

Spectra Inc.

Management Discussion and Analysis

Annual and Fourth Quarter Ending December 31, 2007

April 27, 2007

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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, 2007. 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. This MD&A is written as of April 27, 2007.

Description of Business

Spectra Inc., (the “Company”), 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.

The Company manufactures its Brake Safe[®] and Brake Inspector[®] products utilizing sub-contract suppliers 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.

The Company’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

Internal Controls

The accompanying consolidated financial statements of Spectra Inc. (the “Company”) and all information in this report have been prepared by management and approved by the Board of Directors of the Company. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management’s best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality. Financial and operating data elsewhere in this report are consistent with the information contained in the consolidated financial statements.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that its assets are

safeguarded, that only valid and authorized transactions are executed, and that accurate, timely and comprehensive financial information is prepared.

The Board of Directors carries out its responsibility for the financial statements in this quarterly report principally through its Audit Committee. Members of the Audit Committee are independent, non-management directors and all members of the Audit Committee are appointed by the Board of Directors. The Audit Committee meets with management and the external auditors to discuss the results of the annual audit examinations with respect to the adequacy of internal accounting controls and to review and discuss the consolidated financial statements and financial reporting matters.

Changes in Accounting Policies

i) Financial Instruments

On January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3855 "Financial Instruments – Recognition and Measurement". Under this standard, financial assets available for sale and financial assets and liabilities held for trading must be measured at fair value and loans and receivables, investments held to maturity and other financial liabilities must initially be measured fair value and subsequently at amortized cost using the effective interest method. In relation to this policy: cash is classified as a financial asset held for trading and is measured at fair value; accounts receivable is classified as a receivable and is initially measured at fair value and subsequently at amortized cost using the effective interest method; accounts payable and accrued liabilities and loan payable are classified as financial liabilities held for trading and are measured at fair value; and related party loans and royalty debenture are classified as other financial liabilities and are initially measured at fair value and subsequently measured at amortized cost using the effective interest method.

On January 1, 2007, the Company made the following transitional adjustments to its consolidated balance sheet to adopt the new standard. In accordance with the new standard, the comparative figures for 2006 were not restated.

	Increase (Decrease)
Deferred charges	\$(182,822)
Deficit	\$ 39,812
Royalty debenture	\$(143,010)

ii) Accounting Changes

On January 1, 2007, the Company adopted the CICA's Handbook Section 1506, "Accounting Changes". This standard establishes criteria for changing accounting policies, together with the accounting treatment and disclosure changes in accounting policies and estimates and correction of errors. The adoption of this standard had no impact on the consolidated financial statements for the year ended December 31, 2007.

iii) Hedges

On January 1, 2007, the Company adopted the CICA's Handbook Section 3865, "Hedges". This standard is applicable when a company chooses to designate a hedging relationship for accounting purposes. It builds on the previous Accounting Guideline 13 "Hedging Relationships" and CICA's Handbook Section 1650 "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The adoption of this standard had no impact on the consolidated financial statements for the year ended December 31, 2007.

iv) Comprehensive Income

On January 1, 2007, the Company adopted CICA's Handbook Section 1530, "Comprehensive Income". The new standard introduces a statement of comprehensive income (loss), which consists of earnings and other comprehensive income. Comprehensive income is the change in shareholders' equity of a company, during a period, from transactions and other events and circumstances from non-owner sources. These items include holding gains and losses on certain investments, gains and losses on certain derivative instruments and foreign currency gains and losses. As there currently are no comprehensive income items, comprehensive income is equal to net income. The adoption of this standard had no impact on the consolidated financial statements for the year ended December 31, 2007.

