SPECTRA PRODUCTS INC.

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021 AND 2020

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of **Spectra Products Inc.**

Opinion

We have audited the accompanying financial statements of **Spectra Products Inc.** (the "Company"), which comprise the statements of financial position as at December 31, 2021 and December 31, 2020, and the 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 financial statements present fairly, in all material respects, the financial position of **Spectra Products Inc.** as at December 31, 2021 and December 31, 2020 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (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 *Auditor's Responsibilities for the Audits of the 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 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.

Key Audit Matters

We have determined that there are no key audit matters to communicate in our report.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis and any other statutory or other reports which may include financial information.

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

In connection with our audits of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. 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 Financial Statements

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

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

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

Auditor's Responsibilities for the Audits of the Financial Statements

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

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

• Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audits resulting in this independent auditor's report is Umair Tasadduq.

AGT Partners LLP

Woodbridge, Canada
March 23, 2022

LICENSED PUBLIC ACCOUNTANTS

SPECTRA PRODUCTS INC.

Statements of Financial Position
December 31, 2021 and December 31, 2020

		2021		2020
ASSETS				
Current				
Cash	**$**	**877,547**	$	569,826
Loan receivable (note 4)		**18,900**		-
Investments (note 5)		**330,298**		513,021
Accounts receivable (note 6)		**246,654**		169,896
Inventories (note 7)		**176,947**		155,572
Prepaid expenses		**4,737**		4,737
		1,655,083		1,413,052
Equipment (note 8)		**-**		12,566
Deferred Tax Asset (note 18)		**252,173**		340,300
Right-of-use Asset (note 9)		**156,486**		182,567
Total Assets	**$**	**2,063,742**	$	1,948,485
LIABILITIES				
Current				
Accounts payable and accrued charges (notes 11 and 17)	**$**	**124,126**	$	82,703
Lease liability – current portion (note 12)		**25,138**		24,382
		149,264		107,085
Lease Liability (note 12)		**151,260**		176,399
		300,524		283,484
SHAREHOLDERS' EQUITY				
Share Capital (note 13)		**937,719**		5,937,719
Contributed Surplus (note 14)		**5,232,866**		232,866
Equity Reserve (note 15)		**172,140**		88,160
Other Comprehensive Income (Loss) (note 2(l))		**(274)**		247,986
Accumulated Deficit		**(4,579,233)**		(4,841,730)
Total Shareholders' Equity		**1,763,218**		1,665,001
Total Liabilities and Shareholders' Equity	**$**	**2,063,742**	$	1,948,485

APPROVED ON BEHALF OF THE BOARD

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

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

SPECTRA PRODUCTS INC.
Statements of Changes in Shareholders' Equity
Years ended December 31, 2021 and 2020

	Share capital	Contributed surplus	Equity reserve	Other comprehensive income (OCI)	Accumulated deficit	Total shareholders' equity
Balance, January 1, 2021	$ 5,937,719	$ 232,866	$ 88,160	$ 247,986	$ (4,841,730)	$ 1,665,001
Total Comprehensive income	-	-	-	(248,260)	262,497	14,237
Stock based compensation			83,980			83,980
Reduction in stated capital	(5,000,000)	5,000,000				-
Balance, December 31, 2021	$ 937,719	$ 5,232,866	$172,140	$ (274)	$ (4,579,233)	$ 1,763,218

	Share capital	Contributed surplus	Equity reserve	Other comprehensive income (OCI)	Accumulated deficit	Total shareholders' equity
Balance, January 1, 2020	$ 5,937,719	$ 96,746	$ 224,280	$ -	$ (5,197,206)	$ 1,061,539
Total Comprehensive income	-	-	-	247,986	355,476	603,462
Transfer of warrant reserve	-	136,120	(136,120)	-	-	-
Balance, December 31, 2020	$ 5,937,719	$ 232,866	$ 88,160	$ 247,986	$ (4,841,730)	$ 1,665,001

SPECTRA PRODUCTS INC.
Statements of Comprehensive Income
Years ended December 31, 2021 and 2020

