SPECTRA INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019 AND DECEMBER 31, 2018

CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of **Spectra Inc.**

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of **Spectra Inc.** (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of **Spectra Inc.** as at December 31, 2019 and December 31, 2018 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' Responsibilities for the Audits 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.

Information Other than the Consolidated Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the Management 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 financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. If, based on the work we have performed, 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 these 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.

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Auditors' Responsibilities for the Audits 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 auditors' 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 judgement and maintain professional skepticism throughout the audits. 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 audits 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 auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audits. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audits resulting in this independent auditors' report is Eugene Aceti.

SF Partnership, LLP

Toronto, Canada **LICENSED PUBLIC ACCOUNTANTS**
April 17, 2020

SPECTRA INC.
Consolidated Statements of Financial Position
December 31, 2019 and December 31, 2018

		2019		2018
ASSETS				
Current				
Cash	$	**130,829**	$	122,954
Term deposits (note 4)		**175,000**		175,000
Accounts receivable (note 5)		**208,603**		280,752
Inventories (note 6)		**182,729**		163,740
Prepaid expenses		**4,737**		4,737
		701,898		747,183
Equipment (note 7)		**13,269**		-
Deferred Tax Asset (note 18)		**508,407**		-
Right-of-use Asset (note 8)		**208,648**		-
Total Assets	**$**	**1,432,222**	$	747,183
LIABILITIES				
Current				
Accounts payable and accrued charges (notes 10 and 17)	**$**	**147,490**	$	122,453
Lease liability – current portion (note 11)		**22,412**		-
Royalty Debenture – current portion (note 12)		**-**		643,578
Preferred Shares – current portion (note 13)		**-**		216,058
		169,902		982,089
Lease Liability (note 11)		**200,781**		-
Preferred Shares (note 13)		**-**		115,756
		370,683		1,097,845
SHAREHOLDERS' EQUITY				
Share Capital (note 14)		**5,937,719**		5,313,708
Contributed Surplus (note 14)		**96,746**		320,191
Equity Reserve (note 14)		**224,280**		-
Accumulated Deficit		**(5,197,206)**		(5,856,729)
Equity Attributable to Shareholders of the Company		**1,061,539**		(222,830)
Non-controlling Interest (note 15)		**-**		(127,832)
Total Shareholders' Equity		**1,061,539**		(350,662)
Total Liabilities and Shareholders' Equity	**$**	**1,432,222**	$	747,183

APPROVED ON BEHALF OF THE BOARD

"Andrew J. Malion"	"Giacomo Grassi"
Chairman	Director

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

SPECTRA INC.

Consolidated Statements of Changes in Shareholders' Equity
Years ended December 31, 2019 and 2018

	Share capital	Contributed surplus	Equity reserve	Accumulated deficit	Equity attributable to shareholders of the Company	Non-controlling interest	Total shareholders' equity
Balance, January 1, 2019	$ 5,313,708	$ 320,191	$ -	$ (5,856,729)	$ (222,830)	$ (127,832)	$ (350,662)
Impact of the adoption of IFRS 16 (note 2)	-	-	-	(8,965)	(8,965)	-	(8,965)
Net income				758,177	758,177	114,698	872,875
Issuance of common shares net of share issuance costs	624,011	-	-	-	624,011	-	624,011
Issuance of warrants	-	-	136,120	-	136,120	-	136,120
Acquisition of non-controlling interest	-	(223,445)	-	(89,689)	(313,134)	13,134	(300,000)
Stock-based compensation	-	-	88,160	-	88,160	-	88,160
Balance, Dec 31, 2019	$ 5,937,719	$96,746	$ 224,280	$ (5,197,206)	$ 1,061,539	$ -	$ 1,061,539

	Share Capital	Contributed surplus	Accumulated deficit	Deficiency attributable to shareholders of the Company	Non-controlling interest	Total shareholders deficiency
Balance, January 1, 2018	$ 5,313,708	$ 320,191	$ (6,196,546)	$ (562,647)	$ (283,387)	$ (846,034)
Net income	-	-	302,954	302,954	192,418	495,372
Change in ownership interest in subsidiary that does not result in a loss of control	-	-	36,863	36,863	(36,863)	-
Balance, Dec 31, 2018	$ 5,313,708	$ 320,191	$. (5,856.729)	$ (222,830)	$ (127,832)	$ (350,662)

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

SPECTRA INC.
Consolidated Statements of Comprehensive Income
Years ended December 31, 2019 and 2018

