Spectra Inc.

Management Discussion and Analysis

Annual and Fourth Quarter Ended December 31, 2016

March 24, 2017

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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, 2016. 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 March 24, 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 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 2016.

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, 2016
Net assets	$ 62,151
Revenue	$ 591,523
Expenses	$ 18,000

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, 2016, the Company had $62,151 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 $6,215 decrease or increase, respectively, to the Company's income before income taxes for the year ended December 31, 2016.

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, 2016, three customers accounted for 81% of the Company's total trade receivables (December 31, 2015 - four, 49%):

	At December 31, 2016	**At December 31, 2015**
1-30 days	111,116	108,934
31-60 days	48,125	127,067
60+ days	278	0
Total trade receivables	159,519	236,001
Allowance for bad debts	0	0
Net trade receivables	159,519	236,001
Other receivables	3,634	8,976
Total receivables	163,153	244,977

For the year ended December 31, 2016, three customers accounted for 54% of the Company's revenue (December 31, 2015, four customers, 47% of revenue).

Liquidity Risk
Liquidity risk encompasses the risk that a company cannot meet its financial obligations as they become due. The Company's approach in managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking harm to the Company's reputation. The Company manages its liquidity risk by continuously monitoring its actual cash flows and its forecasted cash flows. In the event the Company's current cash and cash equivalents become insufficient to meet the anticipated need for ongoing expenses, working capital and capital expenditures, the Company will seek additional funds in the form of equity or debt to provide working capital, inventory and capital equipment necessary to implement its business plan.

Fair Value
The Company's financial assets and liabilities are classified and measured as follows:
Cash is classified as financial assets ***"fair value through profit and loss"*** and accounts receivable as loans and receivables and are measured at fair value; accounts payable and accrued charges, loans payable, 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 and accounts payable and accrued charges approximates fair value due to the short-term nature of these financial instruments. The carrying value of loans payable and royalty debenture approximate 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 2016.

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.

Renegotiation of Debt Instruments; Resulting Restatement of Previously Issued Consolidated Financial Statements and Impact on Current Year Earnings.

In the last quarter of 2016, the Company finalized favourable renegotiations on two of the debt instruments owing to Dynamic Ventures Opportunities Fund Ltd. ("DVOF")

Convertible Preferred Shares

The amended agreement allows the 750 preferred shares to be retracted by DVOF for $1,000 per share (previously $1,250 per share). The resulting gain of $187,500 from the change in retraction price is recognized as a gain on extinguishment of debt in the current year. The amended agreement also provided that these shares cannot be retractable until, at the earliest, May 31, 2018 and that the annual dividends of $45,000 have been waived for 2017.

Following the standards and interpretations issued by the International Standards Board ("IASB") which govern the presentation of our financial statements, these amendments classified these shares as a new debt instrument and therefore required a recalculation of the present value of the shares and a corresponding additional charge to accretion of discount on debt expense (debt value adjustment) in the last quarter of 2016 of $139,355.

Royalty debenture

For some years now, the annual royalty portion of payments on this debenture was capped at $75,000 and was settled by way of issuance of 100 common shares of SPI each year. By way of an amending agreement made in the last quarter of 2016, this $75,000 annual royalty portion of payments on this debenture has been waived for 2017. This change resulted in a restatement of the accretion expense for 2015 of $6,701.

Again, following the standards and interpretations issued by the International Standards Board ("IASB") which govern the presentation of our financial statements, the impact of these renegotiations are shown separately in our Consolidated Statement of Comprehensive Income and may not clearly show the combined beneficial impact on the last quarters results for 2016.

The Gain on Extinguishment of Debt is shown as an income item in the amount of	187,500
The additional charge to accretion is included in Finance Costs expense and was	(139,955)
Net combined beneficial impact on current year	47,545

As these amendments were all non-cash items, there was no impact to the Cash Flow Provided by Operating Activities in 2015 or 2016.

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, 2016, 2015, 2014 and 2013:

ANNUAL DATA

OPERATIONS:

Canadian dollars	**2016**	**2015 (restated)**	**2014**	**2013**
Total revenue	$ 1,549,112	$ 1,817,686	$ 1,433,557	$ 1,275,2116
Gross profit	$ 920,783	$ 1,074,625	$ 789,451	$ 694,559
Gain on extinguishment of debt	$ 187,500			
Net income (loss) before taxes	$ 151,912	$ 195,289	$ 45,600	$ 73,121)
Net income (loss)	$ 151,912	$ 195,289	$ 45,600	$ (73,121)
Cash flow earned (used) in operations	$ 188,897	$ 81,815	$ 107,922	$ (2,899)
Basic (loss) earnings per share	$ 0.00	$ 0.00	$ 0.00	$ (0.00)
Diluted (loss) earnings per share	$ 0.00	$ 0.00	$ 0.00	$ (0.00)