	2021	2020
Sales	**$ 1,692,872**	$ 1,594,026
Cost of Sales	**738,387**	674,777
Gross Profit	**954,485**	919,249
Expenses		
Administrative costs	**414,245**	289,729
Selling costs	**108,074**	109,698
Finance costs	**5,798**	6,510
Amortization	**38,647**	26,784
	566,764	432,721
Income Before Taxes	**387,721**	486,528
Deferred income taxes (provision) recovery (note 18)	**(125,224)**	(131,052)
Net income	**262,497**	355,476
Other Comprehensive Income: *Items that will not be reclassified through profit and loss:* Realized gains of $1,460 and unrealized loss on investments $286,817 net of deferred tax $37,097 (note 2(l) and 18)	**(248,260)**	247,986
Total Comprehensive Income	**$ 14,237**	$ 603,462
Net Income per Share - Basic	**$ 0.00**	$ 0.01
Net Income per Share - Diluted	**$ 0.00**	$ 0.01
Weighted Average Number of Common Shares		
Outstanding During the Year – Basic	**77,109,971**	77,109,971
Outstanding During the Year – Diluted	**80,060,656**	78,709,971

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

SPECTRA PRODUCTS INC.
Statements of Cash Flows
Years ended December 31, 2021 and 2020

		2021		2020
Cash Flows from Operating Activities				
Total Comprehensive income	**$**	**14,237**	$	603,462
Adjustments for:				
Deferred taxes		**125,224**		131,052
Finance costs		**5,798**		6,510
Unrealized gain on investments (net of deferred tax)		**248,260**		(247,986)
Amortization		**38,647**		26,784
Stock-based compensation		**83,980**		-
		516,146		519,822
Changes in:				
Accounts receivable		**(76,758)**		38,707
Loan receivable		**(18,900)**		-
Inventories		**(21,375)**		27,157
Accounts payable and accrued charges		**41,423**		(64,787)
		440,536		520,899
Cash used in operating activities:				
Interest paid		**(5,798)**		-
Net Cash Provided by Operating Activities		**434,738**		520,899
Cash Flows from Investing Activities				
Redemption (acquisition) of term deposits		**-**		175,000
Purchase of investments		**(102,635)**		(227,980)
Net Cash Used in Investing Activities		**(102,635)**		(52,980)
Cash Flows from Financing Activities				
Repayment of lease liability		**(24,382)**		(28,922)
Net Cash Used in Financing Activities		(**24,382)**		(28,922)
Net Increase in Cash		**307,721**		438,997
Cash - Beginning of Year		**569,826**		130,829
Cash - End of Year	**$**	**877,547**	$	569,826

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

1. Nature of Business and Basis of Presentation

Nature of Business

Spectra Products Inc. ("Spectra") 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.

On January 1, 2020 Spectra Products Inc. (formerly, Spectra Inc.) (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 amalgamation was approved by the board of directors of each of the amalgamating companies. In accordance with the amalgamation, the amalgamated Company shall continue as Spectra Products Inc.

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 March 23, 2022.

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) Investments

The Company's investments are in various marketable and other securities and are stated at fair value.

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

c) 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 return back to suppliers. If these assumptions change, additional write-downs may be required.

d) Equipment

Equipment is recorded at cost less accumulated amortization and impairment losses, if any. 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

e) Leases

The Company adopted IFRS 16 on January 1, 2019. On the lease commencement date, a right-of-use asset and a lease liability was 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.

f) Intangible Assets

Intangible assets consist of patents, trademarks, product rights and prototypes. These 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

g) 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 its 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)

h) 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.

i) 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 equity reserve, are recorded in share capital.

j) 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 3,300,000 stock options granted and vested in 2021 (1,600,000 in 2020). Therefore, the computation of diluted income per share reflects the exercise of these stock options.

k) Use of Estimates

The preparation of 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;
- Fair value of investments;
- Provision for inventories;
- Stock-based compensation;
- Deferred income taxes; and
- Fair value of stock options
- Determination of lease term of contracts with renewal options
- Incremental borrowing rate of leases

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

l) Comprehensive Income & Other Comprehensive Income

Certain gains and losses arising from changes in fair value are recorded outside of net income in accumulated other comprehensive income as a separate component of shareholders' equity. Comprehensive income is comprised of the Company's net income and other comprehensive income. Other comprehensive income includes any unrealized gains and losses on financial assets classified as fair value through other comprehensive income.

