

Condensed Interim Consolidated Financial Statements of

SPECTRA7 MICROSYSTEMS INC.

For the Three and Six Months Ended June 30, 2020 and 2019

(Expressed in United States Dollars)

SPECTRA7 MICROSYSTEMS INC.

For the Three and Six Months Ended June 30, 2020 and 2019

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SPECTRA7 MICROSYSTEMS INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
Three and Six Months Ended June 30, 2020 and 2019
(Expressed in United States Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Revenue	257,025	966,006	373,027	2,347,366
Cost of sales	114,074	433,073	167,205	1,060,239
Gross margin	142,951	532,933	205,822	1,287,127
Research and development, net of investment tax credits including amortization of licenses	1,005,347	1,166,786	1,757,455	2,558,411
Sales and marketing	116,145	529,088	246,349	1,008,549
General and administrative	454,102	618,435	726,936	1,355,200
Depreciation of right-of-use assets	74,373	79,503	159,709	159,006
Depreciation of property and equipment	76,836	94,683	159,185	213,874
Share-based compensation	106,557	320,364	264,388	655,233
Interest on lease obligation of right-of-use asset	7,040	27,686	20,533	57,597
Accretion expense (Note 5)	540,158	448,626	1,039,523	881,247
Government grant	(569,539)	-	(569,539)	-
Change in derivative liability	-	-	-	(35)
Foreign exchange gain	6,365	(13,180)	(41,964)	(13,574)
	1,817,384	3,271,991	3,762,575	6,875,508
Net Loss	(1,674,433)	(2,739,058)	(3,556,753)	(5,588,381)
Other comprehensive loss:				
Unrealized foreign currency translation	(316,445)	(98,164)	562,673	(225,737)
Total comprehensive loss	(1,990,878)	(2,837,222)	(2,994,080)	(5,814,118)
Basic and diluted	(0.00)	(0.01)	(0.01)	(0.02)
Basic and diluted	525,184,197	239,192,583	477,415,044	237,529,434

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

SPECTRA7 MICROSYSTEMS INC.

Condensed Interim Consolidated Statements of Changes in Deficiency

Six Months Ended June 30, 2020 and 2019

(Expressed in United States Dollars)

	Common shares	Share- based payment reserve	Convertible debentures – share conversion option	Warrants	Subscription received for shares not issued	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)
Subscription received for common shares	-	-	-	-	1,658,225	-	-	1,658,225
Shares issued under Restricted Share Unit plan (Note 6(b)(i))	158,828	(158,828)	-	-	-	-	-	-
Restricted share units granted to directors to settle unpaid directors fees	-	42,080	-	-	-	-	-	42,080
Share-based compensation expense (Note 6(b)(iii))	-	655,233	-	-	-	-	-	655,233
Total comprehensive loss	-	-	-	-	-	(5,588,381)	(225,737)	(5,814,118)
Balance, June 30, 2019	136,288,754	4,485,124	1,574,971	895,435	1,658,225	(155,377,418)	90,150	(10,384,759)

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

SPECTRA7 MICROSYSTEMS INC.

Condensed Interim Consolidated Statements of Changes in Deficiency

Six Months Ended June 30, 2020 and 2019

(Expressed in United States Dollars)

	Common shares	Share-based payment reserve	Convertible debentures - share conversion option	Warrants	Subscription received for shares not issued	Deficit	Accumulated other comprehensive loss	Total Shareholders' Deficiency
	\$	\$	\$	\$	\$	\$	\$	\$
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	-	-	-	-	34,044	-	-	34,044
Units issued on March Private Placement, net of issuance costs (Note 6(a)(i))	1,102,344	-	-	-	-	-	-	1,102,344
Share-based compensation expense (Note 6(b)(iii))	-	264,388	-	-	-	-	-	264,388
Settlement of Promissory Notes (Note 10)	753,583	-	-	-	-	-	-	753,583
Total comprehensive loss	-	-	-	-	-	(3,556,753)	562,673	(2,994,080)
Balance, June 30, 2020	144,393,672	3,818,150	1,574,971	1,282,929	29,940	(164,387,845)	625,035	(12,663,148)

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

SPECTRA7 MICROSYSTEMS INC.

