



Spectra7 Microsystems Inc.

Management's Discussion & Analysis

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

November 6, 2023

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This management's discussion and analysis ("MD&A") of financial condition and results of operations of Spectra7 Microsystems Inc. ("Spectra7" or the "Company") was prepared by management as at November 6, 2023. Throughout this MD&A, unless otherwise specified, "Spectra7", "the Company", "we", "us" or "our" refer to Spectra7 Microsystems Inc. and its subsidiaries. This MD&A should be read in conjunction with the audited consolidated financial statements of the Company and notes thereto as at December 31, 2022 (the "Annual Financial Statements") and the unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2023 (the "Interim Financial Statements" and together with the Annual Financial Statements, the "Financial Statements"). In preparing this MD&A, we have taken into account information available to us up to November 6, 2023 unless otherwise stated.

The Financial Statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). All amounts are expressed in U.S. dollars unless otherwise noted. Other information contained in this document has also been prepared by management and is consistent with information included in the Financial Statements. You will find the Financial Statements on SEDAR at www.sedarplus.ca.

This MD&A contains commentary from the Company's management regarding the Company's strategy, operating results, financial position and outlook. Management is responsible for the accuracy, integrity, and objectivity of the MD&A, and develops, maintains and supports the necessary systems and controls to provide reasonable assurance as to the accuracy of the comments contained herein.

The Audit Committee and the Board of Directors provide an oversight role with respect to all public financial disclosures by the Company. The Board of Directors approves the Financial Statements and MD&A after the completion of its review and recommendation for approval by the Audit Committee, which meets periodically to review all financial reports, prior to filing.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking information and statements relating, but not limited to, the Company's future financial position and results of operations, strategies, plans, objectives, goals, targets, and future developments in the markets where the Company participates or is seeking to participate. Forward-looking information typically contains statements with words such as "consider", "anticipate", "believe", "expect", "plan", "intend", "may", "likely", or similar words suggesting future outcomes or statements regarding an outlook, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Readers should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results, performance or achievements of the Company to differ materially from those suggested by the forward-looking information and statements, some of which may be beyond the control of management.

Although the Company believes that the expectations, estimates, and projections reflected in such forward-looking information and statements are reasonable, such forward-looking information and statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information and statements. On this basis, readers are cautioned not to place undue reliance on such forward looking information and statements.

Factors which could cause actual results to differ materially from current expectations include, but are not limited to:

- the adverse impact of COVID-19 on our staffing, revenue, operations, manufacturing supply chain, project development and customer demand;
- availability of adequate product supplies and third party manufacturing in an environment of semiconductor industry supply shortages;
- our reliance on a limited number of third party manufacturers;

- the degree of competition in the business areas in which we operate;
- timing when North America datacenter operators adopt and purchase equipment that could utilize our new products;
- our ability to secure orders from a limited number of customers;
- the absence of long-term supply contracts with any of the Company's third-party vendors and potential disruption in supply of products or materials;
- our ability to make the substantial research and development investments required to remain competitive;
- our ability to charge prices that will result in favorable gross margins;
- our ability to introduce new or enhanced products on a timely basis;
- market demand and penetration of new markets for our products and services;
- our ability to contain and appropriately budget expenses, due to our limited operating history;
- the length of the sales cycle required to establish design wins and bring design wins to production;
- reliance on distributors;
- our ability to deliver our products in the correct product mix required by our customers and ability to control order and shipment uncertainties;
- the substantial quarterly and annual fluctuations in our operating results;
- our dependence on existing members of the senior management team;
- our ability to attract and retain qualified employees and contain payroll costs;
- unforeseen delays, expenses and damage to reputation caused by defects or bugs;
- potential claims of intellectual property infringement;
- our ability to protect our intellectual and intangible properties;
- the use of open source software;
- reliance on third parties to provide services and technology;
- going concern risk;
- impact of negative cash flow from operating activities;
- potential losses to our facilities or distribution system due to catastrophes;
- compliance with various governmental regulations and related costs of compliance;
- cyclicalities in the semiconductor industry;
- conformity of the Company's products to industry standards;
- unanticipated changes in our tax rates;
- fluctuation of share price;
- decline in share price due to the absence of, or negative reports, about the business by securities or industry analysts;
- adverse international economic conditions adversely affect consumer spending;
- general political and economic conditions in the countries in which we operate;
- strain on our resources as a result of the requirements of being a public company;
- litigation risk;
- market price volatility and potential impact on share price;
- our potential need for additional financings in order to meet future capital requirements for our operations;
- our potential to breach certain covenants, representations and warranties in our loan arrangements including our 14% Debentures and 9% Debentures (each as defined below);
- our ability to repay our loan arrangements including our 14% Debentures and 9% Debentures;
- our ability to declare dividends;
- our ability to meet significant research and development milestones; and
- our ability to enter into agreements with CRX Consortium members or the adoption of interconnects that use the Company's active copper cable technology.

We caution that this list is not exhaustive of all possible factors. For a detailed description of risk factors associated with the Company, refer to the "Risks and Uncertainties" section of the Company's management's discussion and analysis for the year ended December 31, 2022 (the "Annual MD&A"), filed on April 25, 2023 which is available on SEDAR at www.sedarplus.ca.

The forward-looking information and statements in this MD&A are, unless otherwise indicated, stated as of the date hereof and are presented for the purpose of assisting investors and others in understanding our financial position and results of operations as well as our objectives and strategic priorities, and may not be appropriate for other purposes. The Company does not undertake any obligation to update publicly or to revise any

forward-looking information and statements, whether as a result of new information, future events or otherwise, except as required by law.