At December 31, 2021 the balance of other comprehensive loss is $274 which represents the net after-tax realized gain and unrealized losses on investments (2020 – $247,986, income). Based upon its business model, the Company has taken the option to irrevocably designate its current equity and convertible debt investments at fair value through other comprehensive income. Any subsequent gains or losses when realized will be recognized directly into equity.

m) 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.

Investments in equity and convertible debentures are classified as financial assets at fair value through other comprehensive income. The Company's business model supports this accounting treatment and it has opted to irrevocably designate its current equity and convertible debt investments at fair value through other comprehensive income. Any gains or losses, when subsequently realized, will be recognized through equity.

Accounts and loan 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, and lease liability 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.

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

m) Financial instruments (cont'd)

The Company's fair value measurements use 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 financial instruments at fair value are cash and investments, and at December 31, 2021 these have been valued using Level 1 and Level 3.

n) Impairment of Financial Assets

The Company applies the IFRS 9 simplified approach to measure expected credit losses using a lifetime expected credit loss provision for accounts receivable. Lifetime expected credit losses are estimated based on factors such as the Company's historical experience of collecting payments and the number of delayed payments past the average credit period. The historical loss rates are then adjusted for current and forward looking (12 months) information, which include 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.

o) 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.

3. Capital Structure

The capital structure of the Company consists principally of shareholders' equity comprised of deficit, contributed surplus, equity reserve, other comprehensive income and share capital. The Company's primary uses of capital are to finance working capital requirements and capital expenditures, which are currently funded from internally 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.

3. Capital Structure (cont'd)

The components of capital are as follows:

	2021	2020
Share capital	$ **937,719**	$ 5,937,719
Contributed surplus	**5,232,866**	232,866
Equity reserve	**172,140**	88,160
Other Comprehensive Income (Loss)	**(274)**	247,986
Accumulated deficit	**(4,579,233)**	(4,841,730)
	$ **1,763,218**	$ 1,665,001

4. Loan receivable

On July 19, 2021, the Company advanced a US$15,000 loan to the Company's President, Andrew Malion. This loan advance is due for repayment on July 19, 2022 together with interest at 5%. At December 31, 2021, the Canadian dollar converted value of this loan amount was $18,900.

5. Investments

Investments comprise marketable securities and a subordinated convertible promissory note. The promissory note is stated at cost because, as the investment is in a private corporation, no information is available to determine fair value and it is management's opinion that due to the short-term nature of the investment, cost represents fair value.

6. Accounts Receivable

	2021	2020
Trade receivables	$ **234,705**	$ 159,396
Government remittances receivable	**11,949**	5,773
Interest receivable	**-**	4,727
	$ **246,654**	$ 169,896

At December 31, 2021 based on the Company's experience, there was Nil allowance for doubtful accounts. (2020 – Nil).

7. Inventories

	2021	2020
Finished goods	$ **88,113**	$ 76,604
Raw materials	**88,834**	78,968
	$ **176,947**	$ 155,572

8. Equipment – Dies and Molds – Brake Safe

	2021			2020		
	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**	**134,244**	**143,454**	9,210	121,678	130,888
	$ -	**$ -**	**$ -**	$ -	$12,566	$ 12,566

9. Right-of-use asset

	2021	2020
Cost	**$ 260,810**	$ 260,810
Less: Accumulated amortization	**(104,324)**	(78,243)
	$ 156,486	$ 182,567

10. Intangible Assets – Product rights

	2021	2020
Cost	**$ 25,000**	$ 25,000
Less: Accumulated amortization	**25,000**	25,000
	$ -	$ -

The product rights are still in use by the Company.

11. Accounts Payable and Accrued Charges

	2021	2020
Trade and other payables	**$ 76,868**	$ 50,859
Accrued expenses (note 17)	**47,258**	31,844
	$ 124,126	$ 82,703

12. Lease Liability

The Company has entered into a lease for premises 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 an 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.

