

Spectra Inc.

Management Discussion and Analysis

Annual and Fourth Quarter Ending December 31, 2006

April 30, 2006

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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, 2006. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) in Canada and all amounts, unless otherwise indicated, are expressed in Canadian dollars. This MD&A is written as of March 30, 2006.

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.

Spectra Inc. manufactures its Brake Safe[®] and Brake Inspector[®] products utilizing sub-contract suppliers and receives the product components for select subassembly and packaging. The Termin-8r[™] product line is blended, packaged and shipped to the Company ready for shipping to customers.

Spectra’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 Results

Selected Financial Information

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, 2006, 2005, 2004 and 2003:

ANNUAL DATA

OPERATIONS:

Canadian dollars	2006	2005 (RESTATED)	2004	2003
Total revenue	\$ 806,390	\$ 713,009	\$ 699,640	\$ 445,052
Gross profit	\$ 426,916	\$ 389,575	\$ 410,594	\$ 243,830
Net income before taxes	\$ (484,298)	\$ (511,922)	\$ (512,281)	\$ (658,856)
Net income	\$ (484,298)	\$ (511,922)	\$ (512,281)	\$ (658,856)
Cash flow from operations	\$79,243	\$ 49,810	\$ (533,971)	\$ (38,427)

Canadian dollars	2006	2005 (RESTATED)	2004	2003
Basic earnings per share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.02)
Diluted earnings per share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.02)

FINANCIAL POSITION:

Canadian dollars	2006	2005 (RESTATED)	2004	2003
Total assets	\$ 463,419	\$ 597,237	\$ 656,243	\$ 424,916
Total long-term liabilities	\$ 1,048,560	\$ 1,133,878	\$ 1,083,851	\$ 624,664
Shareholders deficiency	\$(2,040,956)	\$(1,730,448)	\$(1,378,793)	\$(1,109,212)

Results of Operations

Revenue

Twelve months ended December 31, 2006

Revenue for the twelve months ended December 31, 2006 increased by 13.1 percent to \$806,390 compared to revenue of \$713,009 for the twelve month period ended December 31, 2005. The increase in revenue is attributable to increases in sales of Brake Safe[®] and Termin-8r[™] combined with a slight increase in Brake Inspector[®] sales. Licensing revenue also increased during 2006 compared to 2005 and a non-recurring sale of a trademark contributed to increased revenue.

Brake Safe[®] revenue increased by 8 percent over the preceding year to \$534,060 while unit sales during the period increased by 8 percent.

Brake Inspector[®] revenue totaled \$174,896 exceeding the 12 month period in 2005 by 1 percent although unit sales declined by 4 percent. The higher sales revenue reflected sales to a U.S. based customer leading to a higher unit sales price. The lower unit sales were the result of lower sales of Brake Inspector in the fourth quarter as scheduled shipments were rescheduled to 2007.

Termin-8r[™] revenue totaled \$65,052 in 2006 an increase of 43 percent over the same period in 2005 reflecting increased use by fleet customers. Unit sales increased by 40 percent. The Company plans to expand its sales efforts in 2007 through implementation of marketing programs designed to get fleet trials of the product and build awareness of the superior features of Termin-8r[™].

Licensing revenue for the twelve-month period ending December 31, 2006 generated \$10,660 compared to no licensing revenue in 2005. The Company entered into a licensing arrangement for its sensor technology whereby the licensee pays a licensing fee to the Company for every sensor it integrates and sells with its remote vehicle monitoring system.

A non-recurring sale of a trademark by the Company generated \$15,256 in revenue during 2006.

Brake Inspector[®] is in the early stage of product introduction and has a small customer base. For this reason quarterly sales will fluctuate depending on the timing of existing and new customer orders and the scheduling of vehicle production/deliveries. The Company has experienced considerable variances quarter to quarter as new fleets proceed from a trial of the product to equipping all fleet vehicles. Product sales are currently limited to standalone vehicles, i.e. trucks and buses. The Company has completed beta trials of the stand-alone digital truck system and the stand-alone trailer system and is scheduling production of the digital system during the second quarter of 2007. The Company is currently in beta trials on its truck-trailer system utilizing a digital, PLC based transmission of brake data with commercial production expected in the third quarter of 2007. These two additional product lines are expected to generate sales growth commencing during 2007.

