

**Spectra Inc.**

**Management Discussion and Analysis**

**Second Quarter Ending June 30, 2008**

August 28, 2008

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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, 2008. 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.

Change in Accounting Policies:

- i) On January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3855, Financial Instruments – Recognition and Measurement; CICA Handbook Section 1506, Accounting Changes; CICA Handbook Section 3865, Hedges; and CICA Handbook Section 1530, Comprehensive Income. Reference should be made to the audited annual financial statements for the period ending December 31, 2007 for further information and impact on the consolidated financial statements of adopting these standards.
- ii) Effective January 1, 2008, the Company has adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862, Financial Instruments – Disclosures, CICA Handbook Section 3863, Financial Instruments – Presentation, and CICA Handbook Section 1535, Capital Disclosures.

Handbook Section 3862, Financial Instruments – Disclosures and Handbook Section 3863, Financial Instruments – Presentation, establish standards for disclosures about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with the financial instruments and for presentation of financial instrument and non-financial derivatives. These new standards supersede Handbook Section 3861. These new standards relate to disclosure only and did not have an impact on the financial results of the Company.

Handbook Section 1535, Capital Disclosures, requires an entity to disclose information to enable users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. This new standard relates to disclosure only and did not have an impact on the financial results of the Company.

**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 2007.

**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:

	<b>As at June 30, 2008</b>
Current assets	\$ 30,706
Revenue	\$ 39,705
Expenses	\$ 1,000

**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, 2008, the Company had \$30,706 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 \$4,071 decrease or increase, respectively, to the Company's loss before income taxes for the period ended June 30, 2008.

**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, 2008, one customer (December 31, 2007-nil) accounted for 14% of the Company's total trade receivables and one customer (December 31, 2007-one, 11%) accounted for 11% of the total trade receivables:

	<b>As at June 30, 2008</b>	<b>As at December 31, 2007</b>
1-30 days	74,170	26,062
31-60 days	29,822	82,808
60+ days	8,514	41,367
Total trade receivables	112,506	150,217
Impairment allowance	nil	nil
Net trade receivables	112,506	150,217
Other receivables	8,226	15,202
Total receivables	120,732	165,419

At June 30, 2008, one customer accounted for 19% of the Company's revenue (December 31, 2007, one customer, 16% 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 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 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 liabilities 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 2007.

## **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, 2008.

#### QUARTERLY DATA

Canadian Dollars	Three month period ending:							
	June 30, 2008	March 31, 2008	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007	December 31, 2006	September 30, 2006
Revenue	239,886	260,689	253,416	184,731	150,911	204,763	182,700	207,369
Gross Profit	135,385	137,544	68,115	107,543	57,661	125,399	88,004	126,241
SG&A Expenses	309,907	293,810	406,655	227,894	460,224	196,267	344,148	136,504
Debt settlement		11,610	1,234,122					
Debt value adj	(31,652)	(24,241)						
Income for the period	(206,174)	(168,897)	795,765	(121,696)	(402,563)	(70,868)	(258,401)	(10,263)
Loss per share (basic & diluted)	(.004)	(.003)	.019	(.003)	(.009)	(.002)	(.007)	(.000)

#### Seasonality:

In 2007, 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 accounted for approximately 32 percent of total sales.

## Results of Operations

### Revenues:

#### Three months ended June 30, 2008

Revenue for the three months ended June 30, 2008 increased by 59% to \$239,886 compared to revenue of \$150,911 for the three month period ended June 30, 2007. The increase in revenue is attributable to increased sales of the Brake Safe<sup>®</sup> product, up 44 percent over sales in 2007, increased Brake Inspector<sup>®</sup> sales, up 667 percent over 2007 and sales of Termin-8r<sup>®</sup>, 84 percent higher than the same period in 2007.

During the three month period ended June 30, 2008, Brake Safe<sup>®</sup> revenues were \$47,824 more than the same period in 2007. The increase resulted from a general increase in purchases from the Company's distribution network in Canada and specifically its largest Toronto based distributor as well as an increase in the number of Brake Safe<sup>®</sup> customers.

