Spectra Products Inc.

Management Discussion and Analysis

Second Quarter Ended June 30, 2023

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The following Management Discussion and Analysis ("MD&A") is supplementary to, and should be read in conjunction with, the unaudited interim condensed financial statements for the three and six months ended June 30, 2023. In this Management Discussion and Analysis all amounts, unless otherwise indicated, are expressed in Canadian dollars. This MD&A is written as of August 22, 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 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.

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 2023. .

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 and for the six months ended June 30, 2023

	$ USD
Net assets	$ 397,714
Revenue	$ 619,379
Expenses	$ 10,131

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 $40,948 increase or decrease to the Company's income before taxes and $11,709 to other comprehensive income for the six months ended June 30, 2023.

Interest rate risk
The Company is exposed to interest rate risk due to a Guaranteed Investment Certificate ("GIC") investment. While each investment bears a fixed interest rate for its duration, changes in interest rates would impact the rate of return on future interest-bearing investments. The Company's sensitivity to interest rate fluctuation is such that a 1% change in interest rates would have a corresponding $3,500 increase or decrease to the Company's income before taxes for the six months ended June 30, 2023.

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, 2023, two customers accounted for 70% of the Company's total trade receivables (December 31, 2022- three, 79%):

	As at Jun 30, 2023	**As at Dec 31, 2022**
1-30 days	145,164	243,663
31 - 60 days	84,870	10,831
61 - 90 days	114,579	94,121
90 + days	-	1,550
Total trade receivables	344,613	350,165
Allowance for bad debts	-	-
Net trade receivables	344,613	350,165
Other receivables	33,591	19,350
Total receivables	378,204	369,515

For the six months ended June 30, 2023, one customer accounted for 29% of the Company's revenue (June 30, 2022, three customers, 55% 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 and loan 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 amount of loan receivable approximates fair value due to the market interest rate charged. The carrying value of investments in equity and convertible debentures approximate fair value based on quoted prices in active market. The promissory note is carried at the fair value, being the estimated recoverable amount of the investment, estimated to be $nil as of June 30, 2023.

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 2023.

Financial Results

Selected Financial Information

The accompanying unaudited interim condensed 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 unaudited interim condensed financial statements were prepared on the basis of International Accounting Standard 34 ("IAS 34") and, where appropriate, reflect management's best estimates and judgements. Management is responsible for the accuracy, integrity and objectivity of the interim condensed financial statements within reasonable limits of materiality. Financial and operating data elsewhere in this report are consistent with the information contained in the interim condensed financial statements.

Non-IFRS Measures

In addition to discussing earnings measures in accordance with IFRS, this MD&A discusses the following non-IFRS measure, which is a performance indicator used by the Company's management and Board of Directors: Earnings before stock-based compensation.

The following table reconciles IFRS measures disclosed in the unaudited interim condensed financial statements for the six months ended June 30, 2023 to Earnings before stock-based compensation:

	Six months ending June 30,		Three months ending June 30,	
	2023	2022	**2023**	2022
Net income (loss) for the period	**$ 198,692**	$ 77,742	**$ 117,982**	$ 45,746
Add: stock-based compensation	**-**	-	**-**	-
Earnings before stock-based compensation	**$ 198,692**	$ 77,742	**$ 117,982**	$ 45,746

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 unaudited interim condensed 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 unaudited interim condensed 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, 2023.

QUARTERLY DATA
Three-month period ending:

Canadian Dollars	6/30/2023	3/31/2023	12/31/2022	9/30/2022	6/30/2022	3/31/2022	12/31/2021	9/30/2021
Revenue	655,347	533,572	500,953	461,995	333,976	356,561	390,083	421,848
Gross Profit	299,974	256,471	235,156	247,875	177,896	169,674	199,452	234,858
SG&A Expenses	125,833	129,472	261,893	122,647	107,452	118,301	104,740	103,696
Income taxes	42,574	28,843	19,244	31,055	16,894	11,525	42,152	32,657
Net income (loss) for the period	117,982	80,708	(74,026)	86,414	45,746	31,996	32,093	90,558
Other comprehensive income (loss)	543	(47,161)	(56,424)	12,471	(47,308)	813	(29,175)	(36,896)
Total comprehensive income (loss)	118,525	33,547	(130,450)	98,885	(1,562)	32,809	2,918	53,662
Earnings before stock-based compensation	117,982	80,708	53,974	86,414	45,746	31,996	116,073	90,558
Income (loss) per share								
- basic	0.01	0.00	(0.01)	0.01	(0.00)	0.00	0.00	0.00
- diluted	0.01	0.00	(0.01)	0.01	(0.00)	0.00	0.00	0.00

Results of Operations

Revenue:

Three months ended June 30, 2023
Revenue for the three months ended June 30, 2023 increased by 96% to $655,347 compared to revenue of $333,976 for the three-month period ended June 30, 2022.

