

Spectra Inc.

Management Discussion and Analysis

Annual and Fourth Quarter Ending December 31, 2008

April 29, 2009

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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, 2008. 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. This MD&A is written as of April 29, 2009.

Description of Business

Spectra Inc., (the “Company”), 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. The Company has recently added a new product, Zafety Lug Lock that prevents wheel-end lug nuts from loosening leading to wheel damage or wheel loss.

The Company manufactures its Brake Safe[®] and Brake Inspector[®] products utilizing sub-contract suppliers 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. The Company distributes Zafety Lug Lock under a non-exclusive distribution arrangement with Tafcan Consulting Ltd.

The Company’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

Internal Controls

The accompanying consolidated financial statements of the Company and all information in this report have been prepared by management, reviewed by the Company’s auditor, SF Partnership, LLP and approved by the Board of Directors of the Company. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management’s best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality. Financial and operating data elsewhere in this report are consistent with the information contained in the consolidated financial statements.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that its assets are safeguarded, that only valid and authorized transactions are executed, and that accurate, timely and comprehensive financial information is prepared.

The Board of Directors carries out its responsibility for the financial statements in this quarterly report principally through its Audit Committee. Members of the Audit Committee are independent, non-management directors and all members of the Audit Committee are appointed by the Board of Directors. The Audit Committee meets with management and the external auditors to discuss the results of the annual audit examinations with respect to the adequacy of internal accounting controls and to review and discuss the consolidated financial statements and financial reporting matters.

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, 2008, 2007, 2006 and 2005:

ANNUAL DATA

OPERATIONS:

Canadian dollars	2008	2007	2006 (restated)	2005 (restated)
Total revenue	\$ 844,101	\$ 793,821	\$ 806,390	\$ 713,009
Gross profit	\$ 408,380	\$ 358,718	\$ 426,916	\$ 389,575
Net (loss) income before taxes	\$ (757,902)	\$ 200,638	\$ (484,298)	\$ (511,922)
Net (loss) income	\$ (757,902)	\$ 200,638	\$ (484,298)	\$ (511,922)
Cash flow from operations	\$(581,077)	\$(1,082,448)	\$(20,757)	\$ 49,810
Basic (loss) earnings per share	\$ (0.02)	\$ 0.00	\$ (0.01)	\$ (0.01)
Diluted (loss) earnings per share	\$ (0.02)	\$ 0.00	\$ (0.01)	\$ (0.01)

FINANCIAL POSITION:

Canadian dollars	2008	2007	2006 (restated)	2005 (restated)
Total assets	\$ 592,961	\$ 678,044	\$ 463,419	\$ 597,237
Total long-term liabilities	\$ 1,339,483	\$ 1,289,855	\$ 1,048,560	\$ 1,133,878
Shareholders deficiency	\$(2,033,851)	\$(1,425,949)	\$(2,040,956)	\$(1,730,448)

Results of Operations

Revenue

Twelve months ended December 31, 2008

Revenue for the twelve months ended December 31, 2008 increased by 6.33 percent to \$844,101 compared to revenue of \$793,821 for the twelve-month period ended December 31, 2007. The increase in revenue is attributable to increased sales of Brake Safe[®] and Termin-8r[®] offset by decreased sales of Brake Inspector[®] and decreased licensing fees.

Brake Safe[®] revenue increased by 10 percent over the preceding year to \$523,310 mainly due to a 9 percent increase in unit sales.

Brake Inspector[®] revenue totaled \$151,410, a decrease of 17 percent from 2007 sales and, in 2008, unit sales decreased by 24 percent. This decrease was mainly in the last quarter, during which 50 units, purchased in 2007, were returned as the distributor reduced its inventory levels, in turn a result of the substantial downturn in the economy.

Termin-8r[®] revenue totaled \$116,471 in 2008, an increase of 25 percent over the same period in 2007 reflecting increased use by fleet customers. Unit sales increased by 31 percent. The Company plans to expand its sales efforts in 2009 through introduction of private branded labeling and the continuation of marketing programs designed to get additional fleet trials of the product and build awareness of the superior features of Termin-8r[®].

Licensing revenue for the twelve-month period ending December 31, 2008 generated \$4,078 compared to \$10,980 in 2007. The Company entered into a licensing arrangement for its sensor technology whereby the licensee pays a licensing fee to the Company for every sensor it integrates and sells with its remote vehicle monitoring system.