	2021	2020
Lease liability	**$ 176,398**	$ 200,781
Less: current portion	**(25,138)**	(24,382)
Long-term portion	**$ 151,260**	$ 176,399

The Company paid lease payments of $30,180 (2020 - $28,922), comprising principal repayment of the lease liability of $24,382 (2020 - $22,412) and interest expense of $5,798 (2020 - $6,510).

13. 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

		2021	2020
77,109,971	(December 31, 2020 – 77,109,971) common shares	**$ 937,719**	$ 5,937,719

On December 29, 2021, following approval of a Special Resolution by the Company's shareholders, the Directors approved that the stated capital account maintained in respect of the common shares of the Company be reduced by five million dollars and a corresponding increase be made to the contributed surplus account of the Company.

14. Contributed Surplus

Contributed surplus consists of the equity portion of formerly convertible preferred shares, the value attributed to unexercised warrants and the transfer of five million dollars from the stated capital account of the common shares to the contributed surplus account.

15. 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, expired and outstanding during the years ended December 31, 2021 and December 31, 2020:

	2021		2020	
	Number of Options	**Exercise Price**	Number of Options	Exercise Price
Balance, beginning of year	**1,600,000**	**$ 0.05**	1,600,000	$. 0.05
Granted	**1,700,000**	**0.05**	-	-
Exercised or expired	-	-	-	-
Balance, end of year	**3,300,000**	**$ 0.05**	1,600,000	$. 0.05

On March 17, 2021, the Company granted 1,700,000 stock options to directors and employees, which give the holder the right to acquire shares at $0.05 per share. They vested immediately upon issuance and are exercisable on or before March 17, 2026.

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:

	2021
Risk-free interest rate	0.99%
Expected term of options	5 years
Volatility	224%
Stock price	$0.05
Fair value per option	$0.05

For the year ended December 31, 2021, stock-based compensation expense was $83,980 (2020 - $nil). Stock-based compensation expense for 2021 was recorded in the statement of comprehensive income as administrative costs with a corresponding charge to equity reserve.

As at December 31, 2021, the average remaining contractual life of outstanding options was approximately 3.5 years (December 31, 2020 – 3.8 years) and a total of 3,300,000 options (2020 – 1,600,000) were exercisable at an exercise price of $0.05 (2020 - $0.05).

16. Financial Instruments fair value and risks

a) Fair Value

The carrying value of the Company's financial instruments consisting of cash, loan and accounts receivable and accounts payable and accrued charges approximates their fair value due to their immediate or short-term maturity. Investments are measured at fair value using Level 1 and Level 3 inputs described above.

b) Credit Risk

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

Cash is 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 (if needed), to provide sufficient protection against losses resulting from collecting less than full payments from its receivables.

As at December 31, 2021, three major customers accounted for 68%, 9%, and 4% of accounts receivable (2020 – three major customers accounted for 52%, 14% and 8%).

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

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 accounts receivable and U.S dollar cash balances. In addition, the company has US dollar denominated investments. These activities result in exposure to fluctuations in foreign currency rates between the U.S. and 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 corresponding $72,238 increase or decrease to the Company's income before taxes and $14,227 to other comprehensive income for the year ended December 31, 2021. At December 31, 2021, the Company had net assets denominated in U.S. currency of US$ 864,651 (2020 – US$ 308,135) 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.

		2021		2020
Cash	**$**	**707,601**	$	131,304
Accounts receivable		**183,700**		94,091
Loan receivable		**18,900**		-
Investments		**179,260**		166,630
	$	**1,089,461**	$	392,025

16. Financial Instruments fair value and risks (cont'd)

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, 2021

	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	$124,126	$ -	$ -	$ -	$ -	$ -	$ 124,126
Present value of Lease liability	25,138	26,744	28,421	30,174	32,005	33,916	176,398
Future interest on lease liability	5,042	4,251	3,411	2,517	1,568	564	17,353
Total	$ 154,306	$ 30,995	$ 31,832	$ 32,691	$ 33,573	$ 34,480	$ 317,877

e) Market risk

The Company is exposed to market risk through its financial instruments and especially to price risk from its investing activities. It is the risk that the fair value and future cash flows of its investments will fluctuate because of market factors. Management monitors its investments on a regular basis and uses the services of an investment adviser when needed. The Company's sensitivity to market risk is such that a 10% strengthening or weakening of its portfolio would result in a respective $33,030 increase or decrease to the Company's other comprehensive income for the year ended December 31, 2021.