	2019	2018
Sales	**$ 2,036,047**	$ 2,045,806
Cost of Sales	**890,458**	857,323
Gross Profit	**1,145,589**	1,188,483
Expenses		
Administrative costs	**538,320**	462,080
Selling costs	**173,152**	160,097
Finance costs	**33,078**	70,934
Amortization	**26,812**	-
	771,362	693,111
Income Before the Undernoted	**374,227**	495,372
Loss on extinguishment of debt	**9,759**	-
Income Before Taxes	**364,468**	495,372
Recovery of income taxes – current and deferred (note 18)	**(508,407)**	-
Net Income and Comprehensive Income	**$ 872,875**	$ 495,372
Net Income and Comprehensive Income Attributable to:		
Shareholders of the Company	**$ 758,177**	$ 302,954
Non-controlling interest	**114,698**	192,418
	$ 872,875	$ 495,372
Net Income per Share - Basic	**$ 0.01**	$ 0.01
Net Income per Share - Diluted	**$ 0.01**	$ 0.01
Weighted Average Number of Common Shares		
Outstanding During the Year – Basic	**69,014,629**	60,509,971
Outstanding During the Year – Diluted	**73,604,492**	60,509,971

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

SPECTRA INC.
Consolidated Statements of Cash Flows
Years ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Net income	**$ 872,875**	$ 495,372
Adjustments for:		
Finance costs	**33,078**	70,934
Loss on extinguishment of debt	**9,759**	-
Amortization	**26,812**	-
Stock-based compensation	**88,160**	-
	1,030,684	566,306
Changes in working capital:		
Accounts receivable	**72,149**	(36,552)
Inventories	**(18,989)**	12,143
Accounts payable and accrued charges	**25,037**	(17,754)
Deferred tax assets	**(508,407)**	-
	600,474	524,143
Cash used in operating activities:		
Interest paid	**(16,164)**	(31,000)
Net Cash Provided by Operating Activities	**584,310**	493,143
Cash Flows from Investing Activities		
Acquisition of equipment	**(14,000)**	-
Investment in term deposits	**(175,000)**	(175,000)
Maturity of term deposits	**175,000**	-
Net Cash Used in Investing Activities	**(14,000)**	(175,000)
Cash Flows from Financing Activities		
Issuance of common shares from treasury (net)	**624,011**	-
Issuance of warrants	**136,120**	-
Repayment of lease liability	**(20,501)**	-
Acquisition of non-controlling interest	**(300,000)**	-
Repayment of royalty debenture	**(652,065)**	-
Redemption of preferred shares	**(350,000)**	(250,000)
Net Cash Used in Financing Activities	**(562,435)**	(250,000)
Net Increase in Cash	**7,875**	68,143
Cash - Beginning of Year	**122,954**	54,811
Cash - End of Year	**$ 130,829**	$ 122,954

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

1. Nature of Business and Basis of Presentation

Nature of Business

Spectra Inc. ("Spectra"), incorporated under the laws of the province of Alberta on October 4, 1994, and its subsidiary Spectra Products Inc. ("SPI") (collectively the "Company") is a manufacturing and marketing company operating in one market segment - bus and truck transportation safety equipment. The Company manufactures and markets brake and wheel-end monitoring equipment as an after-market product through transportation dealers, distributors and direct sales to fleet operators. The address of the Company is Unit 2, 41 Horner Avenue, Etobicoke, Ontario M8Z 4X4.

Basis of Presentation

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS).

These consolidated financial statements were authorized for issuance by the Company's Board of Directors on April 15, 2020.

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that are measured at fair values as described in the accounting policies.

Presentation and Functional Currency

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

2. Summary of Significant Accounting Policies

a) Basis of Consolidation

These consolidated financial statements include the accounts of Spectra and SPI. As of December 31, 2019, Spectra held an interest of 100.00% (2018 – 66.75%) in SPI. All significant inter-company transactions and balances have been eliminated.

b) Non-controlling Interest

Non-controlling interest represents equity interest in a subsidiary owned by an outside party. The share of net assets of the subsidiary attributable to non-controlling interest is presented as a component of equity. Their share of net income and comprehensive income is recognized directly in equity. Changes in the parent company's ownership interest in subsidiary that do not result in loss of control are accounted for as an equity transaction. The differences between the amount by which the non-controlling interests are adjusted and the fair value of consideration paid or received are recognized directly in equity.

c) Revenue recognition and recognition of profit on contracts

The Company enters into contracts with its customers to provide bus and truck transportation safety equipment. Contracts do not commit the customer to a specified quantity of products, and may be terminated at any time. Revenue is recognized at a point in time when control of the safety equipment is transferred to the customer, generally through physical transfer of the goods. The amount of revenue recognized reflects the consideration that the Company expects to be entitled to in exchange for those products based on purchase orders. Upon delivery of the goods, the Company's right to consideration is unconditional except for the passage of time. The Company does not incur incremental costs for individual purchase orders, nor does it receive payment in advance from its customers, and therefore the Company does not recognize contract assets or liabilities.

2. Summary of Significant Accounting Policies (cont'd)

d) Inventories

Inventories are valued, on a first-in, first-out basis at the lower of cost and net realizable value. The Company writes down estimated obsolete or excess inventory for the difference between the cost of inventory and estimated net realizable value based upon customer forecasts, shrinkage, the aging and future demand of the inventory, past experience with specific customers, and the ability to sell inventory to customers or back to suppliers. If these assumptions change, additional write-downs may be required.

e) Equipment

Equipment is recorded at cost less accumulated amortization and impairment losses recognized. Amortization is charged to earnings over the estimated useful lives of the assets, using the undernoted method:

Dies and molds – Brake Safe – Short bracket molds	10 years	Straight line method
Dies and molds – Brake Safe – Other molds	500,000 units	Units of production method

f) Leases

The Company adopted IFRS 16 on January 1, 2019. On the lease commencement date, a right-of-use asset and a lease liability is recognized. The right-of-use asset is initially measured at cost, which corresponds to the value of the lease liability adjusted for any lease payments made at or before the commencement date, lease incentives, initial direct costs incurred and estimated dismantling or restoration cost payable at the end of the lease. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term of 10 years.

Lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate if the implicit rate cannot be readily determined. Lease payments included in the measurement of lease liability comprise fixed payments and exclude operating costs. The lease liability is subsequently measured at amortized cost using the effective interest method.

g) Intangible Assets

Intangible assets consist of patents, trademarks, product rights and prototypes. They are recorded at cost and amortization is provided, over the estimated useful life of the assets, using the undernoted annual rate and method:

Product rights and prototypes	3-10 years	Straight line

h) Impairment of Tangible and Intangible Long-lived Assets

The Company reviews its long-lived assets for impairment at the end of each reporting period for events indicative of whether changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed based on the carrying amount of a long-lived asset compared to the sum of the future undiscounted cash flows expected to result from the use and the eventual disposal of the asset. An impairment loss is recognized when the carrying amount is not recoverable and exceeds fair value. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would be determined, net of depreciation or amortization, if no impairment loss had been recognized.

2. Summary of Significant Accounting Policies (cont'd)

i) Income Taxes

The Company uses the asset and liability method of accounting for deferred income taxes. Under the asset and liability method, deferred income tax assets and liabilities are determined based on temporary differences (difference between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any deferred income tax asset if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the Company's provision for current income taxes and the difference between the opening and ending balances of the deferred income tax assets and liabilities.

j) Stock-based Compensation

The Company uses the fair value-based method to account for stock-based compensation. The grant date fair value of stock options is estimated using the Black-Scholes option-pricing model. Compensation expense is recognized over the stock option vesting period with a corresponding charge to equity reserve. When the stock options are exercised, the proceeds, together with the amount recorded in contributed surplus, are recorded in share capital.

k) Issuance of Shares by Subsidiary

When a subsidiary issues shares to new shareholders, the Company records an adjustment to reflect the increase or decrease in the carrying value of the investment and the resulting gain or loss in the consolidated statement of changes in equity.

l) Income per Share

Basic income per share is computed by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted income per share, using the treasury stock method, assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on income per share. There are 8,300,000 warrants outstanding in 2019, allowing for the purchase of 8,300,000 common shares (none in 2018). There are 1,600,000 stock options granted and vested in 2019 (none in 2018). Therefore, the computation of diluted income per share reflects the exercise of these warrants and stock options.

m) Use of Estimates

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

2. Summary of Significant Accounting Policies (cont'd)

m) Use of Estimates (cont'd)

Examples of significant estimates include:

- Estimated useful life of assets;
- Allowance for doubtful accounts;
- Provision for inventories;
- Stock-based compensation;
- Deferred income taxes;
- Fair value of debentures and preferred shares;
- Fair value of warrants and stock options;
- Determination of lease term of contracts with renewal options; and
- Incremental borrowing rate of leases

n) Comprehensive Income

Certain gains and losses arising from changes in fair value are temporarily recorded outside the statement of income in accumulated other comprehensive income as a separate component of share capital. Comprehensive income is comprised of the Company's net income and other comprehensive income. Other comprehensive income may include any unrealized gains and losses on financial assets classified as fair value through other comprehensive income, foreign currency translation gains and losses on the net investment in self-sustaining foreign operations and changes in the fair value of derivative instruments designated as cash flow hedges, all net of income taxes. At December 31, 2019, the balance of other comprehensive income is $nil (2018 – $nil).

o) Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

The Company classifies all its financial assets and liabilities into one of the following categories: financial assets or financial liabilities at amortized cost, financial assets or financial liabilities at fair value through profit and loss and financial assets at fair value through other comprehensive income. All financial instruments are measured on the balance sheet initially at fair value. Subsequent measurement and recognition of the changes in fair value of financial instruments depends upon their initial classifications.

Cash is classified as financial asset measured at fair value through profit and loss. Cash is measured at fair value with subsequent changes in fair value recognized in current period net income. Transaction costs are expensed in net income. Gains and losses arising from changes in fair value are presented in net income within other gains and losses in the period in which they arise.

Term deposits are classified as financial asset measured at amortized cost. Term deposits are initially recognized at fair value. Subsequently, term deposits are measured at amortized cost using the effective interest method.

Accounts receivables are classified as financial asset measured at amortized cost. Accounts receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, accounts receivables are measured at amortized cost using the effective interest method less a provision for impairment.

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire or when the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of ownership of the asset. Any interest in transferred financial assets created or retained by the Company is recognized as a separate asset or liability.

