

SPECTRA PRODUCTS INC.
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023 AND 2022

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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, 2023 and December 31, 2022, 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, 2023 and December 31, 2022 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

LICENSED PUBLIC ACCOUNTANTS

Woodbridge, Canada
April 25, 2024

SPECTRA PRODUCTS INC.
Statements of Financial Position
December 31, 2023 and 2022

	Note	2023	2022
ASSETS			
Current			
Cash and cash equivalents		\$ 1,234,382	\$ 1,073,067
Loan receivable	4	11,276	-
Investments	5	79,603	183,126
Accounts Receivable	6	232,810	369,515
Inventories	7	299,369	227,472
Prepaid expenses		13,387	27,477
		<u>1,870,827</u>	<u>1,880,657</u>
Loan Receivable	4		20,316
Deferred Tax Asset	16	67,643	187,253
Right-of-use Asset	8	236,413	295,517
Total Assets		<u>\$ 2,174,883</u>	<u>2,383,743</u>
LIABILITIES			
Current			
Accounts payable and accrued charges	9	\$ 65,293	\$ 302,592
Lease liability - current portion	10	61,434	55,876
		<u>126,727</u>	<u>358,468</u>
Lease Liability	10	219,399	280,833
		<u>346,126</u>	<u>639,301</u>
SHAREHOLDERS' EQUITY			
Share Capital	11	711,549	791,261
Contributed Surplus	12	5,274,096	5,274,096
Equity Reserve	13	258,910	258,910
Accumulated Other Comprehensive Income		(211,338)	(90,722)
Accumulated Deficit		(4,204,460)	(4,489,103)
Total Shareholders' Equity		<u>1,828,757</u>	<u>1,744,442</u>
Total Liabilities and Shareholders' Equity		<u>\$ 2,174,883</u>	<u>2,383,743</u>

APPROVED ON BEHALF OF THE BOARD

"Andrew J. Malion"

Chairman

"Aidan Bolger"

Director

SPECTRA PRODUCTS INC.

Statements of Changes in Shareholders' Equity

Years ended December 31, 2023 and 2022

	Share capital	Contributed surplus	Equity reserve	Accumulated Other comprehensive income (OCI)	Accumulated deficit	Total shareholders' equity
Balance, January 1, 2023	\$ 791,261	\$ 5,274,096	\$ 258,910	\$ (90,722)	\$ (4,489,103)	\$ 1,744,442
Total comprehensive income	\$ -	\$ -	\$ -	\$ (120,616)	\$ 284,643	\$ 164,027
Purchase of common shares for cancellation	\$ (79,712)	\$ -	\$ -	\$ -	\$ -	\$ (79,712)
Balance, December 31, 2023	\$ 711,549	\$ 5,274,096	\$ 258,910	\$ (211,338)	\$ (4,204,460)	\$ 1,828,757

	Share capital	Contributed surplus	Equity reserve	Accumulated Other comprehensive income (OCI)	Accumulated deficit	Total shareholders' equity
Balance, January 1, 2022	\$ 937,719	\$ 5,232,866	\$ 172,140	\$ (274)	\$ (4,579,233)	\$ 1,763,218
Total comprehensive income	-	-	-	(90,448)	90,130	(318)
Stock based compensation	-	-	128,000	-	-	128,000
Forfeiture of unexercised options	-	41,230	(41,230)	-	-	-
Purchase of common shares into treasury	(146,458)	-	-	-	-	(146,458)
Balance, December 31, 2022	\$ 791,261	\$ 5,274,096	\$ 258,910	\$ (90,722)	\$ (4,489,103)	\$ 1,744,442

SPECTRA PRODUCTS INC.
Statements of Comprehensive Income
Years ended December 31, 2023 and 2022