Gross Profit

Twelve months ended December 31, 2006

Gross profit increased by \$37,341 for the twelve months ended December 31, 2006 to \$426,916 or 53 percent of revenue from \$389,575 or 55 percent of revenue for the twelve months ended December 31, 2005. The decrease in gross profit as a percent of revenue in 2006 is attributable to increased discounts offered to several large customers for early product payment.

Gross profit margins will vary depending on the mix of product sales within the Brake Safe[®] and Brake Inspector[®] 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.

Expense

Twelve months ended December 31, 2006

Operating Expenses

Total operating expenses before interest expense and amortization charges increased by \$22,282 to \$730,393 for the twelve months ending December 31, 2006 from \$708,111 for the twelve months ending December 31, 2005.

Office and General costs for the twelve months ending December 31, 2006 were \$67,995 exceeding the equivalent period in 2005 by \$6,844.

Consultant fees for the twelve months ending December 31, 2006 were \$63,974 representing an increase of \$5,051 from the equivalent period in 2005. Consulting fees paid by the Company for development of strategic product plans accounted for the variance.

Legal, audit, accounting and trustee fees, (Professional fees), for the twelve months ending December 31, 2006 were \$79,989, an increase of \$8,659 from the equivalent period in 2005 of \$71,330. Increased audit fees and trustee fees resulted in higher expenses.

Management fees for the twelve months ending December 31, 2006 were \$200,000 compared to \$200,000 for the equivalent period in 2005.

No stock options were granted in the 12-month period ending December 31, 2006 and all previously issued options were fully expensed in previous periods. As a result, there was no stock based compensation expense in the current year. Stock-based compensation expense for twelve months ending December 31, 2005 totaled \$24,435 calculated using the fair value based method.

Royalty expense and Royalty debenture fees for twelve months ending December 31, 2006 totaled \$83,967, an increase of \$2,505 over fees of \$81,462 in 2005. Royalty debenture fees for the second quarter of 2006 exceeded the minimum payment contributing to increased expense while Royalty expense increased due to higher sales compared to the corresponding period in 2005.

Subcontract labour for the twelve months ending December 31, was \$71,240 an increase of \$1,620 compared to \$69,620 for the same period in 2005.

Selling expenses for the twelve months ending December 31, were \$56,369, an increase of \$7,376 compared \$48,993 for the same period in 2005. Increases resulted from costs incurred in training customer technical staff in installation of Brake Inspector.[®]

Commission fees for the twelve months ending December 31, 2006 were \$20,157 a decrease of \$184 from the equivalent period in 2005.

Rent expense for the twelve months ending December 31, was \$59,173, an increase of \$1,923 compared \$57,250 in 2005. Rent charges increased contractually during the last year of the lease agreement resulting in higher occupancy costs.

Public relations expenses for the twelve months ending December 31, were \$17,025, an increase of \$15,789 compared \$1,236 for the same period in 2005. During the fourth quarter of 2006, the Company instituted an investor relations program to increase the Company's profile to the investment community resulting in the increased expense.

Interest

Interest charges for the twelve months ended December 31, 2006 were \$58,784 compared to \$49,526 during the same period in 2005. The increase is due to compounding interest charges on outstanding supplier balances and loans from management which was partially offset declining interest payment on bank loans.

Amortization

For the twelve months ended December 31, 2006 amortization of equipment, intangible assets and deferred charges totaled \$119,780 compared to \$143,860 during the same period in 2005. A restatement of share value for common shares issued in August 2004 for additional consideration in connection with the royalty debenture resulted in a

restatement of amortization expense of \$14,168 from August 6, 2004 to December 31, 2005.

Net Loss

Twelve months ended December 31, 2006

Net Loss for the twelve months ended December 31, 2006 was \$484,298 or \$0.01 per share basic and fully diluted compared to \$511,922 or \$0.01 per share basic and fully diluted for the twelve months ended December 31, 2005.

