

SPECTRA INC.
CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

CONTENTS

Notice of no audit review	1
Consolidated Statements of Financial Position	2
Consolidated Statements of Changes in Shareholders' Deficiency	3
Consolidated Statements of Comprehensive Income – 3 months to September 30, 2019	4
Consolidated Statements of Comprehensive Income – 9 months to September 30, 2019	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 21

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 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, 2018. These condensed interim consolidated financial statements were approved for issuance by the Board of Directors on October 28, 2019.

These condensed interim consolidated 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, 2018.

SPECTRA INC.Consolidated Statements of Financial Position
September 30, 2019 and December 31, 2018

	2019	2018
ASSETS		
Current		
Cash	\$ 245,579	\$ 122,954
Term deposits	-	175,000
Accounts receivable	244,235	280,752
Inventories (note 4)	146,698	163,740
Prepaid expenses	7,915	4,737
	<u>644,427</u>	747,183
Equipment (note 5)	<u>13,269</u>	-
Total Assets	<u>\$ 657,696</u>	<u>\$ 747,183</u>
LIABILITIES		
Current		
Accounts payable and accrued charges (notes 7 and 13)	\$ 112,450	\$ 122,453
Preferred Shares – current portion (note 9)	-	216,058
Royalty Debenture – current portion (note 8)	-	643,578
	<u>112,450</u>	982,089
Preferred Shares (note 9)	-	115,756
Royalty Debenture (note 8)	-	-
	<u>112,450</u>	1,097,845
SHAREHOLDERS' DEFICIENCY		
Share Capital (note 10)	5,937,719	5,313,708
Contributed Surplus (note 10)	96,746	320,191
Warrants Reserve (note 10)	136,120	-
Accumulated Deficit	<u>(5,625,339)</u>	<u>(5,856,729)</u>
Deficiency Attributable to Shareholders of the Company	545,246	(222,830)
Non-controlling Interest (note 11)	-	<u>(127,832)</u>
Total Shareholders' Deficiency	<u>545,246</u>	<u>(350,662)</u>
Total liabilities and Shareholders' Deficiency.	<u>\$ 657,696</u>	<u>\$ 747,183</u>

APPROVED ON BEHALF OF THE BOARD

"Andrew J. Malion"

"Giacomo Grassi"

Chairman

Director

SPECTRA INC.

Consolidated Statements of Changes in Shareholders' Deficiency Nine months ended September 30, 2019 and 2018

	Share capital	Contributed surplus	Warrants reserve	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				321,079	321,079	114,698	435,777
Issuance of common shares	624,011				624,011		624,011
Warrants valuation			136,120		136,120		136,120
Acquisition of non-controlling interest		(223,445)		(89,689)	(313,134)	13,134	(300,000)
Balance,							
Sept 30, 2019	<u>\$ 5,937,719</u>	<u>\$ 96,746</u>	<u>\$ 136,120</u>	<u>\$ (5,625,339)</u>	<u>\$ 545,246</u>	<u>\$ -</u>	<u>\$ 545,246</u>
Balance,							
	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			240,321	240,321	146,615	386,936	
Change in ownership interest in subsidiary that does not result in a loss of control			36,863	36,863	(36,863)	-	
Balance,							
Sept 30, 2018	<u>\$ 5,313,708</u>	<u>\$ 320,191</u>	<u>\$ (5,919,362)</u>	<u>\$ (285,463)</u>	<u>\$ (173,635)</u>	<u>\$ (459,098)</u>	

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

SPECTRA INC.Consolidated Statements of Comprehensive Income
Three months ended September 30, 2019 and 2018

	2019	2018
Sales	\$ 491,286	\$ 559,181
Cost of Sales	213,857	235,193
Gross Profit	277,429	323,988
Expenses		
Administrative costs	101,294	115,781
Selling costs	39,307	46,034
Finance costs	-	17,108
Amortization	-	-
	140,601	178,923
Income Before the Undernoted	136,828	145,065
Loss on Extinguishment of Debt	-	-
Income Before Taxes	136,828	145,065
Provision for income taxes (note 14)	-	-
Net Income and Comprehensive Income	\$ 136,828	\$ 145,065
Net Income and Comprehensive Income Attributable to:		
Shareholders of the Company	\$ 136,828	\$ 90,423
Non-controlling interest	-	54,642
	\$ 136,828	\$ 145,065
Net Income per Share - Basic and Diluted	\$ 0.00	\$ 0.00
Weighted Average Number of Common Shares		
Outstanding During the Quarter – Basic	77,109,971	60,509,971
Outstanding During the Quarter – Diluted	85,409,971	60,509,971

