

Consolidated Financial Statements of

SPECTRA7 MICROSYSTEMS INC.

Years Ended December 31, 2021 and 2020

(Expressed in United States Dollars)

SPECTRA7 MICROSYSTEMS INC.

Years Ended December 31, 2021 and 2020

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Independent Auditor's Report

To the Shareholders of Spectra7 Microsystems Inc.:

Opinion

We have audited the consolidated financial statements of Spectra7 Microsystems Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and December 31, 2020, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and December 31, 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a comprehensive loss during the year ended December 31, 2021 and, as of that date, had an accumulated deficit. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Brent Wolfe.

Vancouver, British Columbia

April 30, 2022

MNP LLP

Chartered Professional Accountants

SPECTRA7 MICROSYSTEMS INC.

Consolidated Statements of Loss and Comprehensive Loss

Years Ended December 31, 2021 and 2020

(Expressed in United States Dollars)

	2021	2020
	\$	\$
Revenue	5,460,827	1,031,933
Cost of sales	2,299,773	503,838
Gross margin	3,161,054	528,095
Expenses (Income):		
Research and development, net of investment tax credits and including amortization of licenses	3,568,093	2,814,970
Sales and marketing	447,487	352,541
General and administrative (Note 11)	2,298,946	1,298,042
Depreciation of right-of-use assets (Note 4)	259,261	308,455
Depreciation of property and equipment (Note 7)	152,984	288,846
Share-based compensation (Note 10(b))	1,864,881	492,677
Gain on modification/extinguishment of convertible debt (Note 9)	(379,140)	(228,159)
Interest on lease obligation of right-of-use asset (Note 5)	26,290	29,474
Accretion and interest expense (Note 9)	1,528,830	2,144,974
Foreign exchange gain	(75,154)	(52,956)
(Gain)/Loss on disposal of property and equipment (Note 7)	(6,500)	12,951
Total Expenses	9,685,978	7,461,814
Grant income (Note 14)	(739,470)	(776,085)
Net Loss	(5,785,454)	(6,157,634)
Other comprehensive loss:		
Unrealized foreign currency translation	(397,293)	(83,043)
Total comprehensive loss	(6,182,747)	(6,240,677)
Loss per share		
Basic and diluted	(0.29)	(0.59)
Weighted average number of common shares outstanding		
Basic and diluted	21,248,369	10,601,375

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

SPECTRA7 MICROSYSTEMS INC.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

Years Ended December 31, 2021 and 2020

(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 10(c)(i))	281,789	(281,789)	-	-	-	-	-	-
Subscription received for common shares	-	-	-	-	744,265	-	-	744,265
Units issued on March 2020 Private Placement, net of issuance costs (Note 10(a)(iv))	1,066,065	-	-	-	-	-	-	1,066,065
Units issued on July 2020 Private Placement, net of issuance costs (Note 10(a)(iv))	516,311	-	-	-	-	-	-	516,311
Allocation of warrants portion of July 2020 Private Placement, net of issuance costs (Note 10(a)(iv))	-	-	-	101,231	-	-	-	101,231
Share-based compensation expense (Note 10(b)(iii))	-	492,677	-	-	-	-	-	492,677
Settlement of Promissory Notes (Note 13)	753,583	-	-	-	-	-	-	753,583
Shares issued upon exercise of stock options	13,835	(5,950)	-	-	-	-	-	7,885
Conversions of convertible debt to shares	119,404	-	(13,939)	-	-	-	-	105,465
Total comprehensive loss	-	-	-	-	-	(6,157,634)	(83,043)	(6,240,677)
Balance, December 31, 2020	145,179,094	3,868,338	1,561,032	1,384,160	740,161	(166,988,726)	(20,681)	(14,276,622)

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

SPECTRA7 MICROSYSTEMS INC.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

Years Ended December 31, 2021 and 2020

(Expressed in United States Dollars)

	Common	Share-based payment	Convertible debentures share conversion	Warrants	Subscription received for units	Deficit	Accumulated other comprehensive loss	Total Equity
	shares	reserve	option					
	\$	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2020	145,179,094	3,868,338	1,561,032	1,384,160	740,161	(166,988,726)	(20,681)	(14,276,622)
Shares issued under Restricted Share Unit plan	1,203,675	(1,203,675)	-	-	-	-	-	-
Subscription received for common shares	-	-	-	-	(740,161)	-	-	(740,161)
Units issued on January 2021 Private Placement (Note 10(a)(i))	2,780,254	-	-	776,888	-	-	-	3,557,142
Units issued on Spring 2021 Private Placement (Note 10(a)(ii))	3,230,360	-	-	1,506,893	-	-	-	4,737,253
Units issued on October 2021 Private Placement (Note 10(a)(iii))	11,383,731	-	-	-	-	-	-	11,383,731
Conversions of convertible debt to shares (Note 9)	3,821,820	-	(649,758)	-	-	-	-	3,172,062
Share-based compensation expense (Note 10(b)(iii))	-	1,864,881	-	-	-	-	-	1,864,881
Shares issued upon exercise of stock options	75,337	(36,038)	-	-	-	-	-	39,299
Total comprehensive loss	-	-	-	-	-	(5,785,454)	(397,293)	(6,182,747)
Balance, December 31, 2021	167,674,271	4,493,506	911,274	3,667,941	-	(172,774,180)	(417,974)	3,554,838

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

SPECTRA7 MICROSYSTEMS INC.
Consolidated Statements of Financial Position
December 31, 2021 and December 31, 2020
(Expressed in United States Dollars)

	December 31, 2021	December 31, 2020
	\$	\$
Assets		
Current assets:		
Cash	5,944,155	35,253
Trade and other receivables	2,673,175	89,224
Investment tax credits	7,878	4,033
Inventories (Note 6)	885,158	135,981
Prepaid expenses and other assets	1,446,716	309,563
	10,957,082	574,054
Non-current investment tax credits	3,231	7,886
Property and equipment (Note 7)	343,786	268,311
Right-of-use assets (Note 4)	320,194	99,164
Intangible assets (Note 8)	597,067	-
	12,221,360	949,415
Liabilities		
Current liabilities:		
Trade and other payables (Note 15)	2,387,457	5,219,130
Deferred revenue	-	69,183
Convertible debentures (Note 9)	5,947,307	-
Lease obligation on right-of-use assets (Note 5)	244,553	110,533
	8,579,317	5,398,846
Non-current convertible debentures (Note 9)	-	9,827,191
Non-current lease obligation on right-of-use assets (Note 5)	87,205	-
	8,666,522	15,226,037
Shareholders' Equity		
Common shares (Note 10(a))	167,674,271	145,179,094
Share-based payment reserve (Note 10(c))	4,493,506	3,868,338
Convertible debentures - share conversion option (Note 9)	911,274	1,561,032
Warrants (Note 10(d))	3,667,941	1,384,160
Subscription received for shares not issued	-	740,161
Deficit	(172,774,180)	(166,988,726)
Accumulated other comprehensive loss	(417,974)	(20,681)
	3,554,838	(14,276,622)
	12,221,360	949,415

Going concern (Note 1)

Signed on behalf of the Board:

"Ron Pasek"

Director

"Christopher Morgan"

Director

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

SPECTRA7 MICROSYSTEMS INC.

Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020
(Expressed in United States Dollars)

	Year Ended December 31,	
	2021	2020
	\$	\$
Operating activities:		
Net Loss	(5,785,454)	(6,157,634)
Items not involving cash:		
Amortization of licenses (Note 8)	305,643	312,546
Depreciation of property and equipment (Note 7)	196,260	340,260
Depreciation of right-of-use assets (Note 4)	259,261	308,455
Share-based compensation (Note 10)	1,864,881	492,677
Gain on extinguishment/modification of convertible debt (Note 9)	(379,140)	(228,159)
Accretion and interest expense (Note 9)	1,528,830	2,144,974
Recognition of government grant (Note 14)	(739,470)	(776,085)
(Gain)/loss on disposal of property and equipment	(6,500)	12,951
	(2,755,689)	(3,550,015)
Net change in non-cash working capital items		
Trade and other receivables	(2,583,951)	561,349
Investment tax credits	810	24,210
Inventories	(749,177)	346,944
Prepaid expenses and other assets	(1,137,154)	(93,039)
Trade and other payables	(3,281,673)	1,104,957
Deferred revenue	(69,183)	51,650
	(10,576,017)	(1,553,944)
Grant funds received (Note 14)	739,470	776,085
Interest paid (Note 9)	(493,706)	(745,980)
	(10,330,253)	(1,523,839)
Financing activities:		
Proceeds from promissory notes to related parties (Note 13)	-	50,000
Proceeds from exercise of stock options (Note 10)	39,299	7,885
Repayment of obligation under finance lease	-	(4,482)
Repayment of lease obligation on right-of-use assets (Note 5)	(259,066)	(318,331)
Proceeds from subscribed shares	-	744,265
Proceeds from the issuance of shares, net of issuance costs (Note 10)	17,560,430	1,683,607
	17,340,663	2,162,944
Investing activities:		
Acquisition of property and equipment (Note 7)	(271,735)	(8,205)
Proceeds from disposal of property and equipment	6,500	-
Acquisition of licenses (Note 8)	(452,710)	-
	(717,945)	(8,205)
Effect of foreign exchange rate changes on cash	(383,563)	(666,768)
(Decrease)/Increase in cash	5,908,902	(35,868)
Cash, beginning of year	35,253	71,121
Cash, end of year	5,944,155	35,253

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

SPECTRA7 MICROSYSTEMS INC.

Notes to the Consolidated Financial Statements
Years Ended December 31, 2021 and 2020
(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"), Mixed Reality ("MR") 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 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 \$6,294,791 for the year ended December 31, 2021 (December 31, 2020 - \$6,240,677) and has an accumulated deficit of \$172,883,712 (December 31, 2020 - \$166,988,726). 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 consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate.

At the Company's annual and special meeting of shareholders on June 18, 2021, shareholders approved the consolidation of the Company's issued and outstanding common shares ("common shares") at a ratio of up to 100 existing common shares for one new common share. On August 13, 2021, the Company completed a consolidation of its common shares on the basis of 50 existing common shares for one new common share (the "Consolidation"). Accordingly, the common share, per common share and basic and diluted earnings per common share are adjusted retrospectively to all periods presented.

2. Basis of presentation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were approved for issuance by the Board of Directors on April 30, 2022.

b) Basis of measurement

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

c) Basis of consolidation

The 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 (EURO); and
Si Bai Ke Te (Dongguan) Electronics Trading Co. Ltd., a China wholly foreign owned enterprise (CNY) .

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

d) New Accounting Policies and Accounting Standards

(i) New Accounting Policies

SPECTRA7 MICROSYSTEMS INC.

Notes to the Consolidated Financial Statements Years Ended December 31, 2021 and 2020 (Expressed in United States Dollars)

The Company did not adopt a new accounting policy during the year ended December 31, 2021.

(ii) New Accounting Standards

The Company adopted the following amendments to accounting standards as at January 1, 2021:

Amendments to IFRS 7 - Financial Instruments: Disclosure (IFRS 7); IFRS 9; IAS 39, Financial Instruments: Recognition and Measurement; and IFRS 16 - Leases (IFRS 16)

In August 2020, the IASB published IBOR Reform Phase 2 which address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. For financial instruments at amortized cost, the amendments introduce a practical expedient such that if a change in the contractual cash flows is as a result of IBOR reform and occurs on an economically equivalent basis, the change will be accounted for by updating the effective interest rate with no immediate gain or loss recognized. The amendments are effective for annual periods beginning on or after January 1, 2021, with earlier application permitted. There was no impact of this amendment on the Company's consolidated financial statements.

The following are future accounting standards issued as at January 1, 2021, 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.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The IASB also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the IASB decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

Property, Plant and Equipment: Proceeds before Intended Use - Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment - Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company.

3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently throughout the Company.

Inventories

Inventories consist of microchip component parts. Raw material inventories, work in process and finished goods are recorded at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to its present location and condition.

SPECTRA7 MICROSYSTEMS INC.

Notes to the Consolidated Financial Statements

Years Ended December 31, 2021 and 2020

(Expressed in United States Dollars)

An assessment is made of the net realizable value of inventory at each reporting period. Net realizable value is the estimated selling price less the estimated cost of completion and the estimated costs necessary to make the sale. When circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of any write down previously recorded is reversed so that the new carrying amount is the lower of the cost and the revised net realizable value. Raw materials are not written down unless the goods in which they are incorporated are expected to be sold for less than cost, in which case, they are written down by reference to replacement cost of the raw materials, as this is the best indicator of net realizable value.

Financial instruments

The Company adopted and implemented the following accounting policy on financial instruments:

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading including all equity derivative instruments are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election on an instrument-by-instrument basis to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL or the Company has opted to measure them at FVTPL. The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 Financial Instruments: Recognition and Measurements ("IAS 39") and the new classification under IFRS 9:

Financial Instrument	Classification
<i>Financial Assets</i>	
Cash	Amortized cost
Trade and other receivables	Amortized cost
<i>Financial Liabilities</i>	
Trade and other payables	Amortized cost
Obligation under finance lease	Amortized cost
License liabilities	Amortized cost
Lease obligations	Amortized cost
Promissory notes to related parties	Amortized cost
Convertible debentures	Amortized cost

Measurement

Financial assets and liabilities at amortized cost:

Financial assets and liabilities at amortized cost are initially recognized at fair value, and subsequently carried at amortized cost less any impairment.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the credit risk on the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to twelve month expected credit losses. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event

SPECTRA7 MICROSYSTEMS INC.

