Unaudited Condensed Interim Consolidated Financial Statements of

SPECTRA7 MICROSYSTEMS INC.

For the Three and Six Months Ended June 30, 2022 and 2021

(Expressed in United States Dollars)

The accompanying unaudited condensed interim consolidated 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 interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants for a review of interim financial statements by an entity's auditor.

SPECTRA7 MICROSYSTEMS INC.

(Unaudited)

For the Three and Six Months Ended June 30, 2022 and 2021

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SPECTRA7 MICROSYSTEMS INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (Unaudited)
Six Months Ended June 30, 2022 and 2021
(Expressed in United States Dollars)

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
	$	$	**$**	$
Revenue	**3,531,975**	733,413	**5,616,041**	1,289,526
Cost of sales	**2,004,329**	304,240	**3,195,675**	542,890
Gross margin	**1,527,646**	429,173	**2,420,366**	746,636
Research and development, net of investment tax credits including amortization of licenses	**1,157,735**	884,926	**2,272,550**	1,436,032
Sales and marketing	**257,649**	48,692	**422,810**	114,987
General and administrative *(Note 8)*	**875,076**	746,261	**1,998,944**	1,022,608
Depreciation of right-of-use assets *(Note 3)*	**113,429**	64,815	**173,466**	139,188
Depreciation of property and equipment	**9,947**	52,025	**31,230**	108,936
Share-based compensation *(Note 7(b))*	**646,070**	57,353	**1,499,226**	140,508
Interest on lease obligation of right-of-use asset	**5,555**	7,076	**12,392**	8,895
Accretion and interest expense *(Note 6)*	**231,942**	409,598	**587,005**	951,101
Foreign exchange loss (gain)	**34,101**	3,631	**(11,098)**	2,696
Gain on disposal of property and equipment	**-**	(6,500)	**-**	(6,500)
Total Expenses	**3,331,504**	2,267,878	**6,986,525**	3,918,451
Grant income *(Note 10)*	**(217,105)**	(504,905)	**(217,105)**	(739,470)
Net Loss	**(1,586,753)**	(1,333,800)	**(4,349,054)**	(2,432,345)
Other comprehensive loss:				
Unrealized foreign currency translation	**(48,357)**	(57,353)	**(29,100)**	(73,933)
Total comprehensive loss	**(1,635,110)**	(1,391,153)	**(4,378,154)**	(2,506,278)
Loss per share				
Basic and diluted	**(0.05)**	(0.08)	**(0.13)**	(0.15)
Weighted average number of common shares outstanding				
Basic and diluted	**33,452,366**	17,140,583	**33,268,145**	16,213,184

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 Shareholders' Equity (Deficiency) (Unaudited)
Six Months Ended June 30, 2022 and 2021
(Expressed in United States Dollars)

	Common shares	Share-based payment reserve	Convertible debentures - share conversion option	Warrants	Subscription received for shares not issued	Accumulated Deficit	Accumulated other comprehensive loss	Total Shareholders' Deficiency
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance, December 31, 2020	**145,179,094**	**3,868,338**	**1,561,032**	**1,384,160**	**740,161**	**(166,988,726)**	**(20,681)**	**(14,276,622)**
Shares issued under Restricted Share Unit plan *(Note 7(a))*	3,779	(3,779)	-	-	-	-	-	-
Subscription received for common shares	-	-	-	-	(740,161)	-	-	(740,161)
Units issued in January Private Placement, net of issuance costs *(Note 7(a)(i))*	2,985,964	-	-	762,427	-	-	-	3,748,391
Units issued in Spring Private Placement, net of issuance costs *(Note 7(a)(ii))*	4,261,853	-	-	478,196	-	-	-	4,740,049
Share-based compensation expense *(Note 7(b)(iii))*	-	140,508	-	-	-	-	-	140,508
Shares issued upon exercise of stock options	-	5,951	-	-	-	-	-	5,951
Conversions of convertible debt to shares	4,495,270	-	-	-	-	-	-	4,495,270
Total comprehensive loss	-	-	-	-	-	(2,432,345)	(73,933)	(2,506,278)
Balance, June 30, 2021	**156,925,961**	**4,011,018**	**1,561,032**	**2,624,783**	**-**	**(169,421,071)**	**(94,614)**	**(4,392,891)**

