

**MJ INNOVATION CAPITAL CORP.**

**(to be renamed SPARQ Corp.)**



**FILING STATEMENT**

**in respect of the Qualifying Transaction involving**

**SPARQ Systems Inc.**

Dated as at December 23, 2021

All information contained in this Filing Statement with respect to MJ Innovation Capital Corp. (“**MJ**”) was supplied by MJ for inclusion herein.

All information contained in this Filing Statement with respect to SPARQ Systems Inc. (“**SPARQ**”) was supplied by SPARQ for inclusion herein.

*Neither the TSX Venture Exchange Inc. nor any securities regulatory authority has in any way passed upon the merits of the Qualifying Transaction described in this Filing Statement.*

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## GLOSSARY OF DEFINED TERMS

*The following is a glossary of certain general terms used in this Filing Statement, including the summary hereof. Terms and abbreviations used in the financial statements included in, or appended to this Filing Statement are defined separately and the terms and abbreviations defined below are not used therein, except where otherwise indicated. Words importing the singular, where the context requires, include the plural and vice versa and words importing any gender include all genders. Unless otherwise indicated, all currency references are to Canadian dollars.*

“**AC**” means alternating current;

“**Affiliate**” means a Company that is affiliated with another Company as described below:

A Company is an “Affiliate” of another Company if:

- (a) one of them is the subsidiary of the other; or
- (b) each of them is controlled by the same Person.

A Company is “**controlled**” by a Person if:

- (a) voting securities of the company are held, other than by way of security only, by or for the benefit of that Person; and
- (b) the voting securities, if voted, entitle the Person to elect a majority of the directors of the company.

A Person beneficially owns securities that are beneficially owned by:

- (a) a Company controlled by that Person; or
- (b) an Affiliate of that Person or an Affiliate of any Company controlled by that Person;

“**Amalco**” means the OBCA corporation proposed to be named “SPARQ Systems Inc.” to be formed pursuant to the Amalgamation, which will be a direct subsidiary of the Resulting Issuer;

“**Amalgamation**” has the meaning ascribed to such term in “*Summary of Filing Statement – The Qualifying Transaction*”;

“**Amalgamation Agreement**” has the meaning ascribed to such term in “*Summary of Filing Statement – The Qualifying Transaction*”;

“**Articles of Amalgamation**” means articles of amalgamation giving effect to the Amalgamation to be filed with the Director;

“**Associate**” when used to indicate a relationship with a person or Company, means:

- (a) an issuer of which the person or Company beneficially owns or controls, directly or indirectly, voting securities entitling him to more than 10% of the voting rights attached to outstanding securities of the issuer;
- (b) any partner of the person or Company;

- (c) any trust or estate in which the person or Company has a substantial beneficial interest or in respect of which a person or Company serves as trustee or in a similar capacity;
- (d) in the case of a person, a relative of that person, including
  - (i) that person's spouse or child, or
  - (ii) any relative of the person or of his spouse who has the same residence as that person; but
- (e) where the TSXV determines that two persons shall, or shall not, be deemed to be associates with respect to a Member firm, Member corporation or holding Company of a Member corporation, then such determination shall be determinative of their relationships in the application of Rule D of the TSXV with respect to that Member firm, Member corporation or holding company;

**“Audit Committee”** has the meaning ascribed to such term in *“Information Concerning the Resulting Issuer – Audit Committee and Corporate Governance”*;

**“Available Funds”** means the estimated working capital (total current assets less total current liabilities) which will be available to the Resulting Issuer (including the working capital of each of MJ and SPARQ), as at the most recent month end preceding the date of this Filing Statement, after giving effect to the Amalgamation and the QT Brokered Financing;

**“Board”** means the board of directors of MJ or the Resulting Issuer, as the context requires;

**“Class A Shares”** means Class A preferred shares in the capital of SPARQ;

**“Class B Shares”** means Class B preferred shares in the capital of SPARQ;

**“Closing”** means the closing of the Amalgamation, which shall occur on the date shown on the Articles of Amalgamation;

**“Common Share”** means a common share in the capital of MJ or the Resulting Issuer, as the context requires;

**“Company”** unless specifically indicated otherwise, means a corporation, incorporated association or organization, body corporate, partnership, trust, association or other entity other than an individual;

**“Compensation Committee”** has the meaning ascribed to such term in *“Information Concerning the Resulting Issuer – Corporate Governance”*;

**“Completion of the Qualifying Transaction”** means the date the Final Exchange Bulletin is issued by the TSXV;

**“Control Person”** means, any person or Company that holds or is one of a combination of persons or companies that holds a sufficient number of any of the securities of an issuer so as to affect materially the control of that issuer, or that holds more than 20% of the outstanding voting securities of an issuer, except where there is evidence showing that the holder of those securities does not materially affect the control of the issuer;

“**Corporate Governance and Nominating Committee**” has the meaning ascribed to such term in “*Information Concerning the Resulting Issuer – Corporate Governance*”;

“**CPC**” means a corporation:

- (a) that has been incorporated or organized in a jurisdiction in Canada;
- (b) that has filed and obtained a receipt for a preliminary CPC Prospectus from one or more of the securities regulatory authorities in compliance with the CPC Policy; and
- (c) in regard to which the Completion of the Qualifying Transaction has not yet occurred;

“**CPC Escrow Agreement**” means the escrow agreement dated July 12, 2019 between MJ, the Escrow Agent and certain shareholders of MJ;

“**CPC Escrow Shares**” means the securities of MJ held in escrow pursuant to the CPC Escrow Agreement;

“**CPC Policy**” means Policy 2.4 – *Capital Pool Companies* of the TSXV Corporate Finance Manual;

“**CPC Prospectus**” means a prospectus prepared in accordance with TSXV Form 3A – *CPC Prospectus Form*, the CPC Policy and applicable securities laws;

“**Definitive Agreement**” has the meaning ascribed to such term in “*Summary of Filing Statement – The Qualifying Transaction*”;

“**Director**” means the director appointed under the OBCA;

“**DC**” means direct current;

“**Echelon**” or the “**Agent**” has the meaning ascribed to such term in “*Summary of Filing Statement – QT Brokered Financing*”;

“**Escrow Agent**” means TSX Trust Company, in its capacity as escrow agent for the Common Shares to be held in escrow;

“**Filing Statement**” means this Filing Statement, together with all schedules attached hereto and including the summary hereof;

“**Final Exchange Bulletin**” means the TSXV Bulletin which is issued following Closing and the submission of all required documentation and that evidences the final TSXV acceptance of the Qualifying Transaction;

“**Guidelines**” has the meaning ascribed to such term in “*Information Concerning the Resulting Issuer – Corporate Governance*”;

“**IFRS**” means International Financial Reporting Standards;

“**Insider**” if used in relation to an issuer, means:

- (a) a director or senior officer of the issuer;
- (b) a director or senior officer of the company that is an Insider or subsidiary of the issuer;

- (c) a Person that beneficially owns or controls, directly or indirectly, voting shares carrying more than 10% of the voting rights attached to all outstanding voting shares of the issuer; or
- (d) the issuer itself if it holds any of its own securities;

“**IPO Agency Agreement**” means the agency agreement dated July 26, 2019 between MJ and Canaccord Genuity Corp.;

“**IPO Agent’s Warrants**” means non-transferable common share purchase warrants issued in connection with the MJ IPO;

“**Legacy Option Plan**” has the meaning ascribed thereto in “*Part II – Information Concerning SPARQ – Legacy Option Plan*”;

“**Management Bonus**” has the meaning ascribed thereto in “*Part II – Information Concerning SPARQ – Corporate Structure*”;

“**Management Bonus Shares**” means the 18,000,000 SPARQ Common Shares issued in respect of the Management Bonus;

“**OBCA**” means the *Business Corporations Act* (Ontario), including the regulations promulgated thereunder, as amended;

“**MJ**” means MJ Innovation Capital Corp., prior to the completion of the Amalgamation;

“**MJ Consolidation**” means the consolidation approved by the MJ Shareholders on August 4, 2021 pursuant to which the issued and outstanding Common Shares will be consolidated on the basis of 1 post-consolidation Common Share for every 1.25 pre-consolidation Common Shares issued and outstanding immediately prior to Closing;

“**MJ Financial Statements**” means the audited financial statements of MJ for the fiscal year ended June 30, 2021 which is attached to this Filing Statement as Schedule A;

“**MJ IPO**” means the initial public offering of Common Shares by MJ completed on August 9, 2019;

“**MJ MD&A**” means the Management’s Discussion and Analysis of MJ for the fiscal years ended June 30, 2021 and 2020, which are attached to this Filing Statement as Schedule B;

“**MJ Meeting**” means the special meeting of the MJ Shareholders held on August 4, 2021 to approve, among other things, the MJ Meeting Matters;

“**MJ Meeting Matters**” means the following matters approved by MJ Shareholders at the MJ Meeting: (i) a special resolution increasing the size of the Board to five directors; (ii) a special resolution approving the MJ Consolidation; (iii) a special resolution to change the name of MJ in connection with the Qualifying Transaction; (iv) the election of the SPARQ Nominees; (v) an ordinary resolution of disinterested shareholders to approve the removal of the consequences of MJ failing to complete a Qualifying Transaction within 24 months’ of listing on the TSXV; (vi) an ordinary resolution of disinterested shareholders to approve the amendment of CPC Escrow Agreement to reduce the length of the term of the escrow as permitted by Policy 2.4 of the TSXV; (vii) an ordinary resolution approving amendments to the

Stock Option Plan; and (iix) such other matters that may be reasonably required in order to give effect to the Amalgamation as are deemed appropriate by the Board and acceptable to SPARQ, acting reasonably;

“**MJ Shareholders**” has the meaning ascribed to such term in “*Summary of Filing Statement – MJ Meeting*”;

“**MJ Subco**” means 2872217 Ontario Inc., a corporation incorporated under the OBCA and a direct wholly-owned subsidiary of MJ;

“**Non-Arm’s Length Qualifying Transaction**” means a proposed Qualifying Transaction where the same party or parties or their respective Associates or Affiliates are Control Persons in both the CPC and in relation to the Significant Assets which are to be the subject of the proposed Qualifying Transaction;

“**OCM Supply Agreement**” has the meaning ascribed to such term in “*Part II – Information Concerning SPARQ -History*”;

“**person**” means a Company or individual;

“**President’s List**” means a list of subscribers provided by SPARQ to the Agent in the QT Brokered Financing;

“**Pro Forma Financial Statements**” means the unaudited pro forma statement of financial position for the Resulting Issuer as at September 30, 2021 to give effect to the Amalgamation as if it had taken place as of September 30, 2021, which is attached to this Filing Statement as Schedule E;

“**PV**” means photovoltaic;

“**QT Agency Agreement**” means an agency agreement entered into among Echelon Wealth Partners Inc., SPARQ, and MJ with respect to the QT Brokered Financing dated December 22, 2021;

“**QT Brokered Financing**” has the meaning ascribed to such term in “*Summary of Filing Statement – QT Brokered Financing*”;

“**QT Equity Compensation Options**” has the meaning ascribed to such term in “*Summary of Filing Statement – QT Brokered Financing*”;

“**QT Escrow Agreement**” means the TSXV Form 5D Tier 2 Value Security Escrow Agreement to be entered into in connection with the Completion of the Qualifying Transaction between the Resulting Issuer, the Escrow Agent and certain SPARQ shareholders, as more particularly described in this Filing Statement;

“**QT Subscription Receipts**” means the subscription receipts of SPARQ issued pursuant to the QT Brokered Financing at an issue price of \$0.50 per subscription receipt, each subscription receipt being convertible into one SPARQ Unit subject to the Release Conditions;

“**Qualifying Transaction**” or “**QT**” means a transaction where a CPC acquires Significant Assets other than cash, by way of purchase, amalgamation, merger or arrangement with another company or by other means, and, specifically in the case of MJ, means the Amalgamation all as more particularly described herein;

“**Release Conditions**” has the meaning ascribed to such term in “*Summary of Filing Statement – QT Brokered Financing*”;

**“Resulting Issuer”** or **“SPARQ Corp.”** means MJ (proposed to be named “SPARQ Corp.”) following completion of the Amalgamation and the issuance of the Final Exchange Bulletin;

**“Resulting Issuer QT Equity Compensation Options”** means the non-transferable compensation options of the Resulting Issuer issued at the completion of the Amalgamation in exchange for the QT Equity Compensation Options;

**“Resulting Issuer Warrants”** means the common share purchase warrants of the Resulting Issuer;

**“Significant Assets”** means one or more assets or businesses which, when purchased, optioned or otherwise acquired by the CPC, together with any concurrent transactions, would result in the CPC meeting the initial listing requirements of the TSXV;

**“SPARQ”** means SPARQ Systems Inc., and upon completion of the Amalgamation, Amalco;

**“SPARQ Common Shares”** means common shares in the capital of SPARQ;

**“SPARQ Consolidation”** means the consolidation to be completed prior to closing of the Qualifying Transaction, pursuant to which the issued and outstanding SPARQ Common Shares were consolidated on the basis of 1 post-consolidation SPARQ Common Share for every 10.8085146 pre-consolidation SPARQ Common Shares issued and outstanding;

**“SPARQ Financial Statements”** means the audited consolidated financial statements of SPARQ for the fiscal years ended December 31, 2020 and 2019 and the unaudited consolidated financial statements of SPARQ for the three and nine months ended September 30, 2021, which are attached to this Filing Statement as Schedule C;

**“SPARQ MD&A”** means the Management’s Discussion and Analysis of the Financial Condition and Results of Operations of SPARQ for the fiscal years ended December 31, 2020 and 2019 and the three and nine months ended September 30, 2021, which is attached to this Filing Statement as Schedule D;

**“SPARQ Nominees”** has the meaning ascribed thereto in *“Part IV – Information Concerning the Resulting Issuer – Proposed Directors, Officers and Promoters”*;

**“SPARQ Options”** has the meaning ascribed thereto in *“Part II – Information Concerning SPARQ – Legacy Option Plan”*;

**“SPARQ Units”** means units of SPARQ, with each consisting of one (1) SPARQ Common Share and one (1) SPARQ Warrant;

**“SPARQ Warrants”** means common share purchase warrants in the capital of SPARQ;

**“Stock Option Plan”** means the current stock option plan of MJ, which will be amended and restated upon Completion of the Qualifying Transaction to form the stock option plan of the Resulting Issuer;

**“Subscription Receipt Agent”** has the meaning ascribed to such term in *“Summary of Filing Statement – QT Brokered Financing”*;

**“Subscription Receipt Agreement”** means the subscription receipt agreement to be entered into between SPARQ, the Agent and the Subscription Receipt Agent, as amended or supplemented from time to time;

“**Subscription Receipt Escrow Funds**” has the meaning ascribed to such term in “*Summary of Filing Statement – QT Brokered Financing*”;

“**subsidiary**” includes, with respect to any person, company, partnership, limited partnership, trust or other entity, any company, partnership, limited partnership, trust or other entity controlled, directly or indirectly, by such person, company, partnership, limited partnership, trust or other entity;

“**Tata MOU**” has the meaning ascribed to such term in “*Part II – Information Concerning SPARQ -General Development of the Business*”;

“**TSXV**” means the TSX Venture Exchange; and

“**Value Escrow Shares**” means Common Shares to be held in escrow pursuant to Section 4 of TSXV Policy 5.4 - *Escrow, Vendor Consideration and Resale Restrictions*, pursuant to the QT Escrow Agreement as more particularly described in this Filing Statement.

## **NOTICE TO INVESTORS**

### **Information Pertaining to SPARQ**

The information contained or referred to in this Filing Statement with respect to SPARQ and the industry in which it operates has been provided by the management of SPARQ and is the responsibility of SPARQ. Management of MJ has relied upon SPARQ for the accuracy of the information provided by SPARQ without independent verification.

### **Currency Presentation**

All dollar amounts referenced in this Filing Statement and in the MJ Financial Statements and SPARQ Financial Statements are in Canadian dollars and referred to as "\$".

### **Financial Statement Information**

The MJ Financial Statements contained in this Filing Statement have been prepared in accordance with IFRS and are denominated in Canadian dollars.

The SPARQ Financial Statements contained in this Filing Statement have been prepared in accordance with IFRS and are denominated in Canadian dollars.

The Pro Forma Financial Statements of the Resulting Issuer (SPARQ) contained in this Filing Statement have been prepared on the basis of presentation as described in the Pro Forma Financial Statements and are denominated in Canadian dollars.

### **Market Data**

Unless otherwise indicated, information contained in this Filing Statement concerning the industry and markets in which SPARQ operates, including its general expectations and market position, market opportunity and market share is based on information from independent industry organizations, and other third-party sources (including industry publications, surveys and forecasts), and management estimates. Unless otherwise indicated, management estimates are derived from publicly available information released by independent industry analysts and third-party sources, as well as data from SPARQ's internal research, and are based on assumptions made by SPARQ based on such data and its knowledge of such industry and markets, which SPARQ believes to be reasonable. SPARQ's internal research has not been verified by any independent source, and it has not independently verified any third-party information. While SPARQ believes the market position, market opportunity and market share information included in this Filing Statement is generally reliable, such information is inherently imprecise. In addition, projections, assumptions and estimates of SPARQ's future performance and the future performance of the industry in which SPARQ operates are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described under the "Risk Factors".

### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION**

This Filing Statement contains forward-looking statements that relate to MJ and SPARQ's current expectations and views of future events. The forward-looking statements are contained principally in the sections titled "Summary" and "Information Concerning the Resulting Issuer".

In some cases, these forward-looking statements can be identified by words or phrases such as "may", "believe", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues", "plan",

“believe”, “aim”, “seek” or the negative of these terms, or other similar expressions intended to identify forward-looking statements. MJ and SPARQ have based these forward-looking statements on their current expectations and projections about future events and financial trends that they believe may affect MJ, SPARQ and the Resulting Issuer’s financial condition, results of operations, business strategy and financial needs, as the case may be.

Forward-looking statements relating to SPARQ and MJ (or the Resulting Issuer, as applicable) include, among other things, statements relating to:

- the completion of the Amalgamation;
- the terms on which the Amalgamation is intended to be completed;
- expectations regarding facility expansions, product development, sales, expenses and operations;
- anticipated cash needs and needs for additional financing;
- future growth plans;
- ability to attract and retain personnel;
- competitive position and its expectations regarding competition; and
- anticipated trends and challenges in SPARQ’s business and the markets in which it operates.

Forward-looking statements relating to MJ include, among other things, statements relating to:

- the continued listing of the Common Shares and Resulting Issuer Warrants; and
- the ability to complete any Qualifying Transaction.

Forward-looking statements are based on certain assumptions and analysis made by MJ and SPARQ in light of their experience and perception of historical trends, current conditions and expected future developments and other factors they believe are appropriate, and are subject to risks and uncertainties. Such assumptions include, among others, those relating to general economic conditions, the legislative and regulatory environment, the impact of increasing competition, the ability to obtain regulatory and shareholder approvals and MJ’s ability to obtain additional financing on satisfactory terms. Although MJ and SPARQ believe that the assumptions underlying the forward-looking statements are reasonable, they may prove to be incorrect. Given these risks, uncertainties and assumptions, shareholders should not place undue reliance on these forward-looking statements.

Whether actual results, performance or achievements will conform to MJ or SPARQ’s expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions and other factors, including those listed under “Risk Factors”.

Risks, uncertainties, assumptions and other factors could cause MJ, SPARQ and the Resulting Issuer’s actual results, performance, achievements and experience to differ materially from MJ and SPARQ’s expectations, future results, performances or achievements expressed or implied by the forward-looking statements.

The forward-looking statements made in this Filing Statement relate only to events or information as of the date on which the statements are made in this Filing Statement. Except as required by law, MJ, SPARQ and the Resulting Issuer undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

An investor should read this Filing Statement with the understanding that MJ, SPARQ and the Resulting Issuer's actual future results may be materially different from what is expected.

## SUMMARY OF FILING STATEMENT

*The following is a summary of information relating to MJ, SPARQ and the Resulting Issuer (assuming Completion of the Qualifying Transaction) and should be read together with the more detailed information and financial data and statements contained elsewhere in this Filing Statement.*

**Unless otherwise indicated, all references to Common Shares contained in this section entitled “Summary of Filing Statement” assume the completion of the MJ Consolidation.**

### The Companies

#### ***MJ***

MJ was incorporated pursuant to articles of incorporation dated November 13, 2018, under the OBCA. The full corporate name of MJ is “MJ Innovation Capital Corp.” On April 8, 2019, MJ filed articles of amendment to delete share transfer restrictions contained within its articles. By special resolution, shareholders have authorized the directors to amend the articles of MJ to change the name of MJ to such name as the directors may approve in their discretion and to consolidate the Common Shares as the directors may approve in their discretion, which amendments are anticipated to be filed on or about the date of the Qualifying Transaction and are subject to TSXV approval. The principal and registered office of MJ is located at Brookfield Place, 181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9.

The Common Shares were listed for trading on the TSXV under the symbol “MSMJ.P” on August 9, 2019. MJ is a CPC pursuant to the CPC Policy, and since its incorporation it has not carried on any business or operations other than the identifying and evaluating business opportunities for the purposes of completing a Qualifying Transaction.

See “Part I – Information Concerning MJ”.

#### ***SPARQ***

SPARQ is a private corporation incorporated pursuant to the provisions of the OBCA on July 16, 2009. The full corporate name of SPARQ is “SPARQ Systems Inc.” SPARQ’s business operations are located in Kingston, Ontario and its registered and head office is 945 Princess Street, Innovation Park, Kingston, Ontario, K7L 0E9.

See “Part II – Information Concerning SPARQ”.

### The Qualifying Transaction

The following section contains a summary of the Amalgamation. This summary is qualified in its entirety by the actual terms of the Amalgamation Agreement which will be available on SEDAR at [www.sedar.com](http://www.sedar.com) under MJ’s profile.

MJ and SPARQ entered into a definitive agreement dated as of June 10, 2021 (as amended by amending agreements dated September 14, 2021 and November 26, 2021) (the “**Definitive Agreement**”) pursuant to which MJ agreed to acquire all of the issued and outstanding SPARQ Common Shares.

Further to the transactions contemplated by the Definitive Agreement, MJ and SPARQ will enter into the amalgamation agreement (the “**Amalgamation Agreement**”) pursuant to which SPARQ has agreed to complete a reverse take-over of MJ (the “**Amalgamation**”). The Amalgamation is structured as a three-

cornered amalgamation pursuant to which SPARQ and MJ Subco will amalgamate and become a wholly-owned subsidiary of the Resulting Issuer. The proposed name of the Resulting Issuer is “SPARQ Corp.”, or such other name as may be agreed to by the Board and approved by the TSXV.

As a condition precedent to the Amalgamation, the QT Subscription Receipts will be converted into SPARQ Common Shares prior to the completion of the Amalgamation. As a result of the Amalgamation each SPARQ Common Share will be exchanged for one Common Share.

The number and terms of the securities to be issued in connection with the Amalgamation were determined pursuant to arm’s length negotiations between the management of each of MJ and SPARQ.

Completion of the Amalgamation is subject to compliance with the terms and conditions set forth in the Amalgamation Agreement including, but not limited to:

- (i) entering into such other agreements necessary for the Amalgamation;
- (ii) receipt of all required approvals, including TSXV approval, the approval of the holders of SPARQ Common Shares in respect of the Amalgamation and related matters, and all other necessary consents of other third parties;
- (iii) completion of the MJ Consolidation;
- (iv) completion of the SPARQ Consolidation;
- (v) the conversion of the QT Subscription Receipts into SPARQ Units;
- (vi) upon completion of the Amalgamation, the Resulting Issuer meeting the applicable initial listing requirements including, without limitation, the public float requirements of the TSXV; and
- (vii) certain other customary conditions for a transaction of this nature.

The MJ Shareholders approved the MJ Meeting Matters on August 4, 2021 and SPARQ’s shareholders approved the Amalgamation on December 20, 2021.

### **The Resulting Issuer**

Upon Completion of the Qualifying Transaction and subject to the approval of the TSXV, it is expected that the Resulting Issuer will be listed on the TSXV as a Tier 2 Issuer (as such term is defined in the policies of the TSXV). The Resulting Issuer will change its registered and head office to 945 Princess Street, Innovation Park, Kingston, Ontario, K7L 0E9.

Upon Completion of the Qualifying Transaction (assuming the completion of the MJ Consolidation and the SPARQ Consolidation):

- (i) an aggregate of 82,444,752 Common Shares will be issued and outstanding, consisting of:
  - (a) 60,000,000 Common Shares issued at a deemed price of \$0.50 per share to existing holders of SPARQ Common Shares;

- (b) 20,000,000 Common Shares issued at a deemed price of \$0.50 per share to holders of SPARQ Common Shares issued upon the conversion of the QT Subscription Receipts; and
  - (c) 2,444,752 Common Shares currently held by shareholders of MJ; and
- (ii) securities convertible into an aggregate of 27,785,500 Common Shares will be issued and outstanding, consisting of:
- (a) options to purchase up to 244,000 Common Shares that were previously issued pursuant to the Stock Option Plan, as adjusted to reflect the MJ Consolidation;
  - (b) options to purchase up to 5,025,000 Common Shares to the directors and officers of the Resulting Issuer;
  - (c) Resulting Issuer Warrants representing the right to acquire up to an aggregate of 20,000,000 Common Shares; and
  - (d) Resulting Issuer QT Equity Compensation Options representing the right to acquire up to an aggregate of 2,516,500 Common Shares (including exercise of the Resulting Issuer Warrants forming part of the Resulting Issuer QT Equity Compensation Options).

#### **QT Brokered Financing**

On December 22, 2021, SPARQ completed a private placement of 20,000,000 QT Subscription Receipts at a subscription price of \$0.50 per QT Subscription Receipt for gross proceeds of \$10,000,000 (the “**QT Brokered Financing**”).

Each QT Subscription Receipt will be convertible into one (1) SPARQ Unit upon the satisfaction of the Release Conditions. Each SPARQ Unit will consist of one (1) SPARQ Common Share and one (1) SPARQ Warrant, with each SPARQ Warrant being exercisable to acquire one SPARQ Common Share at a price of \$0.75 for a period of 24 months from the date of satisfaction of the Release Conditions (as defined herein).

Echelon Wealth Partners Inc. (“**Echelon**” or the “**Agent**”) acted as agent in connection with the QT Brokered Financing pursuant to the provisions of the QT Agency Agreement.

The gross proceeds of the QT Brokered Financing, less: (i) 50% of the Agent's Cash Commission (as defined below); and (ii) certain expenses of the Agent incurred to the closing of the QT Brokered Financing, has been deposited in escrow (such funds, collectively with all interest earned thereon, the “**Subscription Receipt Escrow Funds**”) with TSX Trust Company (the “**Subscription Receipt Agent**”) until the satisfaction of the following conditions (the “**Release Conditions**”):

- (i) all conditions precedent to Closing as set out in the Definitive Agreement, (other than release of the Subscription Receipt Escrow Funds), shall have been satisfied and the Agent shall have received written confirmation from each of SPARQ and MJ to such effect;
- (ii) the Common Shares of the Resulting Issuer, including those issuable upon exercise of the Resulting Issuer Warrants, and the Resulting Issuer Warrants being conditionally approved for listing on the TSXV and the completion, satisfaction or waiver of all conditions precedent to such listing (other than the release of the Subscription Receipt Escrow Funds);

- (iii) the receipt of all regulatory, shareholder and third-party approvals, if any, required by SPARQ or MJ in connection with the Qualifying Transaction;
- (iv) the distribution of: (A) the SPARQ Common Shares and SPARQ Warrants underlying the QT Subscription Receipts; and (B) the Common Shares and Resulting Issuer Warrants to be issued in exchange for the SPARQ Common Shares and the SPARQ Warrants, as applicable, pursuant to the Qualifying Transaction being exempt from applicable prospectus and registration requirements of applicable securities laws; and
- (v) SPARQ and the Agent delivering a release notice to the Subscription Receipt Agent confirming that conditions (i) through (iv) above have been satisfied.

At the effective time of the Closing, the SPARQ Common Shares and the SPARQ Warrants will be exchanged for Common Shares and Resulting Issuer Warrants without payment of any additional consideration or any further action on the part of the holders thereof.

In the event that the Release Conditions have not been satisfied or waived prior the date which is 120 days after the closing of the QT Brokered Financing, or SPARQ advises the Agent or announces to the public that it does not intend to satisfy the Release Conditions or that it is terminating the Definitive Agreement, the subscription funds shall be returned to the applicable holders of the QT Subscription Receipts together with their *pro rata* portion of any interest earned thereon (net of any applicable withholding tax), and such QT Subscription Receipts shall be automatically cancelled and be of no further force and effect. SPARQ will be responsible and liable to the holders of the QT Subscription Receipts for any shortfall between the aggregate gross proceeds of such QT Subscription Receipts and the Subscription Receipt Escrow Funds.

At closing of the QT Brokered Financing (the “**Sub Receipt Closing**”), the Agent received 50% of its cash fee equal to \$314,562.50 (the “**Cash Commission**”), and the remaining 50% was deposited escrow with the Subscription Receipt Agent to be released upon satisfaction of the Release Conditions. The Agent and members of its selling group also received an aggregate of 1,258,250 compensation options (each, a “**QT Equity Compensation Option**”), each being exercisable for one (1) SPARQ Unit at a price of \$0.50 per unit for a period of 24 months from the date of satisfaction of the Release Conditions. In connection with the Amalgamation, each QT Equity Compensation Option will be exchanged for one (1) Resulting Issuer QT Equity Compensation Option. Upon the Sub Receipt Closing the Agent also received a corporate finance fee of \$100,000 (plus applicable taxes).

The Resulting Issuer intends to use the net proceeds from the QT Brokered Financing as described below under “Estimated Available Funds and Principal Purposes”, including for product development, increasing manufacturing capacity, and general working capital purposes.

### Interests of any Insider, Promoter or Control Person

The following is a summary of the interests of Insiders (as such term is defined in the policies of the TSXV) of MJ, and their respective Associates and Affiliates, before and after giving effect to the Amalgamation, and assuming the completion of the MJ Consolidation).

Insider, Promoter or Control Person (including Associates and Affiliates)	Position	Number (%) of Common Shares or SPARQ Shares prior to the Amalgamation	Number (%) of Common Shares upon Closing
Bryan Van Engelen	Director, Chief Executive Officer, Chief Financial Officer	225,000 Common Shares (7.4%)	180,000 Common Shares (0.22%)
Richard Kimel	Director	50,000 Common Shares (1.6%)	40,000 Common Shares (0.05%)
Scott Rasenberg	Director	60,000 Common Shares (1.97%)	48,000 Common Shares (0.06%)
Sherri Altshuler	Director	50,000 Common Shares (1.6%)	40,000 Common Shares (0.05%)
Jennifer Mallick	Treasurer	450,000 Common Shares (14.8%)	360,000 Common Shares (0.44%)

### Arm's Length Transaction

The Amalgamation does not constitute a Non-Arm's Length Qualifying Transaction within the meaning of the CPC Policy.

### Estimated Available Funds and Principal Purposes

#### *Estimated Available Funds*

Based on information available as at November 30, 2021, upon the Completion of the Qualifying Transaction, the Resulting Issuer is expected to have approximately \$9,048,657 in Available Funds, which includes the following:

Estimated Funds Available	Amount (\$)
Cash of MJ as at November 30, 2021	173,131
Cash of SPARQ as at November 30, 2021	117,651
Gross proceeds of the QT Brokered Financing	10,000,000
Estimated fees and expenses of the Qualifying Transaction <sup>(1)</sup>	1,242,125
<b>Total Estimated Available Funds</b>	<b>\$9,048,657</b>

**Note:**

- (1) Estimated fees and expenses of the Qualifying Transaction are made up of (i) financing fees in the amount of \$742,125 representing the Cash Commission and a capital markets advisory fee in the QT Brokered Financing, and (ii) estimated transactions costs of \$500,000.

***Principal Purposes of Funds***

Based on information available as at November 30, 2021, the following table sets forth the principal purposes for which the estimated funds available to the Resulting Issuer upon Completion of the Qualifying Transaction and the current estimated amounts to be used for each such principal purpose:

<b>Principal Use of Available Funds</b>	<b>Amount (\$)</b>
Research and Development	1,815,000
Regulatory certifications	150,000
Inventory	4,374,000
Sales and Marketing	1,398,000
General and administration	1,255,000
Unallocated working capital	56,657
<b>Total</b>	<b>9,048,657</b>

Notwithstanding the foregoing, there may be circumstances where, for sound business reasons, a reallocation of funds is necessary in order for the Resulting Issuer to achieve its objectives as set out in this Filing Statement.

**Selected Pro-Forma Consolidated Financial Information**

The following table sets out certain financial information for MJ and SPARQ as at September 30, 2021, respectively as well as the unaudited Pro Forma Financial Statements, after giving effect to the Qualifying Transaction and the QT Brokered Financing as if such events had occurred on September 30, 2021 for balance sheet purposes. Such information is derived from and should be read in conjunction with the Pro Forma Financial Statements and the notes thereto attached hereto at Schedule E.

<b>Pro Forma Balance Sheet</b>	<b>SPARQ as at September 30, 2021 (\$)</b>	<b>MJ as at September 30, 2021 (\$)</b>	<b>Pro Forma Adjustments <sup>(1)</sup> (\$)</b>	<b>Pro Forma Consolidated (\$)</b>
Cash and cash equivalents	368,301	210,054	8,757,875	9,336,230
Other Current Assets	724,500	0	-	724,500
Non-current Assets	45,333	0	-	45,333
<b>Total Assets</b>	<b>1,138,134</b>	<b>210,054</b>	<b>8,757,875</b>	<b>10,106,063</b>
Current Liabilities	146,461	38,098	-	184,559
Non-current Liabilities	38,196	0	-	38,196
<b>Total Liabilities</b>	<b>184,657</b>	<b>38,098</b>	<b>-</b>	<b>222,755</b>

<b>Pro Forma Balance Sheet</b>	<b>SPARQ as at September 30, 2021 (\$)</b>	<b>MJ as at September 30, 2021 (\$)</b>	<b>Pro Forma Adjustments <sup>(1)</sup> (\$)</b>	<b>Pro Forma Consolidated (\$)</b>
Shareholders' Equity	1,138,134	171,956	-	1,310,090

**Note:**

(1) Includes the gross proceeds from the QT Brokered Financing of \$10,000,000 net of financing fees in the amount of \$742,125 and estimated transaction costs of \$500,000, resulting in net proceeds of \$8,757,875.

**Market for Securities and Market Price**

The Common Shares are listed on the TSXV under the trading symbol “MSMJ.P”. The closing market price of the Common Shares on the last day on which there was a trade of Common Shares prior to the trading in such shares being halted on June 10, 2021 was \$0.18. It is anticipated that the Common Shares will resume trading on the TSXV upon completion of the Amalgamation under the symbol “SPRQ” and MJ will change its name to “SPARQ Corp.” In addition, the TSXV has conditionally accepted listing of the Warrants issued pursuant to the QT Brokered Financing

The SPARQ Shares are not listed on any stock exchange and there is currently no public market for SPARQ Shares.

**Sponsorship**

Sponsorship for the Qualifying Transaction is required by TSXV policies, unless an exemption is granted. The TSXV granted an exemption from the sponsorship requirements.

**Conflicts of Interest**

Some of the individuals proposed for appointment as directors or officers of the Resulting Issuer upon Closing are also directors, officers and/or Promoters of other reporting and non-reporting issuers. To the knowledge of the directors and officers of MJ and SPARQ, there are no existing conflicts of interest between the Resulting Issuer and any of the individuals proposed for appointment as directors or officers upon completion of the Amalgamation, as of the date of this Filing Statement.

**Interests of Experts**

Except as disclosed herein, no person or Company whose profession or business gives authority to a statement made by the person or Company and who is named as having prepared or certified a part of this Filing Statement or prepared or certified a report or valuation described or included in this Filing Statement currently holds, directly or indirectly, more than 1% of the Common Shares or SPARQ Common Shares, or holds any property of MJ or SPARQ or of an Associate or Affiliate of MJ or SPARQ and no such person is expected to be elected, appointed or employed as director, senior officer or employee of MJ or SPARQ or of an Associate or Affiliate of the Resulting Issuer and no such person is a promoter of MJ or SPARQ or an Associate or Affiliate of MJ or SPARQ.

As of the date of this Filing Statement, MNP LLP, Chartered Professional Accountants, has reported that it is independent in accordance with the code of professional conduct of the Chartered Professional Accountants of Ontario with respect to MJ and SPARQ.

## Conditional Listing Approval

The TSXV has conditionally approved the Amalgamation as the Qualifying Transaction for MJ subject to MJ fulfilling all the requirements of the TSXV on or before January 30, 2022.

### MJ Meeting

On August 4, 2021, MJ held a special meeting of its shareholders (the “**MJ Shareholders**”) where the MJ Shareholders approved resolutions in respect of the following matters in connection with, and subject to the completion of, the Amalgamation: (i) the election of the proposed directors of the Resulting Issuer; (ii) the appointment of MNP LLP as the auditor of the Resulting Issuer; (iii) the adoption of articles of amendment to effect the MJ Consolidation and to change the name of MJ; (iv) amendments to the Stock Option Plan, which will govern the stock options of the Resulting Issuer; (v) an amendment to the CPC Escrow Agreement to reduce the length of the term of the escrow in accordance with the policies of the TSXV; and (vi) the removal of consequences of MJ failing to complete a Qualifying Transaction within 24 months of listing on the TSXV. The current directors of MJ do not intend to act upon the authority granted them under the foregoing resolutions at items (i) through (iv) if the Amalgamation is not completed.

### Summary Risk Factors

The following is a summary of certain risk factors applicable to MJ, SPARQ and the Resulting Issuer. The risks presented in this Filing Statement should not be considered to be exhaustive and may not be all of the risks that the Resulting Issuer and SPARQ may face. See “Risk Factors”.

#### Business, operations and industry risks

- if demand for solar energy solutions does not grow or grows at a slower rate than anticipated, including as a result of the ongoing COVID-19 pandemic, our business will suffer;
- the rapidly changing solar industry makes it difficult to evaluate our current business and future prospects;
- an increase in interest rates or tightening of the supply of capital in the global financial markets could make it difficult for end-users to finance the cost of a solar PV system and could reduce the demand for smart energy products and thus demand for our products;
- defects or performance problems in our products could result in loss of customers, reputational damage, and decreased revenue, and we may face warranty, indemnity, and product liability claims arising from defective products;
- we depend on sole-source and limited-source suppliers for key components and products. If we are unable to source these components and products on a timely basis, we will not be able to deliver our products to our customers;
- we depend upon a sole-source and small number of outside contract manufacturers, and business and operations could be disrupted if we encounter problems with these contract manufacturers;
- if we or our contract manufacturers are unable to obtain raw materials in a timely manner or if the price of raw materials increases significantly, production time and product costs could increase, which may adversely affect our business;

- manufacturing problems could result in delays in product shipments, which would adversely affect our revenue, competitive position and reputation;
- the products manufactured by SPARQ use a number of electronic components such as semiconductor switches, semiconductor chips, magnetics and capacitors. The impact of COVID-19 has resulted in a shortage of some of these components. It is unclear if the shortage will improve in the near future and such supply shortages could negatively impact the Resulting Issuer's ability to supply its products to customers, which could have an impact on revenue;
- we rely primarily on distributors, installers and providers of solar financing to assist in selling our products to customers, and the failure of these customers to perform at the expected level, or at all, would have an adverse effect on our business, financial condition and results of our operations;
- mergers in the solar industry among our current or potential customers may adversely affect our competitive position;
- the solar industry is highly competitive, and we expect to face increased competition as new and existing competitors introduce products or develop alternative technologies, which could negatively impact our business, financial condition and results of operations;
- the loss of, or events affecting, one of our major customers could reduce our sales and have an adverse effect on our business, financial condition and results of operations;
- our microinverter products may not achieve broader market acceptance, which would prevent us from increasing our revenue and market share;
- our recent and planned expansion into existing and new markets could subject us to additional business, financial and competitive risks;
- we may fail to capture customers in the new product and geographic markets that we are pursuing;
- if we fail to retain our key personnel or if we fail to attract additional qualified personnel, we may not be able to achieve our anticipated level of growth and our business could suffer;
- any failure by management to properly manage growth could have a material adverse effect on our business, operating results, and financial condition;
- if we are unsuccessful in continuing to expand our direct-to-consumer sales channel by driving purchases through our website, our business and results of operation could be harmed;
- use of social media may materially and adversely affect our reputation or subject it to fines or other penalties;
- we are subject to insurance-related risks;
- credit risk;
- liquidity risk;
- foreign currency risk; and

- conflicts of interest.

#### Risks related to intellectual property and technology

- if we fail to protect, or incur significant costs in defending, our intellectual property and other proprietary rights, our business and results of operations could be materially harmed;
- third parties may assert that we are infringing upon their intellectual property rights, which could divert management's attention, cause us to incur significant costs and prevent us from selling or using the technology to which such rights relate;
- our failure to obtain the right to use necessary third-party intellectual property rights on reasonable terms, or our failure to maintain, and comply with the terms and conditions applicable to these rights, could harm our business and prospects;
- we may not be able to protect and enforce our trademarks and trade names, or build name recognition in our markets of interest thereby harming our competitive position;
- obtaining and maintaining our patent protection depends on compliance with various required procedures, document submissions, fee payments and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements;
- patent terms may be inadequate to protect our competitive position on our products for an adequate amount of time; and
- we rely on trade secrets.

#### Risks related to legal proceedings and regulations

- changes in laws and regulations;
- our anticipated international sales subject us to additional risks that could adversely affect our business, results of operations and financial condition; and
- we may be involved in legal proceedings from time to time and, while we cannot predict the outcomes of such proceedings and other contingencies with certainty, some of these outcomes could adversely affect our business and financial condition.

#### Risks related to financial condition and liquidity

- the reduction, elimination or expiration of government subsidies and economic incentives for on-grid solar electricity applications could reduce demand for solar PV systems and harm our business;
- our gross profit may fluctuate over time, which could impair our ability to achieve or maintain profitability;
- we may be under pressure to reduce the prices of our products, which may adversely affect our gross margins;

- a drop in the retail price of electricity derived from the utility grid or from alternative energy sources, or a change in utility pricing structures, may harm our business, financial condition and results of operations;
- if we do not forecast demand for our products accurately, we may experience product shortages, delays in product shipment, excess product inventory, difficulties in planning expenses or disputes with suppliers, any of which will adversely affect our business and financial condition;
- currently we have two major customers Tata Power Solar in India, and ERDM in Mexico and the loss of one or both may cause fluctuations or declines in our revenues; and
- parties with whom we do business may be subject to insolvency risks or may otherwise become unable or unwilling to perform their obligations to us.

#### General risks relating to our business

- natural disasters, public health events, significant disruptions of information technology systems, data security breaches, or other catastrophic events could adversely affect our operations;
- COVID-19; and
- general global economic conditions.

#### Financial and accounting risks

- access to capital; and
- estimates or judgments relating to critical accounting policies.

#### Risks related to the Common Shares and Completion of the Qualifying Transaction

- quarterly performance variation;
- market for the Common Shares;
- no history of payment of cash dividends;
- reporting issuer status;
- significant sales of Common Shares;
- analyst coverage;
- tax issues;
- completion of the Qualifying Transaction is subject to conditions precedent;
- termination of the Amalgamation Agreement; and
- potential undisclosed liabilities associated with the Amalgamation.

The above risks, uncertainties, assumptions and other factors could cause MJ, SPARQ and the Resulting Issuer's actual results, performance, achievements and experience to differ materially from MJ and SPARQ's expectations, future results, performances or achievements expressed or implied by the forward-looking statements.

## **PART I – INFORMATION CONCERNING MJ**

**Unless otherwise indicated, all references to Common Shares contained in this Part I are calculated prior to completion of the MJ Consolidation.**

### **Corporate Structure**

#### ***MJ Innovation Capital Corp.***

MJ was incorporated pursuant to articles of incorporation dated November 13, 2018, under the OBCA. The full corporate name of MJ is “MJ Innovation Capital Corp.” On April 8, 2019, MJ filed articles of amendment to delete share transfer restrictions contained within its articles.

On August 4, 2021, the MJ Meeting was held whereby the MJ Shareholders approved special resolutions approving the adoption of articles of amendment to effect the MJ Consolidation and to change the name of MJ to such name as may be approved by the Board, which resolutions are anticipated to be effected on or about the date of the closing of the Qualifying Transaction. The current directors of MJ do not intend to act upon the authority granted them under the foregoing resolutions if the Amalgamation is not completed. It is currently expected that MJ’s name will be changed to “SPARQ Corp.” on or about the date of the Closing.

The principal and registered office of MJ is located at Brookfield Place, 181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9.

### **General Development of the Business**

#### ***History***

The Common Shares were listed for trading on the TSXV under the symbol “MSMJ.P” on August 9, 2019. MJ is a CPC pursuant to the CPC Policy, and since its incorporation it has not carried on any business or operations other than identifying and evaluating business opportunities for the purposes of completing a Qualifying Transaction.

#### ***Selected Financial Information***

Since incorporation, MJ has incurred the following costs in carrying out the MJ IPO, in seeking, evaluating and negotiating potential Qualifying Transactions, and in meeting the disclosure obligations imposed upon it as a reporting issuer listed for trading on the TSXV and NEX.

The following tables set forth selected historical financial information for MJ for the three month period ended September 30, 2021, and the fiscal years ended June 30, 2021 and 2020, and selected balance sheet data for such periods. The MJ Financial Statements have been prepared in accordance with IFRS and are denominated in Canadian dollars. Such information is derived from the MJ Financial Statements and should be read in conjunction with such financial statements attached hereto as Schedule A.

<b>Balance Sheet Data</b>	<b>As at September 30, 2021</b> ( <b>\$</b> )	<b>As at June 30, 2021</b> ( <b>\$</b> )	<b>As at June 30, 2020</b> ( <b>\$</b> )
Cash and cash equivalents	210,054	237,206	314,416
Total assets	210,054	237,206	314,416
Total liabilities	38,098	44,067	37,190
Shareholders' equity	171,956	193,139	277,226

<b>Income Statement Data</b>	<b>Three month period ended</b> <b>September 30, 2021</b> ( <b>\$</b> )	<b>Year ended</b> <b>June 30, 2021</b> ( <b>\$</b> )	<b>Year ended</b> <b>June 30, 2020</b> ( <b>\$</b> )
Total revenue	Nil	Nil	Nil
Total expenses	22,371	84,087	125,726
Net loss	22,371	84,087	(125,726)

### ***Management's Discussion and Analysis***

The MJ MD&A for the fiscal years ended June 30, 2021 and June 30, 2020 and the three months ended September 30, 2021, and is attached hereto as Schedule B and should be read in conjunction with the MJ Financial Statements attached hereto as Schedule A.

### **Description of the Securities**

MJ is authorized to issue an unlimited number of Common Shares, of which 3,055,940 Common Shares are issued and outstanding as of the date hereof. In addition, 305,000 Common Shares are reserved for issuance under stock options granted to directors and officers. On August 4, 2021, the holders of Common Shares approved the MJ Consolidation.

The holders of Common Shares are entitled to dividends if, as and when declared by the Board, to receive notice of and one vote per Common Share at meetings of the shareholders of MJ and, upon liquidation, dissolution or winding up of MJ, to share rateably in such assets of MJ as are distributable to the holders of Common Shares. All Common Shares which are to be outstanding after Completion of the Qualifying Transaction will be fully paid and non-assessable.

This summary does not purport to be complete and reference is made to MJ's articles of incorporation, as amended, for a complete description of these securities and the full text of their provisions.

### **Stock Option Plan**

#### ***Summary of Stock Option Plan***

The policies of the TSXV provide that the Board may from time to time, in its discretion, and in accordance with TSXV requirements, grant to directors, officers, employees, management company employees and consultants of MJ and its affiliates, non-transferable options to purchase Common Shares for a period of up to 10 years from the date of grant, provided that the number of Common Shares reserved for issuance may not exceed 10% of the total issued and outstanding Common Shares at the date of the grant.

The purpose of the Stock Option Plan established by MJ, pursuant to which MJ may grant incentive stock options, is to promote the profitability and growth of MJ by facilitating the efforts of MJ to obtain and retain key individuals. The Stock Option Plan provides an incentive for and encourages ownership of the Common Shares by its key individuals so that they may increase their stake in MJ and benefit from increases in the value of the Common Shares. Pursuant to the Stock Option Plan, the maximum number of Common Shares reserved for issuance in any 12 month period to any one optionee other than a consultant may not exceed 5% of the issued and outstanding Common Shares at the date of the grant. The maximum number of Common Shares reserved for issuance in any 12 month period to any consultant may not exceed 2% of the issued and outstanding Common Shares at the date of the grant and the maximum number of Common Shares reserved for issuance in any 12 month period to all persons engaged in investor relations activities may not exceed 2% of the issued and outstanding number of Common Shares at the date of the grant. Incentive stock options may be exercised until the greater of 12 months after the Completion of the Qualifying Transaction and 90 days following the date the optionee ceases to be a director, officer or employee of MJ or its Affiliates or a consultant or a management company employee, provided that if the cessation of such position or arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option.

