Spectra Inc.

Management Discussion and Analysis

Annual and Fourth Quarter Ending December 31, 2004

Revised January 31, 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, 2004. 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, 2004, 2003 and 2002:

ANNUAL DATA

OPERATIONS:

Canadian dollars	2004	2003	2002
Total revenue	$ 699,640	$ 445,052	$ 434,884
Gross profit	$ 410,594	$ 243,830	$ 278,914
Net income before taxes	$ (512,281)	$ (693,856)	$ (677,105)
Net income	$ (512,281)	$ (693,856)	$ (677,105)
Cash flow from operations	$ (377,215)	$ (503,132)	$ (526,948)
Basic earnings per share	$ (.0142)	$ (.0231)	$ (.0240)
Diluted earnings per share	$ (.0137)	$ (.0219)	$ (.0227)

FINANCIAL POSITION:

Total assets	$ 656,243	$ 424,916	$ 547,736
Total long-term liabilities	$ 1,083,851	$ 624,664	$ 596,982
Shareholders equity	$(1,378,793)	$(1,109,212)	$ (494,106)

Results of Operations

Revenue
Twelve months ended December 31, 2004

Revenue for the twelve months ended December 31, 2004 increased by 57% to $699,640 compared to revenue of $445,052 for the twelve month period ended December 31, 2003. The increase in revenue is attributable to increases in sales of Brake Safe® ,Brake Inspector®, and Termin-8r™. Brake Safe® sales increased by 46 percent over the preceding year as a result of increased distributor sales and large fourth quarter purchases by a house fleet account in advance of an announced price increase scheduled for January 2005. Brake Inspector® sales exceeded the 12 month period in 2003 by 167 percent reflecting a growing demand for the product line as several major customers ordered Brake Inspector® on all new trucks delivered during 2004. Sales of Termin-8r™ increased by 28 percent over the same period in 2003 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 will commence beta trials of the stand-alone digital truck system during the third quarter of 2005 together with a 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, 2004

Gross profit increased by $166,764 for twelve months ended December 31, 2004 to $410,594 or 59 percent of revenue from $244,830 or 55 percent of revenue for the twelve months ended December 31, 2003. The increase in gross profit as a percent of revenue is attributable to increased margins for Brake Safe® sales resulting from a greater mix of sales directly to fleet customers. In addition, the sale of higher margin Brake Safe® kits for vehicles equipped with air-ride suspensions contributed to increased gross profit.

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, 2004

Operating Expenses
Total operating expenses before interest expense and amortization charges decreased by $9,713 to $702,135 for the twelve months ending December 31, 2004 from $711,848 for the twelve months ending December 31, 2003

Office and General costs for the twelve months ending December 31, 2004 were $56,940 exceeding the equivalent period in 2003 by $14,339. Expenses for 2004 are consistent with historical costs experienced during the 2001 and 2002 periods.

Consultant fees for the twelve months ending December 31, were $61,115 exceeding the equivalent period in 2003 of $20,936 by $40,179. The 2003 unadjusted consulting fees totaled $50,936 before a non-recurring credit of $30,000. The 2004 fee increases resulted from services provided by Mentorinc Financial Services in creating and managing the Company's newly created advisory board.

Legal, accounting and trustee fees for the twelve months ending December 31, 2004 were $80,080 exceeding the equivalent period in 2003 by $23,005. Increases resulted from legal expenses relating to the negotiated buy out of the royalty agreement between Spectra Products Inc. and Brake Safe Inc. completed in August 2006.

Management fees for the twelve months ending December 31, were $200,000 exceeding the equivalent period in 2003 of $165,000 by $35,000. In 2003, Management deferred payment of $35,000 until fiscal 2004.

Royalty fees for twelve months ending December 31, 2004 totaled $44,705, a decrease of $77,148 from fees of $112,558 in 2003. Royalty fees for 2003 included a non-recurring charge for previous year minimum royalty payments of $86,790. An additional royalty related expense in 2004 of $32,443 reflects the impact of the Dynamic Venture Opportunity Fund royalty debenture expenses that became effective August 6, 2004. These fees are based on total revenues of the Company.

Subcontract labour for the twelve months ending December 31, was $58,890 a decrease of $49,360 compared to the same period in 2003. During the second quarter of 2003, the Company reduced its contract labour by one person, resulting in a decrease in subcontract labour costs in 2004.