Notes to the Consolidated Financial Statements Years Ended December 31, 2021 and 2020 (Expressed in United States Dollars)

occurring after the impairment was recognized.

Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the Consolidated Statements of Loss and Comprehensive Loss.

Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the Consolidated Statements of Loss and Comprehensive Loss.

Property and equipment

Property and equipment are carried at cost, less accumulated depreciation. The cost of an item of property and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is recognized based on the cost of an item of property and equipment, less its estimated residual value, using the straight-line method, over its estimated useful life at the following rates:

Computer software	1 year
Computer hardware, laboratory and testing equipment	3 years
Masks	Estimated life of the product, not to exceed 5 years
Office equipment	5 years
Leasehold improvements	Term of lease

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the Consolidated Statements of Loss and Comprehensive Loss. Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately are capitalized and depreciated over their estimated useful life. Repair and maintenance costs are recognized in the Consolidated Statements of Loss and Comprehensive Loss as incurred.

The Company reviews the useful life, depreciation method and carrying value of its property and equipment annually with the effect of any changes in estimate accounted for on a prospective basis. Where the carrying value exceeds the estimated recoverable amount, an impairment is measured and recorded based on the higher of fair value less costs to sell or the asset's value in use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful life.

Intangible assets

Definite life intangible assets acquired in business combinations and pursuant to asset purchases are recorded at their fair values at the date of acquisition. Amortization is recognized on a straight-line basis over their estimated useful lives as follows:

Software and technology	2 - 3 years
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The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect

SPECTRA7 MICROSYSTEMS INC.

Notes to the Consolidated Financial Statements

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of any changes in estimate being accounted for on a prospective basis. The Company has no indefinite life intangibles.

Licenses

Licenses to use electronic design automation tools are recorded at the aggregate cost of the payments in the contract less accumulated amortization and accumulated impairment losses. Amortization commences in the year the license is put into use in the development of the microchip and is amortized on a straight-line basis over its remaining license term. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Liabilities due on license agreements are classified as other financial liabilities and are recognized initially at fair value and subsequently at amortized cost.

Impairment of tangible and intangible assets

The Company reviews at each reporting period the carrying amounts of its tangible and intangible assets which all have finite lives, to determine whether there are indicators that the carrying values are not recoverable. If such an indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs, the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other assets. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. The Company bases its impairment calculation on the most recent budgets and forecast calculations, which are prepared separately for each of the Company's cash generating units to which the individual assets are allocated. A long-term growth rate is calculated and applied to project future cash flows. Impairment losses of continuing operations are recognized in the Consolidated Statements of Loss and Comprehensive Loss in expense categories consistent with the function of the impaired asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset or a cash generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

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Government grants and investment tax credits

Government grants received under incentive programs is accounted for using the cost reduction method; whereby, the grant is netted against the related expense or capital expenditure to which it relates when there is reasonable assurance that the credits will be realized or grant will be received and all attached conditions will be complied with.

Government grants received under reimbursement or funding programs is accounted for using the cost reduction method; whereby, a receivable is set up as the costs are incurred based on the terms of reimbursement or funding program and the expected recoveries are netted against the related expense. 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.

The Company is entitled to certain tax incentives for qualified scientific research and experimental development. These incentives are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to them and that the incentives will be received. The investment tax credits are recorded as a reduction of the relevant asset account or of research and development expenses in the period when the expenses occur.

Convertible debentures

The liability, equity and other (when applicable) components of convertible notes are presented separately on the statement of financial position, starting from initial recognition. The Company determines the carrying amount of the financial liability by discounting the stream of future payments at the prevailing market rate for a similar liability of comparable credit status and providing substantially the same cash flows. 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 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 or Monte-Carlo option pricing model. 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 (when applicable) from the amount of the convertible notes, and is presented in Equity as an equity component of convertible notes. The equity component is not remeasured subsequent to initial recognition, except on conversion or expiry.

The transaction costs are distributed between liability, equity and other (when applicable) components, on a pro-rata basis according to their carrying amounts.

Borrowing costs

Borrowing costs comprise interest payable on borrowings calculated using the effective interest rate method, and the ascribed value of warrants, and are expensed when they are incurred unless they are directly attributable to the acquisition, construction or production of a qualifying asset.

Activity relating to various compensation options issued as commissions and fees to agents in relation to equity and debt financing are reflected within the warrants reserve on the Consolidated Statements of Changes in Shareholders' Equity (Deficiency).

Income taxes

Tax expense comprises current and deferred tax. Tax is recognized in the statements of comprehensive income except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current Tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that are enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations

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in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred Tax

Deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In addition, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of loss and comprehensive loss in the period in which the enactment or substantive enactment takes place. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available to utilize such amounts. Deferred tax assets are reviewed at each reporting date and are adjusted to the extent that it is no longer probable that the related tax benefits will be realized.

The Company is subject to income tax assessment in multiple jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken in the ordinary course of business for which the ultimate tax determination is uncertain.

The Company recognizes liabilities based on the Company's current understanding of tax laws as applied to the Company's circumstances. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

The Company computes an income tax provision in each of the jurisdictions in which it operates. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of these financial statements. Additionally, estimating income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions against future taxable income before such deductions expire. The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period.

Foreign currencies

The consolidated financial statements are presented in United States dollars. The Company's functional currency is Canadian dollars. As such, an amount is recorded in other comprehensive loss for the translation to presentation currency. The functional currency of its subsidiaries is United States dollars given the majority of revenues and expenses are incurred in United States dollars. Transactions in currencies other than the functional currency are recorded at the rates of exchange at the date of the transaction. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost are translated using historical rates.

Exchange differences are recognized in profit or loss in the period in which they arise.

Revenue recognition

The Company's revenue is derived from one performance obligation which is to deliver the Company's product to its customers, being each individual distributor of the Company's product (the "Distributor"). Revenue is recognized when control of the Company's product is transferred to the Distributor and when the Distributor obtains control of the Company's product. The Company considers control to have passed at the point of shipment as all risk of loss or damage to the Company's product passes to the Distributor at this point.

In each period, the Company recognizes revenue, net of any variable consideration, including the right of return. The estimate of expected returns reflects the amount that the Company expects to repay or credit its Distributors, using the expected value method. Revenue includes amounts subject to returns only if it is highly probable that there will be no significant reversal of cumulative revenue if the estimate of expected returns changes.

The Company records an adjustment to cost of sales and inventories representing the Company's right to receive goods back from the Distributor. The adjustment to inventories is initially measured at the carrying amount of the

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products at the time of sale, less any expected costs to recover the product and any expected reduction in value. In subsequent periods, the Company updates its expected level of returns, adjusting the measurement of the returns liability and inventories.