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

- 4 -

SPECTRA INC.Consolidated Statements of Comprehensive Income
Nine months ended September 30, 2019 and 2018

	2019	2018
Sales	\$ 1,655,103	\$ 1,601,377
Cost of Sales	<u>727,053</u>	<u>672,497</u>
Gross Profit	<u>928,050</u>	<u>928,880</u>
Expenses		
Administrative costs	330,882	363,352
Selling costs	124,987	124,767
Finance costs	25,914	53,825
Amortization	<u>731</u>	<u>-</u>
	<u>482,514</u>	<u>541,944</u>
Income Before the Undernoted	445,536	386,936
Loss on Extinguishment of Debt	<u>9,759</u>	<u>-</u>
Income Before Taxes	435,777	386,936
Provision for income taxes (note 14)	<u>-</u>	<u>-</u>
Net Income and Comprehensive Income	<u>\$ 435,777</u>	<u>\$ 386,936</u>
Net Income and Comprehensive Income Attributable to:		
Shareholders of the Company	\$ 321,079	\$ 240,321
Non-controlling interest	<u>114,698</u>	<u>146,615</u>
	<u>\$ 435,777</u>	<u>\$ 386,936</u>
Net Income per Share - Basic and Diluted	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Weighted Average Number of Common Shares		
Outstanding During the Period – Basic	<u>66,286,528</u>	<u>60,509,971</u>
Outstanding During the Period – Diluted	<u>69,174,806</u>	<u>60,509,971</u>

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

- 5 -

SPECTRA INC.Consolidated Statements of Cash Flows
Nine months ended September 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Net income	\$ 435,777	\$ 386,936
Adjustments for:		
Finance costs	25,914	53,825
Loss on extinguishment of debt	9,759	-
Amortization	731	-
	<u>472,181</u>	440,761
Changes in working capital:		
Accounts receivable	36,517	(47,534)
Prepaid expenses	(3,178)	-
Inventories	17,042	(20,386)
Accounts payable and accrued charges	(10,003)	74,677
	<u>512,559</u>	447,518
Cash used in operating activities:		
Interest paid	(9,000)	(23,875)
	<u>503,559</u>	423,643
Cash Flows from Investing Activities		
Acquisition of Equipment	(14,000)	-
Realization of term deposits	175,000	-
	<u>161,000</u>	-
Cash Flows from Financing Activities		
Issuance of common shares from treasury (net)	760,131	-
Acquisition of non-controlling interest	(300,000)	-
Repayment of royalty debenture	(652,065)	-
Redemption of preferred shares	(350,000)	(125,000)
	<u>(541,934)</u>	(125,000)
Net Increase in Cash	122,625	298,643
Cash - Beginning of Period	122,954	54,811
Cash - End of Period	<u>\$ 245,579</u>	<u>\$ 353,454</u>

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

- 6 -

SPECTRA INC.

Notes to Consolidated Financial Statements
September 30, 2019 and December 31, 2018

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 41 Horner Avenue, Unit 2, 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 October 28, 2019.

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.

Going Concern

These consolidated financial statements have been prepared on the assumption that the Company is a going concern which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. As at September 30, 2019, the Company had an accumulated shareholders’ equity of \$545,246 of which \$545,246 was attributable to the Company’s shareholders and \$0 was attributable to the non-controlling interest (2018 – an accumulated shareholders’ deficiency of \$350,662 of which \$222,830 was attributable to the Company’s shareholders and \$127,832 was attributable to the non-controlling interest). The Company’s ability to meet its obligations and continue as a going concern is dependent upon its ability to continue to achieve profitable operations and, if required, to refinance long-term debt as it matures. Management plans to maintain profitable operations and to pursue refinancing of long-term debt as it matures, however, there can be no assurance that the Company will be able to negotiate such refinancing at maturity, nor to obtain alternative financing on terms satisfactory to the Company, if at all, should such debt not be satisfactorily refinanced.

