Spectra Products Inc.

Management Discussion and Analysis

Annual and Fourth Quarter Ended December 31, 2020

March 17, 2021

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The following Management Discussion and Analysis is supplementary to, and should be read in conjunction with the audited financial statements for the fiscal period ended December 31, 2020. The financial statements have been prepared on the basis of International Financial Reporting Standards ("IFRS"). In this Management Discussion and Analysis all amounts, unless otherwise indicated, are expressed in Canadian dollars. This MD&A is written as of March 17, 2021.

Description of Business

Spectra Products Inc., (the "Company"), supplies products to the transportation industry. The current product line includes a visual brake stroke indicator, Brake Safe®, that permits vehicle drivers and maintenance personnel to visually determine the brake adjustment condition of a truck, trailer or bus equipped with an air activated brake system. The Company's electronic version of Brake Safe® is an air brake diagnostic system called Brake Inspector®. This product provides an in-cab display of air brake status and permits diagnosis of various existing and potential brake problems with the foundation brakes of trucks, trailers and buses. The Company also supplies an anti-corrosion lubricant called Termin-8r® to the transportation industry and Zafety Lug Lock® a product that prevents wheel-end lug nuts from loosening leading to wheel damage or wheel loss. The Company's products also include Hub Alert® a heat sensitive label that is applied to each wheel hub of trucks, trailers, buses and off-road vehicles to provide an early warning of critical temperature threshold levels where safety and maintenance issues may be pending. The Company has secured the exclusive licensing rights to manufacture and sell the Anti-Seize Cotter Pin™. The Anti-Seize Cotter Pin™ is a unique product that keeps clevis pins from seizing in slack adjusters. A seized clevis pin can cause brake binding and loss of brake force.

The Company manufactures its Brake Safe® and Brake Inspector® products utilizing sub-contract suppliers and receives the product components for select subassembly and packaging. The Termin-8r® product line is blended, packaged and shipped to the Company's warehouse ready for shipping to customers or in the case of private label shipped direct to the customer from the packaging facility. The Company distributes Zafety Lug Lock® under a non-exclusive distribution arrangement and Hub Alert® is distributed on an exclusive basis for Canada and a non-exclusive basis for the U.S. The Company also signed an exclusive manufacturing and distribution contract on our newest wheel end safety product the Anti-Seize Cotter Pin™.

The Company's products are sold to the transportation industry directly to "house account" fleets; through traditional transportation distributors and truck/trailer dealerships; and to several trailer manufacturers.

Financial Instruments and Financial Risk Management
The Company utilizes its risk management strategy to limit its exposure to financial risks resulting from its manufacturing and sales activities and its use of financial instruments including market risk, credit risk and liquidity risk. The Company's risk management policy has not changed during 2020.

Market Risk
Market risk is the risk that changes in market prices due to foreign exchange rates and interest rates will affect the Company's income of the value of its financial instruments. The objective of market risk management is to mitigate and control exposures within acceptable parameters.

Foreign currency risk
The Company realizes a portion of its revenue and expenses in foreign currencies. Consequently, some assets, revenue and expenses are exposed to foreign exchange fluctuations. The following assets, revenue and expenses originated in United States dollars and are subject to fluctuations:

As at December 31, 2020

Net assets	$ 392,025
Revenue	$ 770,518
Expenses	$ 0

Foreign currency sensitivity analysis
The Company is marginally exposed to foreign currency fluctuations as certain revenues and expenses derived from sales activities in the United States and China are denominated in U.S. dollars. As at December 31, 2020, the Company had USD308,135 of net current assets denominated in U.S. dollars. The Company's sensitivity to foreign currency fluctuations is such that a 10% strengthening or weakening of the U.S. dollar would result in a $30,814 increase or decrease, respectively, to the Company's income before income taxes for the year ended December 31, 2020.

Interest rate risk
The Company is not exposed to any interest rate risk.

