

Spectra Products Inc.

Management Discussion and Analysis

Third Quarter Ended September 30, 2024

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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 nine months ended September 30, 2024. In this Management Discussion and Analysis all amounts, unless otherwise indicated, are expressed in Canadian dollars. This MD&A is written as of November 12, 2024.

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-8i[®] 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. Optimum Fleet Health is an artificial-intelligence based predictive maintenance and fleet management tool.

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 2024.

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 nine months ended September 30, 2024

	\$ USD
Net assets	\$ 209,855
Revenue	\$ 408,731
Expenses	\$ 18,818

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 \$23,461 increase or decrease to the Company's income before taxes and \$4,867 to other comprehensive income for the nine months ended September 30, 2024.

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 \$3,333 increase or decrease to the Company's income before taxes for the nine months ended September 30, 2024.

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, 2024, one customers accounted for 46% of the Company's total trade receivables (December 31, 2023-two, 65%):

	As at Sep 30, 2024	As at Dec 31, 2023
1-30 days	110,072	71,646
31 - 60 days	90,613	73,787
61 - 90 days	949	69,428
90 + days	-	539
Total trade receivables	201,634	215,400
Allowance for bad debts	-	-
Net trade receivables	201,634	215,400
Other receivables	10,992	17,410
Total receivables	212,626	232,810

For the nine months ended September 30, 2024, one customer accounted for 33% of the Company's revenue (September 30, 2023, one customer, 26% 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, loan receivable and investment in guaranteed investment certificate are classified as financial assets measured at amortized cost. Investments in equity 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 and investment in guaranteed investment certificate approximates fair value due to the market interest rate charged. The carrying value of investments in equity approximates fair value based on quoted prices in active market.

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 2024.

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 nine months ended September 30, 2024 to Earnings before stock-based compensation:

	Nine months ending September 30,		Months ending September 30,	
	2024	2023	2024	2023
Net income (loss) for the period	\$ 103,618	\$ 278,821	\$ 26,592	\$ 80,131
Add: stock-based compensation	-	-	-	-
Earnings before stock-based compensation	<u>\$ 103,618</u>	<u>\$ 278,821</u>	<u>\$ 26,592</u>	<u>\$ 80,131</u>

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 September 30, 2024.

QUARTERLY DATA

Three-month period ending:

Canadian Dollars	9/30/2024	6/30/2024	3/31/2024	12/31/2023	9/30/2023	6/30/2023	3/31/2023	12/31/2022
Revenue	362,470	435,268	437,618	366,217	521,791	655,347	533,572	499,414
Gross Profit	176,409	202,776	198,006	164,207	231,986	299,974	256,470	235,156
SG&A Expenses	132,186	153,579	141,958	145,831	123,876	125,832	129,472	261,893
Income taxes	9,628	12,497	15,347	2,802	28,298	42,574	28,843	19,244
Net income (loss) for the period	26,592	34,563	42,463	5,820	80,131	117,984	80,708	(74,026)
Other comprehensive income (loss)	(12,212)	(22,052)	3,734	(44,109)	(29,889)	543	(47,161)	(56,424)
Total comprehensive income (loss)	14,380	12,511	46,197	(38,289)	50,242	118,527	33,547	(130,450)
Earnings before stock-based compensation	26,592	34,563	42,463	5,820	80,131	117,984	80,708	53,974
Income (loss) per share								
- basic	0.00	0.00	0.00	0.00	0.01	0.01	0.01	(0.01)
- diluted	0.00	0.00	0.00	0.00	0.01	0.00	0.01	(0.00)

Results of Operations

Revenue:

Three months ended September 30, 2024

Revenue for the three months ended September 30, 2024 decreased by 31% to \$362,470 compared to revenue of \$521,791 for the three-month period ended September 30, 2023.

Nine months ended September 30, 2024

Revenue for the nine months ended September 30, 2024 decreased by 28% to \$1,235,356 compared to revenue of \$1,710,460 for the nine-month period ended September 30, 2023.

Gross Profit

Three months ended September 30, 2024

Gross profit decreased by 24% for the three months ended September 30, 2024 to \$176,409 or 49% of revenue from a comparable \$231,986 or 44% percent of revenue for the three months ended September 30, 2023.