The Company forecasts a return to profitability upon successful implementation of its five year business plan and successfully expands its distribution network for its Brake Inspector[®] product line, introducing its systems for standalone trailers and tractor-trailer combinations. Brake Inspector[®] is anticipated to increase its percentage of the sales mix and become the leading revenue generator by the end of 2007.

Liquidity and Cash Flow

Twelve months ended December 31, 2006

For the twelve months ended December 31, 2006, the Company provided \$79,243 through operating activities compared to \$49,810 in 2005. Non-cash items during the twelve months contributed \$222,037 compared to \$168,295 in 2005. During the period, the Company reduced TD Canada Trust and Business Development Bank loans and the Dynamic Venture Opportunities Fund debenture by \$51,536. The Company used \$37,737 to increase equipment and intangible assets and decreased loans from management by \$60,318 resulting in a net increase in cash resources of \$3,442 and cash resources balance at the end of the period of \$7,885. During the equivalent twelve-month period in 2005 the Company showed a net decrease in cash resources of \$3,472 and net cash resources balance at the end of the year of \$4,443.

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. The Company has experienced significant losses from operations during the past several years and has an accumulated deficit at December 31, 2006 of \$6,442,279 compared to an accumulated deficit of \$5,957,981 for the same period in 2005. The Company has a working capital deficiency of \$1,255,349 at December 31, 2006. The Company's current cash and cash equivalents will be insufficient to meet the anticipated need for ongoing expenses, working capital and capital expenditures. Therefore the Company is seeking additional financing to provide working capital, inventory and capital equipment necessary to implement its five-year 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 is currently pursuing 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.

The Company will continue to seek new financing, joint venture or strategic financial relationships that will permit ongoing operation of the Company and its subsidiary. Management believes that the strong functional and competitive capabilities of its Brake Safe[®], Brake Inspector[®] and Termin-8r[™] product lines will improve the Company's long-term profitability. Funding the Company's current operations and addressing its future growth opportunities are dependent on revenue growth and future financing arrangements.

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, 2006

QUARTERLY DATA

Canadian Dollars	Three month period ending:							
	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005	September 30, 2005	June 30, 2005	March 31, 2005
Revenue	182,700	207,369	271,982	144,339	185,997	146,344	216,313	164,355
Gross Profit	88,004	126,241	128,654	84,017	79,203	92,064	131,721	86,587
SG&A Expenses	344,148	136,504	271,299	157,006	339,128	157,379	250,358	154,632
Loss for the period	(258,401)	(10,263)	(142,645)	(72,989)	(259,924)	(65,314)	(118,636)	(68,048)
Loss per share (basic & diluted)	(.007)	(.000)	(.004)	(.002)	(.007)	(.002)	(.003)	(.002)

Seasonality:

The Company's sales reflect a marginal sales trend with the weakest sales quarter occurring in the January through March period, representing on average about 20 percent of annual sales. The strongest sales quarter, March through June accounts for approximately 30 percent of total sales.

Results of Operations

Revenue:

Three months ended December 31, 2006

Revenue for the three months ended December 31, 2006 decreased by 2 percent to \$182,700 compared to revenue of \$185,997 for the three-month period ended December 31, 2005. The quarterly decrease in revenue is attributable to decreases in Brake Inspector[®] unit sales of 80 percent offsetting strong unit sales increases of 86 percent for Termin-8r[™] and 44 percent for Brake Safe[®].

Brake Inspector[®] sales in the quarter were \$63,299 less than sales in the corresponding quarter in 2005 as a major customer delayed taking delivery of vehicles requiring Brake Inspector[®] during December. Brake Safe[®] sales exceeded the same period in 2005 by \$38,149 as a result of increased product demand from existing distribution in Canada. Sales of Termin-8r[™] increased by \$6,166 over the 2005 period as a result of increase sales to existing customers in Canada. A non-recurring gain on the sale of the GeoGuidance trademark to a licensee generated \$15,256 revenue during the quarter.

Gross Profit

Three months ended December 31, 2006

Gross profit increased by \$7,460 for the three months ended December 31, 2006 to \$88,004 or 48 percent of revenue from \$79,203 or 40 percent of revenue for the three months ended December 31, 2005. The increase in gross profit as a percent of sales is attributable to a gain on the sale of the GeoGuidance trademark.