Selling expenses for the twelve months ending December 31, were $66,338 a decrease of $15,082 compared to the same period in 2003. Lower expenses resulted from reduced trade show expenses as a result of co-op exposition space and fewer shows attended.

Interest
Interest charges for the twelve months ended December 31, 2004 were $85,674 compared to $68,114 during the same period in 2003. Increased interest charges reflect the impact

of the Dynamic Venture Opportunity Fund investment of $750,000 effective August 6, 2004. The Company owes TD Canada Trust at December 31, 2004 long term debt of $13,618. Long term debt with the Business Development Bank of Canada at December 31, 2004 was $21,450.

Amortization

For the twelve months ended December 31, 2004 amortization of capital assets and other assets were $135,066 compared to $122,724 during the same period in 2003.

Net Loss

Twelve months ended December 31, 2004

Net Loss for the twelve months ended December 31, 2004 was $512,281 or $0.0142 per share basic and $0.0137 per share fully diluted compared to $693,856 or $0.0231 per share basic and $0.0219 per share fully diluted for the twelve months ended December 31, 2003.

The Company anticipates that it will continue to incur losses during fiscal 2005 while it completes its product development program and seeks to expand its sales and distribution network. A return to profitability is expected 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 in 2005 and become the leading revenue generator in 2006.

Liquidity and Cash Flow

Twelve months ended December 31, 2004

For the twelve months ended December 31, 2004, the Company utilized $377,215 of working capital to fund its operations compared to $503,132 in 2003. Non-cash working capital during the twelve months contributed $156,756 compared to a contribution of $25,704 in 2003. Increases in financing activities included proceeds from the Dynamic Venture Opportunities Fund totaling $739,946 and share capital of $205,000. The Company used $258,106 to increase current and non current assets and $150,883 for repayment of loans resulting in a net increase in cash resources of $1,986 and cash resources balance at the end of the period of $7,915. During the equivalent twelve month period in 2003, the Company showed a net increase in cash resources of $799 and net cash resources balance of $5,923.

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, 2004 of $5,431,891 compared to an accumulated deficit of $4,922,310 for the same period in 2003. The Company has a working capital deficiency of $645,864 at December 31, 2004. 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, 2004

QUARTERLY DATA

Canadian Dollars	Three month period ending:							
	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2004	December 31, 2003	September 30, 2003	June 30, 2003	March 31, 2003
Revenue	212,584	210,944	163,813	112,299	106,702	110,389	126,285	101,676
Gross Profit	148,519	119,352	86,811	55,912	65,912	36,864	80,317	60,737
SG&A Expenses	389,459	151,490	226,226	155,699	362,590	165,392	230,37	144,159
Loss for the period	(249,940)	(32,475)	(139,415)	(99,787)	(296,686)	(90,829)	(187,919)	(96,665)
Loss per share (basic & diluted)	(.007)	(.001)	(.005)	(.003)	(.010)	(.003)	(.007)	(.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, 2004
Revenue for the three months ended December 31, 2004 increased by 99% to $212,584 compared to revenue of $106,702 for the three month period ended December 31, 2003. The increase in revenue is attributable to increased sales of the Brake Safe® product, up 195 percent from sales in 2003, increased Brake Inspector® sales, up 195 percent versus 2003, and sales of Termin-8r which exceeded sales in the same period by 41 percent.

During the three month period ended December 31, 2004, Brake Safe® revenues accounted for 92 percent of the $100,879 increase over the same period in 2003.Increases were the result of continued growth in distributor sales and large fourth quarter purchases by a house fleet account in advance of an announced price increase scheduled for January 2005. Brake Inspector® sales and sales of Termin-8r™ reflected a growing demand for these product lines during 2004. Variances also reflect the timing of order placements since both products currently have a small customer and are in the early stages of the product lifecycle.

Gross Profit
Three months ended December 31, 2004
Gross profit increased by $82,607 for the three months ended December 31, 2004 to $148,519 or 70 percent of revenue from $ 65,912 or 62 percent of revenue for the three months ended December 31, 2003. The increase in gross profit is attributable to increased sales of Brake Safe® , Brake Inspector® systems, and Termin-8r during the period, while a higher gross profit as a percent of sales resulted from Brake Safe® sales capturing a greater share of total sales relative to sales in the 3 month period ending 2003.

Expenses:
Three months ended December 31, 2004

Operating Expenses
Total operating expenses before interest expense and amortization charges increased by $18,076 to $330,012 for the three months ending December 31, 2004 from $311,936 for the three months ended December 31, 2003.

- **Offic**e and General costs exceeded 2003 by $13,360.
- **Consultan**t fees after adjustment for anon-recurring credit were $10,584 greater than 2003.
- **Legal**, accounting and trustee fees for the three months ending December 31, 2004 exceeded the equivalent period in 2003 by $9,818.
- **Managemen**t fees for the three months ending December 31, were $35,000 greater than the equivalent period in 2003.
- **Royalty fees** for three months ending December 31, 2004 decreased by $66,964 compared to 2003. Royalty fees for 2003 included a non-recurring charge for previous year minimum royalty payments of $86,790. An additional royalty related expense in the quarter of $25,000 reflects the impact of the Dynamic Venture

Opportunity Fund royalty debenture expenses that became effective August 6, 2004. These fees are based on total revenues of the Company.

- **Subcontract labour** for the three months ending December 31 decreased by $7,246 compared to the same period in 2003
- **Selling expenses** for the three months ending December 31, were $2,374 less the same period in 2003.

Interest
Interest expense for the three months ending December 31, 2004 was $23,829 compared to $29,131 during the same period in 2003.

Amortization
Amortization of capital assets and other assets totaled $35,618 for the three month period ending December 31, 2004 compared to $33,873 for the same period in 2003.

Net Loss
Three months ended December 31, 2004
Net Loss for the three months ended December 31, 2004 was $ 249,940 or $0.007 per share basic and fully diluted compared to $ 296,686 or $0.010 per share basic and fully diluted for the three months ending December 31, 2003.

Balance Sheet:

Total Assets
Total assets ending December 31, 2004 were $656,243, an increase of 54 percent from $424,916 for the period ending December 31, 2003. This increase in asset value resulted from an increase in inventory and accounts receivable and capitalization of the buyout of the Brake Safe Inc. royalty agreement and related transaction costs.

Total Liabilities
Total liabilities ending December 31, 2004 were $2,035,036, an increase of 36 percent from $1,499,128 for the period ending December 31, 2003. This increase in liabilities resulted from an increase in long term liabilities relating to the Dynamic Venture Opportunity Fund invest of $750,000 on August 6, 2004.

Liquidity and Cash Flow
Three months ended December 31, 2004

During the three month period ending December 31, 2004, the Company used $205,322 of working capital to fund its operations, compared to $242,155 during the same period in 2003. Non cash working capital generated $203,101 of cash for the period compared to a $289,184 for the three months ended December 31, 2003. Increases in financing activities resulted from the issuance of share capital of $200,000 and deferral of $ 68,388 financing charges and related costs for the Dynamic Venture Opportunity Fund investment. The Company used $234,538 to increase current and non current assets and $150,883 for repayment of loans resulting in a net reduction in cash resources of $119,132 and cash resources balance at the end of the period of $7,915. During the equivalent twelve month period in 2003, the Company showed a net reduction in cash resources of $5,689 and net cash resources balance of $11,618.

Related Party Transactions
As at December 31, 2004, The Company has no related party transactions.

Off Balance Sheet Arrangements
As at December 31, 2004, 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, 2004, 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 2004 and 2003 were as follows:

	Number of Shares	Dollar Value
Balance, December 31, 2002	28,216,837	$ 3,742,348
Issued during the year:		
For cash pursuant to one private placement	500,000	$ 50,000
For cash pursuant to options	200,000	$ 28,750
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)	4,000,000	$ 200,000
Balance, December 31, 2004	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 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.

	Options Granted	Weighted Exercise Price	Grant Date Weighted Price	Expiry Date
Balance December 31, 2003	2,250,000	0.14	0.11	N/A
Issued during the year:	NIL	N/A	N/A	N/A
Exercised during the year	(50,000)	0.10	0.035	12/14/04
Cancelled during the year	(200,000)	0.17	0.16	N/A
Balance December 31, 2004	2,000,000	0.14	0.11	N/A

As at December 31, 2004, there were 2,000,000 outstanding options to acquire common shares (2,250,000 at the end of fiscal 2003). 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
March 2, 2005	450,000	$0.10	0.2 years
October 11, 2005	125,000	$0.16	0.8 years
January 10, 2006	250,000	$0.25	2.0 years
January 7, 2007	25,000	$0.20	3.0 years
January 15, 2007	350,000	$0.20	3.0 years
March 2, 2008	800,000	$0.10	3.2 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 2005 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 development and testing in 2005 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 plans to seek $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.