Unaudited Condensed Interim Consolidated Financial Statements of

SPECTRA7 MICROSYSTEMS INC.

For the Three and Nine Months Ended September 30, 2023 and 2022

(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, 2023 and 2022

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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, 2023 and 2022
(Expressed in United States Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	**2023**	2022
	$	$	**$**	$
Revenue	**3,154,290**	2,680,440	**9,555,153**	8,296,481
Cost of sales	**1,567,895**	1,205,424	**3,950,444**	4,401,099
Gross margin	**1,586,395**	1,475,016	**5,604,709**	3,895,382
Expenses (Income):				
Research and development, net of investment tax credits and including amortization of licenses	**1,408,685**	984,572	**3,598,073**	3,257,122
Sales and marketing	**270,616**	224,086	**791,655**	646,896
General and administrative	**762,318**	635,147	**2,534,785**	2,634,091
Depreciation of right-of-use assets	**60,113**	60,036	**180,237**	233,502
Depreciation of property and equipment	**21,195**	7,438	**37,421**	38,668
Share-based compensation *(Note 7(b))*	**287,965**	567,317	**1,314,637**	2,066,543
Interest on lease obligation of right-of-use asset *(Note 4)*	**3,986**	4,214	**8,948**	16,606
Accretion and interest expense *(Note 6)*	**410,842**	462,992	**1,169,906**	1,049,997
Other Income	**(30,125)**	-	**(42,498)**	-
Foreign exchange gain	**(109,598)**	(9,394)	**(124,384)**	(20,492)
Total Expenses	**3,085,997**	2,936,408	**9,468,780**	9,922,933
Grant Income	**-**	-	**-**	(217,105)
Net Loss	**(1,499,602)**	(1,461,392)	**(3,864,071)**	(5,810,446)
Other comprehensive loss:				
Unrealized foreign currency translation	**(25)**	85,465	**(1,447)**	56,365
Total comprehensive loss	**(1,499,627)**	(1,375,927)	**(3,865,518)**	(5,754,081)
Loss per share				
Basic and diluted	**(0.04)**	(0.04)	**(0.10)**	(0.17)
Weighted average number of common shares outstanding				
Basic and diluted	**39,827,304**	33,635,739	**38,205,148**	33,392,023

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, 2023 and 2022
(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, 2021	**33,074,937**	**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	574,542	887,044	(887,044)	-	-	-	-	-
Equity component of convertible debentures	-	-	-	815,296	284,065	-	-	1,099,361
Conversions of convertible debt to shares *(Note 6)*	4,593	3,975	-	-	-	-	-	3,975
Share-based compensation expense *(Note 7(b)(ii)*	-	-	2,066,543	-	-	-	-	2,066,543
Shares issued upon exercise of stock options	2,500	1,965	-	-	-	-	-	1,965
Total comprehensive loss	-	-	-	-	-	(5,810,446)	56,365	(5,754,081)
Balance, September 30, 2022	**33,656,572**	**168,567,255**	**5,673,005**	**1,726,570**	**3,952,006**	**(178,584,626)**	**(361,609)**	**972,601**

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, 2023 and 2022
(Expressed in United States Dollars)

	Common shares #	Common shares $	Share-based payment reserve $	Convertible debentures - share conversion option $	Warrants $	Deficit $	Accumulated other comprehensive Income (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, net of issuance costs *(Note 7(a))*	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**

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, 2023 and December 31, 2022
(Expressed in United States Dollars)