Gross Profit

Twelve months ended December 31, 2008

Gross profit increased by \$49,662 for the twelve months ended December 31, 2008 to \$408,380 or 48 percent of revenue from \$358,718 or 45 percent of revenue for the twelve months ended December 31, 2007. The increase in gross profit as a percent of revenue in 2008 is attributable to the strong increase in sales of Termin-8r[®] and the good margin enjoyed on those sales.

Gross profit margins will vary depending on the mix of product sales within the Brake Safe[®], Brake Inspector[®], Termin-8r[®] and Zafety Lug Lock 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, 2008

Operating Expenses

Total operating expenses before interest expense, accretion of discount on debt and amortization charges decreased by \$289,022 to \$892,612 for the twelve months ending December 31, 2008 from \$1,181,634 for the twelve months ending December 31, 2007.

Office and general costs for the twelve months ending December 31, 2008 were \$52,999 nominally higher than the equivalent period in 2007.

Consultant fees for the twelve months ending December 31, 2008 were \$98,500 representing an increase of \$35,000 from the equivalent period in 2007. The increase reflected the inclusion in 2008 of consulting fees paid to a sales consultant.

Professional fees (legal, audit, accounting and trustee fees), for the twelve months ending December 31, 2008 were \$76,453, a decrease of \$169,845 from the equivalent period in 2007 of \$246,298. Legal and audit fees were much higher in 2007 as a result of various matters that included the financing which was completed in the second quarter of 2007 and the settlement of claims for management fees and the negotiation of new distributorship agreements in the last quarter of 2007.

Management fees and salaries for the twelve months ending December 31, 2008 were \$326,132 compared to \$496,187 for the equivalent period in 2007. This reduction was due, in part, to the company's new policy of reducing base fees paid to sales personnel but increasing the commission percentages paid on sales and also to two amounts included in 2007 for which there was no comparable amount in 2008. In 2007, these were \$68,906 of stock-based compensation and an expense that was the result of an audit from the Canada Revenue Agency resulting in an assessment for additional Canada Pension Plan contributions.

Royalty debenture expense and royalty fees for twelve months ending December 31, 2008 totaled \$81,726, a decrease of \$1,126 over \$82,852 in 2007. This was primarily a result of lower sales of the Brake Inspector product.

Selling expenses for the twelve months ending December 31, 2008 were \$54,666, a slight decrease of \$3,794 compared to \$58,460 for the same period in 2007.

Commissions for the twelve months ending December 31, 2008 were \$40,468, an increase of \$8,008 from the equivalent period in 2007. This reflected the company's new policy of reducing base fees paid to sales personnel but increasing the commission percentages paid on sales.

Premises cost for the twelve months ending December 31, 2008 was \$59,969, an increase of \$748 compared \$59,221 in 2007. Premises cost increases were primarily due to increased realty taxes.

Interest

Interest charges for the twelve months ended December 31, 2008 were \$80,224 compared to \$42,988 during the same period in 2007. The increase was primarily due to the cost of short-term loans that were negotiated and funded throughout 2008.

Amortization

For the twelve months ended December 31, 2008 amortization of equipment and intangible assets totaled \$32,650 compared to \$75,074 during the same period in 2007.

Debt settlement

In 2007, key executives, who are shareholders and directors of the company, waived their claims to management fees and interest previously accrued and owing to them. In total these amounted to \$1,200,014. In addition the company settled a \$34,108 claim for fees from a third party.

Net (loss) income

Twelve months ended December 31, 2008

The net loss for the twelve months ended December 31, 2008 was \$757,902 or \$0.02 per share basic and fully diluted compared to income of \$200,638 or \$0.00 per share basic and fully diluted for the twelve months ended December 31, 2007. The large negative change in results was, to a great extent, due to the non-recurring debt settlement of \$1,234,122 achieved in 2007.

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.

Liquidity and Cash Flow

Twelve months ended December 31, 2008

For the twelve months ended December 31, 2008, the Company used \$581,077 in operating activities compared to \$1,082,448 in 2007. Non-cash items during the twelve months contributed \$193,446 compared to using \$997,636 in 2007. During the year, the Company reduced the Dynamic Venture Opportunities Fund debenture by \$12,767. The Company used \$10,492 to increase intangible assets. These resulted in a net decrease in cash resources of \$54,544 and a cash resources balance at the end of the period of \$29,458. During the equivalent twelve-month period in 2007 the Company showed a net increase in cash resources of \$76,117 and a cash resources balance at the end of the year of \$84,002.