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

SPECTRA7 MICROSYSTEMS INC.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency) (Unaudited)
Six Months Ended June 30, 2022 and 2021
(Expressed in United States Dollars)

	Common shares	Share-based payment reserve	Convertible debentures share conversion option	Warrants	Accumulated Deficit	Other comprehensive loss	Total Shareholders' Equity
	$	$	$	$	$	$	$
Balance, December 31, 2021	**167,674,271**	**4,493,506**	**911,274**	**3,667,941**	**(172,774,180)**	**(417,974)**	**3,554,838**
Shares issued under Restricted Share Unit plan	718,481	(718,481)	-	-	-	-	-
Conversions of convertible debt to shares *(Note 6)*	3,975	-	-	-	-	-	3,975
Share-based compensation expense *(Note 7(b)(iii))*	-	1,499,226	-	-	-	-	1,499,226
Shares issued upon exercise of stock options	1,965	-	-	-	-	-	1,965
Total comprehensive loss	-	-	-	-	(4,349,054)	(29,100)	(4,378,154)
Balance, June 30, 2022	**168,398,692**	**5,274,251**	**911,274**	**3,667,941**	**(177,123,234)**	**(447,074)**	**681,850**

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

SPECTRA7 MICROSYSTEMS INC.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)
June 30, 2022 and December 31, 2021
(Expressed in United States Dollars)

	June 30, 2022	December 31, 2021
	$	$
Assets		
Current assets:		
Cash	**2,572,126**	5,944,155
Trade and other receivables	**3,834,714**	2,673,175
Investment tax credits	**3,231**	7,878
Inventories *(Note 5)*	**2,113,924**	885,158
Prepaid expenses and other assets	**1,180,621**	1,446,716
	9,704,616	10,957,082
Non-current investment tax credits	**7,878**	3,231
Property and equipment	**472,789**	343,786
Right-of-use assets *(Note 3)*	**200,121**	320,194
Intangible assets	**398,757**	597,067
	10,784,161	12,221,360
Liabilities		
Current liabilities:		
Trade and other payables	**3,582,253**	2,387,457
Convertible debentures *(Note 6)*	**6,306,707**	5,947,307
Lease obligation on right-of-use assets *(Note 4)*	**213,351**	244,553
	10,102,311	8,579,317
Non-current lease obligation on right-of-use assets *(Note 4)*	**-**	87,205
	10,102,311	8,666,522
Shareholders' Equity		
Common shares *(Note 7(a))*	**168,398,692**	167,674,271
Share-based payment reserve *(Note 7(c))*	**5,274,251**	4,493,506
Convertible debentures - share conversion option *(Note 6)*	**911,274**	911,274
Warrants *(Note 7(d))*	**3,667,941**	3,667,941
Deficit	**(177,123,234)**	(172,774,180)
Accumulated other comprehensive loss	**(447,074)**	(417,974)
	681,850	3,554,838
	10,784,161	12,221,360

Going concern *(Note 1)*

Signed on behalf of the Board:

"Ron Pasek" — *Director*

"Christopher Morgan" — *Director*

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

SPECTRA7 MICROSYSTEMS INC.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)
Six Months Ended June 30, 2022 and 2021
(Expressed in United States Dollars)

