

SPECTRA PRODUCTS INC.
FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2020 AND 2019

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, Subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited financial statements of Spectra Products Inc. have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

STATEMENT OF COMPLIANCE

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and on a basis consistent with the accounting policies disclosed in the annual audited consolidated financial statements for the year ended December 31, 2019. These condensed interim financial statements were approved for issuance by the Board of Directors on April 15, 2020.

These condensed interim financial statements are not fully inclusive of all disclosures required by IFRS for annual financial statements, and should be read in conjunction with the annual audited consolidated financial statements, including accompanying notes, for the year ended December 31, 2019.

SPECTRA PRODUCTS INC.
 Statements of Financial Position
 March 31, 2020 and December 31, 2019

	2020	2019
ASSETS		
Current		
Cash	\$ 182,862	\$ 130,829
Term deposits (note 4)	175,000	175,000
Accounts receivable (note 5)	321,707	208,603
Inventories (note 6)	201,240	182,729
Prepaid expenses	<u>6,817</u>	<u>4,737</u>
	887,626	701,898
Equipment (note 7)	13,269	13,269
Deferred Tax Asset (note 15)	461,631	508,407
Right-of-use Asset (note 8)	<u>202,128</u>	<u>208,648</u>
Total Assets	<u>\$ 1,564,654</u>	<u>\$ 1,432,222</u>
LIABILITIES		
Current		
Accounts payable and accrued charges (notes 10 and 13)	\$ 155,724	\$ 147,490
Lease liability – current portion (note 11)	<u>22,899</u>	<u>22,412</u>
	178,623	169,902
Lease Liability (note 11)	<u>194,755</u>	<u>200,781</u>
	<u>373,378</u>	<u>370,683</u>
SHAREHOLDERS' EQUITY		
Share Capital (note 12)	5,937,719	5,937,719
Contributed Surplus (note 12)	96,746	96,746
Equity Reserve (note 12)	224,280	224,280
Accumulated Deficit	<u>(5,067,469)</u>	<u>(5,197,206)</u>
Total Shareholders' Equity	<u>1,191,276</u>	<u>1,061,539</u>
Total Liabilities and Shareholders' Equity	<u>\$ 1,564,654</u>	<u>\$ 1,432,222</u>

APPROVED ON BEHALF OF THE BOARD

“Andrew J. Malion”

“Giacomo Grassi”

Chairman

Director

SPECTRA PRODUCTS INC.

Statements of Changes in Shareholders' Equity
Three months ended March 31, 2020 and 2019

	Share capital	Contributed surplus	Equity reserve	Accumulated deficit	Equity attributable to shareholders of the Company	Non-controlling interest	Total shareholders' equity
Balance,							
January 1, 2020	\$ 5,937,719	\$ 320,191	\$ 224,280	\$ (5,197,206)	\$ 1,061,539	\$ -	\$ 1,061,539
Net income	-	-	-	129,737	129,737	-	129,737
Balance,							
March 31, 2020	\$ 5,937,719	\$ 320,191	\$ 224,280	\$ (5,067,469)	\$ 1,191,276	\$ -	\$ 1,191,276

	Share Capital	Contributed surplus	Accumulated deficit	Deficiency attributable to shareholders of the Company	Non-controlling interest	Total shareholders deficiency
Balance,						
January 1, 2019	\$ 5,313,708	\$ 320,191	\$ (5,856,729)	\$ (222,830)	\$ (127,832)	\$ (350,662)
Net income	-	-	61,569	61,569	44,718	106,287
Balance,						
March 31, 2019	\$ 5,313,708	\$ 320,191	\$ (5,795,160)	\$ (161,261)	\$ (83,114)	\$ (244,375)

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

SPECTRA PRODUCTS INC.
 Statements of Comprehensive Income
 Three months ended March 31, 2020 and 2019