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, 2008 of \$7,039,355 compared to an accumulated deficit of \$6,281,453 for the same period in 2007. The Company has a working capital 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 plans to seek 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[®], Termin-8r[®] and Zafety Lug Lock 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, 2008.

QUARTERLY DATA

Canadian Dollars	Three month period ending:							
	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007
Revenue	128,275	203,641	239,886	260,689	253,416	184,731	150,911	204,763
Gross Profit	47,831	76,010	135,385	137,544	68,115	107,543	57,661	125,399
SG&A expenses	193,073	208,696	309,907	293,810	406,655	227,894	460,224	196,267
Debt settlements				11,610	1,234,122			
Debt value adjustment	(75,269)	(29,634)	(31,652)	(24,241)				
Income for the period	(220,511)	(162,320)	(206,174)	(168,897)	795,765	(121,696)	(402,563)	(70,868)
Income (loss) per share (basic and diluted)	(.005)	(.003)	(.004)	(.003)	.019	(.003)	(.009)	(.002)

Seasonality:

The marginal sales trends experienced in previous years, no longer apply to the marketplace in which our products were sold in 2008. The greater variance on quarter-to-quarter sales was a result of the ongoing deepening impact of the global economic downturn.

Results of Operations

Revenue:

Three months ended December 31, 2008

Revenue for the three months ended December 31, 2008 decreased by 49 percent to \$128,275 compared to revenue of \$253,416 for the three-month period ended December 31, 2007. The quarterly decrease in revenue is attributable to decreases in sales in all product lines as the impact of the economic downturn was felt. The product line that had the biggest decrease was Brake Inspector, where, again as a result of the downturn in the economy of the transportation sector, returns from distributors of previously purchased product exceeded new sales.

Brake Inspector[®] had negative sales in the quarter of \$10,472 as a result of product return from over-stocked distributors. This was a decrease of \$107,498 from the sales in the corresponding quarter in 2007 as newly signed distributors commenced the stocking digital system. Termin-8r[®] sales decreased by \$5,733 over the 2007 period and Brake Safe[®] sales declined by \$18,758 from the same period in 2007.

Gross Profit

Three months ended December 31, 2008

Gross profit decreased by \$20,284 for the three months ended December 31, 2008 to \$47,831 or 37 percent of revenue from \$68,115 or 27 percent of revenue for the three months ended December 31, 2007. The increase in gross profit as a percent of revenue in 2008 is attributable to the majority of sales in the quarter being sales of the Brake Safe product, which traditionally has returned the highest gross margin.

Expenses:

Three months ended December 31, 2008

Operating Expenses

Total operating expenses before interest expense and amortization charges decreased by \$191,245 to \$195,744 for the three months ending December 31, 2008 from \$386,989 during the three months ended December 31, 2007.

- Office and general costs, including insurance, totaled \$29,201 for the quarter, an increase from 2007 of \$3,819.
- Consultant fees of \$16,500 were \$4,500 more than 2007.
- Professional fees (legal, audit, accounting and trustee fees) for the three months ending December 31, 2008 totaled \$19,918, a decrease of \$66,301 from the equivalent period in 2007. This was due to fees in 2007 re the debt settlement in that year.
- Management fees and salaries of \$64,671 for the three months ending December 31, 2008 were \$115,910 less than the equivalent period in 2007. This was a result of a number of factors, including higher costs in 2007 as a result of an assessment by Canada Revenue Agency, following a Canada Pension Plan audit and, in 2008, negotiation of lower management fees and reduced salaries.
- Royalty fees for three months ending December 31, 2008 totaled \$18,322, a decrease of \$16,522 compared to 2007.
- As a result of product returns exceeding product sales, commissions for the three months ending December 31, 2008 were a credit of \$7,647 a decrease from the equivalent period in 2007 of \$23,776.
- Premises cost expense for the three months ending December 31, 2008 was \$15,183, an increase of \$540 compared to the same period in 2007. This was a result of higher realty taxes.