OVERVIEW OF THE COMPANY

Background

The Company delivers high performance analog semiconductors at unmatched bandwidth, speed and resolution to enable disruptive industrial design for leading electronics targeting large, high growth markets in data centers, virtual reality (“VR”), augmented reality (“AR”), and other connectivity markets.

The Company was incorporated on October 12, 2010 as a capital pool company named “Chrysalis Capital VIII Corporation” (“Chrysalis”) pursuant to the filing of articles of incorporation under the *Canada Business Corporations Act*. The articles of incorporation of the Company were amended by the filing of articles of amendment dated April 19, 2011 to remove certain provisions. On February 5, 2013, the Company consolidated its common shares (the “common shares”) by a ratio of 3.86364:1 and to change its name to “Spectra7 Microsystems Inc.”. On July 16, 2021, the Company continued its corporate existence from the *Canada Business Corporations Act* to the *Business Corporations Act* (Ontario).

On February 5, 2013, the Company, then named Chrysalis Capital VIII Corporation, completed a reverse takeover transaction whereby Chrysalis acquired all of the issued and outstanding shares of Spectra7 Microsystems Corp. (formerly Fresco Microchip Inc.) (“Fresco”), a company incorporated in Ontario, and Spectra7 Microsystems (Ireland) Limited (formerly RedMere Technology Limited), a company incorporated in Ireland. As a result of such transaction, which constituted the Company’s qualifying transaction under the policies of the TSX Venture Exchange (the “TSXV”), the former shareholders of Fresco acquired control of the Company. From February 19, 2013 until July 22, 2015, the common shares of the Company were listed for trading on the TSXV under the symbol “SEV”. From July 23, 2015 to May 21, 2020, the common shares were listed for trading on the Toronto Stock Exchange (the “TSX”) under the symbol “SEV”. As of May 22, 2020, the common shares were again listed for trading on the TSXV under the symbol “SEV”. On June 21, 2021, the Company’s common shares commenced trading on the OTCQB Venture Market under the symbol “SPVNF”.

The registered office of the Company is located at 181 Bay Street, Suite 1800, Toronto, Ontario Canada, M5J 2T9 and its head office is in San Jose, California. The Company also has a design center in Cork, Ireland and a sales office in Dongguan, China. The Company is currently a reporting issuer in each of the provinces of Canada, excluding Québec.

Products

The Company’s family of products features a patented signal processing technology used in the design of active cables and specialty interconnects which enable longer, thinner and lighter interconnects in data centers, VR, AR, and other connectivity products. The Company holds approximately 55 U.S. issued patents relating to its products.

Data Centers

GaugeChanger™ is an innovative and disruptive silicon technology that allows copper to extend much longer lengths without the cost and power penalty of optics that are used in data centers today. It works equally well at 25 Gbps NRZ, 56 Gbps PAM-4 and 112 Gbps PAM-4 enabling new connector standards of 100, 200, 400, 800 Gbps and 1.6Tbps.

At present, passive copper cables are struggling to meet the high-speed connectivity demands of new data centers. Fiber optics and active electric cables using a digital signal processor (“DSP”) retimer are the primary alternatives for data centers seeking high speed, at lengths longer than a few meters. GaugeChanger™, however, extends the use of copper with interconnects that are as fast and as thin as fiber optics and active electric cables for the top of the rack installation, but at dramatically lower cost and power consumption using the redriver approach. GaugeChanger™ enabled cables have a reach of up to seven meters to allow for top-of-rack and rack-to-rack applications in data centers for 56 Gbps PAM-4 and four meters for 112 Gbps PAM-4 applications.

Virtual Reality (VR)

The Company's next-generation VR products include the VR7050 which the Company believes to be the industry's first chip capable of enabling lightweight, ultra-thin active interconnects for gesture recognition and motion control backhaul. When used in conjunction with Spectra7's VR7100 high speed video chip, the chipset delivers ultra-high bandwidth data, video, audio and power in a unified, ultra-light, super-thin wearable interconnect while achieving the low latency for a truly immersive VR experience.

Augmented Reality (AR)

The Company has also developed AR products that provide similar benefit to the VR products on thinner, shorter 'wearable' interconnects.

AR-Connect™ is an AR interconnect product line that is powered by the Company's patented wearable network signal processing technology. The Company believes its patented AR-Connect™ is the industry's first integrated cable, connector and embedded chipset product line for AR vision systems and wearable computing devices. AR-Connect™ enables AR glasses to connect to a smart phone, proprietary processing device or a desktop GPU/laptop processing unit, with a single unified and ultra-thin link.

DreamWeVR

DreamWeVR is an extensive product line targeted at next generation 4K Ultra-HD and 5K resolution VR and AR platforms for gaming, health care, architecture and business telepresence applications. The product line includes four new chips (VR8181, VR8050, VR8200 and VR8300) featuring SpectraLinear™ technology, new VR-specific connectors and three new head-mounted display ("HMD") interconnect configurations to support high-bandwidth (up to 50Gbps), near-zero latency VR HMDs and AR glasses with reduced weight and complexity.

USB 3.2 consumer interconnects

The Company's active VR8050 and VR8051 chips are the industry's first for ultra-thin implementations of USB 3.2 consumer interconnects, reducing the conductor cross section by up to 90% compared to passive cable implementations. Applications for this interconnect implemented with the new Type-C connector include ultra-thin laptops, tablets, mobile devices, solid state disks and wearable computing devices. The resulting ultra-thin cable enabled by this new Spectra7 technology allows the cable to transfer data at supercomputer speeds (up to 10 times faster) with a plug shell or over-mold and cable strain relief dimension that is thinner than the mobile device itself, a critical dimension when implementing Type-C connectors in tablets and smart phones, and up to 90% lighter than passive cable conductors that would need to be much larger in diameter.

