	(24,100)
Investment tax credits credited against R&D expense	(12,399)	(10,100)

13. Inventories

	2019	2018
	\$	\$
Work-in-progress	483,865	880,645
Finished goods	318,471	215,369
	802,336	1,096,014
Less: provision for obsolescence	(319,411)	(97,754)
	482,925	998,260

Inventories recognized as cost of sales for the year ended December 31, 2019 amounted to \$1,999,513 (\$1,946,076 for the year ended December 31, 2018).

14. Impairment of current assets

During the fiscal year of 2018, management identified that a number of the Company's assets were impaired due to the slower than anticipated growth in certain programs in the speculative and emerging virtual reality (VR) market. The specific assets impacted by this included trade receivables of \$1,521,514 and inventories of \$359,187, for an aggregate impairment charge in the consolidated statements of loss and comprehensive loss of \$1,880,701.

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15. Property and equipment

	Computer hardware/ software	Laboratory Equipment	Masks and Testing Equipment	Office Equipment	Leasehold Improvements	Total
	\$	\$	\$	\$	\$	\$
Cost, balance						
December 31, 2017	1,396,487	2,301,632	3,087,011	457,015	135,939	7,378,084
Additions	5,924	35,401	280,592	5,747	-	327,664
Disposals	-	-	(953,207)	(179,273)	(25,111)	(1,157,591)
Currency movement	(78)	(2,070)	-	(390)	-	(2,538)
December 31, 2018	1,402,333	2,334,963	2,414,396	283,099	110,828	6,545,619
Additions	13,309	15,325	54,857	-	-	83,491
Disposals	-	(20,500)	-	(5,996)	-	(26,496)
Currency movement	13	72	-	2	-	87
December 31, 2019	1,415,655	2,329,860	2,477,197	269,161	110,828	6,602,701
Accumulated depreciation						
December 31, 2017	1,320,679	1,920,670	2,236,857	284,364	38,844	5,801,414
Depreciation	48,428	251,365	292,017	50,723	37,038	679,571
Disposals	-	-	(718,086)	(179,273)	(25,111)	(922,470)
Currency movement	(790)	-	-	(7)	-	(797)
December 31, 2018	1,368,317	2,172,035	1,810,788	155,807	50,771	5,557,718
Depreciation	28,624	113,551	238,920	42,216	31,874	455,185
Disposals	-	(20,500)	-	(7,037)	-	(27,537)
Currency movement	7	43	-	3,955	-	4,005
December 31, 2019	1,396,948	2,265,129	2,049,708	194,941	82,645	5,989,371
Carrying amounts						
December 31, 2018	34,016	162,928	603,608	127,292	60,057	987,901
December 31, 2019	18,707	64,731	427,489	74,220	28,183	613,330

Included in laboratory equipment is equipment under a finance lease agreement with a cost of \$20,500 (December 31, 2018 - \$177,875) and accumulated depreciation of \$27,110 (December 31, 2018 - \$82,986).

Of the total depreciation recorded in the current year, \$59,764 (2018 - \$31,381) was recorded as part of cost of sales.

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16. Intangible assets

	Licenses
	\$
Cost	
Balance, December 30, 2017	8,726,674
Additions	605,981
Balance, December 31, 2018	9,332,655
Additions	545,259
Balance, December 31, 2019	9,877,914
Accumulated amortization	
Balance, December 30, 2017	8,347,179
Amortization	625,132
Balance, December 31, 2018	8,972,311
Amortization	593,057
Balance, December 31, 2019	9,565,368
Carrying Amounts	
Balance, December 31, 2018	360,344
Balance, December 31, 2019	312,546

Amounts payable on license agreements that have extended terms in excess of one year are presented as long-term liabilities:

	2019	2018
	\$	\$
No later than 1 year	269,908	284,162
Later than 1 year, but no later than 5 years	-	-
	269,908	284,162

17. Income taxes

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A reconciliation between the Company's statutory and effective tax rate is as follows:

