

Spectra Products Inc.

Management Discussion and Analysis

Third Quarter Ended September 30, 2021

October 25, 2021

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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 nine months ended September 30, 2021. 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 October 25, 2021.

Description of Business

Spectra Products Inc., (the “Company”), supplies wheel end safety 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 and buses. The Company’s Termin-8r[®] product is the number one product in the market for protecting Electrical Vehicle charging ports and charging stations which are prone to corrosion. Termin-8r[®] is also an extreme pressure lubricant and penetrant sold to the transportation industry. 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 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 2021.

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 or 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 September 30, 2021

Net assets	\$ 1,049,348
Revenue	\$ 692,782
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 are denominated in U.S. dollars. As at September 30, 2021, the Company had US\$658,858 of net current operating assets and US\$167,400 of investment 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 \$65,886 decrease or increase to the Company's income before income taxes and to a \$16,740 decrease or increase other comprehensive income before income taxes for the nine months ended September 30, 2021.

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 September 30, 2021, three customers accounted for 83% of the Company's total trade receivables (December 31, 2020 - three, 74%):

	At Sept 30, 2021	At Dec 31, 2020
1-30 days	178,999	82,292
31-60 days	45,527	77,104
60+ days	0	0
Total trade receivables	224,526	159,396
Allowance for bad debts	0	0
Net trade receivables	224,526	159,396
Other receivables	9,208	10,500
Total receivables	233,734	169,896

For the period ended September 30, 2021, three customers accounted for 53% of the Company's revenue (September 30, 2020, three customers, 52% 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 convertible debentures are classified at fair value through other comprehensive income. Accounts payable and accrued charges 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.

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 2021.

Financial Results

Selected Financial Information

The accompanying interim 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 interim 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 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 September 30, 2021.

QUARTERLY DATA

Canadian Dollars	Three month period ending:							
	30.09.21	30.06.21	31.03.21	31.12.20	30.09.20	30.06.20	31.03.20	31.12.19
Revenue	421,848	391,237	489,704	408,867	343,882	305,351	535,926	380,944
Gross Profit	234,858	225,331	294,844	231,160	202,328	173,969	311,792	217,539
SG&A Expenses	110,217	105,767	218,005	116,354	78,811	97,459	127,067	255,603
Income taxes	(32,657)	(29,561)	(20,853)	(32,132)	(32,306)	(19,838)	(46,776)	508,407
Net income (loss) for the period	90,558	82,010	57,836	81,111	89,604	55,024	129,737	437,098
Other comprehensive income	(36,896)	(99,002)	(83,187)	247,986				
Total comprehensive income	53,662	(16,992)	(25,351)	329,097	89,604	55,024	129,737	437,098
Income (loss) per share								
basic	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01
diluted	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01

Results of Operations

Revenue:

Three months ended September 30, 2021

Revenue for the three months ended September 30, 2021 increased by 23 percent to \$421,848 compared to revenue of \$343,882 for the three-month period ended September 30, 2020.

Nine months ended September 30, 2021

Revenue for the nine months ended September 30, 2021 increased by 10 percent to \$1,302,789 compared to revenue of \$1,185,159 for the nine-month period ended September 30, 2020.

Gross Profit

Three months ended September 30, 2021

Gross profit increased by 16% for the three months ended September 30, 2021 to \$234,858 or 56 percent of revenue from a comparable \$202,328 or 59 percent of revenue for the three months ended September 30, 2020.

Nine months ended September 30, 2021

Gross profit increased by 13% for the nine months ended September 30, 2021 to \$755,033 or 58 percent of revenue from a comparable \$668,089 or 56 percent of revenue for the nine months ended September 30, 2020.

Expenses:

Three months ended September 30, 2021

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 September 30, 2021, selling costs were \$26,839, \$5,490 higher than the comparable costs of \$21,349 for the quarter ended September 30, 2020.

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 September 30, 2021, administrative costs were \$76,857, \$25,915 higher than the comparable costs of \$50,942 for the quarter ended September 30, 2020. This increase was primarily due to a reduction in government payroll subsidies.

Finance costs

Finance costs are comprised of the following categories:

- Amortization of financing costs

For the quarter ended September 30, 2021, finance costs were \$1,426, \$181 lower than the comparable costs of \$1,607 for the quarter ended September 30, 2020.

Nine months ended September 30, 2021

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 nine months ended September 30, 2021, selling costs were \$82,102, \$294 higher than the comparable costs of \$81,808 for the nine months ended September 30, 2020.

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 nine months ended September 30, 2021, administrative costs were \$335,477, \$126,989 higher than the comparable costs of \$208,488 for the nine months ended September 30, 2020. The increase was a result of a reduction in government payroll subsidies and \$83,980 of stock-based compensation in 2021. There was no comparable stock-based compensation in 2020.

Finance costs

Finance costs are comprised of the following categories:
Amortization of financing costs

For the nine months ended September 30, 2021, finance costs were \$4,418, \$529 lower than the comparable costs of \$4,947 for the nine months ended September 30, 2020.

Net income**Three months ended September 30, 2021**

The net income before taxes for the three months ended September 30, 2021 was \$123,215 or \$0.00 per share basic and fully diluted compared to net income of \$121,910 or \$0.00 per share basic and fully diluted for the three months ended September 30, 2020.

Nine months ended September 30, 2021

The net income before taxes for the nine months ended September 30, 2021 was \$313,475 or \$0.00 per share basic and fully diluted compared to net income of \$373,285 or \$0.00 per share basic and fully diluted for the nine months ended September 30, 2020.

Other Comprehensive Income**Three months ended September 30, 2021**

Other comprehensive loss for the three months ended September 30, 2021 was \$36,896. This represented a realized gain of \$805 and unrealized losses on investments of \$43,337, net of deferred tax of \$5,636. There was no comparable amount in the three months ended September 30, 2020.

Nine months ended September 30, 2021

Other comprehensive loss for the nine months ended September 30, 2021 was \$219,085. This represented a realized gain of \$1,460 and unrealized losses on investments of \$254,008, net of deferred tax of \$33,463. There was no comparable amount in the nine months ended September 30, 2020.

Investments

As at September 30, 2021, the company had the following investments:

Name	# of shares	Value (\$)
Immunoprecise Antibodies	17,647	139,059
The Miso Brothers Inc - \$60,000 Promissory Note ****	60,000	76,200
Agex Therapeutics	10,000	11,938
Lineage Cell Thereapeutics	15,000	48,006
Unity Biotechnology	12,000	45,720
Resonant	10,000	30,734
Cross Border Capital	10,000	1,450
Far Resources	100,000	10,000
Total investments		363,107

** This promissory note matures on September 20, 2022 and bears interest at 15% payable at maturity.

Statement of Financial Position:**Total Assets**

Total assets as at September 30, 2021 were \$2,091,956, an increase of 7 percent from \$1,948,485, as at December 31, 2020.

Total Liabilities

Total liabilities as at September 30, 2021 were \$331,656, an increase of 17 percent from \$283,484 as at December 31, 2020.

Liquidity and Cash Flow

Nine months ended September 30, 2021

During the nine months ended September 30, 2021, the operating activities of the Company provided \$394,374 in net cash compared to a net cash contribution from operating activities of \$354,443 during the same period in 2020. In 2021 non-cash items contributed \$361,967 for the period compared to \$24,508 for the nine months ended September 30, 2020.

These resulted in a net increase in cash resources of \$272,063 and a cash resources balance at the end of the nine months of \$841,889. During the equivalent period in 2020, the Company showed a net increase in cash resources of \$437,698 and a cash resources balance of \$568,527 at the end of the period.

As well as the cash resources the Company had investments at September 30, 2021 of \$363,107 resulting in short term cash and investments of \$1,204,996 at September 30, 2021, compared to an equivalent amount of \$1,082,847 at December 31, 2020.

Related Party Transactions

During the nine months ended September 30, 2021, management fees and salaries totaling \$61,284 and stock-based compensation of \$69,160 were paid to executives who were directors and/or shareholders or to companies controlled by them.

On July 19, 2021, the Company advanced a US\$15,000 loan to the Company's President, Andrew Malion. This loan advance is due for repayment on July 19, 2022 together with interest at 5%.

Off Balance Sheet Arrangements

As at September 30, 2021, 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 third quarter of 2021 and they have concluded that such disclosure controls and procedures are adequate and effective and are subject to regular review and update.

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 expired on December 28, 2020.

As at September 30, 2021, there were 77,109,971 outstanding common shares. As at September 30, 2021, 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, 2020	1,600,000	1,600,000
Stock options expired from January 1, 2021 to September 30, 2021	0	0
Stock options issued from January 1, 2021 to September 30, 2021	1,700,000	1,700,000
Total (maximum number of shares – fully diluted)	80,409,971	80,409,971

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, 2020	1,600,000	0.05	0.000
Granted	1,700,000	0.05	0.000
Expired during the period	0	0.00	0.000
Balance September 30, 2021	3,300,000	0.05	0.000

As at September 30, 2021, there were 3,300,000 outstanding options to acquire common shares (1,600,000 at the end of fiscal 2020).

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 service violation in North America as evidenced last year during International Road Check 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 States 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.