

Spectra Inc.

Management Discussion and Analysis

Annual and Fourth Quarter Ending December 31, 2005

April 27, 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, 2005. 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.

Description of Business

Spectra Inc., 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. contracts the manufacture of Brake Safe[®] and Brake Inspector[®] products to third parties 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, 2005, 2004 and 2003:

ANNUAL DATA

OPERATIONS:

Canadian dollars	2005	2004	2003
Total revenue	\$ 713,009	\$ 699,640	\$ 445,052
Gross profit	\$ 394,933	\$ 410,594	\$ 243,830
Net income before taxes	\$ (511,922)	\$ (512,281)	\$ (658,856)
Net income	\$ (511,922)	\$ (512,281)	\$ (658,856)
Cash flow from operations	\$ (343,627)	\$ (377,215)	\$ (503,132)
Basic earnings per share	\$ (0.01)	\$ (0.01)	\$ (0.02)
Diluted earnings per share	\$ (0.01)	\$ (0.01)	\$ (0.02)

FINANCIAL POSITION:

Total assets	\$ 462,967	\$ 656,243	\$ 424,916
Total long-term liabilities	\$ 1,063,229	\$ 1,083,851	\$ 624,664
Shareholders equity	\$(1,866,280)	\$(1,378,793)	\$(1,109,212)

Results of Operations**Revenue****Twelve months ended December 31, 2005**

Revenue for the twelve months ended December 31, 2005 increased by 1.9 percent to \$713,009 compared to revenue of \$699,640 for the twelve month period ended December 31, 2004. The increase in revenue is attributable to increases in sales of Brake Inspector[®] and Termin-8r[™] offset by a decrease in Brake Safe[®] sales.

Brake Safe[®] sales decreased by 7 percent over the preceding year to \$500,547 as a result of declining unit sales in the third and fourth quarters of 2005. The fourth quarter of 2004 generated unusually high unit sales in advance of an announced price increase scheduled for January 2005.

Brake Inspector[®] sales totaled \$166,965 exceeding the 12 month period in 2004 by 38 percent reflecting a growing demand for the product line as several major customers increased orders for Brake Inspector[®] on new trucks delivered during 2005 and retrofitted existing fleet vehicles.

Sales of Termin-8r[™] increased by 16 percent over the same period in 2004 to \$45,497 reflecting increased use by fleet customers. The Company plans to maintain its current customer base and slowly expand sales distribution of Termin-8r[™] after the Brake Inspector[®] product is fully launched into the North American marketplace.

Brake Inspector[®] is in the early stage of product introduction and has a small customer base. The Company expects to experience 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 is completing beta trials of the stand-alone digital truck system and the stand-alone trailer system. The Company is currently in beta trials on its truck-trailer system utilizing a digital, PLC based transmission of brake data. These two additional product lines are expected to generate sales growth commencing in 2006.

Gross Profit**Twelve months ended December 31, 2005**

Gross profit decreased by \$15,661 for the twelve months ended December 31, 2005 to \$394,933 or 55 percent of revenue from \$410,594 or 59 percent of revenue for the twelve months ended December 31, 2004. The decrease in gross profit as a percent of revenue is attributable to the increased sales of the lower margin Brake Inspector[®] product line which is currently generating lower margins compared to Brake Safe[®].

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, 2005

Operating Expenses

Total operating expenses before interest expense and amortization charges increased by \$85,711 to \$787,846 for the twelve months ending December 31, 2005 from \$702,135 for the twelve months ending December 31, 2004

Office and General costs for the twelve months ending December 31, 2005 were \$61,151 exceeding the equivalent period in 2004 by \$4,211.

Consultant fees for the twelve months ending December 31, were \$58,923 representing a decrease of \$2,192 from the equivalent period in 2004.

Legal, audit, accounting and trustee fees for the twelve months ending December 31, 2005 were \$71,330, an decrease of \$8,750 from the equivalent period in 2004 of \$80,080. Reduced legal expenses and accounting fees in 2005 resulted in the lower fees.

Management fees for the twelve months ending December 31, 2005 were \$200,000 compared to \$200,000 for the equivalent period in 2004.

Stock-based compensation for twelve months ending December 31, 2005 totaled \$24,435 at fair value. No valuation was determined in the corresponding period in 2004.

Royalty fees for twelve months ending December 31, 2005 totaled \$76,280, an increase of \$31,575 over fees of \$44,705 in 2004. Royalty fees for 2005 represented a full year of royalty payments under the terms of the Dynamic Venture Opportunity Fund royalty debenture compared to 5 months of debenture royalty payments in 2004.

Subcontract labour for the twelve months ending December 31, was \$69,620 an increase of \$10,730 compared to \$58,890 for the same period in 2004. Higher labour costs resulted from the contracting of one full time production staff. Production in the 2004 period was absorbed by existing staff.

Selling expenses for the twelve months ending December 31, were \$62,152 a decrease of \$4,186 compared \$66,338 for the same period in 2004. Lower expenses resulted from reduced trade show expenses as a result of co-op exposition space and fewer shows attended.