In the event that MJ becomes listed on the Toronto Stock Exchange, the Stock Option Plan provides that the Board may grant options which allow an optionee to elect to exercise its option on a “cashless basis”, whereby the optionee, instead of making a cash payment for the aggregate exercise price, shall be entitled to be issued such number of Common Shares equal to the number which results when: (i) the difference between the aggregate Fair Market Value of the Common Shares underlying the option and the aggregate exercise price of such option is divided by (ii) the Fair Market Value of each Common Share. “Fair Market Value” as defined in the Stock Option Plan means the closing price as reported by the Toronto Stock Exchange (in the event that MJ becomes listed on the Toronto Stock Exchange) on the last trading day immediately preceding the exercise date.

Notwithstanding the terms of the Stock Option Plan described above, the CPC Policy imposes certain restrictions on incentive stock options during the period that MJ remains a CPC. Such restrictions shall remain in place until the TSXV issues the Final Exchange Bulletin. Under the CPC Policy, MJ, while it remains a CPC, is limited to granting incentive stock options to only directors, officers and technical consultants of MJ. In addition, the total number of Common Shares reserved under option for issuance pursuant to the Stock Option Plan may not exceed 10% of the Common Shares outstanding as at the closing of the MJ IPO. The maximum number of Common Shares reserved under option for issuance to any individual officer or director may not exceed 5% of the issued and outstanding Common Shares outstanding at the closing of the MJ IPO. The maximum number of Common Shares reserved under option for issuance to all technical consultants may not exceed 2% of the issued and outstanding Common Shares to be outstanding after the closing of the MJ IPO. In addition, while MJ is a CPC, it is prohibited from granting incentive stock options to any person providing investor relations activities, promotional or market making services. The exercise price per Common Share under any incentive stock option granted by MJ while it is a CPC may not be less than the greater of \$0.10 and the Discounted Market Price (as defined under TSXV policies). Any Common Shares acquired pursuant to the exercise of incentive stock options prior to the Completion of the Qualifying Transaction, must be deposited in escrow and will be subject to escrow until the Final Exchange Bulletin is issued.

As at the date of this Filing Statement, options to purchase 305,000 Common Shares are outstanding under the Stock Option Plan, representing approximately 10% of the issued and outstanding Common Shares.

At the MJ Meeting, MJ Shareholders approved conditional upon Closing, an amended and restated Stock Option Plan providing for certain administrative clean-up items and removal of CPC specific provisions. The Stock Option Plan will remain substantially similar after it is amended and restated.

### *Stock Options Granted*

As of the date of this Filing Statement, there are outstanding options to acquire an aggregate of 305,000 Common Shares as follows:

<b>Name</b>	<b>Number of Common Shares Under Option</b>	<b>Exercise Price of Common Share</b>	<b>Expiry Date</b>
Bryan Van Engelen	20,000	\$0.20	August 9, 2029
Richard Kimel	140,000	\$0.20	August 9, 2029
Scott Rasenberg	140,000	\$0.20	August 9, 2029
Sherri Altshuler	5,000	\$0.20	August 9, 2029
<b>Total</b>	<b>305,000</b>		

### **Stock Exchange Price**

On August 9, 2019, the Common Shares were listed on the TSXV under the symbol “MSMJ.P”. Upon completion of the Amalgamation, it is anticipated that the Common Shares will be listed on the TSXV under the symbol “SPRQ” and MJ will change its name to SPARQ Corp. In addition, the TSXV has conditionally approved listing of the Warrants issued pursuant to the QT Brokered Financing.

The following table sets out trading information for the Common Shares on the TSXV for the periods indicated:

<b>Period</b>	<b>High (\$)</b>	<b>Low (\$)</b>	<b>Volume</b>
<b>2020</b>			
June	\$0.085	\$0.06	23,400
July	\$0.13	\$0.10	28,200
August	\$0.12	\$0.085	8,000
September	\$0.085	\$0.085	Nil
October	\$0.135	\$0.13	39,500
November	\$0.125	\$0.125	10,000
December	\$0.125	\$0.125	7,000
<b>2021</b>			
January	\$0.125	\$0.11	11,500
February	\$0.11	\$0.11	Nil
March	\$0.18	\$0.165	25,000
April	\$0.18	\$0.18	Nil
May	\$0.18	\$0.18	Nil
June <sup>(1)</sup>	\$0.18	\$0.18	Nil

**Note:**

- (1) For the period from June 1, 2021 to June 10, 2021, being the last day that the Common Shares traded on the TSXV before being halted pending announcement of the Qualifying Transaction.

### **Non-Arm's Length Transactions**

Except as disclosed below, there has been no acquisition of assets or services or provision of assets or service in any transaction within the five years before the date of this Filing Statement, or in any proposed transaction, where MJ or any subsidiary of MJ has obtained such assets or services from:

- (a) any director, officer or promoter of MJ;
- (b) a securityholder disclosed in this Filing Statement as a principal securityholder, either before or after giving effect to the Qualifying Transaction; or
- (c) an Associate or Affiliate of any of the persons or companies referred to in paragraphs (a) or (b) above

Since incorporation, MJ has incurred \$112,964 in legal fees in respect of general corporate matters for services provided by a law firm where two partners of the firm are directors of MJ.

### **Arm's Length Party Transaction**

The Amalgamation does not constitute a Non-Arm's Length Qualifying Transaction within the meaning of the CPC Policy.

### **Legal Proceedings**

There are no legal proceedings material to MJ to which MJ is a party to or of which any of its property is the subject matter, and there are no such proceedings known to MJ to be contemplated.

### **Auditor, Transfer Agent And Registrar**

The auditors of MJ are MNP LLP, Chartered Professional Accountants located at 111 Richmond St. W #300, Toronto, Ontario, M5H 2G4. The transfer agent and registrar for the Common Shares is TSX Trust Company at its principal office at 100 Adelaide Street West, Suite 301, Toronto, Ontario, Canada, M5H 4H1.

### **Material Contracts**

MJ has not entered into any material contracts and will not enter into any material contracts prior to the Completion of the Qualifying Transaction, other than:

1. the IPO Agency Agreement;
2. the CPC Escrow Agreement;
3. the Definitive Agreement;
4. the Subscription Receipt Agreement;
5. the QT Agency Agreement; and
6. the Amalgamation Agreement.

Copies of these agreements are available for inspection at the registered office of MJ located at Brookfield Place, 181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9, during ordinary business hours until the Completion of the Qualifying Transaction and for a period of 30 days thereafter.

## PART II – INFORMATION CONCERNING SPARQ

**Unless otherwise indicated, all references to SPARQ Common Shares contained in this Part II are calculated prior to completion of the SPARQ Consolidation.**

### Corporate Structure

SPARQ is a private company incorporated on July 16, 2009 under the OBCA. The full corporate name of SPARQ is “SPARQ Systems Inc.”

On December 2, 2009, SPARQ filed articles of amendment to, among other things: (i) delete the Special Shares as a class from the authorized capital of SPARQ; and (ii) create an additional class of shares designated as Preferred Shares.

On August 1, 2013, SPARQ filed articles of amendment to, among other things: (i) create an additional class of shares designated as Class A Shares; (ii) convert every one (1) of the issued and outstanding Preferred Shares into one (1) fully paid and non-assessable Class A Share; and (iii) upon and subject to the conversion of the Preferred Shares into Class A Shares, to remove the Preferred Shares from the authorized capital.

On November 8, 2017, SPARQ filed articles of amendment to: (i) change each issued and outstanding Class A Share into one SPARQ Common Share; (ii) remove the rights, privileges, restrictions and conditions in respect of the SPARQ Common Shares and Class A Shares; (iii) create a new class designated as Class B Shares, issuable in series; (iv) provide that, after giving effect to the foregoing, the authorized capital of SPARQ will consist of an unlimited number of SPARQ Common Shares, an unlimited number of Class A Shares and an unlimited number of Class B Shares, issuable in series of which two series shall be created, Series B-1 Preferred Shares and Series B-2 Preferred Shares; and (v) provide for the cash payment or issuance of securities to Praveen Jain and certain eligible employees upon the occurrence of a Liquidation Event or IPO (as such terms are defined in the articles) (the “**Management Bonus**”).

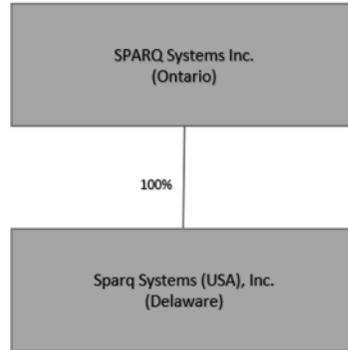
Prior to closing of the Qualifying Transaction, SPARQ will file articles of amendment to: (i) effect the SPARQ Consolidation; and (ii) amend the definition of IPO in its articles to include the occurrence of a reverse takeover transaction and clarify the provision with respect to the issuance of the SPARQ Common Shares in satisfaction of the Management Bonus upon the completion of an IPO. See “Capitalization of SPARQ” below for further details on the issued and outstanding securities of SPARQ.

Immediately prior to closing the Qualifying Transaction, SPARQ will issue the Management Bonus Shares for nominal consideration in satisfaction of all entitlements with respect to the Management Bonus.

The registered and head office of SPARQ is located 945 Princess Street, Innovation Park, Kingston, Ontario, K7L 0E9. SPARQ is not a “reporting issuer” under applicable securities legislation and its securities are not listed for trading on any stock exchange.

SPARQ has one wholly-owned subsidiary, Sparq Systems (USA), Inc., which was incorporated on January 22, 2014 under the laws of the State of Delaware.

The following organizational chart reflects the intercorporate structure of SPARQ as at the date of this Filing Statement:



### **General Development of the Business**

#### **Description of the Business**

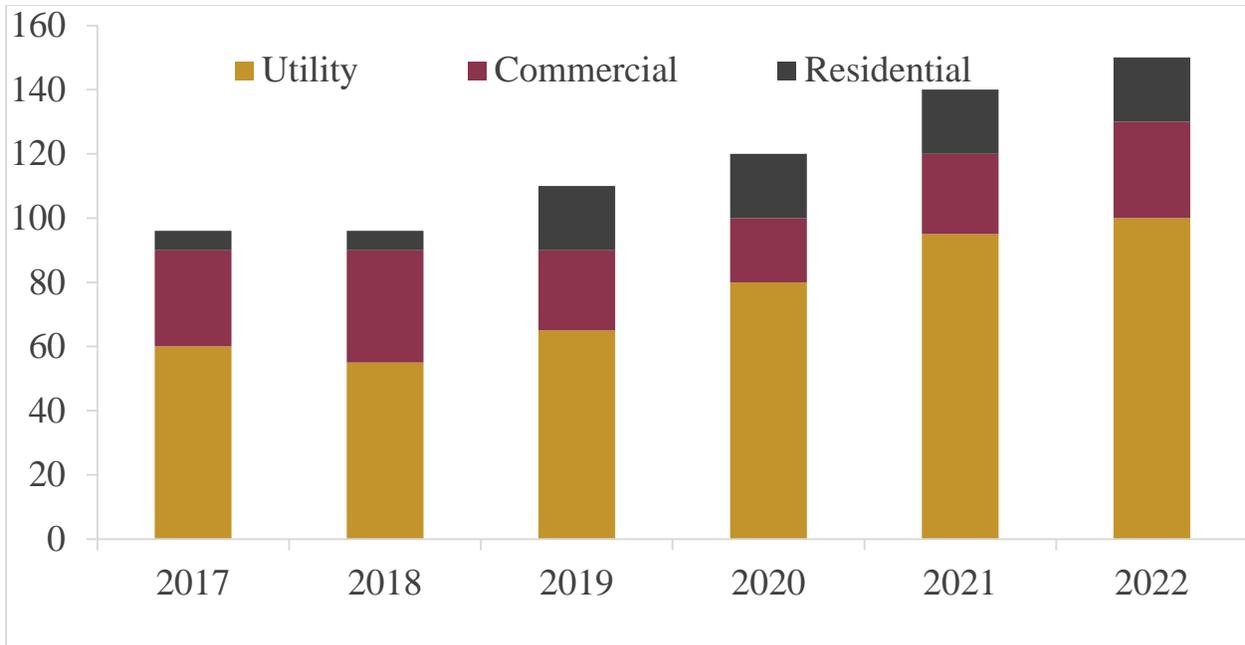
SPARQ serves the PV solar renewable energy market. It designs, develops and markets innovative inverter products for the solar PV market. Inverters are vital to a solar panel based renewable electricity generation system as they convert direct current (“**DC**”) electricity generated by the solar panels into usable alternating current (“**AC**”) electricity.

#### **Solar PV Market**

Governments throughout the globe have decisively acted to reduce greenhouse gas (“**GHG**”) emissions for a cleaner environment. PV solar is playing a major role in achieving this objective by generating electricity from sun energy. The following graph produced by the International Energy Agency (the “**IEA**”) shows that in 2020 about 120GW of PV electricity generation was installed globally, which is predicted to reach about 150GW by 2023. Total PV electricity generation can be broadly classified in residential, commercial and utility market segments. Among the three market segments, the residential market has seen a strong growth over the past three years representing an approximate market size of 20 GW in 2020. In addition, there is a very strong market for solar water pumps, which is valued at \$1.21B in 2019, and is projected to reach \$2.05B billion by 2027.<sup>1</sup> SPARQ is well-positioned to exploit these markets.

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<sup>1</sup> “Worldwide Solar Pump Industry to 2027 - Opportunity Analysis and Industry Forecast, Research and Market, October 9, 2019.



Annual Global PV Installation in GW (source: IEA)

### Solar PV Inverters

Traditionally, there are three different types of PV architectures used for solar PV installations using different types of inverters.

#### 1) String Inverter Based PV Architecture

PV installations in residential and commercial applications typically employ a single string inverter that performs power conversion from all the PV modules in the installation. A typical PV installation for a North American house is shown in Figure 1. There is a single inverter to convert DC power from all PV panels to standard power grid voltage and frequency. A string-based architecture is simple and less expensive but has many deficiencies such as low energy output in the event of partial shading and/or foliage, potential electric shock due to high DC voltage distribution, and a shorter life of the inverter.

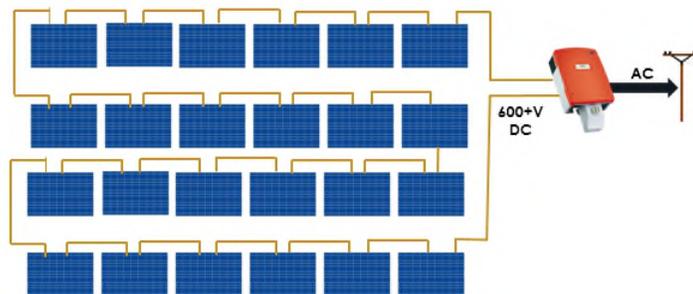


Figure 1 - Traditional String Inverter Based PV Architecture

#### 2) Power Optimizers String Inverter Based PV Architecture

In this architecture, a DC/DC converter, called a power optimizer, is placed on each PV panel in addition to the string inverter. The power optimizers extract maximum power from every panel, and the string inverter converts the DC power from all optimizers to standard power grid voltage and frequency (Figure 2). This architecture has overcome the drawbacks of partial shading but is still prone to single point failure, potential electric shock due to high DC voltage distribution, and is more expensive.

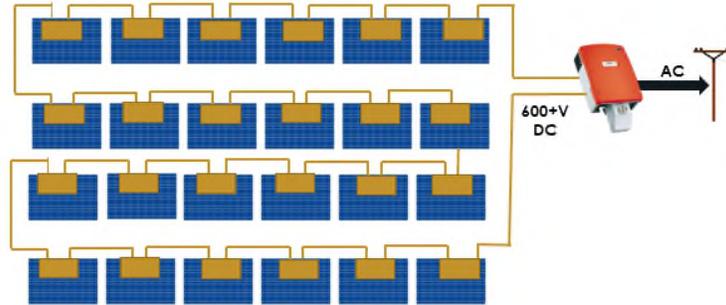


Figure 2 – Power Optimizers and String Inverter Based PV Architecture

### 3) Microinverters Based PV Architecture

Another architecture is based on distributed microinverters. This architecture has overcome all of the above mentioned drawbacks. At the system level, the concept is to replace the string inverter architecture with the distributed inverter architecture as shown in Figure 3. Each “microinverter” harvests the power for a single PV module, eliminating any single point of failure or degraded power extraction. Each panel produces grid-compliant AC power at its output.

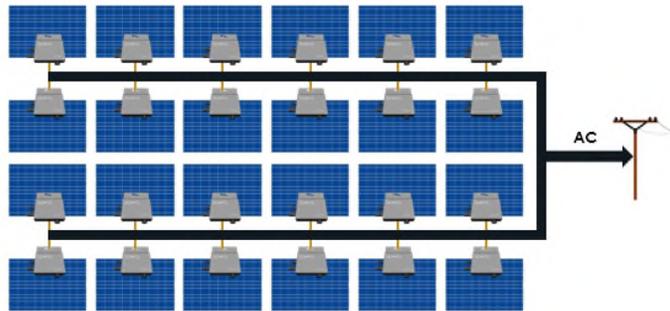


Figure 3 – Microinverters Inverter Based PV Architecture

### Quad Microinverters Based PV Architecture

SPARQ diverges from the three inverter types noted above through its proprietary PV solution called the Quad. The Quad inverter optimizes four PV modules with a single microinverter, simplifying the design and installation while reducing the number of required microinverters and eliminating all of the optimizers. The Quad provides increased system performance at a lower cost when compared to current market offerings. SPARQ’s approach is based upon a unique resonant topology that has its roots in space technology and incorporates only long-lasting hardware components. SPARQ’s technology is also driven by advanced software-based algorithms. SPARQ has reduced manufacturing costs through the

implementation of non-linear digital control, which has resulted in a compact, light-weight, low-cost and highly-reliable microinverter design.

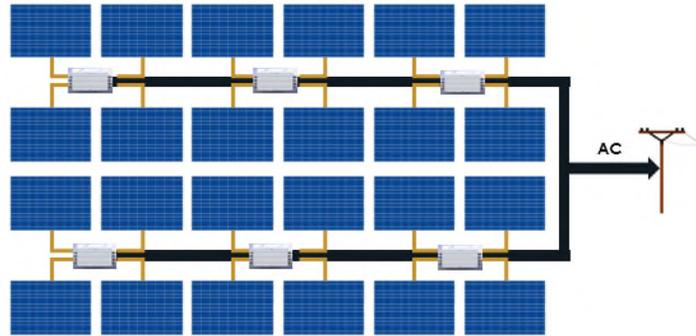


Figure 4 – Quad Microinverters Inverter Based PV Architecture

Power optimized string inverters and microinverters are both referred to as module level power electronic (“**MLPE**”) technologies. MLPE technologies distribute intelligence at each solar panel and have been legitimized by peer competitors like Enphase Energy, Inc. (NASDAQ: ENPH), and Solar Edge Technologies, Inc. (NASDAQ: SEDG). The Quad brings down the cost of an MLPE solution closer to the cost of a conventional string inverter system. The Quad offers higher performance at a significantly lower cost than the existing MLPE solutions currently available in the market. *See Part II- Information Concerning SPARQ-General Development of the Business – Competitive Conditions.*

### Quad Microinverter

SPARQ’s Quad microinverters are compact units installed on PV racks, and utilize proprietary and patented technology to convert DC electricity to AC electricity to supply energy to the electrical grid. Compared to solar PV module installations that use string inverters, the Quad delivers 5-20% greater energy harvest over the system lifetime. Independent control of each PV module also ensures that there is no reduction in system output if a module’s output is reduced by damage, shading or build-up of debris on its surface—a common occurrence with string inverters. The Quad configuration optimizes four PV modules with a single microinverter, simplifying design and installation while reducing the number of microinverters required. Additionally, emerging safety requirements, along with concerns of extreme levels of high-voltage DC, are also addressed by connecting the PV panels in parallel rather than in a string. Advanced features support integrated reactive power generation and control without incremental product cost. The Quad is a unique product in the market that can be used in any power grid, conventional or smart, independent of jurisdiction around the globe.

SPARQ’s novel approach has significantly reduced the power circuit complexity by using advanced mathematics, which is digitally implemented. Removing physical constraints with the help of mathematics has resulted in a lightweight, compact, cost-effective, and features-rich microinverter design providing high reliability typically exceeding the life of a PV panel. The technology has its roots in space and telecommunications applications where power supplies have been in continuous operation for over 25 years under harsh environmental conditions. Highly Accelerated Life Tests (“**HALT**”) performed by an independent laboratory have shown that the SPARQ Microinverter works normally under elevated range

of mechanical vibrations and operating temperatures (50 g vibrations, and -90°C to +110°C operating temperatures) indicating a very robust product.<sup>2</sup>

SPARQ introduced the Quad 2 microinverter (Q1200-4102) for single-mode (grid-tied) applications in 2018. SPARQ has recently expanded its product offering from single-mode inverters to dual-mode inverters (Q1200-4102-2W), which are suitable for both the grid-tied and off-grid applications. SPARQ's dual-mode Quad 2 inverters are also suited for the off-grid market, which is expected to reach over US\$1B by 2023.<sup>3</sup>

SPARQ's Quad microinverters have previously been successfully deployed in Canada, India and Mexico in 1kW to 700kW PV rooftop applications (including residential, car ports, and airports). Working with the Ontario Ministry of Energy and Hydro Ottawa, in 2019 SPARQ built a 196 kW PV rooftop on the community housing at Regina Lane in Ottawa, and successfully demonstrated the smart-grid features for 45% improved voltage stability and 11% improved grid efficiency. SPARQ has worked with ERDM SOLAR S.A. de C.V. ("**ERDM Solar**"), one of the largest PV module manufacturers in Mexico. In 2018 and 2019, ERDM issued purchase orders to SPARQ and deployed Quad microinverters in PV system designs ranging from 1kW to 700kW. ERDM Solar has built many residential, carport and airport PV solar rooftop systems throughout Mexico using SPARQ's microinverters. SPARQ has entered into a memorandum of understanding with ERDM Solar effective as of March 1, 2021 for the exclusive supply of SPARQ's products in over 30,000 residential PV systems in Mexico (the "**ERDM MOU**"). The term of the ERDM MOU is for a period of 36 months. SPARQ has also signed an exclusive memorandum of understanding (the "**Tata MOU**") with Tata Power Solar Systems Limited ("**TPSSL**"), one of the largest PV rooftop providers in India, to exclusively use SPARQ's microinverters in residential PV rooftops up to power ratings of 5kW. TPSSL has built a number of sites using SPARQ microinverters across India and is currently introducing the products in the market.

## **Distribution**

The PV supply chain is complex. Manufacturers of PV panels, inverters, cables and junction boxes supply their products to end users through distributors of PV components who manage supplies to thousands of small installers. Many large engineering, procurement and commissioning ("**EPC**") companies buy the products directly from the manufacturers. SPARQ is using the following three primary channels to distribute the Quad microinverters:

- PV module manufacturers such as TPSSL in India and ERDM Solar in Mexico;
- Junction box manufacturers such as Ti-Lane Precision Electronic Company Limited in China ("**Ti-Lane**"); and
- Distributors such as NextStepElectric Inc. ("**NSE**") in the United States

SPARQ has been working with TPSSL in India for the last four years to distribute and market its products there. TPSSL is one of the largest PV rooftop providers in India. SPARQ and TPSSL have signed the Tata MOU to introduce the Quad microinverter in residential rooftop market in India for systems up to 5kW. As part of this arrangement, TPSSL will distribute SPARQ's microinverters through its distribution network, and will also provide support.

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<sup>2</sup> a 'HALT on a Solar-Microinverter', Technical Report, File no. 670-54992, CRIQ Innovation Partner, Montreal, February 9, 2018.

<sup>3</sup> 'Peering into the future – India and the distributed standalone solar products', a study conducted by GOGLA and reported by cKinetics.

SPARQ has developed another relationship with ERDM Solar, one of the largest PV panel manufacturers in Mexico. ERDM Solar has been buying products from SPARQ, bundling it with their panels and selling the bundled products to EPC companies for installation. SPARQ's products have been used in commissioning hundreds of PV sites in residential, car ports, and airports applications through this relationship. SPARQ has entered into the ERDM MOU for the supply of products for over 30,000 PV residential units in Mexico City.

In addition to the module manufacturers, SPARQ works with manufacturers of junction boxes and cables, which are key components used in PV panels and solar installations, to distribute Quad microinverters through their channels. SPARQ has established a relationship with Ti-Lane, a junction box and cable manufacturer in China, for their distribution channel.

Although there is no formal agreement between SPARQ and NSE, both the companies are working together to introduce SPARQ Quad microinverters in greenhouse applications in the U.S.

### **New Products Under Development**

SPARQ is in the process of developing the Quad 3 (Q1400-4301-3W) multi-purpose inverter for farms. Currently, in agriculture PV applications, two distinct inverters are employed – one to feed solar power to the grid, and another to run water pumps for irrigation. The Quad 3 inverters perform the functions of both inverters in one. The multipurpose QUAD 3 inverter not only helps farmers to run water pumps and irrigate their farms, but also to earn extra revenue by selling electricity to the grid when their pumps are not in use. The engineering prototypes for the Quad 3 inverters have been built and are currently undergoing field trials in India by TPSSL. Once feedback is received from the field trials, performance refinement, if any, will be made; this will require the redesign of printed-circuit-board and retesting. Once performance is found to be satisfactory, SPARQ will obtain the regulatory certifications such as UL, CSA, IEC by employing an independent test lab. It is anticipated that product development will be complete by the end of December 2021 for commercial release.

Another product that SPARQ is currently developing is the Quad 2<sup>+</sup> inverter. The Quad 2<sup>+</sup> (Q2000-4103-2W) is a higher power rating microinverter that has the same features as the Quad 2 but it supports the installation of higher power PV panels (500W). A current trend is that the power rating of PV panels is increasing from 350W to 500W to generate higher energy per square meter at a lower cost. This will increase the demand for the higher power microinverters. SPARQ has completed the design and is currently performing the lab tests for the Quad 2<sup>+</sup>. The process of regulatory certifications is planned to start in the third quarter of 2021 and is expected to be completed in the fourth quarter of 2021. Once the regulatory certifications are achieved, field trials will take place in the first quarter of 2022 and the product will be commercially released thereafter.

Both the Quad 2 and Quad 2<sup>+</sup> inverters are competitively priced. However, SPARQ intends to bring the cost of power conversion at or below the price of string inverters. SPARQ is designing a microinverter that will support 8 PV panels instead of 4. This will bring down the cost by a factor of 2. The development of this product will take 18 months and could be commercially launched in the market during the first half of 2023.

With SPARQ's microinverter products that are commercially available, and the new products currently being designed, the company can address the requirements of any type of PV inverter needed for residential, commercial and agriculture applications. However, there is a vacuum in the market requiring the development of a bi-directional inverter product to form a home energy grid. The California solar mandate, which came in existence in 2020, requires newly constructed homes to have a solar photovoltaic (PV) system as an electricity source. Moreover, home owners there want to achieve grid energy independence

by combining a battery energy source with the PV. SPARQ's unique technology allows the design of such a battery inverter in a cost effective way. SPARQ is at a conceptual stage to begin the design of such product and is planning to launch it in 2023.

A common hardware platform, using the least number of components and software based control algorithms, makes SPARQ's technology highly flexible. With 60 patents, the innovative technology can be used to design intelligent power electronics converters for electric vehicle applications. The company plans to initiate an activity for designing such converters for charging stations in the next two to three years. These converters will allow the charging stations to charge any type of electric car in less than 10 minutes.

SPARQ has in-house research and development activity in Kingston, Ontario, Canada. It employs more than 10 people with advanced degrees in power electronics who conducts the research and product designs. The company has a state-of-the-art research facility to conduct the required product development.

## **History**

SPARQ originated from the advanced research conducted at ePOWER, the Centre for Energy and Power Electronics Research at Queen's University in Kingston, Ontario, Canada. SPARQ was founded at Queen's University in 2009 by Canada Research Chair in Power Electronics, Dr. Praveen Jain, Fellow of the Institute of Electrical and Electronics Engineers (the "IEEE") and the Royal Society of Canada. SPARQ designs, develops and markets innovative inverter products for the solar PV market.

During fiscal 2018, SPARQ introduced its third generation Quad Microinverter called the "Quad 2 (Q1200-4102)". A historical barrier to market acceptance for microinverters versus conventional String Inverters for solar power solutions has been the relative cost of microinverters. The Q1200-4102 provides an inverter solution at a reduced cost and with improved reliability over existing solutions. This inverter product has been deployed in Canada and Mexico in smart-grid, residential carports, and airports PV rooftops in the power range of 1 kW to 700 kW.

In fiscal 2019, SPARQ introduced a dual-mode Quad microinverter for the Indian market called the Quad 2 (Q1200-4102-2W). The dual-mode Q1200-4102-2W seamlessly works in on-grid and off-grid applications with or without energy storage. These features allow newer PV systems to be retrofitted to a large base of pre-existing battery inverters in India. On December 31, 2019, SPARQ entered into a Tata MOU to market the Quad 2 microinverter in India.

During fiscal 2020, a number of successful field trials of the Quad 2 microinverters were conducted by TPSSL in India pursuant to the Tata MOU. However, efforts to further development were hindered by the impact of COVID-19. In 2020, SPARQ also undertook a new initiative to design a microinverter called the Quad 3 for solar water pumps. The Quad 3 would not only help farmers run water pumps and irrigate their farms, but also earn extra revenue by selling electricity to the grid when their pumps are not in use. A number of patents were filed to protect the intellectual property with respect to the Quad 3 both in the United States and India.

In the current fiscal year, SPARQ has continued the development of the Quad 3 microinverter for solar water pumps, and began a field trial in India with respect to same. SPARQ has also created manufacturing efficiencies by changing its contract manufacturer to further reduce costs and increase margins on the sale of its products. On September 10, 2020, SPARQ entered into a manufacturing agreement with OCM Manufacturing Inc. in Ottawa, Ontario providing for the manufacture of its products (the "**OCM Supply Agreement**"). SPARQ also began the process of developing a new product called the "Quad 2+" to address the emerging requirements of higher power PV panels. The new product has the same features as the Quad 1200 but it has a higher power rating.

On June 10, 2021, SPARQ entered into the Definitive Agreement with MJ with respect to the Qualifying Transaction that would result in a reverse takeover of MJ by the shareholders of SPARQ.

On December 20, 2021, SPARQ held an annual and special meeting of its shareholders at which its shareholders approved, among other things, the Amalgamation and the SPARQ Consolidation, the latter of which was effected prior to closing of the Qualifying Transaction.

### **Production and Services**

SPARQ primarily conducts research, planning, and product development in-house at its Kingston, Ontario location. SPARQ's products are produced by a third party manufacturer pursuant to the OCM Supply Agreement in Ottawa, Ontario.

### **Specialized Skill and Knowledge**

The research, development, and production of SPARQ's products requires a high degree of specialized skill and knowledge. SPARQ is uniquely situated to attract and retain individuals with the necessary educational requirements through its relationship with Queen's University, which has a highly regarded electrical engineering program. The founder of SPARQ, Praveen Jain, is a professor and Canada Research Chair in Power Electronics at Queen's University in Kingston, Canada and also has considerable industrial experience in the power electronics field.

Currently, SPARQ has a team of highly qualified individuals with combined experience spanning approximately 120 years. Technical staff includes four individuals with PhDs and four with masters of applied science degrees who, combined, have over 600 technical publications and more than 100 patents. Praveen Jain, has the highest national and international awards in the field of power electronics and is a Fellow of the Royal Society of Canada.

### **Competitive Conditions**

Inverters are integral to any PV energy system as they convert DC power to AC power and feed it to the grid. Due to increasing shading or other obstructions on or around rooftop solar installations, traditional string inverters are often inefficient in gathering power from the sun.

SPARQ's Quad microinverter is unique and its closest competitors are existing MPLE companies. MPLEs assist solar power producers in deriving maximum efficiency from their installations by capturing the maximum amount of power possible at the individual module level in order to get maximum power from each panel. There are two common approaches to capture maximum energy in a PV system. In one power optimized string inverter approach marketed by SolarEdge Technologies, Inc. (NSDAQ:SEDG), an optimizer is used on every panel to provide independent maximum peak power tracking ("MPPT"), and a string inverter is used that collects DC power from all the optimizers and feeds AC power to the grid. In another approach marketed by Enphase Energy, Inc. (NSDAQ:ENPH), a microinverter is used on every panel that provides independent MPPT and feeds AC power to the grid. Due to the need for a large number of electronic devices in the design of a PV system, both of the aforementioned approaches are costlier than conventional string inverters, although they produce more energy.

With increasing pricing pressure and growing labour costs associated with installation of optimizers and Microinverters, SPARQ has introduced a new architecture in the Quad microinverter. The Quad microinverter optimizes four PV modules with a single microinverter, simplifying design and installation while reducing the number of required microinverters and eliminating all the optimizers. Moreover, SPARQ's Quad microinverters have employed sophisticated mathematical algorithms to remove physical

constraints resulting in a lightweight, compact, cost-effective, and features-rich PV inverter that can provide increased reliability typically exceeding the life of a PV panel. Quad microinverters bring down the overall price of installations significantly leading to higher energy output for every investment made. In addition, unlike its competitors, SPARQ's Quad microinverters are multipurpose and compatible with existing technologies, capable of working on-grid, off-grid, and with battery inverters.

## **Components**

SPARQ's microinverters mainly consist of electronic components, magnetic components, the enclosure and connectors. All the electronic components and connectors are standard parts which are typically readily available in the international market. However, some delays may be expected due to the impact of COVID-19 (See "*Risk Factors*"). Magnetic components and enclosures are custom built based on SPARQ's proprietary designs. All the components can be purchased by placing an order in advance (approximately 12 weeks).

The cost of a bill-of-material for SPARQ is volume dependent. By increasing volumes a price reduction of 10-20% can be achieved.

SPARQ has entered into a manufacturing contract with OCM in Ottawa to build the products. As the volume increases, the fixed cost of manufacturing can be spread out bringing down the per unit cost of the finished product.

## **Intellectual Property**

### *Regulatory Framework for Patents*

A patent is a form of intellectual property that gives its owner the legal right to exclude others from making, using, or selling an invention for a limited period of years in exchange for publishing an enabling public disclosure of the invention. The typical patent term is 20 years from the filing date.

Once an invention has been reduced to practice (i.e. an enabling disclosure can be placed in the public domain), a patent application is filed with the Patent Office of the country where protection is sought. This is then searched by a patent examiner for documents pertaining to novelty and inventive step. The application is also assessed for industrial applicability and other formal requirements.

The examiner then issues a search report, and the applicant has an opportunity to respond to the comments and/or make permitted amendments to the application. Examination proceeds until a patent is granted, refused or the application is abandoned. Often, the application is narrowed in scope during examination (also known as 'prosecution'), and one or more divisional applications can be filed, where separate inventions are sectioned off into separate applications directed to subsets of subject matter contained in the parent application.

When a patent is granted, a certificate is issued. Payment of annual renewal fees are required to keep the rights alive for the duration of the term of the patent. A patent must be actively enforced and is always open to challenge by a third party, either through opposition proceedings before a Patent Office, or through revocation proceedings before a Court of Law.

A patent is a territorial right, and sits alongside other intellectual property rights in many jurisdictions, such as data exclusivity, supplementary protection certificates, trade secrets and knowhow. The intellectual property strategy that SPARQ has adopted is to pursue patent protection in key markets including in the U.S., Canada, India, Mexico and Australia.

*Patents*

SPARQ’s business is technology and engineering driven and depends to a significant degree on protection of proprietary assets through patent registration. SPARQ has a rich portfolio of intellectual property on inverter architecture, converter topologies, and control mechanisms. SPARQ has 55 patents that have been used historically and that will continue to be used in designing novel products for solar PV rooftops, solar water pumps for farming, energy storage, and electric vehicles (both for charging stations and on-board chargers). SPARQ will continue to strategically protect its innovations and inventions with a robust intellectual property protection strategy including patent registrations.

SPARQ has a strong portfolio of patents covering system architectures, inverter topologies, inverter control techniques, and integrated packaging. A generic hardware platform and software based control algorithms makes SPARQ’s technology highly flexible in designing innovative products for PV inverters, battery storage inverters, and power electronics converters for electric vehicle applications. A list of the patents is given in Table 1.

Table 1: List of patents

	Title	Patent Number	Date of Issue	Country
1.	Multi-Input PV Inverter System and Method	10,951,039	March 2021	USA
2.	DC-Bus Controller for an Inverter	2,865,612	January 2021	Canada
3.	DC-AC Inverter with Soft Switching	2,809,592	May 2020	Canada
4.	Maximum Power Point Tracking for a Power Generator	328,728	December 2019	India
5.	Hybrid PLL for Grid Synchronization in Distributed Generation	10,386,396	August 2019	USA
6.	Distributed Power Generation Interface	2,774,401	January 2019	Canada
7.	Maximum Power Point Tracking for a Power Generator	328,728	December 2019	India
8.	Single Phase Power System Controller and Method Therefore	2,814,527	October 2018	Canada
9.	Dynamic Maximum Efficiency Tracker for PV Micro-Inverter	10,063,057	August 2018	USA
10.	PV Inverter with Micro/Nano-Grid integration Capability	10,050,445	August 2018	USA
11.	Digital Controller for a Power Converter	2,789,748	July 2018	Canada
12.	DC-Bus Controller for an Inverter	9,948,108	April 2018	USA
13.	High Efficiency Inverter for Distributed Generation	9,935,562	April 2018	USA
14.	DC-Eliminating Current Controller for Grid-Connected DC/AC Converters	9,887,640	February 2018	USA
15.	High Efficiency DC/DC Converter and Controller	9,882,389	January 2018	USA
16.	Multiple Input Three-Phase Inverter with Independent MPPT and High Efficiency	9,859,714	January 2018	USA
17.	Maximum Power Point Tracking for a Power Generator	10 2870310	February 2017	China
18.	Multi-Input PV Inverter with Independent MPPT and Minimum Energy Storage	9,804,627	October 2017	USA

19.	Observer-Based Control System for Grid-Connected DC/AC converters with LCL-Filter	9,729,085	August 2017	USA
20.	Single Phase Power System Controller and Method Therefor	9,705,331	July 2017	USA
21.	Digital Controller for a Power Converter	9,698,665	July 2017	USA
22.	Adaptive Control Method for Grid-Connected Inverters used with Distributed Power Generation	9,692,320	June 2017	USA
23.	Distributed Power Generation Interface	10 2598455	June 2017	China
24.	Photovoltaic Cell Inverter	2,655,007	June 2017	Canada
25.	Distributed Power Generation Interface	9,680,364	June 2017	USA
26.	DC-AC Inverter with Soft Switching	9,641,099	May 2017	USA
27.	ZVS Voltage Source Inverter with Reduced Output Current Ripple	9,590,531	March 2017	USA
28.	ZVS Voltage Source Inverter	9,571,005	February 2017	USA
29.	Method and Apparatus for Use with Grid Connected Inverters in Distributed Power Generation	9,570,970	February 2017	USA
30.	Inverter for a Distributed Power Generator	9,553,500	January 2017	USA
31.	System and Method for Active/Reactive Power Compensation	9,543,859	January 2017	USA
32.	Maximum Power Point Tracking for a Power Generator	6,067,551	January 2017	Japan
33.	DC-Bus Controller for Grid-Connected DC/AC Converters	9,537,424	January 2017	USA
34.	Maximum Power Point Tracking for a Power Generator	2011 245033	May 2016	Australia
35.	Power Converter for a Power Generator	2011 245032	June 2016	Australia
36.	High Efficiency DC/DC Converter and Controller	9,461,553	October 2016	USA
37.	Current Sensorless MMPT for PV Micro-Inverters,	9,461,551	October 2016	USA
38.	Power Converter for a Power Generator	6006717	September 2016	Japan
39.	Integrated Microinverter Housing for a PV AC Module	9,343,600	May 2016	USA
40.	Adaptive Nonlinear Current Observer for Boost AC/DC Converters	9,325,235	April 2016	USA
41.	Input Power Controller for AC/DC Battery Charging	9,257,864	February 2016	USA
42.	Distributed Power Generation Interface	5810470	October 2015	Japan
43.	Maximum Power Point Tracking for a Power Generator	2,796,987	December 2015	Canada
44.	Power Converter for a Power Generator	2,796,985	December 2015	Canada
45.	A Controller and a Method of Controlling a Resonant Power Converter	2,789,381	October 2015	Canada
46.	Digital EMI Filter	9,172,299	October 2015	USA
47.	Zero Voltage Switching Interleaved Boost AC/DC Converter	8,723,487	May 2014	USA

48.	Distributed Power Generation Interface	8,688,287	April 2014	USA
49.	Distributed Power Generation Interface	319,373	April 2014	Mexico
50.	Inverter for a Distributed Power Generator	8,670,249	March 2014	USA
51.	Load Adaptive Variable Frequency Phase-Shift Full-Bridge DC/DC Converter	8,644,035	February 2014	USA
52.	Power Converter for a Power Generator	317,804	February 2014	Mexico
53.	Controller for a Resonant Power Converter	8,638,571	January 2014	USA
54.	Maximum Power Point Tracking for a Power Generator	8,612,058	December 2013	USA
55.	Maximum Power Point Tracking for a Power Generator	313,192	September 2013	Mexico
56.	Power Converter for a Power Generator	8,467,200	June 2013	USA
57.	Hybrid Solar/Motor Drive Inverter	Application 17/139,588	Pending	USA
58.	Hybrid Solar/Motor Drive Inverter	Application No. 202011057376	Pending	India
59.	Multi-Input PV Inverter System and Method	Application No. 201911016019	Pending	India
60.	Current Sensorless MMPT for PV Micro-Inverters	Application No. 2,902,428	Pending	Canada

### *Trademarks*

SPARQ currently has no registered trademarks.

### **Cycles**

SPARQ's addressable segment market of residential PV rooftop is not cyclical.

### **Economic Dependence**

SPARQ is closely working with two PV module manufacturers: TPSSL in India and ERDM Solar in Mexico. SPARQ is expecting to draw a significant amount of its revenue from these two sources. SPARQ is reducing its economic dependence on these two relationships by also working with one of the world's largest junction box manufacturers, Ti-Lane in China. Initial discussions are underway where Ti-Lane may help SPARQ to sell its microinverters using their well established channels. SPARQ is exclusively using cables and connectors in its products from Ti-Lane making to further bolster this relationship. Moreover, SPARQ is also working with NSE in the United States to distribute its inverters for greenhouse agriculture applications. Although there is no formal agreement, SPARQ has been assisting NSE to prepare quotations to bid for several greenhouse projects in the U.S.

### **Environmental Protection**

Changes in environmental protection requirements nationally and globally can impact the financial prospects for SPARQ. SPARQ's products enable the generation of electricity from renewable energy sources and can also be used in electric vehicles for a cleaner environment. The current worldwide annual deployment of PV electricity generating systems is 120GW and that is expected to increase to 150GW in the next two years.<sup>4</sup> Out of a total PV deployment throughout the globe, the rooftop segment is about 40

GW – a market that is directly addressable by SPARQ’s products.<sup>4</sup> This has the potential to reduce up to 50 million metric tons of greenhouse gas per year. Moreover, the exponential growth of electric vehicles worldwide, where SPARQ’s product has a potential role to play, will further help in the reduction of greenhouse gas emissions for a cleaner environment.

Policy changes in the jurisdictions in which SPARQ operates which are in favour of renewable energy would generally have a positive impact on SPARQ’s business. However, the cancellation or reduction in rebates from these policies could have a negative impact. However, the continued reduction in prices for PV panels has allowed PV electricity generation to reach parity with the grid price and is continuously dropping.

### Employees

SPARQ currently has 12 full and part-time employees and will hire few additional personnel in order to achieve its business objectives for the next twelve months. Of these employees, four hold PhD degrees, and four hold masters of applied science degrees. Of the employees, 10 are directly engaged in research and development with the remaining engaged in administrative, business and operations support.

### Social or Environmental Policies

To date, SPARQ has not implemented social or environmental policies. However, SPARQ is aware it may need to adopt additional social, environmental and human rights policies in the future.

### Selected Consolidated Financial Information

The following tables set forth selected historical financial information for SPARQ for fiscal years ended December 31, 2020 and 2019 and for the nine month period ended September 30, 2021. The SPARQ Financial Statements have been prepared in accordance with IFRS and are denominated in Canadian dollars. Such information is derived from the SPARQ Financial Statements and should be read in conjunction with such financial statements hereto as Schedule C.

<b>Balance Sheet Data</b>	<b>As at September 30, 2021</b> (\$) <b>(unaudited)</b>	<b>As at December 31, 2020</b> (\$) <b>(audited)</b>	<b>As at December 31, 2019</b> (\$) <b>(audited)</b>
Cash and cash equivalents	368,301	1,346,904	57,558
Total assets	1,138,134	1,946,051	1,048,906
Total liabilities	184,657	106,120	1,534,559
Shareholders’ equity	1,138,134	1,871,312	(354,926)

<b>Income Statement Data</b>	<b>Nine month period ended</b> <b>September 30, 2021</b> (\$) <b>(unaudited)</b>	<b>Year ended</b> <b>December 31, 2020</b> (\$) <b>(audited)</b>	<b>Year ended</b> <b>December 31, 2019</b> (\$) <b>(audited)</b>
Total revenue	nil	1,169	590,683
Total expenses	551,484	1,631,692	1,494,619
Net income (loss)	(372,756)	(1,091,988)	(1,010,516)

<sup>4</sup> ‘Renewables 2020 – Analysis and Forecast to 2025, International Energy Agency.

### **Significant Acquisitions**

SPARQ has not made any significant acquisitions within the past three fiscal years.

### **Management's Discussion and Analysis**

The SPARQ MD&A for the fiscal years ended December 31, 2020 and 2019, and for the nine month period ended September 30, 2021 is attached as Schedule D and should be read in conjunction with the SPARQ Financial Statements attached hereto as Schedule C.

### **Description of the Securities**

As of the date of this Filing Statement, SPARQ is authorized to issue: (i) an unlimited number of SPARQ Common Shares, of which 60,000,000 are outstanding; (ii) an unlimited number of Class A Shares, of which nil are outstanding; and (iii) an unlimited number of Class B Shares, of which nil are outstanding. The key attributes of SPARQ's securities are as follows:

#### *Voting Rights*

Each holder of SPARQ Common Shares is entitled to receive notice of and to attend all meetings of shareholders of SPARQ and to vote at such meetings, except meetings at which only holders of a specified class of shares (other than SPARQ Common Shares) or a specified series of shares are entitled to vote.

At all meetings of which notice must be given to the holders of the SPARQ Common Shares, each holder of SPARQ Common Shares is entitled to one vote in respect of each SPARQ Common Share held by such holder.

At all times prior to the automatic conversion of the Class A Shares, the holders of SPARQ Common Shares are not entitled to vote separately as a class upon any proposal to amend the articles of SPARQ to: (i) increase or decrease any maximum number of authorized shares of such class, or increase any maximum number of authorized shares of a class or series having rights or privileges equal or superior to the shares of such class; (ii) effect an exchange, reclassification or cancellation of the shares of such class; or (iii) create a new class or series of shares equal or superior to the shares of such class.

#### *Dividends*

The holders of SPARQ Common Shares are entitled, subject to the rights, privileges, restrictions and conditions attaching to any other class or series of shares of SPARQ, to receive dividends if, as and when declared by the board of directors of SPARQ.

#### *Liquidation, Dissolution or Winding-Up*

The holders of the SPARQ Common Shares are entitled, subject to the rights, privileges, restrictions and conditions attaching to any other class or series of shares of SPARQ, to receive the remaining property of SPARQ on a liquidation, dissolution or winding-up of SPARQ, whether voluntary or involuntary or on any return of capital or other distribution of assets of SPARQ among its shareholders for the purpose of winding up the affairs of SPARQ.

#### *Management Bonus Shares*

The articles of SPARQ provide that in the event of an IPO (as such term is defined in the articles), SPARQ shall issue the Management Bonus Shares to Praveen Jain and certain eligible employees, as determined by the board of directors of SPARQ, in the proportions set out below. The completion of the Qualifying Transaction with MJ shall constitute an IPO under SPARQ's articles.