	2019	2018
	\$	\$
Net loss before income tax	(11,042,056)	(15,189,054)
Combined Federal and Provincial income tax rate	26.50%	26.50%
Recovery based on statutory tax rate	(2,926,144)	(4,025,099)
Increase (decrease) in tax expense		
Permanent differences	330,664	904,253
Effect of different tax rates in foreign jurisdictions	(9,261)	(92,950)
Change in temporary differences not recognized	2,936,467	2,759,303
Adjustment related to prior periods	(4,730)	195,707
Other	1,350	-
Deductible equity issuance costs	(245,187)	258,786
Foreign exchange translation	(83,113)	-
Income tax expense (recovery)	-	-

Deferred tax assets (liabilities) not recognized in the consolidated statements of financial position:

	2019	2018
	\$	\$
Unused tax losses	32,840,803	31,128,344
Undeducted SR&ED expenses	5,961,232	5,961,232
Investment tax credits carried forward	4,766,171	4,487,054
Tangible and intangible assets	475,795	224,416
Share issuance costs and financing fees	550,456	649,087
Convertible debentures	(292,704)	(778,207)
Right of use asset	13,041	-
Provisions	345,433	-
Other	49,837	101,645
Deferred tax assets	44,710,063	41,773,571

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Non-capital losses

As at December 31, 2019, the Company has non-capital losses for carry forward to reduce future years' income for tax purposes which, if unused, expire as follows:

	Canada	USA
	\$	\$
2025	2,877,000	-
2026	3,757,000	-
2027	4,371,000	-
2028	4,371,000	-
2029	2,715,000	-
2030	5,514,000	-
2031	6,425,000	-
2032	2,042,000	-
2033	8,483,000	425,998
2034	7,538,000	82,447
2035	11,695,000	232,197
2036	11,576,000	-
2037	9,151,000	153,048
2038	13,684,000	-
2039	5,194,000	-
Indefinitely	-	1,644,354
	99,393,000	2,538,044

The Company has Irish loss carryforwards of \$45,590,360 which do not expire. These losses can be carried forward indefinitely for offset against future profits of the same trade.

Undeducted scientific research and experimental development expenses

As at December 31, 2019, the Company has unused scientific research and experimental development expenditures ("SR&ED") available in Canada for carry forward to reduce future years' income for tax purposes of \$22,495,216 (December 31, 2018 - \$22,495,216). These undeducted expenses have no expiry date.

Available scientific research and experimental development investment tax credits

The Company has non-refundable scientific research and experimental development investment tax credits in Ireland and Canada that can be applied against income taxes payable in each respective country. The Irish ITC of \$2,603,120 (December 31, 2018 - \$2,722,000) do not expire.

The unused Canadian ITC of \$2,943,000 expire as follows:

	Canada
	\$
2024	27,000
2025	274,000
2026	764,000
2027	686,000
2028	346,000
2029	198,000
2030	504,000
2031	108,000
2032	36,000
	2,943,000

18. Financial instruments

The Company may be exposed to risks of varying degrees of significance that affect its ability to achieve its strategic objectives. The main objectives of the Company's risk processes are to ensure that the risks are properly identified

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and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed to are as follows:

Fair value

The fair value of cash, trade and other receivables, trade and other payables, license liabilities, lease liabilities, promissory notes to related parties, lease obligation on right of use assets and derivative liabilities approximate their carrying values due to their short-term nature.

	December 31, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	\$	\$	\$	\$
Financial assets				
Cash	71,121	71,121	932,203	932,203
Trade and other receivables	650,573	650,573	592,944	592,944
Financial liabilities				
Trade and other payables	3,830,582	3,830,582	2,625,926	2,625,964
License liabilities	269,908	269,908	284,162	284,162
Lease liabilities	4,482	4,482	40,386	40,386
Promissory notes to related parties	1,040,000	1,040,000	300,000	300,000
Derivative liability	-	-	35	35
Lease obligation on right of use assets	345,874	345,874	-	-
Convertible debentures	9,008,693	9,008,693	7,238,396	7,238,396

Basis of fair values

Assets and liabilities recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – quoted prices (unadjusted) observed in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs)

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company has classified its derivative liability as level 2 in the fair value hierarchy. The Company does not have any Level 1 or Level 3 fair value measurements.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. There have been no significant transfers between levels during the year.

Foreign currency risk

The Company may undertake sales and purchases transactions in foreign currencies, and therefore is exposed to gains or losses due to fluctuations in foreign currency exchange rates. Management believes the foreign exchange risk derived from currency conversions is currently low and therefore does not actively hedge its foreign currency risk. There has been no change to the Company's policies and processes with respect to the way it manages foreign currency risk. The balance sheet includes the following amounts expressed in United States dollars with respect to financial assets and liabilities for which cash flows are denominated in the following foreign currencies:

	December 31, 2019	December 31, 2018
	\$	\$

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Cash		
Canadian dollars	5,058	137,437
Euro	5,458	6,973
Chinese Yuan	3,838	62,759
Trade and other receivables		
Canadian dollars	9,654	50,838
Euro	-	2,452
Investment tax credits receivable		
Euro	36,129	84,126
Accounts payable and accrued charges		
Canadian dollars	308,594	646,214
Euro	44,071	44,071
British pound	7,790	4,792
Chinese Yuan	183,340	53,552
Taiwan Dollar	2,147	1,119

The Company is mainly exposed to the Canadian dollar, Euro and Chinese Yuan. At December 31, 2019, if the US dollar had been stronger by 10% against the Canadian dollar, Euro and Chinese Yuan, with all other variables held constant, comprehensive loss on an after-tax basis would have been approximately \$47,000 higher (December 31, 2018 - \$28,000 higher). Conversely, if the US dollar had been weaker by 10% against the Canadian dollar and Euro, with all other variables held constant, comprehensive loss on an after-tax basis would have been approximately \$47,000 lower (December 31, 2017 - \$28,000 lower).

Interest risk

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

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to trade and other receivables and money held in the Company's bank accounts. The carrying value of these assets represents the maximum credit exposure. The Company mitigates this risk by monitoring the credit worthiness of its customers and only dealing with creditworthy counterparties. At December 31, 2019, three customers whose trade receivables exceeded 10% of the total trade and other receivables balance represented a combined 98% of the Company's trade and other receivables. At December 31, 2018, five customers represented 96% of the Company's trade and other receivables.

The Company believes that the trade receivables balance is fully collectable. As of December 31, 2019, \$650,573 (2018 - \$592,944) in trade receivables remains outstanding. The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The loss allowance is based on the Company's historical collection and loss experience and incorporates forward-looking factors, where appropriate. The provision matrix below shows the expected credit loss rate at each aging category of trade receivables.

	Current	1-30	31-60	60-90	>90	Total
Trade receivables outstanding at December 31, 2019	\$650,573	\$-	\$-	\$-	\$-	\$650,573
Expected loss rate	0%	0%	0%	0%	0%	0%

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Loss allowance provision	\$-	\$-	\$-	\$-	\$-	\$-
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	Current	1-30	31-60	60-90	>90	Total
Trade receivables outstanding at December 31, 2018	\$483,123	\$48,920	\$-	\$36,913	\$23,988	\$592,944
Expected loss rate	0.5%	0.5%	0%	0.5%	1.5%	0.5%
Loss allowance provision	\$2,416	\$245	\$-	\$185	\$360	\$2,695

Liquidity risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet its requirements. There has been no change to the Company's policies and processes with respect to the way it manages liquidity risk.

The following are the contractual maturities of the financial liabilities as at December 31, 2019:

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	\$	\$	\$	\$	\$
Trade and other payables	3,830,582	3,830,582	-	-	-
License liabilities	269,908	269,908	-	-	-
Convertible debentures	9,008,693	9,008,693	-	-	-
Finance Leases	4,482	4,482	-	-	-
Deferred revenue	17,533	17,533	-	-	-
Lease obligation on right of use assets	345,874	345,874	-	-	-
Promissory notes to related parties	1,040,000	1,040,000	-	-	-
	14,517,072	14,517,072	-	-	-

The following are the contractual maturities of the financial liabilities as at December 31, 2018

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	\$	\$	\$	\$	\$
Trade and other payables	2,625,961	2,625,961	-	-	-
License liabilities	284,162	284,162	-	-	-
Convertible debentures	7,238,396	-	7,238,396	-	-
Finance leases	40,386	40,386	-	-	-
Deferred revenue	748,800	748,800	-	-	-
Promissory notes to related parties	300,000	300,000	-	-	-
	11,237,705	3,999,309	7,238,396	-	-