2. Summary of Significant Accounting Policies (cont'd)

o) Financial Instruments (cont'd)

Accounts payable and accrued charges, lease liability, royalty debenture and preferred shares are classified as financial liabilities measured at amortized cost. Financial liabilities at amortized cost are recognized initially at fair value plus any directly attributable transaction costs and are subsequently recorded at amortized cost. Debt issue and other transaction costs are netted against the carrying value of the long-term debt and are amortized over the life of the debt using the effective interest rate method.

The Company classifies fair value measurements using a fair value hierarchy that prioritizes the inputs used in measuring fair values as follows:

Level 1 valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities:

Level 2 valuation techniques based on inputs that are other than quoted prices included in Level 1 that are observable for the asset or liability either directly (prices) or indirectly (derived from prices); and

Level 3 valuation techniques with unobservable market inputs (involves assumptions and estimates by management).

The Company's only financial instrument that is at fair value is cash, which is categorized as Level 1.

p) Impairment of Financial Assets

The Company measures a loss allowance based on the lifetime expected credit losses. Lifetime expected credit losses are estimated based on factors such as the Company's past experience of collecting payments, the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables, financial difficulty of the borrower and it becoming probable that the borrower will enter bankruptcy or financial re-organization.

Financial assets are written off when there is no reasonable expectation of recovery.

q) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the year-end. Revenues and expenses are translated from foreign currencies at the rate of exchange prevailing on the transaction date. Any resulting gains or losses are included in income for the year.

r) Recent IFRS Standards Adopted

The Company adopted the following new accounting standard and amendment for its consolidated financial statements effective January 1, 2019.

IFRS 16 "Leases" supersedes the previous accounting standards for leases, including IAS 17 "Leases" and IFRIC 4 "Determining whether an arrangement contains a lease". This standard introduces a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and lease liability representing its obligation to make lease payments.

2. Summary of Significant Accounting Policies (cont'd)

r) Recent IFRS Standards Adopted (cont'd)

The Company has adopted IFRS 16 using the modified retrospective approach, under which the cumulative effect of the adoption was recognized in opening retained earnings as at January 1, 2019. The comparative information was not restated and continues to be reported under IAS 17 and related interpretations.

The adoption of IFRS 16 resulted in the recognition of an operating real estate lease on the Company's consolidated balance sheet as a right-of-use asset with the corresponding lease liability. The Company also recorded an increase in amortization expense, increase in financing cost and a decrease in administrative cost. The consolidated statements of cash flows reflected an increase in cash flow from operating activities as cash payments for the principal portion of the lease were recorded as financing outflows.

At transition date, the right-of-use asset and lease liability are measured at the present value of remaining lease payments, discounted using the Company's incremental borrowing rate as at January 1, 2019 of 3.10%.

Below represents the effect of the transition to IFRS 16 on the consolidated statement of financial position as at January 1, 2019:

	As reported as at Dec 31, 2018	**Effect of IFRS 16 transition**	**As reported as at Jan 1, 2019**
Assets			
Right-of-use asset	$ -	$ 234,729	$ 234,729
Total Assets	$ -	$ 234,729	$ 234,729
Liabilities			
Current portion of lease liability	$ -	$ 20,501	$ 20,501
Non-current portion of lease liability	$ -	$ 223,193	$ 223,193
Total Liabilities	$ -	$ 243,694	$ 243,694
Shareholders' Deficiency	$ (350,662)	$ (8,965)	$ (359,627)
Total Liabilities & Shareholders' Deficiency	$ (350,662)	$ (8,965)	$ (359,627)

Reconciliation of IAS 17 to IFRS 16 as at January 1, 2019:	
Operating lease commitments disclosed as at December 31, 2018	$ 116,948
IFRS 16 impact:	
Recognition of lease extension option	163,572
Effect from discounting at the incremental borrowing rate	(36,826)
Liability recognized on initial application of IFRS 16 as at January 1, 2019	**$ 243,694**

2. Summary of Significant Accounting Policies (cont'd)

r) Recent IFRS Standards Adopted (cont'd)

The Company adopted the following new accounting standard and amendment for its consolidated financial statements effective January 1, 2018.

IFRS 15 introduces a 5-step model to revenue recognition for contracts with customers. Such model requires an entity to:
1) identify the contract with the customer;
2) identify the performance obligations related to that contract;
3) determine the transaction price of the contract;
4) allocate such transaction price between the performance obligations; and
5) recognize revenue when (or as) performance obligations are satisfied. In addition to recognition and measurement, IFRS 15 also provides new requirements on presentation and disclosures.

The Company elected to adopt IFRS 15 using the modified retrospective method, with recognition of transitional adjustments in opening retained earnings on the date of initial application (January 1, 2018), without restatement of comparative figures. IFRS 15 provides for certain optional practical expedients, including those related to the initial adoption of the standard.

Contract revenue is recognized in profit or loss in accordance with the pattern of satisfying the Company's performance obligations under a contract. This satisfaction occurs when control of a good transfers to the customer.

The adoption did not have a material impact on the consolidated financial statements but has required expanded disclosures on revenue and performance obligations.