	Six Months Ended June 30,	
	2022	2021
	$	$
Operating activities:		
Net Loss	**(4,349,054)**	(2,432,345)
Items not involving cash:		
Amortization of licenses	**306,726**	84,788
Depreciation of property and equipment	**31,230**	127,397
Depreciation of right-of-use assets *(Note 3)*	**173,466**	139,188
Share-based compensation *(Note 7)*	**1,499,226**	140,508
Accretion and interest expense *(Note 6)*	**587,005**	951,101
Recognition of government grant	**(217,105)**	(739,470)
Gain on disposal of property equipment	**-**	(6,500)
	(1,968,506)	(1,735,333)
Net change in non-cash working capital items		
Trade and other receivables	**(1,161,539)**	(304,864)
Inventories	**(1,228,766)**	(152,103)
Prepaid expenses and other assets	**266,095**	(837,962)
Trade and other payables	**1,141,403**	(1,799,551)
Deferred revenue	**-**	78,190
	(2,951,313)	(4,751,623)
Grant funds received	**217,105**	739,469
Interest paid *(Note 6)*	**(219,040)**	(263,322)
	(2,953,248)	(4,275,476)
Financing activities:		
Proceeds from exercise of stock options *(Note 7)*	**1,965**	-
Repayment of lease obligation on right-of-use assets *(Note 4)*	**(118,407)**	(146,862)
Proceeds from the issuance of shares, net of issuance costs *(Note 7)*	**-**	6,185,448
	(116,442)	6,038,586
Investing activities:		
Acquisition of property and equipment	**(160,233)**	(109,426)
Acquisition of licenses	**(108,416)**	(150,793)
	(268,649)	(260,219)
Effect of foreign exchange rate changes on cash	**(33,690)**	(54,709)
(Decrease)/Increase in cash	**(3,372,029)**	1,448,181
Cash, beginning of period	**5,944,155**	35,253
Cash, end of period	**2,572,126**	1,483,434

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

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 delivers high performance analog semiconductors at unmatched bandwidth, speed and resolution to enable disruptive industrial design for leading electronics manufacturers in data centers, Virtual Reality (“VR”), Augmented Reality (“AR”), 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 $4,378,154 for the six months ended June 30, 2022 (June 30, 2021 - $2,506,278) and has an accumulated deficit of $177,123,234 (December 31, 2021 - $172,774,180). 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.

On August 13, 2021, the Company completed a consolidation of its common shares on the basis of 50 existing common shares for one new common share (the “Consolidation”). Accordingly, the common share, per common share and basic and diluted earnings per common share amounts are adjusted retrospectively for all periods presented.

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, 2021 and 2020.

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, 2021 and 2020.

These condensed interim consolidated financial statements were approved for issuance by the Board of Directors on August 25, 2022.

b) Basis of measurement

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

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

c) Basis of consolidation

The condensed interim consolidated financial statements incorporate the financial statements of the Company and its wholly owned subsidiaries and their corresponding functional currencies:

Spectra7 Microsystems Corp., a company incorporated under the laws of Ontario (USD);

(Expressed in United States Dollars)

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

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

d) Critical accounting estimates and judgements

The Company uses the same critical accounting estimates and judgements as those that applied to the annual consolidated financial statements for the year ended December 31, 2021.

3. Right-of-use assets

The following table sets forth the right-of-use assets:

	$
Balance, January 1, 2021	**99,164**
Depreciation	(259,261)
Lease amendment	480,291
Balance, December 31, 2021	**320,194**
Depreciation	(173,466)
Adjustment	53,393
Balance, June 30, 2022	**200,121**

Depreciation expense for the six months ended June 30, 2021 was $139,188.

In 2021, the Company entered into an amendment to extend the lease for its headquarters through April 2023 and reduced its monthly rent expense for the extended period. The lease amendment was accounted for as a change in the accounting of the existing lease. With the extended lease term, the Company recorded a right-of-use assets and a corresponding lease obligations of $480,291 using an incremental borrowing rate of 8.75%.

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 June 30, 2022 are as follows:

	$
Balance, January 1, 2021	**110,533**
Principal repayments	(259,066)
Lease amendment	480,291
Balance, December 31, 2021	**331,758**
Principal repayments	(118,407)
Balance, June 30, 2022	213,351

Current	213,351
Non-current	-

(Expressed in United States Dollars)

5. Inventories

	June 30, 2022	December 31, 2021
	$	$
Work-in-progress	**2,048,889**	880,985
Finished goods	**187,257**	126,395
	2,236,146	1,007,380
Less: provision for obsolescence	**(122,222)**	(122,222)
	2,113,924	885,158

Inventories recognized as cost of sales for the six months ended June 30, 2022 was $3,291,349 ($513,099 for the six months ended June 30, 2021).

