

**Spectra Products Inc.**

**Management Discussion and Analysis**

**Third Quarter Ended September 30, 2022**

**October 27, 2022**

**Spectra Products Inc.**  
**Management Discussion and Analysis**  
**Third Quarter Ended September 30, 2022**

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, 2022. 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 27, 2022.

**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<sup>®</sup>, 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<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup> 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 has secured the exclusive licensing rights to manufacture and sell the Anti-Seize Cotter Pin<sup>™</sup>. The Anti-Seize Cotter Pin<sup>™</sup> 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 in 2021 signed a Reseller Agreement with Optimum Fleet Health, the leader in Predictive and Prescriptive maintenance solution, using Artificial Intelligence to reduce or eliminate unplanned repairs and downtime in the Transportation industry. The company is presenting the Optimum Fleet Health solution to its existing fleet customers and dealers in North America.

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 2022.

**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:

<b>As at September 30, 2022</b>	
Net assets	\$ 340,170
Revenue	\$ 613,084
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 September 30, 2022, the Company had US\$248,299 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 \$15,639 decrease or increase to the Company's income before income taxes and to a \$9,191 decrease or increase other comprehensive income for the six months ended September 30, 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 September 30, 2022, three customers accounted for 59% of the Company's total trade receivables (December 31, 2021 - three, 81%):

	<b>At Sept 30, 2022</b>	<b>At Dec 31, 2021</b>
1-30 days	100,095	120,069
31-60 days	118,037	101,134
60+ days	23,836	13,502
Total trade receivables	241,968	234,705
Allowance for bad debts	0	0
Net trade receivables	241,968	234,705
Other receivables	811	11,949
Total receivables	242,779	246,654

For the period ended September 30, 2022, three customers accounted for 45% of the Company's revenue (September 30, 2021, 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. 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 2022.

## 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, 2022.

### QUARTERLY DATA

Canadian Dollars	Three-month period ending:							
	30.09.22	30.06.22	31.03.22	31.12.21	30.09.21	30.06.21	31.03.21	31.12.20
Revenue	461,995	333,976	356,561	390,083	421,848	391,237	489,704	408,867
Gross Profit	247,875	177,896	169,674	199,452	234,858	225,331	294,844	231,160
SG&A expenses	122,647	107,452	118,301	104,740	103,696	105,767	208,116	116,354
Income taxes	(31,055)	(16,894)	(11,525)	(42,152)	(32,657)	(29,561)	(20,853)	(32,132)
Net income (loss) for the period	86,414	45,746	31,996	32,093	90,558	82,010	57,836	81,111
Other comprehensive income	12,471	(47,308)	813	(29,175)	(36,896)	(99,002)	(83,187)	247,986
Total comprehensive income	98,885	(1,562)	32,809	2,918	53,662	(16,992)	(25,351)	329,097
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**

### **Revenue:**

#### **Three months ended September 30, 2022**

Revenue for the three months ended September 30, 2022 increased by 10 percent to \$461,995 compared to revenue of \$421,848 for the three-month period ended September 30, 2021.

#### **Nine months ended September 30, 2022**

Revenue for the nine months ended September 30, 2022 decreased by 12 percent to \$1,152,532 compared to revenue of \$1,302,789 for the nine-month period ended September 30, 2021.

### **Gross Profit**

#### **Three months ended September 30, 2022**

Gross profit increased by 3% for the three months ended September 30, 2022 to \$247,875 or 54 percent of revenue from a comparable \$234,858 or 56 percent of revenue for the three months ended September 30, 2021.

#### **Nine months ended September 30, 2022**

Gross profit decreased by 21% for the nine months ended September 30, 2022 to \$595,445 or 52 percent of revenue from a comparable \$755,033 or 58 percent of revenue for the nine months ended September 30, 2021.

### **Expenses:**

#### **Three months ended September 30, 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
- Advertising and promotion

For the quarter ended September 30, 2022, selling costs were \$29,668, \$2,829 higher than the comparable costs of \$26,839 for the quarter ended September 30, 2021.

#### **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, 2022, administrative costs were \$92,980, \$16,123 higher than the comparable costs of \$76,857 for the quarter ended September 30, 2021.

#### **Finance costs**

Finance costs are comprised of the following categories:

- Accretion of discount on debt
- Amortization of financing costs

For the quarter ended September 30, 2022, finance costs were \$1,237, \$189 lower than the comparable costs of \$1,426 for the quarter ended September 30, 2021.

### **Nine months ended September 30, 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
- Advertising and promotion

For the nine months ended September 30, 2022, selling costs were \$78,009, \$4,093 lower than the comparable costs of \$82,102 for the nine months ended September 30, 2021.

#### **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, 2022, administrative costs were \$270,391, \$65,086 lower than the comparable costs of \$335,477 for the nine months ended September 30, 2021. The decrease was due to \$83,980 of stock-based compensation in 2021. There was no comparable stock-based compensation in 2022.

#### **Finance costs**

Finance costs are comprised of the following categories:

- Accretion of discount on debt
- Amortization of financing costs

For the nine months ended September 30, 2022, finance costs were \$3,854, \$564 lower than the comparable costs of \$4,418 for the nine months ended September 30, 2021.

#### **Net income**

##### **Three months ended September 30, 2022**

The net income before taxes for the three months ended September 30, 2022 was \$117,469 or \$0.00 per share basic and fully diluted compared to net income of \$123,315 or \$0.00 per share basic and fully diluted for the three months ended September 30, 2021.

##### **Nine months ended September 30, 2022**

The net income before taxes for the nine months ended September 30, 2022 was \$223,630 or \$0.00 per share basic and fully diluted compared to net income of \$313,475 or \$0.00 per share basic and fully diluted for the nine months ended September 30, 2021.

#### **Other Comprehensive Income**

##### **Three months ended September 30, 2022**

Other comprehensive income for the three months ended September 30, 2022 was \$12,471. This represented unrealized gains on investments of \$14,376, net of deferred taxes of \$1,905. 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 recovery of \$5,636.

**Nine months ended September 30, 2022**

Other comprehensive loss for the nine months ended September 30, 2022 was \$34,024. This represented a realized gain of \$22,987 and unrealized losses on investments of \$62,208, net of deferred tax recovery of \$5,197. 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 recovery of \$33,463.

**Investments**

As at September 30, 2022, the company had the following investments:

Name	# of shares	Value (\$)
Immunoprecise Antibodies	17,647	97,235
Agex Therapeutics	10,000	7,672
Lineage Cell Therapeutics	15,000	23,222
Unity Biotechnology	24,000	12,823
Superbuzz (previously Cross Border Capital)	10,000	1,000
Foremost Lith Research (previously Far Resources)	100,000	24,000
Miso Brothers **	60,000	82,200
Total investments		248,152

\*\* This promissory note matures on June 30, 2023 and bears interest at 15% payable at maturity.

During the nine months ended September 30, 2022, the Company sold its \$32,557 investment in Resonant, for \$55,544, resulting in a realized gain of \$22,987. This is reflected in the Other Comprehensive Income segment of the Statements of Comprehensive Income in the Company’s financial statements for the three months and nine months ended September 30, 2022

**Statement of Financial Position:**

**Total Assets**

Total assets as at September 30, 2022 were \$2,077,158, an increase of 1 percent from \$2,063,742, as at December 31, 2021.

**Total Liabilities**

Total liabilities as at September 30, 2022 were \$265,408, a decrease of 12 percent from \$300,524 as at December 31, 2021.

**Liquidity and Cash Flow**

**Nine months ended September 30, 2022**

During the nine months ended September 30, 2022, the operating activities of the Company provided \$207,544 in net cash compared to a net cash contribution from operating activities of \$394,374 during the same period in 2021. In 2022 non-cash items contributed \$62,635 for the period compared to \$361,967 for the nine months ended September 30, 2021.

These resulted in a net increase in cash resources in the nine months ended September 30, 2022 of \$150,089 and a cash resources balance at the end of the nine months ended September 30, 2022 of \$1,027,636. During the equivalent period in 2021, the Company showed a net increase in cash resources of \$272,063 and a cash resources balance of \$841,889 at the end of that period.

As well as the cash resources the Company had investments at September 30, 2022 of \$248,152 resulting in short term cash and investments of \$1,275,788 at September 30, 2022, compared to an equivalent amount of \$1,207,845 at December 31, 2021.

**Related Party Transactions**

During the nine months ended September 30, 2022, management fees and salaries totaling \$86,803 and stock-based compensation of \$93,324 were paid to executives who were directors and/or shareholders or to companies controlled by them. The maturity date of the US\$15,000 loan receivable from the Company’s President, Andrew Malion, was extended from July 19, 2022 to July 19, 2024.

**Off Balance Sheet Arrangements**

As at September 30, 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 third 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.

**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.

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 3,855,500 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 77,109,971 Common Shares outstanding as at the date hereof. In the nine months ended September 30, 2022 the Company purchased 2,265,000 common shares for a total cost of \$81,600. Correspondingly, the number of issued and outstanding shares has been reduced by 2,265,000 to 74,844,971.

As at September 30, 2022, there were 74,844,971 outstanding common shares. As at September 30, 2022, the following is a description of the outstanding equity securities and convertible securities previously issued by the Company.

<b>Designation of security</b>	<b>Number outstanding.</b>	<b>If convertible, exercisable or exchangeable for common shares, maximum number of common shares issuable.</b>
Common shares	74,844,971	74,844,971
Stock options issued as at December 31, 2021	3,300,000	3,300,000
Stock options expired from January 1, 2022 to Sept 30, 2022	0	0
Stock options issued from January 1, 2022 to Sept 30, 2022	0	0
Total (maximum number of shares – fully diluted)	78,144,971	78,144,971



## 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.

	<b>Options Granted</b>	<b>Weighted Exercise Price</b>	<b>Grant Date Weighted Price</b>
<b>Balance December 31, 2021</b>	3,300,000	0.05	0.000
Granted	0	0.00	0.000
Expired during the period	0	0.00	0.000
<b>Balance September 30, 2022</b>	3,300,000	0.05	0.000

As at September 30, 2022, there were 3,300,000 outstanding options to acquire common shares (3,300,000 at the end of fiscal 2021).

## 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<sup>®</sup> 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<sup>®</sup> 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.