	2023	2022
Sales	\$ 2,076,927	\$ 1,651,946
Cost of Sales	<u>1,124,289</u>	<u>822,884</u>
Gross Profit	<u>952,638</u>	<u>829,062</u>
Expenses		
Administrative costs (notes 13 and 15)	411,295	499,339
Selling costs (note 15)	113,716	110,954
Finance costs	9,514	7,492
Amortization	<u>59,104</u>	<u>43,968</u>
	<u>593,629</u>	<u>661,753</u>
Other Income (Loss)		
Foreign exchange gain (loss)	(3,244)	-
Interest income (note 15)	<u>31,394</u>	<u>1,539</u>
	<u>28,150</u>	<u>1,539</u>
Income Before Taxes	387,159	168,848
Deferred income taxes (note 16)	<u>102,516</u>	<u>78,718</u>
Net Income	<u>284,643</u>	<u>90,130</u>
Other Comprehensive Income:		
<i>Items that will not be reclassified through profit and loss:</i>		
Realized gains on investments net of tax of \$nil (2022 - \$3,046)	-	19,942
Unrealized loss on investments net of deferred tax of \$(17,093) (2022 - \$16,858)	<u>(120,616)</u>	<u>(110,390)</u>
	<u>(120,616)</u>	<u>(90,448)</u>
Total Comprehensive Income	<u>\$ 164,027</u>	<u>\$ (318)</u>
Net Income per Share - Basic & Diluted	<u>\$ 0.02</u>	<u>\$ 0.01</u>
Weighted Average Number of Common Shares		
Outstanding during the year - basic	14,524,480	15,112,822
Outstanding during the year - diluted	15,924,480	15,839,288

SPECTRA PRODUCTS INC.
Statements of Cash Flows
Years ended December 31, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Total comprehensive income	\$ 164,027	\$ (318)
Adjustments for:		
Deferred taxes	102,516	78,718
Finance costs	9,514	7,492
Loss (gain) on investments (net of deferred tax)	120,616	90,448
Foreign exchange gain (loss) on loan receivable	(1,144)	(1,416)
Amortization	59,104	43,968
Stock-based compensation	-	128,000
	<u>454,633</u>	<u>346,892</u>
Changes in:		
Accounts receivable	136,705	(122,861)
Inventories	(71,897)	(50,525)
Prepaid expenses	14,090	(22,740)
Accounts payable and accrued charges	(237,298)	178,466
	<u>(158,400)</u>	<u>(17,660)</u>
Cash used in operating activities:		
Interest paid	(9,514)	(7,492)
Net Cash Provided by Operating Activities	<u>286,719</u>	<u>321,740</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	-	55,545
Collection of loan receivable	10,184	
Purchase of investments	-	(12,619)
Net Cash Used in Investing Activities	<u>10,184</u>	<u>42,926</u>
Cash Flows from Financing Activities		
Repayment of lease liability	(55,876)	(22,688)
Purchase of common shares for cancellation	(79,712)	(146,458)
Net Cash Used in Financing Activities	<u>(135,588)</u>	<u>(169,146)</u>
Net Increase in Cash	161,315	195,520
Cash and Cash Equivalents - Beginning of Year	1,073,067	877,547
Cash and Cash Equivalents - End of Year	<u>\$ 1,234,382</u>	<u>\$ 1,073,067</u>
Cash	434,382	1,073,067
Cash equivalents	800,000	-
Cash and Cash Equivalents	<u>\$ 1,234,382</u>	<u>\$ 1,073,067</u>

Non-cash Investing and Financing Transactions:

During the year ended December 31, 2022, the right of use asset and lease liability were revalued as a result of a modification to the terms of the lease. The asset and liability were each increased by \$182,999.

SPECTRA PRODUCTS INC.
Notes to Financial Statements
December 31, 2023 and 2022

1 Nature of Business and Basis of Presentation

Nature of Business

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

Basis of Presentation

These 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 25, 2024.

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 the product is handed over to the shipper for delivery to the customer. 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, and 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.

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) Cash and cash equivalents

Cash comprises deposits held in financial institutions, and cash equivalents comprise short-term investments with a maturity of three months or less. All are stated at their fair value.

2 Summary of Significant Accounting Policies (cont'd)

e) Leases

The Company recognizes a right-of-use asset and liability on the commencement date of a lease. 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 amortized using the straight-line method over the lease term of 5 years.

The 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) 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.

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 measures its stock-based compensation at fair value using the Black-Scholes option pricing model. Compensation expense is recognized over the stock option vesting period with a corresponding credit to equity reserve. When the stock options are exercised, the proceeds, together with the amount recorded in equity reserve, are recorded in share capital. The value of vested options that have expired or are forfeited are transferred from equity reserve to contributed surplus.

