

Spectra Products Inc.

Management Discussion and Analysis

Annual and Fourth Quarter Ended December 31, 2023

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Annual and Fourth Quarter Ended

The following Management Discussion and Analysis (“MD&A”) is supplementary to, and should be read in conjunction with, the financial statements for the fiscal year ended December 31, 2023. The financial statements have been prepared on the basis of International Financial Reporting Standards (“IFRS”). In this Management Discussion and Analysis all amounts, unless otherwise indicated, are expressed in Canadian dollars. This MD&A is written as of April 25, 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-81[®] 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 (stated in USD):

As at and for the year ended December 31, 2023

Net assets	\$ 282,910
Revenue	\$ 772,828
Expenses	\$ 15,621

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 \$ 30,132 increase or decrease to the Company's income before taxes and \$ 7,285 to other comprehensive income for the year ended December 31, 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 market interest rates would impact the rate of return on future interest-bearing investments. The Company's sensitivity to interest rate fluctuation is that a 1% change in interest rates would have a corresponding \$8,000 increase or decrease to the Company's income before taxes for over the course of a year.

Credit Risk

Credit risk is the risk that one party to a financial instrument may be unable to discharge their obligation. The Company's main source of credit risk is outstanding accounts receivable and the Company's maximum exposure to credit risk is equal to the carrying value of the financial assets. In order to prevent losses, the Company manages credit risk by assessing the credit worthiness of potential customers and regularly monitoring outstanding accounts receivable. In determining impairment of financial assets, the Company reviews all receivable balances greater than 90 days and assesses customer payment history. At December 31, 2023, two customers accounted for 73% of the Company's total trade receivables (December 31, 2022- three, 79%):

	As at Dec 31, 2023	As at Dec 31, 2022
1-30 days	71,646	243,663
31 - 60 days	73,787	10,831
61 - 90 days	69,428	94,121
90 + days	539	1,550
Total trade receivables	215,400	350,164
Allowance for bad debts	-	-
Net trade receivables	215,400	350,164
Other receivables	17,410	19,350
Total receivables	232,810	369,515

For the year ended December 31, 2023, three customers accounted for 47% of the Company's revenue (December 31, 2022, three customers, 47% 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 and cash equivalents 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 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 are recognized initially at fair value plus any directly attributable transaction costs and are subsequently recorded at amortized cost.

The carrying amount of cash and cash equivalents, accounts receivable, loan receivable and accounts payable and accrued charges approximates fair value due to the short-term nature of these financial instruments. The carrying value of investments in equity 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 2023.

Financial Results

Selected Financial Information

The accompanying audited financial statements of the Company and all information in this report have been prepared by management and approved by the Board of Directors of the Company. The financial statements were prepared on the basis of International Financial Reporting Standards "IFRS" and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the financial statements within reasonable limits of materiality. Financial and operating data elsewhere in this report are consistent with the information contained in the financial statements.

Internal Controls

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that its assets are safeguarded, that only valid and authorized transactions are executed, and that accurate, timely and comprehensive financial information is prepared.

The Board of Directors carries out its responsibility for the financial statements in this annual and quarterly report principally through its Audit Committee. A majority of the members of the Audit Committee are independent, non-management directors and all members of the Audit Committee are appointed by the Board of Directors. The Audit Committee meets with management and, where necessary, the external auditors to discuss the results of the annual audit examinations with respect to the adequacy of internal accounting controls and to review and discuss the financial statements and financial reporting matters.

SUMMARY OF QUARTERLY RESULTS

The table below sets forth certain information for each of the eight most recent quarters, the most recent quarter being December 31, 2023.

QUARTERLY DATA Three-month period ending:

Canadian Dollars	12/31/2023	9/30/2023	6/30/2023	3/31/2023	12/31/2022	9/30/2022	6/30/2022	3/31/2022
Revenue	366,217	521,791	655,347	533,572	499,414	461,995	333,976	356,561
Gross Profit	164,207	231,986	299,974	256,470	235,156	247,875	177,896	169,674
SG&A Expenses	145,831	123,876	125,832	129,472	261,893	122,647	107,452	118,301
Income taxes	2,802	28,298	42,574	28,843	19,244	31,055	16,894	11,525
Net income (loss) for the period	5,820	80,131	117,984	80,708	(74,026)	86,414	45,746	31,996
Other comprehensive income (loss)	(44,109)	(29,889)	543	(47,161)	(56,424)	12,471	(47,308)	813
Total comprehensive income (loss)	(38,289)	50,242	118,527	33,547	(130,450)	98,885	(1,562)	32,809
Earnings before stock-based compensation	5,820	80,131	117,984	80,708	53,974	86,414	45,746	31,996
Income (loss) per share - basic	0.00	0.01	0.01	0.01	(0.01)	0.01	0.00	0.00
- diluted	0.00	0.01	0.00	0.01	(0.00)	0.01	0.00	0.00

Results of Operations

NON-IFRS MEASURES

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

Earnings before stock-based compensation

Three-months ended December 31, 2023

		2023		2022
Net income (loss)	\$	5,820	\$	(74,026)
Add: stock-based compensation		-		128,000
Earnings before stock-based compensation	\$	5,820	\$	<u>53,974</u>

The reduction in earnings before stock-based compensation is primarily a result of decreased revenue in the last quarter.