Contract Liabilities

Customer deposits are recorded as deferred revenue on the Consolidated Statements of Financial Position and recognized to revenue when the product is shipped to the customer.

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date.

Where a lease has two or more separate lease components the Company has accounted for each lease component within the contract as a lease separately from non-lease components of the contract. The non-lease components are accounted for by applying other applicable standards.

The right-of-use asset is initially measured at cost which comprises of the lease liability, lease payments made at or before the commencement date, initial indirect costs and asset retirement obligations, less any lease incentives. The right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option.

The lease liability is initially measured at the present value of the future lease payments discounted using the interest rate implicit in the lease or if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Subsequently, the lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to not apply IFRS 16 for short term leases that are 12 months or less and for leases of low value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term. Lease modifications are accounted for as either a new lease with an effective date of the modification or as a change in the accounting for the existing lease.

Share-based payments

Share-based payments and costs of equity-settled transactions to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Share-based payments to non-employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reasonably, in which case they are measured at the fair value of the equity instruments granted.

The Company maintains two share-based compensation plans for the benefit of its directors, officers, employees and consultants. These plans are a restricted share unit plan (the "RSU Plan") and a stock option plan (the "Stock Option Plan").

The RSU Plan is described in Note 10(b)(i). The fair-value of restricted share units ("RSUs") issued without payment (or if payment is less than fair value) to directors, officers, employees and consultants is determined upon the date of grant and (the difference if less than fair value) recognized as compensation expense over the vesting period for directors, officers or employees and over the period of service for consultants with a corresponding increase in

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equity. RSUs issued at fair value are booked as equity.

The Stock Option Plan is described in Note 10(b)(ii). The fair-value of the stock options issued to directors, officers, employees and consultants is determined using the Black-Scholes option pricing model incorporating assumptions regarding risk-free interest rates, dividend yield, expected volatility of the Company's stock, and a weighted average expected life of options. For awards with graded vesting, each tranche in an award is considered a separate grant with a different fair value. The fair value of each tranche is recognized over its respective vesting period. For employees, officers and directors, the fair value of each tranche is estimated at the date of grant.

The estimated fair value of the options that are ultimately expected to vest are recorded over the option's vesting period and charged to profit or loss with a corresponding increase in share-based payment reserve. When determining the number of options that are expected to vest the Company takes into account historical experience and trends in actual option forfeitures. For all stock options issued, if and when the stock options are exercised, the applicable amounts of share-based payment reserve are transferred together with the proceeds to common shares within share capital.

For cash-settled share-based payments, a liability is recognized for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with changes in fair value recognized in profit or loss.

If stock options or RSUs are repurchased from directors, officers or employees and consultants, the excess of the consideration paid over the carrying amount of the stock options or RSUs repurchased is charged to share-based payment reserve and or deficit.

The Company has adopted the amended IFRS 2 Share-based payments ("IFRS 2") on January 1, 2018.

Based on management's assessment there are no material retrospective adjustments to the amounts recognized in the Company's Consolidated financial statements for the comparative periods presented.

Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential securities, which comprise of stock options, RSUs, warrants and special shares.

Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Measurement uncertainty and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses for the periods presented herein. Management bases its judgments and estimates on historical experiences and on other various factors it believes to be reasonable under the circumstances, the results of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Significant assumptions about the future that management has made that could result in a material adjustment to

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the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the recoverability of trade and other receivables and investment tax credits that are included in the Consolidated Statements of Financial Position;
- the estimated variable considerations when determining the transaction price recognized as revenue that are included in the Consolidated Statements of Loss and Comprehensive Loss, and the Consolidated Statements of Financial Position;
- the net realizable value used to determine the carrying value of inventories and potential write-downs or reversals of write-downs to inventories;
- the inputs and assumptions used in the valuation and recording of the convertible debt;
- the incremental borrowing rate used in the valuation of right-to-use liabilities;
- the estimated useful lives and residual value of property and equipment, and licenses which are included in the Consolidated Statements of Financial Position and the related depreciation and amortization included in the Consolidated Statements of Loss and Comprehensive Loss;
- the amount of deferred tax assets only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits to be recovered;
- the inputs and assumptions used in the valuation and recording of share-based payments;
- the inputs and assumptions used in the valuation and recording of derivative liability including warrant liabilities; and
- the assessment of Company's ability to continue as going concern

4. Right-of-use assets

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

	\$
Balance, January 1, 2020	608,604
Depreciation	(308,455)
Derecognition of right-of-use asset	(200,985)
Balance, December 31, 2020	99,164
Depreciation	(259,261)
Lease amendment	480,291
Balance, December 31, 2021	320,194

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

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5. 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 December 31, 2021 are as follows:

	\$
Balance, January 1, 2020	643,981
Principal repayments	(318,331)
Derecognition of lease obligation	(215,117)
Balance, December 31, 2020	110,533
Principal repayments	(259,066)
Lease amendment	480,291
Balance, December 31, 2021	331,758
Current	244,553
Non-current	87,205

Set out below is a maturity analysis of lease liabilities as at December 31, 2021:

	\$
Less than one year	264,000
One to five years	88,800
Total undiscounted lease obligation	<u>352,800</u>

The following are the amounts recognized in the statement of loss and comprehensive loss:

	2021	2020
	\$	\$
Depreciation expense of right-of-use assets	259,261	308,455
Interest on lease obligation of right-of-use asset	26,290	29,474
Total amount recognized in profit or loss	<u>285,551</u>	<u>337,929</u>

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6. Inventories

	2021	2020
	\$	\$
Work-in-progress	880,985	301,014
Finished goods	126,395	139,318
	1,007,380	440,332
Less: provision for obsolescence	(122,222)	(304,351)
	885,158	135,981

Inventories recognized as cost of sales for the year ended December 31, 2021 amounted to \$2,256,499 (\$452,396 for the year ended December 31, 2020).