Brake Inspector<sup>®</sup> sales during the three month period ending June 30, 2008 were higher than the same period in 2007 by \$36,639 or 667 percent. The introduction of the digital version of Brake Inspector<sup>®</sup> and the increased sales effort has allowed the company to

introduce this new product into the marketplace and as a result has improved sales performance.

Termin-8r<sup>®</sup> sales in the three month period ending June 30, 2008 increased from the equivalent period in 2007 by \$9,773 or 84 percent. An increase in our sales force has allowed stronger market penetration for Termin-8r<sup>®</sup> and as a result we have seen a good sales increase.

### **Six months ended June 30, 2008**

Revenue for the six months ended June 30, 2008 increased by 41% to \$500,575 compared to revenue of \$354,534 for the six month period ended June 30, 2007. Brake Safe<sup>®</sup> product sales accounted for 43 percent of the sales increase while Brake Inspector<sup>®</sup> sales and sales of Termin-8r<sup>®</sup>, accounted for 35 percent and 22 percent of the increase 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 still in the early stage of product introduction and has a small, but increasing 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 is currently in beta trials on its truck-trailer system utilizing a digital, PLC based transmission of brake data. This additional product line is expected to generate sales growth commencing in 2009.

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 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, 2008**

Gross profit increased by \$77,724 for the three months ended June 30, 2008 to \$135,385 or 56 percent of revenue from \$57,661 or 38 percent of revenue for the three months ended June 30, 2007. The increase in gross profit as a percent of revenues is attributable to the \$22,921 write off during the 2007 period of obsolete Brake Inspector<sup>®</sup> product that had 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, 2008**

Gross profit increased by \$90,947 for the six months ended June 30, 2008 to \$272,929 or 55 percent of revenue from \$181,982 or 51 percent of revenue for the six months ended June 30, 2007.

**Expenses:****Operating Expenses****Three months ended June 30, 2008**

Total operating expenses before interest expense and amortization charges decreased by \$152,919 to \$280,105 for the three months ending June 30, 2008 compared to \$433,024 for the three months ended June 30, 2007. The main reasons for the decrease was, that in 2007, professional fees were high due to financing activities and there was a stock based compensation charge of \$99,087. There was no stock based compensation charge in 2008.

Professional fees for the three month period ended June 30, 2008 were \$29,282, a decrease in fees from the equivalent period in 2007 of \$61,430. These were decreased mainly because, in 2007, the Company incurred 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. There was no such expense in 2008

Management fees and salaries for the three month period ended June 30, 2008 were \$108,715, an increase in fees from the equivalent period in 2007 of \$4,083.

There was no stock based compensation expense for the three month period ended June 30, 2008 compared to \$99,087 during the equivalent period in 2007.

Office and general expenses for the three months ending June 30, 2008 were \$18,834 compared to \$35,711 in the same period in 2007.

Premises (rent) expenses for the three months ending June 30, 2008 were \$14,598 compared to \$14,452 in the same period in 2007.

Selling expenses for the three months ending June 30, 2008 were \$19,045 or \$1,214 higher than the same period in 2007.

Royalty debenture expense in the quarter in 2008 was the \$18,750 minimum quarterly payment as it was in the same period in 2007.

Consultant fees for the three month period ended June 30, 2008 were \$12,000, the same as for the equivalent period in 2007.

Commissions on product sales for the three month period ended June 30, 2008 were \$14,756, an increase of \$9,692 compared to the equivalent period in 2007. Increased commissions reflect increased sales during the period.

**Six months ended June 30, 2008**

Total operating expenses before interest expense and amortization charges decreased by \$54,516 to \$552,192 for the six months ending June 30, 2008 from \$606,708 for the six months ended June 30, 2007. 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, 2008 were \$57,250, a decrease in fees from the equivalent period in 2007 of \$104,193. These were decreased mainly because, in 2007, the Company incurred 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. There was no such expense in 2008

Management fees and salaries for the six month period ended June 30, 2008 were \$210,568, an increase in fees from the equivalent period in 2007 of \$154,632. 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 in the second quarter of 2007.

There was no stock based compensation for the six month period ended June 30, 2008 compared to \$99,087 during the equivalent period in 2007.

Office and general expenses for the six months ending June 30, 2008 were \$39,403 compared to \$51,041 in the same period in 2007.