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, 2007, 2006, 2005 and 2004:

ANNUAL DATA

OPERATIONS:

Canadian dollars	2007	2006 (RESTATED)	2005 (RESTATED)	2004
Total revenue	\$ 793,821	\$ 806,390	\$ 713,009	\$ 699,640
Gross profit	\$ 358,718	\$ 426,916	\$ 389,575	\$ 410,594
Net income (loss) before taxes	\$ 200,638	\$ (484,298)	\$ (511,922)	\$ (512,281)
Net income (loss)	\$ 200,638	\$ (484,298)	\$ (511,922)	\$ (512,281)
Cash flow from operations	\$(1,082,448)	\$(20,757)	\$ 49,810	\$ (533,971)
Canadian dollars	2007	2006	2005 (RESTATED)	2004
Basic earnings (loss) per share	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ (0.01)
Diluted earnings (loss) per share	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ (0.01)

FINANCIAL POSITION:

Canadian dollars	2007	2006	2005 (RESTATED)	2004
Total assets	\$ 678,044	\$ 463,419	\$ 597,237	\$ 656,243
Total long-term liabilities	\$ 1,289,855	\$ 1,048,560	\$ 1,133,878	\$ 1,083,851
Shareholders deficiency	\$(1,425,949)	\$(2,040,956)	\$(1,730,448)	\$(1,378,793)

Results of Operations

Revenue

Twelve months ended December 31, 2007

Revenue for the twelve months ended December 31, 2007 decreased by 1.56 percent to \$793,821 compared to revenue of \$806,390 for the twelve month period ended December 31, 2006. The decrease in revenue is attributable to decreased sales of Brake Safe[®] offset by increased sales of Brake Inspector[®] and Termin-8r[®] as well as increased licensing revenues.

Brake Safe[®] revenue decreased by 6 percent over the preceding year to \$474,182 while unit sales during the period also decreased by 7 percent.

Brake Inspector[®] revenue totaled \$183,019 exceeding 2006 sales by 5 percent although unit sales increased by 12 percent. The slight increase reflected the introduction, in the fourth quarter, of the digital version of the product.

Termin-8r[®] revenue totaled \$93,012 in 2007, an increase of 43 percent over the same period in 2006 reflecting increased use by fleet customers. Unit sales increased by 51 percent. The Company plans to expand its sales efforts in 2007 through implementation of marketing programs designed to get additional fleet trials of the product and build awareness of the superior features of Termin-8r[®].

Licensing revenue for the twelve-month period ending December 31, 2007 generated \$10,980 compared to \$10,660 in 2006. The Company entered into a licensing arrangement for its sensor technology whereby the licensee pays a licensing fee to the Company for every sensor it integrates and sells with its remote vehicle monitoring system.

A non-recurring sale of a trademark by the Company generated \$15,256 in revenue during 2006. There was no comparable sale in 2007.

Brake Inspector[®] is in the early stages 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 has experienced considerable variances quarter to quarter as new fleets proceed from a trial of the product to equipping all fleet vehicles. The Company has launched production of the stand-alone digital truck system and the stand-alone trailer system and product sales are currently limited to standalone vehicles, i.e. trucks, trailers and buses. 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 third quarter of 2008.

Gross Profit

Twelve months ended December 31, 2007

Gross profit decreased by \$68,198 for the twelve months ended December 31, 2007 to \$358,718 or 45 percent of revenue from \$426,916 or 53 percent of revenue for the twelve

months ended December 31, 2006. The decrease in gross profit as a percent of revenue in 2007 is attributable to increased discounts offered to several large customers for Brake Safe[®] promotional allowances, increased sales of Brake Inspector[®] with lower gross profit margin attributable to some transitionally high costs as the new digital version of Brake Inspector[®] was introduced, and increased sales of skid quantities of Termin-8r[®].

Gross profit margins will vary depending on the mix of product sales within the Brake Safe[®], Brake Inspector[®] and Termin-8r[®] 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, 2007

Operating Expenses

Total operating expenses before interest expense and amortization charges increased by \$463,233 to \$1,193,626 for the twelve months ending December 31, 2007 from \$730,393 for the twelve months ending December 31, 2006.

Office and General costs for the twelve months ending December 31, 2007 were \$82,871 exceeding the equivalent period in 2006 by \$14,876.

Consultant fees for the twelve months ending December 31, 2007 were \$36,000 representing a decrease of \$27,974 from the equivalent period in 2006.