7. Property and equipment

	Computer hardware/software	Laboratory Equipment	Masks and Testing Equipment	Office Equipment	Leasehold Improvements	Total
	\$	\$	\$	\$	\$	\$
Cost, balance						
December 31, 2019	1,415,655	2,329,860	2,477,197	269,161	110,828	6,602,701
Additions/disposals	(22,644)	(252,294)	(259,990)	(12,083)	(37,500)	(592,716)
Currency movement	(203)	(1,077)	-	-	-	(1,280)
December 31, 2020	1,392,808	2,076,489	2,217,207	257,078	73,328	6,016,910
Additions/disposals	-	31,564	238,857	-	-	270,421
Currency movement	-	-	-	-	-	-
December 31, 2021	1,392,808	2,108,053	2,456,064	257,078	73,328	6,287,331
Accumulated depreciation						
December 31, 2019	1,396,948	2,265,129	2,049,708	194,941	82,645	5,989,371
Depreciation	14,414	51,636	215,465	39,025	19,720	340,260
Disposals	(22,464)	(247,557)	(262,498)	(9,746)	(37,500)	(579,765)
Currency movement	(191)	(1,076)	-	-	-	(1,267)
December 31, 2020	1,388,707	2,068,132	2,002,675	224,220	64,865	5,748,599
Depreciation	3,294	9,546	152,635	22,322	8,463	196,260
Disposals	-	(1,314)	-	-	-	(1,314)
Currency movement	-	-	-	-	-	-
December 31, 2021	1,392,001	2,076,364	2,155,310	246,542	73,328	5,943,545
Carrying amounts						
December 31, 2020	4,101	8,357	214,532	32,858	8,463	268,311
December 31, 2021	807	31,689	300,754	10,536	-	343,786

Included in laboratory equipment is equipment under a finance lease agreement with a cost of \$nil (December 31, 2020 - \$nil) and accumulated depreciation of \$nil (December 31, 2020 - \$20,450).

Of the total depreciation recorded in the current year, \$43,274 (2020 - \$51,414) was recorded as part of cost of sales.

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8. Intangible assets

	Licenses
	\$
Cost	
Balance, December 31, 2019	9,877,914
Additions	-
Balance, December 31, 2020	9,877,914
Additions	902,710
Balance, December 31, 2021	10,780,624
Accumulated amortization	
Balance, December 30, 2019	9,565,368
Amortization	312,546
Balance, December 31, 2020	9,877,914
Amortization	305,643
Balance, December 31, 2021	10,183,557
Carrying Amounts	
Balance, December 31, 2020	-
Balance, December 31, 2021	597,067

Amounts payable on license agreements were \$450,000 as at December 31, 2021 which were due within one year and included in Trade and other payables.

9. Convertible debentures

	\$
Balance, January 1, 2020	9,008,693
Accretion expense	2,098,823
Repayment of interest	(748,212)
Converted to Common Shares	(105,465)
Foreign exchange translation adjustment	22,402
Balance, December 22, 2020	10,276,241
Derecognition of Convertible Debt	(10,048,082)
Gain on Derecognition of Convertible Debt	(228,159)
Balance, December 23, 2020	-

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	\$
Fair value of liability component at issuance	9,711,196
Less: issuance costs	(20,638)
	9,690,558
Accretion expense	46,151
Foreign exchange translation adjustment	90,482
Balance, December 31, 2020	9,827,191

	\$
Balance, January 1, 2021	9,827,191
Accretion and interest expense	1,528,830
Exchange of convertible debentures for private placement units	(1,377,536)
Repayment of interest	(493,706)
Converted to common shares	(3,172,062)
Foreign exchange translation adjustment	13,730
Gain on modification of convertible debt	(379,140)
Balance, December 31, 2021	5,947,307

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 9 and 13), 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. As at December 31, 2021 the Company is in compliance with all covenants.

During the year ended December 31, 2021, 1,650,000 common shares were issued upon conversion of \$3,240,779 (CDN \$4,125,000) in convertible debentures and 242,477 common shares were issued for interests accrued for the remaining term of \$326,363 (CDN \$419,572). On conversion and together with the release of \$649,758 of share conversion option, \$3,821,820 were recorded in share capital.

On December 23, 2020, the Company entered into First Supplemental Convertible Debenture Indenture (the "Supplemental Indenture") to amend the terms and conditions for the above debentures as follows:

- To extend the maturity date of the debentures from January 9, 2021 to July 9, 2022;
- To reduce the conversion price of the debentures from CDN \$17.50 per common share to CDN \$2.50 per common share until January 9, 2022 and to CDN \$5.00 per common share from January 10, 2022 to July 9, 2022;
- To provide for payment of 10% bonus principal on maturity including interest at 7% per annum on the additional principal; and
- To add a make-whole interest payment to the maturity date for Debentures that are converted prior to maturity.

The Company treated the modifications as an extinguishment of the existing instrument and recorded a gain of \$228,159 on derecognition.

The Supplemental Indenture was recorded as a new compound financial instrument with debt component of \$9,711,196 determined using present value of future cash flows and discount rate of 19%. The residual between the fair value of Supplemental Indenture and amount attributed to debt component was considered conversion feature. Debt component is being amortized using effective interest rate of approximately 20% over its term.

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On December 9, 2021, the Company entered into Second Supplemental Convertible Debenture Indenture (the "Second Supplemental Indenture") to amend the terms and conditions for the above debentures to reduce the conversion price of the debentures from CDN \$5.00 per common share to CDN \$2.50 per common share from January 10, 2022 to July 9, 2022.

The Company treated the change as a modification of the existing instrument and recorded a gain of \$379,140.

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

10. Shareholders' equity

(a) Common shares

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

At the Company's annual and special meeting of shareholders in June 2021, shareholders approved the consolidation of the Company's issued and outstanding common shares at a ratio of up to 100 existing common shares for one new common share. On August 13, 2021, the Company completed a consolidation of its common shares on the basis of 50 existing common shares for one new common share. Accordingly, the common share, per common share and basic and diluted earnings per common share are adjusted retrospectively to all periods presented.

The following table summarizes the changes to the issued and outstanding common shares during the year ended December 31, 2021:

	#	\$
Balance, December 31, 2020	11,854,355	145,179,094
Shares issued under Restricted Share Unit plan	641,904	1,203,675
Units issued in January 2021 Private Placement (i)	3,237,605	3,621,372
Units issued in Spring 2021 Private Placement (ii)	4,223,142	5,229,389
Units issued in October 2021 Private Placement (iii)	11,183,990	11,928,625
Share issuance costs	-	(1,101,260)
Allocation of warrant portion	-	(2,283,781)
Convertible Debenture Conversions (Note 9)	1,892,477	3,821,820
Shares issued upon exercise of stock options	41,464	75,337
Balance, December 31, 2021	33,074,937	167,674,271

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The following table summarizes the changes to the issued and outstanding common shares during the year ended December 31, 2020:

	#	\$
Balance, December 31, 2019	8,191,144	142,428,107
Shares issued under Restricted Share Unit plan	54,342	281,789
Units issued on March 2020 Private Placement (iv)	2,000,000	1,066,065
Units issued on July 2020 Private Placement (iv)	754,496	516,311
Convertible Debenture Conversions (Note 9)	7,373	119,404
Shares issued upon exercise of stock options	7,000	13,835
Settlement of Promissory Notes (Note 13)	840,000	753,583
Balance, December 31, 2020	11,854,355	145,179,094

(i) January 2021 Private Placement

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

(ii) Spring 2021 Private Placement

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

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

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(iii) October 2021 Private Placement

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

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

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

(iv) 2020 Private Placements

On March 10, 2020, the Company closed the first tranche of a non-brokered private placement (the "March 2020 Private Placement") of 1,615,968 common shares at a price of CDN \$0.75 per common share for aggregate gross proceeds of \$882,657 (CDN \$1,211,976) and recorded on statement of changes in shareholders' deficiency net of issuance costs of \$17,105. On April 20, 2020, the Company completed a second tranche of the March 2020 Private Placement, which consisted of the issuance of 384,032 common shares for aggregate gross proceeds of \$204,475 (CDN \$288,024) and recorded on statement of changes in shareholders' deficiency net of issuance costs of \$3,962.