Credit Risk
Credit risk is the risk that one party to a financial instrument may be unable to discharge their obligation. The Company's main source of credit risk is outstanding accounts receivable and the Company's maximum exposure to credit risk is equal to the carrying value of the financial assets. In order to prevent losses, the Company manages credit risk by assessing the credit worthiness of potential customers and regularly monitoring outstanding accounts receivable. In determining impairment of financial assets, the Company reviews all receivable balances greater than 90 days and assesses customer payment history. At December 31, 2020, three customers accounted for 75% of the Company's total trade receivables (December 31, 2019 - three, 68%):

	At Dec 31, 2020	**At Dec 31, 2019**
1-30 days	82,292	113,083
31-60 days	77,104	81,825
60+ days	0	4,310
Total trade receivables	159,396	199,218
Allowance for bad debts	0	0
Net trade receivables	159,396	199,218
Other receivables	10,500	9,385
Total receivables	169,896	208,603

For the year ended December 31, 2020, three customers accounted for 52% of the Company's revenue (December 31, 2019, three customers, 53% of revenue).

Liquidity Risk
Liquidity risk encompasses the risk that a company cannot meet its financial obligations as they become due. The Company's approach in managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking harm to the Company's reputation. The Company manages its liquidity risk by continuously monitoring its actual cash flows and its forecasted cash flows. In the event the Company's current cash and cash equivalents become insufficient to meet the anticipated need for ongoing expenses, working capital and capital expenditures, the Company will seek additional funds in the form of equity or debt to provide working capital, inventory and capital equipment necessary to implement its business plan.

Fair Value
The Company's financial assets and liabilities are classified and measured as follows:
Cash is classified as financial asset measured at fair value through profit and loss. Term deposits and accounts receivable are classified as financial assets measured at amortized cost. Investments in equity and convertible debentures are classified at fair value through other comprehensive income. Accounts payable and accrued charges, loan payable, 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.

The carrying amount of cash, term deposits, accounts receivable and accounts payable and accrued charges approximates fair value due to the short-term nature of these financial instruments. The carrying value of the royalty debenture 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 method.

Capital Disclosures

The Company's capital structure is comprised of shareholders' equity. There are no restrictions on the Company's capital. In order to maintain and adjust its capital structure, the Company may issue share capital, issue new debt and refinance existing debt.

The Company's objectives when managing capital are to ensure operation as a going concern in order to manufacture and sell its products to its customers while providing an adequate return to its shareholders and other stakeholders.

The Company meets its objectives for managing capital through preparation of detailed, annual budgets and the monitoring of financial performance. The Company reviews ongoing cash flow and monitors very closely its receivables and payables. Capital management objectives remain unchanged during 2020.

Financial Results

Selected Financial Information

The accompanying audited financial statements of the Company and all information in this report have been prepared by management and approved by the Board of Directors of the Company. The financial statements were prepared on the basis of "IFRS" and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the financial statements within reasonable limits of materiality. Financial and operating data elsewhere in this report are consistent with the information contained in the financial statements.

Internal Controls

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that its assets are safeguarded, that only valid and authorized transactions are executed, and that accurate, timely and comprehensive financial information is prepared.

The Board of Directors carries out its responsibility for the financial statements in this annual and quarterly report principally through its Audit Committee. A majority of the members of the Audit Committee are independent, non-management directors and all members of the Audit Committee are appointed by the Board of Directors. The Audit Committee meets with management and, where necessary, the external auditors to discuss the results of the annual audit examinations with respect to the adequacy of internal accounting controls and to review and discuss the financial statements and financial reporting matters.

SUMMARY OF QUARTERLY RESULTS
The table below sets forth certain information for each of the eight most recent quarters, the most recent quarter being December 31, 2020.

QUARTERLY DATA

Canadian Dollars	Three month period ending:							
	31.12.20	30.09.20	30.06.20	31.03.20	31.12.19	30.09.19	30.06.19	31.03.19
Revenue	408,867	343,882	305,351	535,926	380,944	491,286	668,310	495,507
Gross Profit	231,160	202,328	173,969	311,792	217,539	277,429	368,274	282,347
Gain (loss) on extinguishment of debt							(9,759)	
SG&A expenses	116,354	78,811	97,459	127,067	255,603	140,601	153,486	161,782
Debt value adjustment							(7,886)	(9,028)
Income taxes	(32,132)	(32,306)	(19,838)	(46,776)	508,407			
Net income (loss) for the period	81,111	89,604	55,024	129,737	437,098	136,828	192,662	106,287
Other comprehensive income	247,986							
Total comprehensive income	329,097	89,604	55,024	129,737	437,098	136,828	192,662	106,287
Income (loss) per share								
basic	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00
diluted	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00

Results of Operations

Revenue:
Three months ended December 31, 2020
Revenue for the three months ended December 31, 2020 increased by 7 percent to $408,867 compared to revenue of $380,944 for the three-month period ended December 31, 2019.