19. Guarantees

In the normal course of business, the Company enters into agreements that meet the definition of a guarantee. The Company's primary guarantees are as follows:

- (a) The Company has provided indemnities under its lease agreements for the use of its operating facilities. Under

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the terms of these agreements, the Company agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

- (b) Indemnity has been provided to all directors and officers of the Company for various items including, but not limited to, all costs to settle suits or actions due to association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a director or officer of the Company. The maximum amount of any potential future payment cannot be reasonably estimated.
- (c) In the normal course of business, the Company has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnities may require the Company to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnities prevents the Company from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Company has not made any payments under such or similar indemnities and therefore no amount has been accrued in the consolidated statements of financial position with respect to these indemnities.

20. Capital management

The Company's objectives when managing capital are to: (i) ensure the Company continues to operate as a going concern to maximize the return on investment to shareholders; (ii) ensure sufficient liquidity to meet the Company's financial obligations and to execute its operating and strategic plans; and (iii) minimize the after tax cost of capital while taking into consideration current and future industry, market and economic risks and conditions. The Company's capital structure consists of its equity, loan facility and convertible debentures. Other than covenants disclosed in convertible debentures note (Note 6), there are no externally imposed restrictions on capital.

The Company intends to maintain a flexible capital structure in order to finance its ongoing growth and respond to changes in economic conditions.

21. Segment information

Operating segment

The Company operates in one operating segment, semiconductors. Management assesses performance and makes decisions about allocating resources based on this one business segment.

Geographic information

For the years ended December 31, 2019 and 2018, revenues were derived substantially from customers in Asia.

At December 31, 2019, there were non-current assets, primarily property and equipment, located in Ireland, China, and the United States of America of \$25,256, \$763, and \$924,102, respectively, and at December 31, 2018, \$25,970, \$16,316, and \$1,330,204, respectively.

22. Subsequent Events

The Company had not made its interest payment that was due to the holders of Debentures on December 31, 2019. On March 4, 2020, the Company issued the late interest payment with incremental interest to the Trustee who subsequently distributed the payment to holders of Debentures. Pursuant to the terms of the indenture governing the Debentures, a formal notice will be sent to holders of Debentures advising such holders that the event of default has been cured (Note 6).

Subsequent to the end of the year, on April 20, 2020, the Company completed a private placement (the "2020 Private Placement") of 99,999,998 common shares at a price of CDN \$0.015 per common share for gross proceeds

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of approximately CDN \$1,500,000 (USD \$1,110,233).

The impact of COVID-19 has significantly impacted the Company and its impact on the data center programs is uncertain as a majority of the world was sheltered in place with no clear date for reopening. On March 16, 2020, a shelter in place order was placed in the County of Santa Clara in California and, subsequently, on March 19, 2020, the California issued a statewide shelter in place order, which impacted the Company's primary operations in San Jose, California. While demand for the Company's new data center products remains strong, Spectra7 is currently experiencing significant staffing issues, customer disruptions, and supply chain challenges caused by the spread of COVID-19 and associated shut downs that are impacting overall revenues in the near term. Preliminary revenue for the quarter ended March 31, 2020 were significantly reduced by effects of the coronavirus 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 very difficult time.

On April 23, 2020, the Company applied for enrollment in the Paycheck Protection Loan Program ("PPP") formed under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The PPP provides funding by the U.S. Small Business Administration ("SBA"), an Agency of the United States of America, to incentivize small businesses to maintain employees on the payroll during the Coronavirus (COVID-19) pandemic. Under the terms of the PPP, the Company has received approval and funding from a US based bank and the SBA for \$776,085 at an interest rate of 1.0% per annum and maturing in 24 months. Payments will not be due by the Company during the initial six-month period and, commencing one month after such six-month period, the Company shall be responsible for monthly payments of principal and interest in equal amounts until the maturity date. Under the terms of the PPP, the amounts provided to the Company are to be forgiven if employees are kept on the payroll for eight weeks and the funds are used for qualified payroll-related expenses. The Company intends to use the funds for such purposes and apply for forgiveness of the amounts so funded under the PPP.