3. Capital Structure

The capital structure of the Company consists principally of shareholders' equity comprised of deficit, contributed surplus, equity reserve and share capital. The Company's strategy is to effectively use debt financing to fund growth and manage its capital structure in light of economic conditions and the risk characteristics of the underlying assets. The Company's primary uses of capital are to finance non-cash working capital requirements and capital expenditures, which are currently funded from both its internally and externally generated cash flows. The Company is not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital. The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth and to deploy capital to provide an appropriate return on investment to its shareholders.

The components of capital are as follows:	**2019**	2018
Share capital	**$ 5,937,719**	$ 5,313,708
Contributed surplus	**96,746**	320,191
Equity reserve	**224,280**	-
Accumulated deficit	**(5,197,206)**	(5,984,561)
	$ 1,061,539	$ (350,662)

4. Term Deposits

Term deposits consist of Guaranteed Investment Certificates ("GICs") invested with Royal Bank of Canada with an annual interest rate of 1.96% and matures on May 10, 2020.

5. Accounts Receivable

	2019	2018
Trade receivables	$ 199,218	$ 278,392
Government remittances receivable	9,385	2,360
	$ 208,603	$ 280,752

6. Inventories

	2019	2018
Finished goods	$ 66,593	$ 88,916
Raw materials	116,136	74,824
	$ 182,729	$ 163,740

7. Equipment – Dies and Molds – Brake Safe

	2019			2018		
	Short Bracket Molds	Other Molds	Total	Short Bracket Molds	Other Molds	Total
Cost	$9,210	$134,244	$143,454	$9,210	$120,244	$129,454
Less: Accumulated amortization	9,210	120,975	130,185	9,210	120,244	129,454
	$ -	$ 13,269	$ 13,269	$ -	$ -	$ -

8. Right-of-use Asset

	2019	2018
Cost	$ 260,810	$ -
Less: Accumulated amortization	(52,162)	-
	$ 208,648	$ -

The Company adopted IFRS 16 as at January 1, 2019. Please refer to Note 2 for details.

Changes in the net carrying amount of right-of-use asset are as follows:

	2019	2018
Net book value – January 1	$ 234,729	$ -
Amortization	(26,081)	-
Net book value – December 31	$ 208,648	$ -

9. Intangible Assets – Product Rights

	2019	2018
Cost	$ **25,000**	$ 25,000
Less: Accumulated amortization	**25,000**	25,000
	$ **-**	$ -

The product rights are still in use by the Company.

10. Accounts Payable and Accrued Charges

	2019	2018
Trade and other payables	$ **47,216**	$ 56,525
Accrued expenses (note 17)	**100,274**	65,928
	$ **147,490**	$ 122,453

11. Lease Liability

The Company has entered into a premise lease on January 1, 2018 which continues for five years until December 31, 2022 with an option to extend for an additional five years. The Company is reasonably certain to exercise the extension option and has included the extension period in the measurement of lease liability. The lease agreement does not state an agreed annual base rent for the five year extension period. The Company has estimated the lease payments for the extension period based on annual increase of 2.70% per annum. The lease liability has been calculated using the Company's incremental borrowing rate of 3.10% per annum.

	2019	2018
Lease liability	$ **223,193**	$ -
Less: current portion	**(22,412)**	-
Long-term portion	$ **200,781**	$ -

The Company paid lease payments of $27,665 in the year, comprising principal repayment of the lease liability of $20,501 and interest expense of $7,164.

12. Royalty Debenture

On August 6, 2004 the Company closed a debenture financing arrangement whereby $750,000 was advanced to Spectra's subsidiary, SPI. In consideration of the advance of these funds, the holder was entitled to receive royalty payments equal to the greater of $100,000 per annum or 10% of the total annual gross revenue generated by SPI. Twenty-five percent of each royalty payment shall be allocated against the principal amount of the debenture. The royalty payments shall continue until the earlier of (i) the date that the royalty debenture has been fully repaid and (ii) 15 years from issue date, at which time any remaining principal amount shall be due. As additional consideration, the Company issued 3,000,000 bonus shares at a price of $0.05 per share. The royalty debenture was secured by all the assets of SPI by way of a floating charge in favour of the holder. During 2017, this debenture was acquired by a company in which a shareholder is a key executive and shareholder of the Company.

12. Royalty Debenture (cont'd)

By agreement, the quarterly principal and royalty payments due by SPI in 2018 and 2019, totaling $25,000 and $75,000 annually, have been waived.

	2019	2018
Royalty debenture	**$ -**	$ 652,065
Less: debt issuance costs	**-**	(218,388)
	-	433,677
Add: amortization of debt issuance cost	**-**	209,901
	-	643,578
Less: current portion	**-**	(643,578)
	$ -	$ -

This royalty debenture was fully repaid on June 28, 2019.

13. Preferred Shares

On June 1, 2007, SPI completed a $750,000 private placement where SPI issued 750 convertible preferred shares (the "Preferred Shares") for proceeds of $667,500 and Spectra issued 1,500,000 common shares at a market value of $0.055 per share for proceeds of $82,500.