Overall Financial Performance

Net loss for the nine months ended September 30, 2023 was \$3.9 million, compared to a net loss of \$5.8 million in the same period in the prior year. Revenue for the nine months ended September 30, 2023 increased by 15%, compared to the same periods in the prior year. The increased revenue was driven primarily by the ramping product demand on our DreamWeVR AR/VR products.

Gross margin percentage for the nine months ended September 30, 2023 was 59%, an increase of approximately 13% from the same period in 2022, driven by the easing of supply in 2023 where the Company did not incur premium charges and fees to compete for supply as in 2022. Expenditures during the nine months ended September 30, 2023 were approximately \$9.5 million, representing a decrease of 2% from the previous reporting period, due to the management's continued cost control in general and administration expenses and a decrease in stock-based compensation expense.

Impact of COVID-19 outbreak

The COVID-19 pandemic has negatively impacted the Company and its impact on the data center programs is uncertain. While demand for the Company's new data center products remains strong, Spectra7 continues to experience significant customer disruptions, logistics and supply chain challenges caused by the associated shutdowns due to COVID-19 that are expected to continue to impact overall revenues in the near term.

We rely on third-party suppliers and manufacturers. Currently, the Company's silicon products are manufactured

at foundries by companies in Taiwan and the United States, and are packaged and tested in the U.S. and Taiwan. PCBs for certain active cable products are manufactured by a corporation in Hong Kong, China. The Company also uses third-party contractors for assembly of active cable products including contractors in Taiwan. The pandemic has resulted in the extended shutdown of certain businesses in certain jurisdictions, which have resulted in disruptions or delays to our supply chain. These include disruptions from the temporary closure of third-party supplier and manufacturer facilities, interruptions in product supply or restrictions on the export or shipment of our products. As a result of COVID-19, we have been unable to satisfy certain customer orders on a timely basis, with some customers experiencing delays in receiving our products. There is uncertainty around the duration and breadth of the ongoing COVID-19 pandemic, and therefore the ultimate impact on our business, financial condition and operating results cannot be reasonably estimated at this time. The continued spread of COVID-19 may also impact customer demand, the availability of key components sourced from certain jurisdictions, logistics flows and the availability of other resources to support critical operations in the Asia Pacific region.

The Company may incur expenses or delays relating to such events outside of our control, which could have a material adverse impact on our business, operating results and financial condition. The future impact of the pandemic is uncertain and cannot be predicted, and there is no assurance that the pandemic will not have a material adverse impact on the future results of the Company. The extent of the impact will depend on future developments, including actions taken to contain COVID-19.

Key Customers

During the three and nine months ended September 30, 2023, the Company derived approximately 100% of its revenue from two customers, and 100% from three customers, respectively (three and nine month periods ended September 30, 2022 – 100% and 98% from two customers, respectively), one of which is a distributor to multiple end customers.

Selected Financial Information

The table below sets forth certain key financial results for the three and nine months ended September 30, 2023 and 2022.

	Three Months Ended September 30, <i>(In thousands, except for loss per share)</i>				Nine Months Ended September 30, <i>(In thousands, except for loss per share)</i>			
	2023	2022	Change		2023	2022	Change	
	\$	\$	\$	%	\$	\$	\$	%
Revenue	3,154	2,680	474	18%	9,555	8,296	1,259	15%
Cost of sales	1,568	1,205	363	30%	3,950	4,401	(451)	(10%)
Gross profit	1,586	1,475	111	8%	5,605	3,895	1,710	44%
Expenses and Other Income	3,086	2,936	150	5%	9,469	9,706	(237)	(2%)
Net loss	(1,500)	(1,461)	(39)	3%	(3,864)	(5,810)	1,946	(33%)
Other comprehensive loss	-	85	(85)	(100%)	(1)	56	(57)	(102%)
Total comprehensive loss	(1,500)	(1,376)	(124)	9%	(3,865)	(5,754)	1,889	(33%)
Basic and diluted loss per share	(0.04)	(0.04)			(0.10)	(0.17)		
Weighted average number of shares outstanding	39,827	33,636			38,205	33,392		

	As at			
	(In thousands)			
	September 30, 2023	December 31, 2022	Change	
	\$	\$	\$	%
Total assets	11,979	8,307	3,672	44%
Total liabilities	8,996	7,728	1,268	16%
Equity	2,983	579	2,404	415%
Total liabilities and equity	11,979	8,307	3,672	44%

Revenue and Gross Margin

The table below sets forth the details of revenue and gross margin for the three and nine months ended September 30, 2023 and 2022.

	Three Months Ended September 30, (In thousands)				Nine Months Ended September 30, (In thousands)			
	2023	2022	Change		2023	2022	Change	
	\$	\$	\$	%	\$	\$	\$	%
Revenue	3,154	2,680	474	18%	9,555	8,296	1,259	15%
Cost of sales	1,568	1,205	361	30%	3,950	4,401	(451)	(10%)
Gross profit	1,586	1,475	111	8%	5,605	3,895	1,708	44%
Gross margin %	50%	55%	(5%)		59%	47%	13%	

Revenue for the three and nine months ended September 30, 2023 increased by \$0.5 million and increased by \$1.3 million, respectively, representing an increase of 18% and an increase of 15% over the same periods in the previous year. The increase was driven primarily by the ramping product demand on our DreamWeVR AR/VR products.

