

**Spectra Inc.**

**Management Discussion and Analysis**

**Second Quarter Ending June 30, 2007**

**August 29, 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 June 30, 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 June 30, 2007.

**QUARTERLY DATA**

Canadian Dollars	Three month period ending:							
	June 30, 2007	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005	September 30, 2005
Revenue	150,911	204,763	182,700	207,369	271,982	144,339	185,997	146,344
Gross Profit	57,661	125,399	88,004	126,241	128,654	84,017	79,203	92,064
SG&A Expenses	460,224	196,267	344,148	136,504	271,299	157,006	339,128	157,379
Loss for the period	(402,563)	(70,868)	(258,401)	(10,263)	(142,645)	(72,989)	(259,924)	(65,314)

Loss per share (basic & diluted)	(.009)	(.002)	(.007)	(.000)	(.004)	(.002)	(.007)	(.002)
	(.007)	(.002)	(.007)	(.000)	(.003)	(.002)	(.007)	(.002)

### Seasonality:

Historically, 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 June 30, 2007

Revenue for the three months ended June 30, 2007 decreased by 45% to \$150,911 compared to revenue of \$271,982 for the three month period ended June 30, 2006. The decrease in revenue is attributable to decreased sales of the Brake Safe<sup>®</sup> product, down 35 percent over sales in 2006, decreased Brake Inspector<sup>®</sup> sales, down 92 percent over 2006 and sales of Termin-8r<sup>®</sup>, 7 percent lower than the same period in 2006.

During the three month period ended June 30, 2007, Brake Safe<sup>®</sup> revenues were \$63,882 less than the same period in 2006. The decrease resulted from a general decline in purchases from the Company's distribution network in Canada and specifically its largest Toronto based distributor.

Brake Inspector<sup>®</sup> sales during the three month period ending June 30, 2007 were less than the same period in 2006 by \$62,128 or 92 percent. No new customers were added during the period while two large, existing customers placed fewer orders for new vehicles during the period compared to 2006. Brake Inspector<sup>®</sup> has a small customer base. For this reason quarterly sales will fluctuate depending on the timing of existing and new customer orders.

Termin-8r<sup>®</sup> sales in the three month period ending June 30, 2007 declined from the equivalent period in 2006 by \$1,171 or 7 percent. Termin-8r<sup>®</sup> has a small customer base. For this reason quarterly sales will fluctuate depending on the timing of existing and new customer orders.

#### Six months ended June 30, 2007

Revenue for the six months ended June 30, 2007 decreased by 15% to \$354,534 compared to revenue of \$416,321 for the six month period ended June 30, 2006. Brake Safe<sup>®</sup> product sales accounted for 52 percent of the sales decline while Brake Inspector<sup>®</sup> sales and sales of Termin-8r<sup>®</sup>, accounted for 51 percent and 1 percent of the decline respectively.

The Canadian market accounts for most of the Brake Safe<sup>®</sup> sales. 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> 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 stand-alone 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 this system for the fall of 2007. 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 the fourth quarter of 2007.

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. 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 June 30, 2007**

Gross profit decreased by \$72,993 for the three months ended June 30, 2007 to \$57,661 or 38 percent of revenue from \$128,654 or 47 percent of revenue for the three months ended June 30, 2006. The decrease in gross profit as a percent of revenues is attributable to the \$22,921 write off during the period of obsolete Brake Inspector<sup>®</sup> product that has been inventoried for spare parts for systems sold during 2002-2003 and current Brake Inspector<sup>®</sup> components that are incompatible with the new digital system.

### **Six months ended June 30, 2007**

Gross profit decreased by \$30,689 for the six months ended June 30, 2007 to \$181,982 or 51 percent of revenue from \$212,671 or 51 percent of revenue for the six months ended June 30, 2005. Higher gross profits during the first quarter of 2007 were offset by lower sales during the second quarter with corresponding lower gross profits and the write down of obsolete inventory.

## **Expenses:**

### **Operating Expenses**

#### **Three months ended June 30, 2007**

Total operating expenses before interest expense and amortization charges increased by \$209,055 to \$432,749 for the three months ending June 30, 2007 compared to \$223,704 for the three months ended June 30, 2006. The increased expense for the period resulted from increased professional fees (legal and accounting costs), higher management fees, corporate public relations costs and stock based compensation and warrant expenses.

Professional fees for the three month period ended June 30, 2007 were \$90,712, an increase in fees from the equivalent period in 2006 of \$65,401. Increased audit expenses and legal fees incurred in closing a private placement in the Company and the Dynamic Venture Opportunities Fund investment in the Company's wholly-owned subsidiary, Spectra Products Inc. accounted for the increased expenses.

Management fees for the three month period ended June 30, 2007 were \$104,663, an increase in fees from the equivalent period in 2006 of \$29,633. 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.