Six months ended June 30, 2023
Revenue for the six months ended June 30, 2023 increased by 72% to $1,188,669 compared to revenue of $690,537 for the three-month period ended June 30, 2022.

Gross Profit

Three months ended June 30, 2023
Gross profit increased by 69% for the three months ended June 30, 2023 to $299,974 or 46% of revenue from a comparable $177,896 or 53% percent of revenue for the three months ended June 30, 2022.

Six months ended June 30, 2023
Gross profit increased by 60% for the six months ended June 30, 2023 to $556,195 or 47% of revenue from a comparable $347,570 or 50% of revenue for the six months ended June 30, 2022.

Expenses:

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.

Three months ended June 30, 2023

<u>Selling costs</u>
Selling costs are comprised of the following categories:

- Commissions
- Travel and courier
- Trade shows

For the quarter ended June 30, 2023, selling costs were $36,676 which is $13,753 higher than the comparable costs of $22,923 for the quarter ended June 30, 2022. The increase was due to higher commissions and higher travel costs, partially offset by lower trade show costs.

<u>Administrative costs</u>
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 June 30, 2023, administrative costs were $89,157 which was $4,629 higher than the comparable costs of $84,528 for the quarter ended June 30, 2022. The increase was primarily due to an increase in office costs.

<u>Finance costs</u>
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 June 30, 2023, finance costs were $2,432 which was $1,148 higher than the comparable costs of $1,284 for the quarter ended June 30, 2022. The increase is due to a renewal of the Company's premises lease at a higher rate, resulting in increased values for the Company's right of use asset and liability.

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

For the three months ended June 30, 2023, amortization expense was $14,776 which was $8,256 higher than the comparable costs of $6,520 for the three months ended June 30, 2022. The increase is due to a renewal of the Company's premises lease at a higher rate, resulting in increased values for the Company's right of use asset and liability.

Six months ended June 30, 2023

Selling costs
Selling costs are comprised of the following categories:

- Commissions
- Travel and courier
- Trade shows

For the six months ended June 30, 2023, selling costs were $69,613 which is $21,272 higher than the comparable costs of $48,341 for the six months ended June 30, 2022. 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 six months ended June 30, 2023, administrative costs were $185,691 which was $8,280 higher than the comparable costs of $177,411 for the six months ended June 30, 2022. The increase was primarily due to an increase in office costs and 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 six months ended June 30, 2023, finance costs were $4,970 which was $2,353 higher than the comparable costs of $2,617 for the six months ended June 30, 2022. The increase is due to a renewal of the Company's premises lease at a higher rate, resulting in increased values for the Company's right of use asset and liability.

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

For the six months ended June 30, 2023, amortization expense was $29,552 which was $16,512 higher than the comparable costs of $13,040 for the six months ended June 30, 2022. The increase is due to a renewal of the Company's premises lease at a higher rate, resulting in increased values for the Company's right of use asset and liability.

Net income

Three months ended June 30, 2023

The net income for the three months ended June 30, 2023 was $117,982 compared to net income of $45,746 for the three months ended June 30, 2022.

Six months ended June 30, 2023

The net income for the six months ended June 30, 2023 was $198,692 compared to net income of $77,742 for the six months ended June 30, 2022.

Other Comprehensive Income

Three months ended June 30, 2023

Other comprehensive income for the three months ended June 30, 2023 was $543 . This represents unrealized gains on investments net of deferred tax. Other comprehensive loss for the quarter ended June 30, 2022 was $47,308 . This represented unrealized losses on investments net of deferred tax.

Six months ended June 30, 2023

Other comprehensive loss for the six months ended June 30, 2023 was $46,618 and represents unrealized losses on investments net of deferred tax. Other comprehensive loss for the six months ended June 30, 2022 was $46,495 and represented unrealized losses on investments net of deferred tax.

