

Unaudited Condensed Interim Consolidated Financial Statements of

SPECTRA7 MICROSYSTEMS INC.

For the Three Months Ended March 31, 2020 and 2019

(Expressed in United States Dollars)

The accompanying unaudited condensed consolidated interim financial statements of Spectra7 Microsystems Inc. (the "Company") have been prepared by and are the responsibility of the Company's management and approved by the Board of Directors of the Company.

The Company's independent auditor has not performed a review of these unaudited condensed consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants for a review of interim financial statements by an entity's auditor.

SPECTRA7 MICROSYSTEMS INC.
(Unaudited)

For the Three Months Ended March 31, 2020 and 2019

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SPECTRA7 MICROSYSTEMS INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (Unaudited)
Three Months Ended March 31, 2020 and 2019
(Expressed in United States Dollars)

	Three Months Ended March 31,	
	2020	2019
Revenue	116,002	1,381,360
Cost of sales	53,131	627,166
Gross margin	62,871	754,194
Research and development, net of investment tax credits and including amortization of licenses	752,108	1,391,625
Sales and marketing	130,204	479,461
General and administrative	272,834	736,765
Depreciation of right-of-use assets	85,336	79,503
Depreciation of property and equipment	82,349	119,191
Share-based compensation (Note 6)	157,831	334,869
Interest on lease obligation of right-of-use asset	13,493	29,911
Accretion expense (Note 5)	499,365	432,621
Change in derivative liability	-	(35)
Foreign exchange gain	(48,329)	(394)
	1,945,191	3,603,517
Net Loss	(1,882,320)	(2,849,323)
Other comprehensive loss:		
Unrealized foreign currency translation	879,118	(127,573)
Total comprehensive loss	(1,003,202)	(2,976,896)
Basic and diluted	(0.00)	(0.01)
Basic and diluted	429,645,891	235,847,806

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

SPECTRA7 MICROSYSTEMS INC.**Condensed Interim Consolidated Statements of Changes in Deficiency (Unaudited)****Three Months Ended March 31, 2020 and 2019****(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, 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	-	-	-	-	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	158,828	(158,828)	-	-	-	-	-
Share-based compensation expense	-	334,869	-	-	-	-	334,869
Total comprehensive loss	-	-	-	-	(2,849,323)	(127,573)	(2,976,896)
Balance, March 31, 2019	136,288,754	4,122,680	1,574,971	895,435	(152,638,360)	188,314	(9,568,206)

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

SPECTRA7 MICROSYSTEMS INC.

Condensed Interim Consolidated Statements of Changes in Deficiency (Unaudited)

Three Months Ended March 31, 2020 and 2019

(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 Equity \$
Balance, December 31, 2019	142,428,107	3,663,400	1,574,971	1,282,929	(4,104)	(160,831,092)	62,362	(11,823,427)
Shares issued under Restricted Share Unit plan (Note 6(b)(i))	109,638	(109,638)	-	-	-	-	-	-
Subscription received for common shares	-	-	-	-	54,870	-	-	54,870
Units issued on March Private Placement (Note 6(a)(i)), net of issuance costs of \$6,644.	876,013	-	-	-	-	-	-	876,013
Reclass issuance costs to expense	31,742	-	-	2,269	-	-	-	34,011
Share-based compensation expense (Note 6(b)(iii))	-	157,831	-	-	-	-	-	157,831
Total comprehensive loss	-	-	-	-	-	(1,882,320)	879,118	(1,003,202)
Balance, March 31, 2020	143,445,500	3,711,593	1,574,971	1,285,198	50,766	(162,713,412)	941,480	(11,703,904)

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

SPECTRA7 MICROSYSTEMS INC.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

March 31, 2020 and December 31, 2019

(Expressed in United States Dollars)