Stock based compensation for the three month period ended June 30, 2007 was \$99,087 compared to \$9,359 during the equivalent period in 2006. During the period the Company issued 1,500,000 stock options to directors, officers, employees and consultants. These options were valued at \$23,800 using the Black-Scholes evaluation model. The Company has 3,025,000 options outstanding as at June 30, 2007. During the period the Company closed a private placement of 4,745,000 units consisting of one common share and one warrant redeemable until May 10, 2009 for one common share of the Company at a price of \$0.10 per share. The warrants are valued at \$75,287 using the Black-Scholes evaluation method. During the same period in 2006 the Company issued warrants valued at \$9,359. The Company has 6,315,000 warrants outstanding as at June 30, 2007.

Office and General expenses for the three months ending June 30, 2007 were \$15,932 compared to \$14,728 in the same period in 2006.

Premises (rent) expenses for the three months ending June 30, 2007 were \$14,452 compared to \$14,285 in the same period in 2006.

Public relations expenses for the three months ending June 30, 2007 were \$15,000 compared to no expense in the same period in 2006. The Company had no program during the same period in 2006.

Selling expenses for the three months ending June 30, 2007 were \$17,831 or \$5,932 lower than the same period in 2006. Costs incurred in training customer technical staff in installation of Brake Inspector<sup>®</sup> systems in 2006 were not incurred in 2007.

Royalty debenture fees for the three month period ended June 30, 2007 were \$18,750, a decrease from the equivalent period in 2006 of \$6,349. Royalty expenses in the quarter in 2006 exceeded the minimum quarterly payment due to increased revenues relative to the same period in 2007.

Annual audit fees related to the ISO9001-2000 quality control system were \$2,700 during the three month period ended June 30, 2007 compared to audit fees of \$1,700 during the same period in 2006.

Consultant fees for the three month period ended June 30, 2007 were \$12,000, an increase of \$3,000 from the equivalent period in 2006. Fee increases resulted from consulting fees related to the Company's ISO9001-2000 audit.

Commissions on product sales for the three month period ended June 30, 2007 were \$5,064, a decrease of \$683 compared to the equivalent period in 2006. Decreased commissions reflect decreased sales during the period.

### **Six months ended June 30, 2007**

Total operating expenses before interest expense and amortization charges increased by \$271,344 to \$605,799 for the six months ending June 30, 2007 from \$334,435 for the six months ended June 30, 2006. The increased expense for the period resulted primarily from increased legal and accounting costs, higher management fees, corporate public relations costs and stock based compensation and warrant expenses.

Professional fees for the six month period ended June 30, 2007 were \$105,180, an increase in fees from the equivalent period in 2006 of \$64,682. Increased audit expenses and legal fees related to the Company's private placement and investment by the Dynamic Venture Opportunities Fund in Spectra Products accounted for the increased expenses.

Management fees for the six month period ended June 30, 2007 were \$154,663, an increase in fees from the equivalent period in 2006 of \$79,633. 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. The Company commenced accounting for management fees on a monthly basis in 2007 compared to previous years where 37.5 percent of management fees were booked during the first six months of each fiscal year and the balance of fees at fiscal year end.

Stock based compensation for the six month period ended June 30, 2007 was \$99,087 compared to \$9,359 during the equivalent period in 2006. During the period the Company issued 1,500,000 stock options to directors, officers, employees and consultants. These options were valued at \$23,800 using the Black-Scholes evaluation model. The Company has 3,025,000 options outstanding as at June 30, 2007. During the period the Company closed a private placement of 4,745,000 units consisting of one common share and one warrant redeemable until May 10, 2009 for one common share of the Company at a price of \$0.10 per share. The warrants are valued at \$75,287 using the Black-Scholes evaluation method. During the same period in 2006 the Company issued warrants valued at \$9,359. The Company has 6,315,000 warrants outstanding as at June 30, 2007.

Office and General expenses for the six months ending June 30, 2007 were \$30,778 compared to \$27,637 in the same period in 2006.

Premises (rent) expenses for the six months ending June 30, 2007 were \$30,482 compared to \$30,172 in the same period in 2006.

Public relations expenses for the six months ending June 30, 2007 were \$25,000 compared to no expense in the same period in 2006. The Company had no program during the same period in 2006.

Selling expenses for the six months ending June 30, 2007 were \$32,164 or \$8,067 lower than the same period in 2006. Costs incurred in training customer technical staff in installation of Brake Inspector<sup>®</sup> systems in 2006 were not incurred in 2007.

Royalty fees for the six month period ended June 30, 2007 were \$37,500, a decline compared to the equivalent period in 2006 of \$6,379. Royalty expenses in the quarter in 2006 exceeded the minimum quarterly payment due to increased revenues relative to the same period in 2007.

Consultant fees for the six month period ended June 30, 2007 were \$24,000, an increase of \$5,026 from the equivalent period in 2006. Increased fees resulted from consultant activity on the Company's ISO9001-2000 program and preparation of the Company's strategic business plan.

Commissions on product sales for the six month period ended June 30, 2007 were \$10,991 compared to \$10,557 during the equivalent period in 2006.

