Spectra Inc.

Management Discussion and Analysis

Annual and Fourth Quarter Ended December 31, 2017

April 9, 2018

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The following Management Discussion and Analysis is supplementary to, and should be read in conjunction with the audited financial statements for the fiscal year ended December 31, 2017. The consolidated 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 9, 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 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 of 2014 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 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 2017.

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 December 31, 2017
Net assets	$ 113,697
Revenue	$ 818,485
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 December 31, 2017, the Company had $89,879 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 $8,988 decrease or increase, respectively, to the Company's income before income taxes for the year ended December 31, 2017.

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 December 31, 2017, three customers accounted for 54% of the Company's total trade receivables (December 31, 2016 - three, 81%):

	At December 31, 2017	**At December 31, 2016**
1-30 days	104,645	111,116
31-60 days	121,948	48,125
60+ days	9,787	278
Total trade receivables	236,380	159,519
Allowance for bad debts	0	0
Net trade receivables	236,380	159,519
Other receivables	7,820	3,634
Total receivables	244,200	163,153

For the year ended December 31, 2017, three customers accounted for 52% of the Company's revenue (December 31, 2016, three customers, 54% 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 2017.

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.

Annual Information
The following summary of selected audited information is derived from, and should be read in conjunction with, the Company's audited financial statements, including notes thereto, for the years ended December 31, 2017, 2016, 2015 and 2014:

ANNUAL DATA

OPERATIONS:

Canadian dollars	**2017**	**2016**	**2015 (restated)**	**2014**
Total revenue	$ 1,780,609	$ 1,549,112	$ 1,817,686	$ 1,433,557
Gross profit	$ 1,018,109	$ 920,783	$ 1,074,625	$ 789,451
Gain on extinguishment of Debt	$ 30,423	$ 187,500		
Net income before taxes	$ 222,810	$ 151,912	$ 195,289	$ 45,600
Net income	$ 222,810	$ 151,912	$ 195,289	$ 45,600
Cash flow earned in operations	$ 275,065	$ 188,897	$ 81,815	$ 107,922
Basic earnings per share	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Diluted earnings per share	$ 0.00	$ 0.00	$ 0.00	$ 0.00

FINANCIAL POSITION:

Canadian dollars	2017	2016	2015 (restated)	2014
Total assets	$ 479,631	$ 417,393	$ 444,161	$ 342,678
Total liabilities	$ 1,325,665	$ 1,486,237	$ 1,836,662	$ 1,935,954
Shareholders deficiency	$ (846,034)	$(1,068,844)	$(1,392,501)	$(1,864,209)

Results of Operations

Revenue
Twelve months ended December 31, 2017
Revenue for the twelve months ended December 31, 2017 increased by 15 percent to $1,780,609 compared to revenue of $1,549,112 for the twelve months ended December 31, 2017. The increase in revenue is attributable to increased sales of all major product lines.

Unit sales of Brake Safe® increased by 24% to 38,330 units in 2017 compared to 30,859 units in 2016. Revenue from Brake Safe® similarly increased by 18% in 2017 to $803,366, from $679,703.

Termin-8r® revenue totaled $548,967 in 2017, an increase of 8 percent from the same period in 2016. The Company has a very successful private label brand of this product and sales are growing in that area. In 2018 it plans to continue marketing programs designed to get additional fleet trials and build awareness of the superior features of Termin-8r®. The Company is currently selling its anti-corrosion line of Termin-8R® products to the Canadian transportation industry through its dealer/distributor network. Termin-8R® has a small customer base and accordingly quarterly sales will fluctuate depending on the timing of existing and new customer orders.

Zafety Lug Lock® revenue for the twelve months ended December 31, 2017 generated $207,112 compared to $165,580 in 2016. This represented a 25% increase in sales revenue resulting from a 32% increase in unit sales.

Brake Inspector® revenue totaled $30,958, a decrease of 18 percent from 2016 sales. While the economic uncertainty continues, especially in the U.S. market the company has not pursued the marketing of this more expensive product, instead, focusing on the sale of Brake Safe®.

Hub Alert® generated revenue of $27,642 on sales of 15,280 units in 2017. These were increases of 37% and 37% respectively over 2016.

