Spectra Products Inc.

Management Discussion and Analysis

Second Quarter Ended June 30, 2020

July 23, 2020

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The following Management Discussion and Analysis is supplementary to, and should be read in conjunction with the interim financial statements for the fiscal period ended June 30, 2020. The interim 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 July 23, 2020

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 June 30, 2020

Net assets	$ 161,817
Revenue	$ 436,860
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 June 30, 2020, the Company had USD118,301 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 $11,830 decrease or increase, respectively, to the Company's income before income taxes for the six months ended June 30, 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 June 30, 2020, three customers accounted for 46% of the Company's total trade receivables (December 31, 2019 - three, 68%):

	At June 30, 2020	At Dec 31, 2019
1-30 days	105,538	113,083
31-60 days	69,503	81,825
60+ days	14,087	4,310
Total trade receivables	189,128	199,218
Allowance for bad debts	0	0
Net trade receivables	189,128	199,218
Other receivables	24,396	9,385
Total receivables	213,524	208,603

For the six months ended June 30, 2020, three customers accounted for 51% 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. 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 consolidated 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 consolidated 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 consolidated financial statements within reasonable limits of materiality. Financial and operating data elsewhere in this report are consistent with the information contained in the consolidated 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 consolidated 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 June 30, 2020.

QUARTERLY DATA

Canadian Dollars	Three month period ending:							
	30.06.20	31.03.20	31.12.19	30.09.19	30.06.19	31.03.19	31.12.18	30.09.18
Revenue	305,351	535,926	380,944	491,286	668,310	495,507	444,429	559,181
Gross Profit	173,969	311,792	217,539	277,429	368,274	282,347	259,603	323,988
Gain (loss) on extinguishment of debt					(9,759)			
SG&A expenses	97,459	127,067	255,603	140,601	153,486	161,782	134,058	168,939
Debt value adjustment					(7,886)	(9,028)	(9,983)	(9,984)
Income taxes	(19,838)	(46,776)	508,407					
Income (loss) for the period	55,024	129,737	437,098	136,828	192,662	106,287	108,436	145,065
Income (loss) per share basic	0.00	0.01	0.01	0.00	0.00	0.00	0.00	0.00
diluted	0.00	0.01	0.01	0.00	0.00	0.00	0.00	0.00

Results of Operations

Revenue:
Three months ended June 30, 2020
Revenue for the three months ended June 30, 2020 decreased by 54 percent to $305,351 compared to revenue of $668,310 for the three-month period ended June 30, 2019.

Six months ended June 30, 2020
Revenue for the six months ended June 30, 2020 decreased by 28 percent to $841,277 compared to revenue of $1,163,817 for the six-month period ended June 30, 2019.

Gross Profit
Three months ended June 30, 2020
Gross profit decreased by 53% for the three months ended June 30, 2020 to $173,969 or 57 percent of revenue from a comparable $368,274 or 55 percent of revenue for the three months ended June 30, 2019.

Six months ended June 30, 2020
Gross profit decreased by 25% for the six months ended June 30, 2020 to $485,761 or 58 percent of revenue from a comparable $650,621 or 56 percent of revenue for the six months ended June 30, 2019.

Expenses:
Three months ended June 30, 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 June 30, 2020, selling costs were $23,557, $23,503 lower than the comparable costs of $47,060 for the quarter ended June 30, 2019. The decrease was due to lower commissions and lower travel 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 June 30, 2020, administrative costs were $67,381, $39,045 lower than the comparable costs of $106,426 for the quarter ended June 30, 2019. The decrease was due to reduced management fees and the receipt of government payroll subsidies.

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 June 30, 2020, finance costs were $1,648, $9,988 lower than the comparable costs of $11,636 for the quarter ended June 30, 2019.

Six months ended June 30, 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 six months ended June 30, 2020, selling costs were $60,459, $25,221 lower than the comparable costs of $85,680 for the six months ended June 30, 2019. The decrease was due to lower commissions and lower travel 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 six months ended June 30, 2020, administrative costs were $157,546, $72,042 lower than the comparable costs of $229,588 for the six months ended June 30, 2019. The decrease was due to reduced management fees and the receipt of government payroll subsidies.

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 six months ended June 30, 2020, finance costs were $3,340, $22,574 lower than the comparable costs of $25,914 for the six months ended June 30, 2019.

Net income, before taxes
Three months ended June 30, 2020
The net income before taxes for the three months ended June 30, 2020 was $74,862 or $0.00 per share basic and fully diluted compared to net income before taxes of $192,662 or $0.00 per share basic and fully diluted for the three months ended June 30, 2019.

Six months ended June 30, 2020
The net income before taxes for the six months ended June 30, 2020 was $251,375 or $0.00 per share basic and fully diluted compared to net income before taxes of $298,949 or $0.00 per share basic and fully diluted for the six months ended June 30, 2019.

Statement of Financial Position:

Total Assets
Total assets as at June 30, 2020 were $1,521,925, an increase of 6 percent from $1,432,222, as at December 31, 2019.

Total Liabilities
Total liabilities as at June 30, 2020 were $275,625, a decrease of 26 percent from $370,683 as at December 31, 2019.

Liquidity and Cash Flow

Three months ended June 30, 2020
During the quarter ended June 30, 2020, the operating activities of the Company provided $99,564 in net cash compared to a net cash contribution from operating activities of $272,012 during the same period in 2019. In 2020 non-cash items contributed $8,169 for the quarter compared to $22,126 for the quarter ended June 30, 2019.
These resulted in a net increase in cash resources of $199,564 and a cash resources balance at the end of the period of $382,426. During the equivalent period in 2019, the Company showed a net increase in cash resources of $116,078 and a cash resources balance of $150,738 at the end of the period.
As well as the cash resources the Company had invested at June 30, 2020, $75,000 in short-term investments, resulting in short term cash and term deposits of $457,426, compared to an equivalent amount of $305,829 at December 31, 2019.

Six months ended June 30, 2020
During the six months ended June 30, 2020, the operating activities of the Company provided $151,597 in net cash compared to a net cash contribution from operating activities of $408,718 during the same period in 2019. In 2020 non-cash items contributed $16,381 for the period compared to $36,404 for the six months ended June 30, 2019.
These resulted in a net increase in cash resources of $251,597 and a cash resources balance at the end of the period of $382,426. During the equivalent period in 2019, the Company showed a net increase in cash resources of $27,784 and a cash resources balance of $150,738 at the end of the period.
As well as the cash resources the Company had, at June 30, 2020, invested in $75,000 in a convertible debenture in Immunoprecise Antibodies Ltd, bearing interest at 10%, maturing on May 15, 2022 and convertible into common shares at a price of $0.85 per share. This resulted in short term cash and term deposits of $457,426, compared to an equivalent amount of $305,829 at December 31, 2019.

Related Party Transactions
During the six months ended June 30, 2020, management fees and salaries totaling $60,645 were paid to executives who were directors and/or shareholders or to companies controlled by them.

Off Balance Sheet Arrangements
As at June 30, 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 second 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 is a half of a 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 expire on December 28, 2020.

As at June 30, 2020, there were 77,109,971 outstanding common shares. As at June 30, 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 June 30, 2020	0	0
Stock warrants issued as at December 31, 2019	8,300,000	8,300,000
Stock warrants from January 1, 2020 to June 30, 2020	0	0
Total (maximum number of shares – fully diluted)	87,009,971	87,009,971

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 period	0	0.00	0.000

Balance June 30, 2020	1,600,000	0.05	0.000

As at June 30, 2020, there were 1,600,000 outstanding options to acquire common shares (1,600,000 at the end of fiscal 2019).

Warrants

On June 28, 2019, the Company completed a private placement of 16,600,000 common shares. Attached to each share is 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 expire on December 28, 2020.

	Warrants Granted
Balance December 31, 2019	8,300,000
Granted	0
Expired during the period	0
Balance June 30, 2020	8,300,000

As at June 30, 2020, there were 8,300,000 outstanding warrants to acquire 8,300,000 common shares (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 second 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.

The Company may seek sufficient additional funds to provide working capital, inventory and capital equipment as needs arise, but at the moment, cash flow from operations is sufficient to support current needs.

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.