

Unaudited Condensed Interim Consolidated Financial Statements of

SPECTRA7 MICROSYSTEMS INC.

For the Three and Nine Months Ended September 30, 2024 and 2023

(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 Nine Months Ended September 30, 2024 and 2023

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SPECTRA7 MICROSYSTEMS INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (Unaudited)
For the Three and Nine Months Ended September 30, 2024 and 2023
(Expressed in United States Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	\$	\$	\$	\$
Revenue	152,509	3,154,290	1,830,864	9,555,153
Cost of sales	169,302	1,567,895	966,485	3,950,444
Gross margin	(16,793)	1,586,395	864,379	5,604,709
Expenses (Income):				
Research and development, net of investment tax credits and including amortization of licenses	1,033,246	1,408,685	3,196,075	3,598,073
Sales and marketing	236,110	270,616	785,076	791,655
General and administrative	962,981	762,318	2,633,912	2,534,785
Depreciation of right-of-use assets	55,819	60,113	173,183	180,237
Depreciation of property and equipment	26,974	21,195	82,576	37,421
Share-based compensation (Note 7(b))	143,029	287,965	595,112	1,314,637
Loss on extinguishment of convertible debt (Note 6)	-	-	6,922,080	-
Interest on lease obligation of right-of-use asset (Note 4)	3,702	3,986	8,337	8,948
Accretion and interest expense (Note 6)	-	410,842	680,539	1,169,906
Other Income	-	(30,125)	10,165	(42,498)
Foreign exchange gain	(1,220)	(109,598)	(185,375)	(124,384)
Total Expenses	2,460,641	3,085,997	14,901,680	9,468,780
Net Loss	(2,477,434)	(1,499,602)	(14,037,301)	(3,864,071)
Other comprehensive loss:				
Unrealized foreign currency translation	810	(25)	190	(1,447)
Total comprehensive loss	(2,476,624)	(1,499,627)	(14,037,111)	(3,865,518)
Loss per share				
Basic and diluted	(0.02)	(0.04)	(0.15)	(0.10)
Weighted average number of common shares outstanding				
Basic and diluted	142,444,592	39,827,304	92,580,856	38,205,148

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)

For the Three and Nine Months Ended September 30, 2024 and 2023

(Expressed in United States Dollars)

	Common shares #	Common shares \$	Share-based payment reserve \$	Convertible debentures - share conversion option \$	Warrants \$	Deficit \$	Accumulated other comprehensive loss \$	Total Equity \$
Balance, December 31, 2022	33,689,934	168,991,070	5,718,126	1,514,142	3,902,307	(179,815,622)	268,885	578,908
Shares issued under Restricted Share Unit plan	147,370	33,362	(33,362)	-	-	-	-	-
Private Placement March 2023 Equity component of convertible debentures, net of issuance costs	5,990,000	1,884,520	-	-	1,992,688	-	-	3,877,208
Equity component of convertible debentures (Note 6)	-	-	-	527,908	550,111	-	-	1,078,019
Share based compensation expense (Note 7(b)(iii))	-	-	1,314,637	-	-	-	-	1,314,637
Total comprehensive loss	-	-	-	-	-	(3,864,071)	(1,447)	(3,865,518)
Balance, September 30, 2023	39,827,304	170,908,952	6,999,401	2,042,050	6,445,106	(183,679,693)	267,438	2,983,254

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SPECTRA7 MICROSYSTEMS INC.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency) (Unaudited)

For the Three and Nine Months Ended September 30, 2024 and 2023

(Expressed in United States Dollars)