### **Interest Expense**

Interest expense for the three months ended June 30, 2007 was \$13,896 compared to \$15,620 during the same period in 2006. Year to date Interest charges for the six months ended June 30, 2007 were \$29,478 compared to \$31,134 during the same period in 2006. Interest expense has resulted from compounding interest charges on outstanding supplier balances and loans from management.

### **Amortization**

Amortization of capital assets and other assets totaled \$13,569 for the three month period ending June 30, 2007 compared to \$31,975 for the same period in 2006. For the six months ended June 30, 2007 amortization of capital assets and other assets was \$20,146 compared to \$62,736 during the same period in 2006.

### **Royalty and Financing Fee Amortization**

Royalty and financing fee amortization during the three month period ending June 30, 2007 was \$2,280 compared to \$18,766 expense in the same period of 2006. For the six months ended June 30, 2006 royalty and financing amortization costs were \$7,387 compared to \$37,532 during the same period in 2005.

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 June 30, 2007**

Net Loss for the three months ended June 30, 2007 was \$402,563 or \$0.009 per share basic and \$0.007 fully diluted compared to \$142,465 or \$0.005 per share basic and \$0.003 fully diluted for the three months ending June 30, 2006.

#### **Six months ended June 30, 2007**

Net Loss for the six months ended June 30, 2007 was \$473,431 or \$0.010 per share basic and \$0.008 per share fully diluted compared to \$215,634 or \$0.005 per share basic and \$0.005 fully diluted for the six months ending June 30, 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. 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 June 30, 2007 were \$1,037,577 compared to \$464,529 for the period ending December 31, 2006. This increase in asset value is the result of the closing of a non brokered private placement on May 28, 2007 for \$237,250 and the investment on June 1, 2007 by Dynamic Venture Opportunities Fund of \$750,000.

#### **Total Liabilities**

Total liabilities ending June 30, 2007 were \$2,406,379 compared to \$2,505,487 for the period ending December 31, 2006.

### **Liquidity and Cash Flow**

#### **Three months ended June 30, 2007**

During the three-month period ending June 30, 2007, the Company used \$521,262 in operating activities compared to \$75,132 during the same period in 2006. Non-cash items used \$127,736 for the period compared to of \$35,539 for the three months ended June 30, 2006. During the period, the Company received \$1,048,774 from financing activities comprised of \$987,500 in share capital, \$99,087 in stock based compensation and a net decrease in loans of \$37,813. The Company used \$127,370 to increase equipment and intangible assets during the period resulting in a net increase in cash

resources of \$400,142 and net cash resources balance at the end of the period of \$435,424. During the equivalent period in 2006, the Company showed a net decrease in cash resources of \$1,979 and net cash resources balance of \$10,322 at the end of the period.

### **Six months ended June 30, 2007**

During the six month period ending June 30, 2007, the Company used \$642,481 in operating activities compared to \$66,649 from operations during the same period in 2006. Non-cash items used \$186,926 for the period compared to \$85,609 for the six months ended June 30, 2006. During the period, the Company received \$1,211,301 from financing activities comprised of \$1,046,500 in share capital, \$99,087 in stock based compensation and a net increase in loans of \$65,714. The Company used \$141,280 to increase equipment and intangible assets during the period resulting in a net increase in cash resources of \$427,540 and net cash resources balance at the end of the period of \$435,424. During the equivalent period in 2006, the Company showed a net increase in cash resources of \$5,879 and net cash resources balance of \$10,322 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 June 30, 2007 of \$6,915,712 compared to an accumulated deficit of \$6,442,281 at December 31, 2006. The Company has a working capital deficiency of \$737,644 at June 30, 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. The Company received \$237,250 of gross proceeds from a private placement during the three month period ending June 30, 2007 and Spectra Products received gross proceeds of \$750,000 from the Dynamic Venture Opportunities Fund. The Company will seek \$750,000 of additional funds to provide working capital, inventory and capital equipment necessary to complete implementation 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 may pursue additional 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 additional 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.

### **Related Party Transactions**

As at June 30, 2007, the Company had accounts payable to two officers and directors, Michael Faye and Andrew Malion, totaling \$512,205 and shareholder loans to Michael Faye and Andrew Malion totaling \$466,179.

### **Off Balance Sheet Arrangements**

As at June 30, 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. As at June 30, 2007, there were 46,866,837 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 June 30, 2007, there were 3,025,000 outstanding options to acquire common shares. These options were held by directors, officers, employees and consultants.

### **Warrants**

On May 11, 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 10, 2009 for one common share of the Company at a price of \$0.10 per share. The Company has 6,315,000 warrants outstanding as at June 30, 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 truck system and standalone trailer 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, construction vehicles and trailer fleets. The development and testing of the PLC version of Brake Inspector<sup>®</sup> for tethered truck-trailer combinations will complete our product offering and provide the transportation industry with 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 \$750,000 of additional funds to provide working capital, inventory and capital equipment necessary to complete the implementation its five-year business plan. 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.