The preferred shares were non-voting and were convertible into 1,000 common shares of SPI which would represent a 13.35% ownership interest, bringing their interest at that time to 45.62%. The Preferred Shares paid a 6% cumulative annual dividend, payable quarterly, commencing January 1, 2009; were redeemable; and were retractable commencing May 31, 2019 (extended by mutual agreement previously from May 31, 2018 and originally from May 31, 2010). The amended agreement allows the 750 preferred shares to be retracted for $1,000 per share (previously $1,250 per share). The resulting gain of $187,500 from the change in retraction price was recognized as a gain on extinguishment of debt in the year ended December 31, 2016.

During 2017, these Preferred Shares were acquired by a company in which a shareholder is a key executive and shareholder of the Company. Following acquisition, the following changes were made to the terms of these shares:

- They were no longer convertible into common shares of SPI
- Commencing on January 1, 2018, dividends at 6% were to be paid monthly. Dividends of $9,000 were paid in 2019 ($31,000 in 2018) and included in finance costs.

In 2019, the remaining 350 of these shares were purchased for cancellation by SPI for $350,000. In 2018, 250 of these shares were purchased for cancellation by SPI for $250,000.

Accretion expense of $8,426 (2018 - $25,384) was included in finance costs.

A loss on extinguishment of debt of $9,759 has been recognized in the current period. This amount represents the loss incurred on the early redemption of the preferred shares.

14. Share Capital

Authorized

Unlimited	common shares
Unlimited	first, second, third and fourth preferred shares to be issued in one or more series, redeemable, with rights, privileges, restrictions and conditions to be determined by the Board of Directors upon issuance
540,000	second preferred shares Series 1, non-cumulative dividends of 10% per annum, redeemable at the stated value, non-voting

Issued and outstanding

		2019	2018
77,109,971	(December 31, 2018 – 60,509,971) common shares	**$ 5,937,719**	$ 5,313,708

On July 20, 2016, subsequent to shareholder approval on May 26, 2016, the Company received TSX Venture Exchange (the "Exchange") consent to replace the existing escrow agreement (the "Prior Agreement") with a new arrangement (the "Agreement") for release of escrowed shares based on scheduled releases in 2016, 2017 and 2018. The first escrow release was completed on August 5, 2016 with the release of 1,552,165 common shares. 1,552,166 common shares were also released in May 2017 and a final release of 1,552,166 common was completed in May 2018. At December 31, 2018, no shares were held in escrow under the terms of the new Agreement.

On June 28, 2019, the Company completed a private placement of 16,600,000 common shares at $0.05 per share for gross proceeds of $830,000. Share issuance cost totaled $69,869, with net proceeds of $760,131. Attached to each share is half of a warrant, with a whole warrant allowing for the purchase of a common share from treasury at a price of $0.075 per share. The warrants were valued at $136,120 and expire on December 27, 2020.

Contributed Surplus

Contributed surplus consists of the equity portion of formerly convertible preferred shares.

14. Share Capital (cont'd)

Stock Options

The Company has a stock option plan for its directors, officers, employees and consultants. The maximum number of shares reserved for issuance under the plan is equal to 10% of the issued and outstanding common shares.

The following table represents all of the Company's stock options granted, exercised, forfeited and expired during the years ended December 31, 2019 and December 31, 2018:

	2019		2018	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	**-**	**$ -**	-	$ -
Granted	**1,600,000**	**0.05**	-	-
Expired	-	-	-	-
Balance, end of year	**1,600,000**	**$ 0.05**	**-**	**$ -**

On October 15, 2019, the Company granted 1,600,000 stock options to directors and employees, which give the holder the right to acquire shares at $0.05 per share. They vest immediately and are exercisable on or before October 14, 2024.

The fair value of stock options granted was estimated as at the grant date using the Black-Scholes option pricing model with the following assumptions:

	2019
Risk-free interest rate	1.58%
Expected term of options	5 years
Volatility	150%
Stock price	$0.06
Fair value per option	$0.06

For the year ended December 31, 2019, stock-based compensation expense was $88,160 (2018 - $nil). Stock-based compensation expense is recorded in the consolidated statement of comprehensive income as administrative costs and as a charge to equity reserve.

As at December 31, 2019, the weighted average remaining contractual life of outstanding options was approximately 4.9 years (December 31, 2018 – 0 years) and a total of 1,600,000 options (2018 – nil) were exercisable at a weighted average exercise price of $0.05 (2018 - $nil).

14. Share Capital (cont'd)

Warrants

	Number of warrants outstanding	Value	Exercise Price per share
As at December 31, 2018	-	-	-
Warrants issued on private placement	8,300,000	$136,120	$0.075
As at December 31, 2019	**8,300,000**	**$136,120**	**$0.075**

The fair value of each warrant granted was estimated as at the grant date using the Black-Scholes option pricing model with the following assumptions:

	2019
Risk-free interest rate	1.46%
Expected term of options	1.5 years
Volatility	94%
Stock price	$0.05
Fair value per warrant	$0.02

15. Non-controlling Interest

The Company's subsidiary, Spectra Products Inc. had common shares issued to a shareholder other than its parent company, Spectra Inc. On June 28, 2019, Spectra purchased the common shares owned by the third party and now owns 100% and accordingly, as at December 31, 2019 there is no longer any non-controlling interest.