FINANCIAL POSITION:

Canadian dollars	**2016**	**2015 (restated)**	**2014**	**2013**
Total assets	$ 417,393	$ 444,161	$ 342,678	$ 291,896
Total long-term liabilities	$ 1,486,237	$ 1,836,662	$ 1,935,954	$ 1,915,699
Shareholders deficiency	$(1,068,844)	$(1,392,501)	$(1,864,209)	$(1,984,809)

Results of Operations

Revenue

Twelve months ended December 31, 2016

Revenue for the twelve months ended December 31, 2016 decreased by 15 percent to $1,549,112 compared to revenue of $1,817,686 for the twelve months ended December 31, 2015. The decrease in revenue is attributable to decreased sales of most product lines, offset by increases in sales of Termin-8r® and Brake Inspector®.

Unit sales of Brake Safe® decreased by 20% to 30,859 units in 2016 compared to 38,580 units in 2015. Revenue from Brake Safe® similarly decreased by 14% in 2016 to $679,703, from $793,637.

Termin-8r® revenue totaled $510,368 in 2016, an increase of 14 percent from the same period in 2015. The Company has a very successful private label brand of this product and sales are growing in that area. In 2017 it plans to expand its sales efforts through further introduction of private label branding and the continuation of 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, 2016 generated $165,580 compared to $319,632 in 2015. This represented a 48% decrease in sales revenue resulting from a 46% decrease in unit sales. During 2016, the manufacturer of the product entered into an exclusive sales arrangement with a USA distributor which has impacted our business to sell Zafety Lug Lock®in that market on a competitive basis.

Brake Inspector® revenue totaled $37,822, an increase of 38 percent from 2015 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 $20,124 on sales of 11,168 units in 2016. These were decreases of 57% and 58% respectively over 2015. We continue to try new ways to market this innovative product but have not as yet captured the market's attention.

Gross Profit
Twelve months ended December 31, 2016
Gross profit decreased by $153,842 for the twelve months ended December 31, 2016 to $920,783 or 59 percent of revenue from $1,074,625 or 59 percent of revenue for the twelve months ended December 31, 2015.

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 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. Also foreign exchange gains boosted margins in sales in $US.

Expense
Twelve months ended December 31, 2016

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, 2016, selling costs were $171,984, $1,849 lower than the comparable costs of $173,833 for the year ended December 31, 2015.

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, 2016, administrative costs were $519,961, $16,615 lower than the comparable costs of $536,577 for the year ended December 31, 2015.

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, 2016, finance costs were $260,832, $123,675 higher than the comparable costs of $130,456 for the year ended December 31, 2015. This increase was due primarily to the additional charge to accretion of discount expense of $139,355 on the Convertible Preferred Shares explained earlier in this report, and partially offset by the changes to recalculation of the accretion expense on the Royalty Debenture, again as explained earlier in this report.

Recovery of impairment of investment and loan receivable
The Company had made an investment in, and had advanced a working capital loan to, a company in which it is a 49% shareholder. As there is doubt as to the eventual return of this investment an impairment charge of $35,049 has been taken during the year, reducing the Company's carrying value of this investment to zero. During the year ended December 31, 2016, recovered $23,800 of this investment.

Net income
Year ended December 31, 2016
The net income for the year ended December 31, 2016 was $151,912 or $0.00 per share basic and fully diluted compared to restated net income of $195,289 or $0.00 per share basic and fully diluted for the year ended December 31, 2015.

Liquidity and Cash Flow
Twelve months ended December 31, 2016
For the twelve months ended December 31, 2016, the Company earned $188,897 in operating activities compared to earning $81,815 in 2015. Non-cash items during the twelve months contributed $73,348 compared to $92,633 (restated) in 2015. $150,000 was repaid on loans payable during the year and $3,000 was invested in new equipment. These all resulted in a net increase in cash resources of $35,897 and a cash resources balance at the end of the period to $79,746. During the equivalent twelve-month period in 2015 the Company showed a net decrease in cash resources of $3,234 and a cash resources balance at the end of the year of $43,849.

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, 2016 of $6,702,743 compared to a restated accumulated deficit of $6,929,655 at the same date in 2015. The Company has a positive working capital position of $247,665 at December 31, 2016. 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, 2016.