Condensed Interim Consolidated Statements of Cash Flows

Six Months Ended June 30, 2020 and 2019

(Expressed in United States Dollars)

	Six Months Ended June 30,	
	2020	2019
	\$	\$
Operating activities:		
Net Loss	(3,556,753)	(5,588,381)
Items not involving cash:		
Amortization of licenses	267,911	303,665
Depreciation of property and equipment	189,067	243,756
Depreciation of right-of-use assets	159,709	159,006
Termination of right-of-use assets	(14,132)	-
Share-based compensation	264,388	655,233
Accretion expense	1,040,816	881,247
Government grant (Note 11)	(569,539)	-
Change in value of derivative liability	-	(35)
	(2,218,533)	(3,345,509)
Net change in non-cash working capital items		
Trade and other receivables	595,481	(17,030)
Investment tax credits	-	34,404
Inventories	181,298	350,479
Prepaid expenses and other assets	(118,634)	3,167
Trade and other payables	677,217	1,754,840
Deferred revenue	131,614	(548,007)
	(751,557)	(1,767,656)
Grant funds received (Note 11)	776,085	-
Interest paid	(375,028)	(424,472)
	(350,500)	(2,192,128)
Financing activities:		
Proceeds from promissory notes to related parties (Note 10)	-	375,000
Repayment of promissory notes (Note 10)	-	(149,188)
Subscription received for common shares net of issuance costs	34,044	1,658,225
Repayment of obligation under finance lease	(4,482)	(27,223)
Repayment of license liabilities	(263,418)	(284,162)
Repayment of lease obligation on right-of-use assets (Note 4)	(158,438)	(71,551)
Proceeds from the issuance of shares, net of issuance costs (Note 6(a)(i))	778,333	-
	386,039	1,501,101
Investing activities:		
Acquisition of property and equipment	(2,489)	(5,692)
	(2,489)	(5,692)
Effect of foreign exchange rate changes on cash	79,085	82,790
Decrease in cash	112,135	(613,929)
Cash, beginning of period	71,121	932,203
Cash, end of period	183,256	318,274

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

SPECTRA7 MICROSYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements
Three and Six Months Ended June 30, 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 \$1,990,878 (three months ended June 30, 2019 - \$2,837,222) and \$2,994,080 (six months ended June 30, 2019 - \$5,814,118) during the three and six month periods ended June 30, 2020, respectively and as of that date has an accumulated deficit of \$164,387,845 (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 negatively impacted the Company and its impact on the data center programs is uncertain. 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 expected to continue to impact overall revenues in the near term. Revenue for the three and six months ended June 30, 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.

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. On June 5, 2020, the Paycheck Protection Program Flexibility Act (“PPFPA”) was approved by the United States Congress to provide greater flexibility in order for recipients to be eligible for forgiveness of funds received under the PPP.

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 per Note 2(d), 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.

SPECTRA7 MICROSYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Months Ended June 30, 2020 and 2019

(Expressed in United States Dollars)

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on August 28, 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.

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.

d) New Accounting Policies and Accounting Standards

(i) New Accounting Policies

During the six months ended June 30, 2020, the Company adopted the following accounting policy related to government grants due to the receipt of funds under the PPP (see Note 1) :

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

The Company has presented the government grant in the statement of financial position as Government grants and in the statement of loss and comprehensive loss as other income.

(ii) New Accounting Standards

The Company adopted the following amendments to accounting standards as of January 1, 2020:

IFRS 3: Business Combinations

In October 2018, the IASB issued amendments to IFRS 3, Business Combinations ("IFRS 3"). The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and apply prospectively. The amendments clarify the definition of a business, with the objective of assisting entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. Adoption of the amendments to IFRS 3 did not have any impact on the Company's condensed interim consolidated financial statements. They may affect whether future acquisitions are accounted for as business combinations or asset acquisitions, along with the resulting allocation of the purchase price between the net identifiable assets acquired and goodwill.

