

Spectra Inc.

Management Discussion and Analysis

Second Quarter Ending June 30, 2009

August 24, 2009

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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, 2009. These interim financial statements have not been audited or reviewed by the Company's independent auditors. The financial statements have been prepared by and are the responsibility of the Company's management. Disclosure of the interim financial statements does not conform in all respects to the requirements of GAAP for annual statements. The notes presented in these interim financial statements include only significant events and transactions and do not include all matters normally disclosed in the Company's audited annual financial statements. These statements follow the same accounting policies and methods as the most recent annual audited financial statements. In this Management Discussion and Analysis all amounts, unless otherwise indicated, are expressed in Canadian dollars.

Financial Instruments and Financial Risk Management

The Company's utilizes its risk management strategy to limit its exposure to financial risks resulting from its manufacturing and sales activities and its use of financial instruments including market risk, credit risk and liquidity risk. The Company's risk management policy has not changed from 2008.

Market Risk

Market risk is the risk that changes in market prices due to foreign exchange rates and interest rates will affect the Company's income of the value of its financial instruments. The objective of market risk management is to mitigate and control exposures within acceptable parameters.

Foreign currency risk

The Company realizes a portion of its revenue and expenses in foreign currencies. Consequently, some assets, revenue and expenses are exposed to foreign exchange fluctuations. The following assets, revenue and expenses originate in United States dollars and are subject to fluctuations:

As at June 30, 2009	
Current assets	\$ 3,737
Revenue	\$ 20,841
Expenses	\$ nil

Foreign currency sensitivity analysis

The Company is marginally exposed to foreign currency fluctuations as certain revenues and expenses derived from sales activities in the United States are denominated in U.S. dollars. As at June 30, 2009, the Company had \$3,737 of net current assets denominated in U.S. dollars. The Company's sensitivity to foreign currency fluctuations is such that a 10% strengthening or weakening of the U.S. dollar would result in a \$374 decrease or increase, respectively, to the Company's loss before income taxes for the period ended June 30, 2009.

Interest rate risk

The Company has no exposure to interest rate risk.

Credit Risk

Credit risk is the risk that one party to a financial instrument may be unable to discharge their obligation. The Company's main source of credit risk is outstanding accounts receivable and the Company's maximum exposure to credit risk is equal to the carrying value of the financial assets. In order to prevent losses, the Company manages credit risk by assessing the credit worthiness of

potential customers and regularly monitoring outstanding accounts receivable. In determining impairment of financial assets, the Company reviews all receivable balances greater than 90 days and assesses customer payment history. At June 30, 2009, one customer accounted for 22% of the Company's total trade receivables (December 31, 2008-one, 18%):

	As at June 30, 2009	As at December 31, 2008
1-30 days	65,713	47,379
31-60 days	21,866	23,119
60+ days	70	15,088
Total trade receivables	87,649	85,585
Allowance for bad debts	0	(10,193)
Net trade receivables	87,649	75,391
Other receivables	1,339	1,745
Total receivables	88,988	77,136

At June 30, 2009, one customer accounted for 21% of the Company's revenue (December 31, 2008, one customer, 22% of revenue).

Liquidity Risk

Liquidity risk encompasses the risk that a company cannot meet its financial obligations as they become due. The Company's approach in managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking harm to the Company's reputation. The Company manages its liquidity risk by continuously monitoring its actual cash flows and its forecasted cash flows. In the event the Company's current cash and cash equivalents become insufficient to meet the anticipated need for ongoing expenses, working capital and capital expenditures, the Company will seek additional funds in the form of equity or debt to provide working capital, inventory and capital equipment necessary to implement its five-year business plan.

Fair Value

The Company's financial assets and liabilities are classified and measured as follows: Cash is classified as a financial assets 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 charges, dividend payable and loans payable are classified as financial liabilities held for trading and are measured at fair value; and related party loans and royalty debentures are classified as other financial liabilities and are initially measured at fair value and subsequently measured at amortized cost using the effective interest method.

The carrying amount of cash, accounts receivable, accounts payable and accrued charges, and dividend payable approximates fair value due to the short-term nature of these financial instruments.

The carrying amount of loans payable, related party loans and royalty debentures approximates fair value of these financial instruments due to their terms.