	2020	2019
Sales	\$ 535,926	\$ 495,507
Cost of Sales	<u>224,134</u>	213,160
Gross Profit	<u>311,792</u>	282,347
Expenses		
Administrative costs	90,165	123,162
Selling costs	36,902	38,620
Finance costs	1,692	14,278
Amortization	<u>6,520</u>	-
	<u>135,279</u>	176,060
Income Before the Undernoted	176,513	106,287
Loss on Extinguishment of Debt	<u>-</u>	-
Income Before Taxes	176,513	106,287
Provision for income taxes - current (note 15)	-	-
Recovery of income taxes – deferred (note 15)	<u>46,776</u>	-
Net Income and Comprehensive Income	<u>\$ 129,737</u>	<u>\$ 106,287</u>
Net Income and Comprehensive Income Attributable to:		
Shareholders of the Company	\$ 129,737	\$ 61,569
Non-controlling interest	<u>-</u>	44,718
	<u>\$ 129,737</u>	<u>\$ 106,287</u>
Net Income per Share - Basic	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Net Income per Share - Diluted	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Weighted Average Number of Common Shares		
Outstanding During the Year – Basic	<u>73,107,779</u>	60,509,971
Outstanding During the Year – Diluted	<u>79,805,587</u>	60,509,971

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

SPECTRA PRODUCTS INC.

Statements of Cash Flows

Three months ended March 31, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Net income	\$ 129,737	\$ 106,287
Adjustments for:		
Finance costs	1,692	14,278
Amortization	6,520	-
	<u>137,949</u>	120,565
Changes in working capital:		
Accounts receivable	(113,104)	1,576
Prepaid expenses	(2,080)	(5,000)
Inventories	(18,511)	10,994
Accounts payable and accrued charges	8,234	13,821
Deferred tax assets	46,776	-
	<u>59,264</u>	141,956
Cash used in operating activities:		
Interest paid	(1,692)	(5,250)
	<u>57,572</u>	136,706
Net Cash Provided by Operating Activities	<u>57,572</u>	136,706
Cash Flows from Investing Activities		
Investment in term deposits	-	(125,000)
Net Cash Used in Investing Activities	<u>-</u>	(125,000)
Cash Flows from Financing Activities		
Repayment of lease liability	(5,539)	
Redemption of preferred shares	-	(100,000)
Net Cash Used in Financing Activities	<u>(5,539)</u>	(225,000)
Net Increase in Cash	52,033	(88,294)
Cash - Beginning of Period	130,829	122,954
Cash - End of Period	<u>\$ 182,862</u>	<u>\$ 34,660</u>

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

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1. Nature of Business and Basis of Presentation

Nature of Business

Spectra Products Inc. (“The Company”), incorporated under the laws of the province of Alberta on January 1, 2020, 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 financial statements were prepared in accordance with International Financial Reporting Standards (IFRS).

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

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

2. Summary of Significant Accounting Policies

a) 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.

b) 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.

c) 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

SPECTRA PRODUCTS INC.

Notes to Financial Statements

March 31, 2020 and December 31, 2019

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

d) 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.

e) 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
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f) 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.

g) 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.

h) 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.

SPECTRA PRODUCTS INC.

Notes to Financial Statements

March 31, 2020 and December 31, 2019

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

i) 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. Therefore, the computation of diluted income per share reflects the exercise of these warrants and stock options.

j) 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.

Examples of significant estimates include:

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

k) 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 March 31, 2020, the balance of other comprehensive income is \$nil (2019 – \$nil).

l) 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.

SPECTRA PRODUCTS INC.

Notes to Financial Statements

March 31, 2020 and December 31, 2019

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

l) Financial Instruments (cont'd)

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.

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.

m) 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.

SPECTRA PRODUCTS INC.

Notes to Financial Statements

March 31, 2020 and December 31, 2019

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

n) 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.

o) 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.

