

**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. During the recent Operation Air Brake roadside inspections conducted in Canada and the United States brake defects were found to be the leading cause of vehicles being put out of service, accounting for 69 percent of major defects (source Operation Air Brake Statistics - September 2004). Spectra's products are gaining increasing recognition and acceptance as demands for enhanced brake safety increase among regulatory authorities and the motoring public.

### Discussion of Operations and Financial Performance

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

#### Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003

##### Revenues

Revenues during the nine month period ending September 30, 2004 were \$487,056 compared to \$338,350 in 2003. Revenues in 2004 represented a 44.0 percent increase from 2003.

Continuing revenue growth for the Company is anticipated to continue 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 is having a positive impact on revenue growth as sales momentum increases in the trucking and transit sectors.

##### Expenses

Selling, general and administrative expenses during the nine month period ending September 30, 2004 totaled \$533,416 compared to \$540,088 in 2003 a decrease of 1.2 percent. This expense decrease was primarily the result of decreases in selling expenses relating to customer support, lower subcontract labour, reduced amortization, and lower commission expenses. Decreases in these areas were offset by increases in legal and accounting fees, interest and financing fees and royalty expenses compared to the same period in 2003. Expenses directly resulting from product sales accounted for 18.7 percent of total expenses or \$99,766 and included sales commissions of \$21,990, royalty payments of \$28,310 and sales related costs of \$49,466. Legal, Accounting and Professional Fees accounted for 7.7 percent of total expenses or \$40,821 and were comprised of \$27,821 legal, \$10,500 accounting and \$2,500 professional fees. Subcontract Labour expenses were \$46,640 representing 8.7 percent of total expenses. Product Development expenses and development related third party Consulting fees for the Brake Inspector<sup>®</sup> product line totaled \$31,788 representing 6.0 percent of costs. Amortization expense of \$99,448 accounted for 18.6 percent of total period expenses. Office and Rent costs totaled \$77,303 or 14.5 percent of 2004 expenses. Interest and Financing fees accounted for \$61,845 representing 11.6 percent of total expenses.

##### Net Profit

Net Losses during the nine month period ending September 30, 2004 totaled \$271,241 compared to a net loss of \$362,170 during the same period in 2003.

**Assets**

Total assets at September 30, 2004 were \$646,662 compared to \$450,641 for the same period in 2003.

**Long term Liabilities**

The Corporation had long-term liabilities at September 30, 2004 of \$1,340,627 compared to \$616,344 long-term liabilities for the same period ending 2003.

**Shareholders Equity**

The Corporation had Shareholders deficiency of \$(1,337,853) at September 30, 2004 compared to a Shareholders deficiency of \$(774,826) for the same period ending 2003

**Working Capital**

The Corporation's working capital was \$(248,633) ending September 30, 2004 compared to \$(407,498) at the end of September 2003.

The Corporation plans to raise additional working capital through a series of private placements involving a combination of equity and debt to expand its sales force and sales activities, to complete new product development and to acquire inventory. The Corporation completed a debenture financing with gross proceeds of \$750,000 on August 6, 2004.