Gross Profit
Twelve months ended December 31, 2017
Gross profit increased by $97,326 for the twelve months ended December 31, 2017 to $1,018,109 or 57% of revenue from $920,783 or 59% of revenue for the twelve months ended December 31, 2016.

Gross profit margins will vary depending on the mix of product sales within the Brake Safe®, Brake Inspector®, Termin-8r®, Zafety Lug Lock®, Hub Alert® and Arrow Logger™ product lines. In addition, the mix of distribution channels may affect margins. Also, foreign exchange gains boosted margins in sales in $US.

Expense
Twelve months ended December 31, 2017

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 year ended December 31, 2017, selling costs were $178,096, $6,112 higher than the comparable costs of $171,984 for the year ended December 31, 2016.

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 year ended December 31, 2017, administrative costs were $541,391, $21,430 higher than the comparable costs of $519,961 for the year ended December 31, 2016.

Finance costs
Finance costs are comprised of the following categories:

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

For the year ended December 31, 2017, finance costs were $99,788, $161,044 lower than the comparable costs of $260,832 for the year ended December 31, 2016. This decrease was due primarily to an additional charge to accretion of discount expense of $139,355 on the Convertible Preferred Shares in 2016.

Net income
Year ended December 31, 2017
The net income for the year ended December 31, 2017 was $222,810 or $0.00 per share basic and fully diluted compared to net income of $151,912 or $0.00 per share basic and fully diluted for the year ended December 31, 2016.

Liquidity and Cash Flow
Twelve months ended December 31, 2017
For the twelve months ended December 31, 2017, the Company earned $275,065 in operating activities compared to earning $188,897 in 2016. Non-cash items during the twelve months contributed $75,812 compared to $100,726 in 2016. $150,000 was repaid on loans payable during the year and $150,000 of preferred shares were repurchased for cancellation. These all resulted in a net decrease in cash resources of $24,935 and a cash resources balance at the end of the period of $54,811. During the equivalent twelve-month period in 2016 the Company showed a net increase in cash resources of $35,897 and a cash resources balance at the end of the year of $79,746.

The financial statements have been prepared on a going concern basis, which presumes the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. Although the Company has experienced several years of profitability recently, it has significant losses from prior year operations and has an accumulated deficit at December 31, 2017 of $6,479,933 compared to an accumulated deficit of $6,702,743 at the same date in 2016. The Company has a positive working capital position of $339,424 at December 31, 2017. The Company‘s current cash and cash equivalents are

expected to meet the anticipated need for ongoing expenses, working capital and capital expenditures. In the event the Company's cash and cash equivalents are insufficient, the Company may seek additional financing as required to provide working capital, inventory and capital equipment necessary to implement its business plan.

The Company's ability to continue operations is dependent upon its ability to achieve profitability, maintain current financing and obtain new sources of financing. The outcome of these matters cannot be predicted at this time. The financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue operations.

The Company will prudently continue to evaluate the need for financing opportunities that may take the form of additional equity or debt securities. In the event the Company raises funds through the sale of equity or convertible debt instruments, additional dilution to existing shareholders may result. Terms of debt instruments may limit the Company's operations or ability to pursue market opportunities. Management cannot be certain that this additional financing will be available in the amounts required or on acceptable terms.

Management believes that the strong functional and competitive capabilities of its Brake Safe®, Brake Inspector®, Termin-8r® Zafety Lug Lock®, Hub Alert® and Arrow Logger™ product lines will improve the Company's long-term profitability.

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, 2017.

QUARTERLY DATA

Canadian Dollars	Three month period ending:							
	31.12.17	30.09.17	30.06.17	31.03.17	31.12.16	30.09.16	30.06.16	31.03.16
Revenue	448,017	432,186	461,673	438,733	342,461	342,034	435,157	429,460
Gross Profit	268,812	224,690	269,894	254,713	206,075	212,868	246,925	254,915
Gain on extinguishment of debt	30,423				187,500			
SG&A expenses	174,167	167,881	187,632	196,254	130,884	196,508	214,675	200,208
Impairment loss (recovery)					(4,300)		(1,500)	(18,000)
Debt value adjustment	(79,870)	(3,948)	(5,553)	(3,553)	(142,328)	(5,418)	(5,375)	(5,333)
Income (loss) for the period	32,386	56,809	78,709	54,906	57,797	16,360	20,211	57,544
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 December 31, 2017
Revenue for the three months ended December 31, 2017 increased by 31 percent to $448,017 compared to revenue of $342,461 for the three-month period ended December 31, 2016.

