

**Spectra Inc.**

**Management Discussion and Analysis**

**First Quarter Ending March 31, 2007**

**May 30, 2007**

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The following Management Discussion and Analysis is supplementary to, and should be read in conjunction with the interim financial statements for the period ended March 31, 2007. The consolidated financial statements are unaudited and have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements. Management has prepared the interim financial statements 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<sup>®</sup>, 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<sup>®</sup> is an air brake diagnostic system called Brake Inspector<sup>®</sup>. 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<sup>®</sup> to the transportation industry.

Spectra Inc. contracts the manufacture of Brake Safe<sup>®</sup> and Brake Inspector<sup>®</sup> products to third parties and receives the product components for select subassembly and packaging. The Termin-8R<sup>®</sup> product line is blended, packaged and shipped to the Company ready for shipping to end-users.

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

**Quarterly Data**

The table below sets forth certain un-audited information for each of the eight most recent quarters, the most recent quarter being March 31, 2007.

**QUARTERLY DATA**

Canadian Dollars	Three month period ending:							
	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005	September 30, 2005	June 30, 2005
Revenue	204,763	182,700	207,369	271,982	144,339	185,997	146,344	216,313
Gross Profit	125,399	88,004	126,241	128,654	84,017	79,203	92,064	131,721
SG&A Expenses	196,267	344,148	136,504	271,299	157,006	339,128	157,379	250,358
Loss for the period	(70,868)	(258,401)	(10,263)	(142,645)	(72,989)	(259,924)	(65,314)	(118,636)

Loss per share (basic & diluted)	(.002)	(.007)	(.000)	(.004)	(.002)	(.007)	(.002)	(.003)
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**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**

**Revenues:**

**Three months ended March 31, 2007**

Revenue for the three months ended March 31, 2007 increased by 42% to \$204,763 compared to revenue of \$144,339 for the three-month period ended March 31, 2006. This increase in revenue is attributable to increased sales of the Brake Safe<sup>®</sup> product, up 45% from sales in 2006 and increased sales Brake Inspector,<sup>®</sup> 11% ahead of the same period in 2006, offset by a decrease in Termin-8R<sup>®</sup> sales, down 16 percent from 2006.

During the three-month period ended March 31, 2007, Brake Safe<sup>®</sup> revenues were \$45,619 higher than the same period in 2006.

The Canadian market accounts for most of the Brake Safe<sup>®</sup> sales. However, during the period Brake Safe<sup>®</sup> product was sold to trailer manufacturers in China and the United States. As roadside enforcement and fines are increased in the United States, management believes sales of the Brake Safe<sup>®</sup> product will show significant growth.

Brake Inspector<sup>®</sup> sales during the three month period ending March 31, 2007 exceeded the same period in 2006 by \$4,344.

Brake Inspector<sup>®</sup> 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 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 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 fourth quarter of 2007. These two additional product lines are expected to generate sales growth commencing during 2007.

Termin-8R<sup>®</sup> sales in the three-month period ending March 31, 2007 totaled \$15,959, a decrease of \$3,052 from the equivalent period in 2006.

The Company is currently selling its anti-corrosion line of Termin-8R<sup>®</sup> products to the transportation industry directly to several fleet users and through its dealer/distributor network. Termin-8R<sup>®</sup> has a small customer base and accordingly quarterly sales will fluctuate depending on the timing of existing and new customer orders. 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<sup>®</sup>.

## **Gross Profit**

### **Three months ended March 31, 2007**

Gross profit increased by \$41,382 for the three months ended March 31, 2007 to \$125,399 or 61 percent of revenue from \$87,925 or 53 percent of revenue for the three months ended March 31, 2006. The increase in gross profit margin is attributable to increased unit sales of Brake Safe<sup>®</sup> in U. S currency to customers in China and the United States.

Gross profit margins will vary depending on the mix of product sales within the Brake Safe<sup>®</sup> and Brake Inspector<sup>®</sup> 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.

## **Expenses:**

### **Operating Expenses**

### **Three months ended March 31, 2007**

Total operating expenses before interest expense and amortization charges increased by \$62,211 to \$172,942 for the three months ending March 31, 2007 from \$110,731 for the three months ended March 31, 2006.

Management fees were \$50,000 for the three months ending March 31, 2007 compared to no fees expensed in 2006, since management fees were not recorded until the second quarter in 2006. After adjustment for comparable periods, management fees were the same during 2007 and 2006

Subcontract Labour of \$16,440 for the 2007 period did not change compared to the same period in 2006.

Selling expenses for the three months ending March 31, 2007 were \$15,367 or \$1,101 lower than the same period in 2006. Decreased costs resulted from no attendance at the Mid-America Truck Show in Louisville, Kentucky in 2007.

Office and General costs for the three-month period ended March 31, 2007 were \$13,734, an increase of \$789 from the equivalent period in 2006.

Consultant fees for the three-month period ended March 31, 2007 were \$12,000, an increase of \$2,026 from the equivalent period in 2006. Fee increases resulted from dealer and fleet training sessions for Brake Inspector<sup>®</sup> installation completed during the period.

Professional fees for the three-month period ended March 31, 2007, were \$13,482, a decrease in fees from the equivalent period in 2006 of \$1,705.

### **Interest Expense**

Interest expense for the three months ended March 31, 2007 was \$15,598 compared to \$15,514 during the same period in 2006. The Company bank loan to TD Canada Trust at March 31, 2007 has been paid in full. Long-term debt with the Business Development Bank of Canada was paid in full during the fourth quarter of 2006. The Company owes \$683,696 to Dynamic Venture Opportunities Fund related to the Royalty Debenture agreement and \$100,000 in short term cash advances due on or before June 30, 2007. Management loans owed at March 31, 2007 totaled \$397,142.

### **Amortization**

Amortization of capital assets and other assets totaled \$7,727 for the three-month period ending March 31, 2007 compared to \$30,761 for the same period in 2006.

### **Net Loss**

#### **Three months ended March 31, 2007**

Net Loss for the three months ended March 31, 2007 was \$70,868 or \$0.002 per share basic and fully diluted compared to \$ 72,989 or \$0.002 per share basic and fully diluted for the three months ending March 31, 2006.

As the Company expands its distribution network for its Brake Inspector<sup>®</sup> product line and introduces its systems for standalone trailers and tractor-trailer combinations, Brake Inspector<sup>®</sup> is anticipated to become a leading revenue generator in 2006. Combined with an aggressive marketing plan for the Brake Safe<sup>®</sup> and Termin-8R<sup>®</sup> product lines, it is projected that sales and profit contribution will increase dramatically over the next few years.

### **Balance Sheet:**

#### **Total Assets**

Total assets ending March 31, 2007 were \$543,160, an increase of 17 percent compared to \$464,529 for the period ending December 31, 2006. This increase in asset value is the result of increases in cash, inventory and receivables.

## **Total Liabilities**

Total liabilities ending March 31, 2007 were \$2,595,986, an increase of 4 percent from \$2,505,487 for the period ending December 31, 2006. This increase in liabilities resulted from a short-term loan advance from Dynamic Venture Opportunities Fund on March 9, 2007.

## **Liquidity and Cash Flow**

### **Three months ended March 31, 2007**

During the three-month period ending March 31, 2007, the Company used \$121,219 in operating activities compared to providing \$12,793 from operations during the same period in 2006. Non-cash items used \$7,831 for the period compared to a contribution of \$15,411 for the three months ended December 31, 2006. During the period, the Company received \$162,527 from financing activities comprised of \$103,527 in loans and \$59,000 of common shares issued. During the period the TD Canada Trust bank loan and the Dynamic Venture Opportunities Fund debenture were reduced by \$7,323. The Company used \$13,910 to increase equipment and intangible assets during the period resulting in a net increase in cash resources of \$27,398 and net cash resources balance at the end of the period of \$35,282. During the equivalent period in 2006, the Company showed a net increase in cash resources of \$7,858 and net cash resources balance of \$12,210 at the end of the period.

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 March 31, 2007 of \$6,513,149 compared to an accumulated deficit of \$6,016,801 for the same period in 2006. The Company has a working capital deficiency of \$1,265,524 at March 31, 2007. 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 \$1,500,000 of additional funds 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<sup>®</sup>, Brake Inspector<sup>®</sup> and Termin-8R<sup>®</sup> product lines will improve the Company's profitability. Funding the Company's current operations and addressing its future growth opportunities are dependent on revenue growth and future financing arrangements.

### **Subsequent Event**

On May 28, 2007, the Company closed a non-brokered private placement of 4,745,000 units at a price of 5 cents per unit for gross proceeds of \$ 237,250. Each unit is comprised of one share in the capital of Spectra and one non-transferable warrant. Each share purchase warrant entitles the holder to purchase one additional common share of Spectra for a period of 24 months from closing at an exercise price of 10 cents per share. The Company has issued 4,745,000 common shares regarding this transaction.

### **Related Party Transactions**

As at March 31, 2007, the Company had shareholder loans totaling \$397,142.

### **Off Balance Sheet Arrangements**

As at March 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 March 31, 2007, there were 40,286,837 outstanding common shares including 5,596,260 remaining in escrow with release dependent on the Company attaining certain cash flow levels.

### **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 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"), and the pricing requirements of the TSX Venture Exchange.

As at March 31, 2007, there were 1,525,000 outstanding options to acquire common shares. These options were held by directors, employees and consultants.

## **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. On May 28, 2007, the Company closed a non-brokered private placement of 4,745,000 units at a deemed price of \$0.05 per unit for gross proceeds of \$ 237,250. Each unit is comprised of one share in the capital of Spectra and one non-transferable warrant. Each share purchase warrant entitles the holder to purchase one additional common share of Spectra for a period of 24 months from closing at an exercise price of 10 cents per share. The Company has 6,413,910 warrants outstanding as at March 31, 2007.

## **OUTLOOK:**

The Company continues to focus its efforts on completion of its Brake Inspector<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup> digital standalone trailer system and the PLC version of Brake Inspector<sup>®</sup> for tethered truck-trailer combinations will complete our product offering and provide the transportation industry will solutions that meet the needs of safety, operating efficiency and maintenance cost reductions. The Company's Brake Safe<sup>®</sup> 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<sup>®</sup> product will show significant growth.

The Company is seeking \$1,500,000 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. With the expanded Brake Inspector<sup>®</sup> product offering and an aggressive marketing plan for the Brake Safe<sup>®</sup> and Termin-8R<sup>®</sup> product lines, it is projected that sales and profit contribution will increase dramatically over the next few years.

## **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.