Premises (rent) expenses for the six months ending June 30, 2008 were \$30,397 compared to \$30,482 in the same period in 2007.

Public relations expenses for the six months ending June 30, 2008 were \$2,295 compared to \$25,000 in the same period in 2007.

Selling expenses for the six months ending June 30, 2008 were \$43,608 or \$11,444 higher than the same period in 2007. This was a result of increased sales efforts which in turn has resulted in the increased sales.

Royalty debenture expense of \$38,302 in the six months ending June 30, 2008 exceeded the minimum quarterly payment in 2007 by \$802, due to increased revenues relative to the same period in 2007.

Consultant fees for the six month period ended June 30, 2008 were \$24,000, the same as in the equivalent period in 2007.

Commissions on product sales for the six month period ended June 30, 2008 were \$10,991 compared to \$10,557 during the equivalent period in 2006.

### **Interest Expense**

Interest expense for the three months ended June 30, 2008 was \$17,761 compared to \$13,631 during the same period in 2007. Year to date interest charges for the six months ended June 30, 2008 were \$27,977 compared to \$28,549 during the same period in 2007.

### **Amortization**

Amortization of capital assets and other assets totaled \$12,041 for the three month period ending June 30, 2008 compared to \$13,569 for the same period in 2007. For the six months ended June 30, 2008 amortization of capital assets and other assets was \$23,548 compared to \$20,156 during the same period in 2007.

### **Net Loss**

#### **Three months ended June 30, 2008**

Net loss for the three months ended June 30, 2008 was \$206,174 or \$0.004 per share basic and fully diluted compared to \$400,652 or \$0.009 per share basic and fully diluted for the three months ending June 30, 2007.

#### **Six months ended June 30, 2008**

Net Loss for the six months ended June 30, 2008 was \$375,071 or \$0.008 per share basic and fully diluted compared to \$471,520 or \$0.010 per share basic and fully diluted for the six months ending June 30, 2007.

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 as at June 30, 2008 were \$728,137 compared to \$678,044 as at December 31, 2007.

#### **Total Liabilities**

Total liabilities as at June 30, 2008 were \$2,529,157 compared to \$2,103,993 as at December 31, 2007.

## **Liquidity and Cash Flow**

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

During the three-month period ending June 30, 2008, the Company used \$195,665 in operating activities compared to \$521,262 during the same period in 2007. During the period, the Company received \$293,749 from financing activities comprised of new loan advances of \$300,000 and loan repayments of \$6,251. The Company used \$9,126 to increase equipment and intangible assets during the period resulting in a net increase in cash resources of \$88,958 and net cash resources balance at the end of the period of \$55,455. During the equivalent period in 2007, the Company showed a net increase in cash resources of \$400,142 and net cash resources balance of \$435,424 at the end of the period.

### **Six months ended June 30, 2008**

During the six month period ending June 30, 2008, the Company used \$294,833 in operating activities compared to \$642,481 during the same period in 2007. During the period, the Company received \$281,812 from financing activities comprised of \$300,000 in new loan advances and loan repayments of \$18,188. The Company used \$15,526 to increase equipment and intangible assets during the period resulting in a net decrease in cash resources of \$28,547 and net cash resources balance at the end of the period of \$55,455. During the equivalent period in 2007, the Company showed a net increase in cash resources of \$427,540 and net cash resources balance of \$435,424 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, 2008 of \$6,656,524 compared to an accumulated deficit of \$6,281,453 at December 31, 2007. The Company has a working capital deficiency of \$610,684 at June 30, 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. Spectra Products Inc received gross proceeds of \$300,000 from the Dynamic Venture Opportunities Fund.

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, 2008, the Company had accounts payable to two officers and directors, Michael Faye and Andrew Malion, totaling \$2,041 and shareholder loans to Michael Faye and Andrew Malion totaling \$39,136.

### **Off Balance Sheet Arrangements**

As at June 30, 2008, 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, 2008, 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.

### **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, 2008, there were 2,575,000 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 4,843,910 warrants outstanding as at June 30, 2008. During the three months ended June 30, 2008, 1,570,000 warrants expired.

## **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 will seek additional funds, as needed, 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.