	March 31, 2020	December 31, 2019
	\$	\$
Assets		
Current assets:		
Cash	19,683	71,121
Trade and other receivables	291,519	650,573
Investment tax credits	3,174	11,884
Inventories	441,031	482,925
Prepaid expenses and other assets	189,438	216,524
	944,845	1,433,027
Non-current investment tax credits	32,955	24,245
Property and equipment	516,026	613,330
Right-of-use assets (Note 3)	523,268	608,604
Intangible assets	178,590	312,546
	2,195,684	2,991,752
Liabilities		
Current liabilities:		
Trade and other payables	4,067,682	3,830,582
License liabilities	133,954	269,908
Obligation under finance lease	-	4,482
Promissory notes to related parties (Note 10)	750,000	1,040,000
Deferred revenue	17,533	17,533
Convertible debentures (Note 5)	8,368,353	9,008,693
Lease obligation on right-of-use assets (Note 4)	356,413	345,874
	13,693,935	14,517,072
Non-current lease obligation on right-of-use assets (Note 4)	205,653	298,107
	13,899,588	14,815,179
Shareholders' Equity		
Common shares (Note 6(a))	143,445,500	142,428,107
Share-based payment reserve	3,711,593	3,663,400
Convertible debentures - share conversion option	1,574,971	1,574,971
Warrants	1,285,198	1,282,929
Subscription received for shares not issued	50,766	(4,104)
Deficit	(162,713,412)	(160,831,092)
Accumulated other comprehensive loss	941,480	62,362
	(11,703,904)	(11,823,427)
	2,195,684	2,991,752
Going concern (Note 1)		
Signed on behalf of the Board:		
<u>"Ron Pasek"</u>	Director	
<u>"Raouf Halim"</u>	Director	

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

SPECTRA7 MICROSYSTEMS INC.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

Three Months Ended March 31, 2020 and 2019

(Expressed in United States Dollars)

	Three Months Ended March 31,	
	2020	2019
	\$	\$
Operating activities:		
Net Loss	(1,882,320)	(2,849,323)
Items not involving cash:		
Amortization of licenses	133,956	155,415
Depreciation of property and equipment	97,290	134,133
Depreciation of right-of-use assets	85,336	79,503
Interest expense	-	29,911
Share-based compensation	157,831	334,869
Interest on obligations under finance lease	-	42
Accretion expense	499,365	432,621
Change in value of derivative liability	-	(35)
	(908,542)	(1,682,864)
Net change in non-cash working capital items		
Trade and other payables	359,054	208,052
Inventories	41,894	230,406
Prepaid expenses and other assets	27,086	10,032
Accounts payable and accrued charges	297,896	1,156,556
Deferred revenue	-	(393,161)
	(182,612)	(470,979)
Interest paid	(375,028)	(29,953)
	(557,640)	(500,932)
Financing activities:		
Proceeds from promissory notes to related parties (Note 10)	-	75,000
Repayment of promissory notes (Note 10)	(290,000)	-
Repayment of obligation under finance lease	(4,482)	(16,824)
Repayment of license liabilities	(135,954)	(142,081)
Repayment of lease obligation on right-of-use assets (Note 4)	(81,915)	(62,609)
Proceeds from issuance shares net of issuance costs of \$6,644	876,013	-
Proceeds from subscribed shares	54,870	-
	418,532	(146,514)
Investing activities:		
Acquisition of property and equipment	15	-
	15	-
Effect of foreign exchange rate changes on cash	87,655	(55,491)
Decrease in cash	(51,438)	(702,937)
Cash, beginning of period	71,121	932,203
Cash, end of period	19,683	229,266

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

SPECTRA7 MICROSYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three Months Ended March 31, 2020 and 2019
(Expressed in United States Dollars)

1. Nature of operations, going concern and continuation of the business

Spectra7 Microsystems Inc. (the "Company" or "Spectra7"), is a publicly traded company listed on the TSX Venture Exchange (the "TSXV"). The Company is a high performance analog semiconductor company delivering unprecedented bandwidth, speed and resolution to enable disruptive industrial design for leading electronics manufacturers in Virtual Reality ("VR"), Augmented Reality ("AR"), Mixed Reality ("MR"), data centers and other connectivity markets.

The Company is domiciled in Canada and its registered office is located at 181 Bay Street, Suite 1800, Toronto, Canada M5J 2T9.

The Company's condensed interim consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and be able to realize the carrying value of its assets and discharge its liabilities in the normal course of operations. The Company incurred a comprehensive loss of \$1,003,202 during the three month period ended March 31, 2020 (three months ended March 31, 2019 - \$2,976,896), and as of that date has an accumulated deficit of \$162,713,412 (December 31, 2019 - \$160,831,092). To date, the Company has funded operations through debt financings and through private and public equity offerings. These factors represent material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing and/or achieve profitable operations in the future. The condensed interim consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate.

The COVID-19 pandemic 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 issued in the County of Santa Clara in California and, subsequently, on March 19, 2020, the State of California issued a statewide shelter in place order, which has 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. Revenue for the three months ended March 31, 2020 was significantly reduced as a result of the COVID-19 pandemic. In response to the material near-term revenue impact, the Company has significantly reduced operating expenses, including employee furloughs. The Company continues to pursue the best available paths to manage operational risk and preserve capital during this time.

2. Basis of presentation

a) Statement of compliance

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

These condensed interim consolidated financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2019 and 2018.

Except as noted below, the Company has followed the same basis of presentation, accounting policies and method of computation for these condensed interim consolidated financial statements as were disclosed in the audited consolidated financial statements for the years ended December 31, 2019 and 2018.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on June 12, 2020.

b) Basis of measurement

The condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments measured at fair value through profit or loss. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

SPECTRA7 MICROSYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited) Three Months Ended March 31, 2020 and 2019 (Expressed in United States Dollars)

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

c) Basis of consolidation

The condensed interim consolidated financial statements incorporate the financial statements of the Company and its wholly-owned subsidiaries:

- Spectra7 Microsystems Corp., a company incorporated under the laws of Ontario;
- Spectra7 Microsystems Ltd., a company incorporated under the laws of Delaware;
- Spectra7 Microsystems (Ireland) Limited, a company incorporated under the laws of Ireland; and
- Si Bai Ke Te (Dongguan) Electronics Trading Co. Ltd., a China wholly foreign-owned enterprise (WFOE).

All intercompany balances and transactions are eliminated in full on consolidation.

3. Right-of-use assets

The following table sets forth the right-of-use assets as at March 31, 2020:

	\$
Balance, January 1, 2019	949,949
Depreciation	(79,503)
Balance March 31, 2019	870,446
Depreciation	(261,842)
Balance December 31, 2019	608,604
Depreciation	(85,336)
Balance March 31, 2020	523,268

4. Lease obligations on right-of-use assets

The present value of the remaining minimum lease payments on the obligations for right-of-use assets as at March 31, 2020 are as follows:

	\$
Opening as at January 1, 2020	643,981
Principal repayments during the period ended March 31, 2019	(81,915)
Period Ended March 31, 2020	562,066
Current	356,413
Non-current	205,653

SPECTRA7 MICROSYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
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5. Convertible debentures

	\$
Balance at December 31, 2018	7,238,396
Accretion expense	1,863,945
Repayments of interest	(368,913)
Foreign exchange translation adjustment	275,265
Balance at December 31, 2019	9,008,693
Accretion expense	499,365
Repayments of interest	(375,028)
Foreign exchange translation adjustment	(764,677)
Balance at March 31, 2020	8,368,353

The Company's convertible debentures are subject to certain covenants including restrictions against incurring certain additional indebtedness. As the Company entered into promissory notes with certain directors of the Company during the year ended December 31, 2019 (see Note 8 and 10), the Company was offside these restrictive covenants as at March 31, 2020. Subsequent to period end, on May 21, 2020, the Company settled all outstanding amounts under the promissory notes and therefore brought the Company into compliance with such restrictive covenants.

6. Shareholders' equity

(a) Common shares

- Authorized share capital consists of an unlimited number of common shares.

The following table summarizes the changes to the issued and outstanding common shares during the three months ended March 31, 2020:

	Common Shares	
	#	\$
Balance, December 31, 2019	409,557,177	142,428,107
Shares issued under Restricted Share Unit plan	1,174,608	109,638
Units issued on March Private Placement (i)	80,798,400	882,657
Cash paid for issuance costs - shares portion (i)	-	(6,644)
Reclass issuance costs to expense		31,742
Balance, March 31, 2020	491,530,185	143,445,500

The following table summarizes the changes to the issued and outstanding common shares during the three months ended March 31, 2019:

	#	\$
Balance, December 31, 2018	237,738,585	136,129,926
Shares issued under Restricted Share Unit plan	1,453,998	158,828
Balance, March 31, 2019	239,192,583	136,288,754

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Three Months Ended March 31, 2020 and 2019
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(i) Private Placement

On March 10, 2020, the Company announced a non-brokered private placement of up to 100,000,000 common shares in the capital of the Company ("Common Shares") at a price of CDN \$0.015 per Common Share for gross proceeds of up to \$1,087,132 (CDN \$1,500,000), (the "March Private Placement"). The first tranche of the March Private Placement closed on March 10, 2020 and consisted of the issuance of 80,798,400 Common Shares for aggregate gross proceeds of \$882,657 (CDN \$1,211,976).