<b>Net Purchase Price</b>	<b>Percentage of Net Purchase Price to Praveen Jain</b>	<b>Percentage of Net Purchase Price to Eligible Employees</b>	<b>Aggregate Net Purchase Price Paid to Praveen Jain and Eligible Employees</b>
Less than \$1,000,000	Nil	Nil	Nil
\$1,000,000 to \$8,000,000	7.5%	7.5%	15.0%
\$8,000,001 to \$16,000,000	15.0%	5.0%	20.0%
Greater than \$16,000,001	20.0%	10.0%	30.0%

The deemed purchase price for the outstanding SPARQ Common Shares payable by MJ pursuant to the Qualifying Transaction exceeds \$16,000,001.

### **Capitalization of SPARQ**

The share capital of SPARQ as at September 30, 2021 and December 23, 2021 is as follows:

<b>Designation of Security</b>	<b>Amount Authorized</b>	<b>Amount Outstanding as at September 30, 2021</b>	<b>Amount Outstanding as at December 23, 2021 (after giving effect to the QT Brokered Financing, the SPARQ Consolidation, the issuance of the Management Bonus Shares and prior to giving effect to the Qualifying Transaction)</b>
SPARQ Common Shares	Unlimited	453,957,613	60,000,000
Class A Shares	Unlimited	Nil	Nil
Class B Shares	Unlimited	Nil	Nil
SPARQ Options	2,700,000	Nil	Nil
QT Subscription Receipts	N/A	Nil	20,000,000
QT Equity Compensation Options	N/A	Nil	1,258,250

### Prior Sales of Securities of SPARQ

The following table sets forth the number and price at which securities of SPARQ have been sold within the 12 months period prior to the date of this Filing Statement.

Date	Number of SPARQ Securities	Type	Issue Price Per Share	Aggregate Issue Price	Nature of Consideration Received
December 11, 2020	251,110,582 <sup>(1)</sup>	Common Shares	\$0.01191	\$2,989,700	Cash
December 11, 2020	36,442,989 <sup>(2)</sup>	Common Shares	Nominal	\$1	Cash
December 22, 2021	20,000,000 <sup>(3)</sup>	Subscription Receipts	\$0.50	\$10,000,000	Cash

**Notes:**

- (1) Issued in repayment of shareholder loans advanced by shareholders in the aggregate amount of \$2,989,700.
- (2) Issued on the exercise of options granted outside of SPARQ’s Legacy Option Plan.
- (3) Issued pursuant to the QT Brokered Financing. All proceeds are in escrow pursuant to the provisions of the Subscription Receipt Agreement until satisfaction of the Release Conditions.

### Executive Compensation

#### *Compensation Philosophy and Objectives*

The objectives of SPARQ’s executive compensation policy are: (a) to attract and retain individuals of high calibre to serve as officers of SPARQ; (b) to motivate their performance in order to achieve SPARQ’s strategic objectives; and (c) to align the interests of executive officers with the long-term interests of SPARQ shareholders.

The board of directors, on the recommendation of management, of SPARQ is responsible for setting the overall compensation strategy of SPARQ and evaluating and making determinations for the compensation of its directors and executive officers. The board of directors, on the recommendation of management, annually reviews and determines base salary.

Each executive officer receives a base salary. SPARQ offers its employees (including its executive officers) group benefit plans, including medical, dental, life, and accidental death and dismemberment coverage.

While SPARQ reimburses its executive officers for expenses incurred in the course of performing their duties as executive officers of SPARQ, SPARQ has not provided any compensation that would be considered a perquisite or personal benefit to its executive officers.

#### *Legacy Option Plan*

SPARQ adopted a stock option plan (the “**Legacy Option Plan**”) on July 31, 2013 as a means of attracting, retaining and motivating directors, officers, key employees and consultants and providing them with a greater incentive to develop and promote the growth and success of SPARQ by granting to them options (“**SPARQ Options**”) to purchase shares in the capital of SPARQ.

There are no issued and outstanding SPARQ Options as of the date of this Filing Statement. The Legacy Option Plan will be terminated upon completion of the Amalgamation and the Stock Option Plan of MJ will become the stock option plan for the Resulting Issuer.

**Summary Compensation Table**

The following table sets out information concerning the compensation for the fiscal years ending on December 31, 2020 and 2019 for SPARQ’s Chief Executive Officer, Praveen Jain, and Chief Financial Officer, Kyle Appleby, (the “SPARQ Named Executive Officers”).

Name and Principal Position	Year	Salary (\$)	Share based Awards	Option-based Awards	Non-equity Incentive Plan Compensation		All Other Compensation	Total Compensation (\$)
					Annual Incentive Plans	Long-term Incentive Plans		
Praveen Jain Chief Executive Officer	2020	132,999 <sup>(1)</sup>	-	325,253 <sup>(2)</sup>	-	-	-	458,252
	2019	140,000 <sup>(1)</sup>	-	-	-	-	-	140,000
Kyle Appleby Chief Financial Officer <sup>(3)</sup>	2020	-	-	-	-	-	-	-
	2019	-	-	-	-	-	-	-

**Notes:**

- (1) Annual consulting fee paid through Dr. Jain’s wholly-owned company, PE Consultants Inc.
- (2) The grant-date fair market value was calculated using the Black-Scholes model with the following assumptions: stock price of \$0.01 per share; strike price of \$0.00; term to maturity of 1 year; annualized risk-free rate of 0.25% and volatility of 99.95%.
- (3) Kyle Appleby was appointed CFO on June 24, 2021.

**Incentive Plan Awards – Named Executive Officers**

*Incentive Plan Awards - Outstanding Share-Based Awards and Option-Based Awards*

As of December 31, 2020, the following share-based or option-based awards were outstanding for the SPARQ Named Executive Officers:

Name	Option-Based Awards				Share-Based Awards		
	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)	Market or payout value of vested share-based awards not paid out or distributed (\$)
Praveen Jain	-	-	-	-	-	-	-
Kyle Appleby Chief Financial Officer <sup>(1)</sup>	-	-	-	-	-	-	-

**Note:**

- (1) Kyle Appleby was appointed as Chief Financial Officer on June 24, 2021.

*Incentive Plan Awards – Value Vested or Earned During the Year*

As of December 31, 2020, the following incentive plan awards vested or were earned by the SPARQ Named Executive Officers:

Name	Option-based awards – Value vested during the year (\$)	Share-based awards – Value vested during the year (\$)	Non-equity incentive plan compensation – Value earned during the year (\$)
Praveen Jain	325,526 <sup>(1)</sup>	-	-
Kyle Appleby Chief Financial Officer <sup>(1)</sup>	-	-	-

**Notes:**

- (1) This number reflects the aggregate dollar value that would have been realized if Dr. Jain exercised his options on the vesting date. The market price for the underlying SPARQ Common Shares is \$0.01191 per share based on the share issuance price used in the financing completed on or about the same time as the issuance of the options. The aggregate exercise price for the options was \$1.
- (2) Kyle Appleby was appointed as Chief Financial Officer on June 24, 2021.

*Management Contracts – Termination and Change of Control Benefits*

In the fiscal years ended December 31, 2020 and 2019, Dr. Jain received consulting fees for his services through payment to his wholly-owned company, although no formal agreement was entered into. Dr. Jain, his wholly-owned corporation, PE Consultants Inc., and the Resulting Issuer will enter into an executive services agreement effective as of the Closing (the “**CEO Agreement**”). The CEO Agreement will provide for an annual base fee of \$300,000 payable monthly in arrears, or as otherwise determined between the parties, and will include standard non-competition, non-solicitation and confidentiality clauses. Dr. Jain will be eligible for an annual bonus at the sole discretion of the board of directors from time to time. The CEO Agreement is for an indefinite period of time until terminated in accordance with the terms of the agreement. The Resulting Issuer may at any time during the term, without notice or pay in lieu of such notice, terminate the CEO Agreement, with or without cause. Upon termination without cause, or upon resignation in connection within 30 days of a change of control, Dr. Jain is entitled to a payment equal to two (2) times the base fee plus any applicable bonus.

Kyle Appleby, through his wholly-owned company, entered into a consulting agreement with SPARQ on June 23, 2021, which will be assigned to the Resulting Issuer on Closing (the “**CFO Agreement**”). Pursuant to the CFO Agreement, Mr. Appleby, through his company, shall receive a monthly fee of \$3,000 plus HST, to be reviewed annually, as remuneration for services of a part- chief financial officer. The CFO Agreement is for a one year term which automatically renews. The CFO Agreement can be terminated by SPARQ for any reason upon providing Mr. Appleby with one months’ notice or payment in lieu thereof. The CFO Agreement provides for standard confidentiality and non-solicitation provisions.

*Directors’ Compensation*

*Director Compensation Table*

The following table sets forth all amounts of compensation provided to the directors of SPARQ (other than directors who are also SPARQ Named Executive Officers) during the year ended December 31, 2020.

Name	Fees Earned (\$)	Share-based awards (\$)	Option-based awards <sup>(1)</sup> (\$)	Pension value (\$)	All other compensation (\$)	Total (\$)
Nishith Goel	-	-	108,418	-	-	108,418

**Note:**

- (1) The grant-date fair market value was calculated using the Black-Scholes model with the following assumptions: stock price of \$0.01 per share; strike price of \$0.00; term to maturity of 1 year; annualized risk-free rate of 0.25% and volatility of 99.95%.

*Incentive Plan Awards - Outstanding Share-Based Awards and Option-Based Awards*

There were no share-based or option-based awards outstanding for any of the directors of SPARQ (other than directors who are also SPARQ Named Executive Officers) as of December 31, 2020.

*Incentive Plan Awards – Value Vested or Earned During the Year*

The following table sets forth the value of all incentive plan awards vested or earned by each director of SPARQ (other than directors who are also SPARQ Named Executive Officers) during the year ended December 31, 2020:

<b>Name</b>	<b>Option-based awards – Value vested during the year<sup>(1)</sup> (\$)</b>	<b>Share-based awards – Value vested during the year (\$)</b>	<b>Non-equity incentive plan compensation – Value earned during the year (\$)</b>
Nishith Goel	108,508	-	-

**Note:**

- (1) This number reflects the aggregate dollar value that would have been realized if Mr. Goel exercised his options on the vesting date. The market price for the underlying SPARQ Common Shares is \$0.01191 per share based on the share issuance price used in the financing completed on or about the same time as the issuance of the options. The aggregate exercise price for the options was \$1.

**Non-Arm’s Length Transactions**

Other than as set out below, there has been no acquisition of assets or services or provision of assets or service in any transaction within the five years before the date of this Filing Statement, or in any proposed transaction, where SPARQ or any subsidiary of SPARQ has obtained such assets or services from:

- (a) any director, officer or promoter of SPARQ;
- (b) a securityholder disclosed in this Filing Statement as a principal securityholder, either before or after giving effect to the Qualifying Transaction; or
- (c) an Associate or Affiliate of any of the persons or companies referred to in paragraphs (a) or (b) above.

In August 2020, SPARQ received an aggregate of \$2,989,700 in non-interest bearing loans from certain of its shareholders, including among them Highchart Investments Limited and Greg Steers, who are principal securityholders (the “**Loans**”). See *Part II – Information Concerning SPARQ – Principal Securityholders*. The Loans were evidenced by promissory notes issued by SPARQ and repaid in full through the issuance of 251,110,582 SPARQ Shares on December 11, 2020. See *PART II – Information Concerning SPARQ – Prior Issuances of Shares*.

**Legal Proceedings**

There are no legal proceedings material to SPARQ to which SPARQ is a party to or of which any of its property is the subject matter, and there are no such proceedings known to SPARQ to be contemplated.

### **Material Contracts**

The following contracts are material contracts to SPARQ:

1. the OCM Supply Agreement
2. the Tata MOU;
3. the ERDM MOU;
4. the Definitive Agreement;
5. the QT Agency Agreement;
6. the Subscription Receipt Agreement; and
7. the Amalgamation Agreement.

Copies of these agreements may be inspected during regular business hours at the office of SPARQ's Canadian legal counsel, Aird & Berlis LLP, 181 Bay Street, Suite 1800, Toronto, Ontario M5J 2T9 until the Completion of the Qualifying Transaction and for a period of 30 days thereafter.

### PART III – INFORMATION CONCERNING THE RESULTING ISSUER

Information contained in this Part III assumes completion of: the MJ Consolidation, the SPARQ Consolidation, satisfaction of the Release Conditions and issuance of the Resulting Issuer securities in the QT Brokered Financing, the Amalgamation, and approval by the TSXV.

#### Corporate Structure

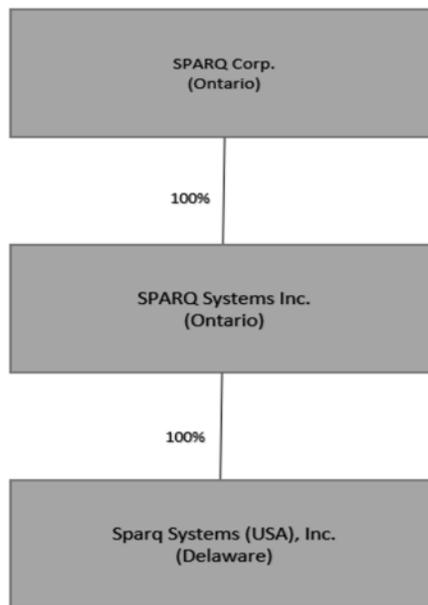
##### *Name and Incorporation*

Immediately prior to the Completion of the Qualifying Transaction, it is anticipated that the Resulting Issuer will file articles of amendment to change its name to “SPARQ Corp.”, or such other name as may be determined in the sole discretion of the Board and approved by the TSXV.

The Resulting Issuer’s registered office will be located at 945 Princess Street, Innovation Park, Kingston, Ontario, K7L 0E9.

##### *Intercorporate Relationships*

The following organizational chart reflects the proposed structure of the Resulting Issuer after Completion of the Qualifying Transaction:



### Description of the Business

Following the Closing, the Resulting Issuer will continue to carry on the business of SPARQ. See “Part II – Information Concerning SPARQ – Description of the Business”.

#### *Stated Business Objectives*

The Resulting Issuer’s business objectives will be the same as SPARQ’s. The Resulting Issuer intends to utilize the funds over the next 12 months after Completion of the Qualifying Transaction as described in the “Available Funds and Principal Purposes” section above.

#### *Milestones*

Within 12 months following the Completion of the Qualifying Transaction, the Resulting Issuer anticipates working towards various milestones, including:

<b>Milestone</b>	<b>Target Date</b>
Advancement of prototype of the Quad 3 Microinverter and completion of regulatory certifications	Q2 2022
Completion of lab testing and regulatory certification of the Quad 2+ microinverter	Q1 2022
Increase manufacturing capabilities in Canada to achieve supply of 1,000 units per month	Q3 2022
Build marketing and support teams in Mexico and India to serve those markets, and establish a sales team in Canada for US and Canadian distribution	Q1 2022

### Description of the Securities

The share structure and the rights associated with the Common Shares will remain the same after the Qualifying Transaction. See “Part I - Information Concerning MJ - Description of the Securities”.

### Pro-Forma Consolidated Capitalization

The following table sets forth the capitalization of the Resulting Issuer after giving effect to the transactions described in the unaudited Pro Forma Consolidated Financial Statements attached hereto as Schedule E.

<b>Designation of Security<sup>(1)</sup></b>	<b>Amount Authorized</b>	<b>Amount Outstanding After Giving Effect to the Qualifying Transaction</b>
Common Shares	Unlimited	82,444,752
Options granted under the Stock Option Plan <sup>(2)</sup>	10% of all issued and outstanding Common Shares	5,269,000
Resulting Issuer QT Equity Compensation Options <sup>(3)</sup>	N/A	1,258,250

<b>Designation of Security<sup>(1)</sup></b>	<b>Amount Authorized</b>	<b>Amount Outstanding After Giving Effect to the Qualifying Transaction</b>
Resulting Issuer Warrants <sup>(4)</sup>	N/A	20,000,000

**Notes:**

- (1) See “Part III – Information Concerning the Resulting Issuer – Escrowed Securities”.
- (2) Includes 244,000 options previously granted under the Stock Option Plan to directors and officers of MJ and 5,025,000 options to be granted to directors and officers of the Resulting Issuer on the completion of the Qualifying Transaction. Each option granted to the directors and officers of the Resulting Issuer entitles the holder thereof to acquire one (1) Common Share at an exercise price of \$0.50 per share for a period of five years from the date of grant.
- (3) Each being exercisable for a unit consisting of one Common Share and one Resulting Issuer Warrant.
- (4) Each being exercisable for one Common Share.

**Pro-Forma Fully Diluted Share Capital**

In addition to the information set out in the capitalization table above, the following table sets out the diluted share capital of the Resulting Issuer after giving effect to the Qualifying Transaction.

	<b>Number of Securities</b>	<b>Percentage of Total After Giving Effect to the Proposed Qualifying Transaction</b>
Common Shares issued and outstanding	2,444,752	2.22%
Common Shares issued pursuant to the Amalgamation Agreement (to be issued to holders of existing SPARQ Common Shares)	60,000,000	54.43%
Common Shares issued pursuant to the QT Brokered Financing upon conversion of the QT Subscription Receipts	20,000,000	18.14%
Common Shares reserved for issuance pursuant to existing options granted to directors, officers, employees and consultants of the Resulting Issuer pursuant to the Stock Option Plan <sup>(1)</sup>	244,000	0.22%
Common Shares reserved for issuance pursuant to options that will be granted to directors, officers, employees and consultants of the Resulting Issuer pursuant to the Stock Option Plan <sup>(4)</sup>	5,025,000	4.57%
Common Shares reserved for issuance upon exercise of Resulting Issuer QT Equity Compensation Options <sup>(2)</sup>	1,258,250	1.14%
Common Shares reserved for issuance upon exercise of the Resulting Issuer Warrants issued upon exercise of the Resulting Issuer QT Equity Compensation Options	1,258,250	1.14%
Common Shares reserved for issuance upon exercise of the Resulting Issuer Warrants	20,000,000	18.14%
<b>TOTAL NUMBER OF DILUTED SECURITIES</b>	<b>110,230,252</b>	<b>100.00%</b>

**Notes:**

- (1) See “Options” below for a summary of the terms of the options.
- (2) Each Resulting Issuer QT Equity Compensation Option will entitle the holders to acquire one unit of the Resulting Issuer (the “**Equity Compensation Units**”) at an exercise price of \$0.50 per unit for a period of 24 months following the date the Common Shares begin trading on the TSXV, subject to certain adjustments, and each such Equity Compensation Unit shall consist of one Common Share and one Resulting Issuer Warrant.

- (3) Each Resulting Issuer Warrant will entitle the holder to acquire one Common Share at an exercise price of \$0.75 per share for a period of 24 months from the date of satisfaction of the Release Conditions.
- (4) Each option to be granted to the directors and officers of the Resulting Issuer upon the completion of the Qualifying Transaction shall entitle the holder thereof to acquire one (1) Common Share at an exercise price of \$0.50 per share for a period of five years from the date of grant.

### **Estimated Available Funds and Principal Purposes**

#### ***Estimated Available Funds***

Based on information available as at November 30, 2021, upon the Completion of the Qualifying Transaction, the Resulting Issuer is expected to have approximately \$9,048,657 in Available Funds, which includes the following:

<b>Estimated Funds Available</b>	<b>Amount (\$)</b>
Cash of MJ as at November 30, 2021	173,131
Cash of SPARQ as at November 30, 2021	117,651
Gross proceeds of the QT Brokered Financing	10,000,000
Estimated fees and expenses of the Qualifying Transaction <sup>(1)</sup>	1,242,125
<b>Total Estimated Available Funds</b>	<b>\$9,048,657</b>

**Note:**

- (1) Estimated fees and expenses of the Qualifying Transaction are made up of (i) financing fees in the amount of \$742,125 representing the Cash Commission and a capital markets advisory fee in the QT Brokered Financing, and (ii) estimated transactions costs of \$500,000.

#### ***Principal Purposes of Funds***

Based on information available as at November 30, 2021, the following table sets forth the principal purposes for which the estimated funds available to the Resulting Issuer upon Completion of the Qualifying Transaction and the current estimated amounts to be used for each such principal purpose:

<b>Principal Use of Available Funds</b>	<b>Amount (\$)</b>
Research and Development	1,815,000
Regulatory certifications	150,000
Inventory	4,374,000
Sales and Marketing	1,398,000
General and administration	1,255,000
Unallocated working capital	56,657
<b>Total</b>	<b>9,048,657</b>

Notwithstanding the foregoing, there may be circumstances where, for sound business reasons, a reallocation of funds is necessary in order for the Resulting Issuer to achieve its objectives as set out in this Filing Statement.

## Dividend Policy

It is not contemplated that any dividends will be paid in the immediate or foreseeable future following Completion of the Qualifying Transaction.

## Principal Securityholders

To the knowledge of management of MJ and SPARQ, no person or company is anticipated to own of record or beneficially, directly or indirectly, or exercise control or direction over more than 10% of any class of voting securities of the Resulting Issuer upon completion of the Amalgamation, other than as set out below.

	Number of Shares Owned (Percentage of Class and Type of Ownership)	
	Common Shares	Percentage of Voting Rights
Highchart Investments Limited <sup>(1)</sup>	14,105,007	17.11%
Greg Steers <sup>(2)</sup>	10,013,042	12.15%
Praveen Jain <sup>(3)(4)</sup>	16,097,443	19.53%

**Notes:**

- (1) On a fully-diluted basis, Highchart Investments Limited would be the beneficial and legal owner of 14,105,007 Common Shares (12.57%). Includes 2,000,000 Subscription Receipts acquired in the QT Brokered Financing.
- (2) On a fully-diluted basis, Greg Steers would be the beneficial and legal owner of 10,013,042 Common Shares (8.92%). Includes 1,618,750 Subscription Receipts acquired in the QT Brokered Financing.
- (3) On a fully diluted basis, Praveen Jain would be the beneficial and legal owner of 16,097,443 Common Shares (14.34%). Includes 50,000 Subscription Receipts acquired in the QT Brokered Financing.
- (4) Dr. Jain holds 14,528,769 Common Shares, and 50,000 Subscription Receipts acquired in the QT Brokered Financing, directly. Dr. Jain holds 1,518,674 Common Shares through Jain Family Investments Inc., a corporation he controls.

## Directors, Officers and Promoters

The following table lists the names, municipalities of residence of the proposed directors, officers and promoters of the Resulting Issuer upon Completion of the proposed Qualifying Transaction, their proposed positions and offices to be held with the Resulting Issuer, and their principal occupations or employment and the number of securities of the Resulting Issuer which will be beneficially owned, directly or indirectly, or over which control or direction will be exercised by each upon completion of the proposed Qualifying Transaction. The Resulting Issuer's directors will be elected annually and, unless re-elected, retire from office at the end of the next annual general meeting of shareholders.

Name and Municipality of Residence	Principal Occupations for the Last Five Years	Period or periods during which each proposed director has served as a director of SPARQ	Proposed Position With the Resulting Issuer	Number and Percent of Issued Shares
Praveen Jain Kingston, Ontario	Dr. Jain has been a Professor and Canada Research Chair at Queen's University since 2001; Dr. Jain became CEO of SPARQ in 2015	Original director and founder of SPARQ	Chief Executive Officer and Director	16,097,443 <sup>(7)</sup> Common Shares (19.53%)

Name and Municipality of Residence	Principal Occupations for the Last Five Years	Period or periods during which each proposed director has served as a director of SPARQ	Proposed Position With the Resulting Issuer	Number and Percent of Issued Shares
Nishith Goel <sup>(1)(3)(5)(6)</sup> Ottawa, Ontario	Dr. Goel has been CEO of Cistel Technology Inc. since 1995	Director since 2009	Director	2,350,713 Common Shares (2.85%)  275,000 Options
BaoJun (Robbie) Luo <sup>(1)(3)(5)</sup> China	Mr. Luo is President of Ti-Lane Precision Electronic Company Limited and Ti-Lane Group and has been employed by those entities since 2008	Director since 2018	Director	6,363,172 Common Shares (7.72%)  275,000 Options
Ravi Sood <sup>(1)(2)(3)(4)(5)</sup> Toronto, Ontario	Mr. Sood is the managing director of Signal 8 Limited based in Toronto, Canada and Executive Chairman of Galane Gold Ltd. and Jade Power Trust.	Director since 2016	Non-executive chair	400,000 Common Shares (0.5%)  4,100,000 options
Kyle Appleby Toronto, Ontario	Since 2007, Mr. Appleby has worked as a consultant providing management and accounting services to public companies across a variety of industries including crypto-currency, technology, junior mining, food production, agriculture, cannabis, and others.	Director since June 2021	Chief Financial Officer	100,000 options
Richard Kimel Toronto, Ontario	Partner, Aird & Berlis LLP	N/A	Corporate Secretary	40,000 Common Shares (0.05%)  275,000 options

**Notes:**

- (1) Member of the Audit Committee.
- (2) Chair of the Audit Committee.
- (3) Member of the Corporate Governance and Nominating Committee.
- (4) Chair of the Corporate Governance and Nominating Committee.
- (5) Member of the Compensation Committee.
- (6) Chair of the Compensation Committee.
- (7) Dr. Jain holds 14,528,769 Common Shares and 50,000 Subscription Receipts acquired in the QT Brokered Financing, directly, and 1,518,673 Common Shares through Jain Family Investments Inc., a corporation he controls.

As a group, the directors and officers of the Resulting Issuer will hold approximately 25,251,328 Common Shares, representing 30.63% of all issued and outstanding Common Shares on an undiluted basis.

The following is a brief description of each of the proposed members of management for the Resulting Issuer (including details with regard to their principal occupations for the last five years):

*Praveen Jain – Director and Chief Executive Officer – Age 63*

Dr. Jain is the Founder and the CEO of SPARQ. He is also a Professor and Canada Research Chair in Power Electronics at Queen's University in Kingston, Canada. He has considerable industrial experience in power electronics, working and consulting at Canadian Astronautics, Nortel Network, Astec, Intel, Freescale and GE. He founded CHiL Semiconductor, a digital power control chips company, which was acquired by International Rectifier (later merged with Infineon). Dr. Jain is a Fellow of the Royal Society of Canada, the Institute of Electrical and Electronic Engineers (IEEE), the Engineering Institute of Canada and the Canadian Academy of Engineering. He is the recipient of the 2021 IEEE Medal in Power Engineering, the 2017 IEEE Canada Electric Power Medal, the 2011 IEEE William E. Newell Power Electronics Award, and 2004 Engineering Medal from the Ontario Professional Engineers. He holds over 100 patents. Dr. Jain obtained his PhD degree from the University of Toronto.

*Nishith Goel – Director – Age 67*

Dr. Goel is the CEO of Cistel Technology, an Information Technology company he founded in 1995 which has operations in Canada and the USA. A veteran technology executive and entrepreneur, he is also co-founder of CHiL Semiconductor and Sparq Systems. Dr. Goel has served on the Board of Directors of Enablence. He has also served on the Board of Directors of the Community Foundation of Ottawa, the Queensway Carleton Hospital Foundation, the Indo-Canada Ottawa Business Chamber, and as well as the Chair of the Queensway-Carleton Hospital Foundation. Dr. Goel obtained his PhD degree from the University of Waterloo.

*Ravi Sood – Non-Executive Chair – Age 46*

Mr. Sood is managing director of Signal 8 Limited based in Toronto, Canada. Mr. Sood has been a founder of and the principal investor in several businesses in emerging markets and currently serves as Chairman of Jade Power Trust (TSXV) and Galane Gold Ltd. (TSXV) and as a director of Eve & Co Incorporated (TSXV) and Biomind Labs Inc. (NEO). He was the founder and Chief Executive Officer of Navina Asset Management Inc., a global asset management firm headquartered in Toronto, Canada. Mr. Sood led the investment activities of Navina and its predecessor company, Lawrence Asset Management Inc., from its founding in 2001 until he sold the firm in 2010. Mr. Sood was educated at the University of Waterloo (B.Mathematics) where he was a Descartes Fellow and the recipient of numerous national awards.

*BaoJun (Robbie) Luo – Director – Age 45*

Robbie Luo is the President of Ti-Lane Precision Electronic Company Limited and Ti-Lane Group, Shenzhen, China. Ti-Lane is the global leader in providing connector and cable assembly products for communications, computer, medical, automotive and clean energy applications. He is a firm believer of renewable energy deployment and is a Deputy Director General of Shenzhen Solar Energy Society. He earned his MBA from Ursuline College at Tsinghua University, China.

*Kyle Appleby – Chief Financial Officer – Age 46*

Mr. Appleby spent the first 10 years of his career working in public accounting where he worked in both audit and advisory practices working with private companies and investment funds. From 2007 to present, Mr. Appleby has provided management and accounting services to public companies across a variety of industries including crypto-currency, technology, junior mining, food production, agriculture, cannabis, and others. Mr. Appleby has been the Chief Financial Officer for numerous companies, listed in Canada, US and London and has extensive experience in financial reporting, IPOs, fund raising, and corporate governance. Mr. Appleby is a member in good standing of the Canadian Institute of Chartered Accountants and the Institute of Chartered Accountants of Ontario.

*Richard Kimel – Corporate Secretary – Age 55*

Mr. Kimel is a partner at the law firm of Aird & Berlis LLP. Mr. Kimel practices in the areas of corporate finance and corporate/commercial law with considerable experience in mergers and acquisitions (cross-border and domestic) of both public and private corporations, public offerings (both initial and secondary), private placement financings (including debt and equity offerings), corporate governance matters, and the formation and completion of qualifying transactions for companies established under the TSXV CPC program. Mr. Kimel acts as corporate counsel for numerous companies listed on the Toronto Stock Exchange and the TSXV. Mr. Kimel also acts as a director or officer for a number of his publicly listed clients. Mr. Kimel received his LL.B. from the University of Toronto and an Honours degree in Business Administration from the Richard Ivey School of Business at Western University in London, Ontario.

***Work Commitment to the Resulting Issuer***

Dr. Jain, the CEO, will work on a full-time basis for the Resulting Issuer and will enter into non-competition and non-disclosure agreements with the Resulting Issuer pursuant to the CEO Agreement.

Mr. Appleby, the CFO, will spend the time necessary in order to complete his duties and responsibilities as CFO of the Resulting Issuer. He will not enter into a non-competition agreement but is subject to obligations of confidentiality and non-solicitation pursuant to the provisions of the CFO Agreement.

Each of the directors who are not also officers, will devote their time and expertise as required by the Resulting Issuer.

***Corporate Cease Trade Orders or Bankruptcies***

Other than as set out below, as the date of this Filing Statement and within the ten years before the date of this Filing Statement, no proposed director, officer or promoter or a security holder anticipated to hold a sufficient number of securities of the Resulting Issuer to affect materially the control of the Resulting Issuer, is or has been a director, officer or promoter of any person or company that, while that person was acting in that capacity:

- (a) was the subject of a cease trade or similar order, or an order that denied the other issuer access to any exemptions under applicable securities law, for a period of more than 30 consecutive days, state the fact and describe the basis on which the order was made and whether the order is still in effect; or
- (b) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, state the fact.

Ravi Sood is a director of Galane Gold Ltd., which was delisted from the Botswana Stock Exchange (the “**BSE**”) effective August 14, 2017 for failure to pay certain fees required by the BSE’s listing requirements. The delisting of Galane Gold Ltd. from the BSE followed a temporary suspension of the corporation’s listing on the BSE that was imposed on July 13, 2017.

From June 2007 to January 2012, Richard Kimel acted as Corporate Secretary of Sino-Forest Corporation. On August 26, 2011, a cease trade order was issued by the Ontario Securities Commission (the “**OSC**”) in connection with an ongoing investigation by the OSC. On March 30, 2012, Sino-Forest Corporation obtained an initial order from the Ontario Superior Court of Justice for creditor protection pursuant to the provisions of the Companies’ Creditors Arrangement Act. On January 30, 2013, Sino-Forest Corporation announced that it had implemented its previously announced Plan of Compromise and Reorganization pursuant to the Companies’ Creditors Arrangement Act and the Canada Business Corporations Act.

### ***Penalties or Sanctions***

Other than as set out below, to the knowledge of MJ, no proposed director, officer or promoter of the Resulting Issuer has:

- (a) been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) been subject to any other penalties or sanctions imposed by a court or regulatory body, including a self-regulatory body, that would be likely to be considered important to a reasonable security holder making a decision about the Qualifying Transaction.

The foregoing information, not being within the knowledge of MJ or SPARQ, has been furnished by the respective proposed directors and executive officers.

### ***Personal Bankruptcies***

To the knowledge of MJ, no director, officer or promoter of the Resulting Issuer, or a personal holding company of any of them, has, within the ten years prior to the date of this Filing Statement, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangements, or compromise with creditors or had a receiver manager or trustee appointed to hold the assets of that individual.

### ***Conflicts of Interest***

Some of the individuals proposed for appointment as directors or officers of the Resulting Issuer upon Closing are also directors, officers and/or Promoters of other reporting and non-reporting issuers. To the knowledge of the directors and officers of MJ and SPARQ, there are no existing conflicts of interest between the Resulting Issuer and any of the individuals proposed for appointment as directors or officers upon completion of the Amalgamation, as of the date of this Filing Statement.

### ***Other Reporting Issuer Experience***

The following table sets out the proposed directors, officers and promoters of the Resulting Issuer that are, or have been within the last five years, directors, officers or promoters of other reporting issuers:

	Name of Reporting Issuer	Position	Market	From		To	
				MM	YY	MM	YY
Ravi Sood	Feronia Inc	Chairman Director	TSXV TSXV	09 09	10 10	08 06	16 19
	Eve & Co Incorporated	Director	TSXV	06	14	-	-
	Jade Power Trust	Director & Executive Chairman	TSXV	10	13	-	-
	Galane Gold Ltd.	Director & Executive Chairman	TSXV	10	07	-	-
	ICC Labs Inc.	Director	TSXV	05	16	03	18
	LottoGopher Holdings Inc.	Director	CSE	02	18	03	18
	Biomind Labs Inc.	Director	NEO	07	21	-	-
Kyle Appleby	Salona Global Medical Device Corporation	Chief Financial Officer	TSX-V	08	20	-	-
	Tokens.com Corp	Chief Financial Officer	NEO	04	21	-	-
	Red Light Holland Corp	Chief Financial Officer	CSE	05	20	-	-
	Tarku Resources Ltd	Director	TSXV	09	20	-	-
	Empower Clinics Inc.	Chief Financial Officer	CSE	10	20	-	-
	GBLT Corp	Chief Financial Officer	TSXV	06	20	-	-
	Tantalex Resources Corporation	Chief Financial Officer	CSE	03	15	-	-
	DigiMax Global Inc. (formerly DigiCrypts Blockchain Solutions Inc.)	Chief Financial Officer	CSE	12	19	02	21
	Spacefy Inc.	Chief Financial Officer	CSE	03	18	-	-
	Cadillac Ventures Inc.	Chief Financial Officer	TSXV	07	18	-	-
	Intrinsic4D Inc.	Chief Financial Officer	TSXV	06	15	06	19
	Bee Vectoring Technologies International Inc.	Chief Financial Officer	TSXV	06	15	-	-
	Renforth Resources Inc.	Chief Financial Officer	CSE	02	07	-	-
	Xylitol Canada Inc.	Chief Financial Officer	TSX-V	11	14	05	18
	Mercom OilSands PLC	Chief Financial Officer	AIM	04	12	12	16
	Prospect Park Capiral Corp.	Chief Financial Officer	TSX-V	10	14	-	-
	Captor Capital Corp.	Director	TSX-V	07	14	-	-

	Nuinsco Resources Limited	Chief Financial Officer	none	05	15	-	-
	Adya Inc.	Chief Financial Officer	TSX-V	11	16	-	-
	Hut 8 Mining Corp.	Chief Financial Officer	TSX-V	03	18	06	18
	Hut 8 Mining Corp.	Corporate Secretary/CFO	TSX-V	10	19	11	20
	Nurcapital Corp.	Chief Financial Officer	TSX-V	09	19	-	-
	URU Metals Limited	Director	AIM	03	18	-	-
	Petro Viking Energy Inc.	Director	CSE	11	20	-	-
Richard Kimel	Small Pharma Inc.	Secretary	TSXV	04	21	-	-
	Jade Power Trust	Secretary	TSXV	10	13	-	-
	Spectra7 Microsystems Inc.	Secretary	TSXV	02	13	-	-
	Galane Gold Ltd.	Secretary	TSXV	08	11	-	-
	Eve & Co Incorporated	Secretary	TSXV	06	18	06	20
	Carlaw Capital V Corp	Director	TSXV	06	14	06	18
	ICC Labs Inc.	Secretary	TSXV	11	16	11	18
	Shogun Capital Corp.	Director	TSXV	05	16	08	16
	Baylin Technologies Inc.	Secretary	TSX	12	18	08	19
	Feronia Inc.	Secretary	TSXV	04	11	04	20

## Audit Committee and Corporate Governance

### The Audit Committee's Charter

The full text of the charter of the audit committee of the Board (the “**Audit Committee**”) is attached hereto as Schedule “F” to this Filing Statement.

### Composition of the Audit Committee

The Audit Committee assists the Board in fulfilling its responsibilities for oversight of financial and accounting matters. The Audit Committee reviews the financial reports and other financial information provided by the Resulting Issuer to regulatory authorities and its shareholder and reviews the Resulting Issuer's system of internal controls regarding finance and accounting including auditing, accounting and financial reporting processes.

The members of the Audit Committee include the following three directors a majority of are “independent” within the meaning of National Instrument 52-110 – *Audit Committees*.

Name of Member	Independent <sup>(1)</sup>	Financially Literate <sup>(2)</sup>
Nishith Goel	Yes	Yes
Robbie Lu	Yes	Yes

Ravi Sood	Yes	Yes
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**Notes:**

- (1) A member of the Audit Committee is independent if he or she has no direct or indirect ‘material relationship’ with the Resulting Issuer. A material relationship is a relationship which could, in the view of the Board, reasonably interfere with the exercise of a member's independent judgment.
- (2) A member of the Audit Committee is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Resulting Issuer’s financial statements.

**Relevant Education and Experience**

In addition to each member’s general business experience, the education and experience of each Audit Committee member are set out in “*Directors and Executive Officers*” above.

**Audit Committee Oversight**

At no time since December 31, 2020, was a recommendation of the Audit Committee to nominate or compensate an external auditor not adopted by the Board.

**Reliance on Certain Exemptions**

At no time since December 31, 2020, has the Resulting Issuer relied on the exemption in section 2.4 of NI 52-110 (*De Minimis Non-audit Services*), or an exemption from NI 52-110, in whole or in part, granted under Part 8 of NI 52-110.

The Resulting Issuer will rely on the exemptions provided for “venture issuers” in section 6.1 of NI 52-110 with respect to Part 3 – Composition of the Audit Committee and Part 5 – Reporting Obligations.

**Pre-Approval Policies and Procedures**

The Audit Committee is required to approve the engagement of the Resulting Issuer’s external auditors in respect of non-audit services.

**External Auditor Service Fees (By Category)**

Fiscal Year	Audit Fees	Audit-Related Fees	Tax Fees	All Other Fees
2020	\$53,000 <sup>(5)</sup>	-	\$2,000	-
2019	\$57,816 <sup>(5)</sup>	-	\$2,000	-

**Notes:**

- (1) “Audit Fees” include fees necessary to perform the annual audit of Resulting Issuer financial statements.
- (2) “Audit-Related Fees” include other services that are performed by the auditor such as consultations or internal control reviews.
- (3) “Tax Fees” include fees for tax compliance, tax planning and tax advice. These services include preparing tax returns and corresponding with government tax authorities.
- (4) “All Other Fees” include all other non-audit services.
- (5) Includes audit fees from Secker Perry and Ross, and MNP LLP accounting firms.

**Corporate Governance**

National Policy 58-201 - *Corporate Governance Guidelines* of the Canadian Securities Administrators has set out best practice guidelines for effective corporate governance (the “**Guidelines**”). The Guidelines address matters such as the constitution and independence of corporate boards, the functions to be performed by boards and their committees and the effectiveness and education of board members.

Set out below is a description of the Resulting Issuer's corporate governance practices in accordance with NI 58-101, based on the Guidelines.

#### *Board of Directors*

For the purposes of NI 58-101, a director is considered to be independent if he or she does not have any direct or indirect material relationship with the Resulting Issuer. A material relationship is in turn defined as a relationship which could, in the view of the Board, be reasonably expected to interfere with such member's independent judgement.

Pursuant to NI 52-110, a director is considered independent if he or she has no direct or indirect material relationship with the Resulting Issuer that the Board believes could reasonably be perceived to materially interfere with his or her ability to exercise independent judgment. NI 52-110 sets out certain situations where a director is deemed to have a material relationship with the Resulting Issuer.

Upon Completion of the Qualifying Transaction, the Board will be comprised of four directors (see "*Directors, Officers and Promoters*"), of which Ravi Sood, Nishith Goel, and Robbie Lu will be considered independent within the meaning of NI 52-110. Praveen Jain will not be considered independent due to his position as Chief Executive Officer of the Resulting Issuer.

Certain of the directors (or proposed directors) of the Resulting Issuer are directors or may become directors of other reporting issuers (or equivalent) in a jurisdiction or a foreign jurisdiction (See "*Part III Information Concerning the Resulting Issuer – Directors, Officers and Promoters – Other Reporting Issuer Experience*").

#### *Orientation and Continuing Education*

While the Resulting Issuer currently has no formal orientation and education program for new Board members, sufficient information is provided to any new Board member to ensure that new directors are familiarized with the Resulting Issuer's business and the procedures of the Board. In addition, new directors are encouraged to visit and meet with management on a regular basis.

#### *Ethical Business Conduct*

The Board monitors the ethical conduct of the Resulting Issuer and ensures that it complies with applicable legal and regulatory requirements, such as those of relevant securities commissions and stock exchanges. The Board has found that the fiduciary duties placed on individual directors by the Resulting Issuer's governing corporate legislation and the common law and the restrictions placed by applicable corporate legislation on an individual director's participation in decisions of the Board in which the director has an interest have been sufficient to ensure that the Board operates independently of management and in the best interests of the Resulting Issuer.

Under corporate legislation, a director is required to act honestly and in good faith with a view to the best interests of the Resulting Issuer and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances, and disclose to the Board the nature and extent of any interest of the director in any material contract or material transaction, whether made or proposed, if the director is a party to the contract or transaction, is a director or officer (or an individual acting in a similar capacity) of a party to the contract or transaction or has a material interest in a party to the contract or transaction.

#### *Nomination of Directors*

The Board is expected to have a corporate governance and nominating committee (the "**Corporate Governance and Nominating Committee**"). The overall purpose of the Corporate Governance and

Nominating Committee will be to develop and monitor the Resulting Issuer's approach to: (i) matters of governance, and (ii) the nomination of the Board. The proposed members of the Corporate Governance and Nominating Committee after Completion of the Qualifying Transaction will consist of the following directors: Ravi Sood, Nishith Goel and Robbie Lu .

#### *Compensation*

The Board's compensation committee (the "**Compensation Committee**") assists the Board in fulfilling its responsibilities for compensation philosophy and guidelines, and fixing compensation levels for the Resulting Issuer's executive officers. In addition, the Compensation Committee is charged with reviewing the Stock Option Plan and proposing changes thereto, approving any awards of options under the Stock Option Plan and recommending any other employee benefit plans, incentive awards and perquisites with respect to the Resulting Issuer's executive officers. The Compensation Committee is also responsible for reviewing, approving and reporting to the Board annually (or more frequently as required) on the Resulting Issuer's succession plans for its executive officers.

The proposed members of the Compensation Committee of the Resulting Issuer after Completion of the Qualifying Transaction will consist of the following directors: Ravi Sood, Nishith Goel and Robbie Lu .

#### *Other Board Committees*

The Board has no committees other than the Audit Committee, the Corporate Governance and Nominating Committee, and the Compensation Committee. Going forward, the Board will review its corporate governance practices and consider, among other matters, whether it would be desirable to establish additional committees of the Board.

Going forward, the Board will review its corporate governance practices and consider, among other matters, whether it would be desirable to establish additional committees of the Board.

#### *Assessments*

The Board has not yet established a formal performance review process for assessing the effectiveness of the Board, the Audit Committee or the individual directors. It is expected that the contributions of an individual director are informally monitored by the other Board members, having in mind the business strengths of the individual and the reasons for which the individual was nominated for appointment to the Board. The Resulting Issuer will continue to develop its approach to corporate governance in light of its own circumstances and what are recognized as best practices in this area.

### **Executive Compensation**

#### *Compensation Discussion and Analysis*

Disclosure of the executive compensation practices for SPARQ is set forth in "Part II –Information Concerning SPARQ – Executive Compensation". It is anticipated that the Resulting Issuer will continue the executive compensation practices of SPARQ upon Closing. See "*Part II –Information Concerning SPARQ – Executive Compensation*" for a discussion of the annual compensation entitlements for a discussion of expected annual compensation for services in all capacities to the Resulting Issuer for the 12 months following completion of the Amalgamation in respect of individuals who are expected to be acting in capacities of Chief Executive Officer and Chief Financial Officer of the Resulting Issuer.

It is anticipated that from time to time stock options will be granted under the Stock Option Plan to: (i) provide an incentive to the participants; (ii) achieve the longer-term objectives of the Resulting Issuer; (iii) give suitable recognition to the ability and industry of such persons who contribute materially to the success of the Resulting Issuer; and (iv) attract and retain persons of experience and ability, by providing them with the opportunity to acquire an increased proprietary interest in the Resulting Issuer. The Resulting Issuer has no other forms of compensation.

### ***Director Compensation***

Upon Completion of the Qualifying Transaction the directors of the Resulting Issuer will determine how much, if any, compensation will be paid to directors for services rendered to the Resulting Issuer by them in that capacity. Such incentives may be in the form of an annual director's fee and/or in the form of incentive stock options pursuant to the Stock Option Plan.

### **Indebtedness of Directors and Officers**

No director, officer, promoter, member of management, nominee for elections as director of the Resulting Issuer, nor any of their Associates or Affiliates, is or has been indebted to MJ or SPARQ or is expected to be indebted to the Resulting Issuer following the Closing or any subsidiary of the foregoing.

### **Investor Relations Arrangements**

The Resulting Issuer has not entered into any arrangement for promotional and investor relations services.

### **Options**

The Stock Option Plan will be the Resulting Issuer's option plan upon Completion of the Qualifying Transaction. Upon the completion of the Amalgamation an aggregate of 244,000 Common Shares are anticipated to be reserved for issuance pursuant to the following options:

<b>Optionee</b>	<b>Number of Options</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
Current Directors and Officers of MJ	244,000 <sup>(1)(2)</sup>	\$0.20	August 9, 2029 <sup>(1)</sup>
Directors and Officers of the Resulting Issuer	5,025,000	\$0.50	Five years from the date of issuance <sup>(3)</sup>
<b>TOTAL</b>	5,269,000		

**Notes:**

- (1) Assumes completion of the MJ Consolidation.
- (2) The options shall expire on the day that is 90 days following the date the optionees cease to be a director or officer of the Resulting Issuer unless extended by the Board.
- (3) To be issued on Closing of the Qualifying Transaction and subject to vesting provisions.

It is expected that the Resulting Issuer will maintain the Stock Option Plan (as described above under the heading "*Information Concerning MJ – Stock Option Plan*").

### **Escrowed Securities**

There are two classes of escrow to which certain Common Shares will be subject: (i) CPC Escrow Shares and (ii) Value Escrow Shares. The CPC Escrow Shares are subject to an escrow that continues as part of

the initial public offering of MJ, while the Value Escrow Shares are subject to an escrow as a result of the Qualifying Transaction.

***Terms of the Escrow for the CPC Escrow Shares***

CPC Escrow Shares are Common Shares held in escrow pursuant to Section 1.1 of the CPC Policy, and released in accordance with the following timeline:

<b>% of Common Shares Released from Escrow</b>	<b>Release Date</b>
25%	Date of Final Exchange Bulletin
25%	6 months from Final Exchange Bulletin
25%	12 months from Final Exchange Bulletin
25%	18 months from Final Exchange Bulletin

The following table sets out, as of the date hereof and to the knowledge of MJ and SPARQ, the name and municipality of residence of the securityholders whose Common Shares will continue to be subject to the CPC Escrow Agreement. Upon completion of the MJ Consolidation, a total of 856,000 Common Shares will be in escrow pursuant to the CPC Escrow Agreement.