Nine months ended September 30, 2024

Gross profit decreased by 27% for the nine months ended September 30, 2024 to \$577,191 or 47% of revenue from a comparable \$788,181 or 46% of revenue for the nine months ended September 30, 2023.

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 September 30, 2024

Selling costs

Selling costs are comprised of the following categories:

- Commissions
- Travel
- Trade shows
- Advertising and Promotion

For the quarter ended September 30, 2024, selling costs were \$12,232 which is \$14,658 lower than the comparable costs of \$26,890 for the quarter ended September 30, 2023. The decrease was due to lower commissions due to a change in the compensation structure of management and lower courier charges.

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 September 30, 2024, administrative costs were \$119,954 which was \$22,968 higher than the comparable costs of \$96,986 for the quarter ended September 30, 2023. The increase was primarily due to an increase in payroll costs, partially offset by a reduction in legal 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 quarter ended September 30, 2024, finance costs were \$1,888 which was \$438 lower than the comparable costs of \$2,326 for the quarter ended September 30, 2023. The decrease is due to ongoing repayment of the related lease.

Amortization

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

For the three months ended September 30, 2024, amortization expense was \$14,776 which is equal to the comparable costs of \$14,776 for the three months ended September 30, 2023. The company's only asset continues to be the right of use asset, which is amortized on a straight-line basis.

Nine months ended September 30, 2024

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, 2024, selling costs were \$52,420 which is \$44,083 lower than the comparable costs of \$96,503 for the nine months ended September 30, 2023. The decrease was due to lower commissions payable to management and lower courier charges, partially offset by increased trade show costs and promotion expenses.

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 nine months ended September 30, 2024, administrative costs were \$375,303 which was \$92,626 higher than the comparable costs of \$282,677 for the nine months ended September 30, 2023. The increase was primarily due to an increase in payroll costs, insurance, and filing fees, partially offset by a reduction in office and general expenses.

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 nine months ended September 30, 2024, finance costs were \$5,987 which was \$1,309 lower than the comparable costs of \$7,296 for the nine months ended September 30, 2023. The decrease is due to ongoing repayment of the related lease.

Amortization

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

For the nine months ended September 30, 2024, amortization expense was \$44,328 which is equal to the comparable costs of \$44,328 for the nine months ended September 30, 2023. The company's only asset continues to be the right of use asset, which is amortized on a straight-line basis.

Net income

Three months ended September 30, 2024

The net income for the three months ended September 30, 2024 was \$26,592 compared to net income of \$80,130 for the three months ended September 30, 2023.

Nine months ended September 30, 2024

The net income for the nine months ended September 30, 2024 was \$103,618 compared to net income of \$278,821 for the nine months ended September 30, 2023.

Other Comprehensive Income

Three months ended September 30, 2024

Other comprehensive loss for the three months ended September 30, 2024 was \$12,212 . This represents unrealized losses on investments. Other comprehensive loss for the quarter ended September 30, 2023 was \$29,889 . This represented unrealized losses on investments net of deferred tax.

Nine months ended September 30, 2024

Other comprehensive loss for the nine months ended September 30, 2024 was \$30,530 and represents unrealized losses on investments. Other comprehensive loss for the nine months ended September 30, 2023 was \$76,507 and represented unrealized losses on investments net of deferred tax.

Total Comprehensive Income

Three months ended September 30, 2024

Total comprehensive income for the three months ended September 30, 2024 was \$14,380 or \$0.00 per share basic and fully diluted compared to total comprehensive income of \$50,242 or \$0.00 per share basic and fully diluted for the three months ended September 30, 2023.

Nine months ended September 30, 2024

Total comprehensive income for the nine months ended September 30, 2024 was \$73,088 or \$0.01 per share basic and \$0.00 per share fully diluted compared to total comprehensive income of \$202,314 or \$0.01 per share basic and fully diluted for the nine months ended September 30, 2023.

Investments

As at September 30, 2024, the company had the following investments:

Name	# shares	Value (\$)
Immunoprecise Antibodies	17,647	15,222
Serina Therapeutics (Formerly Agex)	284	2,568
Lineage Cell Therapeutics	15,000	18,426
Unity Biotechnology	2,400	4,762
Cross Border Capital (Super Buzz)	10,000	400
Far Resources Ltd (Foremost)	2,000	7,694
		<u>49,072</u>

Statement of Financial Position:

Total Assets

Total assets as at September 30, 2024 were \$2,179,800 an increase of 0% from \$2,174,883 as at December 31, 2023.