The consolidated financial statements do not reflect any adjustments in the carrying values and classifications of the assets and liabilities or the reported expenses that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

SPECTRA INC.

Notes to Consolidated Financial Statements
September 30, 2019 and December 31, 2018

2. Summary of Significant Accounting Policies

a) Basis of Consolidation

These consolidated financial statements include the accounts of Spectra and SPI. As of September 30, 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.

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..

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		Units of production method

f) 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
-------------------------------	------------	---------------

SPECTRA INC.

Notes to Consolidated Financial Statements

September 30, 2019 and December 31, 2018

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

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 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.

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 contributed surplus. When the stock options are exercised, the proceeds, together with the amount recorded in contributed surplus, are recorded in share capital.

j) 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.

k) 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 16,600,000 warrants outstanding in 2019, allowing for the purchase of 8,300,000 common shares (none in 2018). Therefore, the computation of diluted income per share reflects the exercise of these warrants.

SPECTRA INC.

Notes to Consolidated Financial Statements
September 30, 2019 and December 31, 2018

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

l) 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

m) 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 September 30, 2019, the balance of other comprehensive income is \$nil (2018 – \$nil).

n) Financial Instruments

In 2017, the Company early adopted IFRS 9 – Financial Instruments. There were no changes to the carrying amount of the financial instruments from the adoption of the new standard.

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 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.

SPECTRA INC.

Notes to Consolidated Financial Statements
September 30, 2019 and December 31, 2018

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

n) Financial Instruments (cont'd)

Accounts receivable is classified as financial asset measured at amortized cost. Accounts receivable is 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 receivable is 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, 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.

o) 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.

p) Non-monetary Transactions

Transactions with no cash consideration are measured at the fair value of either the asset given up or the asset received, whichever is more reliably determinable.

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.

SPECTRA INC.

Notes to Consolidated Financial Statements

September 30, 2019 and December 31, 2018

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

r) Recent IFRS Standards Adopted

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.

The Company adopted the following new accounting standards and amendments for its consolidated financial statements effective January 1, 2017.

The Company adopted IFRS 9 – Financial Instruments, which replaces IAS 39 – Financial Instruments. The standard sets out the classification and measurement of financial assets and liabilities. The adoption did not have a material impact on the consolidated financial statement as at January 1, 2017.

The Company adopted the amendments to IFRS 7 – Financial Instruments Disclosure, which required additional disclosure on transition from IAS 39 to IFRS 9. The amended disclosure requirements have been applied to the consolidated financial statements.

Effective January 1, 2019, the Company adopted IFRS 16 – “Leases” (IFRS 16”), which replaces IAS 17 – “Leases”, and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model similar to current finance lease accounting, with limited exceptions for short-term leases of leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The adoption did not have a material impact on the consolidated financial statements as of January 1, 2019.

SPECTRA INC.

Notes to Consolidated Financial Statements
September 30, 2019 and December 31, 2018

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:

	2019	2018
Share capital	\$ 5,937,719	\$ 5,313,708
Contributed surplus	96,746	320,191
Warrants reserve	136,120	-
Accumulated deficit	<u>(5,625,339)</u>	<u>(5,984,561)</u>
	<u>\$ 545,246</u>	<u>\$ (350,662)</u>

4. Inventories

	2019	2018
Finished goods	\$ 72,351	\$ 88,916
Raw materials	<u>74,347</u>	<u>74,824</u>
	<u>\$ 146,698</u>	<u>\$ 163,740</u>

5. 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	<u>9,210</u>	<u>120,975</u>	<u>130,185</u>	<u>9,210</u>	<u>120,244</u>	<u>129,454</u>
	<u>\$ -</u>	<u>\$ 13,269</u>	<u>\$ 13,269</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The equipment is still in use by the Company.

SPECTRA INC.Notes to Consolidated Financial Statements
September 30, 2019 and December 31, 2018**6. Intangible Assets – Product rights**

	2019	2018
Cost	\$ 25,000	\$ 25,000
Less: Accumulated amortization	<u>25,000</u>	<u>25,000</u>
	<u>\$ -</u>	<u>\$ -</u>

The product rights are still in use by the Company.

7. Accounts Payable and Accrued Charges

	2019	2018
Trade and other payables	\$ 50,880	\$ 56,525
Accrued expenses (note 13)	<u>61,570</u>	<u>65,928</u>
	<u>\$ 112,450</u>	<u>\$ 122,453</u>

8. 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 is 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 is 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.

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	<u>-</u>	<u>(218,388)</u>
	-	433,677
Add : amortization of debt issuance cost	<u>-</u>	<u>209,901</u>
	-	643,578
Less : current portion	<u>-</u>	<u>(643,578)</u>
	<u>\$ -</u>	<u>\$ -</u>

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

SPECTRA INC.

Notes to Consolidated Financial Statements
September 30, 2019 and December 31, 2018

9. 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 are 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 are no longer convertible into common shares of SPI
- Commencing on January 1, 2018, dividends at 6% will be paid monthly. Dividends of \$5,250 were paid in 2019 and included in finance costs.

In 2019, 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.

The preferred shares have accreted to \$0 (2018 - \$331,814), and accretion expense of \$8,426 (2018 - \$12,692) 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 retraction of the preferred shares.

10. 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

77,109,971	(December 31, 2018 – 60,509,971) common shares	2019	2018
		<u>\$ 5,937,719</u>	<u>\$ 5,313,708</u>

SPECTRA INC.

Notes to Consolidated Financial Statements
September 30, 2019 and December 31, 2018

10. Share Capital (con't)

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 June 30, 2019, no shares were held in escrow under the terms of the new "Agreement" (2018 – 1,522,166).

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 a warrant allowing the purchase of half a common shares from treasury at a price of \$0.075 per share. The warrants were valued at \$136,120 and expire on December 31, 2020.

Contributed Surplus

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

Warrants

	Number of warrants outstanding	Value	Exercise Price per share
As at December 31, 2018	-	-	-
Warrants issued on private placement	16,600,000	\$136,120	\$0.075
As at September 30, 2019	16,600,000	\$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:

	September 30, 2019
Risk-free interest rate	1.46%
Expected term of options	1.5 years
Volatility	94%
Stock price	\$0.05
Fair value per warrant	\$0.01

SPECTRA INC.

Notes to Consolidated Financial Statements
September 30, 2019 and December 31, 2018

11. 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, the Company purchased the common shares owned by a third party and now owns 100% and accordingly, as at June 30, 2019 there is no longer any non-controlling interest.

	2019	2018
Common shares issued by Spectra Products Inc.		
Total issued	<u>3,955</u>	<u>3,955</u>
Total issued to non-controlling interest	<u>0</u>	<u>1,315</u>
Percentage ownership of non-controlling interest	<u>0</u>	<u>33.25</u>
Common share equity and deficit of Spectra Products Inc.		
Common share equity	\$ 4,149,950	\$ 4,149,950
Deficit	<u>(4,032,053)</u>	<u>(4,534,418)</u>
Combined common share equity and deficit	<u>\$ 117,897</u>	<u>\$ (384,468)</u>
Allocation of combined common share equity and deficit to non-controlling interest based on percentage ownership at end of year		
Common share equity	\$ 0	\$ 1,379,819
Deficit	<u>0</u>	<u>(1,507,651)</u>
Combined common share equity and deficit	<u>\$ 0</u>	<u>\$ (127,832)</u>

12. 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 approximates fair value as the loans bear interest at a rate which approximates market rate. The preferred shares are adjusted to fair value using the effective interest rate method of amortized cost.

SPECTRA INC.

Notes to Consolidated Financial Statements
September 30, 2019 and December 31, 2018

12. Financial Instruments (cont'd)

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 September 30, 2019, two major customers accounted for 38% and 17% 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.

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 \$24,278 decrease or increase to the Company's income before taxes for the quarter ended September 30, 2019. At September 30, 2019, the Company had net assets denominated in U.S. currency of USD242,776 (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	\$ 129,331	\$ 9,393
Accounts receivable	191,786	146,189
Accounts payable	-	(12,920)
	<u>\$ 321,117</u>	<u>\$ 142,662</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 Company's ability to meet its obligations and continue as a going concern is dependent upon its ability to obtain additional financing and achievement of profitable operations. Management plans to achieve profitable operations and pursue additional financing, however, there can be no assurance that the Company will be able to secure financing when needed or to obtain such financing on terms satisfactory to the Company (see note 1).

SPECTRA INC.

Notes to Consolidated Financial Statements
September 30, 2019 and December 31, 2018

12. Financial Instruments (cont'd)

d) Liquidity Risk (cont'd)

The following are the contractual maturities of the Company's financial liabilities as at September 30, 2019:

	Due	Due between				Total
	within 1 year	1 and 2 years	2 and 3 years	3 and 4 years	4 and 5 years	
Accounts payable and accrued charges	\$112,450	\$112,450	\$ -	\$ -	\$ -	\$ 112,450

e) Interest Rate Risk

The Company is not exposed to any interest rate risk.

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

	Dec 31, 2018	Cash flows	Fair value changes	Reclassified	Sep 30, 2019
Preferred shares					
Current Liability	\$ 216,058	\$(225,000)	\$ (8,942)		\$-
Long-Term Liability	115,756	(125,000)	(9,244)		-
Total	\$331,814	\$(350,000)	\$ (18,186)	\$ -	\$-
Royalty debenture					
Current Liability	\$ 643,578	\$(652,065)	\$ (8,487)		\$-
Long-Term Liability	-	-	-		-
Total	\$643,578	\$(652,065)	\$ (8,487)	\$ -	\$-

13. Related Party Transactions

- During 2019, management fees of \$66,200 (2018 - \$71,121) were paid to a company of a key executive who is a shareholder of the Company.
- During 2019, interest expense of \$9,000 (2018 - \$16,750) was paid to CABE Financial Corporation, at the time of payment a shareholder of the Company's subsidiary, Spectra Products Inc.

Included in accounts payable and accrued charges is \$9,730 (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.

SPECTRA INC.

Notes to Consolidated Financial Statements
September 30, 2019 and December 31, 2018

14. 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:

	2018	2017
Expected income tax expense at the combined Federal and provincial rate of 26.50% (2017- 26.50%)	\$ 131,274	\$ 59,045
Increase (decrease) in income taxes resulting from:		
Non-deductible permanent differences	804	1,166
Temporary difference for which no deferred tax asset was recognized	2,916	8,127
Tax loss utilized	(134,994)	(68,338)
	<u> </u>	<u> </u>
Provision for income taxes	\$ -	\$ -

No deferred tax asset has been recognized as the Company is reflecting uncertainties associated with realization of all deferred income tax assets. The significant components of the Company's deferred tax assets are as follows:

	2018	2017
Net operating losses carried forward	\$ 518,126	\$ 653,121
Equipment	44,100	54,560
Intangible assets	67,775	64,981
Investment and loan receivable	2,981	2,981
Royalty debenture	(2,249)	(6,105)
Preferred shares	20,818	14,091
	<u> </u>	<u> </u>
Deferred tax asset	\$ 651,551	\$ 783,629

The Company has non-capital tax losses available in the amount of approximately \$1,954,500 (2017 – \$2,463,900), 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	74,900
2029	384,500
2030	362,600
2031	239,900
2032	281,700
2033	62,100
2034	51,500
2035	61,300
2036	62,100
2037	74,700
2038	88,300
	<u> </u>
	\$ 1,954,500

SPECTRA INC.

Notes to Consolidated Financial Statements
September 30, 2019 and December 31, 2018

15. Commitments

- a) 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 was accrued as of that date.
- b) The Company entered into an extension of its operating lease for its premises. This extension commenced on January 1, 2018 and continues for five years until December 31, 2022. Under this lease extension the Company is obligated for base rental payments as follows:

2019	\$	5,187
2020		28,923
2021		30,180
2022		<u>30,180</u>
	\$	<u>94,470</u>

16. Segmented Information

Sales are attributed to countries based on location of customer.

	2019		2018	
Canada	\$	796,760	\$	816,576
China		82,372		92,696
United States		<u>775,971</u>		<u>692,105</u>
	\$	<u>1,655,103</u>	\$	<u>1,601,377</u>

In 2019, the Company derived 47% (2018 – 43%) of its revenue from sales to the United States and 5% (2018 – 6%) of its revenue from sales to China. The Company's equipment is located in Canada.

In 2019, the Company derived sales from three customers amounting to 32%, 8% and 6% of the total sales revenue (2018 – three customers amounting to 25%, 13% and 10%).