Total Comprehensive Income

Three months ended June 30, 2023

Total comprehensive income for the three months ended June 30, 2023 was $118,525 or $0.01 per share basic and fully diluted compared to total comprehensive loss of $1,562 or $(0.00)per share basic and fully diluted for the three months ended June 30, 2022.

Six months ended June 30, 2023

Total comprehensive income for the six months ended June 30, 2023 was $152,074 or $0.01 per share basic and fully diluted compared to total comprehensive income of $31,247 or $0.00 per share basic and fully diluted for the six months ended June 30, 2022.

Investments

As at June 30, 2023, the company had the following investments:

Name	# shares	Value ($)
Immunoprecise Antibodies	17,647	69,159
Agex Therapeutics	10,000	11,823
Lineage Cell Thereapeutics	15,000	28,003
Unity Biotechnology	2,400	8,103
Cross Border Capital (Super Buzz)	10,000	800
Far Resources Ltd (Foremost)	100,000	11,500
Miso Brothers - USD $60,000 Promissory Note)	N/A	-
		129,388

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 June 30, 2023, 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 June 30, 2023 were $2,356,293 a decrease of 1% from $2,383,743 as at December 31, 2022.

Total Liabilities
Total liabilities as at June 30, 2023 were $476,085 , a decrease of 26% from $639,301 as at December 31, 2022. The decrease in liabilities is primarily a result of a settling accounts payable balances.

Liquidity and Cash Flow

Three months ended June 30, 2023
During the three months ended June 30, 2023, the operating activities of the Company provided $137,793 in net cash compared to a net cash contribution from operating activities of $16,074 during the same period in 2022. Investing activities used $ nil of cash during the three months compared to using $12,618 during the same period in 2022. Financing activities used $30,223 of cash during the three months compared to using $43,361 of cash during the same period in 2022, primarily due to a higher amount of buybacks under 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 $107,570 and a cash resources balance at the end of the period of $1,124,525 . During the equivalent period in 2022, the Company showed a net decrease in cash resources of $39,905 and a cash resources balance of $1,073,067 at the end of the period.

Six months ended June 30, 2023
During the six months ended June 30, 2023, the operating activities of the Company provided $95,490 in net cash compared to a net cash contribution from operating activities of $32,021 during the same period in 2022. Investing activities used $ nil of cash during the six months compared to providing $42,926 during the same period in 2022. Financing activities used $44,032 of cash during the three months compared to using $61,573 of cash during the same period in 2022, primarily due to a higher amount of buybacks under 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 $51,458 and a cash resources balance at the end of the period of $1,124,525 . During the equivalent period in 2022, the Company showed a net increase in cash resources of $13,374 and a cash resources balance of $890,921 at the end of the period.

In addition to the above cash resources, the Company had, at June 30, 2023, investments valued at $129,388 resulting in short term cash and investments of $1,253,913 at June 30, 2023, compared to an equivalent amount of $1,256,193 at December 31, 2022.

Related Party Transactions

Three months ended June 30, 2023
During the three months ended June 30, 2023, management fees and salaries totaling $42,908 were paid to executives who were directors and/or shareholders or to companies controlled by them (2022 - $26,851).

During the three months the Company accrued $232 of interest from the President on account of the USD $15,000 loan receivable.

Six months ended June 30, 2023
During the six months ended June 30, 2023, management fees and salaries totaling $80,667 were paid to executives who were directors and/or shareholders or to companies controlled by them (2022 - $54,078).

During the six months the Company accrued $482 of interest from the President on account of the USD $15,000 loan receivable.

Off Balance Sheet Arrangements
As at June 30, 2023, 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 2023 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 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.

As at June 30, 2023, there were 14,561,395 outstanding common shares. As at June 30, 2023, 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	14,561,395	14,561,395
Stock options issued as at December 31, 2022	1,400,000	1,400,000
Stock options issued or expired	0	0
Total (maximum number of shares – fully diluted)	15,961,395	15,961,395

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, 2022	1,400,000	0.00
Granted	0	0.00
Forfeited / Expired	0	0.00
Balance - June 30, 2023	1,400,000	0.00

As at June 30, 2023, there were 1,400,000 outstanding options to acquire common shares (1,400,000 at December 31, 2022).

As at June 30, 2023, there were no outstanding warrants.

Subsequent Event

In connection with the NCIB program as described in above under "Outstanding Share Data", the Company has purchased 119,500 common shares at a cost of $28,685 as of the date of this MD&A.

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.