Gross margin percentage for the three months ended September 30, 2023 was 50% representing a decrease of approximately 5% from the same period in 2022 due to certain inventory produced with higher costs during wafer shortages. Gross margin percentage for the nine months ended September 30, 2023 was 59% representing an increase of approximately 13% from the same period in 2022 due mainly to the easing of supply chain issues where the Company did not have to pay premiums to secure wafers and supply chain availability as well as additional fees to expedite delivery in order to meet customers' demand for data center and AR/VR products in 2022.

Gross margin is a non-IFRS measure that does not have a standardized meaning prescribed by IFRS. Gross margin provides additional information to readers of the MD&A and Financial Statements to enhance their understanding of the Company's financial performance. Gross margin is comprised of revenue less cost of sales divided by revenue.

Expenses and Other Income

The table below sets forth the details of expenses and other income for the three and nine months ended September 30, 2023 and 2022.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	<i>(In thousands)</i>				<i>(In thousands)</i>			
	2023	2022	Change		2023	2022	Change	
	\$	\$	\$	%	\$	\$	\$	%
Research and development, net of investment tax credits and including amortization of licenses	1,409	985	424	43%	3,598	3,257	341	10%
Sales and marketing	271	224	47	21%	792	647	145	22%
General and administrative	762	635	127	20%	2,535	2,634	(99)	(4%)
Depreciation of right-of-use assets	60	60	-	-	180	234	(54)	(23%)
Depreciation of property and equipment	21	7	14	200%	37	39	(2)	(5%)
Share-based compensation	288	567	(279)	(49%)	1,315	2,067	(752)	(36%)
Interest on lease obligation of right-of-use assets	4	4	-	-	9	17	(8)	(47%)
Accretion expense	411	463	(52)	(11%)	1,170	1,050	120	11%
Other Income	(30)	-	(30)	100%	(42)	(217)	175	(81%)
Foreign exchange gain	(110)	(9)	(101)	1122%	(124)	(20)	(104)	522%
	<u>3,086</u>	<u>2,936</u>	<u>150</u>	<u>5%</u>	<u>9,469</u>	<u>9,706</u>	<u>(237)</u>	<u>(2%)</u>

Research and Development

Research and development expenses consist of salaries and related expenses, design software tool costs, travel, consumable materials used in product development, such as experimental wafers, non-production tape-out costs, technical services costs and contracted technical personnel.

Research and development expenses for the three and nine months ended September 30, 2023 increased by 43% and decreased by 10%, respectively, from the same periods in the previous year due mainly to an increase in headcount and fluctuation in supply and outside service expenditures.

The Company is eligible for Irish refundable Scientific Research and Experimental Development (“SR&ED”) investment tax credits for certain eligible expenditures incurred in Ireland. These tax refunds are netted against the Company’s research and development expenses which have not been significant.

Sales and Marketing

Sales and marketing expenses consist primarily of salaries and related expenses, travel and the cost of trade shows, product promotion, customer technical support and market research.

Sales and marketing expenditures for the three and nine months ended September 30, 2023 increased by 21% and 22%, respectively, from the same periods in previous year. Overall increase was driven by increased headcount to meet customers’ interest in the Company’s products.

General and Administrative

General and administrative expenses relate to finance and administration and consist of salaries and related expenses, legal and audit fees, insurance, expenses related to public reporting and compliance, travel and other corporate expenses.

General and administrative expenses for the three and nine months ended September 30, 2023 increased by 20% and decreased 4% respectively, from the same periods in previous year. The increase in the three month period is due to increased headcount and the overall decrease is mainly due to lower consulting fees related to IT and investor relations services and audit fees, offset by increased personnel expense.

Depreciation of Right-of-use Assets

The Company’s right-of-use assets recognized on adoption of IFRS 16 on January 1, 2019 are amortized over their remaining lease term. Depreciation of right-of-use assets for the three and nine months ended September 30, 2023

compared to the same periods in the previous year remained constant and decreased by \$0.5 million, respectively, with the decrease mainly due to renegotiation of the lease which resulted in a lower depreciation expense.

Depreciation of Property and Equipment

Depreciation of property and equipment for the three and nine months ended September 30, 2023 compared to the same periods in the previous year increased by 200% and decreased by 5% respectively. The higher depreciation is due to a purchase of plant, property, and equipment, and the lower depreciation expense is due to certain property and equipment being fully depreciated.

Share-based Compensation

Share-based compensation recognizes the expense associated with the fair value of stock options and restricted share units granted to employees, officers, directors and consultants which are estimated at the date of grant using the Black Scholes option pricing model and recognized over the period in which the options vest.

Share-based compensation expense for the three and nine months ended September 30, 2023 decreased by \$0.3 million and \$0.8 million, respectively, over the same periods in the previous year due to fewer grants under the Company's restricted share unit plan.

Accretion Expense

Accretion expense represents the change in the stated value of the 14% Debentures and 9% Debentures measured at amortized cost and also includes interest expense for the period. The 14% Debentures and 9% Debentures are carried at amortized cost at an effective interest rate of 25.8% and 65.7%, respectively. Under the effective interest rate method, the accretion becomes higher as maturity approaches.