	2019	2018
Common shares issued by Spectra Products Inc.		
Total issued	**3,955**	3,955
Total issued to non-controlling interest	**0**	1,315
Percentage ownership of non-controlling interest	**0**	33.25
Common share equity and deficit of Spectra Products Inc.		
Common share equity	**$ 4,149,950**	$ 4,149,950
Deficit	**(3,438,951)**	(4,534,418)
Combined common share equity and deficit	**$ 710,999**	$ (384,468)

15. Non-controlling Interest (cont'd)

	2019	2018
Allocation of combined common share equity and deficit to non-controlling interest based on percentage ownership at end of year		
Common share equity	**$** -	$ 1,379,819
Deficit	-	(1,507,651)
Combined common share equity and deficit	**$** -	$ (127,832)

16. Financial Instruments

a) Fair Value

The carrying value of the Company's financial instruments consisting of cash, term deposits, accounts receivable and accounts payable and accrued charges approximates their fair value due to their immediate or short-term maturity. The carrying value of the royalty debentures approximated fair value as the loans bore interest at a rate which approximates market rate. The preferred shares and lease liability are adjusted to fair value using the effective interest rate method of amortized cost.

b) Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and accounts receivable.

Cash and term deposits are maintained at a major financial institution. Deposits held with a bank may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with a financial institution of reputable credit and therefore bear minimal credit risk.

Credit risk from accounts receivable encompasses the default risk of customers. Credit risk on accounts receivable is minimized as a result of the constant review and evaluation of customer account balances. The Company also maintains an allowance for doubtful accounts at an estimated amount, allocating sufficient protection against losses resulting from collecting less than full payments from its receivables.

As at December 31, 2019, three major customers accounted for 41%, 13%, and 13% of accounts receivable (2018 – two major customers accounted for 40% and 9%).

The Company's maximum credit exposure is represented by the carrying amount of accounts receivable.

16. **Financial Instruments** (cont'd)

c) Foreign Currency Risk

The Company is exposed to currency risk due to a certain portion of the Company's sales and purchases being in U.S. currency, resulting in U.S. dollar denominated accounts receivable and certain U.S dollar denominated cash balances. These activities result in exposure to fluctuations in foreign currency rates between the U.S. dollar and the Canadian dollar. The Company's sensitivity to these foreign currency fluctuations is such that a 10% strengthening or weakening of the U.S. dollar would result in a respective $8,263 decrease or increase to the Company's income before taxes for the year ended December 31, 2019. At December 31, 2019, the Company had net assets denominated in U.S. currency of USD82,627 (2018 – USD104,899) translated into Canadian dollars as shown below. The Company does not utilize any financial instruments or cash management policies to mitigate the risks arising from changes in foreign currency rates.

	2019	2018
Cash	**$ 8,595**	$ 9,393
Accounts receivable	**98,820**	146,189
Accounts payable	**-**	(12,920)
	$ 107,415	$ 142,662

d) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages liquidity risk through regular monitoring of cash requirements by preparing short-term cash flow forecasts. The financing requirements are addressed through a combination of credit facilities and private placements.

The following are the contractual maturities of the Company's financial liabilities as at December 31, 2019:

		Due between					
	Due within 1 year	1 and 2 years	2 and 3 years	3 and 4 years	4 and 5 years	> 5 years	Total
Accounts payable and accrued charges	$ 147,490	$ -	$ -	$ -	$ -	$ -	$ 147,490
Lease liability	28,923	30,180	30,180	30,995	31,832	100,745	252,854
Total	$ 176,413	$30,180	$30,180	$30,995	$31,832	$100,745	$ 400,344

e) Interest Rate Risk

The Company is not exposed to any interest rate risk.

16. Financial Instruments (cont'd)

f) Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Dec 31, 2018	IFRS 16 adoption	Fair value changes	Cash flows	Reclassified	Dec 31, 2019
Preferred shares						
Current Liability	$ 216,058	$ -	$ 8,942	$(225,000)	$ -	$ -
Long-Term Liability	115,756	-	9,244	(125,000)	-	-
Total	$ 331,814	$ -	$ 18,186	$(350,000)	$ -	$ -
Royalty debenture						
Current Liability	$ 643,578	$ -	$ 8,487	$(652,065)	$ -	$ -
Long-Term Liability	-	-	-	-	-	-
Total	$ 643,578	$ -	$ 8,487	$(652,065)	$ -	$ -
Lease liability						
Current Liability	$ -	$ 20,501	$ -	$(20,501)	$ 22,412	$ 22,412
Long-Term Liability	-	223,193	-	-	(22,412)	200,781
Total	$ -	$243,694	$ -	(20,501)	$ -	$ 223,193

17. Related Party Transactions

a) During 2019, management fees of $76,700 (2018 - $87,000) were paid to a company of a key executive who is a shareholder of the Company.

b) During 2019, interest expense of $9,000 (2018 - $31,000) was paid to CABE Financial Corporation, at the time of payment a shareholder of the Company's subsidiary, Spectra Products Inc.

c) During 2019, fees of $2,000 (2018 - $3,000) were paid to a previous director of the Company.