Capital Disclosures

The Company's capital structure is comprised of interest bearing debt, a royalty debenture and shareholder's equity. There are no restrictions on the Company's capital. In order to maintain and adjust its capital structure, the Company may issue share capital, issue new debt and refinance existing debt.

The Company's objectives when managing capital are to ensure operation as a going concern in order to manufacture and sell its products to its customers while providing an adequate return to its shareholders and other stakeholders.

The Company meets its objectives for managing capital through preparation of detailed, annual budgets and the monitoring of financial performance. The Company reviews ongoing cash flow and monitors very closely its receivables and payables. Capital management objectives remain unchanged from 2008.

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 distributes Zafety Lug Lock[™], an innovative, new product that uses the resistance between wheel nuts to minimize their ability to rotate and loosen, reducing the risk of wheel damage or wheel loss.

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 Inc. distributes the Zafety Lug Lock product under a non-exclusive distribution arrangement with Tafcan Consulting Ltd.

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, 2009.

QUARTERLY DATA

Canadian Dollars	Three month period ending:							
	June 30, 2009	March 31, 2009	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007	September 30, 2007
Revenue	194,703	188,647	128,275	203,641	239,886	260,689	253,416	184,731
Gross Profit	117,266	97,692	47,831	76,010	135,385	137,544	68,115	107,543
SG&A Expenses	201,478	140,585	193,073	208,696	309,907	293,810	406,655	227,894
Debt settlement						11,610	1,234,122	
Debt value adjustment	(41,465)	(27,165)	(75,269)	(29,634)	(31,652)	(24,241)		
Income (loss) for the period	(125,677)	(70,058)	(220,511)	(162,320)	(206,174)	(168,897)	795,765	(121,696)
Loss per share (basic & diluted)	(.003)	(.001)	(.005)	(.003)	(.004)	(.003)	.019	(.003)

Seasonality:

It is becoming difficult to predict the seasonality of sales as trends are now positively impacted by the result of new sales programs and an expanding customer, which would distort any meaningful comparison. Seasonality forecasting is further complicated by the current economic downturn.

Results of operations**Revenues:****Three months ended June 30, 2009**

Revenue for the three months ended June 30, 2009 decreased by 19% to \$194,703 compared to revenue of \$239,886 for the three-month period ended June 30, 2008. This decrease in revenue is attributable to a combination of factors. Sales of the Brake Safe[®] product were down 19% from sales in 2008, sales of Brake Inspector[®] were down 28% from sales in 2008 and sales of Termin-8R[®] were down 34% from sales in 2008.

During the three-month period ended June 30, 2009, Brake Safe[®] revenues were \$30,874 lower than the same period in 2008, Brake Inspector[®] sales were \$11,137 lower and sales of Termin-8R[®] were lower by \$11,545. Also in 2009, sales of the new product Zafety Lug Lock[™] contributed \$3,417. There were no comparative sales in 2008.

Six months ended June 30, 2009

Revenue for the six months ended June 30, 2009 decreased by 23% to \$383,350 compared to revenue of \$500,575 for the six-month period ended June 30, 2008. This decrease in revenue is attributable to a combination of factors. Sales of the Brake Safe[®] product were down 30% from sales in 2008, sales of Brake Inspector[®] were down 35% from sales in 2008 and sales of Termin-8R[®] were up 3% from sales in 2008.

During the six-month period ended June 30, 2009, Brake Safe[®] revenues were \$96,874 lower than the same period in 2008, Brake Inspector[®] sales were \$33,907 lower and sales of Termin-8R[®] were higher by \$2,350. Also in 2009, sales of the new product Zafety Lug Lock[™] contributed \$6,199. There were no comparative sales in 2008.

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.

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. Termin-8R[®] has a small customer base and accordingly quarterly sales will fluctuate depending on the timing of existing and new customer orders. In the first quarter of 2009, the Company introduced a private label brand that produced a corresponding increase in sales.

Gross profit:

Three months ended June 30, 2009

Gross profit decreased by \$18,119 for the three months ended June 30, 2009 to \$117,266 or 60 percent of revenue from \$135,385 or 56 percent of revenue for the three months ended June 30, 2008.

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.

Six months ended June 30, 2009

Gross profit decreased by \$57,971 for the six months ended June 30, 2009 to \$214,958 or 56 percent of revenue from \$272,929 or 54 percent of revenue for the six months ended June 30, 2008.