	September 30, 2023	December 31, 2022
	$	$
Assets		
Current assets:		
Cash	**1,934,299**	772,255
Trade and other receivables	**5,976,355**	2,526,848
Investment tax credits	**23,665**	5,562
Inventories	**2,374,567**	3,523,719
Prepaid expenses and other assets	**315,847**	920,026
	10,624,733	7,748,410
Non-current investment tax credits	**5,563**	7,983
Property and equipment	**554,686**	400,796
Right-of-use assets *(Note 3)*	**140,263**	80,048
Intangible assets	**653,840**	69,897
	11,979,085	8,307,134
Liabilities		
Current liabilities:		
Trade and other payables	**2,215,745**	1,932,000
Deferred revenue	**-**	68,750
Lease obligation on right-of-use assets *(Note 4)*	**142,804**	87,204
	2,358,549	2,087,954
Non-current convertible debentures *(Note 6)*	**6,637,282**	5,640,272
	8,995,831	7,728,226
Shareholders' Equity		
Common shares *(Note 7(a))*	**170,908,952**	168,991,070
Share-based payment reserve	**6,999,401**	5,718,126
Convertible debentures - share conversion option *(Note 6)*	**2,042,050**	1,514,142
Warrants *(Note 7(c))*	**6,445,106**	3,902,307
Deficit	**(183,679,693)**	(179,815,622)
Accumulated other comprehensive income(loss)	**267,438**	268,885
	2,983,254	578,908
	11,979,085	8,307,134

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, 2023 and 2022
(Expressed in United States Dollars)

	Nine months ended September 30,	
	2023	2022
	$	$
Operating activities:		
Net Loss	**(3,864,071)**	(5,810,446)
Items not involving cash:		
Amortization of license	**270,882**	443,446
Depreciation of property and equipment	**133,442**	38,668
Depreciation of right-of-use assets *(Note 3)*	**180,237**	233,502
Share-based compensation *(Note 7)*	**1,314,637**	2,066,543
Accretion and interest expense *(Note 6)*	**1,169,906**	1,049,997
Recognition of government grant	-	(217,105)
Loss on disposal of equipment	**45,374**	-
	(749,593)	(2,195,395)
Net change in non-cash working capital items		
Trade and other receivables	**(3,449,507)**	(1,134,360)
Inventories	**1,149,152**	(2,066,920)
Prepaid expenses and other assets	**604,179**	628,144
Trade and other payables	**268,062**	137,800
Deferred Revenue	**(68,750)**	-
	(2,246,457)	(4,630,731)
Grant funds received		217,105
Interest paid *(Note 6)*	**(892,064)**	(438,290)
	(3,138,521)	(4,851,916)
Financing activities:		
Proceeds from convertible debt, net of issuance costs	**1,799,190**	6,424,082
Repayment of convertible debt	**-**	(6,346,555)
Proceeds from March 2023 private placement	**3,877,207**	-
Proceeds from exercise of stock options *(Note 7)*	**-**	1,965
Repayment of lease obligation on right-of-use assets *(Note 4)*	**(184,852)**	(180,793)
	5,491,545	(101,301)
Investing activities:		
Acquisition of property and equipment	**(332,710)**	(128,789)
Acquisition of licenses	**(854,825)**	(119,916)
	(1,187,535)	(248,705)
Effect of foreign exchange rate changes on cash	**(3,444)**	(34,517)
(Decrease)/Increase in cash	**1,162,044**	(5,236,439)
Cash, beginning of period	**772,255**	5,944,155
Cash, end of period	**1,934,299**	707,716

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 $3,865,518 for the nine months ended September 30, 2023 (September 30, 2022 - $5,754,081) and has an accumulated deficit of $183,679,693 (December 31, 2022 - $179,815,622). 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 continues to experience significant customer disruptions, logistics and supply chain challenges caused by the associated shutdowns due to COVID-19 that are expected to continue to impact overall revenues in the near term. The Company continues to pursue the best available paths to manage operational risk and preserve capital during this time.

2. Basis of presentation

a) Statement of compliance

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

These condensed interim consolidated financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Company’s audited consolidated financial statements for the years ended December 31, 2022 and 2021.

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, 2022 and 2021.

These condensed interim consolidated financial statements were approved for issuance by the Board of Directors on November 6, 2023.

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:

(Expressed in United States Dollars)

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 (USD); 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, 2022.

3. Right-of-use assets

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

	$
Balance, January 1, 2022	**320,194**
Depreciation	(293,539)
Lease Amendment	53,393
Balance, December 31, 2022	**80,048**
Depreciation	(180,237)
Lease Amendment	240,452
Balance, September 30, 2023	**140,263**

The Company recorded a right-of-use assets and a corresponding lease obligation 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.