Foreign Exchange Loss

The loss or gain on foreign exchange is caused by changes in the value of the Canadian dollar, Euro and Chinese Yuan relative to the US dollar, the amount of exposed assets and liabilities such as cash and accounts payable and the difference in the exchange rate at the time expenses in Canadian dollars, Euros and Chinese Yuan are booked and paid. Gains occur when the non-US currency strengthens and the Company holds exposed net assets in those funds or when the non-US currency weakens and the Company holds net exposed liabilities. Conversely, losses occur when the non-US currency weakens and the Company holds net exposed assets in those funds or when the non-US currency strengthens and the Company holds net exposed liabilities.

Net Loss and Other Comprehensive Loss

Net loss for three and nine months ended September 30, 2023 was \$1.5 million and \$3.9 million, respectively, compared to a net loss of \$1.5 million and \$5.8 million, respectively, in the same periods in the prior year. The decrease in net loss is attributed to higher gross profit and lower operating expenses related to supplies and consulting spending as well as lower share-based compensation. The other comprehensive loss relates to the unrealized foreign currency effect of translating the Company, whose functional currency is Canadian dollars, to US dollars for financial reporting purposes.

The operating results of Spectra7 Microsystems Inc. and its wholly owned subsidiary, Si Bai Ke Te (Dongguan) Electronics Trading Co. Ltd, are translated from their functional currencies of Canadian Dollars (CDN) and Chinese Yuan Renminbi (CNY), respectively, into the Company's presentation currency of US dollars at the end of each reporting period, with the difference being recorded in other comprehensive income. During the three and nine months ended September 30, 2023, the Company recorded an other comprehensive loss of \$0.01 million and \$0.01 million, respectively (September 30, 2022: \$0.1 million and \$0.1 million, respectively) related to unrealized foreign currency translation, which arose due to the insignificant change in the USD exchange rate to CDN and CNY.

Loss per Share

Basic loss per share is calculated by dividing the profit and loss attributable to common shares by the weighted average number of common shares outstanding during the period. Diluted earnings and loss per share is calculated by adjusting the earnings and number of common shares for the effects of dilutive options and other potentially dilutive securities. The weighted average number of common shares used as the denominator in calculating diluted loss per common share excludes un-issued common shares related to warrants, restricted share units and employee stock options, as they are anti-dilutive.

Basic and diluted loss per share for the three and nine months ended September 30, 2023 was \$0.04 and \$0.10, respectively, compared to \$0.04 and \$0.17, respectively, for the three and nine months ended September 30, 2022.

Summary of Quarterly Data

The table below sets forth selected financial data for the most recent eight quarters ended September 30, 2023.

(in thousands, except per share)

	2021		2022			2023		
	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	June 30	Sep 30
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	2,604	2,084	3,532	2,680	2,998	3,134	3,266	3,154
Cost of sales	1,089	1,191	2,005	1,205	1,236	1,172	1,211	1,568
Gross profit	1,515	893	1,527	1,475	1,762	1,963	2,056	1,586
Expenses	2,372	3,655	3,114	2,936	3,210	3,053	3,330	3,086
Other Income	-	-	217	-	-	-	-	-
Income tax recovery	-	-	-	-	(216)	-	-	-
Net loss	(857)	(2,762)	(1,587)	(1,461)	(1,232)	(1,090)	(1,275)	(1,500)
Other comprehensive (loss) gain	(245)	19	(48)	85	630	-	(1)	-
Total comprehensive loss	(1,102)	(2,743)	(1,635)	(1,376)	(602)	(1,090)	(1,276)	(1,500)
Loss per share - Basic and Dilutive	(0.04)	(0.08)	(0.05)	(0.04)	(0.04)	(0.03)	(0.03)	(0.04)
Shares - Basic and Dilutive	29,471	33,082	33,452	33,636	33,676	34,907	39,827	39,827

Revenues in the semiconductor industry are subject to seasonality driven by purchasing cycles and manufacturers' unique product development cycles.

Historically, the Company's operating results have fluctuated on a quarterly basis and management believes they will continue to fluctuate. If anticipated sales and shipments in any quarter do not occur as and when expected, expenses and inventory levels can be disproportionately high and operating results for that quarter and future quarters may be adversely affected. In addition, because of historical variations in the operating results, the limited operating history of the Company and the rapid evolving nature of the business, period to period comparisons of the Company's operating results, including gross margin and operating expenses as a percentage of total revenue, are not necessarily meaningful and should not be relied upon as indication of future performance.

Non-GAAP Measures

In addition to IFRS reporting, the Company provides non-GAAP financial measures excluding the income statement effects of share-based compensation, interest, depreciation and taxes. These non-GAAP measures help analyze the Company's financial results, establish budgets and operating goals for managing its business and to evaluate performance. The Company also believes that these non-GAAP financial measures provide an additional tool for investors to use in comparing our core business and results of operations over multiple periods with other companies in the industry, many of which present similar non-GAAP financial measures to investors. However, the non-GAAP financial measures presented may not be comparable to similarly titled measures reported by other companies due to differences in the way that these measures are calculated. The non-GAAP financial measures presented should not be considered as the sole measure of the Company's performance and should not be considered in isolation from, or a substitute for, comparable financial measures calculated in accordance with IFRS.

(i) Non-IFRS Operating Expenses

Non-IFRS operating expenses is a non-GAAP measure which includes research and development, sales and marketing, general and administrative expenses and depreciation and amortization for capital equipment and right-of-use assets and excludes share-based compensation expense, non-recurring termination costs, interest and related financing costs, change in fair value of warrant liabilities, foreign exchange gain/loss and gain/loss from property and equipment disposal.

Below is a reconciliation of total IFRS expenses to non-IFRS operating expenses:

	<i>in thousands</i>								
	2021		2022				2023		
	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Total expenses - IFRS	3,395	2,372	3,655	3,331	2,936	3,210	3,053	3,330	3,086
Share-based compensation	767	957	853	646	567	469	541	486	288
Interest on lease obligation of right-of-use assets	9	8	7	5	4	3	1	4	4
Accretion expense	574	4	355	389	463	425	370	389	411
Other income	-	-	-	(12)	-	-	-	(12)	(30)
Foreign exchange gain	3	(81)	(45)	57	(9)	354	(72)	57	(110)
Extinguishment of original convertible debt	-	(379)	-	-	-	-	-	-	-
Non-IFRS operating expenses	2,042	1,864	2,485	2,246	1,911	1,959	2,212	2,407	2,523

	<i>in thousands</i>								
	2021		2022				2023		
	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Research and development, net of investment tax credits and including amortization of licenses	1,006	1,126	1,115	1,158	985	928	995	1,195	1,409
Sales and marketing	234	99	165	258	224	280	269	252	271
General and administrative	718	559	1,124	875	635	684	881	891	762
Depreciation of right-of-use assets	60	60	60	113	60	60	60	60	60
Depreciation of property and equipment	24	20	21	10	7	8	8	8	21
Non-IFRS operating expenses	2,042	1,864	2,485	2,414	1,911	1,959	2,212	2,407	2,523

(ii) EBITDA

EBITDA or earnings before interest, tax, depreciation, and amortization is a non-GAAP measure. EBITDA excludes share-based compensation, amortization, depreciation, interest, and tax expenses.

Below is a reconciliation of net loss to EBITDA:

in thousands

	2021		2022				2023		
	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Net loss	(2,495)	(858)	(2,762)	(1,586)	(1,461)	(1,231)	(1,090)	(1,275)	(1,500)
Depreciation of right-of-use assets	60	60	60	113	60	60	60	60	60
Depreciation of property and equipment	24	24	21	10	7	8	8	8	21
Depreciation expense - COGS	13	13	7	18	31	35	35	30	31
Amortization - intangible assets	104	104	162	145	137	55	76	105	90
Share-based compensation	767	957	853	646	567	469	541	486	288
Interest on lease obligation of right-of-use assets	9	8	7	5	4	3	1	4	4
Accretion expense	574	4	355	232	463	425	370	389	411
Other income	-	-	-	-	-	-	-	(12)	(30)
Foreign Tax	-	-	-	-	-	(216)	-	-	-
Foreign exchange gain	3	(81)	(45)	34	(9)	354	(72)	57	(110)
Extinguishment of original convertible debt	-	(379)	-	-	-	-	-	-	-
Other income	-	-	-	(217)	-	-	-	-	-
EBITDA	(940)	(147)	(1,342)	(600)	(201)	(38)	(70)	(148)	(734)

Issued and Outstanding Share Capital

The Company's authorized capital consists of an unlimited number of common shares. 39,827,304 common shares were issued and outstanding as of September 30, 2023 and as of the date of this MD&A.

Stock Options and Restricted Share Units

At the annual and special meeting of shareholders held in June 2023, the shareholders approved amendments to both the Company's stock option plan ("Stock Option Plan") and the restricted share unit plan (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 restricted share units ("RSUs"), shall not exceed 7,965,460 common shares, representing 20% of the issued and outstanding common shares as of June 14, 2023.

As at September 30, 2023 and as of the date of this MD&A, 5,570,555 RSUs and options to purchase up to an aggregate of 255,300 common shares were outstanding.

Warrants

As of the date of this MD&A, the Company has outstanding warrants to purchase common shares or units:

Expiry Date	Number of warrants outstanding	Exercise Price
July 26, 2024	118,055	CDN \$1.02
August 21, 2024	1,584,316	CDN \$4.00
August 21, 2024	251,310	CDN \$2.50
August 25, 2024	283,548	CDN \$1.02
July 15, 2025	210,469	CDN \$2.50
September 14, 2025	4,364,788	CDN \$0.715
September 14, 2025	184,173	CDN \$0.65
September 25, 2025	166,779	CDN \$2.50
January 15, 2026	1,140,138	CDN \$2.50
February 12, 2026	478,665	CDN \$2.50
May 14, 2026	4,223,141	CDN \$2.50
March 15, 2028	5,990,000	CDN \$1.18
March 15, 2028	229,504	CDN \$1.10
Total	19,224,886	

Convertible Debt

On July 26, 2022, the Company announced a non-brokered private placement (the "2022 Debenture Offering") of 14% convertible unsecured debentures (the "14% Debentures") and completed the first tranche of the 2022 Debenture Offering through the issuance of \$2,940,739 (CDN \$3,809,000) principal amount of 14% Debentures for gross proceeds of \$2,881,924 (CDN \$3,732,820). On August 25, 2022, the Company entered into a first supplemental convertible debenture indenture to increase the size of the 2022 Debenture Offering and completed the second tranche of the 2022 Debenture Offering through the issuance of \$3,927,162 (CDN \$5,064,000) principal amount of 14% Debentures for gross proceeds of \$3,848,619 (CDN \$4,962,720). In aggregate, the 2022 Debenture Offering consisted of the issuance of \$6,867,901 (CDN \$8,873,000) principal amount of 14% Debentures for gross proceeds of \$6,730,543 (CDN \$8,695,540). Proceeds from the 2022 Debenture Offering were primarily used to repay the Company's 7.0% senior unsecured convertible debentures.