Included in accounts payable and accrued charges is $5,422 (2018 - $18,928) payable to directors.

These transactions were in the normal course of business and recorded at the exchange value established and agreed upon by the related parties.

18. Income Taxes

In assessing the realization of the Company's deferred income tax assets, management considers whether it is probable that some portion or all of the deferred income tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of deferred income tax assets considered realizable could change materially in the near term based on future taxable income generated during the carry-forward period.

18. Income Taxes (cont'd)

Income tax expense varies from the amount that would be computed by applying the combined Federal and Provincial statutory income taxes rate as a result of the following:

	2019	2018
Expected income tax expense at the combined Federal and provincial rate of 26.50% (2018- 26.50%)	**$ 96,584**	$ 131,274
Increase (decrease) in income taxes resulting from:		
Non-deductible permanent differences	**20,534**	804
Temporary difference for which no deferred tax asset was recognized	**-**	2,916
Tax loss utilized	**-**	(134,994)
Recognition of deferred tax asset	**(625,525)**	-
Provision for income taxes	**$ (508,407)**	$ -

Major components of the income tax expense recorded on the consolidated income statements are as follows:

	2019	2018
Current	**$ -**	$ -
Deferred	**(508,407)**	-
Provision for income taxes	**$ (508,407)**	$ -

The Company recognized deferred tax assets of $508,407 in 2019. No deferred tax asset has been recognized as at December 31, 2018 because of uncertainties associated with the realization of all deferred income tax assets at that time. The significant components of the Company's deferred tax assets are as follows:

	2019	2018
Net operating losses carried forward	**$ 404,631**	$ 518,126
Capital losses carried forward	**1,490**	-
Equipment	**35,242**	44,100
Intangible assets	**63,190**	67,775
Right of use asset and lease liability	**3,854**	-
Investment and loan receivable	**-**	2,981
Royalty debenture	**-**	(2,249)
Preferred shares	**-**	20,818
Deferred tax asset	**508,407**	651,551
Deferred tax asset not recognized	**-**	(651,551)
	$ 508,407	$ -

18. Income Taxes (cont'd)

The Company has non-capital tax losses available in the amount of approximately $1,526,800 (2018 – $1,954,500), which can be carried forward to be applied against future years' taxable income. These losses, if unused, will expire as follows:

2027	$	210,900
2028		44,300
2029		42,300
2030		362,600
2031		239,900
2032		69,400
2033		62,100
2034		51,500
2035		61,300
2036		62,100
2037		74,700
2038		88,300
2039		157,400
	$	1,526,800

19. Commitments

In 2015, the Company entered into a consulting services agreement with a company controlled by a key executive who is a shareholder of the Company. In December 2016, this consulting services agreement was extended for a further five years on the same terms and conditions and now expires on December 31, 2022. Under the terms of the consulting services agreement, that company is entitled to fees of $75,000 per year. An annual participation fee, calculated as 5% of the annual net income of SPI, is also payable under the terms of the consulting services agreement. A participation fee of $29,186 was payable for the year ended December 31, 2018, but was settled at $12,000 and accrued as of year-end. Effective July 1, 2019, the terms of this agreement have been modified such that responsibilities have been reduced and annual fees will now be $42,000 and there will be no participation payment. The final participation payment for the six months ended June 30, 2019 was settled at $18,195 and paid as at December 31, 2019.

20. Segmented Information

Sales are attributed to countries based on location of customer.

		2019		2018
Canada	**$**	**986,200**	$	1,059,965
China		**88,473**		78,572
United States		**961,374**		907,269
	$	**2,036,047**	$	2,045,806

In 2019, the Company derived 47% (2018 – 44%) of its revenue from sales to the United States and 4% (2018 – 4%) of its revenue from sales to China. The Company's equipment is located in Canada.

In 2019, the Company derived sales from two customers amounting to 33% and 10% of the total sales revenue (2018 – three customers amounting to 26%, 12% and 11%).

21. Subsequent Events

Effective 12.01 a.m. on January 1, 2020, the Company completed a vertical short-form amalgamation with its wholly-owned subsidiary Spectra Products Inc. under section 184(1) of the *Business Corporations Act* (Alberta). The amalgamated company shall continue as Spectra Products Inc.

On March 11, 2020, the World Health Organization declared the coronavirus outbreak (“COVID-19”) a pandemic. In many countries, including Canada, non-essential businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. As of the date of these financial statements, management expects to continue its regular operations with insignificant impact on its supply chain and revenue streams. However, the extent to which the COVID-19 pandemic impacts the Company will depend on future developments, which are highly uncertain and cannot be predicted. As such, no amounts have been recorded in the financial statements as a result of this matter.