Spectra Inc.

Management Discussion and Analysis

Quarter Ended March 31, 2015

May 25, 2015

Spectra Inc.
Management Discussion and Analysis - Quarter Ended March 31, 2015

The following Management Discussion and Analysis is supplementary to, and should be read in conjunction with the interim financial statements for the period ended March 31, 2015. 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 May 25, 2015.

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 product includes 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 introduced in the fourth quarter a new product, the Arrow Logger™. This system is designed to work in conjunction with the Brake Safe® product by providing enhanced brake monitoring.

The Company manufactures its Brake Safe®, Arrow Logger™ 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 form 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's 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 2015.

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 originate in United States dollars and are subject to fluctuations:

	As at March 31, 2015
Current assets	$ 60,797
Revenue	$ 171,619

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 March 31, 2015, the Company had $60,797 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 $6,080decrease or increase, respectively, to the Company's loss before income taxes for the three months ended March 31, 2015.

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 March 31, 2015, four customers accounted for 43% of the Company's total trade receivables (December 31, 2014 – five customers accounted for 46%):

	At March 31, 2015	At December 31, 2014
1-30 days	103,828	115,120
31-60 days	33,447	19,875
60+ days	3,753	62
Total trade receivables	141,028	135,057
Allowance for bad debts	0	0
Net trade receivables	141,028	135,057
Other receivables	27,066	11,700
Total receivables	168,094	146,757

For the three months ended March 31, 2015, four customers accounted for 48% of the Company's revenue (for the three months ended March 31, 2014, four customers accounted for 50% 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 a financial asset at fair value through profit and loss. Cash is measured at fair value with subsequent changes in fair value recognized in current period income. Accounts receivable are classified as loans and receivables and are measured at fair value; accounts payable and accrued charges and loan payable are classified as other financial liabilities and are measured at fair value; and royalty debentures and convertible preferred shares are classified as other financial liabilities and are initially measured at fair value and subsequently measured at amortized cost using the effective interest method. The carrying amount of cash, accounts receivable, accounts payable and accrued charges and loan payable approximates fair value due to the short-term nature of these financial instruments.

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 2015.

Financial Results
The accompanying unaudited consolidated 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 consolidated financial statements were prepared in accordance with IFRS accounting principles 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 Company's first quarter interim financial statements were prepared in accordance with IFRS under IAS 34 – Interim Financial Reporting. The table below sets forth certain information for each of the eight most recent quarters, the most recent quarter being March 31, 2015.

QUARTERLY DATA

Canadian Dollars	Three month period ending:							
	31.03.15	31.12.14	30.09.14	30.06.14	31.03.14	31.12.13	30.09.13	30.06.13
Revenue	352,031	349,020	394,364	332,726	357,447	273,270	397,442	312,103
Gross Profit	217,824	193,142	209,704	191,237	195,368	146,598	222,190	162,252
SG&A expenses	183,398	163,309	175,232	159,165	170,655	161,105	187,968	175,202
Debt value adjustment	(5166)	(5,126)	(5,084)	(5,045)	(5,000)	(4,970)	(4,926)	(4,887)
Income (loss) for the period	18,049	10,210	15,788	13,663	5,939	(35,199)	16,064	(31,176)
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)

Seasonality:
The marginal sales trends experienced in previous years, no longer apply to the marketplace in which our products were sold in 2015. The greater variance on quarter-to-quarter sales was a result of the ongoing deepening impact of the global economic downturn on customer demand, inventory levels and minimum re-order timing.

Results of Operations

Revenue:
Three months ended March 31, 2015
Revenue for the three months ended March 31, 2015 decreased by 2 percent to $352,031 compared to revenue of $357,447 for the three-month period ended March 31, 2014. The quarterly decrease in revenue is mostly attributable to increases in sales of Termin-8r® by $5,677 for the 2015 period to $109,381 compared to $103,704 in 2014, of Brake Inspector® from $1,641 in 2014 to $6,420 in 2015 and Hub Alert® from $8,469 in 2014 to $13,024 in 2015 as well as strong foreign exchange gains of $33,742. These increases were offset by a decrease in Zafety Lug Lock® sales to $55,208 in 2015, compared to sales in 2014 of $86,706 and a decrease in Brake Safe® sales from $143,311 in 2014 to $134,256 in 2015.

Gross Profit:
Three months ended March 31, 2015
Gross profit increased by $22,456 for the three months ended March 31, 2015 to $217,824 or 62 percent of revenue from a comparable $195,368 or 55 percent of revenue for the three months ended March 31, 2014.

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 fleets. The Company's most profitable sale rests with the fleet customer, followed by dealers and distributors.

Expenses:
Three months ended March 31, 2015

The Company has elected to present its statement of earnings utilizing a functional basis of classification in accordance with IAS 1.

Selling costs
Selling costs are comprised of the following categories:

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

For the three months ended March 31, 2015, selling costs were $35,992, $5,063 higher than the comparable costs of $30,929 for the three months ended March 31, 2014.

The principal factors contributing to this increase were higher travel and courier costs as the Company pursued an increased presence in the U.S. market.

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 three months ended March 31, 2015, administrative costs were $128,655, $7,680 higher than the comparable costs of $120,975 for the three months ended March 31, 2014.

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 three months ended March 31, 2015, finance expenses were $34,273, $1,067 lower than the comparable costs of $35,340 for the three months ended March 31, 2014.

Net income
Three months ended March 31, 2015
The net income for the three months ended March 31, 2015 was $18,049 or $0.000 per share basic and fully diluted compared to net income of $5,939 or $0.000 per share basic and fully diluted for the three months ended March 31, 2014.

Balance Sheet:

Total Assets
Total assets as at March 31, 2015 were $378,195, an increase of 10 percent from $342,678 as at December 31, 2014.

Total Liabilities
Total liabilities as at March 31, 2015 were $2,205,605, compared to $2,206,887 as at December 31, 2014.

Liquidity and Cash Flow
Three months ended March 31, 2015

During the three months ended March 31, 2015, the Company used $31,934 in operating activities compared to using $2,008 in operations during the same period in 2014. Non-cash items contributed $24,771 for the period compared to $25,936 for the three months ended March 31, 2014. During the first three months of 2015, no loan repayments were made. In the comparable period in 2014, the company made loan repayments of $10,000. These facts combined to result in a net decrease in cash resources of $31,934 and a cash resources balance at the end of the period of $15,149. During the equivalent period in 2014, the Company showed a net decrease in cash resources of $12,008 and a cash resources balance of $7,915 at the end of the period.

Related Party Transactions

During the three months ended March 31, 2015, management fees and salaries totaling $56,329 were paid to executives who were directors or shareholders or to companies controlled by them.

During the three months ended March 31, 2015, consulting fees of $18,750 were paid to a company controlled by a shareholder and a former director of the Company.

During the three months ended March 31, 2015, royalties of $244 were paid to a company owned by a director.

Off Balance Sheet Arrangements
As at March 31, 2015, 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 first quarter of 2015 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 March 31, 2015, there were 60,514,837 outstanding common shares including 4,661,365 remaining in escrow with release dependent on the Company attaining certain cash flow levels. The Company is authorized to issue an unlimited number of common shares. There were no changes in the issued common shares of the Company during 2015. As of the date of this MD&A, 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	60,514,837	60,514,837
Stock options issued as at December 31, 2014	300,000	300,000
Stock options issued from January 1, 2015 to March 31, 2015	0	0
Total (maximum number of shares – fully diluted)	60,814,837	60,814,837

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 issued and outstanding common shares issued, 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, 2014	300,000	0.10	0.018
Granted	-	-	-
Expired during the period	-	-	-
Balance March 31, 2015	300,000	0.10	0.018

As at March 31, 2015, there were 3000,000 outstanding options to acquire common shares (300,000 at the end of fiscal 2014). These options were held by directors, employees and consultants and were exercisable at any time during the remaining contractual life. Exercise prices under the options and the remaining life of options are summarized below:

Expiry Date	**Number of options Granted**	**Exercise Price**	**Remaining Contractual Life**
February 28, 2016	350,000	$0.10	2.9 years

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.

SUBSEQUENT EVENTS

There were no subsequent events of any significance.

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 compliment our other offerings.

The Company's Brake Safe® product is well established in the Canadian market and inroads are now being made into the lucrative American market. With the implementation of its new, aggressive, safety enforcement and monitoring program, CSA (Compliance, Safety, Accountability), the Federal Motor Carrier Safety Administration is bringing the focus onto unsafe Carriers and unsafe Drivers in the US transportation industry. A significant increase in roadside enforcement, citations and fines for all driver and vehicle violations will impact positively on the sales growth of Brake Safe® and Zafety Lug Lock® products. A program is being 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® and Zafety Lug Lock®.

The Company introduced in the first quarter of 2015 a "buy direct from the manufacturer" program for U.S. fleets and owner operators to increase the awareness of Brake Safe® in the U.S. market. This program will be supported by sustained advertising in select U.S. media and the addition of e-commerce capability on the Company's website. The Company will continue to sell Brake Safe® through its existing U.S. distributors.

The Company's Termin-8R® product continues to receive strong industry acceptance with a corresponding growth in sales to the transportation segment. The second private label arrangement, introduced in 2010 and made for a major supplier to the commercial transport industry, is proving to be a strong performer with 2014 private label sales now being more than double that of the previous year and first quarter 2015 sales being almost 30% over the same period in 2014. The company believes that developing new private label arrangements will be a key to the ongoing growth in the sales of this product.

Zafety Lug Lock® continues to make good inroads into the marketplace with new interest from overseas.

The Company's newly introduced product, Arrow Logger™, has been designed to complement the Brake Safe® product line with enhanced brake adjustment monitoring. The system allows drivers to inspect brake adjustment during roadside operation without the need to apply the service brake, usually a 2 person operation. The Company anticipates a very positive response to the Arrow Logger™ from existing and potential Brake Safe® customers.

Initial interest in Hub Alert® has declined and new marketing efforts have been introduced to try to stimulate sales.

The Company will continue to form strategic distribution alliances to accelerate its 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.

Until such time as present market conditions improve, the Company will continue the cost-saving measures introduced in 2009 to reduce overhead and improve cash flow.

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.