	Common shares #	Common shares \$	Share-based payment reserve \$	Convertible debentures - share conversion option \$	Warrants \$	Deficit \$	Accumulated other comprehensive loss \$	Total Equity \$
Balance, December 31, 2023	40,300,419	171,979,214	6,541,017	1,681,250	5,821,592	(187,994,653)	182,852	(1,788,728)
Shares issued under Restricted Share Unit plan	-	-	-	-	-	-	-	-
Shares issued in lieu of interest payment	185,682	56,774	-	-	-	-	-	56,774
Convertible Debenture Conversion	50,365,400	3,696,814	-	-	10,665,447	-	-	14,362,261
Private Placement May 2024	51,577,707	3,735,512	-	-	4,670,720	-	-	8,406,232
Shares issued upon conversion of 9% Debentures	15,384	-	-	-	-	-	-	-
Share-based compensation expense <i>(Note 7(b)(iii))</i>	-	-	595,112	-	-	-	-	595,112
Total comprehensive loss	-	-	-	-	-	(14,037,301)	190	(14,037,110)
Balance, September 30, 2024	142,444,592	179,468,314	7,136,129	1,681,250	21,157,759	(202,031,954)	183,043	7,594,541

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

SPECTRA7 MICROSYSTEMS INC.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

September 30, 2024 and December 31, 2023

(Expressed in United States Dollars)

	September 30, 2024	December 31, 2023
	\$	\$
Assets		
Current assets:		
Cash	2,995,050	658,580
Trade and other receivables	3,017,569	4,095,701
Investment tax credits	-	23,665
Inventories	1,815,295	2,304,588
Prepaid expenses and other assets	581,403	330,454
	8,409,317	7,412,988
Non-current investment tax credits	5,563	5,563
Property and equipment	357,103	508,283
Right-of-use assets (Note 3)	130,244	80,150
Intangible assets	697,917	481,705
	9,600,144	8,488,689
Liabilities		
Current liabilities:		
Trade and other payables	1,656,673	2,096,380
Deferred revenue	216,327	146,152
Convertible debentures	-	5,110,641
Lease obligation on right-of-use assets (Note 4)	132,603	82,490
	2,005,603	7,435,663
Non-current convertible debentures (Note 6)	-	2,841,755
	2,005,603	10,277,418
Shareholders' Equity		
Common shares (Note 7(a))	179,468,314	171,932,609
Share-based payment reserve	7,136,129	6,541,017
Convertible debentures - share conversion option (Note 6)	1,681,250	1,681,250
Warrants (Note 7(c))	21,157,759	5,868,196
Deficit	(202,031,954)	(187,994,653)
Accumulated other comprehensive income(loss)	183,043	182,852
	7,594,541	(1,788,728)
	9,600,144	8,488,689

Nature of operations, going concern and continuation of the business (Note 1)

Signed on behalf of the Board:

"Ron Pasek"

Director

"Raouf Halim"

Director

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

SPECTRA7 MICROSYSTEMS INC.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

Three and Nine Months Ended September 30, 2024 and 2023

(Expressed in United States Dollars)

	Nine Months Ended September 30,	
	2024	2023
	\$	\$
Operating activities:		
Net Loss	(14,037,301)	(3,864,071)
Items not involving cash:		
Amortization of license	501,905	270,882
Depreciation of property and equipment	171,117	133,442
Depreciation of right-of-use assets (Note 3)	173,183	180,237
Share-based compensation (Note 7)	595,112	1,314,637
Loss on extinguishment of convertible debt (Note 6)	6,922,080	-
Accretion and interest expense (Note 6)	673,037	1,169,906
Loss on disposal of equipment	-	45,374
	(5,000,867)	(749,593)
Net change in non-cash working capital items		
Trade and other receivables	1,078,132	(3,449,507)
Investment tax credits	23,665	-
Inventories	489,293	1,149,152
Prepaid expenses and other assets	(250,949)	604,179
Trade and other payables	(439,707)	268,062
Deferred Revenue	70,176	(68,750)
	(4,030,257)	(2,246,457)
Interest paid (Note 6)	(846,124)	(892,064)
	(4,876,381)	(3,138,521)
Financing activities:		
Proceeds from convertible debt, net of issuance costs	-	1,799,190
Proceeds from March 2023 private placement	-	3,877,207
Proceeds from May 2024 private placement	8,406,232	-
Convertible Debenture conversion (Note 6)	6,861,668	-
Repayment of lease obligation on right-of-use assets (Note 4)	(173,164)	(184,852)
	15,094,736	5,491,545
Investing activities:		
Acquisition of property and equipment	(19,937)	(332,710)
Acquisition of licenses	(718,117)	(854,825)
	(738,054)	(1,187,535)
Effect of foreign exchange rate changes on cash	(7,143,832)	(3,444)
(Decrease)/Increase in cash	2,336,470	1,162,044
Cash, beginning of period	658,580	772,255
Cash, end of period	2,995,050	1,934,299