Each CDN \$1,000 principal amount of 14% Debentures was sold at a subscription price of CDN \$980. The 14% Debentures mature on December 31, 2024 and the principal amount is convertible into common shares at the option of the holder at any time prior to the close of business on the last business day immediately preceding maturity, at a conversion price of CDN \$1.02 per common share, subject to adjustment upon certain customary events. Holders converting their 14% Debentures will receive accrued and unpaid interest thereon for the period from and including the date of the latest interest payment date to, and including, the date of conversion. In connection with the 2022 Debenture Offering, the Company paid \$387,761 (CDN \$500,968) in finder's fees and issued an aggregate of 401,603 finder's warrants, with each finder's warrant entitling the holder thereof to purchase one common share at a price of \$1.02 for a period of two years from the date of issuance.

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

The 9% Debentures mature on September 14, 2025 and the principal amount is convertible into common shares at the option of the holder at any time prior to the close of business on the last business day immediately preceding maturity, at a conversion price of CDN \$0.65 per common share, subject to adjustment upon certain customary events. Holders converting their 9% Debentures will receive accrued and unpaid interest thereon for the period from and including the date of the latest interest payment date to, and including, the date of conversion. Provided that the closing price of the common shares on the principal stock exchange on which the common shares trade is equal to or greater than 200% of the conversion price for any 10 consecutive trading days, then at any time within 30 days after such tenth consecutive trading day, the Company shall have the right, but not the obligation, to force the conversion of the principal amount of the 9% Debentures into common shares at the conversion price in connection with a listing of the common shares on a recognized stock exchange in the United States or a change of control of the Company.

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

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

As of the date of this MD&A, CDN \$8,873,000 principal amount of 14% Debentures and CDN \$2,838,000 principal amount of 9% Debentures remain outstanding.

Equity Financings

On March 15, 2023, the Company completed a brokered private placement (the "March 2023 Private Placement") of 5,990,000 units (the "March 2023 Units") at a price of CDN \$1.00 per March 2023 Unit for aggregate gross proceeds of \$4,342,750 (CDN \$5,990,000). Each March 2023 Unit consists of one common share and one

common share purchase warrant (each, a "March 2023 Warrant") with each March 2023 Warrant being exercisable into one common share at an exercise price of CDN \$1.18 until March 15, 2028, subject to adjustment upon certain customary events. The expiry date of the March 2023 Warrants can be accelerated by the Company to the date that is thirty (30) days following the delivery of an acceleration notice to the holders of the March 2023 Warrants if, at any time following the closing date of the March 2023 Private Placement, the closing price of the common shares is greater than CDN \$4.00 for a period of 10 non-consecutive trading days on the TSXV.

In connection with the March 2023 Private Placement, the Company paid a commission of \$291,183 (CDN \$401,632) and issued 229,504 broker warrants, with each broker warrant being exercisable into one common share at a price of CDN \$1.10 for the period commencing on the date that is six months after the closing date until the fifth anniversary of the closing date.

Liquidity and Capital Resources

Historically, the Company has funded its operations from the sale of equity securities and from debt financing.

The Company's objectives are to grow revenue by expanding its product lines and entering new markets, to finance investment in research and development and to ensure that capital resources are readily available to meet obligations as they become due. Liquidity risk arises when the Company is challenged to fund its on-going operations through working capital or either the sale of equity or bank loans.

The Company may face challenges in generating sufficient amounts of cash and cash equivalents in the short-term and potentially beyond due to such factors as:

- challenges in the supply chain whereby lead times to secure components can run between 8-20 weeks and often require the Company to prepay or make deposits to secure the components;
- delays in the development of new products which can delay market entry dates;
- acceptance of new products in the market and sales volatility as a result of transitions to new product lines;
- lower than expected adoption of the products of our end customers in newer markets could impact the orders received by the Company and its revenue outlook;
- payments of accrued interest due on the conversions by the holders of 14% Debentures and 9% Debentures to common shares; and
- repayment of outstanding 14% Debentures due on December 31, 2024 and 9% Debentures due on September 14, 2025.

The following table summarizes the working capital and cash as at September 30, 2023 and December 31, 2022:

	As at (In thousands)			
	September 30, 2023	December 31, 2022	Change	
	\$	\$	\$	%
Current assets	10,625	7,748	2,877	37%
Current liabilities	2,359	2,088	271	13%
Working capital	8,266	5,660	2,606	46%
Cash	1,934	772	1,162	151%

As at September 30, 2023, the Company had a working capital of \$8.3 million, compared to a working capital of \$5.7 million as at December 31, 2022 mainly due to the completion of the March 2023 Private Placement and the September 2023 Private Placement.

The Company is dependent on growth in revenue in the next year to fund future operations. Should expected revenues not materialize, the Company may require further sale of debt or equity securities, additional bank financing or other sources of funds in order to meet its obligations. See the section "Risks Factors" section of the Company's Annual MD&A.

The Company is actively considering different financing options to provide additional capital for the Company to meet its business objectives. Although the Company has, in the past, been successful in obtaining financing including the March 2023 Private Placement which raised \$4.3 million (CDN \$6.0 million) and the September 2023 Private Placement which raised \$2.0 million (CDN \$2.8 million), there are inherent risks related to the Company's ability to raise capital in the future and there is no assurance that the Company will be able to continue to do so in the future on similar terms as past financings, or at all.