6. Convertible debentures

	$
Balance, January 1, 2021	**9,827,191**
Accretion and interest expense	1,528,830
Exchange of convertible debentures for private placement units	(1,377,536)
Repayment of interest	(493,706)
Converted to common shares	(3,172,062)
Foreign exchange translation adjustment	13,730
Gain on modification of convertible debt	(379,140)
Balance, December 31, 2021	**5,947,307**
Accretion and interest expense	587,005
Repayment of interest	(219,040)
Repayment of interest in shares	(3,975)
Foreign exchange translation adjustment	(4,590)
Balance, June 30, 2022	**6,306,707**

The Company's 7% unsecured convertible debentures (the “7% Debentures”) are subject to certain covenants including restrictions against incurring certain additional indebtedness. As at June 30, 2022 the Company is in compliance with all covenants.

On December 9, 2021, the Company entered into a second supplemental convertible debenture indenture (the “Second Supplemental Indenture”) to amend the terms and conditions of the 7% Debentures to reduce the conversion price from CDN $5.00 per common share to CDN $2.50 per common share from January 10, 2022 to July 9, 2022. The Company treated the change as a modification of the existing instrument and recorded a gain of $379,140.

The Second Supplemental Indenture was recorded as a modification of the financial instrument with debt component of $5,947,307, determined using present value of future cash flows including a principal amount of $6,354,099 and a discount rate of 18.0%. Debt component is being amortized using an effective interest rate of approximately 23.6% over its remaining term.

Subsequent to June 30, 2022, the Company entered into a third supplemental convertible debenture indenture (the “Third Supplemental Indenture”). See Note 13 for additional information.

(Expressed in United States Dollars)

7. Shareholders' equity

(a) Common shares

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

On August 13, 2021, the Company completed a consolidation of its common shares on the basis of 50 existing common shares for one new common share. Accordingly, the common share, per common share and basic and diluted earnings per common share amounts are adjusted retrospectively for all periods presented.

The following table summarizes the changes to the issued and outstanding common shares during the six months ended June 30, 2022:

	#	$
Balance, December 31, 2021	**33,074,937**	**167,674,271**
Shares issued under Restricted Share Unit Plan	468,063	718,481
Convertible debt conversions	4,593	3,975
Shares issued upon exercise of stock options	2,500	1,965
Balance, June 30, 2022	**33,550,093**	**168,398,692**

The following table summarizes the changes to the issued and outstanding common shares during the six months ended June 30, 2021:

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

(i) January 2021 Private Placement

On January 15, 2021, the Company completed the first tranche of a non-brokered private placement (the "January 2021 Private Placement") of 2,280,275 units ("January 2021 Units") at a price of CDN $1.50 per January 2021 Unit for gross proceeds of $2,682,466 (CDN $3,420,413), of which $1,568,784 (CDN $1,995,000) were settled by extinguishment of convertible debt balance by a debentureholder. On February 12, 2021, the Company completed the second tranche of the January 2021 Private Placement, which consisted of the issuance of 759,917 January 2021 Units for gross proceeds of $893,951 (CDN $1,139,876) and the issuance 197,413 January 2021 Units to settled CDN $296,119 owing to an arm's length party. Each January 2021 Unit consists of one common share and one-half common share purchase warrant (each whole warrant, a "January 2021 Warrant") with each January 2021 Warrant being exercisable into one common share at an exercise price of CDN $2.50 for a period of five years from the date of issuance, subject to adjustment upon certain customary events. The expiry date of the January 2021 Warrants can be accelerated by the Company at any time following the date that is four (4) months and one day after closing of the January 2021 Private Placement and prior to the expiry date of the January 2021 Warrants if the closing price of the common shares on the TSXV is greater than CDN $4.00 for any 10 non-consecutive trading days.