Year ended December 31, 2023

	2023		2022
Net income	\$ 284,643	\$	90,130
Add: stock-based compensation	-		128,000
Earnings before stock-based compensation	<u>\$ 284,643</u>	<u>\$</u>	<u>218,130</u>

The increase in earnings before stock-based compensation is primarily a result of increased sales, particularly to the US market, during the first three quarters of the year.

IFRS MEASURES

Revenue:

Three months ended December 31, 2023

Revenue for the three months ended December 31, 2023 decreased by 27% to \$366,217 compared to revenue of \$499,414 for the three-month period ended December 31, 2022.

Year ended December 31, 2023

Revenue for the year ended December 31, 2023 increased by 26% percent to \$2,076,927 compared to revenue of \$1,651,946 for the comparable period ended December 31, 2022.

Gross Profit

Three months ended December 31, 2023

Gross profit decreased by 30% for the three months ended December 31, 2023 to \$164,207 or 45% of revenue from a comparable \$235,156 or 47% percent of revenue for the three months ended December 31, 2022.

Year ended December 31, 2023

Gross profit increased by 15% for the year ended December 31, 2023 to \$952,638 or 46% of revenue from a comparable \$829,062 or 50% of revenue for the year ended December 31, 2022.

Expenses:

Three months ended December 31, 2023

The Company has elected to present its statement of earnings utilizing a functional basis of classification in accordance with IAS 1. Under the functional classification of presentation, the expenses are classified based on their functions within the Company under specific headings.

Selling costs

Selling costs are comprised of the following categories:

- Commissions
- Travel and courier
- Trade shows

For the quarter ended December 31, 2023, selling costs were \$17,212, \$15,733 lower than the comparable costs of \$32,945 for the quarter ended December 31, 2022. The decrease was primarily due to lower commission rates implemented in Q4 2023.

Administrative costs

Administrative costs are comprised of the following categories:

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

For the quarter ended December 31, 2023, administrative costs were \$128,619 , \$100,329 lower than the comparable costs of \$228,948 for the quarter ended December 31, 2022. The decrease was primarily due to the absence of stock-based compensation expense in 2023.

Finance costs

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

For the quarter ended December 31, 2023, finance costs were \$2,218 , \$1,420 lower than the comparable costs of \$3,638 for the quarter ended December 31, 2022.

Year ended December 31, 2023

The Company has elected to present its statement of earnings utilizing a functional basis of classification in accordance with IAS 1. Under the functional classification of presentation, the expenses are classified based on their functions within the Company under specific headings.

Selling costs

Selling costs are comprised of the following categories:

- Commissions
- Travel and courier
- Trade shows

For the year ended December 31, 2023, selling costs were \$113,716 , \$2,761 higher than the comparable costs of \$110,954 for the year ended December 31, 2022.

Administrative costs

Administrative costs are comprised of the following categories:

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

For the year ended December 31, 2023, administrative costs were \$411,295 , \$88,043 lower than the comparable costs of \$499,339 for the year ended December 31, 2022. The decrease was primarily a result of the absence of stock-based compensation in 2023.

Finance costs

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

For the year ended December 31, 2023, finance costs were \$9,514 , \$2,022 higher than the comparable costs of \$7,492 for the year ended December 31, 2022.

Amortization

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

For the year ended December 31, 2023, amortization expense was \$59,103 , \$15,135 higher than the comparable costs of \$43,968 for the year ended December 31, 2022.

Net income

Three months ended December 31, 2023

The net income for the three months ended December 31, 2023 was \$5,820 or \$0.00 per share basic and fully diluted compared to net loss of \$74,026 or \$(0.01) per share basic and \$(0.00) fully diluted for the three months ended December 31, 2022.

Year ended December 31, 2023

The net income for the year ended December 31, 2023 was \$284,643 or \$0.02 per share basic and fully diluted compared to net income of \$90,130 or \$0.01 per share basic and fully diluted for the year ended December 31, 2022.