The Company paid \$6,644 in related transaction costs.

(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. The combined aggregate number of common shares reserved under the Stock Option Plan and the RSU Plan at March 31, 2020 was 46,163,930 common shares (December 31, 2019 - 39,332,300 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 March 31, 2020 and 2019:

	March 31, 2020	March 31, 2019
	#	#
Balance, opening	37,105,661	17,135,257
Granted	-	6,000,000
Forfeited	(178,131)	-
Vested and common shares issued	(1,174,608)	(1,453,998)
Balance, ending	35,752,922	21,681,259

During the three months ended March 31, 2020, 1,174,608 RSUs were settled for \$109,638, which was transferred to common shares from share-based payment reserve (three month period ended March 31, 2019 - 1,453,998 RSUs were settled for \$158,829).

(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,

SPECTRA7 MICROSYSTEMS INC.

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provided that the expiry date shall be no later than the date that is 10 years following the award date of such option, subject to earlier termination upon the option holder ceasing to be a director, officer, employee or consultant of the Company.

The following table summarizes information about the Company's outstanding stock options as at March 31, 2020 and 2019:

	March 31, 2020		March 31, 2019	
	Number of Options	Weighted Average Price	Number of Options	Weighted Average Price
	#	CDN \$	#	CDN \$
Options outstanding, opening	2,226,639	0.56	6,428,453	0.44
Granted	8,575,000	0.03	-	-
Forfeited	(390,631)	0.88	(3,899,353)	0.34
Options outstanding, ending	10,411,008	0.11	2,529,100	0.56

During the three month period ended March 31, 2020, the Company reversed share-based compensation expenses of \$8,532 (three month period ended March 31, 2019 - \$118,920) as a result of the forfeitures.

The following table is a summary of the Company's stock options outstanding as at March 31, 2020:

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	8,675,000	6.85	0.03	39,581	0.19
0.21 - 0.40	356,878	4.35	0.22	241,448	0.22
0.41 - 0.60	747,500	2.91	0.48	630,407	0.47
0.61 - 0.80	556,630	1.93	0.69	549,250	0.69
0.81 - 1.00	75,000	1.64	0.92	75,000	0.92
Balance, March 31, 2020	10,411,008	6.18	0.11	1,535,686	0.52

SPECTRA7 MICROSYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three Months Ended March 31, 2020 and 2019
(Expressed in United States Dollars)

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

Exercise price range CDN \$	Number outstanding #	Options Outstanding		Options Exercisable	
		Weighted average remaining contractual life (years)	Weighted average exercise price CDN \$	Number exercisable #	Weighted average exercise price CDN \$
0.00 - 0.20	100,000	6.4	0.19	-	-
0.21 - 0.40	540,000	4.9	0.27	321,662	0.30
0.41 - 0.60	760,000	3.9	0.48	521,566	0.47
0.61 - 0.80	639,100	2.9	0.69	572,116	0.70
0.81 - 1.00	490,000	1.2	0.93	490,000	0.93
Balance, March 31, 2019	2,529,100	3.4	0.56	1,905,344	0.63

(iii) Share based compensation expense

For its RSU Plan and Option Plan, the Company recognized share-based compensation expense of \$157,831 for the three months ended March 31, 2020 (March 31, 2019 - \$334,869) 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 were 8,575,000 stock options granted during the three months ended March 31, 2020. The fair value of stock options granted during the three months ended March 31, 2020 was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Three Months Ended March 31,	
	2020	2019
Dividend yield	0%	N/A
Expected volatility	36%	N/A
Risk free rate of return	1.33%	N/A
Forfeiture rate	10%	N/A
Expected life	7 years	N/A

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

(c) Warrants

The following table summarizes information about the Company's outstanding warrants as at March 31, 2020 and 2019:

	March 31, 2020		March 31, 2019	
	Number of Warrants #	Weighted Average Price CDN \$	Number of Warrants #	Weighted Average Price CDN \$
Balance, opening	151,550,744	0.17	68,138,557	0.35
Expired broker warrants	(3,063,000)	0.35	-	-
Balance, ending	148,487,744	0.17	68,138,557	0.35