<b>Name and Municipality of Residence of Shareholder</b>	<b>Designation of Class</b>	<b>Prior to Giving Effect to the Qualifying Transaction</b>		<b>After Giving Effect to the Qualifying Transaction</b>	
		<b>Number of Securities held in Escrow</b>	<b>Percentage of Class</b>	<b>Number of Securities to be held in Escrow</b>	<b>Percentage of Class</b>
Jennifer Mallick Lambton Shores, Ontario	Common Shares	450,000	14.75%	360,000	0.44%
Bryan Van Engelen Waterloo, Ontario	Common Shares	225,000	7.38%	180,000	0.22%
Marissa Thoren Thedford, Ontario	Common Shares	225,000	7.38%	180,000	0.22%
Richard Kimel Toronto, Ontario	Common Shares	50,000	1.64%	40,000	0.05%
Scott Rasenberg London, Ontario	Common Shares	60,000	1.97%	48,000	0.06%
Sherri Altshuler Toronto, Ontario	Common Shares	50,000	1.64%	40,000	0.05%

Name and Municipality of Residence of Shareholder	Designation of Class	Prior to Giving Effect to the Qualifying Transaction		After Giving Effect to the Qualifying Transaction	
		Number of Securities held in Escrow	Percentage of Class	Number of Securities to be held in Escrow	Percentage of Class
Anamaria Rasenberg London, Ontario	Common Shares	10,000	0.33%	8,000	0.01%
	<b>TOTAL</b>	1,070,000	35.09%	856,000	1.05%

***Terms of the Escrow for the Value Escrow Shares***

All Common Shares, other than Common Shares classified under Seed Share Resale Restrictions, being issued under the Amalgamation Agreement are Value Securities as defined in TSXV Policy 5.4, of which it is anticipated that an aggregate of 44,060,626 Common Shares will be subject to the release schedule applicable under the QT Escrow Agreement (being a Tier 2 Value Security Escrow Agreement) in accordance with the following timeline:

% of Securities Released from Escrow Tier 2 Issuer	Release Date
10%	Date of Final Exchange Bulletin
15%	6 months from Final Exchange Bulletin
15%	12 months from Final Exchange Bulletin
15%	18 months from Final Exchange Bulletin
15%	24 months from Final Exchange Bulletin
15%	30 months from Final Exchange Bulletin
15%	36 months from Final Exchange Bulletin

The following table sets out, as of the date hereof and to the knowledge of MJ and SPARQ, the name and municipality of residence of the securityholders whose Common Shares at the Completion of the Qualifying Transaction will be placed in escrow pursuant to the terms of the QT Escrow Agreement:

Name and Municipality of Residence of Shareholder	Designation of Class	Prior to Giving Effect to the Qualifying Transaction		After Giving Effect to the Qualifying Transaction	
		Number of Securities held in Escrow	Percentage of Class	Number of Securities to be held in Escrow	Percentage of Class
Praveen Jain Kingston, Ontario	Common Shares	Nil	Nil	16,047,442 <sup>(1)</sup>	19.47%
Nishith Goel Ottawa, Ontario	Common Shares	Nil	Nil	2,150,713	2.61%
Robbie Luo China	Common Shares	Nil	Nil	5,363,172	6.51%
Highchart	Common	Nil	Nil	12,105,007	14.7%

Name and Municipality of Residence of Shareholder	Designation of Class	Prior to Giving Effect to the Qualifying Transaction		After Giving Effect to the Qualifying Transaction	
		Number of Securities held in Escrow	Percentage of Class	Number of Securities to be held in Escrow	Percentage of Class
Investments Limited	Shares				
Greg Steers Toronto, Ontario	Common Shares	Nil	Nil	8,394,292	10.2%
<b>TOTAL</b>				<b>28,013,184</b>	<b>53.49%</b>

**Note:**

- (1) Dr. Jain holds 14,528,769 Common Shares and 50,000 Subscription Receipts acquired in the QT Brokered Financing directly, and 1,518,673 Common Shares through Jain Family Investments Inc., a corporation he controls.

***Seed Share Resale Restrictions***

An aggregate of 8,058,375 Common Shares held by 15 non-principal shareholders of the Resulting Issuer will be subject to seed share resale restrictions (each, an “**SSRR**”) pursuant to TSXV Policy 5.4 - *Escrow, Vendor Consideration and Resale Restrictions*. SSRRs are TSXV hold periods of various lengths which apply where seed shares are issued to non-principals by private companies in connection with the Qualifying Transaction. The terms of the SSRRs are based on the length of time such SPARQ Common Shares have been held and the price at which such shares were originally issued.

***Other Resale Restrictions***

As a condition to the closing of the QT Brokered Financing, the existing shareholders of SPARQ will be required to enter into lock-up agreements in favour of the Agent whereby, subject to certain exceptions, such shareholder shall not, for a period of 18 months from completion of the Qualifying Transaction, (i) offer, issue, sell, grant, secure, pledge, or otherwise transfer, dispose of or monetize any Common Shares or any securities convertible into or exchangeable for Common Shares, (ii) engage in any hedging transaction, or enter into any form of agreement the consequence of which is to alter economic exposure to, any such securities, or (iii) announce any intention to do any of the foregoing. In the event that an existing shareholder of SPARQ does not enter into such a lock-up agreement, the certificates representing the shareholder’s Common Shares shall contain a legend providing for the same restrictions as contained in the lock-up agreements. The following table summarizes the Common Shares that will be subject to the lock-up restrictions as of immediately following completion of the Qualifying Transaction:

Designation of Class	Aggregate number of securities subject to resale restrictions	Percentage of class	Expiry date of the resale restrictions
Common Shares	60,000,000	72.78%	18 months from the completion of the QT

## PART IV – RISK FACTORS

Where used in this “Risk Factors” section, “SPARQ” refers to either SPARQ or the Resulting Issuer as the context may require. The current business of SPARQ will be the business of the Resulting Issuer upon Completion of the Qualifying Transaction. Accordingly, risk factors relating to SPARQ’s current business will be risk factors relating to the Resulting Issuer’s business and references to SPARQ in these risk factors should, where the context requires, be read to include the risks of the Resulting Issuer. Due to the nature of SPARQ’s business, the legal and economic climate in which it operates and its present stage of development, SPARQ is subject to significant risks. The risks presented below should not be considered to be exhaustive and may not be all of the risks that the Resulting Issuer and SPARQ may face. SPARQ’s future development and operating results may be very different from those expected as at the date of this Filing Statement. Additional risks and uncertainties not presently known to SPARQ or that SPARQ currently considers immaterial may also impair the business and operations of the Resulting Issuer and cause the trading price of the Common Shares to decline. If any of the following or other risks occur, the Resulting Issuer’s business, prospects, financial condition, results of operations and cash flows could be materially adversely impacted. In that event, the trading price of the Common Shares could decline and investors could lose all or part of their investment. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the risks described below or other unforeseen risks. Readers should carefully consider all such risks and other information elsewhere in this Filing Statement before making an investment in SPARQ or the Resulting Issuer and should not rely upon forward-looking statements as a prediction of future results. Risk factors relating to SPARQ include, but are not limited to, the factors set out below.

### **Risks Related to our Business, Operations and Our Industry**

*If demand for solar energy solutions does not grow or grows at a slower rate than anticipated, including as a result of the ongoing COVID-19 pandemic, our business will suffer.*

Our microinverter and alternating current (“AC”) battery storage systems are utilized in solar photovoltaic (“PV”) installations, which provide on-site distributed power generation. As a result, our future success depends on continued demand for solar energy solutions and the ability of solar equipment vendors to meet this demand. The solar industry is an evolving industry that has experienced substantial changes in recent years, and we cannot be certain that consumers and businesses will adopt solar PV systems as an alternative energy source at levels sufficient to continue to grow our business. Traditional electricity distribution is based on the regulated industry model under which businesses and consumers obtain their electricity from a government regulated utility. For alternative methods of distributed power to succeed, businesses and consumers must adopt new purchasing practices. The viability and continued growth in demand for solar energy solutions, and in turn, our products, may be impacted by many factors outside of our control, including:

- market acceptance of solar PV systems based on our product platform;
- cost competitiveness, reliability and performance of solar PV systems compared to conventional and non-solar renewable energy sources and products;
- availability and amount of government subsidies and incentives to support the development and deployment of solar energy solutions;
- the extent to which the electric power industry and broader energy industries are deregulated to permit broader adoption of solar electricity generation;

- the cost and availability of key raw materials and components used in the production of solar PV systems;
- prices of traditional utility-provided energy sources;
- levels of investment by end-users of solar energy products, which tend to decrease when economic growth slows; and
- the emergence, continuance or success of, or increased government support for, other alternative energy generation technologies and products.

If demand for solar energy solutions does not grow, demand for our customers' products as well as demand for our products will decrease, which would have an adverse impact on our ability to increase our revenue and grow our business.

Short-term demand and supply imbalances, especially for solar module technology, have recently caused prices for solar technology solutions to decline rapidly. Furthermore, competition in the solar industry has increased due to the emergence of lower-cost manufacturers along the entire solar value chain causing further price declines, excess inventory and oversupply. These market disruptions may continue to occur and may increase pressure to reduce prices, which could adversely affect our business and financial results.

Further, our success depends on continued demand for solar energy solutions and the ability of solar equipment vendors to meet this demand. As a result of the ongoing COVID-19 pandemic, the demand for solar energy solutions decreased in the second and third quarters of 2020 compared to the same quarters of the prior year. The demand for solar energy solutions may continue to decrease, or at least not continue its growth relative to pre-pandemic periods and recent years, as a result of government orders associated with the COVID-19 pandemic, due to adverse worldwide economic and market conditions, or other factors. If demand for solar energy solutions decreases or does not grow, demand for our customers' products as well as demand for our products will decrease, which would have an adverse impact on our ability to increase our revenue and grow our business.

***The rapidly changing solar industry makes it difficult to evaluate our current business and future prospects.***

The solar energy industry is one of the fastest growing forms of renewable energy and is undergoing and subject to rapid change. The solar energy industry will take several more years to develop and further mature, which makes it difficult to evaluate our current business, and we cannot be certain that the market will grow to the size or at the rate we expect. We have encountered and will continue to encounter risks and difficulties frequently experienced by growing companies in rapidly changing industries, including increased expenses as we continue to grow the business. If we do not manage these risks and overcome these difficulties successfully, our business will suffer.

Since we began commercial shipments of our products, our revenue, gross profit and results of operations have varied and are likely to continue to vary from quarter to quarter due to a number of factors, many of which are not within our control. It is difficult to accurately forecast future revenue and gross profit and plan expenses accordingly and, therefore, it is difficult to predict future results of operations.

***An increase in interest rates or tightening of the supply of capital in the global financial markets could make it difficult for end-users to finance the cost of a solar PV system and could reduce the demand for smart energy products and thus demand for our products.***

Many end-users depend on financing to fund the initial capital expenditure required to develop, build, or purchase a solar PV system. As a result, an increase in interest rates or a reduction in the supply of project debt financing or tax equity investments, could reduce the number of solar projects that receive financing or otherwise make it difficult for our customers or the end-users, to secure the financing necessary to develop, build, purchase, or install a solar PV system on favorable terms, or at all, and thus lower demand for our products which could limit our growth or reduce our net sales. In addition, we believe that a significant percentage of end-users install solar PV systems as an investment, funding the initial capital expenditure through financing. An increase in interest rates could lower such end-user's return on investment on a solar PV system, increase equity return requirements or make alternative investments more attractive relative to solar PV systems, and, in each case, could cause such end-users to seek alternative investments. Furthermore, the continuous effects of COVID-19 on the economy may influence the end-users willingness to invest in solar PV systems to our detriment, both due to end-users' economic uncertainty as well as the market's unwillingness to extend favorable financial terms to the end-users.

***Defects or performance problems in our products could result in loss of customers, reputational damage, and decreased revenue, and we may face warranty, indemnity, and product liability claims arising from defective products.***

Although our products meet our stringent quality requirements, they may contain undetected errors or defects, especially when first introduced or when new generations are released. Errors, defects, or poor performance can arise due to design flaws, defects in raw materials or components or manufacturing difficulties, which can affect both the quality and the yield of the product. Any actual or perceived errors, defects, or poor performance in our products could result in the replacement or recall of our products, or components thereof, shipment delays, rejection of our products, damage to our reputation, lost revenue, diversion of our personnel from our product development efforts, and increases in customer service and support costs, all of which could have a material adverse effect on our business, financial condition, and results of operations. Furthermore, defective components may give rise to warranty, indemnity, or product liability claims against us that exceed any revenue or profit we receive from the affected products.

In most cases, we offer a minimum 12-year limited warranty for our inverters, extendable to twenty five years for an additional cost,. Our limited warranties cover defects in materials and workmanship of our products under normal use and service conditions. As a result, we bear the risk of warranty claims long after we have sold products and recognized revenue. While we do have accrued reserves for warranty claims, our estimated warranty costs for previously sold products may change to the extent future products are not compatible with earlier generation products under warranty. Our warranty accruals are based on our assumptions and we do not have a long history of making such assumptions. As a result, these assumptions could prove to be materially different from the actual performance of our systems, causing us to incur substantial unanticipated expense to repair or replace defective products in the future or to compensate customers for defective products. Our failure to accurately predict future claims could result in unexpected volatility in, and have a material adverse effect on, our financial condition.

If one of our products were to cause injury to someone or cause property damage then we could be exposed to product liability claims. We could incur significant costs and liabilities if we are sued and if damages are awarded against us. Further, any product liability claim we face could be expensive to defend and could divert management's attention. The successful assertion of a product liability claim against us could result in potentially significant monetary damages, penalties or fines, subject us to adverse publicity, damage our reputation and competitive position, and adversely affect sales of our products. In addition, product liability claims, injuries, defects, or other problems experienced by other companies in the residential solar industry could lead to unfavorable market conditions for the industry as a whole.

***We depend on sole-source and limited-source suppliers for key components and products. If we are unable to source these components and products on a timely basis, we will not be able to deliver our products to our customers.***

We depend on sole-source and limited-source suppliers for key components of our products, such as our application specific integrated circuits and lithium-ion batteries. Any of the sole-source and limited-source suppliers upon whom we rely could experience quality and reliability issues, stop producing our components, cease operations, or be acquired by, or enter into exclusive arrangements with, our competitors. We generally do not have long-term supply agreements with our suppliers, and our purchase volumes may currently be too low for us to be considered a priority customer by most of our suppliers. As a result, most of these suppliers could stop selling to us at commercially reasonable prices, or at all. Any such quality or reliability issue, or interruption or delay may force us to seek similar components or products from alternative sources, which may not be available on commercially reasonable terms, or at all. Switching suppliers may require that we redesign our products to accommodate new components, and may potentially require us to re-qualify our products, which would be costly and time-consuming. Any interruption in the quality or supply of sole-source or limited-source components for our products would adversely affect our ability to meet scheduled product deliveries to our customers and could result in lost revenue or higher expenses and would harm our business.

***We depend upon a sole-source contract manufacturer, and business and operations could be disrupted if we encounter problems with this contract manufacturer.***

We rely heavily upon our contract manufacturer to manufacture most of our products. We mainly rely on one contract manufacturer. Any change in our relationship or contractual terms with our contract manufacturer, or changes in our contract manufacturer's ability to comply with their contractual obligations could adversely affect our financial condition and results of operations. Our reliance on one contract manufacturer makes us vulnerable to possible capacity constraints and reduced control over component availability, delivery schedules, manufacturing yields and costs. In addition, we will remain heavily dependent on suppliers of the components needed for our manufacturing. The revenues that our contract manufacturer generates from our orders represent a relatively small percentage of their overall revenues. As a result, fulfilling our orders may not be considered a priority in the event of constrained ability to fulfill all of their customer obligations in a timely manner, especially in light of restrictions imposed by COVID-19.

If our contract manufacturer is unable or unwilling to manufacture our products in required volumes and at high quality levels or renew existing terms under supply agreements, we would have to identify, qualify, and select an acceptable alternative contract manufacturer, which may not be available to us when needed or may not be in a position to satisfy our quality or production requirements on commercially reasonable terms. Any significant interruption in manufacturing would require us to reduce our supply of products to our customers or increase our shipping costs to make up for delays in manufacturing, which in turn could reduce our revenues, harm our relationships with our customers, subject us to liquidated damages for late deliveries, and damage our reputation with local installers and potential end-users, all of which will cause us to forego potential revenue opportunities. Further, the ramp of a new contract manufacturer is time consuming and draining on the resources of our operations team.

***If we or our contract manufacturer are unable to obtain raw materials in a timely manner or if the price of raw materials increases significantly, production time and product costs could increase, which may adversely affect our business.***

The manufacturing and packaging processes used by our contract manufacturer depend on raw materials such as copper, aluminum, silicon and petroleum-based products. From time to time, suppliers may extend

lead times, limit supplies or increase prices due to capacity constraints or other factors. Certain of our suppliers have the ability to pass along to us directly or through our contract manufacturers any increases in the price of raw materials. If the prices of these raw materials rise significantly, we may be unable to pass on the increased cost to our customers. While we may from time to time enter into hedging transactions to reduce our exposure to wide fluctuations in the cost of raw materials, the availability and effectiveness of these hedging transactions may be limited. Due to all these factors, our results of operations could be adversely affected if we or our contract manufacturer is unable to obtain adequate supplies of raw materials in a timely manner or at reasonable cost. In addition, from time to time, we or our contract manufacturer may need to reject raw materials that do not meet our specifications, resulting in potential delays or declines in output. Furthermore, problems with our raw materials may give rise to compatibility or performance issues in our products, which could lead to an increase in product warranty claims. Errors or defects may arise from raw materials supplied by third parties that are beyond our detection or control, which could lead to additional product warranty claims that may adversely affect our business and results of operations.

***Manufacturing problems could result in delays in product shipments, which would adversely affect our revenue, competitive position and reputation.***

We have in the past and may in the future experience delays, disruptions or quality control problems in our manufacturing operations. Our product development, manufacturing and testing processes are complex and require significant technological and production process expertise. Such processes involve a number of precise steps from design to production. Any change in our processes could cause one or more production errors, requiring a temporary suspension or delay in our production line until the errors can be researched, identified and properly addressed and rectified. This may occur particularly as we introduce new products, modify our engineering and production techniques, and expand our capacity. In addition, our failure to maintain appropriate quality assurance processes could result in increased product failures, loss of customers, increased production costs and delays. Any of these developments could have a material adverse effect on our business, financial condition, and results of operations.

A disruption could also occur in one of our contract manufacturers' facilities due to any number of reasons, such as equipment failure, contaminated materials, COVID-19 pandemic impacts or process deviations, which could adversely impact manufacturing yields or delay product shipments. As a result, we could incur additional costs that would adversely affect our gross profit, and product shipments to our customers could be delayed beyond the schedules requested, which would negatively affect our revenue, competitive position and reputation.

In particular, products manufactured by SPARQ use a number of electronics components such as semiconductor switches, semiconductor chips, magnetics and capacitors. The impact of COVID-19 has resulted in a shortage of some of these components. It is unclear if the shortage will improve in the near future and such supply shortages could negatively impact the Resulting Issuer's ability to supply its products to customers, which could have an impact on revenue.

Additionally, manufacturing yields depend on a number of factors, including the stability and manufacturability of the product design, manufacturing improvements gained over cumulative production volumes, and the quality and consistency of component parts. Capacity constraints, raw materials shortages, logistics issues, labor shortages, and changes in customer requirements, manufacturing facilities or processes have historically caused, and may in the future cause, reduced manufacturing yields, negatively impacting the gross profit on, and our production capacity for, those products. Moreover, an increase in the rejection and rework rate of products during the quality control process before, during or after manufacture would result in our experiencing lower yields, gross profit and production capacity.

Component shortages have required us and may continue to require us to incur expedited shipping costs to meet delivery schedules, which impacts our revenue and gross profit.

The risks of these types of manufacturing problems are further increased during the introduction of new product lines, which has from time to time caused, and may in the future cause, temporary suspension of product lines while problems are addressed or corrected. Since our business is substantially dependent on a limited number of product lines, any prolonged or substantial suspension of an individual product line could result in a material adverse effect on our revenue, gross profit, competitive position, and distributor and customer relationships.

***We rely primarily on distributors, installers and providers of solar financing to assist in selling our products to customers, and the failure of these customers to perform at the expected level, or at all, would have an adverse effect on our business, financial condition and results of our operations.***

We sell our solutions primarily through distributors, as well as through direct sales to solar equipment installers and developers of third-party solar finance offerings. We do not have exclusive arrangements with all of these third parties. As a result, many of our customers also use or market and sell products from our competitors, which may reduce our sales. Our customers may generally terminate their relationships with us at any time, or with short notice. Our customers may fail to devote resources necessary to sell our products at the prices, in the volumes and within the time frames that we expect, or may focus their marketing and sales efforts on products of our competitors.

In addition, participants in the solar industry are becoming increasingly focused on vertical integration of the solar financing and installation process, which may lead to an overall reduction in the number of potential parties who may purchase and install our products. In addition, while we provide our distributors and installers with training and other programs, including accreditations and certifications, these programs may not be effective or utilized consistently. In addition, new partners may require extensive training and may take significant time and resources to achieve productivity. Our partners may subject us to lawsuits, potential liability, and reputational harm if, for example, any of our partners misrepresent the functionality of our platform or products to end-users, fail to perform services to end-users' expectations, or violate laws or our policies. In addition, our partners may utilize our platform to develop products and services that could potentially compete with products and services that we offer currently or in the future. Concerns over competitive matters or intellectual property ownership could constrain the growth and development of these partnerships or result in the termination of one or more partnerships. If we fail to effectively manage and grow our network of partners, or properly monitor the quality and efficacy of their service delivery, our ability to sell our products and efficiently provide our services may be impacted, and our operating results may be harmed.

Our future performance depends on our ability to effectively manage our relationships with our existing customers, as well as to attract additional customers that will be able to market and support our products effectively, especially in markets in which we have not previously distributed our products. Termination of agreements with current customers, failure by customers to perform as expected, or failure by us to cultivate new customer relationships, could hinder our ability to expand our operations and harm our revenue and operating results.

***Mergers in the solar industry among our current or potential customers may adversely affect our competitive position.***

There has been an increase in consolidation activity among distributors, large installers, and other strategic partners in the solar industry. For example, in October 2020, Sunrun, a leading provider of residential solar, battery storage and energy services, acquired Vivint Solar. If this consolidation continues, it will further

increase our reliance on a small number of customers for a significant portion of our sales and may negatively impact our competitive position in the solar market.

***The solar industry is highly competitive, and we expect to face increased competition as new and existing competitors introduce products or develop alternative technologies, which could negatively impact our business, financial condition and results of operations.***

We compete primarily against string inverter manufacturers, as well as against new solutions and emerging technologies that directly compete with our business. A number of companies have developed or are developing microinverters and other products that will compete directly with our solutions in the module-level power electronics market.

Our direct competitors in the inverter market include, among others, Enphase Energy Inc., SolarEdge Technologies Inc., and AP Systems, Fronius International GmbH, SMA Solar Technology AG, Generac, Huawei Technologies Co. Ltd., Delta, Ginglong, Sungrow, Solax and other companies offering string inverters. Other existing or emerging companies may also begin offering alternative microinverter, DC-to-DC optimizer, energy storage, monitoring and other solutions that compete with our products. Competitors in the storage market include Tesla, LG Chem, Sonnen, Generac, Panasonic, BYD, E3/DC, Senec, Schneider, Goal Zero, Simpliphi and other producers of battery cells and integrated storage systems.

Several of our existing and potential competitors are significantly larger than we are and may have greater financial, marketing, distribution, and customer support resources, and may have significantly broader brand recognition, especially in certain markets. In addition, some of our competitors have more resources and experience in developing or acquiring new products and technologies and creating market awareness for these offerings. Further, certain competitors may be able to develop new products more quickly than we can and may be able to develop products that are more reliable or that provide more functionality than ours. In addition, some of our competitors have the financial resources to offer competitive products at aggressive or below-market pricing levels, which could cause us to lose sales or market share or require us to lower prices of our products in order to compete effectively. Suppliers of solar products, particularly solar modules, have experienced eroding prices over the last several years and as a result many have faced margin compression and declining revenues. If we have to reduce our prices, or if we are unable to offset any future reductions in our average selling prices by increasing our sales volume, reducing our costs and expenses or introducing new products, our revenues and gross profit would suffer.

Significant developments in alternative technologies, such as advances in other forms of distributed solar PV power generation, storage solutions such as batteries, the widespread use or adoption of fuel cells for residential or commercial properties or improvements in other forms of centralized power production may have a material adverse effect on our business and prospects. Any failure by us to adopt new or enhanced technologies or processes, or to react to changes in existing technologies, could result in product obsolescence, the loss of competitiveness of our products, decreased revenue and a loss of market share to competitors.

We also may face competition from some of our customers or potential customers who evaluate our capabilities against the merits of manufacturing products internally. Other solar module manufacturers could also develop or acquire competing inverter technology or attempt to develop components that directly perform DC-to-AC conversion in the module itself. Due to the fact that such customers may not seek to make a profit directly from the manufacture of these products, they may have the ability to manufacture competitive products at a lower cost than we would charge such customers. As a result, these customers or potential customers may purchase fewer of our systems or sell products that compete with our systems, which would negatively impact our revenue and gross profit.

***The loss of, or events affecting, one of our major customers could reduce our sales and have an adverse effect on our business, financial condition and results of operations.***

Our customers' decisions to purchase our products are influenced by a number of factors outside of our control, including retail energy prices and government regulation and incentives, among others. Although we have agreements with some of our largest customers, these agreements generally do not have long-term purchase commitments and are generally terminable by either party after a relatively short notice period. In addition, these customers may decide to no longer use, or to reduce the use of, our products and services for other reasons that may be out of our control. We may also be affected by events impacting our large customers that result in their decreasing their orders with us or impairing their ability to pay for our products. The loss of, or events affecting, one or more of our large customers have had from time to time, and could in the future have a material adverse effect on our business, financial condition and results of operations.

***Our microinverter systems may not achieve broader market acceptance, which would prevent us from increasing our revenue and market share.***

If we fail to achieve broader market acceptance of our products, including international acceptance of our microinverters, there would be an adverse impact on our ability to increase our revenue, gain market share and achieve and sustain profitability. Our ability to achieve broader market acceptance for our products will be impacted by a number of factors, including:

- our ability to produce PV systems that compete favorably against other solutions on the basis of price, quality, reliability and performance;
- our ability to timely introduce and complete new designs and timely qualify and certify our products;
- whether installers, system owners and solar financing providers will continue to adopt our systems, which have a relatively limited history with respect to reliability and performance;
- whether installers, system owners and solar financing providers will adopt our storage solution, which is a relatively new technology with a limited history with respect to reliability and performance;
- the ability of prospective system owners to obtain long-term financing for solar PV installations based on our product platform on acceptable terms or at all;
- our ability to develop products that comply with local standards and regulatory requirements, as well as potential in-country manufacturing requirements; and
- our ability to develop and maintain successful relationships with our customers and suppliers.

In addition, our ability to achieve increased market share will depend on our ability to increase sales to established solar installers, who have traditionally sold central or string inverters, or who currently sell DC-to-DC optimizers and single microinverters. These installers often have made substantial investments in design, installation resources and training in traditional central or string inverter systems or DC optimizers and single microinverters, which may create challenges for us to achieve their adoption of our solutions.

***Our recent and planned expansion into existing and new markets could subject us to additional business, financial and competitive risks.***

We currently offer solar microinverter systems targeting the residential and commercial markets throughout the world, and we intend to expand into other international markets. Our success in new geographic and product markets will depend on a number of factors, such as:

- acceptance of microinverters in markets in which they have not traditionally been used;
- our ability to compete in new product markets to which we are not accustomed;
- our ability to manage manufacturing capacity and production;
- willingness of our potential customers to incur a higher upfront capital investment than may be required for competing solutions;
- timely qualification and certification of new products;
- our ability to reduce production costs in order to price our products competitively;
- availability of government subsidies and economic incentives for solar energy solutions;
- accurate forecasting and effective management of inventory levels in line with anticipated product demand;
- our customer service capabilities and responsiveness; and
- timely hiring of the skilled employees and efficient execution of our project plan.

Further, new geographic markets and larger commercial and utility-scale installation markets have different characteristics from the markets in which we currently sell products, and our success will depend on our ability to properly address these differences. These differences may include:

- differing regulatory requirements, including tax laws, trade laws, labor, safety, local content, recycling and consumer protection regulations, tariffs, export quotas, customs duties or other trade restrictions;
- limited or unfavorable intellectual property protection;
- risk of change in international political or economic conditions;
- restrictions on the repatriation of earnings;
- fluctuations in the value of foreign currencies and interest rates;
- difficulties and increased expenses in complying with a variety of U.S. and foreign laws, regulations and trade standards, including the Foreign Corrupt Practices Act and UK Bribery Act;
- potentially longer sales cycles;
- generally longer payment cycles and greater difficulty in collecting accounts receivable;

- higher volume requirements;
- increased customer concentrations;
- warranty expectations and product return policies; and
- cost, performance and compatibility requirements.

Failure to address these new markets successfully, to generate sufficient revenue from these markets to offset associated research and development, marketing and manufacturing costs, or to otherwise effectively anticipate and manage the risks and challenges associated with our potential expansion into new product and geographic markets, could adversely affect our revenues and our ability to achieve or sustain profitability.

***We may fail to capture customers in the new product and geographic markets that we are pursuing.***

We are pursuing opportunities in energy management and energy storage which are highly competitive markets. We have made investments in our infrastructure, increased our operating costs and forgone other business opportunities in order to seek opportunities in these areas and will continue to do so. Any new product is subject to certain risks, including component sourcing, strategic partner selection and execution, customer acceptance, competition, product differentiation, market timing, challenges relating to economies of scale in component sourcing and the ability to attract and retain qualified personnel. There can be no assurance that we will be able to develop and grow these or any other new concepts to a point where they will become profitable or generate positive cash flow. If we fail to execute on our plan with respect to new product introductions, these new potential business segments fail to translate into revenue in the quantities or timeline projected, thus, having a materially adverse impact on our revenue, operating results and financial stability.

***If we fail to retain our key personnel or if we fail to attract additional qualified personnel, we may not be able to achieve our anticipated level of growth and our business could suffer.***

Our future success and ability to implement our business strategy depends, in part, on our ability to attract and retain key personnel, and on the continued contributions of members of our senior management team and key personnel in areas such as engineering, marketing, and sales, any of whom would be difficult to replace. For example, we are highly dependent on our chief executive officer, Dr. Praveen Jain. Dr. Jain possesses technical knowledge of our business, operations and strategy, and he has substantial experience and contacts that help us implement our goals, strategy and plan. If we lose his services or if he decides to join a competitor or otherwise compete directly or indirectly with us, our business, operating results and financial condition could be materially harmed.

All of our employees, including our senior management, are free to terminate their employment relationships with us at any time. Competition for highly skilled executives and employees in the technology industry is intense, and our competitors have targeted individuals in our organization that have desired skills and experience. If we are not able to continue to attract, train and retain our leadership team and our qualified employees necessary for our business, the progress of our product development programs could be hindered, and we could be materially adversely affected. To help attract, retain and motivate our executives and qualified employees, we use stock-based incentive awards, including stock options. If the value of such stock awards does not appreciate as measured by the performance of the price of our common stock, or if our share-based compensation otherwise ceases to be viewed as a valuable benefit, our ability to attract, retain and motivate our executives and employees could be weakened, which could harm our business and results of operations. Also, if the value of our stock awards increases substantially, this could

potentially create substantial personal wealth for our executives and employees and affect our ability to retain our personnel. In addition, any future restructuring plans may adversely impact our ability to attract and retain key employees.

Additionally, our ability to attract qualified personnel, including senior management and key technical personnel, is critical to the execution of our growth strategy. Competition for qualified senior management personnel and highly skilled individuals with technical expertise is extremely intense, and we face challenges identifying, hiring, and retaining qualified personnel in all areas of our business. In addition, integrating new employees into our team could prove disruptive to our operations, require substantial resources and management attention, and ultimately prove unsuccessful. Our failure to attract and retain qualified senior management and other key technical personnel could limit or delay our strategic efforts, which could have a material adverse effect on our business, financial condition, results of operations, and prospects.

***Any failure by management to properly manage growth could have a material adverse effect on our business, operating results, and financial condition.***

If our business develops as currently expected, we anticipate that we will grow rapidly in the near future. Our expected rapid growth could place significant demands on our management, operations, systems, accounting, internal controls and financial resources, and it may also negatively impact our ability to retain key personnel. If we experience difficulties in any of these or other areas, we may not be able to expand our business successfully or effectively manage our growth. Any failure by management to manage our growth and to respond to changes in our business could have a material adverse effect on our business, financial condition and results of operations.

***If we are unsuccessful in continuing to expand our direct-to-consumer sales channel by driving purchases through our website, our business and results of operation could be harmed.***

We are subject to general business regulations and laws, as well as federal, state, foreign and provincial regulations and laws specifically governing the internet and e-commerce. Existing and future laws and regulations may impede the growth of the use of the internet, availability of economic broadband access, or other online services, and increase the cost of providing our digital delivery of content and services. These regulations and laws may cover taxation, tariffs, user privacy, data protection, pricing, content, copyrights, distribution, electronic contracts and other communications, consumer protection, broadband internet access and the characteristics and quality of services. It is not clear how existing laws governing issues such as property ownership, sales, use and other taxes, libel and personal privacy apply to the internet and e-commerce. Unfavorable resolution of these issues may harm our business and results of operations.

Although we primarily sell our solutions and products directly to solar PV panel OEMs and distributors, who resell to installers and integrators, who then in turn integrate our products into complete solar PV installations for residential and commercial system owners, we have recently invested significant resources in our direct-to-consumer sales channel through our website, and our future growth relies, in part, on our ability to attract consumers through this channel. Expanding our direct-to-consumer sales model will require significant expenditures in marketing, software development and infrastructure. Further, the success of direct-to-consumer sales through our website is also subject to general business regulations and laws, as well as federal, state, foreign and provincial regulations and laws specifically governing the internet and e-commerce. These regulations and laws may cover taxation, tariffs, privacy, data protection, pricing, distribution, electronic contracts and other communications, consumer protection and intellectual property. These laws and regulations can be complex, difficult to interpret and may change over time. Continued regulatory limitations and other obstacles interfering with our ability to sell our products directly to

consumers could have a negative and material impact our business, prospects, financial condition and results of operations.

Further, the expansion of our direct-to-consumer channel could alienate some of our existing partners and cause a reduction in sales from these partners. Our existing partners may perceive themselves to be at a disadvantage based on the direct-to-consumer sales offered through our website. Due to these and other factors, conflicts in our sales channels could arise and cause our existing partners to divert resources away from the promotion and sale of our products. If we are unable to successfully continue to drive traffic to, and increase sales through, our website, our business and results of operations could be harmed.

***Use of social media may materially and adversely affect our reputation or subject it to fines or other penalties.***

In the future, we may use the internet and social media networks including Facebook, Instagram, LinkedIn, Twitter and YouTube to reach customers. Negative commentary regarding us or our products may be posted on social media platforms and may be adverse to our reputation or business. Our target consumers often value readily available information and often act on such information without further investigation and without regard to its accuracy. The harm may be immediate without affording us an opportunity for redress or correction. We also use these third party social media platforms as marketing tools. If we are unable to cost-effectively use social media platforms as marketing tools, our ability to reach new consumers and its financial condition may suffer. Furthermore, as laws and regulations rapidly evolve to govern the use of these platforms and devices, the failure by us, our employees or third parties, to abide by applicable laws and regulations in the use of these platforms and devices could subject us to regulatory investigations, lawsuits, liability, fines or other penalties and have a material adverse effect on our business, financial condition and results of operations.

In addition, an increase in the use of social media for product promotion and marketing may cause an increase in the burden on us to monitor compliance of such materials, and increase the risk that such materials could contain problematic product or marketing claims in violation of applicable regulations. The inability of or failure by us to timely or properly monitor all product promotion conducted online or through social media or elsewhere may also subject us to regulatory action, lawsuits, liability, fines or other penalties and have a material adverse effect on our business, financial condition or results of operations.

***We are subject to insurance-related risks.***

We maintain director and officer insurance, liability insurance, workers compensation insurance, professional liability insurance, automobile insurance and property insurance. Our insurance coverage includes deductibles, premiums, self-insured retentions, limits of liability and similar provisions. However, there is no guarantee that our insurance coverage will be sufficient, or that insurance proceeds will be paid in a timely manner to us. In addition, there are types of losses we may incur but against which we cannot be insured or which we believe are not economically reasonable to insure, such as losses due to acts of war or certain natural disasters. If we incur these losses and they are material, our business, operating results and financial condition may be adversely affected. Also, certain material events may result in sizable losses for the insurance industry and may materially adversely impact the availability of adequate insurance coverage or result in significant premium increases. Accordingly, we may elect to self-insure, accept higher deductibles or reduce the amount of coverage in response to such market changes.

***Credit risk.***

Credit risk is the risk of a financial loss to us if a customer or counterparty to a financial instrument fails to meet its contractual obligation. We are mainly exposed to credit risk from credit sales. We monitor the

credit worthiness of our customers by performing background checks on all new customers focusing on publicity, reputation in the market and relationships with customers and other vendors. We also monitor the frequency of payments from our ongoing customers and performs frequent reviews of outstanding balances.

***Liquidity risk.***

Liquidity risk arises from our management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that we will encounter difficulty in meeting our financial obligations as they fall due. Our policy is to ensure we will always have sufficient cash to allow us to meet liabilities when they become due. Our board of directors receives quarterly information regarding cash balances and cash flow projections. The liquidity risk of each subsidiary is managed centrally by the treasury function.

***Foreign currency risk.***

A portion of our revenues and expenses are now, and are expected to continue to be, incurred in foreign currencies. Our business will be subject to risks typical of an international business including, but not limited to, differing tax structures, regulations and restrictions and general foreign exchange rate volatility. Fluctuations in the exchange rate between the Canadian dollar and such other currencies may have a material effect on our business, financial condition, and results of operations.

***Conflicts of interest.***

We may be subject to various potential conflicts of interest because of the fact that some of our officers and directors may be engaged in a range of business activities. Our executive officers and directors may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to us. In some cases, our executive officers and directors may have fiduciary obligations associated with these business interests that interfere with their ability to devote time to our business and affairs and that could adversely affect our operations. These outside business interests could require significant time and attention of SPARQ's executive officers and directors.

In addition, we may also become involved in other transactions which conflict with the interests of our directors and the officers who may from time to time deal with persons, firms, institutions or companies with which we may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with ours, and from time to time, these persons may be competing with us for available investment opportunities.

Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, in the event that such a conflict of interest arises at a meeting of our directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, our directors are required to act honestly, in good faith and in our best interests.

**Risks Related to our Intellectual Property and Technology**

***We could be subject to breaches of our information technology systems, which could cause significant reputational, legal and financial damages.***

Like many companies, we use and store a wide variety of confidential and proprietary information relating to our business. The secure maintenance of this information is critical to our business and reputation.

Despite our implementation of security measures, our systems are vulnerable to damages from computer viruses, computer denial-of-service attacks, worms, and other malicious software programs or other attacks, covert introduction of malware to computers and networks, unauthorized access, including impersonation of unauthorized users, efforts to discover and exploit any security vulnerabilities or securities weaknesses, and other similar disruptions. These types of attacks have increased, in general, as more businesses implement remote working environments. Although we make significant efforts to maintain the security and integrity of our information technology and related systems, and have implemented measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective, or that attempted security breaches or disruptions would not be successful or damaging.

The techniques used in attempted cyber-attacks and intrusions are sophisticated and constantly evolving, and may be difficult to detect for long periods of time. We may be unable to anticipate these techniques or implement adequate preventative measures. Although to date we have not experienced any material breaches of our systems that could have material adverse effect on our business, attacks and intrusions on our systems will continue and we may experience a breach of our systems that compromises sensitive company information or customer data. In addition, hardware, software, or applications we develop or procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. If we experience a significant data security breach, we could be exposed to reputational damage and significant costs, including to rebuild our systems, modify our products and services, defend litigation, respond to government enforcement actions, pay damages or take other remedial steps, any of which could adversely affect our business, results of operations, and financial condition. In addition, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

We may also share information with contractors and third-party providers to conduct our business. Although such contractors and third-party providers typically implement encryption and authentication technologies to secure the transmission and storage of data, those third-party providers may experience a significant data security breach, which may also detrimentally affect our business, results of operations, and financial condition.

***The software we use in providing system configuration recommendations or potential energy savings estimates to customers relies in part on third party information that may not be accurate or up-to-date; this may therefore generate inaccurate recommendations or estimates, resulting in a loss of reputation and customer confidence.***

We provide our customers online tools to help them determine proper system sizing and configurations, estimates of bill savings, and potential revenues resulting from executing a specific curtailment strategy. These estimates are in turn based on a number of factors such as customer tariff structures, estimated wholesale electricity prices and estimates of the reduction in electricity usage as a result of a curtailment activity. If the estimates we provide prove to be significantly different from actual payments or savings received by our customers, it may result in the loss of reputation and/or customer confidence.

***If we fail to protect, or incur significant costs in defending, our intellectual property and other proprietary rights, our business and results of operations could be materially harmed.***

Our success depends to a significant degree on our ability to protect our intellectual property and other proprietary rights. We rely on a combination of patent, trademark, copyright, trade secret and unfair competition laws, as well as confidentiality and license agreements and other contractual provisions, to establish and protect our intellectual property and other proprietary rights. We have applied for patent and trademark registrations in Canada and in other countries, some of which have been issued. We cannot guarantee that any of our pending applications will be approved or that our existing and future intellectual

property rights will be sufficiently broad to protect our proprietary technology, and any failure to obtain such approvals or finding that our intellectual property rights are invalid or unenforceable could force us to, among other things, rebrand or re-design our affected products. In countries where we have not applied for patent protection or where effective intellectual property protection is not available to the same extent as in Canada, we may be at greater risk that our proprietary rights will be misappropriated, infringed or otherwise violated.

To protect our unregistered intellectual property, including our trade secrets and know-how, we rely in part on trade secret laws and confidentiality and invention assignment agreements with our employees and independent contractors. We also require other third parties who may have access to our proprietary technologies and information to enter into nondisclosure agreements. Such measures, however, provide only limited protection, and we cannot assure that our confidentiality and non-disclosure agreements will prevent unauthorized disclosure or use of our confidential information, especially after our employees or third parties end their employment or engagement with us, or provide us with an adequate remedy in the event of such disclosure. Furthermore, competitors or other third parties may independently discover our trade secrets, copy or reverse engineer our products or portions thereof, or develop similar technology. If we fail to protect our intellectual property and other proprietary rights, or if such intellectual property and proprietary rights are infringed, misappropriated or otherwise violated, our business, results of operations or financial condition could be materially harmed.

In the future, we may need to take legal action to prevent third parties from infringing upon or misappropriating our intellectual property or from otherwise gaining access to our technology. Protecting and enforcing our intellectual property rights and determining their validity and scope could result in significant litigation costs and require significant time and attention from our technical and management personnel, which could significantly harm our business. In addition, we may not prevail in such proceedings. An adverse outcome of any such proceeding may reduce our competitive advantage or otherwise harm our financial condition and our business.

***Third parties may assert that we are infringing upon their intellectual property rights, which could divert management's attention, cause us to incur significant costs and prevent us from selling or using the technology to which such rights relate.***

Our competitors and other third parties hold numerous patents related to technology used in our industry, and claims of patent or other intellectual property right infringement or violation have been litigated against our competitors. We may also be subject to such claims and litigation. Regardless of their merit, responding to such claims can be time consuming, divert management's attention and resources, and may cause us to incur significant expenses. While we believe that our products and technology do not infringe upon any intellectual property rights of third parties, we cannot be certain that we would be successful in defending against any such claims. Furthermore, patent applications in Canada and most other countries are confidential for a period of time before being published, so we cannot be certain that we are not infringing third parties' patent rights or that we were the first to conceive or protect inventions covered by our patents or patent applications. An adverse outcome with respect to any intellectual property claim could invalidate our proprietary rights and force us to do one or more of the following:

- obtain from a third-party claiming infringement a license to sell or use the relevant technology, which may not be available on reasonable terms, or at all;
- stop manufacturing, selling, incorporating or using products that embody the asserted intellectual property;
- pay substantial monetary damages;

- indemnify our customers under some of our customer contracts; or
- expend significant resources to redesign the products that use the infringing technology, or to develop or acquire non-infringing technology.

Any of these actions could result in a substantial reduction in our revenue and could result in losses over an extended period of time.

***Our failure to obtain the right to use necessary third-party intellectual property rights on reasonable terms, or our failure to maintain, and comply with the terms and conditions applicable to these rights, could harm our business and prospects.***

We have licensed, and in the future we may choose or be required to license, technology or intellectual property from third parties in connection with the development and marketing of our products. We cannot provide assurances that such licenses will be available to us on commercially reasonable terms, or at all, and our inability to obtain such licenses could require us to substitute technology of lower quality or of greater cost.

Further, such licenses may be non-exclusive, which could result in our competitors gaining access to the same intellectual property. The licensing or acquisition of third party intellectual property rights is a competitive area, and other established companies may pursue strategies to license or acquire third party intellectual property rights that we may consider attractive or necessary. These established companies may have a competitive advantage over us due to their size, capital resources or greater development or commercialization capabilities. In addition, companies that perceive us to be a competitor may be unwilling to assign or license rights to us. We could encounter delays and incur significant costs, in product or service introductions while we attempt to develop alternative products or services, or redesign our products or services, to avoid infringing third party patents or proprietary rights. Failure to obtain any such licenses or to develop a workaround could prevent us from commercializing products or services, and the prohibition of sale or the threat of the prohibition of sale of any of our products or services could materially affect our business and our ability to gain market acceptance for our products or services.

In addition, we incorporate open source software code in our proprietary software. Use of open source software can lead to greater risks than use of third-party commercial software, since open source licensors generally do not provide warranties or controls with respect to origin, functionality or other features of the software. Further, companies that incorporate open source software into their products have, from time to time, faced claims challenging their use of open source software and compliance with open source license terms. As a result, we could be subject to lawsuits by parties claiming ownership of what we believe to be open source software or claiming noncompliance with open source licensing terms. Some open source software licenses require users who distribute open source software as part of their products to publicly disclose all or part of the source code in their software and make any derivative works of the open source code available for limited fees or at no cost. Although we monitor our use of open source software, open source license terms may be ambiguous, and many of the risks associated with the use of open source software cannot be eliminated. If we were found to have inappropriately used open source software, we may be required to release our proprietary source code, re-engineer our software, discontinue the sale of certain products in the event re-engineering cannot be accomplished on a timely basis, or take other remedial action. Furthermore, if we are unable to obtain or maintain licenses from third parties or fail to comply with open source licenses, we may be subject to costly third party claims of intellectual property infringement or ownership of our proprietary source code. There is little legal precedent in this area and any actual or claimed requirement to disclose our proprietary source code or pay damages for breach of contract could harm our business and could help third parties, including our competitors, develop products

and services that are similar to or better than ours. Any of the above could harm our business and put us at a competitive disadvantage.

***We may not be able to protect and enforce our trademarks and trade names, or build name recognition in our markets of interest thereby harming our competitive position.***

The registered or unregistered trademarks or trade names that we own may be challenged, infringed, circumvented, declared generic, lapsed or determined to be infringing on or dilutive of other marks. We may not be able to protect our rights in these trademarks and trade names, which we need in order to build name recognition. In addition, third parties have filed, and may in the future file, for registration of trademarks similar or identical to our trademarks, thereby impeding our ability to build brand identity and possibly leading to market confusion. If they succeed in registering or developing common law rights in such trademarks, and if we are not successful in challenging such rights, we may not be able to use these trademarks to develop brand recognition of our technologies, products or services. In addition, there could be potential trade name or trademark infringement claims brought by owners of other registered trademarks or trademarks that incorporate variations of our registered or unregistered trademarks or trade names. If third parties succeed they succeed in registering such trademarks in Canada or other countries, and if we are not successful in challenging such third party rights, we may not be able to use these trademarks to market our products and technologies such countries. If we do not secure registrations for our trademarks, we may encounter more difficulty in enforcing them against third parties than we otherwise would. If we are unable to establish name recognition based on our trademarks and trade names, we may not be able to compete effectively, which could harm our business, financial condition, results of operations and prospects. And, over the long-term, if we are unable to establish name recognition based on our trademarks, then our marketing abilities may be materially adversely impacted.

***Obtaining and maintaining our patent protection depends on compliance with various required procedures, document submissions, fee payments and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.***

Periodic maintenance fees, renewal fees, annuity fees and various other governmental fees on patents and/or applications will be due to be paid to the Canadian Intellectual Property Office (“CIPO”) and various governmental patent agencies outside of Canada at several stages over the lifetime of the patents and/or applications. We have systems in place to remind us to pay these fees, and we engage an outside service and rely on our outside counsel to pay these fees due to non-Canadian patent agencies. CIPO and various non-Canadian governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. We employ reputable law firms and other professionals to help us comply, and in many cases, an inadvertent lapse can be cured by payment of a late fee or by other means in accordance with the applicable rules. However, there are situations in which non-compliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. In such an event, our competitors may be able to enter the market without infringing our patents and this circumstance would have a material adverse effect on our business.

