

Spectra Inc.

Management Discussion and Analysis

Third Quarter Ended September 30, 2017

Spectra Inc.**Management Discussion and Analysis – Third Quarter Ended September 30, 2017**

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, 2017. 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 November 3, 2017

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 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'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 or 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, liabilities, revenue and expenses originate in United States dollars and are subject to fluctuations:

	As at September 30, 2017
Current assets	\$ 99,147
Current liabilities	\$ nil
Revenue	\$575,238
Expenses	\$ 19,125

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, 2017, the Company had \$79,497 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 an \$7,950 decrease or increase, respectively, to the Company's loss before income taxes for the nine months ended September 30, 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 September 30, 2017, three customers accounted for 57% of the Company's total trade receivables (December 31, 2016 – three customers accounted for 81%):

	At September 30, 2017	At December 31, 2016
1-30 days	155,112	111,116
31-60 days	33,623	48,125
60+ days	5,187	278
Total trade receivables	193,922	159,519
Allowance for bad debts	0	0
Net trade receivables	193,922	159,519
Other receivables	6,918	3,634
Total receivables	200,840	163,153

For the nine months ended September 30, 2017, three customers accounted for 53% of the Company's revenue (for the nine months ended September 30, 2016, three customers accounted for 44% 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 2017.

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 September 30, 2017.

QUARTERLY DATA

Canadian Dollars	Three month period ending:							
	30.09.17	30.06.17	31.03.17	31.12.16	30.09.16	30.06.16	31.03.16	31.12.15
Revenue	432,186	461,673	438,733	442,461	342,034	435,157	429,460	449,450
Gross Profit	224,690	269,894	254,713	206,075	212,868	246,925	254,915	264,975
Gain on Extinguishment of debt				187,500				
SG&A expenses	167,881	187,632	196,254	130,884	196,508	214,675	200,208	212,633
Impairment loss (recovery)				(4,300)		(1,500)	(18,000)	
Debt value adjustment	(3,948)	(3,553)	(3,553)	(142,328)	(5,418)	(5,375)	(5,333)	(5,291)
Income (loss) for the period	56,809	78,709	54,906	57,797	16,360	20,211	57,544	1,317
Income per share basic & 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 2017. 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 September 30, 2017

Revenue for the three months ended September 30, 2017 increased by 26 percent to \$432,186 compared to revenue of \$342,034 for the three-month period ended September 30, 2016. The increase in revenue is attributable to increases in sales of Termin-8r[®] from \$121,566 to \$138,882; Brake Safe[®] from \$141,749 to \$193,172; Zafety Lug Lock[®] from \$36,156 to \$63,035; and Hub Alert[®] from \$4,788 to \$5,248; offset by decreases in sales of Brake Inspector[®] from \$8,843 to \$2,244; Arrow Logger[®] from \$888 to \$361 and sundry income from \$29,820 to \$29,244.

Nine months ended September 30, 2017

Revenue for the nine months ended September 30, 2017 increased by 10 percent to \$1,332,592 compared to revenue of \$1,206,651 for the nine-month period ended September 30, 2016. The increase in revenue is attributable to increases in sales of Termin-8r[®] from \$370,212 to \$424,223; Brake Safe[®] from \$539,762 to \$583,496; Zafety Lug Lock[®] from \$142,217 to \$158,983; Hub Alert[®] from \$18,474 to \$23,253; and sundry income from \$96,001 to \$121,389; offset by decreases in sales of Brake Inspector[®] from \$37,609 to \$19,603 and Arrow Logger[®] from \$2,376 to \$1,645.

Gross Profit:

Three months ended September 30, 2017

Gross profit increased by \$11,822 for the three months ended September 30, 2017 to \$224,690 or 52 percent of revenue from a comparable \$212,868 or 62 percent of revenue for the three months ended September 30, 2016.

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.

Nine months ended September 30, 2017

Gross profit increased by \$34,589 for the nine months ended September 30, 2017 to \$749,297 or 56 percent of revenue from a comparable \$714,708 or 59 percent of revenue for the nine months ended September 30, 2016.

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 September 30, 2017**

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 September 30, 2017, selling costs were \$41,086, \$2,044 higher than the comparable costs of \$39,042 for the three months ended September 30, 2016. The principal factors contributing to this increase were higher commissions due to higher sales, offset by lower advertising and promotion expenses.

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 September 30, 2017, administrative costs were \$120,775, \$5,246 lower than the comparable costs of \$126,021 for the three months ended September 30, 2016. There was no specific area of reduction, but more a general lowering of costs in all categories and salaries showed a slight reduction due to the partial retirement of a senior employee.

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 September 30, 2017, finance expenses were \$3,948, \$26,270 lower than the comparable costs of \$30,218 for the three months ended September 30, 2016. This was due to the \$18,750 quarterly royalty payment made in 2016 being waived in 2017 as well as lower interest costs as a result of loan repayments having been made.

Nine months ended September 30, 2017

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 nine months ended September 30, 2017, selling costs were \$136,047, \$6,948 higher than the comparable costs of \$129,099 for the nine months ended September 30, 2016. The principal factors contributing to this increase were higher advertising and promotion expenses costs as the Company pursued an increased presence in the U.S. market and increased 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, 2017, administrative costs were \$400,927, \$12,420 lower than the comparable costs of \$413,347 for the nine months ended September 30, 2016. All expense categories in 2017 were in line with 2016 but salaries showed a slight reduction due to the partial retirement of a senior employee.

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, 2017, finance expenses were \$17,524, \$76,937 lower than the comparable costs of \$94,461 for the nine months ended September 30, 2016. This was due to the \$56,250 royalty payment made in 2016 being waived in 2017 as well as lower interest costs as a result of loan repayments having been made.

Net income

Three months ended September 30, 2017

The net income for the three months ended September 30, 2017 was \$56,809 or \$0.00 per share basic and fully diluted compared to net income of \$16,360 or \$0.00 per share basic and fully diluted for the three months ended September 30, 2016.

Nine months ended September 30, 2017

The net income for the nine months ended September 30, 2017 was \$190,424 or \$0.00 per share basic and fully diluted compared to net income of \$94,115 or \$0.00 per share basic and fully diluted for the nine months ended September 30, 2016.

Balance Sheet:**Total Assets**

Total assets as at September 30, 2017 were \$528,826 an increase of 27 percent from \$417,393 as at December 31, 2016.

Total Liabilities

Total liabilities as at September 30, 2017 were \$1,407,246, a decrease of 5 percent from \$1,486,237 as at December 31, 2016.

Liquidity and Cash Flow**Nine months ended September 30, 2017**

During the nine months ended September 30, 2017, the Company provided cash flow of \$215,721 from operating activities compared to \$165,381 provided from operating activities during the same period in 2016. Non-cash items contributed \$21,899 for the period ended September 30, 2017 compared to \$97,647 for the nine months ended September 30, 2016. The Company made repayments of \$150,000 in the nine months ended September 30, 2017, compared to loan repayments of \$100,000 in the nine months ended September 30, 2016. The combined result of these factors in 2017 was a net increase in cash resources of \$65,721 and a cash resources balance at the end of the period of \$145,467. During the equivalent period in 2016, the Company showed a net increase in cash resources of \$65,381 and a cash resources balance of \$109,230 at the end of the period.

Related Party Transactions

During the nine months ended September 30, 2017, management fees and salaries totaling \$174,798 were paid to executives who were directors and shareholders or to companies controlled by them.

Off Balance Sheet Arrangements

As at September 30, 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 the third quarter 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 September 30, 2017, there were 60,509,971 outstanding common shares including 1,552,166 remaining in escrow. Under a new agreement, these shares will be released from escrow in 2018. A total of 4,866 common shares of the Company held under the terms of a previous escrow agreement were cancelled during the three months ended March 31, 2017. 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	60,509,971	60,509,971
Stock options issued as at December 31, 2016	0	0
Stock options issued from January 1, 2017		

to September 30, 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 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, 2016	-	-	-
Granted	-	-	-
Expired during the period	-	-	-
Balance September 30, 2017	-	-	-

As at September 30, 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.

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 the Company is seeking out new product to complement other wheel end safety products, Brake Safe[®], Hub Alert[®] and Zafety Lug Lock[®]

Spectra Products Inc. is the only company in North America that provides one stop shopping for wheel end safety products in the transportation industry. Brake Safe[®] addresses the number one out of service violation in North America during road side inspections being brakes out of adjustment. Zafety Lug Lock[®] and Hub Alert[®] address the very serious wheel off situation of trucks and trailer losing a wheel and impacting another vehicle causing major damage or potentially causing fatalities.

The Company's Brake Safe[®] product is well established in the Canadian market and as previously reported Spectra Products Inc. is executing its strategy to expand its Brake Safe[®] visual brake stroke indicator and diagnostic tool into the lucrative U.S. Transportation Industry. The brake violation issues are receiving a tremendous amount of attention from U.S. media as well as increased enforcement resulting in vehicles being put out of service and affecting Fleet safety records. This growing awareness is having a very positive impact on sales of Brake Safe[®] in the U.S. market.

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 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 81% of total Termin-8r[®] product sales compared to 71% of total sales during the same period in 2016.

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.