



SPECTRA7 ANNOUNCES FINANCIAL RESULTS FOR THREE MONTH PERIOD ENDED MARCH 31, 2014

Gross Margins Increase to 76%

MAY 28, 2014 – Toronto, ON – (TSX-V:SEV) Spectra7 Microsystems Inc. (“Spectra7” or the “Company”), a high performance analog semiconductor company delivering unprecedented speed, resolution and signal fidelity to consumer and wireless infrastructure products, today announced its unaudited financial results for the three month period ended March 31, 2014 (“Q1”). A copy of the unaudited condensed interim consolidated financial statements for the three month period ended March 31, 2014 prepared in accordance with International Financial Reporting Standards and the corresponding Management’s Discussion and Analysis will be available under the Company’s profile on www.sedar.com. All amounts are in US dollars unless otherwise noted.

Q1 Highlights

- Revenue for the quarter ended March 31, 2014 was \$0.9 million, an increase of more than three times the revenue in the same quarter of 2013.
- Revenue from the Company’s interconnect products increased 30% for the quarter ended March 31, 2014 to \$0.8 million compared to \$0.6 million for the quarter ended December 31, 2013.
- Overall gross margins as a percent of revenue increased to 76% for the quarter ended March 31, 2014, compared to 63% for the quarter ended December 31, 2013 and 42% for the three month ended March 31, 2013.
- Gross margins for the Company’s interconnect products increased to 75% for the quarter ended March 31, 2014, compared to 74% for the quarter ended December 31, 2013 and from 70% for the quarter ended March 31, 2013. The introduction of new products and retail channel strategies continues to contribute to the Company’s strong gross margin trend.
- Significant progress made in expanding the Company’s retail channel for CouchConnect™ with the addition of Walmart.com and Newegg.com authorized retailers shipping CouchConnect™ across the United States.

- Completed equity public offering of over CDN\$7 million to accelerate product development.

“The Company has achieved significant milestones this quarter. We believe that the unique value premise of our technology and products resonates well with our customers, investors and partners as we expand our footprint into segments requiring high bandwidth, ultra-thin and low latency connections from “wearable” visual displays to next-generation wall-mounted 4K UltraHD panels” said Tony Stelliga, CEO of Spectra7. “Our recent equity fundraising will help accelerate new product development to meet the broadening demand for this unique capability.”

Financial Summary

For the three month period ended March 31, 2014, the revenue remained strong at \$0.9 million, over three times the revenue in the same quarter in the previous year.

Gross margins for the three month period ended March 31, 2014 were \$0.7 million which was 5% higher than the previous quarter. Gross margin percent improved from 63% in the previous quarter to 76% in the current quarter.

On March 28, 2014, the Company announced it had closed a public offering of 23,333,333 units for gross proceeds of CDN\$7.0 million. On April 28, 2014, the Company issued an additional 3,500,000 units pursuant to the exercise in full of the agent’s over-allotment option at a price of CDN\$0.30 for a gross proceeds of CDN\$1,050,000. The Company intends to use the proceeds from the offering as disclosed in the final prospectus dated March 24, 2014.

The following table is a summary of the financial information presented in the financial statements.

\$000	Three months ended March 31, 2014 (unaudited) \$	Three months ended December 31, 2013 (unaudited) \$	Percent Change Q1 over Q4
Revenue			
Wireless	102	404	-75%
Interconnect	759	585	30%
Revenue	861	989	-13%
Product Gross Margin %			
Wireless	79%	88%	-9%
Interconnect	75%	74%	1%
Product Gross Profit	76%	80%	-4%
Provision for Write Down	-	167	0%
Percent of Revenue	0%	17%	-17%
Total Gross Margin	652	623	5%
Total Gross Margin %	76%	63%	13%
Operating Expenses	2,376	2,492	-5%
Other Expenses	1,055	2,977	-65%
Net loss	(2,779)	(4846)	-43%

Revenue

Revenue for the three months ended March 31, 2014 was \$0.9 million compared to \$1.0 million for the previous quarter. The Company continues to experience strong demand for its active cable signal processing technology which is used by market leading customers to design, develop and launch next-generation interconnects for HD displays, wearable computing and second screen viewing.

The Company's wireless SimplyRF™ analog intellectual property ("IP") technology continued to generate strong revenue in the quarter. SimplyRF™ licensing revenue in the previous quarter was \$0.3 million due to a milestone payment under a contract with a large TV manufacturer. Monthly royalty payments under that contract started in January 2014 and are expected to continue for the remainder of 2014.

Gross Margins

Percentage of total gross margin improved from 63% in the previous quarter to 76% for the three months ended March 31, 2014.

Percentage of product gross margins⁽¹⁾ for interconnect products improved in the three months ended March 31, 2014 over the previous quarter by 1% while decreasing for wireless by 9% due to a lower mix of IP licensing revenue.