***Patent terms may be inadequate to protect our competitive position on our products for an adequate amount of time.***

Patents have a limited lifespan. In Canada, if all maintenance fees are timely paid, the natural expiration of a patent is generally 20 years from its earliest Canadian non-provisional filing date. Various extensions may be available, but the life of a patent, and the protection it affords, is limited. Even if patents covering our products are obtained, once the patent life has expired, we may be open to competition from competitive

products. If one of our products requires extended development, testing and/or regulatory review, patents protecting such products might expire before or shortly after such products are commercialized. As a result, our owned and licensed patent portfolio may not provide us with sufficient rights to exclude others from commercializing products similar or identical to ours.

***We rely on trade secrets.***

We rely on third parties to develop our products and as a result, we must share our trade secrets with them. We seek to protect our proprietary technology in part by entering into confidentiality agreements and, if applicable, material transfer agreements, collaborative research agreements, consulting agreements or other similar agreements with its collaborators, advisors, employees and consultants prior to beginning research or disclosing proprietary information. These agreements typically restrict the ability of our collaborators, advisors, employees and consultants to publish data potentially relating to our trade secrets. Our academic and clinical collaborators typically have rights to publish data, provided that we are notified in advance and may delay publication for a specified time in order to secure any intellectual property rights arising from the collaboration. In other cases, publication rights are controlled exclusively by us, although in some cases we may share these rights with other parties. We may also conduct joint research and development programs which may require us to share trade secrets under the terms of research and development collaboration or similar agreements. Despite our efforts to protect our trade secrets, our competitors may discover our trade secrets, either through breach of these agreements, independent development or publication of information. A competitor's discovery of our trade secrets may impair our competitive position and could have a material adverse effect on our business and financial condition.

**Risks related to Legal Proceedings and Regulations**

***Changes in laws and regulations.***

Changes in current laws or regulations or the imposition of new laws or regulations, or new interpretations thereof, in the solar energy sector or international trade, by federal or state agencies in Canada or foreign jurisdictions could impair our ability to compete, and could materially harm our business, financial condition and results of operations. There has been and will continue to be regulatory uncertainty in the clean energy sector generally and the solar energy sector in particular. Changes in current laws or regulations, or the imposition of new laws and regulations around the world, could materially and adversely affect our business, financial condition and results of operations. In addition, changes in our products or further changes in tariffs, export and import laws and implementing regulations may create delays in the introduction of new products in international markets, prevent our customers from deploying our products internationally or, in some cases, prevent the export or import of our products to certain countries altogether.

While we are not aware of any other current or proposed export or import regulations that would materially restrict our ability to sell our products in countries where we offer our products for sale, any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies targeted by these regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential international customers. In such event, our business and results of operations could be adversely affected.

***From time to time we may be involved in legal proceedings and, while we cannot predict the outcomes of such proceedings and other contingencies with certainty, some of these outcomes could adversely affect our business and financial condition.***

We may become party to litigation from time to time in the ordinary course of business which could adversely affect our business. Should any litigation in which we become involved be determined against us, such a decision could adversely affect our ability to continue operating and the value of the Common Shares and could use significant resources. Even if we are involved in litigation and win, litigation can redirect significant resources, including the time and attention of management and available working capital. Litigation may also create a negative perception of our brand.

### **Risks Related to Financial Condition and Liquidity**

***The reduction, elimination or expiration of government subsidies and economic incentives for on-grid solar electricity applications could reduce demand for solar PV systems and harm our business.***

The market for on-grid applications, where solar power is used to supplement a customer's electricity purchased from the utility network or sold to a utility under tariff, depends in large part on the availability and size of government and economic incentives that vary by geographic market. Because our customers' sales are typically into the on-grid market, the reduction, elimination or expiration of government subsidies and economic incentives for on-grid solar electricity may negatively affect the competitiveness of solar electricity relative to conventional and non-solar renewable sources of electricity and could harm or halt the growth of the solar electricity industry and our business.

In general, the cost of solar power currently exceeds retail electricity rates, and we believe this tendency will continue in the near term. As a result, national, state and local government bodies in many countries, including the U.S., have provided incentives in the form of feed-in tariffs ("FiTs"), rebates, tax credits and other incentives to system owners, distributors, system integrators and manufacturers of solar PV systems to promote the use of solar electricity in on-grid applications and to reduce dependency on other forms of energy. Many of these government incentives expire, phase out over time, terminate upon the exhaustion of the allocated funding, require renewal by the applicable authority or are being changed by governments due to changing market circumstances or changes to national, state or local energy policy.

Electric utility companies or generators of electricity from other non-solar renewable sources of electricity may successfully lobby for changes in the relevant legislation in their markets that are harmful to the solar industry. Reductions in, or eliminations or expirations of, governmental incentives in regions where we focus our sales efforts could result in decreased demand for and lower revenue from solar PV systems there, which would adversely affect sales of our products. In addition, our ability to successfully penetrate new geographic markets may depend on new countries adopting and maintaining incentives to promote solar electricity, to the extent such incentives are not currently in place. Furthermore, electric utility companies may establish pricing structures or interconnection requirements that could adversely affect our sales and be harmful to the solar and distributed rooftop solar generation industry.

***Our gross profit may fluctuate over time, which could impair our ability to achieve or maintain profitability.***

Our gross profit has varied in the past and is likely to continue to vary significantly from period to period. Our gross profit may be adversely affected by numerous factors, some of which are beyond our control, including:

- changes in customer, geographic or product mix;
- increased price competition, including the impact of customer and competitor discounts and rebates;

- our ability to reduce and control product costs, including our ability to make product cost reductions in a timely manner to offset declines in our product prices;
- warranty costs and reserves, including changes resulting from changes in estimates related to the long-term performance of our products, product replacement costs and warranty claim rates, as well as changes in the discount rates;
- loss of cost savings due to changes in component or raw material pricing or charges incurred due to inventory holding periods if product demand is not correctly anticipated;
- introduction of new products;
- ordering patterns from our distributors;
- price reductions on older products to sell remaining inventory;
- component shortages and related expedited shipping costs;
- our ability to reduce production costs, such as through technology innovations, in order to offset price declines in our products over time;
- changes in shipment volume;
- changes in distribution channels;
- excess and obsolete inventory and inventory holding charges;
- expediting costs incurred to meet customer delivery requirements;
- tariffs assessed on our products imported to the U.S. and elsewhere; and
- fluctuations in foreign currency exchange rates.

Fluctuations in gross profit may adversely affect our ability to manage our business or achieve or maintain profitability.

***We may be under pressure to reduce the prices of our products, which may adversely affect our gross margins.***

The solar power industry has been characterized by declining product prices over time. We have reduced the prices of our products in the past, and we expect to continue to experience pricing pressure for our products in the future, including from our major customers. In addition, we have reduced our prices ahead of planned cost reductions of our products, which has adversely affected our gross margins. When seeking to maintain or increase their market share, our competitors may also reduce the prices of their products. In addition, our customers may have the ability or seek to internally develop and manufacture competing products at a lower cost than we would otherwise charge, which would add additional pressure on us to lower our selling prices. If we are unable to offset any future reductions in our average selling prices by increasing our sales volume, reducing our costs and expenses or introducing new products, our gross margins would continue to be adversely affected.

Given the general downward pressure on prices for our products driven by competitive pressure and technological change, a principal component of our business strategy is reducing the costs to manufacture our products to remain competitive. If our competitors are able to drive down their manufacturing costs faster than we can or increase the efficiency of their products, our products may become less competitive even when adjusted for efficiency, and we may be forced to sell our products at a price lower than our cost. Further, if raw materials costs and other third-party component costs were to increase, we may not meet our cost reduction targets. If we cannot effectively execute our cost reduction roadmap, we may not be able to remain price competitive, which would result in lost market share and lower gross margins.

***A drop in the retail price of electricity derived from the utility grid or from alternative energy sources, or a change in utility pricing structures, may harm our business, financial condition and results of operations.***

We believe that a system owner's decision to purchase a solar PV system is strongly influenced by the cost of electricity generated by solar PV installations relative to the retail price of electricity from the utility grid and the cost of other renewable energy sources, including electricity from solar PV installations using central inverters. Decreases in the retail prices of electricity from the utility grid would make it more difficult for all solar PV systems to compete. In particular, growth in unconventional natural gas production and an increase in global liquefied natural gas capacity are expected to keep natural gas prices relatively low for the foreseeable future. Persistent low natural gas prices, lower prices of electricity produced from other energy sources, such as nuclear power or coal-fired plants, or improvements to the utility infrastructure could reduce the retail price of electricity from the utility grid, making the purchase of solar PV systems less economically attractive and depressing sales of our products. In addition, energy conservation technologies and public initiatives to reduce demand for electricity also could cause a fall in the retail price of electricity from the utility grid. Moreover, technological developments by our competitors in the solar industry, including manufacturers of central inverters and DC-to-DC optimizers, could allow these competitors or their partners to offer electricity at costs lower than those that can be achieved from solar PV installations based on our product platform, which could result in reduced demand for our products. Additionally, as increasing adoption of distributed generation places pressure on traditional utility business models or utility infrastructure, utilities may change their pricing structures to increase the cost of installation or operation of solar distributed generation. Such measures can include grid access fees, costly or lengthy interconnection studies, limitations on distributed generation penetration levels, or other measures. If the cost of electricity generated by solar PV installations incorporating our solutions is high relative to the cost of electricity from other sources, our business, financial condition and results of operations may be harmed.

***If we do not forecast demand for our products accurately, we may experience product shortages, delays in product shipment, excess product inventory, difficulties in planning expenses or disputes with suppliers, any of which will adversely affect our business and financial condition.***

We manufacture our products according to our estimates of customer demand. This process requires us to make multiple forecasts and assumptions relating to the demand of our distributors, their end customers and general market conditions. Because we sell most of our products to distributors, who in turn sell to their end customers, we have limited visibility as to end-customer demand. We depend significantly on our distributors to provide us visibility into their end-customer demand, and we use these forecasts to make our own forecasts and planning decisions. If the information from our distributors turns out to be incorrect, then our own forecasts may also be inaccurate. Furthermore, we do not have long-term purchase commitments from our distributors or end customers, and our sales are generally made by purchase orders that may be canceled, changed or deferred without notice to us or penalty. As a result, it is difficult to forecast future customer demand to plan our operations.

If we overestimate demand for our products, or if purchase orders are canceled or shipments are delayed, we may have excess inventory that we cannot sell. We may have to make significant provisions for inventory write-downs based on events that are currently not known, and such provisions or any adjustments to such provisions could be material. We may also become involved in disputes with our suppliers who may claim that we failed to fulfill forecast or minimum purchase requirements. Conversely, if we underestimate demand, we may not have sufficient inventory to meet end-customer demand, and we may lose market share, damage relationships with our distributors and end customers and forgo potential revenue opportunities. Obtaining additional supply in the face of product shortages may be costly or impossible, particularly in the short term due to the COVID-19 pandemic and in light of our outsourced manufacturing processes, which could prevent us from fulfilling orders in a timely and cost-efficient manner or at all. In addition, if we overestimate our production requirements, our contract manufacturers may purchase excess components and build excess inventory. If our contract manufacturers, at our request, purchase excess components that are unique to our products and are unable to recoup the costs of such excess through resale or return or build excess products, we could be required to pay for these excess parts or products and recognize related inventory write-downs.

In addition, we plan our operating expenses, including research and development expenses, hiring needs and inventory investments, in part on our estimates of customer demand and future revenue. If customer demand or revenue for a particular period is lower than we expect, we may not be able to proportionately reduce our fixed operating expenses for that period, which would harm our operating results for that period.

***The loss of one or more significant customers may cause fluctuations or declines in our revenues.***

Although we have a very diverse customer base, any of the following events could result in negative implications to us:

- reduced, delayed or cancelled orders from one or more significant customers;
- the loss of one or more significant customers;
- a significant customer's failure to pay for our products on time; and
- a significant customer's financial difficulties or insolvency.

As we continue to expand our business and operations, our top customers continue to change. We cannot provide assurances that we will be able to develop a consistent customer base.

***Parties with whom we do business may be subject to insolvency risks or may otherwise become unable or unwilling to perform their obligations to us.***

We are a party to contracts, transactions and business relationships with various third parties, notably customers, contractors and suppliers. If any of these third parties were to become subject to bankruptcy, receivership or similar proceedings, our rights and benefits in relation to its contracts, transactions and business relationships with such third parties could be terminated, modified in a manner adverse to us or otherwise impaired. We cannot make any assurances that we would be able to arrange for alternate or replacement contracts, transactions or business relationships on terms as favorable as existing contracts, transactions or business relationships, if at all. Any inability on our part to do so could have a material adverse effect on its business and results of operations.

### **General Risks Related to our Business**

***Natural disasters, public health events, significant disruptions of information technology systems, data security breaches, or other catastrophic events could adversely affect our operations.***

Our worldwide operations could be subject to natural disasters, public health events and other business disruptions, which could harm our future revenue and financial condition and increase our costs and expenses. We rely on third-party manufacturing facilities including for all product assembly and final testing of our products, which are performed at third-party manufacturing facilities in India. There may be conflict or uncertainty in the countries in which we operate, including public health issues (for example, the ongoing COVID-19 pandemic or an outbreak of other contagious diseases or health epidemics), safety issues, natural disasters, fire, disruptions of service from utilities, nuclear power plant accidents or general economic or political factors. Such risks could result in an increase in the cost of components, production delays, general business interruptions, delays from difficulties in obtaining export licenses for certain technology, tariffs and other barriers and restrictions, longer payment cycles, increased taxes, restrictions on the repatriation of funds and the burdens of complying with a variety of foreign laws, any of which could ultimately have a material adverse effect on our business.

Further, any terrorist attacks, material disruption to our information technology systems or any data security breaches, including due to cyber-attacks, especially any aimed at energy or communications infrastructure suppliers or our cloud-based monitoring service, could hinder or delay the development and sale or performance of our products or otherwise adversely affect us. Such significant disruptions of our, our third party vendors' and/or business partners' information technology systems or data security breaches, including in our remote work environment as a result of COVID-19, could adversely affect our business operations and/or result in the loss, misappropriation, and/or unauthorized access, use or disclosure of, or the prevention of access to, confidential information (including trade secrets or other intellectual property, proprietary business information and personal information), and could result in financial, legal, business and reputational harm to us. Any such event that leads to unauthorized access, use or disclosure of personal information, including personal information regarding our customers, could harm our reputation, compel us to comply with federal and/or state breach notification laws and foreign law equivalents, subject us to mandatory corrective action, require us to verify the correctness of database contents and otherwise subject us to liability under laws and regulations that protect the privacy and security of personal information, which could disrupt our business, result in increased costs or loss of revenue, and/or result in legal and financial exposure. In addition, security breaches and other inappropriate access can be difficult to detect, and any delay in identifying them may further harm us. Moreover, the prevalent use of mobile devices to access confidential information increases the risk of security breaches. While we have implemented security measures to protect our information technology systems and infrastructure, there can be no assurance that such measures will prevent service interruptions or security breaches that could adversely affect our business. In addition, failure to maintain effective internal accounting controls related to security breaches and cybersecurity in general could impact our ability to produce timely and accurate financial statements and subject us to regulatory scrutiny.

In the event that natural disasters, public health epidemics or technical catastrophes were to damage or destroy any part of our facilities or those of our contract manufacturer, destroy or disrupt vital infrastructure systems or interrupt our operations or services for any extended period of time, our business, financial condition and results of operations would be materially and adversely affected.

#### ***COVID-19***

The outbreak of infectious diseases or the threat of outbreaks of viruses or other infectious diseases or similar health threats, including novel coronavirus (COVID-19) outbreak, could have a material adverse

effect on our business by causing operational and supply chain delays and disruptions (including as a result of government regulation and prevention actions), labour shortages and shutdowns, decreased demand, declines in gross margin realizations, capital markets volatility, or other unknown but potentially significant impacts. The international response to the spread of COVID-19 has led to significant restrictions on travel, temporary business closures, quarantines, global stock market volatility and a general reduction in business activity. At this time we cannot accurately predict what future effects these conditions will have on the Resulting Issuer's operations or financial results, including due to uncertainties relating to the geographic spread of the virus and virus variants, the effectiveness of vaccines, the distribution, accessibility and availability of vaccines, the severity of the disease and variants, the duration of the pandemic, the effects on global supply chain, and the length of the travel restrictions and business closures and restrictions, that have been or may be imposed by the governments of impacted countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in economic downturn that could result in a material adverse effect on the demand for our services, investor confidence, and general financial market liquidity, all of which may adversely affect our business and the market price of the Common Shares. Accordingly, any outbreak or threat of an outbreak of an epidemic disease or similar public health emergency could have a material adverse effect on our business, financial condition and results of operations.

#### ***General global economic conditions.***

The demand for our products is influenced by macroeconomic factors, such as global economic conditions, demand for electricity, supply and prices of electricity, renewable power and other energy products, such as oil, coal and natural gas, as well as government regulations and policies concerning the electric utility industry, and other alternative energy industries and the environment. As a result of global economic conditions, some governments may implement measures that reduce the subsidies designed to benefit the power service industry, which may have an indirect impact on demand for our products. A decrease in solar power tariffs in many markets has resulted in downward pressure on the price of renewable power systems in those and other markets. In addition, reductions in oil and coal prices may reduce the demand for electric power which may lead to a reduction in demand for electric power services. Our growth and profitability depend on the demand for and the prices of electric and solar power. If we experience negative market and industry conditions and demand for electric and solar power projects and electric and solar products weaken as a result, our business and results of operations may be adversely affected.

### **Financial and Accounting Risks**

#### ***Access to Capital.***

In executing our business plan, we make, and will continue to make, substantial investments and other expenditures related to acquisitions, research and development and marketing initiatives. Since our incorporation, we have financed these expenditures through offerings of its equity securities and debt financing. We will have further capital requirements and other expenditures as we proceed to expand our business or take advantage of opportunities for acquisitions or other business opportunities that may be presented to it. We may incur major unanticipated liabilities or expenses. We can provide no assurance that it will be able to obtain financing to meet our growth needs.

#### ***Estimates or Judgments Relating to Critical Accounting Policies.***

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that it believes to be

reasonable under the circumstances, as provided in the notes to the SPARQ Financial Statements set forth in Schedule C, the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenue and expenses that are not readily apparent from other sources. Our operating results may be adversely affected if the assumptions change or if actual circumstances differ from those in the assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors, resulting in a decline in the share price of the Resulting Issuer. Significant assumptions and estimates used in preparing the financial statements include those related to the credit quality of accounts receivable, income tax credits receivable, share based payments, impairment of non-financial assets, fair value of biological assets, as well as revenue and cost recognition.

### **Common Shares and Completion of the Qualifying Transaction**

#### ***Quarterly performance variation.***

Financial results may vary significantly from quarter to quarter due to a number of factors, which may lead to volatility in SPARQ's stock price. SPARQ's results of operations have varied in the past and may continue to vary significantly from quarter to quarter. As a result, the trading price of the Common Shares and the Resulting Issuer Warrants is likely to be volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. In addition, the trading prices of the securities of solar companies in general have been highly volatile, and the volatility in market price and trading volume of securities is often unrelated or disproportionate to the financial performance of the companies issuing the securities. Factors that could affect the market price of the Common Shares and the Resulting Issuer Warrants include:

- seasonal and other fluctuations in demand for products;
- the timing, volume and product mix of sales of products, which may have different average selling prices or profit margins;
- changes in pricing and sales policies or the pricing and sales policies of competitors;
- the impacts and the evolving effects of the ongoing COVID-19 pandemic on SPARQ's business, sales and results of operations;
- SPARQ's ability to design, manufacture and deliver products to our customers in a timely and cost-effective manner and that meet customer requirements;
- SPARQ's ability to manage relationships with contract manufacturers, customers and suppliers;
- quality control or yield problems in manufacturing operations;
- the anticipation, announcement or introductions of new or enhanced products by competitors and SPARQ;
- reductions in the retail price of electricity;
- changes in laws, regulations and policies applicable to our business and products, particularly those relating to government incentives for solar energy applications;
- the impact of tariffs on the solar industry in general and SPARQ's products in particular;

- unanticipated increases in costs or expenses;
- the amount and timing of operating costs and capital expenditures related to the maintenance and expansion of SPARQ's business operations;
- the impact of government-sponsored programs on SPARQ's customers;
- SPARQ's exposure to the credit risks of customers, particularly in light of the fact that some customers are relatively new entrants to the solar market without long operating or credit histories and impacts of the COVID-19 pandemic they may experience;
- SPARQ's ability to estimate future warranty obligations due to product failure rates, claim rates or replacement costs;
- SPARQ's ability to forecast customer demand and manufacturing requirements, and manage inventory;
- fluctuations in gross profit;
- SPARQ's ability to predict revenue and plan expenses appropriately;
- fluctuations in foreign currency exchange rates;
- announcement of acquisitions or dispositions of assets or business operations;
- issuances of Common Shares;
- changes in management;
- technical factors in the public trading market for Common Shares and Resulting Issuer Warrants that may produce price movements that may or may not comport to macro, industry or company-specific fundamentals, including, without limitation, the sentiment of retail investors (including as may be expressed on financial trading and other social media sites), the amount and status of short interest in the Common Shares and Resulting Issuer Warrants, access to margin debt, trading in options and other derivatives on the Common Shares and any related hedging or other technical trading factors;
- general economic conditions and changes in such conditions specific to target markets; and
- actions by research analysts, such as if they issue unfavorable commentary or downgrade the Common Shares and Resulting Issuer Warrants or cease publishing reports about SPARQ or its business.

The above factors are difficult to forecast, and these, as well as other factors, could materially and adversely affect our quarterly and annual results of operations. Any failure to adjust spending quickly enough to compensate for a revenue shortfall could magnify the adverse impact of this revenue shortfall on our results of operations. Moreover, SPARQ's results of operations may not meet its announced guidance or the expectations of research analysts or investors, in which case the price of the Common Shares and Resulting Issuer Warrants could decrease significantly. There can be no assurance that SPARQ will be able to successfully address these risks.

***Market for the Common Shares and Resulting Issuer Warrants.***

There can be no assurance that an active trading market for the Common Shares and Resulting Issuer Warrants will develop or, if developed, that any market will be sustained. SPARQ cannot predict the prices at which the Common Shares and Resulting Issuer Warrants will trade. Fluctuations in the market price of the Common Shares and Resulting Issuer Warrants could cause an investor to lose all or part of their investment in the Common Shares and/or Resulting Issuer Warrants. Factors that could cause fluctuations in the trading price of the Common Shares include: (i) announcements of new offerings, products, services or technologies; commercial relationships, acquisitions or other events by the Resulting Issuer or its competitors; (ii) price and volume fluctuations in the overall stock market from time to time; (iii) significant volatility in the market price and trading volume of solar companies; (iv) fluctuations in the trading volume of the Common Shares and Resulting Issuer Warrants or the size of the Resulting Issuer's public float; (v) actual or anticipated changes or fluctuations in the Resulting Issuer's results of operations; (vi) whether SPARQ's results of operations meet the expectations of securities analysts or investors; (vii) actual or anticipated changes in the expectations of investors or securities analysts; (viii) litigation involving the Resulting Issuer, its industry, or both; (ix) regulatory developments in Canada and other jurisdictions in which SPARQ may operate; (x) general economic conditions and trends; (xi) major catastrophic events; (xii) escrow releases, sales of large blocks of the Common Shares; (xiii) departures of key employees or members of management; or (xiv) an adverse impact on SPARQ from any of the other risks cited herein.

***No history of payment of cash dividends.***

SPARQ has never declared or paid cash dividends on the SPARQ Common Shares. Upon Completion of the Qualifying Transaction, SPARQ intends to retain future earnings to finance the operation, development and expansion of the business. SPARQ does not anticipate paying cash dividends on the Common Shares in the foreseeable future. Payment of future cash dividends, if any, will be at the discretion of the Board and will depend on the Resulting Issuer's financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors that the Board considers relevant.

***Reporting issuer status.***

From the date of incorporation to the date of this Filing Statement, SPARQ has not been subject to the continuous and timely disclosure requirements of Canadian securities laws or other rules, regulations and policies of the TSXV. As a reporting issuer, the Resulting Issuer will be subject to reporting requirements under applicable securities laws and stock exchange policies. SPARQ is working with its legal, accounting and financial advisors to identify those areas in which changes should be made to SPARQ's financial management control systems to manage its obligations as a subsidiary of a public company. Compliance with these requirements will increase legal and financial compliance costs, make some activities more difficult, time consuming or costly and increase demand on existing systems and resources. Among other things, the Resulting Issuer will be required to file annual, quarterly and current reports with respect to its business and results of operations and maintain effective disclosure controls and procedures and internal controls over financial reporting. In order to maintain and, if required, improve disclosure controls and procedures and internal controls over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm the Resulting Issuer's business and results of operations. The Resulting Issuer may need to hire additional employees to comply with these requirements in the future, which would increase its costs and expenses. Management of SPARQ expects that being a reporting issuer will make it more expensive to maintain director and officer liability insurance. This factor could also make it more difficult for the Resulting Issuer to retain qualified directors and executive officers.

***Significant sales of Common Shares.***

Although the Common Shares held by existing shareholders of MJ will be freely tradable under applicable securities legislation, the Common Shares held by SPARQ's directors, executive officers, Control Persons and certain other securityholders of SPARQ will be subject to contractual lock-up restrictions and escrow and seed share resale restrictions ("SSRR") pursuant to the policies of the TSXV. Sales of a substantial number of the Common Shares in the public market after the expiry of lock-up, SSRR or escrow restrictions, or the perception that these sales could occur, could adversely affect the market price of the Common Shares and the Resulting Issuer Warrants and may make it more difficult for investors to sell the Common Shares and Resulting Issuer Warrants at a favourable time and price.

***Analyst coverage.***

The trading market for the Common Shares and Resulting Issuer Warrants will, to some extent, depend on the research and reports that securities or industry analysts publish about the Resulting Issuer or its business. The Resulting Issuer will not have any control over these analysts. If one or more of the analysts who covers the Resulting Issuer should downgrade the Common Shares and Resulting Issuer Warrants or change their opinion of the Resulting Issuer's business prospects, the price of Common Shares and/or Resulting Issuer Warrants would likely decline. If one or more of these analysts ceases coverage of the Resulting Issuer or fails to regularly publish reports on the Resulting Issuer, the Resulting Issuer could lose visibility in the financial markets, which could cause the price or trading volume of the Common Shares and/or Resulting Issuer Warrants to decline.

***Tax issues.***

There may be income tax consequences in relation to the Common Shares, which will vary according to circumstances of each investor. Prospective investors should seek independent advice from their own tax and legal advisers.

***Completion of the Qualifying Transaction is subject to conditions precedent.***

The Completion of the Qualifying Transaction is subject to a number of conditions precedent, including the approval by the TSXV and regulatory authorities. Certain of such conditions precedent are outside the control of either or both of MJ and SPARQ, and there can be no assurance that these conditions will be satisfied.

***Termination of the Amalgamation Agreement.***

The Amalgamation Agreement specifies that the parties' obligation to effect the Amalgamation is conditional upon the satisfaction of a number of conditions, including receipt of all required regulatory approvals. If any of these conditions are not satisfied or waived, the Amalgamation may not be completed. Each of MJ and SPARQ has the right, in certain circumstances, in addition to termination rights relating to the failure to satisfy the conditions of Closing, to terminate the Definitive Agreement. Accordingly, MJ or SPARQ cannot provide any assurance, that the Definitive Agreement will not be terminated by either of MJ or SPARQ prior to the completion of the Amalgamation.

***Potential undisclosed liabilities associated with the Amalgamation.***

Upon completion of the Amalgamation, SPARQ will be a direct and wholly-owned subsidiary of the Resulting Issuer and will continue to have the liabilities that existed prior to completion of the

Amalgamation. There may be liabilities of SPARQ that MJ failed to discover or was unable to accurately assess or quantify in its due diligence.

## **PART V – GENERAL MATTERS**

### **Auditor, Transfer Agent and Registrar**

On Completion of the Qualifying Transaction, the auditor of the Resulting Issuer is expected to be MNP LLP, Chartered Professional Accountants, located at 111 Richmond Street West, Suite 300, Toronto, Ontario M5H 2G4.

On Closing, TSX Trust Company located at 100 Adelaide Street West, Suite 301, Toronto, Ontario, Canada, M5H 4H1 will be transfer agent and registrar for the Resulting Issuer on Completion of the Qualifying Transaction.

### **Sponsorship**

Sponsorship for the Qualifying Transaction is required by TSXV policies, unless an exemption is granted. The TSXV granted an exemption from the sponsorship requirements.

### **Experts**

No experts, including individuals or companies who are named as having prepared or certified a part of this Filing Statement or prepared or certified a report or valuation described or included in this Filing Statement have, or will have immediately following completion of the Amalgamation, any direct or indirect interest in the Resulting Issuer or SPARQ.

### **Other Material Facts**

MJ is not aware of any other material facts relating to MJ, SPARQ or the Resulting Issuer or to the Qualifying Transaction that are not disclosed under the preceding items and are necessary in order for this Filing Statement to contain full, true and plain disclosure of all material facts relating to MJ, SPARQ and the Resulting Issuer, assuming Completion of the Qualifying Transaction, other than those set forth herein.

### **Board Approval**

The Board has approved this Filing Statement. Where information contained in this Filing Statement rests particularly within the knowledge of a Person other than MJ, MJ has relied upon information furnished by such Person.

### **ACKNOWLEDGMENT OF PERSONAL INFORMATION**

“Personal Information” means any information about an identifiable individual, and includes information contained in any Items in the attached to the filing statement that are analogous to Items 4.2, 11, 12.1, 15, 17.2, 18.2, 23, 24, 26, 31.3, 32, 33, 34, 35, 36, 37, 38, 40 and 41 of the TSX Venture Exchange (the “TSXV”) Form 3B2, as applicable.

The undersigned hereby acknowledges and agrees that it has obtained the express written consent of each individual to:

- (a) the disclosure of Personal Information by the undersigned to the TSXV pursuant to this TSXV Form 3B2; and
- (b) the collection, use and disclosure of Personal Information by the TSXV for the purposes described in Appendix 6B or as otherwise identified by the TSXV, from time to time.

DATED December 23, 2021

(signed) “*Bryan Van Engelen*”

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Bryan Van Engelen, Chief Executive Officer,  
Chief Financial Officer, Director

**CERTIFICATE OF MJ INNOVATION CAPITAL CORP.**

DATED December 23, 2021

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities of MJ Innovation Capital Corp. assuming Completion of the Qualifying Transaction.

(signed) “*Bryan Van Engelen*”

Bryan Van Engelen, Chief Executive Officer,  
Chief Financial Officer, Director

**ON BEHALF OF THE BOARD OF DIRECTORS OF  
MJ INNOVATION CAPITAL CORP.**

(signed) “*Scott Rasenberg*”

Scott Rasenberg, Director

(signed) “*Richard Kimel*”

Richard Kimel, Director

**CERTIFICATE OF SPARQ SYSTEMS INC.**

DATED December 23, 2021

The foregoing as it relates to SPARQ Systems Inc. constitutes full, true and plain disclosure of all material facts relating to the securities of SPARQ Systems Inc.

(signed) "Dr. Praveen Jain"

Dr. Praveen Jain  
Chief Executive Officer

(signed) "Kyle Appleby"

Kyle Appleby  
Chief Financial Officer

**ON BEHALF OF THE BOARD OF DIRECTORS OF  
SPARQ SYSTEMS INC.**

(signed) "Ravi Sood"

Director

(signed) "Nishith Goel"

Director

**SCHEDULE A  
FINANCIAL STATEMENTS OF MJ**

(see attached)

**MJ Innovation Capital Corp.**

**(A Capital Pool Company)**

**Audited Financial Statements**

*For the financial years ended June 30, 2021 and June 30, 2020*



## Independent Auditor's Report

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To the Shareholders of MJ Innovation Capital Corp.:

### Opinion

We have audited the financial statements of MJ Innovation Capital Corp. (the "Corporation"), which comprise the statements of financial position as at June 30, 2021 and June 30, 2020, and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at June 30, 2021 and June 30, 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 Financial Statements section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audits of the 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.

### 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Corporation'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 Corporation'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 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 Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 Pierrette Dosanjh.

*MNP LLP*

Toronto, Ontario  
October 28, 2021

Chartered Professional Accountants  
Licensed Public Accountants

**MNP**

**MJ Innovation Capital Corp.**  
(A Capital Pool Company)  
For the financial years ended June 30, 2021 and June 30, 2020

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**MJ Innovation Capital Corp.**  
(A Capital Pool Company)  
Audited Statements of Financial Position  
(Expressed - Canadian Dollars)

	<b>June 30, 2021</b>	<b>June 30, 2020</b>
<b>Assets</b>		
Current Assets		
Cash	\$ 237,206	314,416
<b>Total assets</b>	<b>\$ 237,206</b>	<b>314,416</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 44,067	37,190
<b>Total Liabilities</b>	<b>\$ 44,067</b>	<b>37,190</b>
<b>Shareholders' Equity</b>		
Share capital (Note 3)	\$ 405,915	405,915
Contributed surplus (Note 3)	66,507	66,507
Accumulated deficit	(279,283)	(195,196)
<b>Total shareholders' equity</b>	<b>\$ 193,139</b>	<b>277,226</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 237,206</b>	<b>314,416</b>

Nature of operations (Note 1)

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

Approved by the Board

"Richard Kimel"

Director

"Bryan Van Engelen"

Director

**MJ Innovation Capital Corp.**

(A Capital Pool Company)

Audited Statements of Loss and Comprehensive Loss

For the financial years ended June 30, 2021 and June 30, 2020

(Expressed - Canadian Dollars)

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		<b>Year Ended June 30, 2021</b>	<b>Year Ended June 30, 2020</b>
<b>Expenses</b>			
Office and administrative expenses	\$	20,309	35,534
Legal & professional fees (Note 5)		63,778	44,768
Stock-based compensation (Note 3)		-	45,424
<b>Total Expenses</b>	<b>\$</b>	<b>84,087</b>	<b>125,726</b>
<b>Net Loss &amp; Comprehensive Loss</b>	<b>\$</b>	<b>(84,087)</b>	<b>(125,726)</b>
<b>Net loss per share</b>			
Basic and Diluted	\$	<b>(0.04)</b>	<b>(0.07)</b>
Weighted average of shares outstanding		<b>2,000,000</b>	<b>1,781,421</b>
Basic and Diluted			

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

**MJ Innovation Capital Corp.**

(A Capital Pool Company)

Audited Statements of Changes in Shareholders' Equity

For the financial years ended June 30, 2021 and June 30, 2020

(Expressed - Canadian Dollars)

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	Number of Shares	Share Capital	Accumulated Deficit	Contributed surplus	Shareholders' Equity
<b>Balance as at July 1, 2020</b>	<b>3,050,000</b>	<b>\$ 405,915</b>	<b>\$ (195,196)</b>	<b>\$ 66,507</b>	<b>\$ 277,226</b>
Net loss for the year		-	(84,087)	-	(84,087)
<b>Balance as at June 30, 2021</b>	<b>3,050,000</b>	<b>\$ 405,915</b>	<b>\$ (279,283)</b>	<b>\$ 66,507</b>	<b>\$ 193,139</b>

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<b>Balance as at July 1, 2019</b>	<b>1,000,000</b>	<b>\$ 95,298</b>	<b>\$ (69,470)</b>	<b>\$ -</b>	<b>\$ 25,828</b>
Shares issued during the year (Note 3)	2,050,000	405,000	-	-	405,000
Shares issuance costs		(94,383)	-	-	(94,383)
Warrants issued to Agent (Note 3)		-	-	21,083	21,083
Stock based compensation (Note 3)		-	-	45,424	45,424
Net loss for the year		-	(125,726)	-	(125,726)
<b>Balance as at June 30, 2020</b>	<b>3,050,000</b>	<b>\$ 405,915</b>	<b>\$ (195,196)</b>	<b>\$ 66,507</b>	<b>\$ 277,226</b>

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

**MJ Innovation Capital Corp.**  
(A Capital Pool Company)  
Audited Statements of Cash flows  
For the financial years ended June 30, 2021 and June 30, 2020  
(Expressed - Canadian Dollars)

	<b>Year ended June 30, 2021</b>	<b>Year ended June 30, 2020</b>
<b>Operating activities</b>		
Net loss	\$ (84,087)	(125,726)
<b>Adjustments for:</b>		
Stock based compensation (Note 3)	-	45,424
<b>Change in operating assets and liabilities</b>		
Accounts payable	6,877	(21,892)
<b>Net cash used by operating activities</b>	<b>\$ (77,210)</b>	<b>(102,194)</b>
<b>Financing Activities</b>		
Shares issued (Note 3)	\$ -	405,000
Issuance costs	-	(73,300)
Change in deferred offering costs	-	15,000
<b>Net cash provided by financing activities</b>	<b>\$ -</b>	<b>346,700</b>
<b>Net change in cash flows</b>	<b>\$ (77,210)</b>	<b>244,506</b>
<b>Cash and cash equivalents</b>		
Cash at beginning of year	\$ 314,416	69,910
Change in cash during the year	(77,210)	244,506
<b>Cash at end of year</b>	<b>\$ 237,206</b>	<b>314,416</b>

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

## **MJ Innovation Capital Corp.**

(A Capital Pool Company)

Notes to the Audited Financial Statements

For the financial years ended June 30, 2021 and June 30, 2020

(Expressed - Canadian Dollars)

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### **1. Nature of Operations**

MJ Innovation Capital Corp. (the "**Corporation**") was incorporated under the *Business Corporations Act* (Ontario) on November 13, 2018 and is a Capital Pool Company as defined in Policy 2.4 – Capital Pool Companies ("**Policy 2.4**") of the TSX Venture Exchange (the "**Exchange**"). The Corporation has no assets other than cash. The principal business of the Corporation is the identification and evaluation of assets or businesses with a view to completing a Qualifying Transaction (as defined in Policy 2.4). The Corporation's continuing operations as intended are dependent on its ability to identify, evaluate and negotiate an acquisition, or business, or an interest therein. Such an acquisition will be subject to the approval of the regulatory authorities concerned and, in the case of a non-arm's length transaction, of the majority of the minority shareholders.

On August 4, 2021, the Corporation held a special meeting of shareholders where disinterested shareholders approved, among other things, the removal of the consequences of the Corporation failing to complete a Qualifying Transaction within 24 months of its initial public offering, in accordance with certain amendments to Policy 2.4.

The proceeds raised from the issuance of common shares in the capital of the Corporation ("**Common Shares**") may only be used to identify and evaluate assets or businesses for future investment, with the exception that up to \$3,000 per month may be used for reasonable general and administrative expenses of the Corporation. These restrictions apply until the completion of a Qualifying Transaction.

The head office and the registered head office of the Corporation is located at 181 Bay Street, Suite 1800, Toronto, ON M5J 2T9.

The global outbreak of the COVID-19 pandemic has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact of the COVID-19 outbreak may have on the Corporation as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.

These financial statements were approved and authorized for issuance by the board of directors (the "**Board**") of the Corporation on October 28, 2021

### **2. Significant accounting policies**

#### *Statement of compliance*

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board and Interpretations of the International Financial Reporting Interpretations Committee.

#### *Accounting standards issued but not yet applied*

The Corporation has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. In the current circumstances, management of the Corporation does not expect any of these to have a material impact on the financial statements.

**MJ Innovation Capital Corp.**

(A Capital Pool Company)

Notes to the Audited Financial Statements

For the financial years ended June 30, 2021 and June 30, 2020

(Expressed - Canadian Dollars)

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*Basis of Presentation*

The financial statements are presented in Canadian dollars, which is the Corporation's functional and presentation currency. The financial statements are prepared on a historical cost basis except for certain financial instruments classified as fair value through profit or loss ("**FVTPL**"), which are stated at their fair value. The accounting policies have been applied consistently throughout the entire period presented in these financial statements.

*Share Capital*

Common Shares are classified as equity. Incremental costs directly attributable to the issuance of Common Shares are recognized as a deduction from equity.

*Basic and Diluted Loss per Share*

Basic loss per share is computed by dividing the net loss applicable to Common Shares by the weighted average number of Common Shares outstanding for the relevant period. Common Shares escrowed pursuant to the requirements of the Exchange are excluded from the number of outstanding Common Shares.

Diluted loss per share is computed by dividing the net loss applicable to Common Shares by the sum of the weighted average number of Common Shares issued and outstanding and all additional Common Shares that would have been outstanding if potentially dilutive instruments were converted.

*Share-based Compensation*

Equity-settled share-based payments for directors, officers, employees, and consultants are measured at fair value at the date of grant and recorded as compensation expense in the financial statements. Options are measured at fair value of each tranche on the grant date and are recognized in their respective vesting period using the Corporation's expected forfeiture rate. Any consideration paid by directors, officers, employees and consultants on exercise of equity-settled share-based payments is credited to share capital. Common shares are issued from treasury upon the exercise of equity-settled share-based instruments.

***Financial Instruments****Recognition*

The Corporation recognizes financial assets and financial liabilities on the date the Corporation becomes a party to the contractual provisions of the instruments.

*Classification*

The Corporation classifies its financial assets and financial liabilities in the following measurement categories: (i) those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and (ii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured subsequently at fair value through profit of loss (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

The Corporation only reclassifies financial assets when its business model for managing those assets changes. Financial liabilities are not reclassified.

**MJ Innovation Capital Corp.**

(A Capital Pool Company)

Notes to the Audited Financial Statements

For the financial years ended June 30, 2021 and June 30, 2020

(Expressed - Canadian Dollars)

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The Corporation has implemented the following classifications:

- cash is classified as fair value and any period change in fair value is recorded in profit or loss; and
- accounts payable and accrued liabilities are classified as other financial liabilities and measured at amortized cost using the effective interest rate method.

*Measurement*

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments or principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition).

Additional fair value measurement disclosure includes classification of financial instrument fair values in a fair value hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements which are as follows:

- Level 1: valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than level 1 prices, such as quoted interest or currency exchange rates; and
- Level 3: valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

Cash is a level 1 financial instrument measured at fair value on the statements of financial position.

*Income Taxes*

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case the income tax is also recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts and the Corporation intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is recognized in respect of all qualifying temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expensed to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

**MJ Innovation Capital Corp.**

(A Capital Pool Company)

Notes to the Audited Financial Statements

For the financial years ended June 30, 2021 and June 30, 2020

(Expressed - Canadian Dollars)

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

*Estimates*

The preparation of financial statements in conformity with IFRS accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates used in the financial statements.

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Corporation reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provision in the period in which such determination is made.

**3. Share capital***Authorized Unlimited Common Shares*

<b>Issued</b>	<b>#</b>	<b>\$</b>
Balance, June 30, 2019	1,000,000	\$ 95,298
50,000 Common Shares (i)	50,000	5,000
5,000,000 Common Shares (ii)	2,000,000	400,000
Issuance cost (cash)	-	(73,300)
Issuance cost (warrants)	-	(21,083)
<b>Balance, June 30, 2020 and 2021</b>	<b>3,050,000</b>	<b>\$ 405,915</b>

**(i) Escrow Shares**

During the period ended June 30, 2019, the Corporation issued 1,000,000 Common Shares at a price of \$0.10 per share for total cash consideration of \$100,000. Share issuance costs of \$4,702 were associated with this offering. On July 3, 2019, the Corporation issued 50,000 Common Shares at a price of \$0.10 per share for total cash consideration of \$5,000.

All of the 1,050,000 Common Shares issued prior to the Corporation's initial public offering (the "IPO") at a price of \$0.10 per Common Share, all Common Shares that may be acquired by Non Arm's Length Parties of the Corporation (as defined by the policies of the Exchange) either under the IPO or otherwise prior to completion of the Qualifying Transaction, and all Common Shares acquired by members of the Aggregate Pro Group (as defined by the policies of the Exchange) prior to the IPO, will be deposited with the Corporation's escrow agent under the CPC Escrow Agreement (as defined by the policies of the Exchange).

All Common Shares acquired upon the exercise of stock options ("Options") prior to the completion of a Qualifying Transaction must also be deposited in escrow until the final exchange bulletin is issued, following which the Common Shares will be released from escrow in accordance with the terms of the escrow agreement.

**MJ Innovation Capital Corp.**

(A Capital Pool Company)

Notes to the Audited Financial Statements

For the financial years ended June 30, 2021 and June 30, 2020

(Expressed - Canadian Dollars)

All Common Shares acquired in the secondary market prior to the completion of a Qualifying Transaction by a control person, as defined in the policies of the Exchange, are required to be deposited in escrow. Subject to certain permitted exemptions, all securities of the Corporation held by principals of the resulting issuer following the completion of Qualifying Transaction will also be escrowed.

**(ii) IPO**

On August 9, 2019, the Corporation completed its IPO of 2,000,000 Common Shares at a price of \$0.20 per share for aggregate gross proceeds of \$400,000. Share issuance costs of \$94,383 were associated with the IPO.

**(iii) Options**

Options may be granted for a maximum term of 10 years from the date of the grant. They are non-transferable and are exercisable as determined by the Board when the option is granted. Options may be exercised until the greater of 12 months after the completion of the Qualifying Transaction and 90 days following the date the optionee ceases to be a director, officer or employee of the Corporation or its affiliates or a consultant or a management company employee, provided that if the cessation of such position or arrangement was by reason of death, the Option may be exercised within a maximum period of one year after such death, subject to the expiry date of such Option.

The following table reflects the continuity of Options and Agent's Warrants:

	Number of Options and Agent's Warrants	Weighted Average Exercise Price (\$)
Balance, January 1, 2019	-	-
Granted (i)	200,000	\$0.20
Granted to directors and officers (ii)	305,000	\$0.20
<b>Balance, June 30, 2020 and 2021</b>	<b>505,000</b>	<b>\$0.20</b>

On August 9, 2019, in connection with the IPO, the Corporation issued Canaccord Genuity Corp. (the "**Agent**"), warrants (the "**Agent's Warrants**") to purchase 200,000 Common Shares at a price of \$0.20 per share. The Agent's Warrants expired 24 months from the date of closing the IPO. The Agent's Warrants issued were allocated an estimated fair value using the Black-Scholes option pricing model to estimate the fair value using the weighted average assumptions of an expected forfeiture rate of 0%, a risk-free interest rate of 1.38%, an expected dividend yield of 0%, an expected stock price volatility of 100%, and an expected life of two years. This resulted in a calculated fair value per warrant of \$0.105.

During the financial year ended June 30, 2021, the Corporation recognized nil in share issuance costs (June 30, 2020 - \$21,083).

On August 9, 2019, in connection with the IPO, the Corporation granted Options to directors and officers to acquire an aggregate of 305,000 Common Shares at an exercise price of \$0.20 per share for a period of 10 years from the date of grant.

Options issued were allocated an estimated fair value using the Black-Scholes option pricing model to estimate the fair value using the weighted average assumptions of an expected forfeiture rate of 0%, a risk-free interest rate of 1.26%, an expected dividend yield of 0%, an expected stock price volatility of 100%, and an expected life of five years. This resulted in a calculated fair value per option of \$0.149. During the year ended June 30, 2021, the Corporation recognized \$NIL in stock-based compensation costs that were recorded as contributed surplus (June 30, 2020 - \$45,424).

**MJ Innovation Capital Corp.**

(A Capital Pool Company)

Notes to the Audited Financial Statements

For the financial years ended June 30, 2021 and June 30, 2020

(Expressed - Canadian Dollars)

As at June 30, 2020 and 2021, there were 305,000 Options outstanding.

The following table reflects the actual Options and Agent's Warrants issued and outstanding as of June 30, 2021.

<b>Expiry Date</b>	<b>Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (Years)</b>	<b>Number of Options and Agent's Warrants Outstanding</b>	<b>Number of Options and Agent's Warrants Vested (Exercisable)</b>
August 9, 2021	\$0.20	0.11	200,000	200,000
August 9, 2029	\$0.20	8.12	305,000	305,000
	\$0.20	4.94	505,000	505,000

5,940 of the Agent's Warrants were exercised subsequent to year end, and the remaining expired unexercised.

**4. Capital management**

The Corporation's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Corporation includes equity, comprised of share capital and deficit, in the definition of capital. The Corporation's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund the identification and evaluation of potential acquisitions. To secure the additional capital necessary to pursue these plans, the Corporation may attempt to raise additional funds through the issuance of equity or by securing strategic partners.

The proceeds raised from the issuance of share capital may only be used to identify and evaluate assets or businesses for future investment, with the exception that up to \$3,000 per month may be used for reasonable general and administrative expenses of the Corporation. These restrictions apply until completion of a Qualifying Transaction.