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, 2023 are as follows:

	$
Balance, January 1, 2022	331,758
Repayments	(264,000)
Interest	19,446
Balance, December 31, 2022	**87,204**
Lease Amendment	240,452
Repayments	(193,800)
Interest	8,948
Balance, September 30, 2023	**142,804**
Current	142,804
Non-current	-

(Expressed in United States Dollars)

5. Inventories

	September 30, 2023	December 31, 2022
	$	$
Work-in-progress	**2,158,592**	3,362,138
Finished goods	**483,106**	428,712
	2,641,698	3,585,312
Less: provision for obsolescence	**(267,131)**	(267,131)
	2,374,567	3,523,719

Inventories recognized as cost of sales for the nine months ended September 30, 2023 amounted to $3,834,437 ($4,339,836 for the nine months ended September 30, 2022).

6. Convertible debentures

	$
Balance, January 1, 2022	**5,947,307**
Repayment of principal	(6,346,555)
Proceeds from issuance of convertible debt	6,730,570
Allocation to equity	(602,868)
Finder warrants, allocated to transaction costs	(234,366)
Transaction costs	(387,761)
Accretion and interest expense	1,474,501
Repayment of interest	(438,290)
Repayment of interest in shares	(3,975)
Foreign exchange translation adjustment	(498,291)
Balance, December 31, 2022	**5,640,272**
Accretion and interest expense	1,169,906
Repayment of interest	(892,064)
Proceeds from issuance of convertible debt	1,799,190
Allocation to equity	(527,908)
Broker warrants	(550,111)
Foreign exchange translation adjustment	(2,003)
Balance, September 30, 2023	**6,637,282**

The Company's convertible debentures are subject to certain covenants including restrictions against incurring certain additional indebtedness. As at September 30, 2023, the Company was in compliance with all covenants. During the year ended December 31, 2022, 4,593 common shares were issued to repay interest due for $3,975.

As of January 1, 2022, the Company had 7% unsecured convertible debentures (“7% Debentures”) with an aggregated principal amount of $6,226,374 (CDN $8,067,800). On July 26, 2022, the Company entered into a third supplemental convertible debenture indenture (the “Third Supplemental Indenture”) to amend certain terms and conditions 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.

(Expressed in United States Dollars)

As consideration for the extension, the Company agreed to pay non-convertible extension bonuses at maturity of an aggregate of approximately CDN $199,978. As at September 2, 2022, the Company repaid the remaining balance of the 7% Debentures in full. The total amount repaid was $6,346,555 (CDN $8,067,800) principal amount, $62,637 (CDN $80,802) of accrued and unpaid interest thereon, as well as $157,321 (CDN $199,978) of the extension bonus and $1,115 (CDN $1,438) of associated interest. The 7% Debentures were repaid in full effective September 2, 2022.

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). Proceeds from the 2022 Offering were primarily used to repay the 7% Debentures.

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 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 $1.02 for a period of two years from the date of issuance.

The Company determines the carrying amount of the financial liability using the present value of future cash flows with the principal amount of $6,694,367 and a discount rate of 25.8%. Debt component is being amortized using an effective interest rate of approximately 21% 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 warrants, is determined using the Black Scholes option pricing model based on the following assumptions: volatility of 172%, expected term of 2 years, risk free rate of 3.12% 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 14% Debentures, net of issuance costs, were allocated as follows:

	$
Liability component	335,758
Conversion feature	52,003
Transaction costs	**387,761**

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 mature on September 14, 2025 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 $0.65 per common share, subject to adjustment upon certain customary events. Holders converting their 9% 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. Provided that the closing price of the common shares on the principal stock exchange on which the common shares trade is 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 shall have 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.

(Expressed in United States Dollars)

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 65.7% 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	119,417
Conversion feature	87,415
Warrant	83,628
Transaction costs	**290,460**

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.