(ii) Spring 2021 Private Placement

On May 14, 2021, the Company completed the first tranche of a brokered private placement (the "Spring 2021 Private Placement") of 3,413,791 units (the "Spring 2021 Units"). The Company also completed a concurrent non-brokered offering of 254,016 Spring 2021 Units. On June 11, 2021, the Company completed the second non-brokered tranche of the Spring 2021 Private Placement, which consisted of the issuance of 555,335 Spring 2021 Units. The price per Spring 2021 Unit for both tranches was CDN $1.50. Together, the Company has issued a total of 4,223,142 Spring 2021 Units in the Spring 2021 Private Placement for gross proceeds of $5,229,389 (CDN $6,334,711). Each Spring 2021 Unit consists of one common share and one common share purchase warrant (each, a "Spring 2021 Warrant") with each Spring 2021 Warrant being exercisable into one common share at an exercise price of CDN $2.50 until May 14, 2026, subject to adjustment upon certain customary events. The expiry date of the Spring 2021 Warrants can be accelerated by the Company to the date that is thirty (30) days following the delivery of the acceleration notice to the holders of the Spring 2021 Warrants if, at any time following the date that is four months and one day following the closing date of the Spring 2021 Private Placement, the closing price of the common shares is greater than CDN $4.00 for a period of 10 non-consecutive trading days on the TSXV.

In connection with the first tranche of the Spring 2021 Private Placement, the Company paid a commission of $280,664 (CDN $340,948) and issued 227,299 broker warrants, with each broker warrant being exercisable into a Spring 2021 Unit at a price of CDN $1.50 for a period of two years. In connection with the second tranche of the Spring 2021 Private Placement, the Company paid finder's fees in cash totaling $26,165 (CDN $31,785) and issued 15,190 finder's warrants (each, a "Finder's Warrant"), with each Finder's Warrant entitling the holder to purchase one Spring 2021 Unit at a price of CDN $1.50 until May 14, 2023.

(iii) October 2021 Private Placement

On October 26, 2021, the Company completed a brokered private placement (the "October 2021 Private Placement") of 11,183,990 common shares at a price of CDN $1.32 per common share for gross proceeds of $11,810,293 (CDN $14,762,866). In connection with the October 2021 Private Placement, the Company paid a commission of $434,046 (CDN $542,558) and issued 411,028 broker warrants. Each broker warrant is exercisable into one common share at an exercise price of CDN $1.32 for a period of two years from the date of issuance, subject to adjustment upon certain customary events. $426,325 were attributed to the warrants with the warrants classified as equity in shareholders' equity.

Gross proceeds from each private placement were allocated to the common shares and warrants based on their relative fair values, net of issuance costs. The fair value of the warrants was determined using the Monte-Carlo option pricing model with the following assumptions for each private placement and their relative fair value before issuance costs:

(Expressed in United States Dollars)

Private Placement	Volatility	Risk free rate	Term (years)	Relative Fair Value
January 2021	109% - 111%	0.46% - 0.50%	5	$ 789,407
Spring 2021	112% - 113%	0.16% - 0.82%	2 – 5	$ 1,932,912
October 2021	157%	0.47%	2	$ 426,325

(b) Share-based compensation

The Company has established a stock option plan (the "Stock Option Plan") and a restriction share unit plan (the "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 Stock Option Plan and the term, vesting periods, and the exercise price of options granted under the Stock Option Plan.

At the annual and special meeting of shareholders in June 2022, shareholders approved amendments to both the Stock Option Plan and the RSU Plan to provide that the combined maximum number of common shares reserved for issuance under both the Stock Option Plan and the RSU Plan, inclusive of existing stock options and RSUs, shall not exceed 20% of the then outstanding common shares or 6,710,018 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 of the RSUs is determined based upon the Company's stock price on the date of grant.

The following table summarizes information about the Company's outstanding RSUs as at June 30, 2022 and 2021 from the beginning of the year:

	June 30, 2022	June 30, 2021
	#	#
RSU outstanding, opening	**2,907,256**	541,307
Granted	**688,909**	90,000
Forfeited	**(117,980)**	(1,693)
Vested and Shares issued	**(468,063)**	(2,000)
RSU outstanding, ending	**3,010,122**	627,614

(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.

The following table summarizes information about the Company's outstanding stock options as at June 30, 2022 and 2021 from the beginning of the year:

(Expressed in United States Dollars)

	June 30, 2022		June 30, 2021	
	Number of Options	Weighted Average Price	Number of Options	Weighted Average Price
	#	CDN $	#	CDN $
Options outstanding, opening	**298,274**	**2.43**	333,355	3.30
Granted	**-**	-	-	-
Exercised	**-**	-	-	-
Cancelled	**-**	-	-	-
Forfeited	**(31,606)**	**5.41**	(54,423)	1.47
Options outstanding, ending	**266,668**	**1.92**	278,932	3.26

The following table is a summary of the Company's stock options outstanding as at June 30, 2022:

	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 $
1.00 – 1.90	260,000	6.27	1.46	240,000	1.42
10.50 – 34.00	6,668	1.22	19.80	8,432	22.19
Balance, June 30, 2022	**266,668**	**6.15**	**1.92**	**248,432**	**2.12**

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

	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 $
1.00 – 1.50	260,000	5.91	1.22	260,000	1.22
9.50 – 46.00	18,932	2.13	25.22	8,432	25.36
Balance, June 30, 2021	**278,932**	**5.58**	**3.26**	**278,617**	**3.25**

(iii) Share-based compensation expense

For its RSU Plan and Stock Option Plan, the Company recognized share-based compensation expense of $1,499,226 for the six months ended June 30, 2022 ($140,508 for the six months ended June 30, 2021) 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. The fair value of stock options granted is estimated at the date of grant using the Black-Scholes option pricing model. There were no stock options granted in the six months ended June 30, 2022 and 2021.

(c) Share-based payment reserve

The following is a continuity schedule for the six months ended June 30, 2022 and the year ended December 31, 2021:

(Expressed in United States Dollars)

	$
Balance, December 31, 2020	**3,868,338**
Shares issued pursuant to settlement of RSUs and Options	(1,239,713)
Share-based compensation expense	1,864,881
Balance, December 31, 2021	**4,493,506**
Shares issued pursuant of RSUs and Options	(718,481)
Share-based compensation expense	1,499,226
Balance, June 30, 2022	**5,274,251**

(d) Warrants

The following table summarizes information about the Company's outstanding warrants as at June 30, 2022 and 2021 from the beginning of the year:

	June 30, 2022		June 30, 2021	
	Number of Warrants	Weighted Average Price	Number of Warrants	Weighted Average Price
	#	CDN $	#	CDN $
Warrant outstanding, opening	**9,398,804**	**3.23**	3,347,003	8.00
Warrants component of January 2021 Private Placement (Note 7(a))	**-**	**-**	1,618,803	2.50
Warrants component of Spring 2021 Private Placement (Note 7(a))	**-**	**-**	4,223,141	2.50
Warrants expired	**(44,100)**	**15.00**	(443,660)	25.00
Warrant outstanding, ending	**9,354,704**	**3.17**	8,745,287	3.46

The following is a summary of the warrants outstanding by exercise price as at June 30, 2022:

Number of warrants outstanding	**Exercise Price**	**Expiry Date**
Warrants *(1)*		
283,363	CDN $7.875	July 6, 2023
324,122	CDN $11.25	October 30, 2023
1,584,316	CDN $4.00	August 21, 2024
210,469	CDN $2.50	July 15, 2025
166,779	CDN $2.50	September 25, 2025
1,140,138	CDN $2.50	January 15, 2026
478,665	CDN $2.50	February 12, 2026
4,223,141	CDN $2.50	May 14, 2026
Broker Warrants (Compensation Options)		
242,489(2)	CDN $1.50	May 14, 2023
9,943	CDN $7.875	July 6, 2023
411,028	CDN $1.32	October 26, 2023
28,941	CDN $11.25	October 30, 2023
251,310	CDN $2.50	August 21, 2024

(Expressed in United States Dollars)

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

Number of warrants outstanding	Exercise Price	Expiry Date
Warrants [(1)]		
283,363	CDN $7.875	July 6, 2023
324,122	CDN $11.25	October 30, 2023
1,584,316	CDN $4.00	August 21, 2024
210,469	CDN $2.50	July 15, 2025
166,779	CDN $2.50	September 25, 2025
1,140,138	CDN $2.50	January 15, 2026
Broker Warrants (Compensation Options)		
9,943	CDN $7.875	July 6, 2023
28,941	CDN $11.25	October 30, 2023
251,310	CDN $2.50	August 21, 2024
Waiver Warrants		
44,100	CDN $15.00	February 24, 2022

(1) Subject to acceleration in certain circumstances.

(2) Convertible into Spring 2021 Units. See Note 7(a)(ii)

8. Related party transactions and balances

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 consisted of the Board of Directors and current and former members of the executive team of the Company.