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)

SPECTRA PRODUCTS INC.
Notes to Financial Statements
March 31, 2020 and December 31, 2019

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	<u>(36,826)</u>
Liability recognized on initial application of IFRS 16 as at January 1, 2019	\$ <u>243,694</u>

3. Capital Structure

The capital structure of the Company consists principally of shareholders' equity comprised of deficit, contributed surplus, warrants 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:

	2020	2019
Share capital	\$ 5,937,719	\$ 5,937,719
Contributed surplus	96,746	96,746
Equity reserve	224,280	224,280
Accumulated deficit	<u>(5,067,469)</u>	<u>(5,197,206)</u>
	\$ 1,191,276	\$ 1,061,539

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

	2020	2019
Trade receivables	\$ 304,778	\$ 199,218
Government remittances receivable	<u>16,929</u>	<u>9,385</u>
	\$ 321,707	\$ 208,603

SPECTRA PRODUCTS INC.
Notes to Financial Statements
March 31, 2020 and December 31, 2019

6. Inventories

	2020	2019
Finished goods	\$ 69,584	\$ 66,593
Raw materials	131,656	116,136
	<u>\$ 201,240</u>	<u>\$ 182,720</u>

7. Equipment – Dies and Molds – Brake Safe

	2020			2019		
	Short Bracket Molds	Other Molds	Total	Short Bracket Molds	Other Molds	Total
Cost	\$9,210	\$134,244	\$143,454	\$9,210	\$134,244	\$143,454
Less: Accumulated amortization	9,210	120,975	130,185	9,210	120,975	130,185
	<u>\$ -</u>	<u>\$ 13,269</u>	<u>\$ 13,269</u>	<u>\$ -</u>	<u>\$ 13,269</u>	<u>\$ 13,269</u>

8. Right-of-use asset

	2020	2019
Cost	\$ 260,810	\$ 260,810
Less: Accumulated amortization	(58,682)	(52,162)
	<u>\$ 202,128</u>	<u>\$ 208,648</u>

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:

	2020	2019
Net book value – Beginning of period	\$ 208,648	\$ 234,729
Amortization	(6,520)	(26,081)
	<u>\$ 202,128</u>	<u>\$ 208,648</u>

9. Intangible Assets – Product rights

	2020	2019
Cost	\$ 25,000	\$ 25,000
Less: Accumulated amortization	25,000	25,000
	<u>\$ -</u>	<u>\$ -</u>

The product rights are still in use by the Company.

SPECTRA PRODUCTS INC.

Notes to Financial Statements

March 31, 2020 and December 31, 2019

10. Accounts Payable and Accrued Charges

	2020	2019
Trade and other payables	\$ 73,269	\$ 47,216
Accrued expenses (note 17)	<u>82,455</u>	<u>100,274</u>
	<u>\$ 155,724</u>	<u>\$ 147,490</u>

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.

	2020	2019
Lease liability	\$ 217,654	\$ 223,193
Less: current portion	<u>(22,899)</u>	<u>(22,412)</u>
Long-term portion	<u>\$ 194,755</u>	<u>\$ 200,781</u>

The Company paid lease payments of \$7,231 in the three-months, comprising principal repayment of the lease liability of \$5,539 and interest expense of \$1,692.

12. 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

	2020	2019
77,109,971 (December 31, 2019 – 77,109,971) common shares	<u>\$ 5,937,719</u>	<u>\$ 5,937,719</u>

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.

SPECTRA PRODUCTS INC.
Notes to Financial Statements
March 31, 2020 and December 31, 2019
12. 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 three-months ended March 31, 2019 and the year ended December 31, 2019:

	2020		2019	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	1,600,000	\$ 0.05	-	\$ -
Granted	-	-	1,600,000	0.05
Expired	-	-	-	-
	<hr/>			
Balance, end of year	<u>1,600,000</u>	<u>\$ 0.05</u>	<u>1,600,000</u>	<u>\$ 0.05</u>

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).

SPECTRA PRODUCTS INC.
Notes to Financial Statements
March 31, 2020 and December 31, 2019
12. Share Capital (cont'd)

Warrants

	Number of warrants outstanding	Value	Exercise Price per share
As at December 31, 2019	-	-	-
Warrants issued on private placement	8,300,000	\$136,120	\$0.075
As at March 31, 2020	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

13. 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 March 31, 2020, three major customers accounted for 45%, 11%, and 11% of accounts receivable (2019 – three major customers accounted for 41%, 13% and 13%).