The following are future accounting standards issued as at January 1, 2020, but not yet effective:

IAS 1: Presentation of Financial Statements

In January 2020, the IASB issued amendments to IAS 1, Presentation of Financial Statements ("IAS 1") to clarify the requirements for classifying liabilities as current or non-current. The amendments are effective for annual periods beginning on or after January 1, 2022. The Company is currently assessing the impact of the amendment to IAS 1 to the Company's consolidated financial statements.

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Notes to the Condensed Interim Consolidated Financial Statements
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3. Right-of-use assets

The following table sets forth the right-of-use assets as at June 30, 2020:

	\$
Balance, January 1, 2019	875,336
Depreciation	(159,006)
Balance June 30, 2019	716,330
Depreciation	(107,726)
Balance December 31, 2019	608,604
Depreciation	(159,709)
Derecognition of right-of-use asset	(200,985)
Balance June 30, 2020	247,910

The Company did not renew its Little Rock, Arkansas office lease ("Little Rock lease") as of April 1, 2020. The carrying amount of the right-of-use asset related to the Little Rock Lease of \$200,985 was derecognized along with the corresponding lease obligation of \$215,117 (see note 4). The difference of \$14,132 was recognized in net loss for the period.

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, 2020 are as follows:

	\$
Balance, January 1, 2020	643,981
Principal repayments	(158,438)
Derecognition of lease obligation (Note 3)	(215,117)
Balance, June 30, 2020	270,426
Current	270,426
Non-Current	-

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5. Convertible debentures

	\$
Balance, January 1, 2019	7,238,396
Accretion expense	1,863,945
Repayments of interest	(368,913)
Foreign exchange translation adjustment	275,265
Balance, December 31, 2019	9,008,693
Accretion expense	1,040,816
Repayments of interest	(375,028)
Foreign exchange translation adjustment	(472,294)
Balance, June 30, 2020	9,202,187

The Company's convertible debentures are subject to certain covenants including restrictions against incurring certain additional indebtedness. The Company entered into promissory notes with certain directors of the Company during the year ended December 31, 2019 (see Notes 8 and 10), which put the Company offside such covenants. 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. On June 30, 2020, an interest payment on the convertible debentures came due which was not paid by the Company on such date. Pursuant to the terms of the indenture governing the convertible debentures, failure to pay an interest obligation constitutes an event of default if such payment is not made within 20 days of coming due. The Company made the outstanding interest payment on July 15, 2020 being prior to the end of such 20 day period.

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 six months ended June 30, 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)	99,999,998	1,102,344
Settlement of Promissory Notes (Note 10)	42,000,000	753,583
Balance, June 30, 2020	552,731,783	144,393,672

The following table summarizes the changes to the issued and outstanding common shares during the six months ended June 30, 2019:

	#	\$
Balance, December 31, 2018	237,738,585	136,129,926
Shares issued under Restricted Share Unit plan	1,453,998	158,828
Balance, June 30, 2019	239,192,583	136,288,754

SPECTRA7 MICROSYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements Three and Six Months Ended June 30, 2020 and 2019 (Expressed in United States Dollars)

(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 (CDN \$1,211,976) \$882,657 (net of issuance costs).

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 for aggregate gross proceeds of (CDN \$288,024) \$219,687 (net of issuance 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 Option Plan and the RSU Plan to provide that the combined maximum number of common shares reserved for issuance under both the Option Plan and the RSU Plan, inclusive of existing stock options and RSUs, shall not exceed 47,838,517. The combined aggregate number of common shares reserved under the Option Plan and the RSU Plan at June 30, 2020 was 46,359,622 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 June 30, 2020 and 2019:

	June 30, 2020	June 30, 2019
	#	#
Balance, opening	37,105,661	17,135,257
Granted	-	6,150,000
Forfeited	(858,569)	(20,216)
Vested and common shares issued	(1,174,608)	(1,453,998)
Balance, ending	35,072,484	21,811,043

During the six months ended June 30, 2020, 1,174,608 RSUs were delivered for \$109,638, which was transferred to common shares from share-based payment reserve (six month period ended June 30, 2019 - 1,453,998 RSUs were delivered for \$158,828).

(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 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

SPECTRA7 MICROSYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements
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Company.

The following table summarizes information about the Company's outstanding stock options as at June 30, 2020 and 2019:

	June 30, 2020		June 30, 2019	
	Number of Options #	Weighted Average Price CDN \$	Number of Options #	Weighted Average Price CDN \$
Options outstanding, opening	2,226,639	0.56	6,428,453	0.43
Granted	9,971,129	0.03	-	-
Forfeited	(910,630)	0.40	(4,047,030)	0.34
Options outstanding, ending	11,287,138	0.10	2,381,423	0.57

During the three and six month periods ended June 30, 2020, the Company reversed share-based compensation expenses of \$28,603 and \$37,135 respectively (three and six month periods ended June 30, 2019 - \$2,835 and \$121,755 respectively) as a result of forfeitures.

The following table is a summary of the Company's stock options outstanding as at June 30, 2020:

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	9,577,379	5.77	0.03	3,839,879	0.03
0.21 - 0.40	330,620	4.05	0.22	234,255	0.22
0.41 - 0.60	747,524	2.66	0.48	668,532	0.48
0.61 - 0.80	556,615	1.68	0.69	556,600	0.69
0.81 - 1.00	75,000	1.39	0.92	75,000	0.92
Balance, June 30, 2020	11,287,138	5.28	0.10	5,374,266	0.17

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

The following table is a summary of the Company's stock options outstanding as at June 30, 2019:

Exercise price range	Number outstanding	Options Outstanding		Options Exercisable	
		Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
CDN \$	#	#	CDN \$	#	CDN \$
0.00 - 0.20	100,000	6.1	0.19	-	-
0.21 - 0.40	395,000	5.1	0.22	195,097	0.22
0.41 - 0.60	760,000	3.7	0.48	555,155	0.47
0.61 - 0.80	636,423	2.6	0.70	590,342	0.70
0.81 - 1.00	490,000	0.9	0.93	490,000	0.93
Balance, June 30, 2019	2,381,423	3.2	0.57	1,830,594	0.64

(iii) *Share based compensation expense*

For its RSU Plan and Option Plan, the Company recognized share-based compensation expense of \$106,557 and \$264,388 for the three and six months ended June 30, 2020 (June 30, 2019 - \$320,364 and \$655,233) 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 9,971,129 stock options granted during the six months ended June 30, 2020 (six months ended June 30, 2019: NIL stock options granted). The fair value of stock options granted during the six months ended June 30, 2020 was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Six Months Ended June 30,	
	2020	2019
Dividend yield	0%	N/A
Expected volatility	34%	N/A
Risk free rate of return	1.19%	N/A
Forfeiture rate	10%	N/A
Expected life	6.2 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 June 30, 2020 and 2019:

	June 30, 2020		June 30, 2019	
	Number of Warrants	Weighted Average Price	Number of Warrants	Weighted Average Price
	#	CDN \$	#	CDN \$
Balance, opening	151,550,744	0.17	68,138,557	0.35
Non-broker warrants expired	-	-	(7,679,125)	0.55
Broker warrants expired	(3,063,000)	0.35	(690,000)	0.40
Balance, ending	148,487,744	0.17	59,769,432	0.32

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Notes to the Condensed Interim Consolidated Financial Statements
Three and Six Months Ended June 30, 2020 and 2019
(Expressed in United States Dollars)

The following is a summary of the warrants outstanding as at June 30, 2020:

Number of warrants outstanding	Exercise Price	Expiry Date
Non-broker Warrants		
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 June 30, 2019:

Number of warrants outstanding	Exercise Price	Expiry Date
Non-broker Warrants		
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)		
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 six month period ended June 30, 2020, the Company recorded an other comprehensive gain of \$562,673 (June 30, 2019: other comprehensive loss of \$225,737) 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.

SPECTRA7 MICROSYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements
Three and Six Months Ended June 30, 2020 and 2019
(Expressed in United States Dollars)

Key management personnel compensation is comprised of the following:

	Three Months Ended June 30		Six Months Ended June 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Salaries, fees and short-term benefits	114,505	472,188	1,303,543	944,376
Share-based benefits	110,804	253,741	251,126	504,072
Total	225,309	725,929	1,554,669	1,448,448

At June 30, 2020, the Company settled the non-interest bearing promissory notes payable to certain directors of the Company in the amount of \$750,000, net of the effect of foreign exchange rate (December 31, 2019 - \$1,040,000). The promissory notes were non-interest bearing and repayable within one year. See Note 10.