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 1,400,000 stock options granted and vested in 2023 (1,400,000 in 2022). Therefore, the computation of diluted income per share reflects the exercise of these stock options.

SPECTRA PRODUCTS INC.
Notes to Financial Statements
December 31, 2023 and 2022

2 Summary of Significant Accounting Policies (cont'd)

j) 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;
- Fair value of stock-based compensation;
- Deferred income taxes;
- Determination of lease term of contracts with renewal options;
- Incremental borrowing rate for leases

k) Comprehensive income and 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, 2023 the balance of other comprehensive loss is \$211,338 which represents the cumulative net after-tax realized gain and unrealized losses on investments (2022 – \$90,722). Based upon its business model, the Company has taken the option to irrevocably designate its current equity investments at fair value through other comprehensive income. Any subsequent gains or losses when realized will be recognized directly into equity.

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.

Cash and cash equivalents are classified as financial asset measured at fair value through profit and loss.

Investments in equity 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 investments at fair value through other comprehensive income. All gains or losses are recognized through equity.

Accounts and loan receivable are classified as financial asset measured at amortized cost. These assets are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and accounts receivable to fair value.

SPECTRA PRODUCTS INC.
Notes to Financial Statements
December 31, 2023 and 2022

2 Summary of Significant Accounting Policies (cont'd)

l) Financial instruments (cont'd)

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 less 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'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 marketable securities, and as at December 31, 2023 these have been valued using Level 1.

m) 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.

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.

SPECTRA PRODUCTS INC.
Notes to Financial Statements
December 31, 2023 and 2022

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.

The components of capital are as follows:

	2023	2022
Share capital	\$ 711,549	\$ 791,261
Contributed surplus	5,274,096	5,274,096
Equity reserve	258,910	258,910
Other Comprehensive Income (Loss)	(211,338)	(90,722)
Accumulated deficit	(4,204,460)	(4,489,103)
	<u>\$ 1,828,757</u>	<u>\$ 1,744,442</u>

4 Loan Receivable

On July 19, 2021, the Company advanced USD \$15,000 to the Company's President, Andrew Malion. This loan was due for repayment on July 19, 2022 together with interest at 5%. In 2022, the maturity date of the loan was extended by the Board of Directors to July 19, 2024. During the year, USD \$7,500 of the loan was repaid. At December 31, 2023, the Canadian dollar converted value of this loan is \$11,276 (2022 - \$20,316).

5 Investments

Investments comprise marketable securities.

	2023	2022
Marketable securities	<u>\$ 79,603</u>	<u>\$ 183,126</u>

6 Accounts Receivable

	2023	2022
Trade receivables	\$ 215,400	\$ 350,165
Government remittances receivable	12,333	18,891
Interest receivable (note 15)	5,077	459
	<u>\$ 232,810</u>	<u>\$ 369,515</u>

At December 31, 2023 based on the Company's experience, there was \$nil allowance for doubtful accounts (2022 – \$nil).

SPECTRA PRODUCTS INC.
Notes to Financial Statements
December 31, 2023 and 2022

7 Inventories

	2023	2022
Finished goods	\$ 253,326	\$ 119,274
Raw materials	46,043	108,198
	<u>\$ 299,369</u>	<u>\$ 227,472</u>

8 Right-of-use asset

	2023	2022
Cost	\$ 443,809	\$ 443,809
Less: Accumulated amortization	(207,396)	(148,292)
	<u>\$ 236,413</u>	<u>\$ 295,517</u>

9 Accounts Payable and Accrued Charges

	2023	2022
Trade and other payables	\$ 1,289	\$ 227,801
Accrued expenses (note 15)	52,345	65,244
Government remittances payable	11,659	9,547
	<u>\$ 65,293</u>	<u>\$ 302,592</u>

10 Lease Liability

The Company entered into a lease for premises on January 1, 2018 for five years until December 31, 2022 and was renewed for another five years to December 31, 2027. The present value of the lease liability has been calculated using the Company's incremental borrowing rate of 3.10% per annum.

	2023	2022
Lease liability	\$ 280,833	\$ 336,709
Less: current portion	(61,434)	(55,876)
Long-term portion	<u>\$ 219,399</u>	<u>\$ 280,833</u>

The Company paid lease payments of \$65,390 (2022- \$30,180), comprising principal repayment of the lease liability of \$55,876 (2022 - \$22,688) and interest expense of \$9,514 (2022 - \$7,492).