Year ended December 31, 2020
Revenue for the year ended December 31, 2020 decreased by 22 percent to $1,594,026 compared to revenue of $2,036,047 for the comparable period ended December 31, 2019.

Gross Profit
Three months ended December 31, 2020
Gross profit increased by 6% for the three months ended December 31, 2020 to $231,160 or 57 percent of revenue from a comparable $217,539 or 57 percent of revenue for the three months ended December 31, 2019.

Year ended December 31, 2020
Gross profit decreased by 20% for the year ended December 31, 2020 to $919,249 or 58 percent of revenue from a comparable $1,145,589 or 56 percent of revenue for the year ended December 31, 2019.

Expenses:
Three months ended December 31, 2020

The Company has elected to present its statement of earnings utilizing a functional basis of classification in accordance with IAS 1. Under the functional classification of presentation, the expenses are classified based on their functions within the Company under specific headings.

Selling costs
Selling costs are comprised of the following categories:
- Commissions
- Travel and courier
- Trade shows
- Advertising and promotion

For the quarter ended December 31, 2020, selling costs were $27,890, $20,275 lower than the comparable costs of $48,165 for the quarter ended December 31, 2019. The decrease was due to lower commissions, lower travel costs and lower trade show costs.

Administrative costs
Administrative costs are comprised of the following categories:
- Management fees and salaries
- Professional fees
- Insurance
- Premises cost
- Interest and bank charges
- Office and general
- Stock based compensation

For the quarter ended December 31, 2020, administrative costs were $81,241, $126,197 lower than the comparable costs of $207,438 for the quarter ended December 31, 2019. The decrease was due to reduced management fees and the receipt of government payroll subsidies and no recurrence in 2020 of legal expenses and other costs re the amalgamation of the Company and to stock-based compensation of $88,160, both incurred in 2019.

Finance costs
Finance costs are comprised of the following categories:
- Debenture royalty
- Interest on long-term debt
- Accretion of discount on debt
- Amortization of financing costs

For the quarter ended December 31, 2020, finance costs were $1,563, $5,600 lower than the comparable costs of $7,163 for the quarter ended December 31, 2019.

Year ended December 31, 2020

The Company has elected to present its statement of earnings utilizing a functional basis of classification in accordance with IAS 1. Under the functional classification of presentation, the expenses are classified based on their functions within the Company under specific headings.

Selling costs
Selling costs are comprised of the following categories:
- Commissions
- Travel and courier
- Trade shows
- Advertising and promotion

For the year ended December 31, 2020, selling costs were $109,698, $63,454 lower than the comparable costs of $173,152 for the year ended December 31, 2019. The decrease was due to lower commissions, lower travel costs and lower trade show costs.

Administrative costs
Administrative costs are comprised of the following categories:

Management fees and salaries
Professional fees
Insurance
Premises cost
Interest and bank charges
Office and general
Stock based compensation

For the year ended December 31, 2020, administrative costs were $289,729, $248,591 lower than the comparable costs of $538,320 for the year ended December 31, 2019. The decrease was due to reduced management fees and the receipt of government payroll subsidies and no recurrence in 2020 of legal expenses and other costs re the amalgamation of the Company and to stock-based compensation of $88,160, both incurred in 2019.

Finance costs
Finance costs are comprised of the following categories:

Debenture royalty
Interest on long-term debt
Accretion of discount on debt
Amortization of financing costs

For the year ended December 31, 2020, finance costs were $6,510, $26,568 lower than the comparable costs of $33,078 for the year ended December 31, 2019.

Net income
Three months ended December 31, 2020
The net income for the three months ended December 31, 2020 was $81,111 compared to net income of $437,098 for the three months ended December 31, 2019.
Net income for the three months ended December 31, 2019 included a recovery of income taxes (deferred) in the amount of $508,407. There was no comparable amount in the three months ended December 31, 2020.

Year ended December 31, 2020
The net income for the year ended December 31, 2020 was $355,476 compared to net income of $872,875 for the year ended December 31, 2019.
Net income for the year ended December 31, 2019 included a recovery of income taxes (deferred) in the amount of $508,407. There was no comparable amount in the year ended December 31, 2020.

Other Comprehensive Income
Three months ended December 31, 2020
Other comprehensive income for the three months ended December 31,2020 was $247,986. This represented an unrealized gain on investments of $285,041, net of deferred tax of $37,055. There was no comparable amount in the three months ended December 31, 2020.

Year ended December 31, 2020
Other comprehensive income for the year ended December 31,2020 was $247,986. This represented an unrealized gain on investments of $285,041, net of deferred tax of $37,055. There was no comparable amount in the year ended December 31, 2020.

Total Comprehensive Income
Three months ended December 31, 2020
Total Comprehensive Income for the three months ended December 31, 2020 was $329,097 or $0.00 per share basic and fully diluted compared to net income of $437,098 or $0.00 per share basic and fully diluted for the three months ended December 31, 2019.
Total Comprehensive Income for the three months ended December 31, 2019 included a recovery of income taxes (deferred) in the amount of $508,407. There was no comparable amount in the three months ended December 31, 2020.

Year ended December 31, 2020
Total Comprehensive Income for the year ended December 31, 2020 was $603,462 or $0.01 per share basic and fully diluted compared to net income of $872,875 or $0.01 per share basic and fully diluted for the year ended December 31, 2019.
Total Comprehensive Income for the year ended December 31, 2019 included a recovery of income taxes (deferred) in the amount of $508,407. There was no comparable amount in the year ended December 31, 2020.

Investments

As at December 31, 2020, the company had the following investments:

Name	# of shares	Value ($)
Immunoprecise Antibodies – $75,000 Debenture**	17,647	343,058
Agex Therapeutics	10,000	19,304
Lineage Cell Therapeutics	15,000	33,147
Unity Biotechnology	12,000	79,857
Resonant	10,000	33,655
AIM5 Ventures	10,000	2,000
Cross Border Capital	10,000	2,000

Total investments	513,021

** This debenture matures on May 15, 2022 and bears interest at 10% payable annually. At any time prior to maturity, it is convertible by the Company into common shares at a price of $4.25 per share.

Statement of Financial Position:

Total Assets
Total assets as at December 31, 2020 were $1,948,485 an increase of 36 percent from $1,432,222, as at December 31, 2019.

Total Liabilities
Total liabilities as at December 31, 2020 were $283,484, a decrease of 24 percent from $370,683 as at December 31, 2019.

Liquidity and Cash Flow

Year ended December 30, 2020
During the year ended December 31, 2020, the operating activities of the Company provided $520,899 in net cash compared to a net cash contribution from operating activities of $591,474 during the same period in 2019. In 2020 non-cash items reduced cash contribution by $83,640 for the period compared to non-cash items reduced cash contribution by $350,598 for the year ended December 31, 2019.

These resulted in a net increase in cash resources of $438,977 and a cash resources balance at the end of the period of $569,826. During the equivalent period in 2019, the Company showed a net increase in cash resources of $7,875 and a cash resources balance of $130,829 at the end of the period.
As well as the cash resources the Company had, at December 31, 2020, investments valued at $513,021 compared to $175,000 at December 31, 2019. This resulted in short term cash and investments of $1,082,847 at December 31, 2020, compared to an equivalent amount of $305,829 at December 31, 2019.

Related Party Transactions
During the year ended December 31, 2020, management fees and salaries totaling $132,492 were paid to executives who were directors and/or shareholders or to companies controlled by them.

Off Balance Sheet Arrangements
As at December 31, 2020, the Company does not have any material off balance sheet arrangements.

Disclosure Controls and Procedures

The Directors and the President of the Company have evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the fourth quarter of 2020 and they have concluded that such disclosure controls and procedures are adequate and effective and are subject to regular review and update.

Segmented information

The Company operates in only one business segment and therefore does not report financial results on a segmented basis.

Outstanding Share Data
The Company's authorized share capital consists of an unlimited number of common shares; an unlimited amount of first, second, third and fourth preferred shares and 540,000 second preferred shares, Series 1.

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 was a half of a warrant with a whole warrant allowing the purchase of a common share from treasury at a price of $0.075 per share. The warrants were valued at $136,120 and expired, without being exercised, on December 28, 2020.

As at December 31, 2020, there were 77,109,971 outstanding common shares. As at December 31, 2020, the following is a description of the outstanding equity securities and convertible securities previously issued by the Company.

Designation of security	Number outstanding.	If convertible, exercisable or exchangeable for common shares, maximum number of common shares issuable.
Common shares	77,109,971	77,109,971
Stock options issued as at December 31, 2019	1,600,000	1,600,000
Stock options expired from January 1, 2020 to December 31, 2020	0	0
Stock warrants issued as at December 31, 2019	8,300,000	8,300,000
Stock warrants expired from January 1, 2020 to December 31, 2020	(8,300,000)	(8,300,000)
Total (maximum number of shares – fully diluted)	78,709,971	78,709,971

Share Options

The Company has a stock option plan that permits the grant of options to directors, officers, employees and consultants. The plan provides for the grant of a maximum number of options equal to ten percent of the issued and outstanding common shares, with a maximum term of five years, fully vesting at the date of grant. The fair value of stock-based compensation is determined using the Black-Scholes option-pricing model. Compensation expense is recognized over the stock option vesting period with a corresponding charge to contributed surplus.

	Options Granted	Weighted Exercise Price	Grant Date Weighted Price
Balance December 31, 2019	1,600,000	0.05	0.000
Granted	0	0.00	0.000
Expired during the year	0	0.00	0.000
Balance December 31, 2020	1,600,000	0.05	0.000

As at December 31, 2020, there were 1,600,000 outstanding options to acquire common shares (1,600,000 at the end of fiscal 2019). On March 17, 2021, the Company granted 1,700,000 stock options to directors and employees to acquire common shares at $0.05 per share. These additional options expire on March 17, 2026.

Warrants

On June 28, 2019, the Company completed a private placement of 16,600,000 common shares. Attached to each share was a half-warrant with a whole warrant allowing the purchase of a common shares from treasury at a price of $0.075 per share. The warrants were valued at $136,120 and expired, without being exercised, on December 28, 2020.

	Warrants Granted
Balance December 31, 2019	8,300,000
Granted	0
Expired during the year	(8,300,000)
Balance December 31, 2020	0

As at December 31, 2020, there were no outstanding warrants (8,300,000 at the end of fiscal 2019).

DIVIDEND POLICY

The Company does not currently have a policy of declaring or paying dividends on its common shares and preference shares. The Company intends to retain future earnings for use in its business and does not anticipate paying dividends in the foreseeable future.

OUTLOOK

While, as a result of the COVID-19 virus, the slow-down in the various market segments has reduced the Company's revenue levels, it was still able to remain profitable in the third quarter. The Company has strong cash reserves and is well positioned to maintain operations, albeit at reduced levels of revenue and profitability, until market levels return to normal.

The Company continues to focus its efforts on expanding the present market for its products while introducing those products into new markets as well as seeking out new products to complement our current wheel end safety offerings.

The Company's Signature Brake Safe® product is well established in the Canadian market and is gaining sales momentum in the lucrative American market. The Commercial Vehicle Safety Alliance [CVSA] is a nonprofit association comprised of local, state, provincial, territorial and federal commercial motor vehicle safety officials and industry representatives. The CVSA holds brake-focused enforcement events throughout the year to identify and remove commercial vehicles with dangerous brake issues from the roadways. Brakes out of adjustment continue to be the number one out service violation in North America as evidenced last year during International Roadcheck and Operation Air Brake.

A program has been developed to educate companies of these enforcement changes and the resulting increased intervention by regulatory agencies in order to capitalize on sales opportunities for Brake Safe.

The Company's Termin-8R® product continues to receive strong industry acceptance with a corresponding growth in sales to the transportation segment. The private label arrangement made for a leading supplier to the commercial transport industry is proving to be an excellent performer.

The Company will continue to form strategic distribution alliances in the United Sates to accelerate its wheel end safety product sales outside the Canadian marketplace.

FORWARD LOOKING STATEMENTS

The preceding MD&A provides a summary of the audited financial information of the Company contained therein. This discussion contains forward-looking statements that involve certain risks and uncertainties, which may include, but are not limited to, statements with respect to the future financial or operating performance of the Company. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others: general business, economic, competitive, political and social uncertainties; the actual results of marketing and sales activities; fluctuations in the value of Canadian dollars relative to other currencies; changes in labor costs or other costs of production including raw materials; delays in financing activities. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended.