

**MD & A**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Description of Business

Spectra Inc is a vertically integrated supplier of innovative products and services to the Commercial Transportation Industry and the Professional Trucker. Spectra's product lines increase productivity, reduce maintenance costs and improve fleet safety. Products include Brake Safe<sup>®</sup> and SureStroke<sup>™</sup> visual brake stroke indicators, Brake Inspector<sup>®</sup>, an electronic stroke indicator and air brake diagnostic system and the Termin-8R<sup>®</sup> line of anti-corrosion and extreme pressure lubricants. Spectra currently has several new products under development for the Transportation Industry including an anti-theft air brake locking system and a vehicle tracking and telematics system.

### Discussion of Operations and Financial Performance

The following is a summary of the variations in the Corporation's operating results for the periods indicated:

#### Three Months Ended March 31, 2004 Compared to Three Months Ended March 31, 2003

##### Revenues

Revenues during the three month period ending March 31, 2004 were \$112,299 compared to \$101,676 in 2003. Revenues in 2004 represented a 10.4 percent increase from 2003.

Continuing revenue growth for the Company is anticipated in 2004 as the North American economy strengthens and truck safety enforcement in the United States increases. The successful introduction of the Brake Inspector<sup>®</sup> product line to the transportation industry will have a positive impact on revenue growth as sales momentum increases in the trucking and transit sectors.

##### Expenses

Selling, general and administrative expenses during the 3 month period ending March 31, 2004 totaled \$155,699 compared to \$144,159 in 2003, an increase of 8.0 percent. This expense increase was primarily the result of increases in selling expenses relating to customer support, interest expense, product development related consulting fees, royalty expense and amortization. Increases in these areas were offset by decreases in office expenses and subcontract labour costs compared to the same period in 2003. Expenses directly resulting from product sales accounted for 21.8 percent of total expenses or \$33,961 and included sales commissions of \$6,982, royalty payments of \$6,355 and sales related costs of \$20,623. Legal, Accounting and Professional Fees accounted for 7.1 percent of total expenses or \$10,987 and were comprised of \$1,937 legal, \$4,500 accounting and \$4,550 professional fees. Subcontract Labour expenses were \$25,690 representing 16.5 percent of total expenses. Product Development expenses and development related third party Consulting fees for the Brake Inspector<sup>®</sup> product line totaled \$9,000 representing 5.85 percent of costs. Amortization expense of \$38,515 accounted for 24.8 percent of total period expenses. Office and Rent costs totaled \$22,017 or 14.1 percent of 2003 expenses. Interest and Financing fees accounted for \$14,364 representing 9.2 percent of total expenses.

##### Net Profit

Net Losses during the three month period ending March 31, 2004 totaled \$99,787 compared to a net loss of \$83,422 during the same period in 2002.

##### Assets

Total assets at March 31, 2004 were \$370,868 compared to \$479,306 for the same period in 2003.

**Long term Liabilities**

The Corporation had long-term liabilities at March 31, 2004 of \$625,713 compared to \$614,863 long-term liabilities for the same period ending 2003.

**Shareholders Equity**

The Corporation had Shareholders deficiency of \$(1,171,299) at March 31, 2004 compared to a Shareholders deficiency of \$(546,078) for the same period ending 2003

**Working Capital**

The Corporation's working capital was \$(764,829) ending March 31, 2004 compared to \$(243,273) at the end of March 2003.

The Corporation plans to raise additional working capital through a series of private placements involving a combination of equity and convertible debt to expand its sales force and sales activities, to complete new product development and to acquire inventory. The Corporation continues to manage its cash flow to meet supplier terms and obligations.