9. Economic dependence

During the three and six month periods ended June 30, 2020, the Company derived approximately 100% and 99% of its revenue from two customers, respectively (three and six months ended June 30, 2019 – 98% and 90% from three customers), respectively.

10. Promissory Notes

As at December 31, 2019, the Company had \$1,040,000 owing to certain directors of the Company pursuant to outstanding promissory notes (the "Promissory Notes"). During the three and six month periods ended June 30, 2020, the Company settled \$290,000 of the Promissory Notes with funds from the issuance of Common Shares pursuant to the March Private Placement as described in Note 6(a)(i). On May 22, 2020, the Company issued an aggregate of 42,000,000 Common Shares to directors of the Company at a deemed issuance price of CDN \$0.025 per Common Share to settle the remaining \$750,000 Promissory Notes, net of the effect of foreign exchange rate.

11. Government Grant

	\$
Balance, January 1, 2020	-
Received during the period	776,085
Released to the statement of loss and comprehensive loss	(569,539)
Balance June 30, 2020	206,546

Under the terms of the PPP, the Company received approval and grant from a US based bank and the SBA for \$776,085 at an interest rate of 1.0% per annum and maturing in 24 months. Payments will not be due by the Company during the initial six-month period and, commencing one month after such six-month period, the Company shall be responsible for monthly payments of principal and interest in equal amounts until the maturity date.

Under the CARES Act, the Company is eligible for forgiveness of both the principal and accrued interest to the extent that the Funds are used to cover eligible payroll, mortgage interest, rent and utility costs over a 24-week period following receipt of the grant and so long as the Company retains its employees and maintains their levels of compensation. No more than 40% of the funds may be allocated to non-payroll costs.

The Company intends to use the funds for the purposes set out in the CARES Act and the PPPFA and apply for forgiveness of the grant either on the maturity date or prior to the maturity date if all the Funds have been used by the Company. As at June 30, 2020, the Company reasonably expects that it will meet the terms of forgiveness under the CARES Act and on this basis, the Company considers the funds to be in the form of a government grant (see Note 2(d)).

SPECTRA7 MICROSYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements
Three and Six Months Ended June 30, 2020 and 2019
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12. Trade and Other Payables

Trade and other payables are comprised of the following:

	June 30, 2020	December 31, 2019
	\$	\$
Trade payables	2,914,193	2,363,662
Other payables	1,544,719	1,466,920
Total	4,458,911	3,830,582

As at June 30, 2020 the amount of other payables is \$1,544,719 (December 31, 2019 - \$1,466,920), and includes \$1,241,704 (December 31, 2019 - \$1,198,454) related to accrued executive payroll and bonus.

13. Subsequent Events

On July 15, 2020, the Company closed the first tranche of a CDN \$1,000,000 non-brokered private placement (the "July Private Placement") of up to 40,000,000 units ("Units"). The first tranche of the July Private Placement consisted of the issuance of 21,046,904 Units at a price of CDN \$0.025 per Unit for gross proceeds of \$388,778 (CDN \$526,173). Each Unit consists of one common share in the capital of the Company (each, a "Common Share") and one-half of one common share purchase warrant (each whole warrant, a "Warrant") with each Warrant being exercisable into one Common Share at an exercise price of CDN \$0.05 for a period of five years from the date of issuance, subject to adjustment upon certain customary events. On August 25, 2020, the Company announced that it expects to complete the second and final tranche of the July Private Placement on or before September 25, 2020.

On July 25, 2020, the Company granted 1,300,000 RSUs pursuant to the RSU Plan to the interim Chief Financial Officer.

On August 22, 2020, the Company granted options to purchase up to 7,850,000 common shares of the Company to certain employees under the Option Plan. Such options are exercisable at a price of CDN \$0.02 per common share for a period of five years from the date of issuance.