Brake Safe® had sales of $219,870 in 2017, compared to $139,941 in 2016; Brake Inspector® had sales of $11,355 in 2017, compared to $213 in 2016; Termin-8r® sales decreased by $15,412 from $140,156 in the 2016 period to $124,744 in 2017; Zafety Lug Lock® had sales in 2017 of $48,129 compared to $23,363 in 2016 and Hub Alert® had 2017 sales of $4,389 compared to $1,650 in 2016.

Gross Profit
Three months ended December 31, 2017
Gross profit increased by 30% for the three months ended December 31, 2017 to $268,812 or 60 percent of revenue from a comparable $206,075 or 60 percent of revenue for the three months ended December 31, 2016.

Expenses:
Three months ended December 31, 2017

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 December 31, 2017, selling costs were $42,049, $836 lower than the comparable costs of $42,885 for the quarter ended December 31, 2016.

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 December 31, 2017, administrative costs were $140,464, $33,850 higher than the comparable costs of $106,614 for the quarter ended December 31, 2016.

Finance costs
Finance costs are comprised of the following categories, previously shown separately:

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

For the quarter ended December 31, 2017, finance costs were $82,265, $84,106 lower than the comparable costs of $166,371 for the quarter ended December 31, 2016. This decrease was due primarily to the

additional charge to accretion of discount expense of $139,355 on the Convertible Preferred Shares in 2016.

Net income
Three months ended December 31, 2017
The net income for the three months ended December 31, 2017 was $32,386 or $0.00 per share basic and fully diluted compared to net income of $57,797 or $0.00 per share basic and fully diluted for the three months ended December 31, 2016.

Statement of Financial Position:

Total Assets
Total assets as at December 31, 2017 were $479,631, an increase of 15 percent from $417,393, as at December 31, 2016.

Total Liabilities
Total liabilities as at December 31, 2017 were $1,325,665, a decrease of 11 percent from $1,486,237 restated as at December 31, 2016.

Liquidity and Cash Flow
Three months ended December 31, 2017

During the three months ended December 31, 2017, the Company earned $59,344 in operating activities compared to earning $23,516 from operations during the same period in 2016. In 2017 non-cash items contributed $59,344 for the period compared to utilizing $2,214 for the three months ended December 31, 2016. In the three months ended December 31, 217, $150,000 of preferred shares were repurchased for cancellation. These resulted in a net decrease in cash resources of $90,656 and a cash resources balance at the end of the period of $54,811. During the equivalent period in 2016, the Company showed a net decrease in cash resources of $29,484 and a cash resources balance of $79,746 at the end of the period.

Related Party Transactions
During the year ended December 31, 2017, management fees and salaries totaling $238,395 were paid to executives who were directors and/or shareholders or to companies controlled by them.

Off Balance Sheet Arrangements
As at December 31, 2017, 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 2017 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 December 31, 2017, there were 60,509,971 outstanding common shares including 1,552,166 remaining in escrow. Under a new agreement, these 1,552,166 shares will be released from escrow in 2018. As at December 31, 2017, 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, 2016	0	0
Stock options expired from January 1, 2017 to December 31, 2017	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, 2016	0	0.00	0.000
Granted	0	0.00	0.000
Expired during the year	0	0.00	0.000
Balance December 31, 2017	0	0.00	0.000

As at December 31, 2017, there were no outstanding options to acquire common shares (nil at the end of fiscal 2016).

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 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® products. 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 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 2017 private label sales, by dollar amount, now being 80% of total Termin-8R® product sales and 27% more than that of the previous year. The company believes that developing new private label arrangements will be a key to the ongoing growth in the sales of this product.

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.

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.