11 Share Capital

Authorized

Unlimited	common shares with no par value
Unlimited	first, second, third and fourth preferred shares with no par value 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, with no par value, non-cumulative dividends of 10% per annum, redeemable at the stated value, non-voting

Issued and outstanding

	2023	2022
14,650,895 issued (2022 – 14,650,895) common shares		
14,312,395 outstanding (2022 – 14,650,895) common shares	<u>\$ 711,549</u>	<u>\$ 791,261</u>

SPECTRA PRODUCTS INC.
Notes to Financial Statements
December 31, 2023 and 2022

11 Share Capital (cont'd)

On October 31, 2022, the Company conducted a share consolidation whereby every five pre-consolidation shares were consolidated to one post-consolidation share.

During the course of the current year, the Company purchased for cancellation a total of 338,500 shares for a total cost of \$79,712, including \$3,125 of transaction costs. This share repurchase was in accordance with the Company's Notice of Intention to make Normal Course Issuer Bid, as accepted by the TSX Venture Exchange on March 23, 2023. As at December 31, 2023, these repurchased shares were not cancelled and were held by the Company.

During 2022, the Company purchased for cancellation a total of 771,100 shares (on a post-consolidated basis) for a total of \$146,458, including \$7,100 of transaction costs. This share repurchase was in accordance with the Company's Notice of Intention to make Normal Course Issuer Bid, as accepted by the TSX Venture Exchange on March 4, 2022.

12 Contributed Surplus

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

13 Equity Reserve

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, 2023 and December 31, 2022. All options and exercise prices have been adjusted for the share consolidation described in note 11.

	2023		2022
	Number of Options	Weighted Exercise Price	Number of Options
			Weighted Exercise Price
Balance, Beginning of Year	1,400,000	\$ 0.16	660,000
Granted	-		900,000
Forfeited	-		(160,000)
Balance, End of Year	1,400,000	\$ 0.16	1,400,000
			\$ 0.16

On November 4, 2022, the Company granted 900,000 stock options to directors, which give the holder the right to acquire shares at \$0.11 per share. They vested immediately upon issuance and are exercisable on or before November 4, 2027. The remaining 500,000 options are comprised of 260,000 options that expire on October 15, 2024 and 240,000 options that expire on March 17, 2026.

The fair value of stock options granted in 2022 was estimated as at the grant date using the Black-Scholes option pricing model with the following assumptions:

	<u>2022</u>
Risk-free interest rate	3.67%
Expected term of options	5 years
Volatility	166%
Stock price	\$0.15
Fair value per option	\$0.11

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13 Equity Reserve (cont'd)

For the year ended December 31, 2023, stock-based compensation expense was \$0 (2022 - \$128,000). Stock-based compensation expense was recorded in the statement of comprehensive income as administrative costs with a corresponding credit to equity reserve.

As at December 31, 2023, the average remaining contractual life of outstanding options was approximately 2.6 years (December 31, 2022 – 3.6 years). A total of 500,000 options (2022 - 500,000 options) were exercisable at a price of \$0.25 and a total of 900,000 options (2022 - 900,000) were exercisable at a price of \$0.11.

14 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.

Reconciliation of fair value measurement under Level 3 of the hierarchy

	2023	2022
Opening balance	\$ -	\$ 76,800
Purchases	-	-
Sales	-	-
Transfers	-	-
Remeasurements recognized in OCI	-	(76,800)
Closing balance	<u>\$ -</u>	<u>\$ -</u>

The Company measured a previously-held subordinated convertible promissory note at level 3 of the fair value hierarchy.

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, 2023, two major customers accounted for 64% and 9% of accounts receivable (2022 – three major customers accounted for 54%, 14% and 11%).

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

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14 Financial Instruments Fair Value and Risks (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 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 \$30,132 increase or decrease to the Company's income before taxes and \$7,285 to other comprehensive income for the year ended December 31, 2023. At December 31, 2023, the Company had net assets denominated in U.S. currency of USD \$282,910 (2022 – USD \$371,872) 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.

	2023	2022
Cash	\$ 116,730	\$ 238,404
Accounts receivable	164,755	205,097
Loan receivable	19,839	20,316
Investments	72,853	39,846
	\$ 374,177	\$ 503,663

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, 2023

	Due within 1	Due between				Total
	year	1 and 2	2 and 3	3 and 4 years		
	year	years	years			
Accounts payable and accrued charges	\$ 65,293	-	-	-	\$	65,293
Principal repayments on lease liability	61,434	67,164	73,072	79,163		280,833
Interest payments on lease liability	7,729	5,771	3,635	1,317		18,452
Total	\$ 134,456	72,935	76,707	80,480	\$	364,578

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 \$7,960 increase or decrease to the Company's other comprehensive income for the year ended December 31, 2023.

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15 Related Party Transactions

- a) During 2023, fees of \$44,000 (2022 - \$44,000) were paid to a company of a key executive, included within administrative costs.
- b) During 2023, commissions and salaries of \$115,722 (2022 - \$92,191) were paid to the President of the Company, included within administrative and selling costs.
- c) The Company earned \$1,417 of interest during the year on the loan described in note 4 (2022 - \$1,539). Included within accounts receivable as at December 31, 2023 is an amount of \$47 (2022 - \$459).
- d) During 2023, director fees of \$3,000 (2022 - \$500) were paid to the non-managerial directors of the company, included within administrative costs.

Included in accounts payable and accrued charges is \$2,178 (2022 - \$12,349) of commission payable to the President of the Company.

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

16 Income Taxes

Income tax expense varies from the amount that would be computed by applying the combined Federal and Provincial

	2023	2022
Expected income tax expense at the combined Federal and provincial rate of 26.50% (2022 - 26.5%)	\$ 102,597	\$ 44,745
Increase (decrease) in income taxes resulting from: Non-deductible permanent differences	134	33,973
Provision for Income Taxes	<u>\$ 102,731</u>	<u>\$ 78,718</u>

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

	2023	2022
Current	\$ -	\$ -
Deferred	102,516	78,718
Provision for Income Taxes	<u>102,516</u>	<u>78,718</u>
Deferred taxes charged (credit) to OCI	<u>\$ 17,093</u>	<u>\$ (13,798)</u>

The Company has deferred tax assets of \$67,643 (2022 - \$187,253). The significant components of the Company's deferred tax assets are as follows:

	2023	2022
Net operating losses carried forward	\$ 37,070	\$ 131,973
Equipment	15,658	19,626
Intangible assets	3,143	4,191
Financing cost	-	3,703
Right of use asset and lease liability	11,771	10,916
Unrealized capital gains related to OCI	-	16,844
Deferred Tax Asset	<u>\$ 67,643</u>	<u>\$ 187,253</u>

The Company has non-capital tax losses available in the amount of approximately \$139,888 (2022 - \$497,811), which can be carried forward to be applied against future years' taxable income. These losses, if unused, will expire in the following year:

2039 \$ 139,888

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17 Segmented Information

Sales are attributed to countries based on location of customer.

	2023	2022
Canada	\$ 1,033,916	\$ 793,004
United States	1,036,506	852,063
Other	6,505	6,879
	\$ 2,076,927	\$ 1,651,946

In 2023, the Company derived 50% (2022 – 52%) of its revenue from sales to the United States. The Company's equipment is located in Canada.

In 2023, the Company derived sales from one customer in the United States amounting to 32% of the total sales revenue (2022 – one customer in the United States amounting to 32%).

18 Subsequent event

During January and February 2024, the Company purchased an additional 206,500 shares under its existing Normal Course Issuer Bid as described in Note 11. In March 2024, 545,000 shares purchased under this program were cancelled.

As of April 3, 2024, the TSX Venture Exchange accepted the Company's Notice of Intention to make a Normal Course Issuer Bid ("NCIB") to purchase for cancellation up to a maximum of 705,294 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 NCIB represents 5.0% of the Company's 14,105,895 common shares outstanding as at the date above. The NCIB commenced on April 8, 2024 and will terminate on April 7, 2025 or at such earlier time as the NCIB is completed or terminated at the option of the Company.

19 Reclassification of prior year balances

Certain comparative amounts have been reclassified to conform to current year financial statement presentation. This reclassification did not result in changing net income, comprehensive income or other significant measurements.