

Spectra Inc.

Management Discussion and Analysis

Third Quarter Ending September 30, 2005

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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 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 June 30, 2005.

QUARTERLY DATA

Canadian Dollars	Three month period ending:							
	September 30, 2005	June 30, 2005	March 31, 2005	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2004	December 31, 2003
Revenue	146,344	216,313	164,355	212,584	210,944	163,813	112,299	106,702
Gross Profit	93,404	133,061	87,925	148,519	119,352	86,811	55,912	65,912
SG&A Expenses	158,718	251,697	155,973	389,459	151,490	226,226	155,699	362,590
Loss for the period	(65,314)	(118,636)	(68,048)	(249,940)	(32,475)	(139,415)	(99,787)	(296,686)
Loss per share (basic & diluted)	(.002)	(.003)	(.002)	(.007)	(.001)	(.005)	(.003)	(.010)

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 September 30, 2005**

Revenue for the three months ended September 30, 2005 decreased by 31% to \$146,344 compared to revenue of \$210,944 for the three month period ended September 30, 2004. The decrease in revenue is attributable to decreased sales of the Brake Safe[®] product, down 20% from sales in 2004 and decreased Brake Inspector[®] sales, down 67 percent versus 2004.

During the three month period ended September 30, 2005, Brake Safe[®] revenues were \$29,398 lower than the same period in 2004. The decrease resulted from 19 percent lower unit sales offset by a \$1.00 per unit price increase implemented in January 2005 to all customers.

Brake Safe[®] sales during the three month period ended September 30, 2005 reflect a historical seasonal sales drop that did not occur in the three month period ending September 30, 2004. However, annualized sales should continue to reflect the general transportation aftermarket parts growth resulting from the improved economy in North America and increased business for the trucking industry. The Canadian market accounts for most of the Brake Safe[®] sales. As roadside enforcement and fines are increased in the United States, management believes sales of the Brake Safe[®] product will show significant growth.

Brake Inspector[®] revenues during the three month period ending September 30, 2005 fell short of revenues during the same period in 2004 by \$38,312 or 67 percent. Unit sales of Brake Inspector[®] were 74 percent lower during the three month period of 2005 compared to the same period in 2004.

Termin-8r[™] sales in the three month period ending September 30, 2005 were \$ 10,764 or forty-four percent higher than the equivalent period in 2004. Unit sales for the period exceeded the equivalent period in 2004 by 37 percent.

Nine months ended September 30, 2005

Revenue for the nine months ended September 30, 2005 increased by 8% to \$527,012 compared to revenue of \$487,056 for the nine month period ended September 30, 2004.

The increase in revenue is attributable to 16 percent more revenue from sales of the Brake Safe[®] product and 38 percent more revenue from sales of Termin-8r, offset by a revenue decline from Brake Inspector[®] of 24 percent.

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 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 currently in beta trials on its truck-trailer system and plans to launch the product in the first quarter of 2006. A stand-alone trailer system is under development with beta testing scheduled for the third quarter of 2005 and product introduction in early 2006. These two additional product lines are expected to generate sales growth commencing in 2006.

The Company is currently selling its anti-corrosion line of Termin-8r[™] products to the transportation industry directly to several fleet users and through its dealer/distributor network. Sales in the nine month period ending September 30, 2005 were \$ 37,204 compared to \$ 26,923 during the equivalent period in 2004. The Company plans to maintain its current customer base and slowly expand sales distribution after the Brake Inspector[®] product is fully launched into the North American marketplace.

Gross Profit

Three months ended September 30, 2005

Gross profit decreased by \$25,948 for the three months ended September 30, 2005 to \$93,401 or 64 percent of revenue from \$119,352 or 57 percent of revenue for the three months ended September 30, 2004. The decrease in gross profit is attributable to decreased sales of Brake Safe[®] and Brake Inspector[®] systems during the period, offset by increased Termin-8r revenues and higher Brake Safe[®] unit sales prices resulting from January 2005 price increases to all customers.

Nine months ended September 30, 2005

Gross profit increased by \$52,315 for the nine months ended September 30, 2005 to \$314,390 or 60 percent of revenue from \$262,075 or 54 percent of revenue for the nine months ended September 30, 2004. The increase in gross profit as a percent of revenue is attributable to increased margins for Brake Safe[®] sales resulting from a January 2005 price increases.

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.

Expenses:

Operating Expenses

Three months ended September 30, 2005

Total operating expenses before interest expense and amortization charges increased by \$20,043 to \$104,737 for the three months ending September 30, 2005 from \$84,694 for the three months ended September 30, 2004.

Selling Expenses for the 2005 period exceeded 2004 by \$3,679 and were primarily the result of participation in the "Great American Truck Show" in Dallas, Texas in August. The Company did not attend this industry exposition in 2004.

Subcontract Labour for the 2005 period exceeded 2004 by \$6,109. Higher labour costs resulted from the contracting of one full time production staff. Production in the 2004 period was absorbed by existing employees.

Royalty fees for the three month period ended September 30, 2005 exceeded the equivalent period in 2004 by \$16,307. Royalty expenses in 2005 reflect the Dynamic Venture Opportunity Fund royalty debenture expenses that became effective August 6, 2004. These fees are based on total revenues of the Company. In addition, a royalty fee was payable on Brake Inspector[®] sales during the 2005 period. The 2004 royalty expense payable to Brake Safe Inc. was based solely on Brake Safe[®] product sales and excluded Brake Inspector[®] product sales.

Legal fees were adjusted for reconciliation with actual statements from the Company's solicitors resulting in a reduction to (\$11,350) for the three month period ended September 30, 2005.

Nine months ended September 30, 2005

Total operating expenses before interest expense and amortization charges increased by \$45,974 to \$419,974 for the nine months ending September 30, 2005 from \$374,000 for the nine months ended September 30, 2004.

Office and General costs for the nine month period ended September 30, 2005 were \$40,409 exceeding the equivalent period in 2004 by \$5,728. Fee increases resulted from increases in insurance premiums due to increases in the level of commercial liability coverage from \$1million to \$3 million.

Consultant fees for the nine month period ended September 30, 2005 were \$42,282 exceeding the equivalent period in 2004 by \$7,994. Fee increases resulted from services provided by Mentorinc Financial Services in creating and managing the Company's newly created advisory board.

Royalty fees for the nine month period ended September 30, 2005 exceeded the equivalent period in 2004 by \$38,767. Royalty expenses in 2005 reflect the Dynamic Venture Opportunity Fund royalty debenture expenses that became effective August 6,

2004. These fees are based on total revenues of the Company. In addition, a royalty fee was payable on Brake Inspector[®] sales during the 2005 period. The 2004 royalty expense payable to Brake Safe Inc. was based solely on Brake Safe[®] product sales and excluded Brake Inspector[®] product sales.

Interest Expense

Interest expense for the three months ended September 30, 2005 was \$13,769 compared to \$21,875 during the same period in 2004. Year to date Interest charges for the nine months ended September 30, 2005 were \$34,513 compared to \$48,563 during the same period in 2004. Declining interest charges will continue on the long term debt as principal repayment reduces charges payable. The Company owes TD Canada Trust at September 30, 2005 long term debt of \$13,618. Long term debt with the Business Development Bank of Canada at September 30, 2005 was \$21,450.

Amortization

Amortization of capital assets and other assets totaled \$18,122 for the three month period ending September 30, 2005 compared to \$33,506 for the same period in 2004. For the nine months ended September 30, 2005 amortization of capital assets and other assets were \$52,426 compared to \$99,448 during the same period in 2004.

Brake Safe Royalty and Financing Fee Amortization

Royalty and financing amortization during the three month period ending September 30, 2005 was \$22,090 compared to \$11,413 in the same period of 2004. For the nine months ended September 30, 2005 royalty and financing amortization costs were \$59,475 compared to \$11,413 during the same period in 2004.

The Company terminated its royalty agreement for the Brake Safe[®] product effective August 6, 2004 for a lump sum payment of \$149,862. This cost is being amortized over the remaining 26 month term of the royalty agreement at August 6, 2004.

The Company incurred closing costs of \$68,388 for the debenture royalty financing arrangement concluded August 6, 2004 with Dynamic Venture Opportunities Fund. The costs are being amortized over the 15 year term of the financing agreement.

Net Loss

Three months ended September 30, 2005

Net Loss for the three months September 30, 2005 was \$ 65,314 or \$0.002 per share basic and fully diluted compared to \$ 32,139 or \$0.001 per share basic and fully diluted for the three months ending September 30, 2004.

Nine months ended September 30, 2005

Net Loss for the nine months ended September 30, 2005 was \$251,998 or \$0.005 per share basic and fully diluted compared to \$271,341 or \$0.008 per share basic and fully diluted for the nine months ending September 30, 2004.

The Company anticipates that it will incur losses during the final three months of its fiscal year ending December 31, 2005. A return to profitability is expected in the fiscal period ending December 31, 2006 as the Company 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 become the leading revenue generator in 2006 and product margins should increase as production costs are decreased from volume purchasing of system components and lower cost production methods.

Balance Sheet:

Total Assets

Total assets ending September 30, 2005 were \$519,909, a decrease of 21 percent from \$656,243 for the period ending December 31, 2004. This decrease in asset value is the result of normal depreciation charges.

Total Liabilities

Total liabilities ending September 30, 2005 were \$2,150,700, an increase of 6 percent from \$2,035,036 for the period ending December 31, 2004. This increase in liabilities resulted from an increase in trade payables of \$135,719 offset by a decrease in loans payable.

Liquidity and Cash Flow

Three months ended September 30, 2005

During the three month period ending September 30, 2005, the Company used \$29,176 of working capital to fund its operations, compared to a surplus from operating activities of \$1,370 during the same period in 2004. Non cash working capital generated \$45,049 of cash for the period compared to a \$529,522 for the three months ended September 30, 2004. Non cash working capital was primarily comprised of a decrease in accounts payable of \$63,889. The Company used \$9,235 of cash proceeds to increase non current assets and \$4,007 in loan repayments resulting in a net increase in cash resources of \$2,631 and total cash resources available at the end of the period of \$18,275. During the equivalent three month period in 2004, the Company showed a net increase in cash resources of \$122, 155 and net cash resources balance of \$127,047.

Nine months ended September 30, 2005

For the nine month period ending September 30, 2005, the Company utilized \$144,711 of working capital compared to \$171,893 in 2004. Non-cash working capital during the nine months contributed \$201,687 compared to additional working capital requirements of \$359,857 in 2004. For the nine month period ending September 30, 2005, the Company used \$25,672 to increase non current assets and \$20,055 for repayment of loans, resulting in a net cash increase of \$10,360. Cash resources at the end of the nine month period totaled \$18,275. During the corresponding nine month period in 2004, increases in financing activities included loan proceeds from the Dynamic Venture Opportunities Fund totaling \$740,964 and share capital of \$5000, resulted in a net

increase in cash resources of \$121,117 and cash resources balance at the end of the period of \$127,047.

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 September 30, 2005 of \$5,683,889 compared to an accumulated deficit of \$5,190,951 for the same period in 2004. The Company has a working capital deficiency of \$837,192 at September 30, 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 \$2,500,000 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[®], Brake Inspector[®] and Termin-8r[™] 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.

Related Party Transactions

As at September 30, 2005, The Company has no related party transactions.

Off Balance Sheet Arrangements

As at September 30, 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 September 30, 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.

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 September 30, 2005, there were 1,550,000 outstanding options to acquire common shares. These options were held by directors, employees and consultants.

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 will 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 is seeking \$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. As a result of these activities, the Company anticipates a return to profitability in the fiscal period ending December 31, 2006.

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.