Product gross margins⁽¹⁾ represent revenue less the direct costs of manufacturing including yield loss and freight costs. Total gross margin in the prior quarter represents product gross margin less a provision to write-down surplus, obsolete, or on-hand inventory to its recoverable amount which was done for the older product line including demodulators, tuner and cable components. The Company does not expect further significant provisions in the foreseeable future as the Company continues its transition to new, higher average selling prices and higher gross margins.

Expenses

Operating expenses decreased from the previous quarter by 5% as the Company continues to carefully control both resources and related expenses. The Company has recently hired a small number of engineers that will be used to accelerate new product development. This will increase expenses nominally in the next quarter.

Other expenses decreased 65% from the previous quarter due mainly to a year-end adjustment made in December 2013 that will not occur in 2014.

For a complete discussion of expenses please refer to the financial statements and management's discussion and analysis for the three months ended March 31, 2014.

Product and Customer Development

During the three month period ended March 31, 2014, the Company continued to advance its product offering and expanded into new retail sales channels.

Product Announcements

In January 2014, the Company announced the launch of CouchConnect™, a portable five meter/16 foot plug'n'play solution capable of delivering true, real time 1080p HD or 4K UltraHD content from a mobile device to a main screen.

Also in January 2014, the Company unveiled its Detectiv4K™ integrated audio/video performance monitoring technology and announced that Detectiv4K™ was embedded in Monster® Cable's ("Monster") Black Platinum® cable, adding to the existing use of the Company's home theatre technology in Monster's Core Power® and MSeries® cable lines.

In May 2014, the Company announced that the Company's DisplayDirect™ Virtual Reality VR7100 product had commenced production based on purchase orders to use the Company's product in leading wearable computing and virtual reality platforms.

Customer Announcements

During the first quarter 2014, the Company made significant progress in expanding its retail channel for CouchConnect™ to both "bricks and mortar" storefront retailers and leading online e-tailers. The Company expanded its online presence with the addition of Newegg.com, Walmart.com, Amazon.ca, Kmart.com and Sears.com as authorized retailers shipping CouchConnect™ across the United States.

In March 2014, the Company announced that Newegg was shipping the entire CouchConnect™ product line. Newegg is an award-winning electronics-focused e-retailer. The product also became available on Kmart.com and Sears.com in April 2014.

ABOUT SPECTRA7 MICROSYSTEMS INC.

Spectra7 Microsystems Inc. is a high performance analog semiconductor company delivering unprecedented speed, resolution and signal fidelity to consumer and wireless infrastructure products. Spectra7's new system-level components address throughput bottlenecks and satisfy the exponential demand for more bandwidth and lower costs in mobile and internet infrastructure equipment, including handsets, tablets, base stations and microwave backhaul systems. Spectra7 is headquartered in Markham, Ontario with development centers in Silicon Valley, Irvine, California and Cork, Ireland. For more information, please visit www.spectra7.com.

CAUTIONARY NOTES

Certain statements contained in this press release constitute "forward-looking statements". All statements other than statements of historical fact contained in this press release, including, without limitation, those regarding the Company's future financial position and results of operations, strategy, proposed acquisitions, plans, objectives, goals and targets, and any statements preceded by, followed by or that include the words "believe", "expect", "aim", "intend", "plan", "continue", "will", "may", "would", "anticipate", "estimate", "forecast", "predict", "project", "seek", "should" or similar expressions or the negative thereof, are forward-looking statements. These statements are not historical facts but instead represent only the Company's expectations, estimates and projections regarding future events. These statements are not guarantees of future performance and involve assumptions, risks and uncertainties that are difficult to predict. Therefore, actual results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to the risk factors discussed in the Company's annual MD&A for the year ended December 31, 2013. Management provides forward-looking statements because it believes they provide useful information to investors when considering their investment objectives and cautions investors not to place undue reliance on forward-looking information. Consequently, all of the forward-looking statements made in this press

release are qualified by these cautionary statements and other cautionary statements or factors contained herein, and there can be no assurance that the actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company. These forward-looking statements are made as of the date of this press release and the Company assumes no obligation to update or revise them to reflect subsequent information, events or circumstances or otherwise, except as required by law.

Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

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- (1) Gross margin and product gross margin are additional GAAP measures. Gross margin is presented in this press release as additional information regarding the Company's financial performance. The Company's method of calculating gross margin may differ from other methods used. Gross margin has been calculated by deducting manufacturing cost of sales from revenue excluding any provision for inventory write-downs. Gross margin helps the Company to plan and forecast for future periods as well as being a close proximity to cash. Management of the Company believes that providing this information, in addition to IFRS measures, allows investors to see the Company's results through the eyes of management, and to better understand its historical and future financial performance.