Legal, audit, accounting and trustee fees, (professional fees), for the twelve months ending December 31, 2007 were \$218,069, an increase of \$138,080 from the equivalent period in 2006 of \$79,989. Legal and audit fees were much higher this year as a result of various matters. These included the financing that was completed in the second quarter; the settlement of claims for management fees and the negotiation of new distributorship agreements.

Management fees for the twelve months ending December 31, 2007 were \$340,933 compared to \$200,000 for the equivalent period in 2006. Increased fees resulted from the addition of Mr. Glen Campbell to the management team as Chairman and CEO of the Company's subsidiary, Spectra Products Inc. as well as new fee arrangements with other senior personnel.

During the twelve months ending December 31, 2007 a total of 1,500,000 stock options were granted to officers, directors, employees and consultants. Stock-based compensation expense for twelve months ending December 31, 2007 totaled \$68,906 calculated using the fair value based method. No stock options were granted in the 12-month period ending December 31, 2006 and all previously issued options were fully expensed in previous periods. As a result, there was no stock based compensation expense in 2006.

Royalty debenture expense and royalty fees for twelve months ending December 31, 2007 totaled \$94,722, an increase of \$10,755 over \$83,967 in 2006. Royalty debenture

fees for the fourth quarter of 2007 exceeded the minimum payment contributing to increased expense while royalty expense increased due to higher sales of Brake Inspector[®] compared to the corresponding period in 2006. Also the accretion of discount on the royalty debenture, a result of new accounting policies, also increased this year's expense.

Subcontract labour for the twelve months ending December 31, 2007 was \$113,848 an increase of \$42,608 compared to \$71,240 for the same period in 2006. The additional cost was the result of an audit from the Canada Revenue Agency resulting in an assessment for additional Canada Pension Plan contributions.

Selling expenses for the twelve months ending December 31, 2007 were \$63,070, an increase of \$2,176 compared to \$60,894 for the same period in 2006.

Commissions for the twelve months ending December 31, 2007 were \$32,460 an increase of \$12,303 from the equivalent period in 2006. This reflected the hiring of additional commissioned sales personnel to assist in developing sales programs for the new product line.

Rent expense for the twelve months ending December 31, 2007 was \$59,221, an increase of \$48 compared \$59,173 in 2006. Rent charges increased contractually during the last year of the lease agreement resulting in higher occupancy costs.

Public relations expenses for the twelve months ending December 31, 2007 were \$25,000, an increase of \$7,975 compared to \$17,025 for the same period in 2006. During the fourth quarter of 2006, the Company instituted an investor relations program to increase the Company's profile to the investment community resulting in the increased expense.

Interest

Interest charges for the twelve months ended December 31, 2007 were \$97,414 compared to \$58,784 during the same period in 2006. The increase was primarily due to the cost of short-term loans that were negotiated and funded during the fourth quarter of 2007 and also the accretion of discount on the convertible preferred shares, a result of new accounting policies.

Amortization

For the twelve months ended December 31, 2007 amortization of equipment, intangible assets and deferred charges totaled \$75,074 compared to \$119,780 during the same period in 2006.

Loss on disposition of equipment

During the year, the company took a loss on the disposition of equipment of \$26,088.

Debt settlement

Key executives, who are shareholders and directors of the company, waived their claims to management fees and interest previously accrued and owing to them. In total these amounted to \$1,200,014. In addition the company settled a \$34,108 claim for fees from a third party.

Net income**Twelve months ended December 31, 2007**

Net income for the twelve months ended December 31, 2007 was \$200,638 or \$0.004 per share basic and fully diluted compared to a loss of \$484,298 or \$0.013 per share basic and fully diluted for the twelve months ended December 31, 2006.

The Company forecasts a return to profitability upon successful implementation of its five year business plan and successfully expands its distribution network for its Brake Inspector[®] product line, introducing its systems for standalone trailers and tractor-trailer combinations. Brake Inspector[®] and Termin-8r[®] are anticipated to increase their percentage of the sales mix.

Liquidity and Cash Flow**Twelve months ended December 31, 2007**

For the twelve months ended December 31, 2007, the Company used \$1,082,448 in operating activities compared to \$20,757 in 2006 (restated). Non-cash items during the twelve months used \$997,636 compared to contributing \$122,037 in 2006 (restated). During the period, the Company reduced the Dynamic Venture Opportunities Fund debenture by \$25,114. The Company used \$126,718 to increase equipment and intangible assets. These resulted in a net increase in cash resources of \$76,117 and a cash resources balance at the end of the period of \$84,002. During the equivalent twelve-month period in 2006 the Company showed a net increase in cash resources of \$3,442 and a cash resources balance at the end of the year of \$7,885.

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, 2007 of \$6,281,453 compared to an accumulated deficit of \$6,442,279 for the same period in 2006. The Company has a working capital deficiency of \$281,340 at December 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 plans to seek 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, 2007

QUARTERLY DATA

Canadian Dollars	Three month period ending:							
	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006
Revenue	253,416	184,731	150,911	204,763	182,700	207,369	271,982	144,339
Gross Profit	68,115	107,543	57,661	125,399	88,004	126,241	128,654	84,017
SG&A expenses	406,655	227,894	460,224	196,267	344,148	136,504	271,299	157,006
Debt settlements	1,234,122	-	-	-	-	-	-	-
Income for the period	795,765	(121,696)	(402,563)	(70,868)	(258,401)	(10,263)	(142,645)	(72,989)
Income (loss) per share								
Wtd basic	.019	(.003)	(.009)	(.002)	(.007)	(.000)	(.004)	(.002)
Wtd diluted	.019	(.003)	(.009)	(.002)	(.007)	(.000)	(.004)	(.002)

Seasonality:

The Company's sales reflect a marginal sales trend with the weakest sales quarter occurring in the April through June period, representing on average about 19 percent of annual sales. The strongest sales quarter, October through December accounts for approximately 32 percent of total sales.

Results of Operations

Revenue:

Three months ended December 31, 2007

Revenue for the three months ended December 31, 2007 increased by 39 percent to \$253,416 compared to revenue of \$182,700 for the three-month period ended December

31, 2006. The quarterly increase in revenue is attributable to increases in Brake Inspector[®] unit sales of 443 percent together with strong unit sales increases of 56 percent for Termin-8r[®]. Brake Safe[®] unit sales were marginally higher than 2006 with an increase of 0.3 percent.

Brake Inspector[®] sales in the quarter were \$78,814 greater than sales in the corresponding quarter in 2006 as newly signed distributors commenced the stocking digital system. Termin-8r[®] sales increased by \$7,820 over the 2006 period as a result of increased sales to new distributors. Brake Safe[®] sales marginally exceeded the same period in 2006 by \$477.

Gross Profit

Three months ended December 31, 2007

Gross profit decreased by \$18,811 for the three months ended December 31, 2007 to \$68,115 or 27 percent of revenue from \$88,004 or 48 percent of revenue for the three months ended December 31, 2006. The decrease in gross profit as a percent of revenue in 2007 is attributable to increased discounts offered to several large customers for Brake Safe[®] promotional allowances, increased sales of Brake Inspector[®] with lower gross profit margin[®] attributable to some transitionally high costs as the new digital version of Brake Inspector[®] was introduced, and increased sales of skid quantities of Termin-8r[®].

Expenses:

Three months ended December 31, 2007

Operating Expenses

Total operating expenses before interest expense and amortization charges increased by \$80,604 to \$386,989 for the three months ending December 31, 2007 from \$306,385 during the three months ended December 31, 2006.