Commission fees for the twelve months ending December 31, were \$20,341 a decrease from the equivalent period in 2004 of \$11,551.

Interest

Interest charges for the twelve months ended December 31, 2005 were \$49,526 compared to \$85,674 during the same period in 2004. Interest expense in 2004 included non-recurring interest arrears paid to Brake Safe Inc. and provision for accumulated vendor interest charges.

Amortization

For the twelve months ended December 31, 2005 amortization of capital assets and other assets were \$69,483 compared to \$135,066 during the same period in 2004.

Net Loss

Twelve months ended December 31, 2005

Net Loss for the twelve months ended December 31, 2005 was \$511,922 or \$0.01 per share basic and fully diluted compared to \$512,281 or \$0.01 per share basic and fully diluted for the twelve months ended December 31, 2004.

The Company anticipates that a return to profitability will occur in the fiscal period ending December 31, 2006 as the Company successfully expands its distribution network for its Brake Inspector[®] product line and introduces 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 in 2006.

Liquidity and Cash Flow

Twelve months ended December 31, 2005

For the twelve months ended December 31, 2005, the Company utilized \$343,627 of working capital to fund its operations compared to \$377,215 in 2004. Non-cash working capital during the twelve months contributed \$393,437 compared to additional working capital requirements of \$156,756 in 2004. During the period, the Company reduced TD Canada Trust and Business development Bank loans and the Dynamic Venture Opportunities Fund debenture by \$54,836. The Company used \$29,359 to increase current and non current assets and increased loans from management by \$30,913 resulting in a net decrease in cash resources of \$3,472 and cash resources balance at the end of the period of \$4,443. During the equivalent twelve month period in 2004 the Company showed a net increase in cash resources of \$1,986 and net cash resources balance of \$7,915.

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, 2005 of \$5,943,813 compared to an accumulated deficit of \$5,431,891 for the same period in 2004. The Company has a working capital deficiency of \$1,039,473 at December 31, 2005. 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, 2005

QUARTERLY DATA

Canadian Dollars	Three month period ending:							
	December 31, 2005	September 30, 2005	June 30, 2005	March 31, 2005	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2004
Revenue	185,997	146,344	216,313	164,355	212,584	210,944	163,813	112,299
Gross Profit	80,543	93,404	133,061	87,925	148,519	119,352	86,811	55,912
SG&A Expenses	340,467	158,718	251,697	155,973	389,459	151,490	226,226	155,699
Loss for the period	(259,924)	(65,314)	(118,636)	(68,048)	(240,940)	(32,139)	(139,415)	(99,787)
Loss per share (basic & diluted)	(.007)	(.002)	(.003)	(.002)	(.007)	(.001)	(.005)	(.003)

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 29 percent of total sales.

Results of Operations

Revenue:

Three months ended December 31, 2005

Revenue for the three months ended December 31, 2005 decreased by 13 percent to \$185,997 compared to revenue of \$212,584 for the three month period ended December 31, 2004. The quarterly decrease in revenue is attributable to decreases in Brake Safe[®] and Termin-8r[™] sales offset by increased sales of Brake Inspector[®] which were up 919 percent over 2004. Brake Inspector[®] sales of \$81,512 exceeded the corresponding quarter in 2004 as a major customer took delivery of vehicles requiring Brake Inspector[®] during December. Sales in the quarter reflect the growing demand for the product line as several major customers increased orders for Brake Inspector[®] on new trucks delivered during 2005 and retrofitted existing fleet vehicles. Brake Safe[®] unit sales decreased by 46 percent generating revenue of \$95,787 while sales of Termin-8r[™] fell 30 percent over the corresponding period in 2004 to \$8,698. The fourth quarter of 2004 generated unusually high unit sales of Brake Safe[®] in advance of an announced price increase scheduled for January 2005. Sales of Termin-8r[™] reflect the timing of order placements since this product currently has a small customer and is in the early stage of the product lifecycle. Brake Inspector[®] sales and sales of Termin-8r[™] reflected a growing demand for these product lines during 2005. Variances also

Gross Profit

Three months ended December 31, 2005

Gross profit decreased by \$67,976 for the three months ended December 31, 2005 to \$80,543 or 43 percent of revenue from \$148,519 or 70 percent of revenue for the three months ended December 31, 2004. The decrease in gross profit as a percent of sales is attributable to increased sales of lower margin Brake Inspector[®] systems accounting for 44 percent of total sales in the quarter compared to 5 percent of total sales in the same quarter of 2004.

Expenses:

Three months ended December 31, 2005

Operating Expenses

Total operating expenses before interest expense and amortization charges decreased by \$7,151 to \$310,329 for the three months ending December 31, 2005 from \$317,480 for the three months ended December 31, 2004.

- Office and General costs totaled \$20,742 for the quarter, a decrease from 2004 of \$1,517.
- Consultant fees of \$16,641 were \$10,186 less than 2004.
- Professional fees (legal, audit, accounting and trustee fees) for the three months ending December 31, 2005 totaled \$33,354, a decline of \$3,482 from the equivalent period in 2004.

- Stock-based compensation for three months ending December 31, 2005 totaled \$24,435 at fair value. No valuation was determined in the corresponding period in 2004.
- Management fees of \$125,000 for the three months ending December 31, 2005 were the same as the equivalent period in 2004.
- Royalty fees for three months ending December 31, 2005 totaled \$20,616, a decrease of \$7,192 compared to 2004.
- Subcontract labour for the three months ending December 31, 2005 totaled \$19,180 an increase of \$6,930 compared to the same period in 2004.
- Selling expenses totaling \$12,587 for the three months ending December 31, 2005 were \$4,285 less the same period in 2004.
- Commission fees for the three months ending December 31, 2005 were \$2,211 a decrease from the equivalent period in 2004 of \$7,691.

Interest

Interest expense for the three months ending December 31, 2005 was \$13,081 compared to \$35,221 during the same period in 2004.

Amortization

Amortization of capital assets and other assets totaled \$17,057 for the three month period ending December 31, 2005 compared to \$36,758 for the same period in 2004.

Net Loss

Three months ended December 31, 2005

Net Loss for the three months ended December 31, 2005 was \$ 259,924 or \$0.007 per share basic and fully diluted compared to \$ 240,940 or \$0.007 per share basic and fully diluted for the three months ending December 31, 2004.

Balance Sheet:

Total Assets

Total assets ending December 31, 2005 were \$462,967 a decrease of 29 percent from \$656,243 for the period ending December 31, 2004.

Total Liabilities

Total liabilities ending December 31, 2005 were \$2,329,247, an increase of 14 percent from \$2,035,036 for the period ending December 31, 2004. This increase in liabilities resulted from an increase in accounts payable and accrued charges.

Liquidity and Cash Flow

Three months ended December 31, 2005

During the three month period ending December 31, 2005, the Company used \$234,835 of working capital to fund its operations, compared to \$255,280 during the same period in 2004. Non cash working capital contributed \$277,920 of cash for the period compared to \$307,459 for the three months ended December 31, 2004. During the period, the

Company reduced TD Canada Trust and Business development Bank loans and the Dynamic Venture Opportunities Fund debenture by \$34,781. The Company used \$2,798 to increase current and non current assets and increased loans from management by \$30,913 resulting in a net decrease in cash resources of \$49,751 and net cash resources balance at the end of the period of \$4,443. During the equivalent period in 2004, the Company showed a net reduction in cash resources of \$187,520 and net cash resources balance of \$7,915.

Related Party Transactions

As at December 31, 2005, the Company had accounts payable to two officers and directors, Michael Faye and Andrew Malion, totaling \$454,028 and shareholder loans to Michael Faye and Andrew Malion totaling \$447,210.

Off Balance Sheet Arrangements

As at December 31, 2005, 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, 2005, there were 35,966,837 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 2005 and 2004 were as follows:

	Number of Shares	Dollar Value
Balance, December 31, 2003	28,916,837	\$3,821,098
Issued during the year:		
For other consideration pursuant to one private placement	3,000,000	nil
For cash pursuant to options	50,000	\$ 5,000
For other consideration ⁽¹⁾	<u>4,000,000</u>	<u>\$ 200,000</u>
Balance, December 31, 2004	35,996,837	\$4,026,098
Issued during the year:	nil	
Balance, December 31, 2005	35,966,837	\$ 4,026,098

(1) Andrew Malion and Michael Faye converted \$200,000 of loans made to the Company. Pursuant to shareholder approval, the Company issued 4,000,000 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. The

resulting value is charged against income over the vesting periods of the option. The Company values options based on the trading price of the Company's common shares on the date of the grant, (CICA Handbook section 3870, "Stock-based compensation and other stock-based payments").

	Options Granted	Weighted Exercise Price	Grant Date Weighted Price	Expiry Date
Balance December 31, 2004	2,000,000	0.14	0.11	N/A
Issued during the year:	1,075,000	0.10	0.05	N/A
Exercised during the year	NIL	N/A	N/A	N/A
Cancelled during the year	(575,000)	0.113	0.074	N/A
Balance December 31, 2005	2,500,000	0.130	0.083	N/A

As at December 31, 2005, there were 2,500,000 outstanding options to acquire common shares (2,000,000 at the end of fiscal 2004). These options were held by directors, employees and consultants. 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
October 1, 2006	250,000	\$0.25	0.6 years
January 7, 2007	25,000	\$0.20	1.1 years
January 15, 2007	350,000	\$0.20	1.1 years
March 2, 2008	800,000	\$0.10	2.2 years
August 31, 2010	950,000	\$0.10	3.7 years
October 11, 2010	125,000	\$0.10	3.9 years

DIVIDEND POLICY

The Company does not currently have a policy of declaring or paying dividends on its common 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 expected completion in 2006 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 planned completion of development and testing in 2006 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 approximately \$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

Except for the historical information contained herein, this discussion contains forward looking statements that involve risks and uncertainties, including the impact of competitive products and pricing and general economic conditions as they affect the Company's customers. Actual results and developments may therefore differ materially from those described in this release.