Total Liabilities

Total liabilities as at September 30, 2024 were \$371,302, an increase of 7% from \$346,126 as at December 31, 2023. The increase in liabilities is primarily a result of a higher accounts payable balances.

Liquidity and Cash Flow

Three months ended September 30, 2024

During the three months ended September 30, 2024, the operating activities of the Company provided \$181,295 in net cash compared to a net cash contribution from operating activities of \$94,409 during the same period in 2023. Investing activities provided \$900,000 of cash during the three months compared to using \$ nil during the same period in 2023. Financing activities used \$22,722 of cash during the three months compared to using \$56,287 of cash during the same period in 2023, primarily due to a higher amount of buybacks under the Normal Course Issuer Bid share buyback program in 2024, described below under Outstanding Share Data.

These resulted in a net increase in cash resources of \$1,058,573 and a cash resources balance at the end of the period of \$1,386,424. During the equivalent period in 2023, the Company showed a net increase in cash resources of \$38,122 and a cash resources balance of \$1,234,382 at the end of the period.

Nine months ended September 30, 2024

During the nine months ended September 30, 2024, the operating activities of the Company provided \$291,288 in net cash compared to a net cash contribution from operating activities of \$189,899 during the same period in 2023. Investing activities used of cash during the nine months compared to using \$nil during the same period in 2023 due to investing cash into a nine-month GIC that is now presented as investments. Financing activities used \$139,246 of cash during the nine months compared to using \$100,319 of cash during the same period in 2023, primarily due to a higher amount of buybacks under the Normal Course Issuer Bid share buyback program in 2023, described below under Outstanding Share Data.

These resulted in a net increase in cash resources of \$152,042 and a cash resources balance at the end of the period of \$1,386,424. During the equivalent period in 2023, the Company showed a net increase in cash resources of \$89,580 and a cash resources balance of \$1,162,647 at the end of the period.

In addition to the above cash resources, the Company had, at September 30, 2024, investments valued at \$49,073 resulting in short term cash and investments of \$1,435,497 at September 30, 2024, compared to an equivalent amount of \$1,313,985 at December 31, 2023.

Related Party Transactions

Three months ended September 30, 2024

During the three months ended September 30, 2024, management fees and salaries totaling \$42,275 were paid to executives who were directors and/or shareholders or to companies controlled by them (2023 - \$10,500).

During the three months the Company accrued \$140 of interest from the President on account of the USD \$15,000 loan receivable.

Nine months ended September 30, 2024

During the nine months ended September 30, 2024, management fees and salaries totaling \$123,335 were paid to executives who were directors and/or shareholders or to companies controlled by them (2023 - \$33,500).

During the nine months the Company accrued \$434 of interest from the President on account of the USD \$15,000 loan receivable.

Off Balance Sheet Arrangements

As at September 30, 2024, 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 2024 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.

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 terminated on March 26, 2024 and resulted in the purchase and cancellation of 545,000 shares.

As of April 3, 2024, 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 705,294 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 14,105,895 common shares outstanding as at the date above. The NCIB commenced on April 8, 2024 and will terminate on April 7, 2025 or at such earlier time as the NCIB is completed or terminated at the option of the Company. As of September 30, 2024, 190,000 shares have been repurchased under this allowance.

As at September 30, 2024, there were 13,915,895 outstanding common shares. As at September 30, 2024, 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	13,915,895	13,915,895
Stock options issued	1,400,000	1,400,000
Stock options issued or expired	0	0
Total (maximum number of shares – fully diluted)	15,315,895	15,315,895

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.

	Weighted Exercise	
	Options Granted	Price
Balance - December 31, 2023	1,400,000	0.16
Granted	0	0.00
Forfeited / Expired	0	0.00
Balance - September 30, 2024	1,400,000	0.16

As at September 30, 2024, there were 1,400,000 outstanding options to acquire common shares (1,400,000 at December 31, 2023).

As at September 30, 2024, 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 44,000 common shares at a cost of \$9,385 as of the date of this MD&A.

260,000 stock options issued by the Company expired on October 15, 2024.

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 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.