Spectra Products Inc.

Management Discussion and Analysis

Annual and Fourth Quarter Ended December 31, 2022

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The following Management Discussion and Analysis ("MD&A") is supplementary to, and should be read in conjunction with the financial statements for the fiscal period ended 2022. 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 April 13, 2023.

Description of Business

Spectra Products Inc., ("Spectra" or the "Company"), supplies wheel end safety products to the transportation industry in Canada and the United States. The current product line includes Brake Safe, a visual indicator that permits vehicle drivers and maintenance to visually check the brake adjustment condition of a truck, trailer or bus equipped with an air brake system. The Company's Termin-8r® product is an extreme pressure lubricant, penetrant and the number one product in the market for protecting Electrical Vehicle charging ports and charging stations which are prone to corrosion. Zafety Lug Lock® is a product that prevents wheel-end lug nuts from loosening leading to wheel damage or wheel loss. 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. 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's products are sold to the transportation industry directly, through traditional transportation distributors and truck/trailer dealerships; and to trailer manufacturers in Canada and the United States.

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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 2022.

Market Risk

Market risk is the risk that changes in market prices due to external factors such as foreign exchange rates, interest rates, and other factors will affect the value of Spectra's financial instruments and consequently its income. The objective of market risk management is to mitigate and control exposures to 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, 2022

Net assets	$ 371,872
Revenue	$ 628,736
Expenses	$ 11,052

Foreign currency sensitivity analysis
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 $ 46,382 increase or decrease to the Company's income before taxes and $ 3,985 to other comprehensive income for the year ended December 31, 2022.

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, 2022, three customers accounted for 79% of the Company's total trade receivables (December 31, 2021- three, 81%):

	As at Dec 31, 2022	As at Dec 31, 2021
1-30 days	243,663	120,069
31 - 60 days	10,831	101,134
61 - 90 days	94,121	13,502
90 + days	1,550	-
Total trade receivables	350,164	234,705
Allowance for bad debts	-	-
Net trade receivables	350,164	234,705
Other receivables	19,350	11,949
Total receivables	369,515	246,654

For the year ended December 31, 2022, three customers accounted for 47% of the Company's revenue (December 31, 2021, two customers, 46% 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. Accounts receivable are classified as financial assets measured at amortized cost. Investments in equity and subordinated convertible promissory note are classified at fair value through other comprehensive income. Accounts payable and accrued charges and lease liability are classified as financial liabilities measured at amortized cost. Financial liabilities at amortized cost are recognized initially at fair value plus any directly attributable transaction costs and are subsequently recorded at amortized cost.

The carrying amount of cash, 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 investments in equity and convertible debentures approximate fair value based on quoted prices in active market. The carrying value of the subordinated convertible promissory note is stated at cost because it is an investment in a private corporation. The promissory note is carried at the fair value, being the estimated recoverable amount of the investment, estimated to be $nil as at December 31, 2022.

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, and issue new 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 2022.

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 International Financial Reporting Standards "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, 2022.

QUARTERLY DATA

Three-month period ending:

Canadian Dollars	12/31/2022	9/30/2022	6/30/2022	3/31/2022	12/31/2021	9/30/2021	6/30/2021	3/31/2021
Revenue	500,953	461,995	333,976	356,561	390,083	421,848	391,237	489,704
Gross Profit	235,156	247,875	177,896	169,674	199,452	234,858	225,331	294,844
SG&A Expenses	261,893	122,647	107,452	118,301	104,740	103,696	105,767	208,116
Income taxes	19,244	31,055	16,894	11,525	42,152	32,657	29,561	20,853
Net income (loss) for the period	(74,026)	86,414	45,746	31,996	32,093	90,558	82,010	57,836
Other comprehensive income (loss)	(56,424)	12,471	(47,308)	813	(29,175)	(36,896)	(99,002)	(83,187)
Total comprehensive income (loss)	(130,450)	98,885	(1,562)	32,809	2,918	53,662	(16,992)	(25,351)
Income (loss) per share - basic	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
- diluted	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Results of Operations

NON-IFRS MEASURES

In addition to discussing earnings measures in accordance with IFRS, this section of the MD&A discusses the following non-IFRS measures, which are performance indicators used by the Company's management and Board of Directors.

Earnings before stock-based compensation

Three-months ended December 31, 2022

		2022		2021
Net income (loss)	$	(74,026)	$	32,093
Add: stock-based compensation		128,000		83,980
Earnings before stock-based compensation	$	53,974	$	116,073

Year ended December 31, 2022

		2022		2021
Net income	$	90,130	$	262,497
Add: stock-based compensation		128,000		83,980
Earnings before stock-based compensation	$	218,130	$	346,477

The reduction in earnings before stock-based compensation is primarily a result of decreased gross profit. Gross profit reductions during the year were a result of price increases from suppliers that the Company was not able to pass onto its customers. The Company is currently working to restore margins through supplier negotiations and reviewing its product pricing, but there is no guarantee that the Company will receive any price reductions or be able to restore margins to historical levels.