SPECTRA7 MICROSYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
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(Expressed in United States Dollars)

The following is a summary of the warrants outstanding as at March 31, 2020:

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)		
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 March 31, 2019:

Number of warrants outstanding	Exercise Price	Expiry Date
Non-broker Warrants ⁽¹⁾		
7,679,125	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

7. Other Comprehensive Loss

The operating results of Spectra7 Microsystems Corp., and Si Bai Ke Te (Dongguan) Electronics Trading Co. Ltd, both wholly-owned subsidiaries of the Company, are translated from their functional currencies of Canadian Dollars (CDN) and Chinese Yuan Renminbi (CNY), respectively, into the Company's presentation currency of USD at the end of each reporting period, with the difference being recorded in other comprehensive income. During the three month period ended March 31, 2020, the Company recorded an other comprehensive gain of \$879,118 (March 31, 2019: other comprehensive loss of \$127,573) related to unrealized foreign currency translation, which arose to the significant change in the USD exchange rate to CDN and CNY.

8. Related party transactions

The Company transacts with key individuals from management and with its directors who have authority and responsibility to plan, direct and control the activities of the Company. The nature of these dealings was in the form of payments for services rendered in their capacity as employees and as directors of the Company.

The Company's key management personnel are comprised of the Board of Directors and current and former members of the executive team of the Company.

Key management personnel compensation is comprised of the following:

SPECTRA7 MICROSYSTEMS INC.

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(Expressed in United States Dollars)

	Three Months Ended March 31,	
	2020	2019
	\$	\$
Salaries, fees and short-term benefits	1,189,038	462,813
Share-based benefits	140,322	250,331
	1,329,360	713,144

At March 31, 2020, the Company had non-interest bearing promissory notes payable to certain directors of the Company in the amount of \$750,000 (December 31, 2019 - \$1,040,000). The promissory notes are non-interest bearing and repayable within one year. See Note 10.

9. Economic dependence

During the three month period ended March 31, 2020, the Company derived approximately 97% of its revenue from three customers (three months ended March 31, 2019 – 88% from three customers).

10. Promissory Notes

During the three month period ended March 31, 2020, the Company settled \$290,000 of promissory notes with the issuance of Common Shares pursuant to the March Private Placement as described in note 6(a)(i). As at March 31, 2020, the balance of the promissory notes is \$750,000 (December 31, 2019 - \$1,040,000). 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 does not exceed 25% of the fair market value of the Company's market capitalization.

11. Subsequent Events

On April 20, 2020, the Company completed a second tranche of the March Private Placement, which consisted of the issuance of 19,201,598 Common Shares at a price of CDN \$0.015 per Common Share for aggregate gross proceeds of approximately \$204,475 (CDN \$288,024). In aggregate, the Company issued 99,999,998 Common Shares for gross proceeds of approximately \$1,110,233 (CDN \$1,500,000) in the two tranches of the March Private Placement.

On April 24, 2020, the Company applied for enrollment in the Paycheck Protection 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 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. However, under the terms of the PPP, the amounts provided to the Company are to be forgiven if employees are kept on the payroll for a prescribed period of time and the funds are used for certain prescribed expenses. On June 5, 2020, the Paycheck Protection Program Flexibility Act ("PPFPA") was approved by Congress to provide greater flexibility in order for recipients to be eligible for forgiveness of funds received under the PPP. The Company intends to use the funds for the purposes set out in the CARES Act and the PPFPA and apply for forgiveness of the amounts so funded under the PPP. On this basis, the Company considers the funds received under the PPP to be in the form of a government grant under IFRS.

On May 15, 2020, the Company announced that the TSXV had approved the Company's previously announced application to list its Common Shares on the TSXV. The Company's Common Shares commenced trading on the TSXV on May 22, 2020.

SPECTRA7 MICROSYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three Months Ended March 31, 2020 and 2019

(Expressed in United States Dollars)

On May 22, 2020, the Company issued an aggregate of 42,000,000 Common Shares at a deemed issuance price of CDN \$0.025 per Common Shares to settle in full \$750,000 (CDN \$1,050,000) owing to certain directors of the Company pursuant to outstanding promissory notes.