The following table summarizes the cash inflows and outflows by activity for the periods indicated:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	<i>(in thousands)</i>				<i>(in thousands)</i>			
	2023	2022	Change		2023	2022	Change	
	\$	\$	\$	%	\$	\$	\$	%
Cash generated by (used in)								
Operating activities	(1,159)	(1,679)	520	(31%)	(3,139)	(4,852)	1,713	(35%)
Financing activities	1,740	15	1,725	11394%	5,492	(101)	5,593	(5537%)
Investing activities	(999)	20	(1,019)	(5111%)	(1,188)	(249)	(939)	377%
Effect of exchange rate change	(294)	(1)	(293)	35460%	(3)	(35)	32	(91%)
Increase (decrease) in cash	(713)	(1,645)	933	(57%)	1,162	(5,236)	6,398	(122%)

Operating Activities

Cash used in operating activities for the three and nine months ended September 30, 2023 of \$1.2 million and \$3.1 million, respectively, compared to the same periods in 2022 of \$1.7 million and \$4.9 million, respectively, decreased by \$0.5 million and \$1.7 million respectively, mainly to due a positive non-cash working capital offset by interest expense payments. Without external sources of financing, the viability of the Company as an operating business is dependent on its ability to generate positive cash flows from operating activities in the short and long-term.

Financing Activities

Net cash flow from financing activities increased by \$1.7 million and \$5.6 million during the three and nine months ended September 30, 2023, respectively, compared to the same periods in 2022. The increase for the nine months ended September 30, 2023 is a result of the cash received from the March 2023 Private Placement and September 2023 Private Placement.

Investing Activities

Cash used in investing activities in the three and nine months ended September 30, 2023 compared to the same periods in 2022 decreased by \$1.0 million and \$0.9 million, respectively, due to lower equipment purchases.

Off-Balance Sheet Arrangements

The Company currently has no off-balance sheet arrangements.

Transactions Between Related Parties

The Company transacts with key individuals from management and 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 consists of the Board of Directors and current and former members of the executive team of the Company.

Key management personnel compensation consists of the following:

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

Insiders of the Company purchased an aggregated of \$2,037,000 principal amount of 14% Debentures pursuant to the 2022 Debenture Offering, 314 September 2023 Units pursuant to the September 2023 Private Placement, and 404,800 March 2023 Units, each of which constituted a “related party transaction” pursuant to Multilateral Instrument 61-101 Protection of Minority Security Holders in Special Transactions (“MI 61-101”). The Company relied on exemptions from the formal valuation and minority shareholder approval requirements of MI 61-101, as neither the fair market value of the 14% Debentures, September 2023 Units or March 2023 Units purchased by insiders, nor the consideration paid, exceeded 25% of the Company’s market capitalization at the time of closing the applicable transaction.

Critical Accounting Estimates

The Company’s significant accounting policies and accounting estimates under IFRS are contained in the Financial Statements (see Note 3 to the Annual Financial Statements). Certain of these policies involve critical accounting estimates as they require us to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

Changes in Accounting Policies

The Financial Statements are prepared in accordance with IFRS. There were no changes in accounting policies for the three and nine months ended September 30, 2023 and no adoption in new accounting standards resulting in significant impact to the financials.

Financial Instruments and Risk Management

The Company may be exposed to risks of varying degrees of significance that affect its ability to achieve its strategic objectives. The main objectives of the Company’s risk processes are to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed to are as follows:

Foreign currency risk

The Company's revenues and cost of sales are denominated in United States dollars. The Company incurs expenses in United States dollars, Euros, Canadian dollars and Chinese Yuan. The Company has historically raised capital denominated in Canadian dollars. The Company is therefore exposed to gains or losses due to fluctuations in foreign currency exchange rates. Management actively monitors the movement in foreign exchange rates and their potential impact on the Company's financial results but does not actively hedge its foreign currency risk.

Interest rate 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 14% Debentures and 9% Debentures arises from fluctuations in interest rates and the degree of volatility of these rates. The 14% Debentures and 9% Debentures provide for an annual rate of 14% and 9%, respectively. 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 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 Company mitigates this risk by monitoring the credit worthiness of its customers and only dealing with creditworthy counterparties.

Liquidity risk

The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash, managing cash from operations and if required through financing activities.

Fair value

The fair value of cash and cash equivalents, trade and other receivables, investment tax credits, trade and other payables, obligations under finance lease, lease obligations, promissory notes to related parties, and license liabilities approximate their carrying values due to their immediate or short-term maturity.

Internal Control over Financial Reporting

Internal control over financial reporting ("ICFR") is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable IFRS. Internal control over financial reporting should include those policies and procedures that establish the following:

- maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and dispositions of assets;
- reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable IFRS;
- receipts and expenditures are only being made in accordance with authorizations of management or the Board of Directors; and
- reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial instruments.

The Company's management, with the participation of the CEO and CFO, assessed the effectiveness of the Company's internal controls over financial reporting and concluded that as at December 31, 2022, the Company's internal control over financial reporting was effective.

During the nine months ended September 30, 2023, the Company did not make any significant changes to its internal controls over financial reporting that would have materially affected, or be reasonably likely to materially

affect, its internal controls over financial reporting.

Limitations of Disclosure Controls and Procedures and Internal Control over Financial Reporting

The Company's management, including the CEO and CFO, believe that due to inherent limitations, any disclosure controls and procedures or internal control over financial reporting, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that any design will not succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected. Additionally, management is required to use judgment in evaluating controls and procedures.

Additional Information

Additional information relating to the Company can be found on SEDAR at www.sedarplus.ca.

Approval

The Board of Directors has approved the disclosure contained in this MD&A.