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)
For the Three Months Ended September 30, 2024 and 2023
(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 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 \$14,037,111 for the nine months ended September 30, 2024 (September 30, 2023 - \$3,865,518) and has an accumulated deficit of \$202,031,954 (December 31, 2023 - \$187,994,653). 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.

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, 2023 and 2022.

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, 2023 and 2022. These consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim consolidated financial statements were approved for issuance by the Board of Directors on November 8, 2024.

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

SPECTRA7 MICROSYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
For the Three Months Ended September 30, 2024 and 2023
(Expressed in United States Dollars)

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, 2023.

3. Right-of-use assets

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

	\$
Balance, January 1, 2023	80,048
Depreciation	(240,350)
Lease Amendment	240,452
Balance, December 31, 2023	80,150
Depreciation	(173,183)
Lease Amendment	223,277
Balance, September 30, 2024	130,244

The Company recorded a right-of-use assets and a corresponding lease obligations of \$240,452 using an incremental borrowing rate of 8.75% in 2023 when the Company entered into an amendment to extend the lease for its headquarters through April 2024. The lease has been extended through April 2025.

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 September 30, 2024 are as follows:

	\$
Balance, January 1, 2023	87,204
Lease Amendment	240,452
Repayments	(256,800)
Interest	11,634
Balance, December 31, 2023	82,490
Lease Amendment	223,277
Principal Repayments	(181,500)
Interest	8,337
Balance, September 30, 2024	132,604
Current	132,604
Non-current	-

SPECTRA7 MICROSYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
For the Three Months Ended September 30, 2024 and 2023
(Expressed in United States Dollars)

5. Inventories

	September 30, 2024	December 31, 2023
	\$	\$
Work-in-progress	1,570,401	1,912,117
Finished goods	435,449	589,830
	2,005,850	2,501,947
Less: provision for obsolescence	(190,555)	(197,359)
	1,815,295	2,304,588

Inventories recognized as cost of sales for the nine months ended September 30, 2024 amounted to \$912,747 (\$3,834,437 for the nine months ended September 30, 2023).

6. Convertible debentures

	\$
Balance, January 1, 2023	5,640,272
Proceeds from issuance of convertible debt	2,089,649
Allocation to equity	(534,787)
Finder warrants, allocated to transaction costs	(33,536)
Transaction costs	(210,596)
Accretion and interest expense	1,662,563
Repayment of interest	(892,064)
Foreign exchange translation adjustment	230,896
Balance, December 31, 2023	7,952,396
Accretion and interest expense	673,037
Repayment of interest	(846,124)
Repayment of interest in shares	(56,744)
Foreign exchange translation adjustment	(178,829)
Balance, May 15, 2024	7,600,480
Derecognition of Convertible Debt	(14,522,560)
Loss on Derecognition of Convertible Debt	6,922,080
Balance, September 30, 2024	-

On July 26, 2022, the Company announced a non-brokered private placement (the "2022 Offering") of the 14% convertible unsecured debentures (the "14% Debentures") and completed the first tranche of the 2022 Offering through the issuance of \$2,940,739 (CDN \$3,809,000) principal amount of 14% Debentures for gross proceeds of \$2,881,924 (CDN \$3,732,820). On August 25, 2022, the Company entered into a first supplemental convertible debenture indenture to increase the size of the 2022 Offering and completed the second tranche of the 2022 Offering through the issuance of \$3,927,162 (CDN \$5,064,000) principal amount of the 14% Debentures for gross proceeds of \$3,848,619 (CDN \$4,962,720). In aggregate, the 2022 Offering consisted of the issuance of \$6,867,901 (CDN \$8,873,000) principal amount of 14% Debentures for gross proceeds of \$6,730,543 (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 were set to mature on December 31, 2024 and the principal amount was 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

SPECTRA7 MICROSYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited) For the Three Months Ended September 30, 2024 and 2023 (Expressed in United States Dollars)

customary events. Holders converting their 14% Debentures would 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 2022 Offering, the Company paid \$387,761 (CDN \$500,968) in finder's fees and issued an aggregate of 401,603 finder's warrants, with each such warrant entitling the holder thereof to purchase one common share at a price of CDN \$1.02 for a period of two years from the date of issuance.