Other Comprehensive Income**Three months ended December 31, 2023**

Other comprehensive loss for the three months ended December 31, 2023 was \$44,109 . This represents unrealized losses on investments net of deferred tax. Other comprehensive loss for the quarter ended December 31, 2022 was \$56,424 . This represented unrealized losses on investments of \$53,379 and realized losses of \$3,045 net of deferred tax.

Year ended December 31, 2023

Other comprehensive loss for the year ended December 31, 2023 was \$120,616 . This represents unrealized losses on investments, net of deferred tax. Other comprehensive loss for the year ended December 31, 2022 was \$90,448 . This represented a realized gain of \$19,942 offset by unrealized losses on investments of \$110,390, net of deferred tax.

Total Comprehensive Income**Three months ended December 31, 2023**

Total comprehensive loss for the three months ended December 31, 2023 was \$38,289 compared to total comprehensive loss of \$130,450 for the three months ended December 31, 2022.

Year ended December 31, 2023

Total comprehensive income for the year ended December 31, 2023 was \$164,027 compared to total comprehensive loss of \$318 for the year ended December 31, 2022.

Investments

As at December 31, 2023, the company had the following investments:

Name	# shares	Value (\$)
Immunoprecise Antibodies	17,647	39,911
Agex Therapeutics	10,000	5,092
Lineage Cell Therapeutics	15,000	21,724
Unity Biotechnology	2,400	6,126
Cross Border Capital (Super Buzz)	10,000	150
Far Resources Ltd (Foremost)	2,000	6,600
		<u>79,603</u>

Statement of Financial Position:**Total Assets**

Total assets as at December 31, 2023 were \$2,174,883 a decrease of 9% from \$2,383,743 as at December 31, 2022. The decrease is primarily a result of lower deferred tax asset and right of use asset.

Total Liabilities

Total liabilities as at December 31, 2023 were \$346,126 , a decrease of 46% from \$639,301 as at December 31, 2022. The decrease in liabilities is primarily a result of lower accounts payable.

Liquidity and Cash Flow

Year ended December 31, 2023

During the year ended December 31, 2023, the operating activities of the Company provided \$286,719 in net cash compared to a net cash contribution from operating activities of \$321,740 during the same period in 2022. Investing activities provided \$10,184 of cash during the year compared to providing \$42,926 during the same period in 2022. Financing activities used \$135,588 of cash during the year compared to using \$169,146 of cash during the same period in 2022, primarily due to different share purchase quantities under the Normal Course Issuer Bid share buyback program in 2023 compared to the same program in 2022, described below under Outstanding Share Data.

These resulted in a net increase in cash resources of \$161,315 and a cash resources balance at the end of the period of \$1,234,382. During the equivalent period in 2022, the Company showed a net increase in cash resources of \$195,520 and a cash resources balance of \$1,073,067 at the end of the period.

In addition to the above cash resources, the Company had, at December 31, 2023, investments valued at \$79,603 compared to \$183,126 at December 31, 2022. This resulted in short term cash and investments of \$1,313,985 at December 31, 2023, compared to an equivalent amount of \$1,256,193 at December 31, 2022.

Related Party Transactions

During the year ended December 31, 2023, management fees and salaries totaling \$159,722 were paid to executives who were officers or to companies controlled by them (2022 - \$129,727).

During the year, director fees of \$3,000 (2022 - \$500) were paid to non-managerial directors of the Company.

During the year the Company earned \$1,417 of interest from the President on account of the USD \$15,000 loan receivable, of which USD \$7,500 was repaid during the year. The loan's maturity date has been extended from July 19, 2023 to July 19, 2024.

Off Balance Sheet Arrangements

As at December 31, 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 fourth 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.

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. Under this program, a total of 545,000 common shares were purchased for cancellation.

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.

As at December 31, 2023, there were 14,650,895 issued common shares of which 14,312,395 were outstanding. The remaining were held by the company, having been repurchased under the Normal Course Issuer Bid program, and were cancelled in March 2024. As at December 31, 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	14,312,395	14,312,395
Stock options issued as at December 31, 2022	1,400,000	1,400,000
Stock options issued from January 1, 2023 to December 31, 2023	0	0
Stock options forfeited from January 1, 2023 to December 31, 2023	0	0
Total (maximum number of shares – fully diluted)	15,712,395	15,712,395

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	0.16
Granted	0	0.00
Forfeited / Expired	0	0.00
Balance - December 31, 2023	<u>1,400,000</u>	<u>0.16</u>

As at December 31, 2023, there were 1,400,000 outstanding options to acquire common shares (1,400,000 at the end of fiscal 2022).

As at December 31, 2023, there were no outstanding warrants.

Subsequent Event

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, from time to time, as the Company considers advisable, up to a maximum of 705,294 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 14,105,895 Common Shares outstanding as at the date thereof. 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.

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.