Spectra Inc.

Management Discussion and Analysis

Third Quarter Ended September 30, 2018

October 24, 2018

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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 period ended September 30, 2018. These interim financial statements have not been audited or reviewed by the Company's independent auditors. The financial statements have been prepared by and are the responsibility of the Company's management. The information presented in the interim financial statements has been prepared on the basis of International Financial Reporting Standards ("IFRS") under International Accounting Standard IAS 34 – Interim Financial Reporting. Disclosure of the interim financial statements does not conform in all respects to the requirements of IFRS for annual statements. The notes presented in these interim financial statements include only significant events and transactions and do not include all matters normally disclosed in the Company's audited annual financial statements. In this Management Discussion and Analysis all amounts, unless otherwise indicated, are expressed in Canadian dollars. This MD & A is written as of October 24, 2018.

Description of Business

Spectra Inc., (the "Company"), through its wholly owned subsidiary, Spectra Products Inc., supplies 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, trailers and buses. The Company also supplies an anti-corrosion lubricant called Termin-8r® to the transportation industry and 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 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 with Tafcan Consulting Ltd and Hub Alert® is distributed under a distribution agreement with Martec International on an exclusive basis for Canada and a non-exclusive basis for the U.S.

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 several trailer manufacturers.

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 2018.

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:

	As at September 30, 2018
Net assets	$ 132,565
Revenue	$ 692,105
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, 2018, the Company had $103,490 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 $10,349 decrease or increase, respectively, to the Company's income before income taxes for the nine months ended September 30, 2018.

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, 2018, two customers accounted for 41% of the Company's total trade receivables (December 31, 2017 - three, 54%):

	At September 30, 2018	At December 31, 2017
1-30 days	189,737	104,645
31-60 days	91,656	121,948
60+ days	2,891	9,787
Total trade receivables	284,284	236,380
Allowance for bad debts	0	0
Net trade receivables	284,284	236,380
Other receivables	7,450	7,820
Total receivables	291,734	244,200

For the nine months ended September 30, 2018, three customers accounted for 48% of the Company's revenue (September 30, 2017, 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 is classified as financial asset measured at amortized cost. Accounts payable and accrued charges, loan

payable, royalty debenture and preferred shares 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 value of the royalty debenture approximates fair value as the loans bear interest at a rate, which approximates market rate. The convertible shares are adjusted to fair value using the effective interest method.

Capital Disclosures

The Company's capital structure is comprised of interest bearing debt, a royalty debenture and shareholders' deficiency. 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 2018.

Financial Results

Selected Financial Information

The accompanying audited consolidated 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 consolidated 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 consolidated financial statements within reasonable limits of materiality. Financial and operating data elsewhere in this report are consistent with the information contained in the consolidated 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, 2018.

QUARTERLY DATA

Canadian Dollars	**Three-month period ending:**							
	30.09.18	30.06.18	31.03.18	31.12.17	30.09.17	30.06.17	31.03.17	31.12.16
Revenue	559,181	470,187	572,009	448,017	432,186	461,673	438,733	342,461
Gross Profit	323,988	270,507	334,385	268,812	224,690	269,894	254,713	206,075
Gain on extinguishment of debt				30,423				187,500
SG&A Expenses	168,939	168,429	174,625	174,167	167,881	187,632	196,254	130,884
Impairment loss (recovery)								(4,300)
Debt value adjustment	(9,984)	(9,983)	(9,984)	(79,870)	(3,948)	(5,553)	(3,553)	(142,328)
Income (loss) for the period	145,065	92,095	149,776	32,386	56,809	78,709	54,906	57,797
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, 2018
Revenue for the three months ended September 30, 2018 increased by 29 percent to $559,181 compared to revenue of $432,186 for the three-month period ended September 30, 2017. The increase in revenue is attributable to increases in sales of Termin-8r® from $138,882 to $163,013; Brake Safe® from $193,172 to $264,152; Brake Inspector® from $2,244 to $6,899; Hub Alert® from $5,248 to $6,700 and sundry income from $29,244 to $60,228 offset by decreases in sales of Zafety Lug Lock® from $63,035 to $57,920 and Arrow Logger® from $361 to $269.

Nine months ended September 30, 2018
Revenue for the nine months ended September 30, 2018 increased by 20 percent to $1,601,377 compared to revenue of $1,332,592 for the nine-month period ended September 30, 2017. The increase in revenue is attributable to increases in sales of Termin-8r® from $424,223 to $450,460; Brake Safe® from $583,496 to $756,570; Brake Inspector® from $19,603 to $21,975; Zafety Lug Lock® from $158,983 to $171,274; Hub Alert® from $23,253 to $35,725 and sundry income from $121,389 to $164,117 offset by decreases in sales of Arrow Logger® from $1,645 to $1,256.

Gross Profit:

Three months ended September 30, 2018
Gross profit increased by $99,298 for the three months ended September 30, 2018 to $323,988 or 58 percent of revenue from a comparable $224,690 or 52 percent of revenue for the three months ended September 30, 2017.

Nine months ended Septembe*r* 30, 2018
Gross profit increased by 24% for the nine months ended September 30, 2018 to $928,880 or 58 percent of revenue from a comparable $749,297 or 56 percent of revenue for the nine months ended September 30, 2017.

Gross profit margins will vary depending on the mix of product sales within the various product lines. In addition, the mix of distribution channels may affect margins when sales are generated through distributors, dealers and direct sales to OEM's.

Expenses:
Three months ended September 30, 2018

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
- Product royalty
- Travel and courier
- Trade shows
- Advertising and promotion

For the quarter ended September 30, 2018, selling costs were $46,034, $4,948 higher than the comparable costs of $41,086 for the quarter ended September 30, 2017.

Administrative costs

Administrative costs are comprised of the following categories:

- Management fees and salaries
- Consulting
- Professional fees
- Insurance
- Premises cost
- Interest and bank charges
- Office and general

For the quarter ended September 30, 2018, administrative costs were $115,781, $4,994 lower than the comparable costs of $120,775 for the quarter ended September 30, 2017.

Finance costs

Finance costs are comprised of the following categories:

- Debenture royalty
- Interest on loan payable
- Interest on long-term debt
- Accretion of discount on debt

For the quarter ended September 30, 2018, finance costs were $17,108, $13,161 higher than the comparable costs of $3,947for the quarter ended September 30, 2017.

Six months ended September 30, 2018

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
- Product royalty
- Travel and courier
- Trade shows
- Advertising and promotion

For the nine months ended September 30, 2018, selling costs were $124,767, $11,280 lower than the comparable costs of $136,047 for the nine months ended September 30, 2017. The principal factors contributing to this decrease were lower advertising and promotion expenses costs, offset by an increase in sales commissions as a result of higher sales.

Administrative costs

Administrative costs are comprised of the following categories:

- Management fees and salaries
- Consulting
- Professional fees
- Insurance
- Premises cost
- Interest and bank charges
- Office and general

For the nine months ended September 30, 2018, administrative costs were $363,352, $37,575 lower than the comparable costs of $400,927 for the nine months ended September 30, 2017. All expense categories in 2018 were in line with 2017 except salaries which were lower as a result of the retirement of a senior salaried employee which was the principal contributor to the decrease in administrative costs.

Finance expenses

Finance expenses are comprised of the following categories:

- Debenture royalty
- Interest on loan payable
- Interest on long-term debt
- Accretion of discount of debt

For the nine months ended September 30, 2018, finance expenses were $53,825, $36,302 higher than the comparable costs of $17,523 for the nine months ended September 30, 2017. This was due to the interest cost of the preference shares and the accretion expense related to those shares both being higher than in 2017.

Net income

Three months ended September 30, 2018

The net income for the three months ended September 30, 2018 was $145,065 or $0.00 per share basic and fully diluted compared to net income of $56,809 or $0.00 per share basic and fully diluted for the three months ended September 30, 2017.

Nine months ended September 30, 2018

The net income for the nine months ended September 30, 2018 was $386,936 or $0.00 per share basic and fully diluted compared to net income of $190,424 or $0.00 per share basic and fully diluted for the nine months ended September 30, 2017.

Statement of Financial Position:

Total Assets

Total assets as at September 30, 2018 were $846,194, an increase of 76 percent from $479,631, as at December 31, 2017.

Total Liabilities

Total liabilities as at September 30, 2018 were $1,305,292 a decrease of 2 percent from $1,325,665 as at December 31, 2017.

Liquidity and Cash Flow

Nine months ended September 30, 2018

During the nine months ended September 30, 2018, the Company earned $423,643 in operating activities compared to earning $215,721 from operations during the same period in 2017. In 2018 non-cash items contributed $29,950 for the period compared to $15,035 for the nine months ended September 30, 2017. The Company made preference share redemptions of $125,000 in the nine months ended September 30, 2018, compared to making loan repayments of $150,000 in the nine months ended September 30, 2017. These resulted in a net increase in cash resources of $298,643 and a cash resources balance at the end of the period of $353,454. During the equivalent period in 2017, the Company showed a net increase in cash resources of $65,721 and a cash resources balance of $145,467 at the end of the period.

Related Party Transactions
During the nine months ended September 30, 2018, management fees and salaries totaling $146,975 were paid to executives who were directors and/or shareholders or to companies controlled by them.

Off Balance Sheet Arrangements
As at September 30, 2018, the Company does not have any material off balance sheet arrangements.

Disclosure Controls and Procedures

The Chairman and the President of the Company have evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the current period 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 at September 30, 2018, there were 60,509,971 outstanding common shares. As at September 30, 2018, 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	60,509,971	60,509,971
Stock options issued as at December 31, 2017	0	0
Stock options expired from January 1, 2018 to September 30, 2018	0	0
Total (maximum number of shares – fully diluted)	60,509,971	60,509,971

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, 2017	0	0.00	0.000
Granted during the six months	0	0.00	0.000
Expired during the six months	0	0.00	0.000
Balance September 30, 2018	0	0.00	0.000

As at September 30, 2018, there were no outstanding options to acquire common shares (nil at the end of fiscal 2017).

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 this 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 continues to receive strong industry acceptance with a corresponding growth in sales to the transportation segment. The private label arrangement made for a leading supplier to the commercial transport industry is proving to be an excellent performer.

The Company will continue to form strategic distribution alliances in the United Sates to accelerate its wheel end safety product sales outside the Canadian marketplace.

The Company may seek sufficient additional funds to provide working capital, inventory and capital equipment as needs arise, but at the moment, cash flow from operations is sufficient to support current needs.

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.