- Office and general costs totaled \$25,450 for the quarter, a decrease from 2006 of \$1,399.
- Consultant fees of \$12,000 were \$24,001 less than 2006.
- Professional fees (legal, audit, accounting and trustee fees) for the three months ending December 31, 2007 totaled \$86,219, an increase of \$43,692 from the equivalent period in 2006. This was due to fees re the debt settlement.
- No stock options were granted in the three month periods ending December 31, 2007 or 2006. As a result there was no stock-based compensation expense in either quarter.
- Management fees of \$118,401 for the three months ending December 31, 2007 were \$6,599 less than the equivalent period in 2006.
- Royalty fees for three months ending December 31, 2007 totaled \$34,844, an increase of \$15,383 compared to 2006.
- Subcontract labour for the three months ending December 31, 2007 totaled \$62,180. \$43,000 higher than the same period in 2006. This was the result of an assessment by Canada Revenue Agency, following a Canada pension Plan audit.
- Commissions for the three months ending December 31, 2007 were \$16,129 an increase from the equivalent period in 2006 of \$11,152.

- Rent expense for the three months ending December 31, 2007 was \$14,643, a decrease of \$491 compared to the same period in 2006. This was a result of lower utility costs.
- There were no public relations expenses for the three months ending December 31, 2007 compared to \$17,025, for the same period in 2006. During the fourth quarter of 2006, the Company instituted an investor relations program to increase the Company's profile to the investment community resulting in the increased expense. This has been put on hold until the Company produces profitable results.

Interest

Interest expense for the three months ending December 31, 2007 was \$59,214 compared to \$13,522 during the same period in 2006. The increase was primarily due to the cost of short-term loans that were negotiated and funded during the fourth quarter of 2007 and also the accretion of discount on the convertible preferred shares, a result of new accounting policies.

Amortization

Amortization of equipment, intangible assets and deferred charges totaled \$37,168 for the three-month period ending December 31, 2007 compared to \$24,241 for the same period in 2006.

Net income

Three months ended December 31, 2007

Net income for the three months ended December 31, 2007 was \$793,856 or \$0.019 per share basic and \$0.019 fully diluted compared to a loss of \$258,401 or \$0.007 per share basic and fully diluted for the three months ending December 31, 2006.

Balance Sheet:

Total Assets

Total assets ending December 31, 2007 were \$678,044 an increase of 46 percent from \$463,419 for the period ending December 31, 2006.

Total Liabilities

Total liabilities ending December 31, 2007 were \$2,103,993, a decrease of 16 percent from \$2,504,375 for the period ending December 31, 2006. This decrease in liabilities resulted from a decrease in accounts payable and accrued charges.

Liquidity and Cash Flow

Three months ended December 31, 2007

During the three-month period ending December 31, 2007, the Company used \$526,570 in operating activities compared to \$88,508 contributed to operations during the same period in 2006. Non-cash items used \$606,996 for the period compared to \$126,498 contributed for the three months ended December 31, 2006. During the period, the Company reduced the Dynamic Venture Opportunities Fund debenture by \$6,250. This resulted in a net decrease in cash resources of \$28,759 and a cash resources balance at the end of the period of \$84,002. During the equivalent period in 2006, the Company showed

a net reduction in cash resources of \$3,739 and a cash resources balance of \$7,885 at the end of the period.

Related Party Transactions

During the year ended December 31, 2007, key executives who are shareholders and directors waived a claim for accrued management fees and interest totaling \$1,200,014. This substantially reduced the amount of loans payable to these shareholders. As at December 31, 2007 loans payable to shareholders had been reduced to \$44,556.

During the year ended December 31, 2007, management fees totaling \$210,100 were paid to executives who were directors and shareholders or to companies controlled by them.

During the year ended December 31, 2007, consulting fees of \$48,000 and royalties of \$7,510 were paid to a company owned by a director.