QUARTERLY DATA

Canadian Dollars	Three month period ending:							
	31.12.16	30.09.16	30.06.16	31.03.16	31.12.15 (restated)	30.09.15	30.06.15	31.03.15
Revenue	342,461	342,034	435,157	429,460	449,450	486,953	529,252	352,031
Gross Profit	206,075	212,868	246,925	254,915	264,975	290,557	301,269	217,824
Gain on extinguishment of debt	187,500							
SG&A expenses	130,884	196,508	214,675	200,208	212,633	195,857	193,522	183,398
Impairment loss (recovery)	(4,300)		(1,500)	(18,000)	35,049			
Debt value adjustment	(142,328)	(5,418)	(5,375)	(5,333)	1,410	(5,248)	(5,208)	(5,166)
Income (loss) for the period	57,797	16,360	20,211	57,544	8,018	77,801	91,421	18,049
Income (loss) per share basic diluted	 0.00 0.00	 0.00 0.00	 0.00 0.00	 0.00 0.00	 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 2016. 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 December 31, 2016

Revenue for the three months ended December 31, 2016 decreased by 24 percent to $342,461 compared to revenue of $449,450 for the three-month period ended December 31, 2015.

Brake Safe® had sales of $139,941 in 2016, compared to $170,918 in 2015; Brake Inspector® had sales of $213 in 2016, compared to $10,555 in 2015; Termin-8r® sales increased by $16,199 over the 2015 period to $140,156; Zafety Lug Lock® had sales in 2016 of $23,363 compared to $75,746 in 2015 and Hub Alert® had 2016 sales of $1,650 compared to $18,234 in 2015.

Gross Profit
Three months ended December 31, 2016
Gross profit decreased by 22% for the three months ended December 31, 2016 to $206,075 or 60 percent of revenue from a comparable $264,975 or 59 percent of revenue for the three months ended December 31, 2015.

Expenses:
Three months ended December 31, 2016

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, 2016, selling costs were $42,885, $2,272 lower than the comparable costs of $45,157 for the quarter ended December 31, 2015.

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, 2016, administrative costs were $106,614, $42,112 lower than the comparable costs of $148,726 for the quarter ended December 31, 2015. The main contributor to the difference was a substantial reduction of $37,065 in professional fees in the quarter.

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, 2016, finance costs were $166,371, $139,201 higher than the restated comparable costs of $27,170 for the quarter ended December 31, 2015. This increase was due primarily to the additional charge to accretion of discount expense of $139,355 on the Convertible Preferred Shares explained earlier in this report.

Recovery of impairment of investment and loan receivable
The Company had made an investment in, and had advanced a working capital loan to, a company in which it is a 49% shareholder. As there is doubt as to the eventual return of this investment, an impairment charge of $35,049 has been taken during the year, reducing the Company's carrying value of this investment to zero. During the quarter ended December 31, 2016, recovered $4,300 of this investment.

Net income
Three months ended December 31, 2016
The net income for the three months ended December 31, 2016 was $57,797 or $0.00 per share basic and fully diluted compared to restated net income of $8,018 or $0.00 per share basic and fully diluted for the three months ended December 31, 2015.

Statement of Financial Position:

Total Assets
Total assets as at December 31, 2016 were $417,393, a decrease of 6 percent from $444,161, restated as at December 31, 2015.

Total Liabilities
Total liabilities as at December 31, 2016 were $1,486,237, a decrease of 19 percent from $1,836,662 restated as at December 31, 2015.

Liquidity and Cash Flow
Three months ended December 31, 2016

During the three months ended December 31, 2016, the Company earned $23,516 in operating activities compared to using $16,338 from operations during the same period in 2015. In 2016 non-cash items utilized $2,214 for the period compared to contributing $18,195 (restated) for the three months ended December 31, 2015. $50,000 was repaid on loans payable during the period and $3,000 was invested in a new equipment. This resulted in a net decrease in cash resources of $29,484 and a cash resources balance at the end of the period of $79,746. During the equivalent period in 2015, the Company showed a net decrease in cash resources of $76,338 and a cash resources balance of $43,849 at the end of the period.

Related Party Transactions
During the year ended December 31, 2016, management fees and salaries totaling $256,881 were paid to executives who were directors and/or shareholders or to companies controlled by them.

Off Balance Sheet Arrangements
As at December 31, 2016, 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 2016 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, 2016, there were 60,514,837 outstanding common shares including 3,109,198 remaining in escrow. Under a new agreement, 1,552,166 of these shares will be released from escrow in 2017 and 2018. As at December 31, 2016, 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, 2015	300,000	300,000
Stock options expired from January 1, 2016 to December 31, 2016	(300,000)	(300,000)
Total (maximum number of shares – fully diluted)	60,514,837	60,514,837

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 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, 2015	300,000	0.10	0.018
Granted	0	0.00	0.000
Expired during the year	(300,000)	0.00	0.018
Balance December 31, 2016	0	0.00	0.000

As at December 31, 2016, there were no outstanding options to acquire common shares (300,000 at the end of fiscal 2015).

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 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 is 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 2016 private label sales, by dollar amount, now being 72% of total Termin-8R® product sales and 20% 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'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.

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 certain of 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.