**5. Related party transactions**

During the financial year ended June 30, 2021, the Corporation incurred \$38,963 (\$20,629 - June 30, 2020) in legal fees in respect of general corporate matters for services provided by a law firm which has two partners that are directors of the Corporation. At the end of the period, \$17,762 (\$12,167 - June 30, 2020) in legal fees were contained in the Corporation's accounts payable and accrued liabilities.

During the financial year ended June 30, 2021, the Corporation did not issue Options to the directors and officers of the Corporation (305,000 - June 30, 2020). The previously granted Options had a value of \$45,424 (Note 3). No remuneration was paid to key management personnel during the financial year ended June 30, 2021 (\$NIL aside from the aforementioned Options - June 30, 2020).

**6. Risk Disclosures and Fair Values**

The Corporation's financial instruments, consisting of cash, and accrued liabilities approximate fair value due to the relatively short-term maturity of the instruments. It is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments.

**7. Income Taxes**

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2020 - 26.5%) to the effective tax rate is as follows:

**MJ Innovation Capital Corp.**  
(A Capital Pool Company)  
Notes to the Audited Financial Statements  
For the financial years ended June 30, 2021 and June 30, 2020  
(Expressed - Canadian Dollars)

	2020	2021
Net (Loss) before recovery of income taxes	\$ (125,726)	\$ (84,087)
Expected income tax (recovery) expense	(33,320)	(22,280)
Non-deductible expenses	12,040	-
Share issuance cost booked directly to equity	(25,010)	-
Change in tax benefits not recognized	46,290	22,280
Income tax (recovery)	\$ -	\$ -

**Unrecognized deferred tax assets**

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2020	2021
Capitalized legal fees	-	13,520
Share issuance costs	75,330	55,510
Operating tax losses carried forward	173,530	263,910
	248,860	332,940

The Canadian operating tax loss carry forwards expire as noted in the table below. The remaining deductible temporary differences may be carried forward indefinitely. Share issue and financing costs will be fully amortized in 2024. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Corporation can utilize the benefits therefrom.

The Corporation's Canadian operating tax losses expire as follows:

	2039	73,410
	2040	100,120
	2041	90,380
	\$	263,910

**8. Subsequent Events**

The Corporation entered into a definitive agreement dated June 10, 2021 (as amended on September 14, 2021) with SPARQ Systems Inc. ("**SPARQ**"), pursuant to which the Corporation, on an arm's length basis, agreed to acquire all of the issued and outstanding common shares in the capital of SPARQ (the "**SPARQ Transaction**"). The SPARQ Transaction, when completed, would result in a reverse takeover of the Corporation by SPARQ. Following the completion of the SPARQ Transaction, the Corporation is expected to carry on the business of SPARQ, which designs and manufactures next generation single-phase microinverters for residential and commercial solar electric applications.

On August 4, 2021, the Corporation held a special meeting of its shareholders (the "**MJ Shareholders**") where the MJ Shareholders approved resolutions in respect of the following matters in connection with, and subject to the completion of, the SPARQ Transaction: (i) the election of the proposed directors of the Corporation following completion of the SPARQ Transaction (the "**Resulting Issuer**"); (ii) the adoption of articles of amendment to: (A) effect a consolidation on the basis of 1 post-consolidation Common Share for every 1.25 pre-consolidation Common Shares, and (B) change the name of the Corporation from "MJ Innovation Capital Corp." to "SPARQ Corp."; (iii) amendments to the

**MJ Innovation Capital Corp.**

(A Capital Pool Company)

Notes to the Audited Financial Statements

For the financial years ended June 30, 2021 and June 30, 2020

(Expressed - Canadian Dollars)

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Corporation's stock option plan, which will govern the stock options of the Resulting Issuer; (iv) an amendment to the CPC Escrow Agreement to reduce the length of the term of the escrow in accordance with the policies of the TSXV; and (v) the removal of consequences of the Corporation failing to complete a Qualifying Transaction within 24 months of listing on the Exchange.

**MJ Innovation Capital Corp.**  
**Condensed Interim Financial Statements**  
*For the three months ended September 30, 2021 and 2020*  
  
*(Unaudited)*

The accompanying unaudited condensed interim financial statements of MJ Innovation Capital Corp. (the “**Corporation**”) have been prepared by and are the responsibility of the Corporation’s management.

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**MJ Innovation Capital Corp.**

(A Capital Pool Company)

Condensed Interim Statements of Operations and Comprehensive Loss

For the three months ended September 30, 2021 and 2020.

(Unaudited - in Canadian dollars)

		<b>Three Months Ended September 30, 2021</b>	<b>Three Months Ended September 30, 2020</b>
		(Unaudited)	(Unaudited)
<b>Cost of Sales</b>			
<b>Gross Profit (Loss)</b>	\$	-	-
<b>Expenses</b>			
Office and administrative expenses	\$	3,943	2,448
Legal & professional fees (Note 5)		18,428	16,095
Stock-based compensation (Note 3)		-	-
<b>Total Expenses</b>	\$	<b>22,371</b>	<b>18,543</b>
<b>Loss from Operations</b>	\$	<b>(22,371)</b>	<b>(18,543)</b>
<b>Other Income</b>			
<b>Net Loss and Comprehensive Loss</b>	\$	<b>(22,371)</b>	<b>(18,543)</b>
<b>Net loss per share</b>			
Basic and Diluted	\$	<b>(0.0112)</b>	<b>(0.0093)</b>
Weighted average of shares outstanding basic and diluted		<b>2,003,394</b>	<b>2,000,000</b>

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

**MJ Innovation Capital Corp.**  
(A Capital Pool Company)  
Condensed Interim Statements of Financial Position  
(Unaudited - in Canadian dollars)

	<b>Three Months Ended September 30, 2021</b>	<b>Fiscal Period Ended June 30, 2021</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Assets</b>		
Current Assets		
Cash	\$ 210,054	237,206
<b>Total assets</b>	<b>\$ 210,054</b>	<b>237,206</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 38,098	44,067
<b>Total Liabilities</b>	<b>\$ 38,098</b>	<b>44,067</b>
<b>Shareholders' Equity</b>		
Share capital (Note 3)	\$ 407,103	405,915
Contributed surplus (Note 3)	66,507	66,507
Accumulated deficit	(301,654)	(279,283)
<b>Total shareholders' equity</b>	<b>\$ 171,956</b>	<b>193,139</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 210,054</b>	<b>237,206</b>

Nature of operations (Note 1)

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

Approved by the Board

**"Richard Kimel"**

Director

**"Bryan Van Engelen"**

Director

**MJ Innovation Capital Corp.**

(A Capital Pool Company)

Condensed Interim Statements of Changes in Shareholders' Equity

For the three months ended September 30, 2021 and 2020.

(Unaudited - in Canadian dollars)

	Share Capital	Accumulated Deficit	Contributed surplus	Shareholders' Equity
<b>Balance as at June 30, 2021</b>	<b>\$ 405,915</b>	<b>\$ (279,283)</b>	<b>\$ 66,507</b>	<b>\$ 193,139</b>
Shares issued	1,188	-	-	1,188
Net loss for the period	-	(22,371)	-	(22,371)
<b>Balance as at September 30, 2021</b>	<b>\$ 407,103</b>	<b>\$ (301,654)</b>	<b>\$ 66,507</b>	<b>\$ 171,956</b>

	Share Capital	Accumulated Deficit	Contributed surplus	Shareholders' Equity
<b>Balance as at June 30, 2020</b>	<b>\$405,915</b>	<b>\$ (195,196)</b>	<b>\$ 66,507</b>	<b>\$ 277,226</b>
Net loss for the period	-	(18,543)	-	(18,543)
<b>Balance as at September 30, 2020</b>	<b>\$405,915</b>	<b>\$ (213,739)</b>	<b>\$ 66,507</b>	<b>\$ 258,683</b>

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

**MJ Innovation Capital Corp.**  
(A Capital Pool Company)  
Condensed Interim Statements of Cash Flows  
(Unaudited - in Canadian dollars)

	<b>Three months ended September 30, 2021</b>	<b>Three months ended September 30, 2020</b>
	(Unaudited)	(Unaudited)
<b>Operating activities</b>		
Net loss after taxation	\$ (22,371)	(18,543)
<b>Adjustments for:</b>		
Stock based compensation (Note 3)	-	-
<b>Change in operating assets and liabilities</b>		
Prepaid expense	-	-
HST payable/receivable	-	-
Accounts payable	(5,969)	12,069
<b>Net cash used by operating activities</b>	<b>\$ (28,340)</b>	<b>(6,474)</b>
<b>Financing Activities</b>		
Shares issued (Note 3)	\$ 1,188	-
Issuance costs	-	-
<b>Net cash provided by financing activities</b>	<b>\$ 1,188</b>	<b>-</b>
<b>Net cash flows</b>	<b>\$ (27,152)</b>	<b>(6,474)</b>
<b>Cash and cash equivalents</b>		
Change and cash equivalents at beginning of period	\$ 237,206	314,416
Cash in cash during the period	(27,152)	(6,474)
<b>Cash and cash equivalents at end of period</b>	<b>\$ 210,054</b>	<b>307,942</b>

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

## **MJ Innovation Capital Corp.**

(A Capital Pool Company)

Notes to the Condensed Interim Financial Statements

For the three months ended September 30, 2021 and 2020

(Unaudited – Canadian Dollars)

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### **1. Nature of operations and going concern**

MJ Innovation Capital Corp. (the "**Corporation**") was incorporated under the *Business Corporations Act* (Ontario) on November 13, 2018 and is a Capital Pool Company as defined in Policy 2.4 – Capital Pool Companies ("**Policy 2.4**") of the TSX Venture Exchange (the "**Exchange**"). The Corporation has no assets other than cash. The principal business of the Corporation is the identification and evaluation of assets or businesses with a view to completing a Qualifying Transaction (as defined in Policy 2.4). The Corporation's continuing operations as intended are dependent on its ability to identify, evaluate and negotiate an acquisition, or business, or an interest therein. Such an acquisition will be subject to the approval of the regulatory authorities concerned and, in the case of a non-arm's length transaction, of the majority of the minority shareholders.

On August 4, 2021, the Corporation held a special meeting of shareholders where disinterested shareholders approved, among other things, the removal of the consequences of the Corporation failing to complete a Qualifying Transaction within 24 months of its initial public offering, in accordance with certain amendments to Policy 2.4.

The proceeds raised from the issuance of common shares in the capital of the Corporation ("**Common Shares**") may only be used to identify and evaluate assets or businesses for future investment, with the exception that up to \$3,000 per month may be used for reasonable general and administrative expenses of the Corporation. These restrictions apply until the completion of a Qualifying Transaction.

The head office and the registered head office of the Corporation is located at 181 Bay Street, Suite 1800, Toronto, ON M5J 2T9.

The global outbreak of the COVID-19 pandemic has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact of the COVID-19 outbreak may have on the Corporation as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.

These financial statements were approved and authorized for issuance by the board of directors (the "**Board**") of the Corporation on November 29, 2021.

### **2. Significant accounting policies**

#### *Statement of compliance*

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board and Interpretations of the International Financial Reporting Interpretations Committee.

#### *Accounting standards issued but not yet applied*

The Corporation has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. In the current circumstances, management of the Corporation does not expect any of these to have a material impact on the financial statements.

**MJ Innovation Capital Corp.**

(A Capital Pool Company)

Notes to the Condensed Interim Financial Statements

For the three months ended September 30, 2021 and 2020

(Unaudited – Canadian Dollars)

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*Basis of Presentation*

The financial statements are presented in Canadian dollars, which is the Corporation's functional and presentation currency. The financial statements are prepared on a historical cost basis except for certain financial instruments classified as fair value through profit or loss ("FVTPL"), which are stated at their fair value. The accounting policies have been applied consistently throughout the entire period presented in these financial statements.

*Share Capital*

Common Shares are classified as equity. Incremental costs directly attributable to the issuance of Common Shares are recognized as a deduction from equity.

*Basic and Diluted Loss per Share*

Basic loss per share is computed by dividing the net loss applicable to Common Shares by the weighted average number of Common Shares outstanding for the relevant period. Common Shares escrowed pursuant to the requirements of the Exchange are excluded from the number of outstanding Common Shares.

Diluted loss per share is computed by dividing the net loss applicable to Common Shares by the sum of the weighted average number of Common Shares issued and outstanding and all additional Common Shares that would have been outstanding if potentially dilutive instruments were converted.

*Share-based Compensation*

Equity-settled share-based payments for directors, officers, employees, and consultants are measured at fair value at the date of grant and recorded as compensation expense in the financial statements. Options are measured at fair value of each tranche on the grant date and are recognized in their respective vesting period using the Corporation's expected forfeiture rate. Any consideration paid by directors, officers, employees and consultants on exercise of equity-settled share-based payments is credited to share capital. Common shares are issued from treasury upon the exercise of equity-settled share-based instruments.

***Financial Instruments****Recognition*

The Corporation recognizes financial assets and financial liabilities on the date the Corporation becomes a party to the contractual provisions of the instruments.

*Classification*

The Corporation classifies its financial assets and financial liabilities in the following measurement categories: (i) those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and (ii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured subsequently at fair value through profit or loss (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

The Corporation only reclassifies financial assets when its business model for managing those assets changes. Financial liabilities are not reclassified.

**MJ Innovation Capital Corp.**

(A Capital Pool Company)

Notes to the Condensed Interim Financial Statements

For the three months ended September 30, 2021 and 2020

(Unaudited – Canadian Dollars)

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The Corporation has implemented the following classifications:

- cash is classified as fair value and any period change in fair value is recorded in profit or loss; and
- accounts payable and accrued liabilities are classified as other financial liabilities and measured at amortized cost using the effective interest rate method.

*Measurement*

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments or principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition).

Additional fair value measurement disclosure includes classification of financial instrument fair values in a fair value hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements which are as follows:

- Level 1: valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than level 1 prices, such as quoted interest or currency exchange rates; and
- Level 3: valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

Cash is a level 1 financial instrument measured at fair value on the statements of financial position.

*Income Taxes*

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case the income tax is also recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts and the Corporation intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is recognized in respect of all qualifying temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expensed to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

**MJ Innovation Capital Corp.**

(A Capital Pool Company)

Notes to the Condensed Interim Financial Statements

For the three months ended September 30, 2021 and 2020

(Unaudited – Canadian Dollars)

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

*Estimates*

The preparation of financial statements in conformity with IFRS accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates used in the financial statements.

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Corporation reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provision in the period in which such determination is made.

**3. Share Capital***Authorized Unlimited Common Shares*

<b>Issued</b>	<b>#</b>	<b>\$</b>
Balance, June 30, 2019	1,000,000	\$ 95,298
50,000 Common Shares (i)	50,000	5,000
2,000,000 Common Shares (ii)	2,000,000	400,000
Issuance cost (cash)	-	(73,300)
Issuance cost (warrants)	-	(21,083)
<b>Balance, June 30, 2020 and 2021</b>	<b>3,050,000</b>	<b>405,915</b>
5,940 Common Shares (iii)	5,940	1,188
<b>Balance, September 30, 2020 and 2021</b>	<b>3,044,060</b>	<b>\$ 407,103</b>

**(i) Escrow Shares**

During the period ended June 30, 2019, the Corporation issued 1,000,000 Common Shares at a price of \$0.10 per share for total cash consideration of \$100,000. Share issuance costs of \$4,702 were associated with this offering. On July 3, 2019, the Corporation issued 50,000 Common Shares at a price of \$0.10 per share for total cash consideration of \$5,000.

All of the 1,050,000 Common Shares issued prior to the Corporation's initial public offering (the "IPO") at a price of \$0.10 per Common Share, all Common Shares that may be acquired by Non Arm's Length Parties of the Corporation (as defined by the policies of the Exchange) either under the IPO or otherwise prior to completion of the Qualifying Transaction, and all Common Shares acquired by members of the Aggregate Pro Group (as defined by the policies of the Exchange) prior to the IPO, will be deposited with the Corporation's escrow agent under the CPC Escrow Agreement (as defined by the policies of the Exchange).

**MJ Innovation Capital Corp.**

(A Capital Pool Company)

Notes to the Condensed Interim Financial Statements

For the three months ended September 30, 2021 and 2020

(Unaudited – Canadian Dollars)

All Common Shares acquired upon the exercise of stock options (“**Options**”) prior to the completion of a Qualifying Transaction must also be deposited in escrow until the final exchange bulletin is issued, following which the Common Shares will be released from escrow in accordance with the terms of the escrow agreement.

All Common Shares acquired in the secondary market prior to the completion of a Qualifying Transaction by a control person, as defined in the policies of the Exchange, are required to be deposited in escrow. Subject to certain permitted exemptions, all securities of the Corporation held by principals of the resulting issuer following the completion of Qualifying Transaction will also be escrowed.

**(ii) IPO**

On August 9, 2019, the Corporation completed its IPO of 2,000,000 Common Shares at a price of \$0.20 per share for aggregate gross proceeds of \$400,000. Share issuance costs of \$94,383 were associated with the IPO.

**(iii) Options**

Options may be granted for a maximum term of 10 years from the date of the grant. They are non-transferable and are exercisable as determined by the Board when the option is granted. Options may be exercised until the greater of 12 months after the completion of the Qualifying Transaction and 90 days following the date the optionee ceases to be a director, officer or employee of the Corporation or its affiliates or a consultant or a management company employee, provided that if the cessation of such position or arrangement was by reason of death, the Option may be exercised within a maximum period of one year after such death, subject to the expiry date of such Option.

The following table reflects the continuity of Options and Agent’s Warrants:

	Number of Options and Agent’s Warrants	Weighted Average Exercise Price (\$)
Balance, January 1, 2019	-	-
Granted (i)	200,000	\$0.20
Expired(i)	(194,060)	\$0.20
Exercised (i)	(5,940)	\$0.20
Granted to directors and officers (ii)	305,000	\$0.20
<b>Balance, September 30, 2021</b>	<b>305,000</b>	<b>\$0.20</b>

On August 9, 2019, in connection with the IPO, the Corporation issued Canaccord Genuity Corp. (the "**Agent**"), warrants (the "**Agent’s Warrants**") to purchase 200,000 Common Shares at a price of \$0.20 per share. The Agent's Warrants expired 24 months from the date of closing the IPO. The Agent’s Warrants issued were allocated an estimated fair value using the Black-Scholes option pricing model to estimate the fair value using the weighted average assumptions of an expected forfeiture rate of 0%, a risk-free interest rate of 1.38%, an expected dividend yield of 0%, an expected stock price volatility of 100%, and an expected life of two years. This resulted in a calculated fair value per warrant of \$0.105.

During the financial quarter ended September 30, 2021, the Corporation recognized nil in share issuance costs (September 30, 2020 - \$NIL).

On August 9, 2019, in connection with the IPO, the Corporation granted Options to directors and officers to acquire an aggregate of 305,000 Common Shares at an exercise price of \$0.20 per share for a period of 10 years from the date of grant.

**MJ Innovation Capital Corp.**

(A Capital Pool Company)

Notes to the Condensed Interim Financial Statements

For the three months ended September 30, 2021 and 2020

(Unaudited – Canadian Dollars)

Options issued were allocated an estimated fair value using the Black-Scholes option pricing model to estimate the fair value using the weighted average assumptions of an expected forfeiture rate of 0%, a risk-free interest rate of 1.26%, an expected dividend yield of 0%, an expected stock price volatility of 100%, and an expected life of five years. This resulted in a calculated fair value per option of \$0.149. During the quarter ended September 30, 2021, the Corporation recognized \$NIL in stock-based compensation costs that were recorded as contributed surplus (September 30, 2020 - \$NIL).

As at September 30, 2021, there were 305,000 Options outstanding as set out in the table below:

<b>Expiry Date</b>	<b>Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (Years)</b>	<b>Number of Options Outstanding</b>	<b>Number of Options (Exercisable)</b>
August 9, 2029	\$0.20	8.12	305,000	305,000

**4. Capital management**

The Corporation's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Corporation includes equity, comprised of share capital and deficit, in the definition of capital. The Corporation's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund the identification and evaluation of potential acquisitions. To secure the additional capital necessary to pursue these plans, the Corporation may attempt to raise additional funds through the issuance of equity or by securing strategic partners.

The proceeds raised from the issuance of share capital may only be used to identify and evaluate assets or businesses for future investment, with the exception that up to \$3,000 per month may be used for reasonable general and administrative expenses of the Corporation. These restrictions apply until completion of a Qualifying Transaction.

**5. Related party transactions**

During the financial quarter ended September 30, 2021, the Corporation incurred \$8,993 (\$9,880 September 30, 2020) in legal fees in respect of general corporate matters for services provided by a law firm which has two partners that are directors of the Corporation. At the end of the period, \$2,751 (\$19,235 September 30, 2020) in legal fees were contained in the Corporation's accounts payable and accrued liabilities.

During the financial quarter ended September 30, 2021, the Corporation did not issue Options to the directors and officers of the Corporation (NIL-September 30, 2020). No remuneration was paid to key management personnel during the financial quarter ended September 30, 2021 (\$NIL – September 30, 2020).

## **MJ Innovation Capital Corp.**

(A Capital Pool Company)

Notes to the Condensed Interim Financial Statements

For the three months ended September 30, 2021 and 2020

(Unaudited – Canadian Dollars)

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### **6. Subsequent Events**

The Corporation entered into a definitive agreement dated June 10, 2021 (as amended on September 14, 2021) with SPARQ Systems Inc. ("**SPARQ**"), pursuant to which the Corporation, on an arm's length basis, agreed to acquire all of the issued and outstanding common shares in the capital of SPARQ (the "**SPARQ Transaction**"). The SPARQ Transaction, when completed, would result in a reverse takeover of the Corporation by SPARQ. Following the completion of the SPARQ Transaction, the Corporation is expected to carry on the business of SPARQ, which designs and manufactures next generation single-phase microinverters for residential and commercial solar electric applications.

On August 4, 2021, the Corporation held a special meeting of its shareholders (the "**MJ Shareholders**") where the MJ Shareholders approved resolutions in respect of the following matters in connection with, and subject to the completion of, the SPARQ Transaction: (i) the election of the proposed directors of the Corporation following completion of the SPARQ Transaction (the "**Resulting Issuer**"); (ii) the adoption of articles of amendment to: (A) effect a consolidation on the basis of 1 post-consolidation Common Share for every 1.25 pre-consolidation Common Shares, and (B) change the name of the Corporation from "MJ Innovation Capital Corp." to "SPARQ Corp."; (iii) amendments to the Corporation's stock option plan, which will govern the stock options of the Resulting Issuer; (iv) an amendment to the CPC Escrow Agreement to reduce the length of the term of the escrow in accordance with the policies of the TSXV; and (v) the removal of consequences of the Corporation failing to complete a Qualifying Transaction within 24 months of listing on the Exchange.

B-1

**SCHEDULE B  
MD&A OF MJ**

(see attached)

**MJ Innovation Capital Corp.**  
**Management's Discussion and Analysis**  
*For the financial years ended June 30, 2021 and June 30, 2020*

**MJ Innovation Capital Corp.**  
**Management's Discussion and Analysis**  
*For the financial years ended June 30, 2021 and June 30, 2020*

**FORM 51-102F1**

*The following management's discussion and analysis ("MD&A") should be read in conjunction with the Corporation's financial statements and notes thereto for the financial year ended June 30, 2021. Additional information relating to the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com).*

This MD&A was prepared by management of MJ Innovation Capital Corp. (the "**Corporation**"), and is dated October 28, 2021. All amounts are in Canadian dollars unless otherwise stated.

### **Forward-Looking Statements**

Certain statements contained in this document constitute "forward-looking statements". When used in this document, the words "may", "would", "could", "will", "intend", "plan", "propose", "anticipate" or "believe", are intended to identify forward-looking statements. Such statements reflect the Corporation's forecasts, estimates and expectations, as they relate to the Corporation's current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Corporation's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. The Corporation does not intend, and does not assume any obligation, to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments, unless otherwise required by applicable law.

### **Description of the Business**

The Corporation was incorporated under the *Business Corporations Act* (Ontario) on November 13, 2018 and is classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange (the "**Exchange**"). The head and registered office of the Corporation is located at 181 Bay Street, Suite 1800, Toronto, ON M5J 2T9. The Corporation's common shares (the "**Common Shares**") commenced trading on the Exchange under the trading symbol "MSMJ.P" on August 9, 2019.

The Corporation's business will be to identify and evaluate businesses and assets with a view to completing a "Qualifying Transaction" as defined in the policies of the Exchange. Any proposed Qualifying Transaction must be accepted by the Exchange and in the case of a non-arm's length Qualifying Transaction, is also subject to "majority of the minority approval" in accordance with Policy 2.4 of the Exchange. To date, the Corporation has not conducted commercial operations. The Corporation is not specifically considering pursuing a company, asset or business in any specific business or industry sector, or in any particular geographical area, and the Corporation anticipates reviewing companies, assets and businesses in a broad range of industry sectors and geographical areas.

**MJ Innovation Capital Corp.**  
**Management's Discussion and Analysis**

*For the financial years ended June 30, 2021 and June 30, 2020*

Until the completion of a Qualifying Transaction, the Corporation will not carry on any business other than the identification and evaluation of businesses or assets with a view to completing a potential Qualifying Transaction. With the consent of the Exchange, this may include the raising of additional funds in order to finance an acquisition, except as described in the Corporation's final prospectus. The funds raised pursuant to the Corporation's initial public offering ("IPO") and any subsequent financing will be utilized only for the identification and evaluation of potential Qualifying Transactions and not for any deposit, loan or direct investment in a potential acquisition.

**Selected Financial Information**

The following selected financial data is derived from the financial statements of the Corporation prepared in accordance with International Financial Reporting Standards:

Selected Statements of Financial Position Data

	<u>As at June 30, 2021</u>	<u>As at June 30, 2020</u>
Net working capital	\$193,139	\$277,226
Total current assets	237,206	314,416
Total current liabilities	44,067	37,190
Total shareholders' equity	193,139	277,226

**Liquidity, Capital Resources, and Outlook**

As at June 30, 2021, the Corporation had working capital of \$193,139, which includes \$237,206 in cash and cash equivalents.

Working capital decreased by \$84,087 since the previous financial year as a result costs incurred during the year. Payables increased from \$37,190 to \$44,067 since the previous financial year through the payment of expenses in the normal course of operations.

Selected Statements of Operations and Comprehensive Loss Data

	<u>Fiscal year ended June 30, 2021</u>	<u>Fiscal year ended June 30, 2020</u>
Income	\$nil	\$nil
Expenses	84,087	125,726
Net loss	84,087	125,726
Net loss per share (basic and diluted)	(0.0420)	(0.0706)

Quarterly Information

	<u>June 30, 2021</u>	<u>March 31, 2021</u>	<u>December 31, 2020</u>	<u>September 30, 2020</u>
Net loss for the quarter	(\$30,479)	(\$14,440)	(\$20,625)	(\$18,543)
Weighted average number of shares (basic)	2,000,000	2,000,000	2,000,000	2,000,000

**MJ Innovation Capital Corp.**  
**Management's Discussion and Analysis**  
*For the financial years ended June 30, 2021 and June 30, 2020*

Weighted average number of shares (diluted)	2,000,000	2,000,000	2,000,000	2,000,000
Net loss per share (basic and diluted)	(0.02)	(0.01)	(0.01)	(0.01)

**Discussion of Operations**

The Corporation does not have any operations and will not conduct any business other than the identification and evaluation of business and assets for a potential Qualifying Transaction.

During the financial year ended June 30, 2021, the Corporation recorded a net loss of \$84,087, as it has no sources of income and accrued \$84,087 in expenses. The Corporation's expenses can be attributed to professional fees and administrative expenses related to seeking out and evaluating a potential Qualifying Transaction.

**Additional Disclosure**

The following table sets forth a breakdown of material components of the Corporation's expenses for the financial year ended June 30, 2021:

	Year ended June 30, 2021
Legal and Professional Fees	\$ 63,778
Office and administrative expenses	20,309
	\$ 84,087

**Off-Balance Sheet Arrangements**

There are no off-balance sheet arrangements as at June 30, 2021.

**Transactions with Related Parties**

During the financial year ended June 30, 2021, the Corporation incurred \$38,863 in legal fees in respect of general corporate matters for services provided by a law firm which has two partners that are directors of the Corporation. As at June 30, 2021, \$17,762 (2020- \$12,167) is included in trade and other payables for such legal services.

No remuneration was paid to key management personnel during the financial year ended June 30, 2021 (\$NIL – June 30, 2020)

**Critical Accounting Estimates and Policies**

The Corporation's significant accounting policies and the adoption of new accounting policies are disclosed in the notes to the financial statements for the financial year ended June 30, 2021.

**Financial Instruments and Other Instruments**

**MJ Innovation Capital Corp.**  
**Management's Discussion and Analysis**  
*For the financial years ended June 30, 2021 and June 30, 2020*

The Corporation's financial instruments consist of cash, other receivables, accounts payable and accrued liabilities. It is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments and that the fair value of these financial instruments approximates their carrying values.

### **Disclosure of Outstanding Share Data**

As at the date of this MD&A, the following is a description of the outstanding equity securities and convertible securities previously issued by the Corporation:

	<u>Authorized</u>	<u>Outstanding</u>
Voting or equity securities issues and outstanding Common Shares	Unlimited Common Shares	3,050,000 Common Shares
Securities convertible or exercisable into voting or equity securities – warrants	200,000 Agent's Warrants	200,000 Agent's Warrants
Securities convertible or exercisable into voting or equity securities – options	305,000 Options	305,000 Options

5,940 of the Agent's Warrants were exercised subsequent to year end, and the remaining expired unexercised.

### **Risks and Uncertainties**

The Corporation has a limited history of existence. There can be no assurance that a Qualifying Transaction will be completed. Equity or debt financing may be required to complete a Qualifying Transaction. The following describes certain risks, events and uncertainties that could affect the Corporation and that each reader should carefully consider. Please refer to the Corporation's final prospectus dated July 26, 2019 for additional risks, events and uncertainties that could affect the Corporation. External financing may be required to fund the Corporation's activities primarily through the issuance of Common Shares. There can be no assurance that the Corporation will be able to obtain adequate financing. The securities of the Corporation should be considered a highly speculative investment. The following risk factors should be given special consideration when evaluating an investment in any of the Corporation's securities:

- until completion of a Qualifying Transaction, the Corporation is not permitted to carry on any business other than the identification and evaluation of potential Qualifying Transactions;
- the Corporation has only limited funds with which to identify and evaluate potential Qualifying Transactions and there can be no assurance that the Corporation will be able to identify a suitable Qualifying Transaction;
- even if a proposed Qualifying Transaction is identified, there can be no assurance that the Corporation will be able to successfully complete the transaction;

**MJ Innovation Capital Corp.**  
**Management's Discussion and Analysis**  
*For the financial years ended June 30, 2021 and June 30, 2020*

- the Qualifying Transaction may be financed in all or part by the issuance of additional securities by the Corporation and this may result in further dilution to the investor, which dilution may be significant and which may also result in a change of control of the Corporation;
- there can be no assurance that an active and liquid market for the Common Shares will develop and an investor may find it difficult to resell the Common Shares; and
- upon public announcement of a proposed Qualifying Transaction, trading in the Common Shares will be halted and will remain halted for an indefinite period of time, typically until a Sponsor has been retained (if required) and certain preliminary reviews have been conducted.

The Corporation has not generated significant revenues and does not expect to generate significant revenues in the near future. In the event that the Corporation generates significant revenues in the future, the Corporation intends to retain its earnings in order to finance further growth. Furthermore, the Corporation has not paid any dividends in the past and does not expect to pay any dividends in the foreseeable future.

### **Subsequent Events**

The Corporation entered into a definitive agreement dated June 10, 2021 (as amended on September 14, 2021) with SPARQ Systems Inc. ("SPARQ"), pursuant to which the Corporation, on an arm's length basis, agreed to acquire all of the issued and outstanding common shares in the capital of SPARQ (the "SPARQ Transaction"). The SPARQ Transaction, when completed, would result in a reverse takeover of the Corporation by SPARQ. Following the completion of the SPARQ Transaction, the Corporation is expected to carry on the business of SPARQ, which designs and manufactures next generation single-phase microinverters for residential and commercial solar electric applications.

On August 4, 2021, the Corporation held a special meeting of its shareholders (the "MJ Shareholders") where the MJ Shareholders approved resolutions in respect of the following matters in connection with, and subject to the completion of, the SPARQ Transaction: (i) the election of the proposed directors of the Corporation following completion of the SPARQ Transaction (the "Resulting Issuer"); (ii) the adoption of articles of amendment to: (A) effect a consolidation on the basis of 1 post-consolidation Common Share for every 1.25 pre-consolidation Common Shares, and (B) change the name of the Corporation from "MJ Innovation Capital Corp." to "SPARQ Corp."; (iii) amendments to the Corporation's stock option plan, which will govern the stock options of the Resulting Issuer; (iv) an amendment to the CPC Escrow Agreement to reduce the length of the term of the escrow in accordance with the policies of the TSXV; and (v) the removal of consequences of the Corporation failing to complete a Qualifying Transaction within 24 months of listing on the Exchange.

### **Disclosure Controls and Procedures**

In connection with National Instrument 52-109 *Certificate of Disclosure in Issuer's Annual and Interim Filings (NI 52-109)*, the Chief Executive Officer and Chief Financial Officer of the Corporation has filed a Venture Issuer Basic Certificate with respect to the financial information

**MJ Innovation Capital Corp.**  
**Management's Discussion and Analysis**  
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contained in the condensed interim financial statements for the financial year ended June 30, 2020 and this accompanying MD&A.

In contrast to non-venture issuers, this MD&A does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("**DC&P**") and internal control over financial reporting ("**ICFR**"). In particular, management is not making any representations relating to the establishment and maintenance of: controls and procedures designed to provide reasonable assurance that information required to be disclosed by the Corporation in its filings or other reports or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Investors should be aware that inherent limitations on the ability of management of the Corporation to design and implement on a cost-effective basis DC&P and ICFR may result in additional risks to the quality, reliability, transparency and timeliness of filings and other reports provided under securities legislation.

**Other Information**

Additional information about the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com)

**MJ Innovation Capital Corp.**  
**Management's Discussion and Analysis**  
*For the three months ended September 30, 2021 and 2020*

## FORM 51-102F1

*The following management's discussion and analysis ("MD&A") should be read in conjunction with the Corporation's financial statements and notes thereto for the three months ended September 30, 2021. Additional information relating to the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com).*

This MD&A was prepared by management of MJ Innovation Capital Corp. (the "**Corporation**"), and is dated November 29, 2021. All amounts are in Canadian dollars unless otherwise stated.

### **Forward-Looking Statements**

Certain statements contained in this document constitute "forward-looking statements". When used in this document, the words "may", "would", "could", "will", "intend", "plan", "propose", "anticipate" or "believe", are intended to identify forward-looking statements. Such statements reflect the Corporation's forecasts, estimates and expectations, as they relate to the Corporation's current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Corporation's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. The Corporation does not intend, and does not assume any obligation, to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments, unless otherwise required by applicable law.

### **Description of the Business**

The Corporation was incorporated under the *Business Corporations Act* (Ontario) on November 13, 2018 and is classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange (the "**Exchange**"). The head and registered office of the Corporation is located at 181 Bay Street, Suite 1800, Toronto, ON M5J 2T9. The Corporation's common shares (the "**Common Shares**") commenced trading on the Exchange under the trading symbol "MSMJ.P" on August 9, 2019.

The Corporation's business will be to identify and evaluate businesses and assets with a view to completing a "Qualifying Transaction" as defined in the policies of the Exchange. Any proposed Qualifying Transaction must be accepted by the Exchange and in the case of a non-arm's length Qualifying Transaction, is also subject to "majority of the minority approval" in accordance with Policy 2.4 of the Exchange. To date, the Corporation has not conducted commercial operations. The Corporation is not specifically considering pursuing a company, asset or business in any specific business or industry sector, or in any particular geographical area, and the Corporation anticipates reviewing companies, assets and businesses in a broad range of industry sectors and geographical areas.

Until the completion of a Qualifying Transaction, the Corporation will not carry on any business other than the identification and evaluation of businesses or assets with a view to completing a potential Qualifying Transaction. With the consent of the Exchange, this may include the raising of additional funds in order to finance an acquisition, except as described in the Corporation's final prospectus. The funds raised pursuant to the Corporation's initial public offering ("**IPO**") and any subsequent financing will be utilized only for the identification and evaluation of potential Qualifying Transactions and not for any deposit, loan or direct investment in a potential acquisition.

On August 9, 2019, the Corporation completed its IPO of 2,000,000 Common Shares at a purchase price of \$0.20 per share for gross proceeds of \$400,000. Canaccord Genuity Corp. (the "**Agent**") received a commission equal to 10% of the gross proceeds of the IPO as well as warrants (the "**Agent's Warrants**") to purchase up to 200,000 Common Shares at an exercise price of \$0.20 per share, exercisable for a period of 24 months from the closing of the IPO.

The directors of the Corporation have approved a stock option plan (the "**Plan**") for the directors, officers, employees and consultants of the Corporation. The outstanding stock options ("**Options**") granted under the Plan are exercisable for a period of up to 10 years from the date of grant. The exercise price of the Options shall be determined by the board of directors at the time of grant. The aggregate number of Common Shares issuable upon the exercise of all Options granted under the Plan shall not exceed 10% of the issued and outstanding Common Shares. The number of Common Shares reserved for issuance to: (a) any individual director or officer will not exceed 5% of the issued and outstanding Common Shares, and (b) all technical consultants will not exceed 2% of the issued and outstanding Common Shares. At closing of the IPO, the Corporation granted Options to officers and directors to collectively acquire 305,000 Common Shares at an exercise price of \$0.20 per share for a period of 10 years from the date of grant.

The Corporation entered into a definitive agreement dated June 10, 2021 (as amended on September 14, 2021 and November 26, 2021) with SPARQ Systems Inc. ("**SPARQ**"), pursuant to which the Corporation, on an arm's length basis, agreed to acquire all of the issued and outstanding common shares in the capital of SPARQ (the "**SPARQ Transaction**"). The SPARQ Transaction, when completed, would result in a reverse takeover of the Corporation by SPARQ. Following the completion of the SPARQ Transaction, the Corporation is expected to carry on the business of SPARQ, which designs and manufactures next generation single-phase microinverters for residential and commercial solar electric applications.

On August 4, 2021, the Corporation held a special meeting of its shareholders (the "**MJ Shareholders**") where the MJ Shareholders approved resolutions in respect of the following matters in connection with, and subject to the completion of, the SPARQ Transaction: (i) the election of the proposed directors of the Corporation following completion of the SPARQ Transaction (the "**Resulting Issuer**"); (ii) the adoption of articles of amendment to: (A) effect a consolidation on the basis of 1 post-consolidation Common Share for every 1.25 pre-consolidation Common Shares, and (B) change the name of the Corporation from "MJ Innovation Capital Corp." to "SPARQ Corp."; (iii) amendments to the Corporation's stock option plan, which will govern the stock options of the Resulting Issuer; (iv) an amendment to the CPC Escrow Agreement to reduce the length of the term of the escrow in accordance with the policies of the TSXV; and (v) the removal of consequences of the Corporation failing to complete a Qualifying Transaction within 24 months of listing on the Exchange.

**MJ Innovation Capital Corp.**  
**Management's Discussion and Analysis**  
*For the three months ended September 30, 2021 and 2020*

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**Selected Financial Information**

The following selected financial data is derived from the financial statements of the Corporation prepared in accordance with International Financial Reporting Standards:

Selected Statements of Financial Position Data

	<u>As at September 30, 2021</u>	<u>As at June 30, 2021</u>
Net working capital	171,956	\$193,139
Total current assets	210,054	237,206
Total current liabilities	38,098	44,067
Total shareholders' equity	171,956	193,139

**Liquidity, Capital Resources, and Outlook**

As at September 30, 2021, the Corporation had working capital of \$171,956, which includes \$210,054 in cash and cash equivalents.

Selected Statements of Operations and Comprehensive Loss Data

	<u>Three-months ended September 30, 2021</u>	<u>Year ended June 30, 2021</u>
Income	\$ NIL	\$ NIL
Expenses	22,371	84,027
Net loss	22,371	84,027
Net loss per share (basic and diluted)	(0.0112)	(0.0427)

**MJ Innovation Capital Corp.**  
**Management's Discussion and Analysis**  
*For the three months ended September 30, 2021 and 2020*

Quarterly Information

	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
Net loss for the quarter	(\$22,371)	(\$31,791)	(\$14,440)	(\$20,625)	(\$18,543)
Weighted average number of shares (basic)	2,003,394	2,000,000	2,000,000	2,000,000	2,000,000
Weighted average Number of shares (diluted)	2,003,394	2,000,000	2,000,000	2,000,000	2,000,000
Net loss per share (basic and diluted)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)

**Discussion of Operations**

The Corporation does not have any operations and will not conduct any business other than the identification and evaluation of business and assets for a potential Qualifying Transaction.

During the financial period ended September 30, 2021, the Corporation recorded a net loss of \$22,371 as it has no sources of income and accrued \$22,371 in expenses. The Corporation's expenses can be attributed to professional fees and administrative expenses related to seeking out and evaluating a potential Qualifying Transaction.

The Corporation's issued and outstanding Common Shares increased from 3,050,000 to 3,055,940 as a result of an exercise of 5,940 Agent's Warrants issued on August 9, 2019. The weighted average number of Common Shares increased due to the greater number of days that the Common Shares have been on the balance sheet since the closing date of the IPO.

**Additional Disclosure**

The following table sets forth a breakdown of material components of expenses of the Corporation for the period ended September 30, 2021:

	Period ended September 30, 2021
Professional fees	18,428
General and administrative expenses	3,943
Stock compensation expense	-
	<u>22,371</u>

### **Off-Balance Sheet Arrangements**

There are no off-balance sheet arrangements as at September 30, 2021.

### **Transactions with Related Parties**

During the three months ended September 30, 2021, the Corporation incurred \$8,993 (\$9,880 – 2020) in legal fees in respect of general corporate matters for services provided by a law firm where two partners of the firm are directors of the Corporation.

No remuneration was paid to key management personnel during the financial quarter ended September 30, 2021 (\$NIL – September 30, 2020).

### **Critical Accounting Estimates and Policies**

The Corporation's significant accounting policies and the adoption of new accounting policies are disclosed in the notes to the financial statements for the financial period ended September 30, 2021.

### **Financial Instruments and Other Instruments**

The Corporation's financial instruments consist of cash, other receivables, accounts payable and accrued liabilities. It is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments and that the fair value of these financial instruments approximates their carrying values.

### **Disclosure of Outstanding Share Data**

As at the date of this MD&A, the following is a description of the outstanding Common Shares and Options previously issued by the Corporation:

	<u>Authorized</u>	<u>Outstanding</u>
Common Shares	Unlimited Common Shares	3,055,940 Common Shares
Options	305,000 Options	305,000 Options

### **Risks and Uncertainties**

The following describes certain risks, events and uncertainties that could affect the Corporation and that each reader should carefully consider. Please refer to the Corporation's final prospectus dated June 30, 2019 for additional risks, events and uncertainties that could affect the Corporation. External financing may be required to fund the Corporation's activities primarily through the issuance of Common Shares. There can be no assurance that the Corporation will be able to obtain adequate financing. The securities of the Corporation should be considered a highly speculative investment. The Corporation has not generated significant revenues and does not expect to generate significant revenues in the near future. In the event that the Corporation generates significant revenues in the future, the Corporation intends to retain its earnings in order

to finance further growth. Furthermore, the Corporation has not paid any dividends in the past and does not expect to pay any dividends in the foreseeable future.

### **Disclosure Controls and Procedures**

In connection with National Instrument 52-109 *Certificate of Disclosure in Issuer's Annual and Interim Filings*, the Chief Executive Officer and Chief Financial Officer of the Corporation has filed a Venture Issuer Basic Certificate with respect to the financial information contained in the condensed interim financial statements for the three months ended September 30, 2021 and this accompanying MD&A.

In contrast to non-venture issuers, this MD&A does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("**DC&P**") and internal control over financial reporting ("**ICFR**"). In particular, management is not making any representations relating to the establishment and maintenance of: controls and procedures designed to provide reasonable assurance that information required to be disclosed by the Corporation in its filings or other reports or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Investors should be aware that inherent limitations on the ability of management of the Corporation to design and implement on a cost-effective basis DC&P and ICFR may result in additional risks to the quality, reliability, transparency and timeliness of filings and other reports provided under securities legislation.

### **Other Information**

Additional information about the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com)

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**SCHEDULE C  
FINANCIAL STATEMENTS OF SPARQ**

(see attached)

**SPARQ SYSTEMS INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**  
**(Expressed in Canadian dollars)**

To the Directors of Sparq Systems Inc.:

## Opinion

We have audited the consolidated financial statements of Sparq Systems Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020, December 31, 2019 and January 1, 2019 and the consolidated statements of loss and comprehensive loss, changes in shareholders' (deficiency) equity and cash flows for the years ended December 31, 2020 and December 31, 2019, 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 consolidated financial position of the Company as at December 31, 2020, December 31, 2019 and January 1, 2019 and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2020 and December 31, 2019 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 2 in the consolidated financial statements, which indicates that as at December 31, 2020, the Company had an accumulated deficit and, for the year then ended, incurred a net loss and negative cash flows from operating activities. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, 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 consolidated 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.

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.