Expenses:

Three months ended December 31, 2006

Operating Expenses

Total operating expenses before interest expense and amortization charges increased by \$22,112 to \$306,385 for the three months ending December 31, 2006 from \$284,273 during the three months ended December 31, 2005.

- Office and General costs totaled \$26,849 for the quarter, an increase from 2005 of \$6,107.
- Consultant fees of \$36,001 were \$19,360 greater than 2005. Consulting fees paid by the Company for development of strategic product plans accounted for the variance.
- Professional fees (legal, audit, accounting and trustee fees) for the three months ending December 31, 2006 totaled \$42,527, an increase of \$9,173 from the equivalent period in 2005 resulting from increase audit and trustee fees.
- No stock options were granted in the 3-month period ending December 31, 2006 and as a result, there was no stock based compensation expense in the current quarter. Stock-based compensation expense for three months ending December 31, 2005 totaled \$24,435 calculated using the fair value based method.
- Management fees of \$125,000 for the three months ending December 31, 2006 were the same as the equivalent period in 2005.
- Royalty fees for three months ending December 31, 2006 totaled \$19,461, a decrease of \$2,473 compared to 2005.
- Subcontract labour for the three months ending December 31, 2006 totaled \$19,180 the same as the expense in 2005.
- Selling expenses totaling \$3,923 for the three months ending December 31, 2006 compared to (\$573) for the same period in 2005.
- Commission fees for the three months ending December 31, 2006 were \$4,977 an increase from the equivalent period in 2005 of \$2,766.
- Rent expense for the three months ending December 31, was \$15,134, an increase of \$570 compared \$14,564 for the same period in 2005. Rent charges increased contractually during the last year of the lease agreement resulting in higher occupancy costs.

- Public relations expenses for the three months ending December 31, were \$17,025, an increase of \$15,789 compared \$1,250 for the same period in 2005. During the fourth quarter of 2006, the Company instituted an investor relations program to increase the Company's profile to the investment community resulting in the increased expense.

Interest

Interest expense for the three months ending December 31, 2006 was \$13,522 compared to \$15,013 during the same period in 2005.

Amortization

Amortization of equipment, intangible assets and deferred charges totaled \$24,241 for the three-month period ending December 31, 2006 compared to \$31,804 for the same period in 2005.

Net Loss

Three months ended December 31, 2006

Net Loss for the three months ended December 31, 2006 was \$ 258,401 or \$0.007 per share basic and fully diluted compared to \$ 259,924 or \$0.007 per share basic and fully diluted for the three months ending December 31, 2005.

Balance Sheet:

Total Assets

Total assets ending December 31, 2006 were \$463,419 a decrease of 22 percent from \$597,237 for the period ending December 31, 2005.

Total Liabilities

Total liabilities ending December 31, 2006 were \$2,504,375, an increase of 8 percent from \$2,327,685 for the period ending December 31, 2005. This increase in liabilities resulted from an increase in accounts payable and accrued charges.

Liquidity and Cash Flow

Three months ended December 31, 2006

During the three-month period ending December 31, 2006, the Company provided \$88,508 through operating activities compared to \$43,085 used in operations during the same period in 2005. Non-cash items contributed \$126,498 for the period compared to \$6,758 for the three months ended December 31, 2005. During the period, the Company reduced TD Canada Trust and Business Development Bank loans and the Dynamic Venture Opportunities Fund debenture by \$60,752. The Company used \$8,591 to increase equipment and intangible assets and decreased loans from management by \$60,318 resulting in a net decrease in cash resources of \$3,739 and net cash resources balance at the end of the period of \$4,443. During the equivalent period in 2005, the Company showed a net reduction in cash resources of \$13,832 and net cash resources balance of \$4,443 at the end of the period.

Related Party Transactions

As at December 31, 2006, the Company had accounts payable relating to unpaid management fees and expenses incurred on behalf of the Company to two officers and

directors, Michael Faye and Andrew Malion, totaling \$815,098. During the current quarter shareholder loans to the Company from Michael Faye and Andrew Malion were reduced by \$100,000 through the issuance of 2,000,000 common shares at a deemed price of \$0.05 per share resulting in a loan balance of \$383,614.