On June 18, 2020, the Company announced a non-brokered private placement of up to 800,000 units of the Company ("July 2020 Units") at a price of CDN \$1.25 per July 2020 Unit for gross proceeds of up to \$759,071 (CDN \$1,000,000), (the "July 2020 Private Placement"). Each July 2020 Unit consists of one common share and one-half of one common share purchase warrant (each whole warrant, a "July 2020 Warrant") with each July 2020 Warrant being exercisable into one common share at an exercise price of \$2.50 for a period of five years from the date of issuance, subject to adjustment upon certain customary events. The expiry date of the July 2020 Warrants can be accelerated by the Company at any time following the date that is 4 month and one day after closing of the July 2020 Private Placement and prior to the expiry date of the July 2020 Warrants if the closing price of the common shares on the TSXV is greater than \$4.00 for any 10 non-consecutive trading days.

On July 15, 2020, the Company completed a first tranche of the July 2020 Private Placement, which consisted of the issuance of 420,938 July 2020 Units for gross proceeds of \$388,778 (CDN \$526,173). On September 25, 2020, the Company completed a second tranche of the July 2020 Private Placement, which consisted of the issuance of 333,558 July 2020 Units for gross proceeds of \$311,248 (CDN \$416,948).

Gross proceeds from the offerings were allocated to the common shares and July 2020 Warrants based on their relative fair values. The fair value of the July 2020 Warrants was determined using Monte Carlo option pricing model with the following assumptions: risk free interest rate of 0.35%, expected life of 5 years and expected volatility of approximately 95%. Issuance costs have been allocated proportionately to common shares and warrants based on respective fair values. The total transaction costs related to July 2020 Private Placement was \$82,484 resulting in \$516,311 and \$101,231 recorded as common shares and July 2020 Warrants net of respective transaction costs.

(b) Share-based compensation

The Company has established the Stock Option Plan and the RSU Plan with the intention of attracting, retaining and motivating employees, officers and directors.

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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 2021, 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 4,226,155 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 December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
	#	#
Balance, opening	541,319	742,101
Granted	3,068,964	26,000
Forfeited	(64,698)	(171,452)
Vested and Shares issued	(638,329)	(54,342)
Balance, ending	2,907,256	542,319

During the year ended December 31, 2021, 638,329 RSUs were delivered for \$1,203,675, which was transferred to common shares from share-based payment reserve (December 31, 2020 – 54,342 RSUs were delivered for \$281,789).

(ii) *Stock options*

Vesting is determined by the Company's Board of Directors at the time of grant. Vesting is contingent upon continuous service/employment through the specific vesting date and have an exercise price as set forth in the option certificate issued in respect of such option and in any event shall not be less than market price of the common shares as of the award date.

The expiry date of an option is fixed by the Board of Directors at the time the particular option is awarded, provided that the expiry date shall be no later than the date that is 10 years following the award date of such option, subject to earlier termination upon the option holder ceasing to be a director, officer, employee or consultant of the Company.

The following table summarizes information about the Company's outstanding stock options as at December 31, 2021 and 2020:

	December 31, 2021		December 31, 2020	
	Number of Options #	Weighted Average Price CDN \$	Number of Options #	Weighted Average Price CDN \$
Options outstanding, opening	333,355	3.30	44,533	28.19
Granted	180,000	1.86	356,422	1.24
Exercised	(48,300)	1.09	(7,000)	1.50
Cancelled	(100,000)	1.83	-	-
Forfeited	(66,781)	7.60	(60,600)	9.46
Options outstanding, ending	298,274	2.43	333,355	3.30

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The following table is a summary of the Company's stock options outstanding as at December 31, 2021:

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 \$
1.00 – 1.90	283,500	6.65	1.44	223,500	1.31
9.50 – 34.00	14,774	1.64	21.35	14,296	21.74
Balance, December 31, 2021	298,274	6.41	2.43	237,796	2.54

The following table is a summary of the Company's stock options outstanding as at December 31, 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 \$
1.00 – 1.50	305,465	5.84	1.25	193,048	1.23
9.50 – 46.00	27,890	2.38	25.68	25,616	26.53
Balance, December 31, 2020	333,355	5.57	3.30	218,664	4.20

(iii) *Share-based compensation expense*

For its RSU Plan and Stock Option Plan, the Company recognized share-based compensation expense of \$1,864,881 for the year ended December 31, 2021 (\$492,677 for the year ended December 31, 2020) with a corresponding amount recognized as share-based payment reserve.

The fair value of the RSUs is determined based upon the Company's stock price on the date of grant. The fair value of stock options granted during the year ended December 31, 2021 was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Year Ended December 31,	
	2021	2020
Dividend yield	0%	0%
Expected volatility	170%	134%
Risk free rate of return	1.08%	0.84%
Forfeiture rate	0%	10%
Expected life	5 years	6.5 years

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(c) Share-based payment reserve

The following is a continuity schedule for the years ended December 31, 2021 and December 31, 2020:

	\$
Balance, December 31, 2019	3,663,400
Shares issued pursuant to settlement of RSUs and Options	(287,739)
Share-based compensation expense	492,677
Balance, December 31, 2020	3,868,338
Shares issued pursuant to settlement of RSUs	(1,203,675)
Shares issued pursuant to settlement of Options	(36,038)
Share-based compensation expense	1,864,881
Balance, December 31, 2021	4,493,506

(d) Warrants

The following table summarizes information about the Company's outstanding warrants as at December 31, 2021 and 2020:

	December 31, 2021		December 31, 2020	
	Number of Warrants	Weighted Average Price	Number of Warrants	Weighted Average Price
	#	CDN \$	#	CDN \$
Balance, opening	3,347,003	8.00	3,031,015	8.50
Warrants component of July 2020 Private Placement	-	-	377,248	2.50
Warrants component of January 2021 Private Placement (Note 10(a))	1,618,803	2.50	-	-
Warrants component of Spring 2021 Private Placement (Note 10(a))	4,223,141	2.50	-	-
Broker Warrants ⁽¹⁾ component of Spring 2021 Private Placement	242,489	1.50	-	-
Broker Warrants ⁽¹⁾ component of October 2021 Private Placement	411,028	1.32	-	-
Warrants expired	(443,660)	25.00	-	-
Broker warrants expired	-	-	(61,260)	17.50
Balance, ending	9,398,804	3.23	3,347,003	8.00