Calgary, Alberta

December 17, 2021

*MNP LLP*

Chartered Professional Accountants

**SPARQ SYSTEMS INC.****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Expressed in Canadian dollars)

	<b>Note</b>	<b>December 31, 2020</b>	<b>2019 (Note 16)</b>	<b>January 1, 2019 (Note 16)</b>
<b>Assets</b>				
Current Assets				
Cash and cash equivalents		\$ 1,346,904	57,558	312,218
Accounts and other amounts receivable		17,773	372,748	77,086
Investment tax credits recoverable	12(c)	333,232	345,920	504,822
Inventory	4	177,598	209,646	591,178
Prepaid expenses		6,840	21,191	22,123
Government assistance receivable	12(a,b)	41,633	-	154,026
		<u>1,923,980</u>	<u>1,007,063</u>	<u>1,661,453</u>
Property and equipment	5	22,071	41,843	108,540
<b>Total Assets</b>		<b>\$ 1,946,051</b>	<b>1,048,906</b>	<b>1,769,993</b>
<b>Liabilities</b>				
Current Liabilities				
Accounts payable and accrued liabilities		\$ 76,120	134,559	199,377
Advances from shareholders	9(b)	-	1,400,000	1,045,753
		<u>76,120</u>	<u>1,534,559</u>	<u>1,245,130</u>
Term loan	6	30,000	-	-
Total Liabilities		<u>106,120</u>	<u>1,534,559</u>	<u>1,245,130</u>
<b>Shareholders' Equity (Deficiency)</b>				
Share capital	7	15,248,419	11,830,847	11,830,847
Contributed surplus	8	1,113,378	1,113,378	1,113,378
Deficit		<u>(14,521,866)</u>	<u>(13,429,878)</u>	<u>(12,419,362)</u>
		1,839,931	(485,653)	524,863
<b>Total Liabilities and Shareholders' Equity (Deficiency)</b>		<b>\$ 1,946,051</b>	<b>1,048,906</b>	<b>1,769,993</b>

**Going concern (Note 2(e))****Commitments and contingencies (Note 13)****Subsequent event (Note 17)**

Approved on behalf of the Board:

"Praveen Jain", Director"Nishith Goel", Director

**SPARQ SYSTEMS INC.**

**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

(Expressed in Canadian dollars)

	<u>Note</u>	<u>December 31,</u> <u>2020</u>	<u>2019</u> <u>(Note 16)</u>
<b>Revenue</b>		<b>\$ 1,169</b>	<b>590,683</b>
<b>Cost of sales</b>		<b>97,542</b>	<b>806,410</b>
<b>Gross loss</b>		<b>(96,373)</b>	<b>(215,727)</b>
<b>Expenses</b>			
General and administrative	9(b,c)	284,347	321,554
Depreciation of property and equipment	5	22,186	70,699
Stock based compensation	8	433,671	-
Sales and marketing		4,207	54,631
Research and development	9(c)	887,281	1,047,735
		<u>1,631,692</u>	<u>1,494,619</u>
<b>Loss for the year before the undernoted items</b>		<b>(1,728,065)</b>	<b>(1,710,346)</b>
<b>Other income (expense)</b>			
Investment tax credits		333,232	345,920
Government assistance - wage subsidy	12(a)	296,887	-
Forgivable portion of CEBA loan	6	10,000	-
Interest income		1,250	6,037
Grant revenue	10	-	350,000
Foreign exchange loss		(5,292)	(2,127)
		<u>636,077</u>	<u>699,830</u>
<b>Net loss and comprehensive loss</b>		<b>\$ 1,091,988</b>	<b>1,010,516</b>
Basic and diluted loss per share		\$ (0.01)	(0.01)
Weighted average number of shares outstanding, basic and diluted		182,160,402	166,404,042

**SPARQ SYSTEMS INC.**

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIENCY) EQUITY**

**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

(Expressed in Canadian dollars)

	Note	Number of Shares	Common Shares \$	Contributed Surplus \$	Deficit \$	Total \$
<b>Balance, January 1, 2019</b>		<b>166,404,042</b>	<b>11,830,847</b>	<b>1,113,378</b>	<b>(12,419,362)</b>	<b>524,863</b>
Net loss for the year		-	-	-	(1,010,516)	(1,010,516)
<b>Balance, December 31, 2019</b>		<b>166,404,042</b>	<b>11,830,847</b>	<b>1,113,378</b>	<b>(13,429,878)</b>	<b>(485,653)</b>
Conversion of shareholder loan	7	251,110,582	2,989,700	-	-	2,989,700
Share issuance costs	7	-	(5,801)	-	-	(5,801)
Issuance of stock options	8(a,c)	-	-	433,671	-	433,671
Exercise of stock options	8(a,c)	36,442,989	433,673	(433,671)	-	2
Net loss for the year		-	-	-	(1,091,988)	(1,091,988)
<b>Balance, December 31, 2020</b>		<b>453,957,613</b>	<b>15,248,419</b>	<b>1,113,378</b>	<b>(14,521,866)</b>	<b>1,839,931</b>

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

**SPARQ SYSTEMS INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

(Expressed in Canadian dollars)

	<b>Note</b>	<b>December 31,</b>	
		<b>2020</b>	<b>2019</b>
<b>Cash flow from (used in) operating activities</b>			
Net loss for the year		\$ (1,091,988)	(1,010,516)
Items not involving cash			
Depreciation of property and equipment	5	22,186	70,699
Forgivable portion of CEBA loan	6	(10,000)	-
Stock-based compensation	8	433,671	-
Interest accrued on shareholder advances		-	(45,753)
Changes in non-cash working capital:			
Accounts and other amounts receivable		354,975	(295,662)
Investment tax credits recoverable		12,688	158,902
Inventory		32,048	381,532
Prepaid expenses		14,351	932
Government assistance receivable		(41,633)	154,026
Accounts payable and accrued liabilities		(58,439)	(64,818)
<b>Cash flow used in operating activities</b>		<b>(332,141)</b>	<b>(650,658)</b>
<b>Cash flow used in investing activities</b>			
Acquisition of equipment	5	(2,414)	(4,002)
<b>Cash flow from financing activities</b>			
Advances of term loan	6	40,000	-
Proceeds from option conversion	8	2	-
Share issuance costs	7	(5,801)	-
Advances from shareholders		1,589,700	400,000
<b>Cash flow from financing activities</b>		<b>1,623,901</b>	<b>400,000</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>1,289,346</b>	<b>(254,660)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>57,558</b>	<b>312,218</b>
<b>Cash and cash equivalents at end of year</b>		<b>1,346,904</b>	<b>57,558</b>
<b>Supplementary cash flow information:</b>			
Advances from shareholders converted to share capital		2,989,700	-

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

# SPARQ SYSTEMS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in Canadian dollars)

#### 1. Nature of business

Sparq Systems Inc. ("SSI" or the "Company") was incorporated under the Ontario Business Corporations Act on July 16, 2009 and is engaged in the business of developing advanced photovoltaic microinverter products and systems. The Company's head office is located at 945 Princess Street, Box 212, Kingston, Ontario K7L 0E9.

#### *COVID-19*

Since the commencement of the COVID-19 outbreak in the early part of the Company's 2020 fiscal year, there have been significant disruptions to organizations throughout Canada and the rest of the world, resulting in a general economic slowdown.

The Company has been monitoring announcements and guidelines published by civil authorities with regards to the health and safety matters at its premises. The Company has experienced challenges to its sales during the pandemic, and has attempted to mitigate the resulting cash flow reductions by accessing available federal government support programs.

Going forward, it is not possible to estimate the duration or severity of the impacts on the Company's revenue stream or cost patterns arising from the pandemic.

#### 2. Basis of presentation, measurement, and consolidation

##### a) Statement of compliance and conversion to International Financial Reporting Standards

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These are the Company's first consolidated financial statements presented in accordance with IFRS. Previously the Company prepared its consolidated annual financial statements in accordance with Canadian accounting standards for private enterprises ("ASPE"). These consolidated financial statements were authorized for issue by the Board of Directors on December 17, 2021.

##### b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments and share-based compensation transactions which have been measured at fair value.

The preparation of these consolidated financial statements resulted in changes to the accounting policies as compared to the most recent financial statements prepared under ASPE. The accounting policies set out below have applied consistently to all periods presented in these consolidated financial statements. They also have been used in preparing an opening IFRS balance sheet at January 1, 2019 for the purposes of the transition to IFRS, as required by IFRS 1, "First Time Adoption of International Financial Reporting Standards (IFRS 1)". The impact of the transition from ASPE to IFRS is explained in Note 16.

## **SPARQ SYSTEMS INC.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

(Expressed in Canadian dollars)

#### **2. Basis of presentation, measurement, and consolidation (continued)**

##### **c) Basis of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Sparq Systems (USA) Inc. Inter-company transactions and balances between the Company and its subsidiary have been eliminated on consolidation.

##### **d) Functional and presentation Currency**

The functional currency of the Company and its subsidiary is determined using the currency of the primary economic environment in which each entity operates. The functional and presentation currency of the Company and its subsidiary is the Canadian dollar.

##### **e) Going concern assumption**

These consolidated financial statements have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at December 31, 2020, the Company had a deficit of \$14,521,866 (2019-\$13,429,878) and for the year then ended incurred a net loss of \$1,091,988 (2019-\$1,010,516) and negative cash flows from operating activities of \$332,141 (2019-\$650,658). The Company has used debt and equity financing from both related and unrelated sources to supplement its operations and will continue to be reliant on additional debt and/or equity financing in order to fully develop its business plan.

Although the Company has been successful in raising funds to date, there can be no assurance that adequate or sufficient funding will be available in the future or available under terms acceptable to the Company, or that the Company will be able to generate sufficient returns from operations.

The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities and commitments when due is dependent on the Company generating revenue and debt and/or equity financing sufficient to fund its cash flow needs.

These circumstances indicate the existence of material uncertainty that casts significant doubt on the ability of the Company to meet its business plan and its obligations as they come due, and accordingly the appropriateness of the use of the accounting principles applicable to a going concern.

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying value of the assets and liabilities, the reported expenses and the classifications used in the consolidated statement of financial position. Such differences in amounts could be material.

# SPARQ SYSTEMS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in Canadian dollars)

#### 3. Significant accounting policies

##### a) IFRS 1- first time adoption of International Financial Reporting Standard

The consolidated financial position as of December 31, 2020 and 2019, and the related consolidated statements of loss and comprehensive loss and changes in shareholders' (deficiency) equity, and cash flows for the years ended December 31, 2020 and 2019 are the first consolidated financial statements of the Company which are presented in accordance with IFRS. As such, the Company makes an explicit and unreserved statement of compliance with IFRS. On date of transition to IFRS as of January 1, 2019, the Company has stated its consolidated statement of financial position under IFRS. As a result, the entity has recognized all assets and liabilities required by IFRS; derecognized all assets and liabilities not permitted by IFRS; classified all assets, liabilities and components of equity in accordance with IFRS; and measured all assets and liabilities in accordance with IFRS.

##### b) Revenue recognition

The Company has adopted all of the requirements of IFRS 15 Revenue from Contracts with Customers ("IFRS 15"). IFRS 15 utilizes a methodical framework for entities to follow in order to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

The Company derives revenue from the sale of hardware, including microinverters and their associated peripherals. The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below.

Revenue from hardware sales is recognized when the hardware is shipped, and when all significant contractual obligations have been satisfied. The customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Once products are delivered to the Company's customers, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales order, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

Revenue from contracts with customers is recognized as earned, based on the Company's performance obligation according to specific terms of the contract. Foreseeable losses, if any, are recognized in the year in which the loss is determined.

##### c) Warranty provision

The Company provides a warranty on its hardware devices against defects in material and workmanship for a period of twelve (12) years from the date of purchase. The Company's obligation during the warranty period is to either replace or repair a defective unit, at its sole option. Estimated costs associated with the repair or replacement are included in the Company's direct cost of sales.

# SPARQ SYSTEMS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in Canadian dollars)

#### 3. Significant accounting policies (continued)

##### d) Inventory

Inventory is measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less any applicable variable selling costs. Cost is determined by the weighted average method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to its present location and condition. The costs of conversion include direct material and labour costs, and a systematic allocation of fixed and variable overheads incurred in converting materials into finished goods.

Inventory is written down to its net realizable value when the cost of inventory is estimated to be unrecoverable due to obsolescence, damage, or declining selling prices. The Company makes estimates related to obsolescence, future selling prices, seasonality, customer behaviour, and fluctuations in inventory levels.

##### e) Property and equipment

Property and equipment are recorded at cost, net of accumulated depreciation and any accumulated impairment losses. Expenditures that materially increase the life of the assets are capitalized. Ordinary repairs and maintenance are expensed as incurred. Depreciation is calculated on a straight-line basis over the estimated useful life of the depreciable asset using the following terms and methods:

Computer equipment	-	straight line basis over 3 years
Furniture and fixtures	-	straight line basis over 5 years
Equipment	-	straight line basis over 5 years

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively, if appropriate. An item of equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in net loss and comprehensive loss in the year the asset is derecognized.

##### f) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provision of the financial instrument. Financial assets are derecognized when the contractual rights to receive cash flows from the financial asset expire and financial liabilities are derecognized when obligations under the contract expire, are discharged or cancelled. The Company's financial assets, which includes cash and cash equivalents, accounts and other amounts receivable, investment tax credits recoverable, and government assistance receivable are classified as amortized cost. The Company's financial liabilities, which includes accounts payable and accrued liabilities, advances from shareholders and term loan, are classified as amortized cost.

# SPARQ SYSTEMS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in Canadian dollars)

#### 3. Significant accounting policies (continued)

##### f) Financial instruments (continued)

Financial assets are initially measured at fair value and subsequently measured at amortized cost using the effective interest method if both of the following conditions are met and they are not designated as FVTPL:

- i. The financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and,
- ii. the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding. All financial assets not classified as amortized cost as described above are measured at FVTPL.

Financial liabilities are initially measured at fair value, less any directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method.

Financial assets and financial liabilities are measured at fair value using a valuation hierarchy for disclosure of fair value measurements. The determination of the applicable level within the hierarchy of a particular asset or liability depends on the inputs used in the valuation as of the measurement date, notably the extent to which the inputs are market-based (observable) or internally derived (unobservable). Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs are inputs based on a company's own assumptions about market participant assumptions using the best information available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that a company has the ability to access at the measurement date.

Level 2 - Valuations based on quoted inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

# SPARQ SYSTEMS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in Canadian dollars)

### 3. Significant accounting policies (continued)

#### g) Impairment of non-financial assets

The carrying amount of the Company's non-financial assets is reviewed at each financial reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit ("CGU") exceeds its recoverable amount. The recoverable amount of an asset or CGU is the greater of its fair value less cost 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 the current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

#### h) Foreign currency translation

Monetary assets and liabilities denominated in currencies other than functional currencies are translated into functional currencies at the rate of exchange in effect at the consolidated statement of financial position date. Non-monetary assets and liabilities are translated at the historical rates. Revenues and expenses are translated at the transaction date exchange rate. Foreign currency gains and losses resulting from translation are reflected in net loss and comprehensive loss for the year.

#### i) Taxes

Taxes are comprised of current and deferred tax. Income tax is recognized in the statements of loss and comprehensive loss except to the extent that it relates to items recognized directly in shareholders' (deficiency) equity, in which case the income tax is also recognized directly in shareholders' (deficiency) equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the end of the reporting period, and any adjustments to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted at the consolidated statements of financial position dates and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable the assets can be recovered.

# SPARQ SYSTEMS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in Canadian dollars)

### 3. Significant accounting policies (continued)

#### j) Stock-based compensation

The Company records stock-based compensation related to stock options granted using the estimated fair value of the options at the date of grant. The estimated fair value is expensed as benefits over the period in which the option holder unconditionally become entitled to the award. Stock-based compensation (continued)

The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related services and non-market performance conditions at the vesting date. The corresponding charge is to contributed surplus. Any consideration paid on the exercise of stock options is credited to common shares.

The Company estimates the fair value of stock options using the Black-Scholes valuation model. This model requires the Company to make estimates and assumptions, including, among other things, estimates regarding the length of time an employee will retain vested stock options before exercising them, the estimated volatility of the Company's common share price and the number of options that will be forfeited prior to vesting. Changes in these estimates and assumptions can materially affect the determination of the fair value of stock-based compensation and, consequently, the related amount recognized in the Company's consolidated statements of loss and comprehensive loss.

For equity-settled share-based payment transactions, the Company measures the goods and services received, and the corresponding increase in equity, directly, at the fair value of goods and services received, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services received, it measures their value by reference to the fair value of the equity instrument granted. Transactions measured by reference to the fair value of the equity instrument granted have their fair values re-measured each vesting and reporting date until fully vested.

#### k) Government assistance

The Company recognizes government assistance received, or estimated government assistance to be received, when there is reasonable assurance that the Company has complied and will continue to comply with all relevant conditions stipulated in funding arrangements. Assistance related to the acquisition of equipment is deducted from the cost of the related assets, while assistance related to current operations is recognized in the statement of loss and comprehensive loss.

## **SPARQ SYSTEMS INC.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

(Expressed in Canadian dollars)

#### **3. Significant accounting policies (continued)**

##### **l) Loss per share**

The Company presents basic and diluted loss per share for its common shares, calculated by dividing the 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 attributed to common shareholders and the weighted average number of common shares outstanding for the effects of all options outstanding that may add to the total number of common shares to the extent that they are not anti-dilutive.

##### **m) Research and development expenditures**

Expenditures on research are expensed as incurred. Research activities include formulation, design, evaluation and final selection of possible alternatives, products, processes, systems or services. Development expenditures are expensed as incurred unless the Company can demonstrate all of the following: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) its intention to complete the intangible asset and use or sell it; (iii) its ability to use or sell the intangible asset; and, (iv) how the intangible asset will generate probable future economic benefits. Among other things, the Company can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset; (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and, (vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

##### **n) Leases**

The Company assesses, at inception of a contract, whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company assesses whether the customer has the following through the period of use:

- the right to obtain substantially all of the economic benefits from use of the identified asset; and,
- the right to direct the use of the identified asset.

Where the Company is a lessee in a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

# SPARQ SYSTEMS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in Canadian dollars)

#### 3. Significant accounting policies (continued)

##### n) Leases (continued)

At the lease commencement date, the Company recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost. The cost of the right-of-use asset is comprised of the initial amount of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, initial direct costs incurred by the Company, and an estimate of the costs to be incurred by the Company in dismantling and removing the underlying asset and restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

After the commencement date, the Company measures all right-of-use assets by applying the cost model, whereby the right-of-use asset is measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liability. The right-of-use assets are depreciated using the straight-line method from the commencement date to the end of the lease term or the end of the useful life of the right-of-use asset.

The estimated useful life of the right-of-use assets are determined on the same basis as those of property and equipment. The determination of the depreciation period is dependent on whether the Company expects that the ownership of the underlying asset will transfer to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option.

The lease liability is initially measured at the present value of the lease payments not paid at the lease commencement date, discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate, if the interest rate implicit in the lease cannot be readily determined. The lease payments included in the measurement of the lease liability are comprised of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or rate, amounts expected to be payable by the Company under a residual value guarantee, the exercise price of a purchase option that the Company is reasonably certain to exercise, and payment of penalties for terminating the lease if the lease term reflects the Company exercising an option to terminate the lease. After the commencement date, the Company measures the lease liability at amortized cost using the effective interest method.

The Company remeasures the lease liability when there is a change in the lease term, a change in the Company's assessment of an option to purchase the underlying asset, a change in the Company's estimate of amounts expected to be payable under a residual value guarantee, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments. On remeasurement of the lease liability, 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 not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognised the lease payments associated with these leases of \$44,309 (2019 - \$81,600) as an expense during the year ended December 31, 2020.

## SPARQ SYSTEMS INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in Canadian dollars)

#### 3. Significant accounting policies (continued)

##### o) Share capital

Common shares are classified as equity. The share capital presents the amounts received upon issuance of shares. Incremental costs directly attributed to the issuance of shares are recognized as a deduction from the proceeds in equity in the year in which the transaction occurs.

##### p) Significant accounting judgments, estimates and assumptions

###### *Estimated useful lives and depreciation of property and equipment*

Depreciation of property and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

###### *Valuation of deferred tax assets*

Deferred tax assets, including those arising from tax loss carryforwards, require management to assess the likelihood that the Company will generate sufficient taxable income in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

###### *Going concern risk assessment*

The assessment of the Company's ability to continue as a going concern, meet its liabilities for the ensuing year, involves significant judgment based on expectation of future events that are believed to be reasonable under the circumstances.

###### *Valuation of research and development costs and tax credits*

The Company claims investment tax credits as a result of incurring scientific research and experimental development (SR&ED) expenditures. Investment tax credits are recognized when the related expenditures are incurred, and there is reasonable assurance of their realization. Management has made a number of estimates and assumptions in determining the expenditures eligible for the investment tax credit claim. The Company's claim is subject to audit by Canada Revenue Agency who may allow more than the amount recorded or may disallow all or a portion of the amount recorded.

# SPARQ SYSTEMS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in Canadian dollars)

### 3. Significant accounting policies (continued)

p) Significant accounting judgements, estimates and assumptions (continued)

#### *Fair value of stock options*

Stock-based compensation expense is measured by reference to the fair value of the stock options at the date at which they are granted. Estimating fair value for granted stock options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield, interest rate, and rate of forfeitures and making assumptions about them. Expected volatility is estimated using price history of comparable companies that are publicly listed over the expected life of the options granted.

#### *Expected credit losses*

The Company's accounts receivables are typically short-term in nature, with the exception of holdbacks and the Company recognized an amount equal to the lifetime expected credit losses ("ECLs"). The Company measures ECLs based on historical experience and forecasted economic conditions. The amount of the ECLs is sensitive to changes in future circumstance and economic conditions.

### 4. Inventory

	<u>2020</u>	<u>2019</u>
Finished goods	\$ 5,015	\$ 52,225
Raw materials	<u>172,583</u>	<u>157,421</u>
	<u>177,598</u>	<u>209,646</u>

Inventory expensed in cost of sales during the year ended December 31, 2020 was \$Nil(2019 - \$601,287). The amount expensed in cost of sales in the year is composed of both the provision recorded to bring inventory to the lower of cost and net realizable value and the write off of finished goods and raw materials for items no longer expected to be manufactured and sold. During the year ended December 31, 2020, inventory adjustments related to obsolescence of \$97,542 have been expensed within cost of sales (2019 - \$205,123).

**SPARQ SYSTEMS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

(Expressed in Canadian dollars)

**5. Property and equipment**

	Equipment \$	Furniture and fixtures \$	Computer equipment \$	Total \$
<b>Cost</b>				
Balance, January 1, 2019	375,591	24,826	52,514	452,931
Additions	652	-	3,350	4,002
Balance, December 31, 2019	376,243	24,826	55,864	456,933
Additions	-	-	2,414	2,414
Balance, December 31, 2020	376,243	24,826	58,278	459,347
<b>Accumulated depreciation</b>				
Balance, January 1, 2019	271,627	20,433	52,331	344,391
Depreciation	66,701	3,054	944	70,699
Balance, December 31, 2019	338,328	23,487	53,275	415,090
Depreciation	19,235	1,339	1,612	22,186
Balance, December 31, 2020	357,563	24,826	54,887	437,276
<b>Net book value</b>				
At January 1, 2019	103,964	4,393	184	108,541
At December 31, 2019	37,915	1,339	2,589	41,843
At December 31, 2020	18,680	-	3,391	22,071

**6. Term loan**

The Company received \$40,000 during year ended December 31, 2020 in respect of the Canada Emergency Business Account ("CEBA"). The loan bears interest at a rate of 0% per annum during the initial term of the loan, which expires December 31, 2022. No principal repayments are required during the initial term of the loan. If the company has repaid 75% of the loan amount prior to December 31, 2022, the lender will forgive the remaining balance of the loan at this time. If a balance still exists at January 1, 2023, interest will commence at a rate of 5% per annum, payable monthly. Any balance remaining on the loan will be repayable in full on December 31, 2025. The loan is unsecured. As at December 31, 2020, management has determined that it is likely that the non-forgivable portion of the loan will be repaid by December 31, 2022, and has recognized the \$10,000 forgivable portion of the arrangement in income during the year ended December 31, 2020.

**SPARQ SYSTEMS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

(Expressed in Canadian dollars)

**7. Share capital**

	2020	2019
<b>Authorized:</b>		
Unlimited Common shares		
Unlimited Class A Preferred shares		
<b>Issued:</b>		
453,957,613 Common shares (2019 - 166,404,042)	\$ 15,248,419	\$ 11,830,847

During the year ended December 31, 2020, the Company issued 251,110,582 common shares pursuant to the conversion of \$2,989,700 of advances from shareholders (see note 9).

The Company recorded share issuance costs of \$5,801 in connection with the transactions, and have been included in the carrying amount of share capital.

During the year ended December 31, 2020, non-plan stock options were exercised (see note 8), resulting in the issuance of 36,442,989 common shares. Total cash proceeds of \$2 were received upon the exercise of non-plan stock options.

**8. Stock-based compensation**

- (a) The Company's stock option plan may grant options to directors, officers, employees and certain external consultants and advisors. Under the stock option plan, the total number of common shares that may be issued pursuant to the exercise of the option must not exceed 2,700,000 common shares, the option term is not to exceed ten years and the exercise price of each option is determined by the Board of Directors. Unless otherwise specified, 25% of options granted will vest and become exercisable after the first anniversary of the date of grant; and on a monthly basis thereafter, 1/36th of the options will vest and become exercisable.

The following are the details of all stock options granted under the stock option plan:

	Number of Stock Options	Weighted Average Exercise Price
Outstanding, January 1, 2019	175,517	\$ 0.01
Expired	(25,517)	0.01
Outstanding December 31, 2019	150,000	0.01
Granted	36,442,989	0.00
Exercised	(36,442,989)	0.00
Expired	(150,000)	0.01
Outstanding December 31, 2020	-	\$ -

## SPARQ SYSTEMS INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in Canadian dollars)

#### 8. Stock-based compensation (continued)

- (b) As at December 31, 2020, the weighted average contractual life remaining is Nil years (2019 - 0.5 years).
- (c) During the year ended December 31, 2020, the Company granted options outside of the stock option plan. A total of 36,442,989 options were granted to two directors. The options vested immediately, had an exercise price of \$1 in aggregate for each of the recipients and had a term of 7 years. The options were exercised immediately after they were granted.

These options were recognized in contributed surplus at an aggregate fair value of \$433,671, using the Black-Scholes model with the following inputs: stock price of \$0.01 per share; strike price of \$0.00; term to maturity of 1 year, annualized risk-free rate of 0.25% and volatility of 99.95%.

#### 9. Related party transactions

- (a) As at December 31, 2020, accounts payable and accrued liabilities included \$Nil (2019 - \$1,557) payable to certain shareholders of the Company, which are non-interest bearing, unsecured and due on demand.
- (b) During the year ended December 31, 2020, the Company converted \$2,989,700 of unsecured advances from shareholders (note 8). These advances were non-interest bearing and due on demand.

The terms of the loans were amended to be non-interest bearing, which resulted in reversal of previously accrued interest. Included in general and administration is interest recovery of \$Nil (2019 - \$45,669).

- (c) During the year, the Company purchased consulting services of \$132,999 (2019 - \$140,000) from a company in which a shareholder and officer has control. These expenses have been recorded in research and development and general and administrative expenses.
- (d) Transaction with related parties are incurred during the course of normal operations and initially recorded at fair value. Key management includes directors and officers of the Company. Compensation awarded to key management was comprised of the following for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Short-term compensation	\$ 132,999	\$ 140,000
Share-based payments	433,671	-
Total	<u>\$ 566,670</u>	<u>\$ 140,000</u>

**SPARQ SYSTEMS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

(Expressed in Canadian dollars)

**10. Government grant**

In April 2016, the Company was approved for a government grant and was eligible to receive up to a maximum of \$1,500,000. During the year ended December 31, 2020, the Company received \$Nil (2019 - \$350,000) of funding under the program.

**11. Taxes**

	Year ended December 31,	
	2020	2019
Loss before taxes	\$ (1,091,988)	\$ (1,010,516)
Combined statutory tax rate	26.50%	26.50%
Tax recovery at statutory rate	(289,377)	(267,787)
Non-deductible expenses	161	883
Stock based compensation	114,923	-
Deferred income tax asset not recognized	174,293	266,904
Income tax expense (recovery)	\$ -	\$ -

At December 31, 2020 and 2019, the Company had unrecognised deductible temporary differences as follows:

	December 31,	
	2020	2019
Non-capital losses	\$ 7,413,289	\$ 7,006,664
Equipment	465,067	442,847
Share issuance costs	-	5,711
SR&ED tax credit	4,114,597	3,891,651
	<u>\$ 11,992,953</u>	<u>\$ 11,346,873</u>

The Company's unused deductible SR&ED expenditures can be carried forward to reduce taxable income in future years. The Company's non-capital losses that may be used to reduce taxable income in future years with expiry between 2035-2040 and SR&ED tax credit will expire between 2030-2035 that may be used to reduce future provincial income tax payable.

**12. Government assistance**

(a) During the year ended December 31, 2020, the Company submitted applications in the amount of \$296,887 under the Canada Emergency Wage Subsidy and Temporary Wage Subsidy programs. Of the amount submitted, \$29,026 is included in government assistance receivable at December 31, 2020.

## SPARQ SYSTEMS INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in Canadian dollars)

#### 12. Government assistance (continued)

The Company applied for rent assistance through the Canada Emergency Commercial Rental Assistance ("CECRA") program. The application for assistance of \$25,500 under the program was submitted during the year ended December 31, 2020 in respect of rent reductions provided to qualifying tenants during the period from April, 2020 to August, 2020. The funds applied for under the program were recognized as a reduction of payable to the landlord and also reduced rent expense on the Company's consolidated financial statements for the year ended December 31, 2020.

(b) During the year ended December 31, 2020, the Company also submitted applications in the amount of \$12,607 under the Canada Emergency Rent subsidy program. Of the amount submitted, \$12,607 is included in government assistance receivable at December 31, 2020.

(c) During the year ended December 31, 2020, the Company received \$345,920 of SR&ED tax credits on eligible expenditures incurred in 2019. In addition, the Company has applied for federal SR&ED of \$266,917 and Ontario SR&ED credits of \$66,314. These amounts were fully collected subsequent to year-end.

#### 13. Commitments and contingencies

##### *Commitments*

The Company is party to a one year facility lease agreement expiring June 30, 2021 at a rate of \$7,004 per month plus applicable sales tax.

On July 31, 2013, the Company entered into a licensing agreement with PARTEQ Research and Development Innovations ("PARTEQ Agreement"), for commercial rights to certain power generation, conversion, and switching technologies used in its products. Pursuant to the terms of the PARTEQ Agreement, the Company is obligated to pay 1% of specified net sales generated from sale of products using the licensed technology. During the year-ended December 31, 2020, the Company paid licensing fees of \$12 (2019-\$8,093).

##### *Contingencies*

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At December 31, 2020 and 2019, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

# SPARQ SYSTEMS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in Canadian dollars)

#### 14. Financial risk management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Company mitigates these risks by assessing, monitoring and approving the Company's risk management processes:

a) Credit risk

Credit risk is the risk of a potential loss to the Company if one party of a financial instrument fails to meet its contractual obligations. The maximum credit exposure at December 31, 2020 and 2019 relates to the carrying amount of cash and cash equivalents, accounts receivable, investment tax credit recoverable, and government assistance receivable. To reduce credit risk, all significant cash balances are placed with major financial institutions.

The Company provides credit to its customers in the normal course of its operations. It carries out, on a continuing basis, credit checks on its clients and maintains provisions for contingent credit losses which, once they materialize, are consistent with management's forecasts. The maximum exposure to credit risk is the carrying value of the accounts receivable. The Company does not normally require a guarantee. The largest two customers represented an aggregate of \$1,092 (93%) (2019- \$537,891 (91%)) of the Company's billings for the year ended December 31, 2020. As at December 31, 2020, 34% of the Company's accounts receivable were comprised of outstanding balances from these customers (2019- 99%).

The Company's expected credit loss allowance is estimated using historical loss information, current industry conditions and payment practices, as well as reasonable and supportable forecasts of future economic conditions. Credit risk is assessed based on days outstanding and utilizes both internal credit assessments and publicly available credit information. As a result, the allowance reflects anticipated effects caused by recent market deterioration. As at December 31, 2020, the current expected credit loss allowance was \$25,103 (2019 - \$30,664).

a) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the effective management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity at all times to settle obligations and liabilities when due. The Company has the following contractual obligations:

	Less than 1 Year \$	1 to 3 years \$	3 to 5 years \$	Greater than 5 years \$	Total \$
Accounts payable and accrued liabilities	76,120	-	-	-	76,120
Term loan	-	30,000	-	-	30,000
<b>December 31, 2020</b>	<b>76,120</b>	<b>30,000</b>	<b>-</b>	<b>-</b>	<b>106,120</b>

**SPARQ SYSTEMS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

(Expressed in Canadian dollars)

**14. Financial risk management (continued)**

	Less than 1 Year \$	1 to 3 years \$	3 to 5 years \$	Greater than 5 years \$	Total \$
Accounts payable and accrued liabilities	134,559	-	-	-	134,559
Advances from shareholders	1,400,000	-	-	-	1,400,000
<b>December 31, 2019</b>	<b>1,534,559</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,534,559</b>

## b) Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's financial liabilities are non-interest bearing at December 31, 2020 and 2019, and therefore the Company is not exposed to interest rate risk.

## c) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk from various currencies, primarily the US dollar. Foreign exchange risk arises from sales and purchase transactions as well as recognized financial assets and liabilities that are denominated in a currency other than the Canadian dollar, which is the functional currency of the Company.

The Company's primary objective in managing its foreign exchange risk is to preserve sales values and cash flows and reduce variations in performance. Although management monitors exposure to such fluctuations, it does not employ any external hedging strategies to counteract the foreign currency fluctuations.

The following amounts were denominated in foreign currency:

	Currency	2020	2019
Cash	US dollar	91,864	2,014
Accounts Receivable	US dollar	-	288,718
Accounts Payable	US dollar	10,768	82,598

On December 31, 2020, an increase of 1% in the value of US dollar will result in a gain of \$1,170 (2019 - \$26) in the value of cash, \$Nil (2019 - \$3,750) in accounts receivable and loss of \$137 (2019 - \$1,073) in accounts payable. Similarly, a decrease of 1% in the value of US dollar will have similar effects but in opposite direction.

**SPARQ SYSTEMS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

(Expressed in Canadian dollars)

**15. Capital management**

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders. The Company considers the items included in shareholders' equity of \$15,248,419 as capital, as at December 31, 2020 (2019 - \$11,830,847). The Company manages the capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund the Company's business. To secure the additional capital necessary to pursue these plans, the Company intends to raise additional funds through the equity or debt financing. The Company is not subject to any capital requirements imposed by a regulator.

# SPARQ SYSTEMS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in Canadian dollars)

### 16. First time adoption of IFRS

As stated in note 3, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS. The accounting policies in note 3 have been applied in preparing the consolidated financial statements for the years ended December 31, 2020, the preparation of the opening IFRS statement of financial position on the transition date, January 1, 2019.

The guidance for the first-time adoption of IFRS is set in IFRS 1. IFRS 1 provides for certain mandatory exemptions and optional exemptions for the first time adopters of IFRS. The Company did not elect to take any optional IFRS 1 exemptions.

### Reconciliation of assets, liabilities, and equity as at December 1, 2019

	Notes	ASPE	IFRS Adjustment	IFRS
<b>Assets</b>				
Current Assets				
Cash and cash equivalents	\$	312,218	-	312,218
Accounts and other amounts receivable		77,086	-	77,086
Investment tax credits recoverable		504,822	-	504,822
Inventory		591,178	-	591,178
Prepaid expenses		22,123	-	22,123
Government assistance receivable		154,026	-	154,026
		<u>1,661,453</u>	-	<u>1,661,453</u>
Property and equipment		494,809	-	494,809
Less accumulated depreciation		<u>(386,269)</u>	-	<u>(386,269)</u>
		108,540	-	108,540
	\$	<u><b>1,769,993</b></u>	-	<u><b>1,769,993</b></u>
<b>Liabilities</b>				
Current Liabilities				
Accounts payable and accrued liabilities	\$	199,377	-	199,377
Advances from shareholders		<u>1,045,753</u>	-	<u>1,045,753</u>
		1,245,130	-	1,245,130
<b>Shareholders' Equity (Deficiency)</b>				
Share capital		11,830,847	-	11,830,847
Contributed surplus		1,113,378	-	1,113,378
Deficit		<u>(12,419,362)</u>	-	<u>(12,419,362)</u>
		524,863	-	524,863
	\$	<u><b>1,769,993</b></u>	-	<u><b>1,769,993</b></u>

**SPARQ SYSTEMS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

(Expressed in Canadian dollars)

**16. First time adoption of IFRS (continued)****Reconciliation of assets, liabilities and equity as at December 31, 2019**

	Notes	ASPE	IFRS Adjustment	IFRS
<b>Assets</b>				
Current Assets				
Cash and cash equivalents	\$	57,558	-	57,558
Accounts and other amounts receivable		372,748	-	372,748
Investment tax credits recoverable		345,920	-	345,920
Inventory		209,646	-	209,646
Prepaid expenses		21,191	-	21,191
		<u>1,007,063</u>	-	<u>1,007,063</u>
Property and equipment		456,933	-	456,933
Less accumulated depreciation		<u>(415,090)</u>	-	<u>(415,090)</u>
		41,843	-	41,843
	\$	<u><b>1,048,906</b></u>	-	<u><b>1,048,906</b></u>
<b>Liabilities</b>				
Current Liabilities				
Accounts payable and accrued liabilities	\$	134,559	-	134,559
Advances from shareholders		<u>1,400,000</u>	-	<u>1,400,000</u>
		1,534,559	-	1,534,559
<b>Shareholders' Equity (Deficiency)</b>				
Share capital		11,830,847	-	11,830,847
Contributed surplus		1,113,378	-	1,113,378
Deficit		<u>(13,429,878)</u>	-	<u>(13,429,878)</u>
		(485,653)	-	(485,653)
	\$	<u><b>1,048,906</b></u>	-	<u><b>1,048,906</b></u>

**SPARQ SYSTEMS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

(Expressed in Canadian dollars)

**16. First time adoption of IFRS (continued)**

**Reconciliation of comprehensive loss for the year ended December 31, 2019**

	Notes	ASPE	IFRS Adjustment	IFRS
<b>Revenue</b>	\$	<b>590,683</b>	-	<b>590,683</b>
<b>Cost of sales</b>		<b>806,410</b>	-	<b>806,410</b>
<b>Gross loss</b>		<b>(215,727)</b>	-	<b>(215,727)</b>
<b>Expenses</b>				
General and administrative		321,554	-	321,554
Depreciation of property and equipment		70,699	-	70,699
Sales and marketing		54,631	-	54,631
Research and development		1,047,735	-	1,047,735
		1,494,619	-	1,494,619
<b>Loss before the undernoted items</b>		<b>(1,710,346)</b>	-	<b>(1,710,346)</b>
<b>Other income (expense)</b>				
Investment tax credits		345,920	-	345,920
Interest income		6,037	-	6,037
Grant revenue		350,000	-	350,000
Foreign exchange gain (loss)		(2,127)	-	(2,127)
		699,830	-	699,830
<b>Net loss for the year</b>	\$	<b>1,010,516</b>	-	<b>1,010,516</b>
Basic and diluted loss per share	\$	0.01		0.01
Weighted average number of shares outstanding, basic		182,160,402	-	182,160,402

**SPARQ SYSTEMS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

(Expressed in Canadian dollars)

**16. First time adoption of IFRS (continued)****Reconciliation of cash flows for the year ended December 31, 2019**

Notes	ASPE	IFRS Adjustment	IFRS
<b>Cash flow from (used in) operating activities</b>			
Net loss for the year	(1,010,516)	-	(1,010,516)
Items not involving cash			
Depreciation expense	70,699	-	70,699
	<u>(939,817)</u>	-	<u>(939,817)</u>
Changes in non-cash working capital:			
Accounts and other amounts receivable	(295,662)	-	(295,662)
Investment tax credits recoverable	158,902	-	158,902
Inventory	381,532	-	381,532
Prepaid expenses	932	-	932
Government assistance receivable	154,026	-	154,026
Accounts payable and accrued liabilities	(64,818)	-	(64,818)
Interest accrued on shareholder advances	(45,753)	-	(45,753)
	<u>(650,658)</u>	-	<u>(650,658)</u>
<b>Cash flow used in investing activities</b>			
Acquisition of equipment	(4,002)	-	(4,002)
<b>Cash flow from (used in) financing activities</b>			
Advances from shareholders	400,000	-	400,000
	<u>400,000</u>	-	<u>400,000</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(254,660)</b>	<b>-</b>	<b>(254,660)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>312,218</b>		<b>312,218</b>
<b>Cash and cash equivalents at end of year</b>	<b><u>57,558</u></b>	<b>-</b>	<b><u>57,558</u></b>

**17. Subsequent event**

In June 2021, the Company has entered into a binding agreement, subject to certain conditions and applicable shareholder and regulatory approvals, with MJ Innovation Capital Corp. (“MJ”), whereby MJ has agreed to acquire all of the issued and outstanding shares of the Company (the “Proposed Transaction”) by way of a “three-cornered” amalgamation whereby a newly-formed wholly-owned subsidiary of MJ shall amalgamate with Sparq. The Proposed Transaction will result in a reverse takeover of MJ by the Company and the resulting issuer from the Proposed Transaction will carry on the business of the Company. In connection with the Proposed Transaction, the Company intends to complete a brokered private placement of subscription receipts for gross proceeds of up to \$10,000,000.

**SPARQ SYSTEMS INC.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020**

**(Expressed in Canadian dollars)**

**(Unaudited)**

**SPARQ SYSTEMS INC.****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION****AS AT****(Expressed in Canadian dollars)**

	<b>Note</b>	<b>September 30, 2021</b>	<b>December 31, 2020</b>
		(unaudited)	(audited)
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents		\$ 368,301	1,346,904
Accounts and other amounts receivable		42,209	17,773
Investment tax credits recoverable	7(c)	270,000	333,232
Inventory	3	375,134	177,598
Prepaid expenses		25,717	6,840
Government assistance receivable	7(a,b)	11,440	41,633
		<u>1,092,801</u>	<u>1,923,980</u>
Property and equipment	4	45,333	22,071
		<u>\$ 1,138,134</u>	<u>1,946,051</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities		\$ 146,461	76,120
		<u>146,461</u>	<u>76,120</u>
Term Loan	5	38,196	30,000
		<u>184,657</u>	<u>106,120</u>
<b>Shareholders' Equity</b>			
Share Capital		15,248,419	15,248,419
Contributed Surplus		1,113,378	1,113,378
Deficit		(15,408,320)	(14,521,866)
		<u>953,477</u>	<u>1,839,931</u>
		<u>\$ 1,138,134</u>	<u>1,946,051</u>
<b>Going concern (Note 1(a))</b>			
<b>Subsequent events (Note 10)</b>			

Approved on behalf of the Board:

"Praveen Jain", Director"Nishith Goel", Director

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

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**SPARQ SYSTEMS INC.**

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND  
COMPREHENSIVE LOSS**

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020**

(Expressed in Canadian dollars)

	Note	September 30,		YTD - September 30,	
		2021	2020	2021	2020
<b>Revenue</b>		\$ -	700	-	776
<b>Cost of sales</b>		2,014	30,056	25,210	65,776
<b>Gross loss</b>		(2,014)	(29,356)	(25,210)	(65,000)
<b>Expenses</b>					
Research and development	6	250,500	237,220	748,553	647,824
Sales and marketing		631	1,150	15,239	3,514
General and administration		295,025	86,927	669,258	232,232
Depreciation of property and equipment	4	5,328	2,455	12,783	20,142
		551,484	327,752	1,445,833	903,712
<b>Loss before the undernoted items</b>		(553,498)	(357,108)	(1,471,043)	(968,712)
<b>Other income (expense)</b>					
Investment tax credits	7(c)	90,000	75,000	270,000	225,000
Government assistance - wage subsidy	7(a)	91,077	80,724	298,453	183,063
Forgivable portion of CEBA loan	5	-	-	11,804	-
Interest income		413	143	1,599	398
Foreign exchange gain (loss)		(748)	(4,057)	2,733	1,726
		180,742	151,810	584,589	410,187
<b>Net loss for the period</b>		\$ (372,756)	(205,298)	(886,454)	(558,525)
Basic and diluted loss per share		\$ 0.00	0.00	0.00	0.00
Weighted average number of shares outstanding, basic and diluted		453,957,613	166,404,042	453,957,613	166,404,042

**SPARQ SYSTEMS INC.**

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020**

(Expressed in Canadian dollars)

	Number of Shares	Common Shares \$	Contributed Surplus \$	Deficit \$	Total \$
<b>Balance, December 31, 2020 (Audited)</b>	<b>453,957,613</b>	<b>15,248,419</b>	<b>1,113,378</b>	<b>(14,521,866)</b>	<b>1,839,931</b>
Net loss for the period	-	-	-	(886,454)	(886,454)
<b>Balance, September 30, 2021 (Unaudited)</b>	<b>453,957,613</b>	<b>15,248,419</b>	<b>1,113,378</b>	<b>(15,408,320)</b>	<b>953,477</b>
<b>Balance, December 31, 2019 (Audited)</b>	<b>166,404,042</b>	<b>11,830,847</b>	<b>1,113,378</b>	<b>(13,429,878)</b>	<b>(485,653)</b>
Net loss for the period	-	-	-	(558,525)	(558,525)
<b>Balance, September 30, 2020 (Unaudited)</b>	<b>166,404,042</b>	<b>11,830,847</b>	<b>1,113,378</b>	<b>(13,988,403)</b>	<b>(1,044,178)</b>

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

**SPARQ SYSTEMS INC.**

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020**

(Expressed in Canadian dollars)

	Note	September 30,	
		2021	2020
		(unaudited)	(unaudited)
<b>Operating activities:</b>			
Net loss for the period		\$ (886,454)	(558,525)
Items not involving cash			
Depreciation expense	4	12,783	20,142
Forgivable portion of CEBA loan	5	(11,804)	-
		<b>(885,475)</b>	<b>(538,383)</b>
Changes in non-cash working capital:			
Accounts and other amounts receivable		(24,436)	349,732
Investment tax credits recoverable		63,232	120,920
Inventory		(197,536)	8,969
Prepaid expenses		(18,877)	10,763
Government assistance receivable		30,193	-
Accounts payable and accrued liabilities		70,341	(47,593)
Interest accrued on shareholder advances		-	-
<b>Cash flow used in operating activities</b>		<b>(962,558)</b>	<b>(95,592)</b>
<b>Investing activities</b>			
Acquisition of equipment	4	(36,045)	(2,448)
<b>Cash flow used in investing activities</b>		<b>(36,045)</b>	<b>(2,448)</b>
<b>Financing activities:</b>			
Advances of term loan	5	20,000	40,000
Advances from shareholders		-	1,589,130
<b>Cash flow from financing activities</b>		<b>20,000</b>	<b>1,629,130</b>
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(978,603)</b>	<b>1,531,090</b>
<b>Cash and cash equivalents at beginning of the period</b>		<b>1,346,904</b>	<b>57,558</b>
<b>Cash and cash equivalents at end of the period</b>		<b>368,301</b>	<b>1,588,648</b>

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

# **SPARQ SYSTEMS INC.**

## **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

### **FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020**

(Expressed in Canadian dollars)

#### **1. Nature of business**

Sparq Systems Inc. ("SSI" or the "Company") was incorporated under the Ontario Business Corporations Act on July 16, 2009 and is engaged in the business of developing advanced photovoltaic microinverter products and systems. The Company's head office is located at 945 Princess Street, Box 212, Kingston, Ontario K7L 0E9.

##### **a) Going concern assumption**

These condensed consolidated interim financial statements have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at September 30, 2021, the Company had a deficit of \$15,408,320 (December 31, 2020 - \$14,521,866) and for the three month and nine month period then ended September 30, 2021 incurred a net loss of \$372,756 and \$886,454 respectively (September 30, 2020 - \$205,298 and \$558,525) and negative cash flows of \$962,558 (Nine months ended September 30, 2020 - negative cash flow of 95,592). The Company has used debt and equity financing from both related and unrelated sources to supplement its operations and will continue to be reliant on additional debt and/or equity financing in order to fully develop its business plan.

Although the Company has been successful in raising funds to date, there can be no assurance that adequate or sufficient funding will be available in the future or available under terms acceptable to the Company, or that the Company will be able to generate sufficient returns from operations.

The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities and commitments when due is dependent on the Company generating revenue and debt and/or equity financing sufficient to fund its cash flow needs.

These circumstances indicate the existence of material uncertainty that casts significant doubt on the ability of the Company to meet its business plan and its obligations as they come due, and accordingly the appropriateness of the use of the accounting principles applicable to a going concern.

These condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these condensed consolidated interim financial statements, then adjustments would be necessary in the carrying value of the assets and liabilities, the reported expenses and the classifications used in the consolidated statement of financial position. Such differences in amounts could be material.

# SPARQ SYSTEMS INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(Expressed in Canadian dollars)

### 1. Nature of business (continued)

#### *b) COVID-19*

Since the commencement of the COVID-19 outbreak in the early part of the Company's 2020 fiscal year, there have been significant disruptions to organizations throughout Canada and the rest of the world, resulting in a general economic slowdown.

The Company has been monitoring announcements and guidelines published by civil authorities with regards to the health and safety matters at its premises. The Company has experienced challenges to its sales during the pandemic, and has attempted to mitigate the resulting cash flow reductions by accessing available federal government support programs.

Going forward, it is not possible to estimate the duration or severity of the impacts on the Company's revenue stream or cost patterns arising from the pandemic.

### 2. Basis of presentation, measurement, and consolidation

#### a) Statement of compliance and conversion to International Financial Reporting Standards

These condensed consolidated interim financial statements of the Company for three and nine months ended September 30, 2021 and 2020 have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and with interpretation of the International Financial Reporting Interpretations Committee ("IFRIC"). These condensed consolidated interim financial statements meet the requirements of International Accounting Standard ("IAS") 34, "Interim Financial Reporting". Accordingly, these condensed consolidated interim financial statements do not include all information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2020.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on December 17, 2021.

#### b) Basis of presentation

These condensed consolidated interim financial statements have been prepared on a historical cost basis and have been prepared using the accrual basis of accounting, except where disclosed. The preparation of financial statements requires management to make judgments estimates and assumptions that affect the application of the policies and reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates.

#### c) Basis of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiary, Sparq Systems (USA) Inc. Inter-company transactions and balances between the Company and its subsidiary have been eliminated on consolidation.

## SPARQ SYSTEMS INC.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

#### FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(Expressed in Canadian dollars)

## 2. Basis of presentation, measurement, and consolidation (continued)

### d) Functional and presentation Currency

The functional currency of the Company and its subsidiary is determined using the currency of the primary economic environment in which each entity operates. The functional and presentation currency of the Company and its subsidiary is the Canadian dollar.

## 3. Inventory

	September 30, 2021	December 31, 2020
Finished goods	\$ 3,119	\$ 5,015
Raw materials	<u>372,015</u>	<u>172,583</u>
	<u>\$ 375,134</u>	<u>\$ 177,598</u>

Inventory expensed in cost of sales during the three months and nine months period ended September 30, 2021 and 2020 was \$Nil. During the three months and six months period ended June 30, 2021, inventory adjustments related to obsolescence of \$2,014 and \$25,210 respectively have been expensed within cost of sales (three and nine months ended September 30, 2020- \$30,056 and \$65,776 respectively).