Interest

Interest expense for the three months ending December 31, 2008 was \$28,015 compared to \$59,214 during the same period in 2007. The decrease was primarily due to the cost of short-term loans that were negotiated and funded during the fourth quarter of 2008 and the elimination of the accretion of discount on the convertible preferred shares, which as

a result of accounting reclassifications, had been included with interest expense in 2007, but now is shown as a separate item.

Amortization

Amortization of equipment and intangible assets was a net credit of \$2,674 for the three-month period ending December 31, 2008 compared to \$37,168 for the same period in 2007. This was a result of adjusting amortization amounts charged in the first nine months of the year.

Net income

Three months ended December 31, 2008

The net loss for the three months ended December 31, 2008 was \$220,511 or \$0.005 per share basic and fully diluted compared to income of \$795,765 or \$0.019 per share basic and fully diluted for the three months ending December 31, 2007.

Balance Sheet:

Total Assets

Total assets as at December 31, 2008 were \$592,961 a decrease of 13 percent from \$678,044 as at December 31, 2007.

Total Liabilities

Total liabilities as December 31, 2008 were \$2,626,812, an increase of 25 percent from \$2,103,993 as at December 31, 2007. This increase in liabilities primarily resulted from an increase in loans payable.

Liquidity and Cash Flow

Three months ended December 31, 2008

During the three-month period ending December 31, 2008, the Company used \$156,395 in operating activities compared to \$526,570 used in operations during the same period in 2007. Non-cash items contributed \$72,595 for the period compared to \$606,996 used for the three months ended December 31, 2007. During the period, the Company reduced the long-term Dynamic Venture Opportunities Fund debenture by \$6,250. This resulted in a net decrease in cash resources of \$16,211 and a cash resources balance at the end of the period of \$29,458. During the equivalent period in 2007, the Company showed a net reduction in cash resources of \$28,759 and a cash resources balance of \$84,002 at the end of the period.

Related Party Transactions

During the year ended December 31, 2007, key executives who are shareholders and directors waived a claim for accrued management fees and interest totaling \$1,200,014. This substantially reduced the amount of loans payable to these shareholders. As at December 31, 2008 loans payable to shareholders had been reduced to \$14,848.

During the year ended December 31, 2008, management fees totaling \$132,000 were paid to executives who were directors and shareholders or to companies controlled by them.

During the year ended December 31, 2008, consulting fees of \$48,000 and royalties of \$5,924 were paid to a company owned by a director.

Off Balance Sheet Arrangements

As at December 31, 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; an unlimited amount of first, second, third and fourth preferred shares and 540,000 second preferred shares, Series 1. As at December 31, 2008, 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. The Company is authorized to issue an unlimited number of common shares. The changes in the issued common shares of the Company during 2008 were as follows:

	Number of Shares	Dollar Value
Balance, December 31, 2007, as previously reported	46,881,837	\$4,632,486
Issued during the year		
Pursuant to a private placement ⁽¹⁾	3,000,000	150,000
Balance, December 31, 2008	49,881,837	\$ 4,782,486

(1) On July 17, 2008 the Company issued 3,000,000 common shares at a deemed price of \$0.05 per share to Dynamic Venture Opportunities Fund Ltd ("DVOF") pursuant to a \$750,000 loan arrangement with DVOF, a labour-sponsored venture capital fund.

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 fair value of stock based compensation is determined using the Black-Scholes option-pricing model. Compensation expense is recognized over the stock option vesting period with a corresponding charge to contributed surplus.

	Options Granted	Weighted Exercise Price	Grant Date Weighted Price
Balance December 31, 2007	3,025,000	0.10	0.06
Expired during the year	(475,000)	0.10	
Balance December 31, 2008	2,550,000	0.10	0.052

As at December 31, 2008, there were 2,550,000 outstanding options to acquire common shares (3,025,000 at the end of fiscal 2007). These options were held by directors, employees and consultants and were exercisable at any time during the remaining contractual life. 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
May 9, 2009	350,000	\$0.10	0.4 years
August 31, 2010	950,000	\$0.10	1.7 years
October 11, 2010	125,000	\$0.10	1.8 years
May 9, 2012	1,125,000	\$0.10	3.4 years

Warrants

On May 28, 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 27, 2009 for one common share of the Company at a price of \$0.10 per share. The Company has 4,745,000 warrants outstanding as at December 31, 2008.

DIVIDEND POLICY

The Company does not currently have a policy of declaring or paying dividends on its common shares and preference 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 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 audited 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.