IFRS MEASURES

Revenue:

Three months ended December 31, 2022

Revenue for the three months ended December 31, 2022 increased by 28% to $500,953 compared to revenue of $390,083 for the three-month period ended December 31, 2021.

Year ended December 31, 2022

Revenue for the year ended December 31, 2022 decreased by 2% percent to $1,653,485 compared to revenue of $1,692,872 for the comparable period ended December 31, 2021.

Gross Profit

Three months ended December 31, 2022

Gross profit increased by 18% for the three months ended December 31, 2022 to $235,156 or 47% of revenue from a comparable $199,452 or 51% percent of revenue for the three months ended December 31, 2021.

Year ended December 31, 2022

Gross profit decreased by13% for the year ended December 31, 2022 to $830,601 or 50% of revenue from a comparable $954,485 or 56% of revenue for the year ended December 31, 2021.

Expenses:

Three months ended December 31, 2022

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

For the quarter ended December 31, 2022, selling costs were $32,945 , $6,973 higher than the comparable costs of $25,972 for the quarter ended December 31, 2021. The increase was due to higher commissions and higher travel costs, partially offset by lower trade show costs.

Administrative costs

Administrative costs are comprised of the following categories:

- Management fees and salaries
- Professional fees
- Insurance
- Premises cost
- Office and general
- Stock based compensation

For the quarter ended December 31, 2022, administrative costs were $228,948 , $150,180 higher than the comparable costs of $78,768 for the quarter ended December 31, 2021. The increase was primarily due to an increase in stock-based compensation expense, professional fees and management fees and salaries.

Finance costs
Finance costs are comprised of interest on long-term debt. Long-term debt is entirely comprised of the lease obligation for the Company's premises.

For the quarter ended December 31, 2022, finance costs were $3,638 , $2,258 higher than the comparable costs of $1,380 for the quarter ended December 31, 2021.

Year ended December 31, 2022

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

For the year ended December 31, 2022, selling costs were $110,954 , $2,880 higher than the comparable costs of $108,074 for the year ended December 31, 2021. The increase was due to higher commissions, travel and trade show costs.

Administrative costs
Administrative costs are comprised of the following categories:

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

For the year ended December 31, 2022, administrative costs were $499,339 , $85,094 higher than the comparable costs of $414,245 for the year ended December 31, 2021. The increase was due to a $22,000 reduction in government payroll subsidies, a $44,000 increase to stock-based compensation, and a $12,000 increase to professional fees.

Finance costs
Finance costs are comprised of interest on long-term debt. Long-term debt is entirely comprised of the lease obligation for the Company's premises.

For the year ended December 31, 2022, finance costs were $7,492 , $1,694 higher than the comparable costs of $5,798 for the year ended December 31, 2021.

Amortization
The Company incurs amortization expense on its right of use asset and production equipment.

For the year ended December 31, 2022, amortization expense was $43,968 , $5,321 higher than the comparable costs of $38,647 for the year ended December 31, 2021.

Net income
Three months ended December 31, 2022
The net loss for the three months ended December 31, 2022 was $74,026 compared to net income of $32,093 for the three months ended December 31, 2021.

Year ended December 31, 2022
The net income for the year ended December 31, 2022 was $90,130 compared to net income of $262,497 for the year ended December 31, 2021.

Other Comprehensive Income
Three months ended December 31, 2022
Other comprehensive loss for the three months ended December 31, 2022 was $56,424 . This represents unrealized losses on investments of $53,379 and realized losses of $3,045 net of deferred tax. Other comprehensive loss for the quarter ended December 31, 2021 was $29,175 . This represented unrealized losses on investments net of deferred tax.

Year ended December 31, 2022
Other comprehensive loss for the year ended December 31, 2022 was $90,448 . This represented a realized gain of $19,942 offset by unrealized losses on investments of $110,390, net of deferred tax. Other comprehensive loss for the year ended December 31, 2021 was $248,260 . This represented unrealized losses on investments of $249,762, partially offset by realized gains of $1,502 net of deferred tax.

Total Comprehensive Income
Three months ended December 31, 2022
Total comprehensive loss for the three months ended December 31, 2022 was $130,450 or $0.01 per share basic and fully diluted compared to net income of $2,918 or $0.00 per share basic and fully diluted for the three months ended December 31, 2021.

Year ended December 31, 2022
Total comprehensive loss for the year ended December 31, 2022 was $318 or $0.00 per share basic and fully diluted compared to comprehensive income of $14,237 or $0.00 per share basic and fully diluted for the year ended December 31, 2021.