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

SPECTRA PRODUCTS INC.

Notes to Financial Statements

March 31, 2020 and December 31, 2019

13. 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 \$13,487 decrease or increase to the Company's income before taxes for the three months ended March 31, 2020. At March 31, 2020, the Company had net assets denominated in U.S. currency of USD134,865 (2019 – USD82,627) 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.

	2020	2019
Cash	\$ 3,090	\$ 8,595
Accounts receivable	189,736	98,820
Accounts payable	-	-
	<u>\$ 192,826</u>	<u>\$ 107,415</u>

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 March 31, 2019:

	Due between						Total
	Due within 1 year	1 and 2 years	2 and 3 years	3 and 4 years	4 and 5 years	> 5 years	
Accounts payable and accrued charges	\$ 155,724	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 155,724
Lease liability	28,923	30,180	30,180	30,995	31,832	100,745	252,854
Total	<u>\$ 184,647</u>	<u>\$30,180</u>	<u>\$30,180</u>	<u>\$30,995</u>	<u>\$31,832</u>	<u>\$100,745</u>	<u>\$ 408,578</u>

e) Interest Rate Risk

The Company is not exposed to any interest rate risk.

SPECTRA PRODUCTS INC.
Notes to Financial Statements
March 31, 2020 and December 31, 2019
13. Financial Instruments (cont'd)

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

	Dec 31, 2019	IFRS 16 adoption	Fair value changes	Cash flows	Reclassified	March 31, 2020
Lease liability						
Current Liability	\$22,412	\$ -	\$ -	\$(1,692)	\$ 2,179	\$ 22,899
Long-Term Liability	200,781	-	-	(3,847)	(2,179)	194,755
Total	<u>\$ 223,193</u>	<u>\$-</u>	<u>\$ -</u>	<u>(5,539)</u>	<u>\$ -</u>	<u>\$ 217,654</u>

14. Related Party Transactions

- During 2020, management fees of \$10,500 (2019 - \$22,612) were paid to a company of a key executive who is a shareholder of the Company.
- During 2020, interest expense of \$Nil (2019 - \$5,250) was paid to CABE Financial Corporation, at the time of payment a shareholder of the Company's subsidiary, Spectra Products Inc.
- During 2020, fees of \$Nil (2019 - \$1,000) were paid to a previous director of the Company.

Included in accounts payable and accrued charges is \$10,500 (2019 - \$5,422) 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.

15. 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.

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)	\$ -

SPECTRA PRODUCTS INC.
Notes to Financial Statements
March 31, 2020 and December 31, 2019

15. Income Taxes (cont'd)

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

	2019	2018
Current	\$ -	\$ -
Deferred	<u>(508,407)</u>	-
Provision for income taxes	<u>\$ (508,407)</u>	<u>\$ -</u>

The significant components of the Company's deferred tax assets as at December 31st 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	<u>508,407</u>	651,551
Deferred tax asset not recognized	-	<u>(651,551)</u>
	<u>\$ 508,407</u>	<u>\$ -</u>

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	<u>157,400</u>
	<u>\$ 1,526,800</u>

SPECTRA PRODUCTS INC.

Notes to Financial Statements

March 31, 2020 and December 31, 2019

16. 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.

17. Segmented Information

Sales are attributed to countries based on location of customer.

	2020	2019
Canada	\$ 227,997	\$ 274,811
China	-	-
United States	<u>307,929</u>	<u>220,696</u>
	<u>\$ 535,926</u>	<u>\$ 495,507</u>

In 2020, the Company derived 57% (2019 – 45%) of its revenue from sales to the United States and 0% (2019 – 0%) of its revenue from sales to China. The Company’s equipment is located in Canada.

In 2020, the Company derived sales from three customers amounting to 35%, 12% and 9% of the total sales revenue (2019 – three customers amounting to 30%, 14% and 11%).

18. Subsequent Event

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.