Key management personnel compensation consists of the following:

	Three Months Ended June 30		Six Months Ended June 30,	
	2022	2021	**2022**	2021
	$	$	**$**	$
Salaries, fees and short-term benefits	**62,500**	177,746	**383,000**	258,745
Share-based benefits	**375,696**	284,731	**823,124**	679,205
Total	**438,196**	462,477	**1,206,124**	937,950

As at June 30, 2022, the amount owing to directors and officers was $383,000.

9. Economic dependence

During the three and six month periods ended June 30, 2022, the Company derived approximately 100% and 93% of its revenue from two customers, respectively (three and six months ended June 30, 2021 – 99% and 98% from two customers, respectively).

10. Government Grant

The Company applied for enrollment in the Paycheck Protection Program ("PPP") formed under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). On February 19, 2021, the Company applied for enrollment in the 2nd Paycheck Protection Loan Program (the "Second PPP") formed under the CARES Act. On March 5, 2021, the Company received a new government grant under the Second PPP in the amount of $739,470. During the six months ended June 30, 2021, $739,470 was recognized as grant income. On July 28, 2021, the Company received notice of forgiveness for the full amount of the grant from the Second PPP. In 2022, the Company applied for the Employee Retention Credit and received $217,105 which was recognized as grant income.

11. Financial instruments

The Company's financial instruments consist of cash, trade and other receivables, trade and other payables, lease obligation on right of use assets and convertible debt. These financial instruments are classified as financial assts and liabilities at amortized cost and are reported at amortized cost.

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 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.

The carrying value of the Company's financial assets and liabilities approximate their fair values due to their nature and their short-term to maturity.

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 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:

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.

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 7% Debentures arises from fluctuations in interest rates and the degree of volatility of these rates. The 7% Debentures provides for a fixed annual rate of 7% and hence no interest rate risk. 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 June 30, 2022, three customers represented 99% of the Company's trade and other receivables. At December 31, 2021, two customers represented 90% of the Company's trade and other receivables.

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.

12. 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 as of June 30, 2022.

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

13. Subsequent event

On July 26, 2022, the Company entered into the Third Supplemental Indenture to amend certain terms of the 7% Debentures. Pursuant to the Third Supplemental Indenture, the maturity date of the 7% Debentures was extended to September 9, 2022. The Company repaid 20% of the outstanding principal amount together with the 10% bonus principal outstanding on the 7% Debentures on August 2, 2022, including accrued and unpaid interest, totaling CDN $2,600,704. The principal outstanding after the payment was CDN $5,422,400. As consideration for the extension, the Company agreed to pay a non-convertible extension bonus at maturity of approximately CDN $199,978. On August 25, 2022, the Company announced that it would repay the 7% Debentures in full on September 2, 2022, which includes CDN $5,422,400 principal amount and CDN $65,370 of accrued and unpaid interest thereon, as well as $199,978 of extension bonus and $1,438 of associated interest.

On July 26, 2022, the Company announced a non-brokered private placement (the "Offering") up to CDN $8.0 million of 14% unsecured convertible debentures (the "14% Debentures") and completed the first tranche of the Offering consisting of the issuance of CDN $3,809,000 principal amount of 14% Debentures for gross proceeds of CDN $3,732,820. On August 25, 2022, the Company entered into a first supplement convertible debenture indenture to increase the size of the Offering up to CDN $9.0 million and completed the second tranche of the Offering. In aggregate, the Offering consisted of the issuance of CDN $8,873,000 principal amount of 14% Debentures for gross proceeds of CDN $8,695,540.

Each CDN $1,000 principal amount of 14% Debentures was sold at a subscription price of CDN $980. The 14% Debentures mature on December 31, 2024 and the principal amount 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 maturity, at a conversion price of CDN $1.02 per common share, subject to adjustment upon certain customary events. Holders converting their 14% Debentures will receive accrued and unpaid interest thereon for the period from and including the date of the latest interest payment date to, and including, the date of conversion. In connection with the Offering, the Company paid $249,049 (CDN $321,273) in finder's fees and issued 401,603 warrants, which each entitle the holder to purchase one common share at a price of $1.02 for a period of two years from issuance.