The following is a summary of the warrants outstanding by exercise price as at December 31, 2021:

Number of warrants outstanding	Exercise Price	Expiry Date
Warrants ⁽¹⁾		
283,363	CDN \$7.875	July 6, 2023
324,122	CDN \$11.25	October 30, 2023
1,584,316	CDN \$4.00	August 21, 2024
210,469	CDN \$2.50	July 15, 2025
166,779	CDN \$2.50	September 25, 2025
1,140,138	CDN \$2.50	January 15, 2026
478,665	CDN \$2.50	February 12, 2026
4,223,141	CDN \$2.50	May 14, 2026

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Broker Warrants (Compensation Options)			
	242,489 ⁽²⁾	CDN \$1.50	May 14, 2023
	9,943	CDN \$7.875	July 6, 2023
	411,028	CDN \$1.32	October 26, 2023
	28,941	CDN \$11.25	October 30, 2023
	251,310	CDN \$2.50	August 21, 2024
Waiver Warrants			
	44,100	CDN \$15.00	February 24, 2022

The following is a summary of the warrants outstanding as at December 31, 2020:

Number of warrants outstanding	Exercise Price	Expiry Date	
Warrants ⁽¹⁾			
	443,600	CDN \$25.00	January 9, 2021
	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
Broker Warrants (Compensation Options)			
	9,943	CDN \$7.875	July 6, 2023
	28,941	CDN \$11.25	October 30, 2023
	251,310	CDN \$2.50	August 21, 2024
Waiver Warrants			
	44,100	CDN \$15.00	February 24, 2022

⁽¹⁾ Subject to acceleration in certain circumstances.

⁽²⁾ Convertible into Spring 2021 Units. See Note 10(a)(ii)

11. Related party transactions and balances

The Company transacts with key individuals from management and with its directors who have authority and responsibility to plan, direct and control the activities of the Company. The nature of these dealings was in the form of payments for services rendered in their capacity as employees and as directors of the Company.

The Company's key management personnel 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:

	Year Ended December 31,	
	2021	2020
	\$	\$
Salaries, fees and short-term benefits	695,372	322,997
Share-based benefits	1,691,293	446,881
	2,386,665	769,878

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During the year ended December 31, 2021, the Company did not have any outstanding promissory notes payable. During the year ended December 31, 2020, the Company settled the non-interest bearing promissory notes payable to certain directors of the Company in the amount of \$750,000, adjusted for the effect of foreign exchange rate. The promissory notes were non-interest bearing and repayable within one year. See Note 13.

12. Economic dependence

During the year ended December 31, 2021, the Company derived approximately 94% of its revenue from two customers (December 31, 2020 – 96% from two customers).

13. 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 year ended December 31, 2020, the Company settled \$290,000 of the Promissory Notes with funds from the issuance of common shares pursuant to the March 2020 Private Placement as described in Note 10(a)(i). During year ended December 31, 2020, the Company issued an aggregate of 840,000 common shares to directors of the Company at market price of CDN \$1.25 per common share to settle the remaining \$750,000 Promissory Notes, adjusted for the effect of foreign exchange rate.

14. Government Grant

The Company applied for enrollment in the Paycheck Protection Program (“PPP”) formed under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). On April 24, 2020, the Company received \$776,085 at an interest rate of 1%. On October 9, 2020, the Company applied for forgiveness of the funds received under the PPP. On March 21, 2021, the Company received notice of forgiveness for the full amount of the first grant from the PPP.

On February 19, 2021, the Company applied for enrollment in the 2nd Paycheck Protection Loan Program (the “Second PPP”) formed under the CARES Act. On March 5, 2021, the Company received a new government grant under the Second PPP in the amount of \$739,470. On July 28, 2021, the Company received notice of forgiveness for the full amount of the grant from the Second PPP.

15. Trade and Other Payables

Trade and other payables are comprised of the following:

	December 31, 2021	December 31, 2020
	\$	\$
Trade payables	1,355,749	3,203,598
Other payables	1,031,708	2,015,532
Total	2,387,457	5,219,130

As at December 31, 2021, the amount of other payables is \$1,031,708 (December 31, 2020 - \$2,015,532), which includes \$168,264 (December 31, 2020 - \$1,293,436) related to accrued payroll and bonus and \$142,247 (December 31, 2020 - \$15,474) related to customer return allowance.

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16. Income taxes

A reconciliation between the Company's statutory and effective tax rate is as follows:

	2021	2020
	\$	\$
Net loss before income tax	(5,785,454)	(6,157,634)
Combined Federal and Provincial income tax rate	26.50%	26.50%
Recovery based on statutory tax rate	(1,533,145)	(1,631,773)
Increase (decrease) in tax expense		
Permanent differences	513,442	133,409
Effect of different tax rates in foreign jurisdictions	(59,386)	(78,751)
Change in temporary differences not recognized	(823,284)	2,081,440
R&D credit	(61,396)	-
Adjustment related to prior periods	1,585,012	231,897
Other	(97,944)	34,513
Debt forgiveness	207,541	-
Deductible equity issuance costs	(196,332)	-
Foreign exchange translation	465,492	(770,735)
Income tax expense (recovery)	-	-

Deferred tax assets (liabilities) recognized in the Consolidated Statements of Financial Position:

	2021	2020
	\$	\$
Unused tax losses	172,105	109,181
Convertible debentures	(104,864)	(85,381)
Right-of-use asset	(67,241)	(23,800)
Deferred tax assets	-	-

Deferred tax assets (liabilities) not recognized in the Consolidated Statements of Financial Position:

	2021	2020
	\$	\$
Unused tax losses	33,984,296	34,267,776
Undeducted SR&ED expenses	5,961,232	5,961,232
Investment tax credits carried forward	4,871,175	5,152,216
Tangible and intangible assets	636,740	623,019
Share issuance costs and financing fees	367,110	381,254
Convertible debentures	(104,864)	(85,381)
Right-of-use asset	(67,241)	2,729
Provisions	243,540	308,394
Other	111,729	24,552
Deferred tax assets	45,961,494	46,635,791

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Non-capital losses

As at December 31, 2021, the Company has non-capital losses for carry forward to reduce future years' income for tax purposes which, if unused, expire as follows:

	Canada	USA
	\$	\$
2026	2,877,000	-
2027	3,757,000	-
2028	4,371,000	-
2029	4,371,000	-
2030	2,715,000	-
2031	5,514,000	-
2032	6,394,000	321,474
2033	9,699,000	42,077
2034	7,535,000	82,447
2035	11,733,000	232,197
2036	11,612,000	-
2037	9,191,000	153,048
2038	13,740,000	-
2039	4,350,000	-
2040	1,954,000	-
2041	3,253,000	-
Indefinitely	-	2,608,497
	103,066,000	3,439,740

The Company has Irish loss carry forwards of \$46,083,696 which do not expire. These losses can be carried forward indefinitely for offset against future profits of the same trade.