Off Balance Sheet Arrangements

As at December 31, 2007, 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; an unlimited amount of first, second, third and fourth preferred shares and 540,000 second preferred shares, Series 1. As at December 31, 2007, there were 46,881,837 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 2007 were as follows:

	Number of Shares	Dollar Value
Balance, December 31, 2006, as previously reported	39,536,837	\$4,339,939
Issued during the year		
Issued due to exercise of stock options ⁽¹⁾	350,000	43,169
Issued due to debt settlement ⁽²⁾	400,000	24,000
Issued due to debt settlement ⁽³⁾	1,200,000	60,000
Issued due to debt settlement ⁽⁴⁾	350,000	22,750
Pursuant to a private placement ⁽⁵⁾	3,545,000	177,250
Pursuant to a private placement ⁽⁶⁾	1,500,000	82,500
Value of warrants		(100,897)
Share issue costs		(16,225)
Balance, December 31, 2007	46,881,837	\$ 4,632,486

(1) On February 1, 2007 a director of the Company exercised 350,000 stock options to purchase 350,000 common shares at \$0.10 per share. These options were initially valued at \$8,169 and this amount has also been reallocated from contributed surplus to share capital.

(2) On March 31, 2007, the Company issued 400,000 shares to a related party at \$0.06 per share to retire a payable.

(3) On May 28, 2007, the Company issued 1,200,000 shares to a related party at \$0.05 per share to reduce related party loans.

(4) On June 1, 2007, the Company issued 350,000 shares to a related party at \$0.065 per share to reduce accounts payable.

(5) On May 28, 2007, the Company closed a non-brokered private placement and issued 3,545,000 shares at \$0.05 per share

(6) The 1,500,000 common shares issued on June 1, 2007 at \$0.055 for a total value of \$82,500 as additional consideration in connection with the Dynamic Venture Opportunities Fund private placement for \$750,000 convertible preferred shares in the Company's wholly owned subsidiary.

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. Compensation expense is recognized over the stock option vesting period with a corresponding charge to contributed surplus.

	Options Granted	Weighted Exercise Price	Grant Date Weighted Price
Balance December 31, 2006	2,250,000	0.12	0.06
Granted during the year:	1,500,000	0.10	0.032
Exercised during the year	(350,000)	0.10	
Forfeited	0	-	
Expired during the year	(375,000)	0.20	
Balance December 31, 2007	3,025,000	0.10	0.052

As at December 31, 2007, there were 3,025,000 outstanding options to acquire common shares (2,250,000 at the end of fiscal 2006). These options were held by directors, employees and consultants and were exercisable at any time during the remaining contractual life. 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
March 2, 2008	450,000	\$0.10	0.2 years
May 9, 2009	350,000	\$0.10	1.4 years
August 31, 2010	950,000	\$0.10	2.7 years
October 11, 2010	125,000	\$0.10	2.9 years
May 9, 2012	1,150,000	\$0.10	4.4 years

Warrants

On May 28, 2007 the Company closed a private placement of 4,745,000 units consisting of one common share at a deemed price of \$0.05 per share and one warrant redeemable until May 27, 2009 for one common share of the Company at a price of \$0.10 per share. The Company has 6,413,910 warrants outstanding as at December 31, 2007.

DIVIDEND POLICY

The Company does not currently have a policy of declaring or paying dividends on its common shares and preference 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 introduction 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. In addition, the Company anticipates new opportunities arising for the standalone digital system with trailer manufacturers and trailer fleets. Upon completion of the development of the PLC version of Brake Inspector[®] for tethered truck-trailer combinations and planned introduction in the third quarter of 2008, our product offering will 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 will continue to expand its distribution network for Brake Safe[®] with a focus on the United States market.

The Company expects its Termin-8R[®] product will continue to receive strong industry acceptance with a corresponding growth in sales to the transportation segment. During 2008, the Company will focus on new product application opportunities and introduce Termin-8R[®] into expanded markets including the Marine and Recreational segments.

The Company plans to seek up to \$750,000 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

The preceding MD&A provides a summary of the audited financial information of the Company contained therein. This discussion contains forward-looking statements that involve certain risks and uncertainties which may include, but are not limited to, statements with respect to the future financial or operating performance of the Company. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results,

performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others: general business, economic, competitive, political and social uncertainties; the actual results of marketing and sales activities; fluctuations in the value of Canadian dollars relative to other currencies; changes in labor costs or other costs of production including raw materials; delays in financing activities. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended.