

MD & A

MANAGEMENT'S DISCUSSION AND ANALYSIS

Description of Business

Spectra Inc is a vertically integrated supplier of innovative products and services to the Commercial Transportation Industry and the Professional Trucker. Spectra's product lines increase productivity, reduce maintenance costs and improve fleet safety. Products include Brake Safe[®] and SureStroke[™] visual brake stroke indicators, Brake Inspector[®], an electronic stroke indicator and air brake diagnostic system and the Termin-8R[®] line of anti-corrosion and extreme pressure lubricants. Spectra currently has several new products under development for the Transportation Industry including an anti-theft air brake locking system and a vehicle tracking and telematics system.

Discussion of Operations and Financial Performance

The following is a summary of the variations in the Corporation's operating results for the periods indicated:

Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003

Revenues

Revenues during the six month period ending June 30, 2004 were \$276,112 compared to \$227,961 in 2003. Revenues in 2004 represented a 21.1 percent increase from 2003.

Continuing revenue growth for the Company is anticipated to continue in 2004 as the North American economy strengthens and truck safety enforcement in the United States increases. The successful introduction of the Brake Inspector[®] product line to the transportation industry is having a positive impact on revenue growth as sales momentum increases in the trucking and transit sectors.

Expenses

Selling, general and administrative expenses during the six month period ending June 30, 2004 totaled \$381,926 compared to \$374,696 in 2003, an increase of 1.9 percent. This expense increase was primarily the result of increases in selling expenses relating to customer support, interest expense, legal fees, and royalty expense. Increases in these areas were offset by decreases in amortization expense and subcontract labour costs compared to the same period in 2003. Expenses directly resulting from product sales accounted for 17.9 percent of total expenses or \$68,436 and included sales commissions of \$15,509, royalty payments of \$14,812 and sales related costs of \$38,115. Legal, Accounting and Professional Fees accounted for 6.5 percent of total expenses or \$24,753 and were comprised of \$11,567 legal, \$7,500 accounting and \$5,686 professional fees. Subcontract Labour expenses were \$37,359 representing 9.8 percent of total expenses. Product Development expenses and development related third party Consulting fees for the Brake Inspector[®] product line totaled \$19,577 representing 5.1 percent of costs. Amortization expense of \$65,939 accounted for 17.3 percent of total period expenses. Office and Rent costs totaled \$52,881 or 13.8 percent of 2004 expenses. Interest and Financing fees accounted for \$37,446 representing 9.8 percent of total expenses.

Net Profit

Net Losses during the six month period ending June 30, 2004 totaled \$239,203 compared to a net loss of \$233,642 during the same period in 2003.

Assets

Total assets at June 30, 2004 were \$394,222 compared to \$486,052 for the same period in 2003.

Long term Liabilities

The Corporation had long-term liabilities at June 30, 2004 of \$626,926 compared to \$618,853 long-term liabilities for the same period ending 2003.

Shareholders Equity

The Corporation had Shareholders deficiency of \$(1,305,715) at June 30, 2004 compared to a Shareholders deficiency of \$(696,298) for the same period ending 2003

Working Capital

The Corporation's working capital was \$(875,343) ending June 20, 2004 compared to \$(359,418) at the end of June 2003.

The Corporation plans to raise additional working capital through a series of private placements involving a combination of equity and debt to expand its sales force and sales activities, to complete new product development and to acquire inventory. The Corporation completed a debenture financing with gross proceeds of \$750,000 on August 6, 2004.