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 June 30, 2009

Total operating expenses before interest expense, accretion of discount on debt and amortization charges decreased by \$121,169 to \$161,888 for the three months ending June 30, 2009 from \$283,057 for the three months ended June 30, 2008.

Management fees and salaries were \$63,543 for the three months ending June 30, 2009 compared to \$118,303 expensed in 2008. During 2008 management waived payment of a portion of management fees and salaries and instituted a temporary reduction in fees and salaries payable.

Consultant fees for the three-month period ended June 30, 2009 were \$6,000, compared to \$30,000 expensed in 2008. This reduction is due to a renegotiation of the consulting contract with the developer of Brake Inspector[®] and the modification of a contract with a sales consultant.

Commissions for the three-month period ended June 30, 2009 were \$14,465, compared to \$14,756 expensed in 2008.

Travel and courier expenses for the three-month period ended June 30, 2009, were \$2,133 a decrease from the equivalent period in 2008 of \$8,033. The lower cost was a result of reductions in travel allowances paid to various personnel as well as lower travel activity in response to the economic slow down.

Advertising and promotion expenses for the three-month period ended June 30, 2009, were \$8,696 a decrease from the equivalent period in 2008 of \$13,200. The lower cost was directly a result of reductions in activity in response to the economic slow down.

Professional fees for the three-month period ended June 30, 2009, were \$14,970, a decrease in fees from the equivalent period in 2008 of \$14,349.

Premises cost for the three-month period ended June 30, 2009, was \$12,794 a decrease from the equivalent period in 2008 of \$1,805. The lower cost resulted from the negotiation of a new lease with the landlord.

The bad debt recovery was the result of recovery of inventory from a customer that had not paid and from other receivables, prudently provided for in 2008, but now recovered in full.

Office and general costs for the three-month period ended June 30, 2009 were \$8,559, a decrease of \$3,034 from the equivalent period in 2008.

Interest expense

Interest charges for the three months ended June 30, 2009 were \$28,422 compared to \$14,810 during the same period in 2008. The increase was primarily due to additional loan advances obtained from Dynamic Ventures Opportunities Fund during 2008.

Amortization

Amortization of capital assets and other assets totaled \$11,168 for the three-month period ending June 30, 2009 compared to \$12,042 for the same period in 2008.

Six months ended June 30, 2009

Total operating expenses before interest expense, accretion of discount on debt and amortization charges decreased by \$289,458 to \$266,927 for the six months ending June 30, 2009 from \$556,385 for the six months ended June 30, 2008.

Management fees and salaries were \$101,502 for the six months ending June 30, 2009 compared to \$228,202 expensed in 2008. During 2008 management waived payment of a portion of management fees and salaries and instituted a temporary reduction in fees and salaries payable.

Consultant fees for the six-month period ended June 30, 2009 were \$12,000, compared to \$58,000 expensed in 2008. This reduction is due to a renegotiation of the consulting contract with the developer of Brake Inspector[®] and the modification of a contract with a sales consultant.

Commissions for the six-month period ended June 30, 2009 were \$26,274, compared to \$32,978 expensed in 2008.

Travel and courier expenses for the six-month period ended June 30, 2009, were \$7,757 a decrease from the equivalent period in 2008 of \$14,505. The lower cost was a result of reductions in travel allowances paid to various personnel as well as lower travel activity in response to the economic slow down.

Advertising and promotion expenses for the six-month period ended June 30, 2009, were \$11,238 a decrease from the equivalent period in 2008 of \$24,218. The lower cost was directly a result of reductions in activity in response to the economic slow down.

Professional fees for the six-month period ended June 30, 2009, were \$31,449, a decrease in fees from the equivalent period in 2008 of \$28,098.

Premises cost for the six-month period ended June 30, 2009, was \$22,855 a decrease from the equivalent period in 2008 of \$7,543. The lower cost resulted from the negotiation of a new lease with the landlord.

The bad debt recovery was the result of recovery of inventory from a customer that had not paid and from other receivables, prudently provided for in 2008, but now recovered in full.

Office and general costs for the six-month period ended June 30, 2009 were \$17,423, a decrease of \$5,461 from the equivalent period in 2008.

Interest expense

Interest charges for the six months ended June 30, 2009 were \$55,118 compared to \$23,785 during the same period in 2008. The increase was primarily due to additional loan advances obtained from Dynamic Ventures Opportunities Fund during 2008.