17. Related Party Transactions

a) During 2021, management fees of $42,000 (2020 - $42,000) were paid to a company of a key executive.

b) During 2021, commissions and bonuses of $97,538 (2020 - $90,492) were paid to a director of the Company.

c) On July 19, 2021, the Company advanced a US$15,000 loan to the Company's President. This loan is due for repayment on July 19, 2022 together with interest at 5%.

d) Included in accounts payable and accrued charges is $5,886 (2020 - $4,524) 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

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:

		2021		2020
Expected income tax expense at the combined Federal and provincial rate of 26.50% (2020- 26.50%)	**$**	**102,746**	$	128,390
Increase (decrease) in income taxes resulting from:				
Non-deductible permanent differences		**22,478**		2,122
Provision for income taxes	**$**	**125,224**	$	131,052

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

		2021		2020
Current	**$**	**-**	$	-
Deferred		**125,224**		131,052
Provision for income taxes	**$**	**125,224**	$	131,052
Deferred taxes charged (credit) to OCI	**$**	**(37,097)**	$	37,055

The Company has deferred tax assets of $252,173 (2020 - $340,300). The significant components of the Company's deferred tax assets are as follows:

		2021		2020
Net operating losses carried forward	**$**	**209,250**	$	270,404
Capital losses carried forward		**-**		1,490
Equipment		**24,610**		27,545
Intangible assets		**5,588**		61,980
Financing cost		**7,406**		11,109
Right of use asset and lease liability		**5,277**		4,827
Unrealized capital gains related to OCI		**42**		(37,055)
Deferred tax asset	**$**	**252,173**	$	340,300

The Company has non-capital tax losses available in the amount of approximately $789,600 (2020 – $1,020,400), which can be carried forward to be applied against future years' taxable income. These losses, if unused, will expire as follows:

2031	$	162,900
2032		69,400
2033		62,100
2034		51,500
2035		61,200
2036		62,100
2037		74,700
2038		88,300
2039		157,400
	$	789,600

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 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 agreement, that company was required to pay a fee of $75,000 per year plus an annual participation fee, calculated as 5% of the annual net income. Effective July 1, 2019, the terms of this agreement were modified, and annual fees will now be $42,000 and there will be no participation payment.

20. Segmented Information

Sales are attributed to countries based on location of customer.

	2021	2020
Canada	**$ 794,289**	$ 823,059
United States	**898,583**	770,967
	$ 1,692,872	$ 1,594,026

In 2021, the Company derived 53% (2020 – 48%) of its revenue from sales to the United States. The Company's equipment is located in Canada.

In 2021, the Company derived sales from two customers amounting to 38% and 8% of the total sales revenue (2020 – two customers amounting to 32% and 12%).

21. COVID-19

In March 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy, capital markets and the Company's financial position cannot be reasonably estimated at this time. During the year, the Company received wage subsidy in the amount of $22,324 (2020 - $50,937) which are netted against the payroll costs. The Company is constantly monitoring and analyzing the extent of the financial impact of the COVID-19 pandemic, which could be material depending on the scope and duration of the pandemic.

22. Subsequent event

As of March 4, 2022, the TSX Venture Exchange accepted the Company's Notice of Intention to make a Normal Course Issuer Bid to purchase for cancellation up to a maximum of 3,855,500 common shares of the capital of the Company, from time to time, as the Company considers appropriate. The maximum number of Common Shares to be purchased pursuant to the Bid represents 5.0% of the Company's 77,109,971 Common Shares outstanding as at the date above. The Bid commenced on March 15, 2022 and will terminate on March 15, 2023 or at such earlier time as the Bid is completed or terminated at the option of Spectra.