## 4. Property and equipment

	Equipment \$	Furniture and fixtures \$	Computer equipment \$	Computer software \$	Total \$
<b>Cost</b>					
Balance, December 31, 2020	376,242	24,826	58,279	-	459,347
Additions	29,695	-	-	6,350	36,045
<b>Balance, September 30, 2021</b>	<b>405,937</b>	<b>24,826</b>	<b>58,279</b>	<b>6,350</b>	<b>495,392</b>
<b>Accumulated depreciation</b>					
Balance, December 31, 2020	357,563	24,826	54,887	-	437,276
Depreciation	7,730	-	1,349	3,704	12,783
<b>Balance, September 30, 2021</b>	<b>365,293</b>	<b>24,826</b>	<b>56,236</b>	<b>3,704</b>	<b>450,059</b>
<b>Net book value</b>					
At December 31, 2020	18,679	-	3,392	-	22,071
At September 30, 2021	40,644	-	2,043	2,646	45,333

## SPARQ SYSTEMS INC.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

#### FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(Expressed in Canadian dollars)

##### 5. Term loan

During nine months ended September 30, 2021, the Company received an amount of \$20,000 (December 31, 2020 - \$40,000) in respect of the Canada Emergency Business Account ("CEBA"). The loan bears interest at a rate of 0% per annum during the initial term of the loan, which expires December 31, 2022. No principal repayments are required during the initial term of the loan. If the Company repays \$40,000 of the loan amount prior to December 31, 2022, the lender will forgive the remaining balance of \$20,000 of the loan at that time. If a balance still exists at January 1, 2023, interest will commence at a rate of 5% per annum, payable monthly. Any balance remaining on the loan will be repayable in full on December 31, 2025. The loan is unsecured. As at September 30, 2021, management has determined that it is likely that the non-forgivable portion of the loan will be repaid by December 31, 2022.

As at September 30, 2021, the Company has recorded the fair value of \$38,196 (December 31, 2020 - \$30,000), on the initial recognition date of the CEBA LOC using an effective interest rate of 10%. The difference of \$11,804 between the fair value and the total amount of CEBA LOC received was recorded as a forgivable portion of CEBA Loan in other income during the nine months ended September 30, 2021 (Nine months ended September 30, 2020 - \$nil).

##### 6. Related party transactions

- (a) During the three months ended September 30, 2021, the Company purchased consulting services of \$35,000 (Three months ended September 30, 2020 - \$35,000) from a company in which a shareholder and officer has control. During the nine months ended September 30, 2021, the Company purchased consulting services of \$105,000 (Nine months ended September 30, 2020 - \$97,999) from a company in which a shareholder and officer has control. These expenses have been recorded in research and development.
- (b) Transaction with related parties are incurred during the course of normal operations and initially recorded at fair value. Key management includes directors and officers of the Company. Compensation awarded to key management was comprised of the following for the six months ended September 30, 2021 and 2020:

	Three months ended September 30		Nine months ended September 30,	
	2021	2020	2021	2020
Short-term compensation \$	<u>35,000</u>	<u>\$ 35,000</u>	<u>\$ 105,000</u>	<u>\$ 97,999</u>
Total	<u>\$ 35,000</u>	<u>\$ 35,000</u>	<u>\$ 105,000</u>	<u>\$ 97,999</u>

## **SPARQ SYSTEMS INC.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

#### **FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020**

(Expressed in Canadian dollars)

#### **7. Government assistance**

- (a) During the three months ended September 30, 2021, the Company submitted applications in the amount of \$91,077 (Three months ended September 30, 2020 – \$80,724) under the Canada Emergency Wage Subsidy and Temporary Wage Subsidy programs. During the nine months ended September 30, 2021, the Company submitted applications in the amount of \$298,653 (Nine months ended September 30, 2020 – \$183,063) under the Canada Emergency Wage Subsidy and Temporary Wage Subsidy programs. Of the amount submitted, \$8,854 is included in government assistance receivable at September 30, 2021 (December 31, 2020 – \$29,026).
- (b) The Company applied for rent assistance through the Canada Emergency Rent Subsidy ("CERS") program. The application for assistance of \$13,254 and \$38,468 under the program was submitted during the three months and nine month ended September 30, 2021 respectively (September 30, 2020 – \$Nil). The funds applied for under the program were recognized as a reduction of rent expense on the Company's condensed consolidated interim financial statements for the three months and nine month ended September 30, 2021 respectively. Of the amount submitted, \$2,586 is included in government assistance receivable at September 30, 2021 (December 31, 2020 – \$12,607).
- (c) During the three months and nine months ended September 30, 2021, the Company accrued \$90,000 and \$270,000 respectively of SR&ED tax credits on eligible expenditures incurred during the period (September 30, 2020 - \$75,000 and \$225,000 respectively).

#### **8. Financial risk management**

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Company mitigates these risks by assessing, monitoring and approving the Company's risk management processes:

##### **a) Credit risk**

Credit risk is the risk of a potential loss to the Company if one party of a financial instrument fails to meet its contractual obligations. The maximum credit exposure at September 30, 2021 and December 31, 2020 relates to the carrying amount of cash and cash equivalents, accounts receivable, investment tax credit recoverable, and government assistance receivable.

To reduce credit risk of cash and cash equivalents, all significant cash balances are placed with major financial institutions.

The Company provides credit to its customers in the normal course of its operations. It carries out, on a continuing basis, credit checks on its clients and maintains provisions for contingent credit losses which, once they materialize, are consistent with management's forecasts. The maximum exposure to credit risk is the carrying value of the accounts receivable. The Company does not normally require a guarantee. As at September 30, 2021, one (December 31, 2020 – one) customer represent in excess of 10% of accounts receivable and 100% of the Company's accounts receivable were comprised of outstanding balances from its largest

## SPARQ SYSTEMS INC.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

#### FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(Expressed in Canadian dollars)

#### 8. Financial risk management (continued)

customer (December 31, 2020 - 34%).

The Company's expected credit loss allowance is estimated using historical loss information, current industry conditions and payment practices, as well as reasonable and supportable forecasts of future economic conditions. Credit risk is assessed based on days outstanding and utilizes both internal credit assessments and publicly available credit information. As a result, the allowance reflects anticipated effects caused by recent market deterioration. As at September 30, 2021, the current expected credit loss allowance was \$24,626 (December 31, 2020 - \$25,103).

The Company is not exposed to significant credit risk on investment tax credit recoverable and government assistance receivable as these amounts are due from government agencies.

#### b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the effective management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity at all times to settle obligations and liabilities when due. The Company has the following contractual obligations:

	Less than 1 Year \$	1 to 3 years \$	3 to 5 years \$	Greater than 5 years \$	Total \$
Accounts payable and accrued liabilities	146,460	-	-	-	146,460
Term loan	-	38,196	-	-	38,196
<b>September 30, 2021</b>	<b>146,460</b>	<b>38,196</b>	<b>-</b>	<b>-</b>	<b>184,656</b>

	Less than 1 Year \$	1 to 3 years \$	3 to 5 years \$	Greater than 5 years \$	Total \$
Accounts payable and accrued liabilities	76,120	-	-	-	76,120
Term loan	-	30,000	-	-	30,000
<b>December 31, 2020</b>	<b>76,120</b>	<b>30,000</b>	<b>-</b>	<b>-</b>	<b>106,120</b>

## SPARQ SYSTEMS INC.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

#### FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(Expressed in Canadian dollars)

#### 8. Financial risk management (continued)

##### b) Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's financial liabilities are non-interest bearing at September 30, 2021 and December 31, 2020, and therefore the Company is not exposed to interest rate risk.

##### c) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk from various currencies, primarily the US dollar. Foreign exchange risk arises from sales and purchase transactions as well as recognized financial assets and liabilities that are denominated in a currency other than the Canadian dollar, which is the functional currency of the Company.

The Company's primary objective in managing its foreign exchange risk is to preserve sales values and cash flows and reduce variations in performance. Although management monitors exposure to such fluctuations, it does not employ any external hedging strategies to counteract the foreign currency fluctuations.

The following amounts were denominated in foreign currency:

	<u>Currency</u>	<u>September 30, 2021</u>	<u>December 31, 2020</u>
Cash	US dollar	7,844	91,864
Accounts Receivable	US dollar	5,685	5,685
Accounts Payable	US dollar	25,854	10,768

On September 30, 2021, an increase of 1% in the value of US dollar will result in a gain of \$100 (December 31, 2020 - \$1,170) in the value of cash, \$72 (December 31, 2020 - \$72) in accounts receivable and loss of \$329 (December 31, 2020 - \$137) in accounts payable. Similarly, a decrease of 1% in the value of US dollar will have similar effects but in opposite direction.

#### 9. Capital management

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders. The Company considers the items included in shareholders' equity of \$15,248,419 as capital, as at September 30, 2021 (December 31, 2020 - \$ 15,248,419). The Company manages the capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund the Company's business. To secure the additional capital necessary to pursue these plans, the Company intends to raise additional funds through the equity or debt financing. The Company is not subject to any capital requirements imposed by a regulator.

## **SPARQ SYSTEMS INC.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020**

(Expressed in Canadian dollars)

#### **10. Subsequent events**

a) Reverse take-over of MJ Innovation Capital Corp.

On June 10, 2021, the Company entered into a binding agreement, subject to certain conditions and applicable shareholder and regulatory approvals, with MJ Innovation Capital Corp. (“MJ”), whereby MJ has agreed to acquire all of the issued and outstanding shares of the Company (the “Proposed Transaction”) by way of a “three-cornered” amalgamation whereby a newly-formed wholly-owned subsidiary of MJ shall amalgamate with the Company. The Proposed Transaction will result in a reverse takeover of MJ by the Company and, upon completion, the resulting issuer from the Proposed Transaction will carry on the business of the Company as a listed issuer on the TSX Venture Exchange (the “TSXV”).

In connection with the Proposed Transaction, the Company entered into an engagement letter with Echelon Wealth Partners Inc. on June 10, 2021 whereby the Company intends to complete a brokered private placement of subscription receipts for gross proceeds of up to \$10,000,000 (\$11,500,000 assuming exercise in full of the Agent’s over-allotment option).

On July 13, 2021, the Company submitted its initial filing statement (the “Initial Statement”) with TSXV. TSXV is anticipated to review the Initial Statement and provide its feedback in due course.

The Company has received a conditional approval of Proposed Transaction subject to reception of final documents by TSXV and close of a private placement of \$10,000,000 on or before November 16, 2021.

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**SCHEDULE D  
MD&A OF SPARQ**

(see attached)

**SPARQ SYSTEMS INC.**

Management's Discussion and Analysis of Financial Condition and Operating Performance

For the years ending December 31, 2019 and December 31, 2020

## **SPARQ SYSTEMS INC.**

### **Management's Discussion and Analysis**

This Management's Discussion and Analysis ("MD&A") has been prepared by management of SPARQ Systems Inc. ("SPARQ" or the "Company") and should be read in conjunction with SPARQ's audited consolidated financial statements and notes for the periods ending December 31, 2019 and December 31, 2020 (the "Financial Statements"). The Financial Statements have been prepared using International Financial Reporting Standards ("IFRS"). All amounts are in Canadian dollars unless otherwise specified. The Financial Statements may be found attached to the filing statement dated December 23, 2021 of MJ Innovation Capital Corp. ("MJ"), which may be viewed under the SEDAR profile of MJ at [www.sedar.com](http://www.sedar.com) (the "Filing Statement").

This MD&A contains disclosure of material changes related to SPARQ occurring up to and including December 23, 2021.

### **Forward-Looking Statements**

Certain statements contained in this MD&A constitute "forward-looking information" and "forward-looking statements". All statements other than statements of historical fact contained in this MD&A. Such statements can, in some cases, be identified by the use of forward-looking terminology such as "expect," "likely", "may," "will," "should," "intend," or "anticipate," "potential," "proposed," "estimate" and other similar words, including negative and grammatical variations thereof, or statements that certain events or conditions "may" or "will" happen, or by discussions of strategy. The forward-looking statements included in this MD&A are made only as of the date of this MD&A and the Company assumes no obligation to update or revise them to reflect subsequent information, events or circumstances or otherwise, except as required by applicable securities laws.

Forward-looking statements in this MD&A are not guarantees of future performance and involve assumptions, risks and uncertainties that are difficult to predict. Therefore, actual results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. Management provides forward-looking statements because it believes they provide useful information to readers when considering their investment objectives and cautions readers that the information may not be appropriate for other purposes.

Please refer to the Filing Statement, which may be viewed under the SEDAR profile of MJ at [www.sedar.com](http://www.sedar.com), for risks that could affect future results and could cause results to differ materially from those expressed in the forward-looking statements contained herein.

In addition to the factors set out above and those identified in this MD&A under "Risks and Uncertainties", other factors not currently viewed as material could cause actual results to differ materially from those described in the forward-looking statements. Although SPARQ has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors and risks that cause actions, events or results not to be anticipated, estimated or intended. Accordingly, readers should not place any undue reliance on forward-looking statements.

### **Description of SPARQ's Business**

#### ***Background***

SPARQ designs and manufactures next generation single-phase microinverters for residential and commercial solar electric applications. SPARQ has developed a proprietary photovoltaic ("PV") solution called the Quad; the Quad inverter optimizes four PV modules with a single microinverter,

simplifying design and installation, and lowering cost for solar power installations when compared to existing market offerings.

Refer to the Filing Statement at “*Part II – Information Concerning SPARQ-General Development of the Business*” for additional information on the background and operational highlights of SPARQ. The Filing Statement may be viewed under the SEDAR profile of MJ at [www.sedar.com](http://www.sedar.com).

### ***Results of operations for the years ended December 31, 2019 and 2021***

For the year ending December 31, 2019, SPARQ incurred a net loss and net comprehensive loss of \$1,010,516, and for the year ending December 31, 2020 a net loss and comprehensive loss of 1,091,988.

#### *Revenue*

The Company generated revenue of 590,683 during the period ended December 31, 2019 and 1,169 during the period ended December 31, 2020.

#### *Cost of finished goods sold*

During the year ending December 31, 2019, the Company recognized cost of sales of \$806,410, and \$97,542 for the year ending December 31, 2020. The amount expensed in cost of sales in the year is composed of both the provision recorded to bring inventory to the lower of cost and net realizable value and the write off of finished goods and raw materials for items no longer expected to be manufactured and sold. During the year ended December 31, 2020, inventory adjustments related to obsolescence of \$97,542 have been expensed within cost of sales (2019 - \$205,123).

#### *Gross profit*

The Company did not realize any gross profit for the year ending December 31, 2019 or 2020.

#### *Operating expenses*

For the year ending December 31, 2020, total operating expenses increased to \$1,631,692 from \$1,494,619 in 2019. The additional operating expenses were due to non-cash stock-based compensation to it officers and directors in the amount of \$433,671.

For the year ending December 31, 2020, the Company’s total salaries and wages expense increased to \$ 1,241,618 from \$ 871,351 in 2019. The total increases in wages and benefits expense, are due primarily to stock-based compensation of \$433,671.

For the year ending December 31, 2020, the Company’s total general and administrative expense was \$722,227 compared to \$376,185 in 2019. The total increases in general and administrative expense, are due primarily to stock-based compensation of \$433,671.

For the year ending December 31, 2020, the Company’s total capitalized expenditures were \$Nil compared to \$Nil in 2019.

### *Selected annual information*

	<b>As at and for the year ending December 31, 2020 (Audited) \$</b>	<b>As at and for the year ending December 31, 2019 (Audited) \$</b>
Total Revenue	1,169	590,683
Basic and diluted loss per-share	0.01	0.01
Total Assets	1,946,051	1,048,906
Total Non-Current financial liabilities	30,000	0
Distributions or cash dividends declared	Nil	Nil

### *Liquidity*

As at December 31, 2020, the Company had working capital of 1,847,860. For the three months ended March 31, 2021, the Company had a working capital of \$1,660,126. SPARQ is mainly in a pre-revenue stage so is not therefor able to generate sufficient amounts of cash and cash equivalents from its operations in the short term to meet its planned growth.

Cash used in operating activities during the year ending December 31, 2020 was \$332,141 compared to 650,658 in 2019. The cash inflows from operating activities mainly related to non-cash expenses of \$445,857 and from non-cash working capital changes of \$313,990. Cash outflows from operating activities mainly relate to a net loss for the period of \$1,091,988.

Cash gained from financing activities during the year ending December 31, 2020, is \$1,623,901 compared to \$400,000 in 2019.

Cash used in investing activities during the year ending December 31, 2020, was \$2,414 compared to \$4,002 in 2019. The cash used for investing activities is mainly related to the acquisition of equipment.

### *Capital resources*

The Company constantly monitors and manages its capital resources to assess the liquidity necessary to fund operations and capacity expansion. As at December 31, 2020 the Company had a cash balance of \$1,346,904 and current liabilities of \$76,120 as compared to a cash balance of \$57,558 and current liabilities of \$1,534,559 as at December 31, 2019. Current liabilities at December 31, 2019 were primarily due to advances of non-interest bearing loans from shareholders of \$1,400,000.

The Company's current resources are sufficient to settle its current liabilities as at the date of this MD&A.

Management continues to raise the capital necessary to execute on its business objectives and believes the current resources available will provide for operations and fundraising activities barring any unforeseen delays or complications.

### ***Off-balance sheet arrangements***

As at December 31, 2020 and 2019, and the date of this MD&A, the Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the results of operations or financial condition of the Company.

### ***Transactions between related parties***

Related parties to the Company are considered to be key management personnel including persons having the authority and responsibility for planning, directing, and controlling the activities of the Company as a whole as well as certain shareholders.

The material terms of the Company's related party transactions during the years ended December 31, 2019 and 2020 are provided in Note 9 of the Financial Statements for that period.

### ***Risks and uncertainties***

Information related to the risks and uncertainties faced by the Company can be found under "PART IV – Risk Factors" in the Filing Statement, which may be viewed under the SEDAR profile of MJ at [www.sedar.com](http://www.sedar.com).

### ***Critical accounting estimates***

Refer to Note 3 of the Financial Statements for the years ended December 31, 2019 and 2020.

### ***New accounting standards and interpretations not yet adopted***

Refer to Note 3 of the Financial Statements for the years ended December 31, 2019 and 2020.

### ***Outstanding share data***

The authorized capital of the Company consists of an unlimited number of common shares, of which 453,957,613 are issued and outstanding as of the date hereof; an unlimited number of Class A Shares of which none are issued and outstanding as of the date hereof, and an unlimited number of Class B Shares, issuable in series, of which none are issued as of the date hereof.

### ***Additional information***

Additional information relating to the Company is contained in the Filing Statement which may be viewed under the SEDAR profile of MJ at [www.sedar.com](http://www.sedar.com).

### ***Approval***

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

### ***Subsequent Events***

See Note 17 in the Financial Statements for the years ended December 31, 2019 and 2020 and/or Note 10 in the Financial Statements for the three months ended March 31, 2021.

The Company closed a private placement of securities consisting of the issuance of 20,000,000 subscription receipts (the "Sub Receipts") for aggregate gross proceeds of \$10,000,000 on December 22, 2021. Each Sub Receipt will automatically convert into one common share and one common share purchase warrant of the resulting issuer upon completion of the Company's Proposed Transaction (as defined in Note 17 of the Financial Statements).

# **SPARQ SYSTEMS INC.**

Management's Discussion and Analysis of Financial Condition and Operating  
Performance

For the three and nine months ended September 30, 2021

## **SPARQ SYSTEMS INC.**

### **Management's Discussion and Analysis**

This Management's Discussion and Analysis ("MD&A") has been prepared by management of SPARQ Systems Inc. ("SPARQ" or the "Company") and should be read in conjunction with SPARQ's unaudited interim consolidated financial statements and notes for the periods ending September 30, 2021 and September 30, 2020 (the "Financial Statements"). The Financial Statements have been prepared using International Financial Reporting Standards ("IFRS"). All amounts are in Canadian dollars unless otherwise specified. The Financial Statements may be found attached to the filing statement dated December [21], 2021 of MJ Innovation Capital Corp. ("MJ"), which may be viewed under the SEDAR profile of MJ at [www.sedar.com](http://www.sedar.com) (the "Filing Statement").

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### **Description of SPARQ's Business**

#### ***Background***

SPARQ designs and manufactures next generation single-phase microinverters for residential and commercial solar electric applications. SPARQ has developed a proprietary photovoltaic ("PV") solution called the Quad; the Quad inverter optimizes four PV modules with a single microinverter,

simplifying design and installation, and lowering cost for solar power installations when compared to existing market offerings.

Refer to the Filing Statement at “*Part II – Information Concerning SPARQ-General Development of the Business*” for additional information on the background and operational highlights of SPARQ. The Filing Statement may be viewed under the SEDAR profile of MJ at [www.sedar.com](http://www.sedar.com).

### ***Results of operations for the three and six months ended September 30, 2021***

For the three months ended September 30, 2021, SPARQ incurred a net loss and net comprehensive loss of \$372,756, and for same period in 2020 a net loss and comprehensive loss of \$205,298.

For the nine month ended September 30, 2021, SPARQ incurred a net loss and net comprehensive loss of \$886,454, and for the same period in 2020 a net loss and comprehensive loss of \$558,525.

#### *Revenue*

The Company generated revenue of \$Nil during the three months ended September 30, 2021 and \$700 for the same period in 2020.

The Company generated revenue of \$Nil during the nine months ended September 30, 2021 and \$776 for the same period in 2020.

#### *Cost of finished goods sold*

During the three months ended September 30, 2021, the Company recognized cost of sales of \$2,014 and \$30,056 for the same period in 2020.

During the nine months ended September 30, 2021, the Company recognized cost of sales of \$25,210 and \$65,776 for the same period in 2020.

The amount expensed in cost of sales in the year is composed of both the provision recorded to bring inventory to the lower of cost and net realizable value and the write off of finished goods and raw materials for items no longer expected to be manufactured and sold.

#### *Gross profit*

The Company did not realize any gross profit for the three and nine months ended September 30, 2021 and September 30, 2020.

#### *Operating expenses*

For the three months ended September 30, 2021, total operating expenses increased to \$553,498 from \$357,108 for the same period in 2020. The additional operating expenses were incurred to support research and development (“**R&D**”) activities, and expenses related to proposed reverse take-over (the “**RTO**”) of MJ Innovation Capital Corp (“**MJ**”).

For the nine months ended September 30, 2021, total operating expenses increased to \$1,471,043 from \$968,712 for the same period in 2020. The additional operating expenses were incurred to R&D activities, and expenses related to proposed reverse take-over (the “**RTO**”) of MJ.

For the three months ended September 30, 2021, the Company’s total salaries and wages expense increased to \$219,883 from \$203,044 for the same period in 2020. Increase in salaries wages expense in 2021 is primarily due to hiring of additional resources for R&D activities.

For the nine months ended September 30, 2021, the Company's total salaries and wages expense increased to \$691,843 from \$598,064 for the same period in 2020. The total wages and benefits expenses in 2020 were lower due primarily to a voluntary pay cut taken by all employees during the lockdown between March and June 2020 and hiring of additional resources for R&D activities in 2021.

For the three months ended September, 2021, the Company's total general and administrative expense was \$295,025 compared to \$86,927 for the same period in 2020. The increase in general and expenses was primarily due to expenses related to the proposed RTO of MJ.

For the nine months ended September, 2021, the Company's total general and administrative expense was \$669,258 compared to \$232,232 for the same period in 2020. The increase in general and expenses was primarily due to expenses related to the proposed RTO of MJ.

For the three and nine months ending September 30, 2021, the Company's total capitalized expenditures were \$Nil compared to \$Nil for the same periods in 2020.

### *Selected financial information*

	As at and for the three months ended September 30, 2021  (unaudited) \$	As at and for the three months ended September 30, 2020  (unaudited) \$	As at and for the nine months ended September 30, 2021  (unaudited) \$	As at and for the nine months ended September 30, 2020  (unaudited) \$
Total Revenue	-	700	-	776
Basic and diluted loss per-share	-	-	-	-
Total Assets	1,138,134	2,071,917	1,138,134	2,071,917
Total Non-Current financial liabilities	38,196	40,000	38,196	40,000
Distributions or cash dividends declared	Nil	Nil	Nil	Nil

### *Liquidity*

As at December 31, 2020, the Company had a working capital of 1,847,860. For the three months ended September 30, 2021, the Company had a working capital of \$946,340. SPARQ is mainly in a pre-revenue stage so is not therefor able to generate sufficient amounts of cash and cash equivalents from its operations in the short term to meet its planned growth.

Cash used in operating activities during the three months ended September 30, 2021 was \$498,981 compared to \$224,889 for the same period in 2020. Cash used in operating activities during the nine months ended September 30, 2021 was \$962,558 compared to \$95,592 for the same period in 2020.

For the three month ended September 30, 2021 the cash flows from operating activities mainly related to non-cash expenses of \$5,327 and from non-cash working capital changes of \$131,552. For the nine month ended September 30, 2021 the cash flows from operating activities mainly related to non-cash expenses of \$12,783 and recognition of CEBA loan forgiveness of \$11,804, and from non-cash working capital changes of \$77,083. Cash outflows from operating activities mainly relate to a net loss for the period of \$372,756 and \$886,454 for the three and nine months ended September 30, 2021 respectively.

In financing activities, cash gained from CEBA loan during the three and nine months ending September 30, 2021, was \$Nil and \$20,000 respectively compared to \$Nil and \$40,000 for the same periods in 2020. Cash gained from shareholders loans for the three and nine months ending September 30, 2021 was \$Nil and \$Nil respectively compared to \$1,350,000 and \$1,589,130 for the same periods in 2020.

Cash used in investing activities during the three and nine months ending September 30, 2021, was \$Nil and \$36,045 respectively compared to \$2,448 and \$2,448 respectively for the same periods in 2020. The cash used for investing activities is mainly related to the acquisition of equipment.

### ***Capital resources***

The Company constantly monitors and manages its capital resources to assess the liquidity necessary to fund operations and capacity expansion. As at September 30, 2021 the Company had a cash balance of \$368,301 and current liabilities of \$146,461 as compared to a cash balance of \$1,346,904 and current liabilities of \$76,120 at December 31, 2020.

The Company's current resources are sufficient to settle its current liabilities as at the date of this MD&A.

Management continues to raise the capital necessary to execute on its business objectives and believes the current resources available will provide for operations and fundraising activities barring any unforeseen delays or complications.

### ***Off-balance sheet arrangements***

As at September 30, 2020 and 2021, and the date of this MD&A, the Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the results of operations or financial condition of the Company.

### ***Transactions between related parties***

Related parties to the Company are considered to be key management personnel including persons having the authority and responsibility for planning, directing, and controlling the activities of the Company as a whole as well as certain shareholders.

The material terms of the Company's related party transactions during the three months and nine months ended September 30, 2021 and 2020 are provided in Note 6 of the Financial Statements for that period.

### ***Risks and uncertainties***

Information related to the risks and uncertainties faced by the Company can be found under "PART IV – Risk Factors" in the Filing Statement, which may be viewed under the SEDAR profile of MJ at [www.sedar.com](http://www.sedar.com).

### ***Critical accounting estimates***

Refer to Note 3 of the Financial Statements for the years ended December 31, 2019 and 2020.

### ***New accounting standards and interpretations not yet adopted***

Refer to Note 3 of the Financial Statements for the years ended December 31, 2019 and 2020.

### ***Outstanding share data***

The authorized capital of the Company consists of an unlimited number of common shares, of which 453,957,613 are issued and outstanding as of the date hereof; an unlimited number of Class A Shares of which none are issued and outstanding as of the date hereof, and an unlimited number of Class B Shares, issuable in series, of which none are issued as of the date hereof.

### ***Additional information***

Additional information relating to the Company is contained in the Filing Statement which may be viewed under the SEDAR profile of MJ at [www.sedar.com](http://www.sedar.com).

### ***Approval***

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

### ***Subsequent Events***

See Note 17 in the Financial Statements for the years ended December 31, 2019 and 2020 and/or Note 10 in the Financial Statements for the three months and nine months ended September 30, 2021.

The Company closed a private placement of securities consisting of the issuance of 20,000,000 subscription receipts (the "Sub Receipts") for aggregate gross proceeds of \$10,000,000 on December 22, 2021. Each Sub Receipt will automatically convert into one common share and one common share purchase warrant of the resulting issuer upon completion of the Company's Proposed Transaction (as defined in Note 17 of the Financial Statements for the nine months ended September 30, 2021).

**SCHEDULE E**  
**PRO FORMA FINANCIAL STATEMENTS OF THE RESULTING ISSUER**

(see attached)

## SPARQ Corp. (formerly MJ Innovation Capital Corp.)

Unaudited pro forma consolidated statement of financial position

As at September 30, 2021

(Expressed in Canadian Dollars)

	MJ Innovation Capital Corp.	Sparq Systems Inc.	Note 5	Adjustments	Total
	\$	\$		\$	\$
<b>Assets</b>					
Current assets					
Cash	210,054	368,301	(e) (g)	9,305,000 (1,242,125)	8,641,230
Accounts and other amounts receivable	-	42,209			42,209
Investment tax credits recoverable	-	270,000			270,000
Inventory	-	375,134			375,134
Prepaid expenses	-	25,717			25,717
Government assistance receivable	-	11,440			11,440
<b>Total current assets</b>	<b>210,054</b>	<b>1,092,801</b>		<b>8,062,875</b>	<b>9,365,730</b>
Non-current assets					
Property and equipment, net	-	45,333			45,333
<b>Total assets</b>	<b>210,054</b>	<b>1,138,134</b>		<b>8,062,875</b>	<b>9,411,063</b>
<b>Liabilities</b>					
Current liabilities					
Accounts payable and accrued liabilities	38,098	146,461			184,559
<b>Total current liabilities</b>	<b>38,098</b>	<b>146,461</b>		<b>-</b>	<b>184,559</b>
Non-current liabilities					
Term loan	-	38,196			38,196
<b>Total liabilities</b>	<b>38,098</b>	<b>184,657</b>		<b>-</b>	<b>222,755</b>
<b>Shareholders' Equity</b>					
Share capital	407,103	15,248,419	(a) (d) (e)	(407,103) 1,339,358 5,052,878	21,640,655
Contributed surplus	66,507	1,113,378	(e) (f) (c)	4,252,122 513,851 (66,507)	5,879,351
Deficit	(301,654)	(15,408,320)	(b) (d) (f) (g)	301,654 (1,167,402) (513,851) (1,242,125)	(18,331,698)
<b>Total shareholders' equity</b>	<b>171,956</b>	<b>953,477</b>	<b>-</b>	<b>8,062,875</b>	<b>9,188,308</b>
<b>Total liabilities and shareholders' equity</b>	<b>210,054</b>	<b>1,138,134</b>		<b>8,062,875</b>	<b>9,411,063</b>

See accompanying notes to the unaudited pro forma financial statement

# SPARQ Corp. (formerly MJ Innovation Capital Corp.)

Notes to Unaudited Pro Forma Financial Statements  
September 30, 2021

## 1. Basis of presentation

The unaudited pro forma consolidated statement of financial position of SPARQ Corp. (formerly MJ Innovation Capital Corp.) (the "Company") as at September 30, 2021 (the "Pro Forma Financial Statements"), have been prepared by management based on historical financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), for illustrative purposes only, after giving effect to the proposed transaction between the Company and SPARQ Systems Inc. ("SPARQ" or the "Target") on the basis of the assumptions and adjustments described in notes 2, 3, 4 and 5.

The unaudited Pro Forma Financial Statements have been derived from:

- (a) the unaudited financial statements for the nine month period ended March 31, 2021 of the Company;
- (b) the audited financial statements for the year ended June 30, 2021 of the Company;
- (c) the unaudited financial statements for the three month period ended September 30, 2021 of the Company;
- (d) the unaudited consolidated financial statements for the nine months ended September 30, 2021.
- (e) unless otherwise noted, the unaudited pro forma consolidated statements of financial position and its accompanying notes are presented in Canadian Dollars.

It is management's opinion that the unaudited Pro Forma Financial Statements, include all adjustments necessary for the fair presentation, in all material respects, of the transactions described in notes 3 and 4 in accordance with IFRS, applied on a basis consistent with SPARQ's accounting policies, except as otherwise noted. The unaudited Pro Forma Financial Statements are not necessarily indicative of the financial position that would have resulted if the combination had actually occurred on January 1, 2020.

The unaudited Pro Forma Financial Statements should be read in conjunction with the historical financial statements and notes thereto of the Company and SPARQ, included elsewhere in this Management Information Circular.

## 2. Significant accounting policies

The unaudited Pro Forma Financial Statements have been compiled using the significant accounting policies, as set out in the audited consolidated financial statements of SPARQ as at December 31, 2020. Management has determined that no material pro forma adjustments are necessary to conform the Company's accounting policies to the accounting policies used by SPARQ in the preparation of its audited financial statements.

## 3. The transaction

- a) The Company and SPARQ have entered into an agreement pursuant to which the Company will acquire all of the issued and outstanding common shares in the capital of SPARQ in consideration for securities of the Company.
- b) The Company will consolidate its share capital on the basis of 1.25 to 1. Following completion of the share consolidation, the Company will have 2,444,752 common shares issued and outstanding.
- c) The Target will amalgamate with a wholly-owned subsidiary of the Company and continue as one corporation. Former SPARQ security holders shall receive replacement common shares, stock options and warrants, as applicable, of the Company in exchange for common shares, stock options and warrants of SPARQ.

# SPARQ Corp. (formerly MJ Innovation Capital Corp.)

Notes to Unaudited Pro Forma Financial Statements  
September 30, 2021

- d) Upon completion of the transaction, the former shareholders of SPARQ will become the controlling shareholders of the Company. This type of share exchange, referred to as a reverse takeover ("RTO"), deems SPARQ to be the acquirer for accounting purposes.
- e) In conjunction with the RTO, the Company shall complete an offering (the "Offering") of 20,000,000 SPARQ units (the "Units") at a price of \$0.50 per Unit, for gross proceeds of \$10,000,000. Each SPARQ Unit will consist of one (1) SPARQ Common Share and one (1) SPARQ Warrant, with each SPARQ Warrant being exercisable to acquire one SPARQ Common Share at a price of \$0.75 for a period of 24 months from the date of issuance. As part of the Offering, the Company shall pay \$595,000 cash commissions assuming the president's list is completed in full, and \$100,000 in the form of a corporate finance fee. The Company will also issue 1,190,000 compensation options, assuming the president's list is completed in full, each exercisable into one Unit at a price of \$0.50 for a period of 2 years.

The acquisition is subject, but not limited, to regulatory and shareholder approvals.

## 4. Accounting for RTO

The Transaction has been accounted for in accordance with IFRS 2, which results in the following:

- o SPARQ is deemed to be the acquirer and the Company is deemed to be the acquiree for accounting purposes;
- o accordingly, SPARQ's balances are accounted for at cost and the Company is accounted for at fair value;
- o since the Company's operations do not constitute a business, the transaction has been accounted for as a reverse acquisition that is not a business combination;
- o therefore, the Company's share capital and deficit will be eliminated, the consideration transferred by the Company will be allocated to share capital and transaction costs will be expensed;
- o the capital structure recognized in the consolidated financial statements will be that of the Company, but the dollar amount of the issued share capital in the unaudited pro forma consolidated statement of financial position immediately prior to acquisition will be that of the Target, plus any shares issued by the Company prior to or as part of the transaction.

# SPARQ Corp. (formerly MJ Innovation Capital Corp.)

Notes to Unaudited Pro Forma Financial Statements  
September 30, 2021

## 5. Pro forma assumptions and adjustments

The unaudited pro forma consolidated statement of financial position reflects the following assumptions and adjustments:

- (a) A reduction in share capital of \$407,103 to eliminate the Company's historical share capital.
- (b) An adjustment of \$301,654 to eliminate the Company's historical deficit.
- (c) An adjustment of \$66,507 to eliminate the Company's historical contributed surplus.
- (d) "Since the Company's operations do not constitute a business, the consideration transferred by the Company will be allocated to share capital and transaction costs will be expensed. An increase in share capital of \$1,339,358 and an increase in deficit of \$1,167,402 has been allocated based on the following:"

### Consideration transferred

2,444,752 shares at a price of \$0.50 per share	\$ 1,222,376
244,000 options at an exercise price of \$0.25	\$ 62,620
160,000 warrants at an exercise price of \$0.25	\$ 54,362
Total	<u>\$ 1,339,358</u>

Cash	\$ 210,054
Prepaid expenses	\$ -
Accounts payable and accrued liabilities	\$ (38,098)
Transaction costs	\$ 1,167,402
	<u>\$ 1,339,358</u>

- (e) An increase in cash of \$10,000,000, less transaction costs of \$695,000 as a result of the Offering, which consists of a cash commission fee of \$595,000 assuming the president's list is completed in full, and corporate finance fee of \$100,000. The full net proceeds were allocated to share capital. As part of the Offering, 20,000,000 warrants valued at \$4,252,122 were issued. The warrants were valued using the Black-Scholes Option Pricing Model with an exercise price of \$0.75, volatility of 100%, risk free rate of 0.53%, expected life of 2 years and dividend yield of nil%.
- (f) Issuance of 1,190,000 compensation options assuming the president's list is completed in full, in connection with the Offering. These options are exercisable for a Unit of SPARQ at an exercise price of \$0.50 per Unit. The Units were valued at \$513,851, using the Black-Scholes Option Pricing Model with a volatility of 100%, risk free rate of 0.53%, expected life of 2 years and dividend yield of nil%.
- (g) An increase in deficit of \$1,242,125 to reflect estimated transaction costs for the RTO.

## 6. Pro forma share capital

	<u>Number</u>	<u>Amount</u>
The Company's common shares outstanding - September 30, 2021 Post 1 for 1.25 consolidation of the Company's shares	2,444,752	\$ 407,103
SPARQ's common shares outstanding – September 30, 2021 post 1 for 10.8085146 consolidation of SPARQ's common shares	60,000,000	15,248,419
Reverse takeover adjustment - the Company's common shares (note 5(a))	-	(407,103)
Consideration transferred to shareholders of the Company (note 5(d))	-	1,339,358
Completion of the Offering as described in note 5(e)	20,000,000	5,052,878
Pro forma share capital - September 30, 2021	<u>82,444,752</u>	<u>\$ 21,640,655</u>

# SPARQ Corp. (formerly MJ Innovation Capital Corp.)

Notes to Unaudited Pro Forma Financial Statements  
September 30, 2021

## 7. Pro forma share-based payment reserve

	<u>Amount</u>
The Company's share-based payment reserve	\$ 66,507
The Target's share-based payment reserve	1,113,378
Reverse takeover adjustment - the Company's contributed surplus (note 5(c))	(66,507)
Issuance of Warrants from Offering per note 5(e)	4,252,122
Issuance of compensation options per note 5(f)	513,851
Pro forma share-based payment reserve - September 30, 2021	<u>\$ 5,879,351</u>

## 8. Pro forma deficit

	<u>Amount</u>
The Company's deficit	\$ 301,654
The Target's deficit	15,408,320
Elimination of the Company's deficit (note 5(b))	(301,654)
RTO Transaction costs in note 5(c)	1,167,402
To record additional transaction costs per note 5(g)	1,242,125
To record issuance of compensation options per note 5(f)	513,851
Pro forma deficit - September 30, 2021	<u>\$ 18,331,698</u>

# **SPARQ Corp. (formerly MJ Innovation Capital Corp.)**

Notes to Unaudited Pro Forma Financial Statements  
September 30, 2021

## **9. Pro forma income taxes**

The Company expects to have a pro forma income tax rate of 26.5%.

**SCHEDULE F  
AUDIT COMMITTEE CHARTER**

**SPARQ CORP.  
(the “Corporation”)**

**AUDIT COMMITTEE CHARTER**

(Implemented pursuant to National Instrument 52-110 – *Audit Committees*)

National Instrument 52-110 – *Audit Committees* (the “**Instrument**”) relating to the composition and function of audit committees was implemented for reporting issuers and, accordingly, applies to every TSX Venture Exchange (“**TSXV**”) listed company, including the Corporation. The Instrument requires all affected issuers to have a written audit committee charter which must be disclosed, as stipulated by Form 52-110F2, in the management information circular of the Corporation wherein management solicits proxies from the security holders of the Corporation for the purpose of electing directors to the board of directors. The Corporation, as a TSXV listed company is, however, exempt from certain requirements of the Instrument.

This Charter has been adopted by the board of directors in order to comply with the Instrument and to more properly define the role of the Committee in the oversight of the financial reporting process of the Corporation. Nothing in this Charter is intended to restrict the ability of the board of directors or Committee to alter or vary procedures in order to comply more fully with the Instrument or any other such requirement of the TSXV, as amended from time to time.

**PART 1**

**Purpose:**

The purpose of the Committee is to:

- (a) improve the quality of the Corporation’s financial reporting;
- (b) assist the board of directors to properly and fully discharge its responsibilities;
- (c) provide an avenue of enhanced communication between the directors and external auditors;
- (d) enhance the external auditor’s independence;
- (e) ensure the credibility and objectivity of financial reports; and
- (f) strengthen the role of the directors by facilitating in depth discussions between directors, management and external auditors.

**1.1** Definitions

“**accounting principles**” has the meaning ascribed to it in National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards*;

“**Affiliate**” means a Corporation that is a subsidiary of another Corporation or companies that are controlled by the same entity;

“**audit services**” means the professional services rendered by the Corporation's external auditor for the audit and review of the Corporation's financial statements or services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements;

“**Charter**” means this audit committee charter;

“**Committee**” means the committee established by and among certain members of the board of directors for the purpose of overseeing the accounting and financial reporting processes of the Corporation and audits of the financial statements of the Corporation;

“**Control Person**” means any individual or company that holds or is one of a combination of individuals or companies that holds a sufficient number of any of the securities of the Corporation so as to affect materially the control of the Corporation, or that holds more than 20% of the outstanding voting shares of the Corporation except where there is evidence showing that the holder of those securities does not materially affect the control of the Corporation;

“**financially literate**” has the meaning set forth in Section 1.2;

“**immediate family member**” means an individual's spouse, parent, child, sibling, mother or father-in-law, son or daughter-in-law, brother or sister-in-law, and anyone (other than an employee of either the individual or the individual's immediate family member) who shares the individual's home;

“**independent**” means independent only as determined by both the Instrument and the TSX Venture Exchange Corporate Finance Manual;

“**Instrument**” means National Instrument 52-110 – *Audit Committees*;

“**MD&A**” has the meaning ascribed to it in National Instrument 51-102;

“**Member**” means a member of the Committee;

“**National Instrument 51-102**” means National Instrument 51-102 - *Continuous Disclosure Obligations*; and

“**non-audit services**” means services other than audit services.

## 1.2 Meaning of Financially Literate

For the purposes of this Charter, an individual is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

## **PART 2**

### 2.1 Audit Committee

The board of directors has hereby established the Committee for, among other purposes, compliance with the Instrument.

## 2.2 Relationship with External Auditors

The Corporation will require its external auditor to report directly to the Committee and the Members shall ensure that such is the case.

Each Member shall be entitled, to the fullest extent permitted by law, to rely on the integrity of those persons and organizations within and outside the Corporation from whom he or she receives information, and the accuracy of the information provided to the Corporation by such other persons or organizations.

## 2.3 Committee Responsibilities

1. The Committee shall be responsible for making the following recommendations to the board of directors:
  - (a) the external auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation; and
  - (b) the compensation of the external auditor.
2. The Committee shall be directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditor regarding financial reporting. This responsibility shall include:
  - (a) reviewing the audit plan with management and the external auditor;
  - (b) reviewing with management and the external auditor any proposed changes in major accounting policies, the presentation and impact of significant risks and uncertainties, and key estimates and judgements of management that may be material to financial reporting;
  - (c) questioning management and the external auditor regarding significant financial reporting issues discussed during the fiscal period and the method of resolution;
  - (d) reviewing any problems experienced by the external auditor in performing the audit, including any restrictions imposed by management or significant accounting issues on which there was a disagreement with management;
  - (e) reviewing audited annual financial statements, in conjunction with the report of the external auditor, and obtaining an explanation from management of all significant variances between comparative reporting periods;
  - (f) reviewing the post-audit or management letter, containing the recommendations of the external auditor, and management's response and subsequent follow up to any identified weakness;
  - (g) reviewing interim unaudited financial statements before release to the public;
  - (h) reviewing all public disclosure documents containing audited or unaudited financial information before release, including any prospectus, the annual report and management's discussion and analysis;

- (i) reviewing the evaluation of internal controls by the external auditor, together with management's response;
  - (j) reviewing the terms of reference of the internal auditor, if any;
  - (k) reviewing the reports issued by the internal auditor, if any, and management's response and subsequent follow up to any identified weaknesses;
  - (l) reviewing the appointments of the chief financial officer and any key financial executives involved in the financial reporting process, as applicable;
  - (m) reviewing annually the Charter and annually obtain approval from the board of directors; and
  - (n) if an internal auditor is appointed, reviewing and annually approving the internal audit charter and the risk based internal audit plan.
3. The Committee shall pre-approve all non-audit services to be provided to the Corporation or its subsidiary entities by the issuer's external auditor.
  4. The Committee shall review the Corporation's financial statements, MD&A, and annual and interim earnings press releases before the Corporation publicly discloses this information.
  5. The Committee shall review and discuss the quality of the Corporation's accounting principles, internal controls, and financial statements.
  6. The Committee shall review and assess the adequacy of risk management policies, procedures, and processes and review updates on risks.
  7. The Committee shall ensure that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, and shall periodically assess the adequacy of those procedures.
  8. When there is to be a change of auditor, the Committee shall review all issues related to the change, including the information to be included in the notice of change of auditor called for under National Instrument 51-102, and the planned steps for an orderly transition.
  9. The Committee shall review all reportable events, including disagreements, unresolved issues and consultations, as defined in National Instrument 51-102, on a routine basis, whether or not there is to be a change of auditor.
  10. The Committee shall, as applicable, establish procedures for:
    - (a) the receipt, retention and treatment of complaints received by the issuer regarding accounting, internal accounting controls, or auditing matters; and
    - (b) the confidential, anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters.
  11. As applicable, the Committee shall establish, periodically review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the issuer.

12. The responsibilities outlined in this Charter are not intended to be exhaustive. Members should consider any additional areas which may require oversight when discharging their responsibilities.
13. While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Corporation's financial statements and disclosures are complete and accurate and in accordance with generally accepted accounting principles and applicable rules and regulations, each of which is the responsibility of management and the Corporation's external auditors.

#### **2.4 De Minimis Non-Audit Services**

The Committee shall satisfy the pre-approval requirement in subsection 2.3(3) if:

- (a) the aggregate amount of all the non-audit services that were not pre-approved is reasonably expected to constitute no more than five per cent of the total amount of fees paid by the issuer and its subsidiary entities to the issuer's external auditor during the financial year in which the services are provided;
- (b) the Corporation or the subsidiary of the Corporation, as the case may be, did not recognize the services as non-audit services at the time of the engagement; and
- (c) the services are promptly brought to the attention of the Committee and approved by the Committee or by one or more of its Members to whom authority to grant such approvals has been delegated by the Committee, prior to the completion of the audit.

#### **2.5 Delegation of Pre-Approval Function**

1. The Committee may delegate to one or more independent Members the authority to pre-approve non-audit services in satisfaction of the requirement in subsection 2.3(3).
2. The pre-approval of non-audit services by any Member to whom authority has been delegated pursuant to subsection 2.5(1) must be presented to the Committee at its first scheduled meeting following such pre-approval.

### **PART 3**

#### **3.1 Composition**

1. The Committee shall be composed of a minimum of three Members.
2. Every Member shall be a director of the issuer.
3. A majority of the Members must not be executive officers, employees or control persons of the Corporation.
4. Every Member shall be financially literate.
5. The board of directors of the Corporation shall appoint or re-appoint the Members after each annual meeting of shareholders of the Corporation.

**PART 4**

**4.1 Authority**

Until the replacement of this Charter, the Committee shall have the authority to:

- (a) engage independent counsel and other advisors as it determines necessary to carry out its duties;
- (b) set and pay the compensation for any advisors employed by the Committee;
- (c) communicate directly with the internal and external auditors; and
- (d) recommend the amendment or approval of audited and interim financial statements to the board of directors.

**PART 5**

**5.1 Required Disclosure**

The Corporation must include in its Annual Information Form the disclosure required by Form 52-110F2.

**5.2 Disclosure in Information Circular**

If management of the Corporation solicits proxies from the security holders of the Corporation for the purpose of electing directors to the board of directors, the Corporation shall include in its management information circular a cross-reference to the sections in the Corporation's Annual Information Form that contain the information required by section 5.1.

**PART 6**

**6.1 Meetings**

1. Meetings of the Committee shall be scheduled to take place at regular intervals and, in any event, not less frequently than quarterly.
2. Opportunities shall be afforded periodically to the external auditor, the internal auditor and to members of senior management to meet separately with the Members.
3. Minutes shall be kept of all meetings of the Committee.
4. The quorum for meetings shall be a majority of the Members, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak to and to hear each other. No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present.