Undeducted scientific research and experimental development expenses

As at December 31, 2021, the Company has unused scientific research and experimental development expenditures ("SR&ED") available in Canada for carry forward to reduce future years' income for tax purposes of \$22,495,216 (December 31, 2020 - \$22,495,216). These undeducted expenses have no expiry date.

Available scientific research and experimental development investment tax credits

The Company has non-refundable scientific research and experimental development investment tax credits in Ireland and Canada that can be applied against income taxes payable in each respective country. The Irish ITC of \$2,708,120 (December 31, 2020 - \$2,989,161) do not expire.

The unused Canadian ITC of \$2,943,000 expire as follows:

	Canada
	\$
2024	27,000
2025	274,000
2026	764,000
2027	686,000
2028	346,000
2029	198,000
2030	504,000
2031	108,000
2032	36,000
	2,943,000

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17. Financial instruments

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:

Fair value

The fair value of cash, trade and other receivables, trade and other payables, lease obligation on right-of-use assets and also approximate their carrying values due to their short-term nature. The fair value of convertible debentures as at December 31, 2020 approximates the carrying value as the interest rate approximates current market rates.

	December 31, 2021		December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	\$	\$	\$	\$
Financial assets				
Cash	5,944,155	5,944,155	35,253	35,253
Trade and other receivables	2,673,175	2,673,175	89,224	89,224
Financial liabilities				
Trade and other payables	2,387,457	2,387,457	5,219,130	5,219,130
Lease obligation on right-of-use assets	331,758	331,758	110,533	110,533
Convertible debentures	5,947,307	5,947,307	9,827,191	9,827,191

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.

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. The balance sheet includes the following amounts expressed in United States dollars with respect to financial assets and liabilities for which cash flows are denominated in the following foreign currencies:

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	December 31, 2021	December 31, 2020
	\$	\$
Cash		
Canadian dollars	5,618,581	2,587
Euro	527	1,594
Chinese Yuan	3,953	2,684
Trade and other receivables		
Canadian dollars	-	-
Euro	-	-
Investment tax credits receivable		
Euro	11,109	11,919
Accounts payable and accrued charges		
Canadian dollars	156,122	502,092
Euro	28,925	42,231
British pound	6,530	8,064
Chinese Yuan	21,646	15,691
Taiwan Dollar	-	-

As at December 31, 2021, a change of foreign currency exchange rate on Canadian dollars would have resulted in a gain or loss of \$545,307 which could be significant to the Company's operating results. The effect of currency exchange rate for the other currencies was not significant.

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 Convertible Debentures arises from fluctuations in interest rates and the degree of volatility of these rates. The Convertible Debentures provides for a fixed annual rate of 7% and hence no interest rate risk. The Company does not use derivative financial instruments to reduce its exposure to interest rate risk.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to trade and other receivables and money held in the Company's bank accounts. The carrying value of these assets represents the maximum credit exposure. The Company mitigates this risk by monitoring the credit worthiness of its customers and only dealing with creditworthy counterparties. At December 31, 2021, two customers represented 90% of the Company's trade and other receivables. At December 31, 2020, two customers whose trade receivables exceeded 10% of the total trade and other receivables balance represented a combined 96% of the Company's trade and other receivables.

The Company believes that the trade receivables balance is fully collectable. As of the approval date as it relates to December 31, 2021, \$466,913 (2020 - \$nil) in trade receivables remains outstanding. The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The loss allowance is based on the Company's historical collection and loss experience and incorporates forward-looking factors, where appropriate. The provision matrix below shows the expected credit loss rate at each aging category of trade receivables.

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	Current	1-30	31-60	60-90	>90	Total
Trade receivables outstanding at December 31, 2021	\$2,516,655	\$-	\$-	\$156,520	\$-	\$2,673,175
Expected loss rate	0%	0%	0%	0%	0%	0%
Loss allowance provision	\$-	\$-	\$-	\$-	\$-	\$-

	Current	1-30	31-60	60-90	>90	Total
Trade receivables outstanding at December 31, 2020	\$89,224	\$-	\$-	\$-	\$-	\$89,224
Expected loss rate	0%	0%	0%	0%	0%	0%
Loss allowance provision	\$-	\$-	\$-	\$-	\$-	\$-

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.

The following are the contractual maturities of the undiscounted financial liabilities as at December 31, 2021:

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	\$	\$	\$	\$	\$
Trade and other payables	2,387,457	2,387,457	-	-	-
Convertible debentures	6,534,099	6,534,099	-	-	-
Lease obligation on right-of-use assets	352,800	264,000	88,800	-	-
	9,274,356	9,185,556	88,800	-	-

The following are the contractual maturities of the undiscounted financial liabilities as at December 31, 2020:

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	\$	\$	\$	\$	\$
Trade and other payables	5,219,130	5,219,130	-	-	-
Convertible debentures	11,857,807	802,558	11,055,249	-	-
Lease obligation on right-of-use assets	112,556	112,556	-	-	-
	17,189,493	6,134,244	11,055,249	-	-

18. Guarantees

In the normal course of business, the Company enters into agreements that meet the definition of a guarantee. The Company's primary guarantees are as follows:

- The Company has provided indemnities under its lease agreements for the use of its operating facilities. Under the terms of these agreements, the Company agrees to indemnify the counterparties for various items

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Notes to the Consolidated Financial Statements

Years Ended December 31, 2021 and 2020

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including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

- (b) Indemnity has been provided to all directors and officers of the Company for various items including, but not limited to, all costs to settle suits or actions due to association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a director or officer of the Company. The maximum amount of any potential future payment cannot be reasonably estimated.
- (c) In the normal course of business, the Company has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnities may require the Company to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnities prevents the Company from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Company has not made any payments under such or similar indemnities and therefore no amount has been accrued in the Consolidated Statements of Financial Position with respect to these indemnities.

19. 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 9), 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.

20. Segment information

Operating segment

The Company operates in one operating segment, semiconductors. Management assesses performance and makes decisions about allocating resources based on this one business segment.

Geographic information

For the years ended December 31, 2021 and 2020, revenues were derived substantially from customers in Asia.

At December 31, 2021, there were non-current assets, primarily property and equipment, located in the United States of America of \$343,785 and at December 31, 2020, \$297, \$nil, and \$152,648 located in Ireland, China and the United States of America, respectively.