Off Balance Sheet Arrangements

As at December 31, 2006, the Company does not have any material off balance sheet arrangements.

Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of common shares. As at December 31, 2006, there were 39,536,837 outstanding common shares including 5,596,260 remaining in escrow with release dependent on the Company attaining certain cash flow levels. The Company is authorized to issue an unlimited number of common shares. The changes in the issued common shares of the Company during 2006 and 2005 were as follows:

	Number of Shares	Dollar Value
Balance, December 31, 2005, as previously reported	35,996,837	\$4,026,098
Restatement ⁽¹⁾		150,000
Balance, December 31, 2005, as restated	35,996,837	\$4,176,098
Issued during the year:		
Pursuant to a private placement	1,570,000	78,500
Pursuant to debt settlement ⁽²⁾	2,000,000	100,000
Value of warrants		(9,949)
Share issue costs		(4,710)
Balance, December 31, 2006	39,536,837	\$ 4,339,939

(1) The 3,000,000 common shares issued on August 4, 2004 at \$0.05 for a total value of \$150,000 as additional consideration in connection with the Dynamic Venture Opportunities Fund royalty debenture were not valued at the time of issuance. The correction of this error has been accounted for retroactively with a restatement of prior year's amounts. As a result of this restatement, share capital was increased by \$150,000.

(2) Andrew Malion and Michael Faye converted \$100,000 of loans made to the Company. Pursuant to shareholder approval, the Company issued 2,000,000 shares at a deemed price of \$0.05.

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	Expiry Date
Balance December 31, 2005	2,500,000	0.13	0.08	N/A
Issued during the year:	NIL	N/A	N/A	N/A
Exercised during the year	NIL	N/A	N/A	N/A

	Options Granted	Weighted Exercise Price	Grant Date Weighted Price	Expiry Date
Expired during the year	(250,000)	0.25	0.20	N/A
Balance December 31, 2006	2,250,000	0.120	0.06	N/A

As at December 31, 2006, there were 2,250,000 outstanding options to acquire common shares (2,500,000 at the end of fiscal 2005). These options were held by directors, employees and consultants and were exercisable at any time during the remaining contractual life. Exercise prices under the options and the remaining life of options are summarized below:

Expiry Date	Number of options Granted	Exercise Price	Remaining Contractual Life
January 7, 2007	25,000	\$0.20	0.1 years
January 15, 2007	350,000	\$0.20	0.1 years
March 2, 2008	800,000	\$0.10	1.2 years
August 31, 2010	950,000	\$0.10	2.7 years
October 11, 2010	125,000	\$0.10	2.9 years

Warrants

On June 29, 2006, the Company closed a private placement of 1,570,000 units consisting of one common share at a deemed price of \$0.05 per share and one warrant redeemable until June 29, 2008 for one common share of the Company at a price of \$0.10 per share. The Company issued 98,910 warrants as a finders fee in connection with the transaction redeemable until June 29, 2008 for one common share of the Company at a price of \$0.10 per share. The Company has 1,668,910 warrants outstanding as at December 31, 2006.

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 completion of its Brake Inspector[®] product development program. With its standalone truck system receiving initial sales success in the waste management and redi-mix industries, the opportunity to expand in these market segments throughout North America is significant. With the completion of the digital version of the current standalone system, the Company is positioned to launch Brake Inspector[®] into additional market segments experiencing similar needs, most notably fire and emergency vehicles, hydro electric utilities and construction vehicles. The development and testing of the Brake Inspector[®] digital standalone trailer system and the PLC version of Brake Inspector[®] for tethered truck-trailer combinations will complete our product offering and provide the transportation industry with solutions that meet the needs of safety, operating efficiency and maintenance cost reductions. The Company's Brake Safe[®] product has gained market acceptance in the Canadian marketplace. As

roadside enforcement and fines are increased in the United States, management believes sales of the Brake Safe[®] product will show significant growth.

The Company plans to seek up to \$2,500,000 of additional funds to provide working capital, inventory and capital equipment necessary to implement its five-year business plan. Upon successful completion of a financing, the Company will proceed to accelerate its sales through expansion of the sales force, introduction of marketing and advertising programs, and initiation of product cost reducing measures.

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.