Amortization

Amortization of capital assets and other assets totaled \$20,018 for the six-month period ending June 30, 2009 compared to \$23,549 for the same period in 2008.

Net loss:

Three months ended June 30, 2009

Net loss, before unusual items, for the three months ended June 30, 2009 was \$125,677 or \$0.003 per share basic and fully diluted compared to \$206,174 or \$0.004 per share basic and fully diluted for the three months ending June 30, 2008.

Six months ended June, 2009

Net loss, before unusual items, for the six months ended June 30, 2009 was \$195,735 or \$0.004 per share basic and fully diluted compared to \$375,071 or \$0.008 per share basic fully diluted for the six months ending June 30, 2008.

The Company forecasts a return to profitability upon successful implementation of its five year business plan as it 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 as is Safety Lug Lock.

Balance sheet:

Total assets

Total assets as at June 30, 2009 were \$507,728 compared to \$592,961 as at December 31, 2008.

Total liabilities

Total liabilities as at June 30, 2009 were \$2,759,814 compared to \$2,626,812 as at December 31, 2008.

Liquidity and cash flow

Three months ended June 30, 2009

During the three-month period ending June 30, 2009, the Company used \$8,697 in operating activities compared to using \$195,665 in operations during the same period in 2008. During the period, the Company used \$1,600 to increase equipment and intangible assets and repaid \$4,172 of related party debt. During the quarter the Company also received additional loan advances of \$10,000, all resulting in a net decrease in cash resources of \$4,469 and net cash balance at the end of the period of \$15,208. During the equivalent period in 2008, the Company showed a net increase in cash resources of \$88,958 and net cash balances of \$55,455 at the end of the period.

Six months ended June 30, 2009

During the six-month period ending June 30, 2009, the Company used \$85,742 in operating activities compared to using \$294,833 in operations during the same period in 2008. During the period, the Company used \$4,160 to increase equipment and intangible assets and repaid \$14,848 of related party debt. During the quarter the Company also received additional loan advances of \$90,500, all resulting in a net decrease in cash resources of \$14,250 and net cash balance at the end of the period of \$15,208. During the equivalent period in 2008, the Company showed a net decrease in cash resources of \$28,547 and net cash balances of \$55,455 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, 2009 of \$7,257,590 compared to an accumulated deficit of \$7,039,355 as at December 31, 2008. The Company has a working capital deficiency of \$1,027,348 as at June 30, 2009 compared to a deficiency of \$817,456 at December 31, 2008. 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 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 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 June 30, 2009, the Company had related party loans totaling \$20,000.

During the three months and six months ended June 30, 2009, management fees and salaries totaling \$13,846 and \$49,059 respectively were paid to executives who were directors and shareholders or to companies controlled by them.

During the three months and six months ended June 30, 2009, consulting fees of \$6,000 and \$12,000 respectively and royalties of \$1,457 and \$2,754 respectively were paid to a company owned by a director.

Off balance sheet arrangements

As at June 30, 2009, 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, 2009, there were 49,881,837 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, 2009, there were 2,200,000 outstanding options to acquire common shares. These options were held by directors, officers, employees and consultants.

Warrants

As at June 30, 2009, there were no outstanding warrants to acquire common shares.

OUTLOOK:

The Company continues to focus its efforts on expanding the present market for its products while introducing those products into new markets.

The Company's Brake Safe[®] product is well established in the Canadian market and inroads are now being made into the lucrative American market. 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's Termin-8R[®] product continues to receive strong industry acceptance with a corresponding growth in sales to the transportation segment. In 2009 it is the Company's goal to further expand the product's acceptability and also to enter into private label arrangements.

The Brake Inspector[®] product is well accepted and the product of choice to the many transportation companies to whom presentations have been made. Given the current economic downturn and the resulting restrictions on operating budgets, these fleets are expected to outfit their vehicles with Brake Inspector[®] at a reduced pace. Brake Inspector[®] is well positioned to take advantage of these sales opportunities when the North American economy recovers.

Zafety Lug Lock, the Company's newest product is being introduced to both the Canadian and American markets and initial reactions have been very positive.

The Company continues to seek sufficient 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.

Until such time as present market conditions improve, the company has introduced cost-saving measures to reduce overhead and improve cash flow.

FORWARD LOOKING STATEMENTS

The preceding MD&A provides a summary of the interim, unaudited, 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.