Investments
As at December 31, 2022, the company had the following investments:

Name	# shares	Value ($)
Immunoprecise Antibodies	17,647	124,580
Agex Therapeutics	10,000	7,475
Lineage Cell Thereapeutics	15,000	23,465
Unity Biotechnology	2,400	8,907
Cross Border Capital (Super Buzz)	10,000	1,700
Far Resources Ltd (Foremost)	100,000	17,000
Miso Brothers - USD $60,000 Promissory Note)	N/A	-
		183,126

The promissory note is convertible into common shares of the investee upon the fulfilment of certain conditions. The note maturity date was extended from September 20, 2022 to June 30, 2023 and bears interest at 15% payable at maturity. As at December 31, 2022, the Company has not received any accrued interest on this note, and the conditions for conversion have not been met. As a result, the value of this investment has been impaired until such time as it is deemed to be recoverable.

Statement of Financial Position:

Total Assets
Total assets as at December 31, 2022 were $2,383,743 an increase of 16% from $2,063,742 as at December 31, 2021.

Total Liabilities
Total liabilities as at December 31, 2022 were $639,301 , an increase of 113% from $300,524 as at December 31, 2021. The increase in liabilities is primarily a result of a remeasurement of the right of use lease liability due to an increase in lease costs.

Liquidity and Cash Flow
Year ended December 31, 2022
During the year ended December 31, 2022, the operating activities of the Company provided $321,740 in net cash compared to a net cash contribution from operating activities of $434,738 during the same period in 2021. Investing activities provided $42,926 of cash during the year compared to using $102,635 during the same period in 2021. Financing activities used $169,146 of cash during the year compared to using $24,382 of cash during the same period in 2021, primarily due to the Normal Course Issuer Bid share buyback program in 2022, described below under Outstanding Share Data.

These resulted in a net increase in cash resources of $195,520 and a cash resources balance at the end of the period of $1,073,067 . During the equivalent period in 2021, the Company showed a net increase in cash resources of $307,721 and a cash resources balance of $877,547 at the end of the period.
In addition to the above cash resources, the Company had, at December 31, 2022, investments valued at $183,126 compared to $330,298 at December 31, 2021. This resulted in short term cash and investments of $1,256,193 at December 31, 2022, compared to an equivalent amount of $1,207,845 at December 31, 2021.

Related Party Transactions
During the year ended December 31, 2022, management fees and salaries totaling $129,727 were paid to executives who were directors and/or shareholders or to companies controlled by them (2021 - $139,538).

During the year the Company collected USD $750 and accrued USD $339 of interest from the President on account of the USD $15,000 loan receivable. The loan's maturity date has been extended from July 19, 2022 to July 19, 2024.

Off Balance Sheet Arrangements
As at December 31, 2022, 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 2022 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 October 31, 2022, the Company conducted a share consolidation whereby every five pre-consolidation shares were consolidated to one post-consolidation share. Correspondingly, the number of issued and outstanding common shares was reduced by a factor of 5. All historical share amounts have been amended to reflect this consolidation.

As of March 4, 2022, the TSXV Venture Exchange accepted the Company's Notice of Intention to make a Normal Course Issuer Bid to purchase for cancellation, from time to time, as the Company considers advisable, up to a maximum of 771,100 common shares in the capital of the Company. The maximum number of Common Shares to be purchased pursuant to the Bid represents 5.0% of the Company's 15,421,994 Common Shares outstanding as at the date hereof. In the year ended December 31 2022, the

Company purchased 771,100 common shares (on a post-consolidated basis) for a total cost of $146,458, including $7,100 of transaction costs. Correspondingly, the number of issued and outstanding shares has been reduced by 771,100.

As at December 31, 2022, there were 14,650,895 outstanding common shares. As at December 31, 2022, 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	14,650,895	14,650,895
Stock options issued as at December 31, 2021	660,000	660,000
Stock options issued from January 1, 2022 to December 31, 2022	900,000	900,000
Stock options forfeited from January 1, 2022 to December 31, 2022	(160,000)	(160,000)
Total (maximum number of shares – fully diluted)	16,050,895	16,050,895

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**
Balance - December 31, 2021	660,000	0.25
Granted	900,000	0.11
Forfeited / Expired	(160,000)	0.25
Balance - December 31, 2022	1,400,000	0.16

As at December 31, 2022, there were 1,400,000 outstanding options to acquire common shares (660,000 at the end of fiscal 2021).

As at December 31, 2022, there were no outstanding warrants.

Subsequent Event

As of March 23, 2023, 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 732,545 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 14,650,895 common shares outstanding as at the date above.   The NCIB commenced on March 27, 2023 and will terminate on March 26, 2024 or at such earlier time as the NCIB is completed or terminated at the option of the Company.

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

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-of-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 is the number one product in the market for protecting Electrical Vehicle charging ports and charging stations. Termin-8R 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.