On September 14, 2023, the Company completed a private placement (the "September 2023 Private Placement") of 2,838 units (each, a "September 2023 Unit") for gross proceeds of \$2,089,649 (CDN \$2,838,000). Each September 2023 Unit consisted of one 9% convertible unsecured debenture in the principal amount of CDN \$1,000 (each, a "9% Debenture" and, collectively, the "9% Debentures") and 1,538 common share purchase warrants of the Company (each, a "September 2023 Warrant" and, collectively, the "September 2023 Warrants").

The 9% Debentures were set to mature on September 14, 2025 and the principal amount was 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 \$0.65 per common share, subject to adjustment upon certain customary events. Holders converting their 9% Debentures would 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. Provided that the closing price of the common shares on the principal stock exchange on which the common shares trade was equal to or greater than 200% of the conversion price for any 10 consecutive trading days, then at any time within 30 days after such tenth consecutive trading day, the Company would have had the right, but not the obligation, to force the conversion of the principal amount of the 9% Debentures into common shares at the conversion price in connection with a listing of the common shares on a recognized stock exchange in the United States or a change of control of the Company.

Each September 2023 Warrant entitles the holder to purchase one common share at a price of CDN \$0.715 until September 14, 2025. The expiry date of the September 2023 Warrants can be accelerated by the Company if, at any time prior to the expiry date, the closing price of the common shares on the TSXV is greater than CDN \$4.00 for any 10 non-consecutive trading days.

In connection with the September 2023 Private Placement, the Company paid \$158,498 (CDN \$194,885) in broker and finder's fees and issued an aggregate of 184,173 broker warrants, with each broker warrant entitling the holder thereof to purchase one common share at a price of CDN \$0.65 for a period of two years from the date of issuance.

The Company determines the carrying amount of the financial liability associated with the 9% Debentures using the present value of future cash flows with the principal amount of \$2,089,649 and a discount rate of 25%. Debt component is being amortized using an effective interest rate of approximately 33.9% over its remaining term. 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 loss and comprehensive loss as accretion expense.

The carrying amount of other components (when applicable), such as the September 2023 Warrants and the broker warrants, is determined using the Black Scholes option pricing model based on the following assumptions: volatility of 98%, expected term of 2 years, risk free rate of 4.68% and zero dividend. 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 from the amount of the convertible notes, and is presented in Equity as an equity component of convertible notes.

The transaction costs are distributed between liability, equity and other (when applicable) components, on a pro rata basis according to their carrying amounts. Accordingly, the face value of the 9% Debentures, net of issuance costs, were allocated as follows:

	\$
Liability component	210,596
Conversion feature	37,018
Conversion feature	35,415
Transaction costs	283,029

SPECTRA7 MICROSYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited) For the Three Months Ended September 30, 2024 and 2023 (Expressed in United States Dollars)

On May 10, 2024, the Company amended its 14% and 9% Debentures to provide that the holders may, at any time prior to maturity, convert such debentures, and that the Company has the right to convert such debentures, at any time prior to maturity, into (a) in the case of the 14% Debentures, 7,538 units for each \$1,000 principal amount of 14% Debentures (each, a "14% Unit"), with each 14% Unit consisting of one common share and one common share purchase warrant (each, a "14% Warrant") or, if certain ownership thresholds would be exceeded by the warrant holder as a result of the conversion, one Pre-Funded Warrant (defined below) and one 14% Warrant and (b) in the case of the 9% Debentures, 7,538 units for each \$1,000 principal amount of 9% Debentures (each, a "9% Unit"), with each 9% Unit consisting of one common share and 0.80 of a common share purchase warrant (each whole warrant, a "9% Warrant") or, if certain ownership thresholds would be exceeded by the warrant holder as a result of the conversion, one Pre-Funded Warrant and 0.80 of a 9% Warrant. Each 14% Warrant shall be exercisable into one common share or, if certain ownership thresholds would be exceeded by a holder as a result of the exercise of their warrants, one Pre-Funded Warrant, at an exercise price of CDN \$0.13 until July 26, 2027. Each 9% Warrant shall be exercisable into one common share or, if certain ownership thresholds would be exceeded by a holder as a result of the exercise of their warrants, one Pre-Funded Warrant, at an exercise price of CDN \$0.13 until September 14, 2028.

On May 15, 2024, the Company completed the forced conversion of all outstanding 14% Debentures and 9% Debentures resulting in the issuance of 50,365,400 common shares, 37,836,738 Pre-Funded Warrants, 66,884,674 14% Warrants and 17,052,840 9% Warrants.

7. Shareholders' equity

(a) Common shares

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

(i) March 2023 Private Placement

On March 15, 2023, the Company completed a brokered private placement (the "March 2023 Private Placement") of 5,990,000 units (the "March 2023 Units") at a price of CDN \$1.00 per March 2023 Unit for aggregate gross proceeds of \$4,342,750 (CDN \$5,990,000). Each March 2023 Unit consists of one common share and one common share purchase warrant (each, a "March 2023 Warrant") with each March 2023 Warrant being exercisable into one common share at an exercise price of CDN \$1.18 until March 15, 2028, subject to adjustment upon certain customary events. The expiry date of the March 2023 Warrants can be accelerated by the Company to the date that is thirty (30) days following the delivery of an acceleration notice to the holders of the March 2023 Warrants if, at any time following the closing date of the March 2023 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 March 2023 Private Placement, the Company paid a commission of \$291,183 (CDN \$401,632) and issued 229,504 broker warrants, with each broker warrant being exercisable into one common share at a price of CDN \$1.10 for the period commencing on the date that is six months after the closing date until the fifth anniversary of the closing date. Gross proceeds from the March 2023 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 Black Scholes option pricing model based on the following assumptions: volatility of 172%, expected term of 5 years, risk free rate of 3.59% and zero dividend. The equity portion allocated to warrant was \$1,992,688.

(ii) May 2024 Private Placement

On May 10, 2024, the Company completed a non-brokered private placement (the "May 2024 Private Placement") of 107,683,090 units of the Company (each, a "May 2024 Unit") at a price of CDN \$0.10 per May 2024 Unit for aggregate gross proceeds of \$6,910,100 (CDN \$10,768,309). Each May 2024 Unit consisted of either (i) one common share and one common share purchase warrant (each, a "May 2024 Warrant") or (ii) one pre-funded common share purchase warrant (each, a "Pre-Funded Warrant") and one May 2024 Warrant. Each May 2024 Warrant is exercisable immediately and entitles the holder thereof to purchase either one common share or, if certain ownership thresholds would be exceeded, one Pre-Funded Warrant at an exercise price of CDN \$0.11 until the date that is five years after the issuance date. The expiry date of the May 2024 Warrants can be accelerated by the Company at any time prior to the expiry date if the closing price of the common shares on the TSXV is greater than CDN \$0.33 for any period of 10 consecutive trading days and certain volume thresholds are met during those 10 consecutive trading days. Each Pre-Funded Warrant entitles the holder to purchase one common share

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Notes to the Condensed Interim Consolidated Financial Statements (Unaudited) For the Three Months Ended September 30, 2024 and 2023 (Expressed in United States Dollars)

at a price of CDN \$0.00001 subject to compliance with certain ownership thresholds. The Pre-Funded Warrants do not expire.

On June 13, 2024, the Company closed a second tranche of the May 2024 Private Placement consisting of the issuance of 18,311,453 May 2024 Units for aggregate gross proceeds of \$1,332,595 (CDN \$1,831,145).

Pursuant to the May 2024 Private Placement, the Company issued a total of 51,577,707 common shares, 74,416,836 Pre-Funded Warrants, and 125,994,543 May 2024 Warrants. In connection with the May 2024 Private Placement, the Company paid a cash commission of \$461,727 and issued compensation warrants to purchase up to (a) 3,482,048 common shares at an exercise price of CDN\$0.11 per common share until May 10, 2029 and (b) up to 683,462 common shares at an exercise price of CDN \$0.11 per common share until June 13, 2029.

The total gross proceeds from the two tranches of the May 2024 Private Placement was approximately CDN\$12.6 million. The net proceeds of the May 2024 Private Placement are expected to be used for working capital and general corporate purposes.

(b) Share-based compensation

The Company has established a stock option plan (the "Stock Option Plan") and a restricted 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 2024, 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 27,564,478 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 September 30, 2024 and 2023:

	September 30, 2024	September 30, 2023
	#	#
Balance, opening January 1, 2024	5,045,727	4,328,217
Granted	890,000	1,390,708
Forfeited	(378,858)	(1,000)
Vested and Shares issued	-	(147,370)
Balance, ending	5,556,869	5,570,555

No shares were issued as a result of RSUs in the third quarter of 2024.

(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. Options have an exercise price as set forth in the option certificate issued in respect of such options 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 September 30, 2024 and 2023:

	September 30, 2024		September 30, 2023	
	Number of Options #	Weighted Average Price CDN \$	Number of Options #	Weighted Average Price CDN \$
Options outstanding, opening January 1, 2024	213,300	1.45	259,768	1.38
Granted	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Forfeited	(26,000)	1.12	(4,468)	22.45
Options outstanding, ending	187,300	1.47	255,300	1.52

The following table is a summary of the Company's stock options outstanding as at September 30, 2024:

		Options Outstanding		Options Exercisable	
Exercise price range CDN \$	Number outstanding #	Weighted average remaining contractual life (years) #	Weighted average exercise price CDN \$	Number exercisable #	Weighted average exercise price CDN \$
1.00 – 1.90	186,000	3.32	1.42	186,000	1.42
10.50 – 34.00	1,000	0.18	10.50	1,000	10.50
Balance, September 30, 2024	187,000	3.30	1.47	187,000	1.47

The following table is a summary of the Company's stock options outstanding as at September 30, 2023:

		Options Outstanding		Options Exercisable	
Exercise price range CDN \$	Number outstanding #	Weighted average remaining contractual life (years) #	Weighted average exercise price CDN \$	Number exercisable #	Weighted average exercise price CDN \$
1.00 – 1.90	254,000	5.05	1.46	254,000	1.46
9.50 – 34.00	1,300	1.36	11.83	1,300	11.83
Balance, September 30, 2023	255,300	5.03	1.52	255,300	1.52

(iii) Share-based compensation expense

For its RSU Plan and Stock Option Plan, the Company recognized share-based compensation expense of \$362,141 for the nine months ended September 30, 2024 (\$1,314,637 for the nine months ended September 30, 2023) 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 no stock options granted during the nine months ended September 30, 2024 and 2023.

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(c) Warrants

The following table summarizes information about the Company's outstanding warrants as at September 30, 2024 and 2023:

	September 30, 2024		September 30, 2023	
	Number of Warrants	Weighted Average Price	Number of Warrants	Weighted Average Price
	#	CDN \$	#	CDN \$
Balance, opening January 1, 2024	19,224,885	1.74	9,756,307	3.09
Warrants component of March 2023 Private Placement (Note 7 (a))	-	-	5,990,000	1.18
Broker Warrants component of March 2023 Private Placement (Note 7 (a))	-	-	229,504	1.10
Warrants component of September 2023 Private Placement (Note 6)	-	-	4,548,961	0.71
Warrants component of May 2024 Private Placement (Note 7 (b))	125,994,543	0.11	-	-
Broker Warrants component of May 2024 Private Placement (Note 7 (b))	4,164,510	0.11	-	-
Warrants component of Convertible Debenture Conversion (Note 7(b))	83,937,514	0.13	-	-
Warrants expired	(2,237,228)	3.30	(535,795)	5.29
Balance, ending	231,084,224	0.22	19,988,977	1.93

The following is a summary of the warrants outstanding by exercise price as at September 30, 2024:

Number of warrants outstanding	Exercise Price	Expiry Date
Warrants ⁽¹⁾		
210,469	CDN \$2.50	July 15, 2025
4,364,844	CDN \$0.715	September 14, 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
66,884,674	CDN \$0.13	July 26, 2027
5,990,000	CDN \$1.18	March 15, 2028
17,052,840	CDN \$0.13	Sept 14, 2028
107,683,090	CDN \$0.11	May 10, 2029
18,311,453	CDN \$0.11	June 13, 2029
Broker Warrants (Compensation Options)		
184,173	CDN \$0.65	September 14, 2025
229,504	CDN \$1.10	March 15, 2028
3,482,048	CDN \$0.11	May 10, 2029
682,462	CDN \$0.11	June 13, 2029

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The following is a summary of the warrants outstanding as at September 30, 2023:

Number of warrants outstanding	Exercise Price	Expiry Date
Warrants ⁽¹⁾		
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
5,990,000	CDN \$1.18	March 15, 2028
4,364,844	CDN \$0.715	September 14, 2025
Broker Warrants (Compensation Options)		
411,028	CDN \$1.32	October 26, 2023
28,941	CDN \$11.25	October 30, 2023
118,055	CDN \$1.02	July 26, 2024
251,310	CDN \$2.50	August 21, 2024
283,548	CDN \$1.02	August 25, 2024
229,504	CDN \$1.10	March 15, 2028
184,117	CDN \$0.65	September 14, 2025

⁽¹⁾ Subject to acceleration in certain circumstances.

(d) Pre-Funded Warrants

The following table summarizes information about the Company's outstanding pre-funded warrants as at September 30, 2024 and 2023:

	September 30, 2024		September 30, 2023	
	Number of Warrants	Weighted Average Price	Number of Warrants	Weighted Average Price
	#	CDN \$	#	CDN \$
Balance, opening January 1, 2024	-	-	-	-
Pre-Funded Warrants component of May 2024 Private Placement (Note 7 (a))	74,416,836	0.11	-	-
Pre-Funded Warrants component of Convertible Debenture Conversion (Note 6)	37,836,738	0.11	-	-
Balance, ending	112,253,574	0.11	-	-

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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 and are recorded at their fair value.

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

Key management personnel compensation is comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	\$	\$	\$	\$
Salaries, fees and short-term benefits	74,000	362,350	424,250	900,850
Share-based compensation	105,843	335,472	376,529	958,422
Total	179,843	697,822	800,778	1,859,272

As at September 30, 2024, the amount owing to directors and officers was \$30,500 (\$348,850 as at September 30, 2023).

On February 13, 2024, the Company borrowed \$100,000 from each of Raouf Halim, the Company's then Chief Executive Officer, Ron Pasek, a director of the Company, and Christopher Morgan, a director of the Company (together, the "Director Lenders"). On February 27, 2024 and March 13, 2024, the Company borrowed an additional \$70,000 and \$10,000, respectively, from each of Director Lenders. The Company repaid the full amount owed to the Director Lenders on May 15, 2024.

9. Economic dependence

During the three and nine months ended September 30, 2024, the Company derived 100% and 97% of its revenue from two customers, respectively (September 30, 2023 – 100% from two customers and 100% of its revenue from three customers, respectively).

10. 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 assets 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.

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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.

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 September 30, 2024, two customers represented 97% 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.

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 Events

On November 1, 2024, the Company granted an aggregate of 11,662,500 RSUs to certain employees of the Company pursuant to the RSU plan and cancelled an aggregate of 890,000 RSUs.

On November 1, 2024, the Company's Board of Directors approved the appointment of Omar Javaid as a director and as the Chief Executive Officer of the Company effective November 11, 2024 and granted 7,100,000 RSUs to Mr. Javaid.