(Expressed in United States Dollars)

(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 2023, 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 7,965,460 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, 2023 and 2022:

	September 30, 2023	September 30, 2022
	#	#
Balance, January 1	**4,328,217**	**2,907,256**
Granted	1,390,708	2,100,583
Forfeited	(1,000)	(574,542)
Vested and Shares issued	(147,370)	(139,779)
Balance, ending	**5,570,555**	**4,293,518**

(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.

(Expressed in United States Dollars)

The following table summarizes information about the Company's outstanding stock options as at September 30, 2023 and 2022:

	September 30, 2023		September 30, 2022	
	Number of Options	Weighted Average Price	Number of Options	Weighted Average Price
	#	CDN $	#	CDN $
Options outstanding, January 1	**259,768**	**1.38**	298,274	2.43
Granted	**-**	**-**	-	-
Exercised	**-**	**-**	-	-
Expired	**-**	**-**	-	-
Forfeited	**(4,468)**	**22.45**	(31,606)	5.41
Options outstanding, ending	**255,300**	**1.52**	266,668	1.92

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	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	254,000	5.05	1.46	254,000	1.46
10.50 – 16.25	1,300	1.36	11.83	1,300	11.83
Balance, September 30, 2023	**255,300**	**5.03**	**1.52**	**255,300**	**1.52**

The following table is a summary of the Company's stock options outstanding as at September 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	19.80
Balance, September 30, 2022	266,668	6.15	1.92	248,432	1.96

(Expressed in United States Dollars)

(iii) Share-based compensation expense

For its RSU Plan and Stock Option Plan, the Company recognized share-based compensation expense of $1,314,637 for the nine months ended September 30, 2023 ($2,066,543 for the nine months ended September 30, 2022) with a corresponding amount recognized as share-based payment reserve.

The fair value of the RSUs is determined based upon the Company's share price on the date of grant. There were no stock options granted during the nine months ended September 30, 2023 and 2022.

(c) Warrants

The following table summarizes information about the Company's outstanding warrants as at September 30, 2023 and 2022:

	September 30, 2023		September 30, 2022	
	Number of Warrants	Weighted Average Price	Number of Warrants	Weighted Average Price
	#	CDN $	#	CDN $
Balance, January 1	**9,756,307**	**3.09**	9,398,804	3.23
Broker Warrants component of 2022 Offering (Note 6)	**-**	**-**	401,603	1.02
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 expired	**(535,795)**	**5.29**	(44,100)	15.00
Balance, ending	**19,988,977**	**1.93**	9,756,307	3.09

The following is a summary of the warrants outstanding by exercise price 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

(Expressed in United States Dollars)

229,504	CDN $1.10	March 15, 2028
184,117	CDN $0.65	September 14, 2025

(1) Subject to acceleration in certain circumstances.

The following is a summary of the warrants outstanding as at September 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
118,055	CDN $1.02	July 26, 2024
251,310	CDN $2.50	August 21, 2024
283,548	CDN $1.02	August 25, 2024

(1) Subject to acceleration in certain circumstances.

(2) Convertible into one common share and one warrant exercisable at CDN $2.50.

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:

(Expressed in United States Dollars)

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2023	2022	**2023**	2022
	$	$	**$**	$
Salaries, fees and short-term benefits	**362,350**	137,000	**900,850**	520,000
Share-based benefits	**335,472**	303,109	**958,422**	1,126,233
Total	**697,822**	440,109	**1,859,272**	1,646,233

As at September 30, 2023, the amount owing to directors and officers was $348,850 ($383,000 for the nine months ended September 30, 2022).

9. Economic dependence

During the three and nine months ended September 30, 2023, the Company derived approximately 100% from two customers and 100% of its revenue from three customers, respectively (three and nine months ended September 30, 2022 – 100% and 98% from two 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 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 Company's 14% Debentures and 9% Debentures arises from fluctuations in interest rates and the degree of volatility of these rates. The 14% Debentures and 9% Debentures provide for a fixed annual rate of 14% and 9%, respectively, 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 September 30, 2023, three customers represented 100% 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.

11. 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.