

**SPECTRA INC.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**THREE MONTHS ENDED MARCH 31, 2008 AND 2007**

**RESTATED**

Canadian dollars

(Unaudited – See notice of no auditor review)

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, Subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited financial statements of Spectra Inc. 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 in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**SPECTRA INC.**

Consolidated balance sheets

March 31, 2008 and December 31, 2007

	<b>March31, 2008</b>	<b>Dec. 31 2007</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 0	\$ 84,002
Accounts receivable	141,393	165,419
Inventories (note 3)	317,236	263,746
Prepaid expenses	14,703	19,631
	<u>473,332</u>	532,798
<b>Equipment</b> (note 4)	69,431	71,206
<b>Intangible assets</b> (note 5)	74,348	74,040
	<u>\$ 617,111</u>	<u>\$ 678,044</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued charges	\$ 547,655	\$ 489,138
Bank overdraft	33,503	-
Loan payable (note 6)	300,000	300,000
Royalty debenture – current portion (note 8)	25,000	25,000
	<u>906,158</u>	814,138
<b>Related party loans</b> (note 7)	39,136	44,556
<b>Royalty debenture</b> (note 8)	519,894	523,251
<b>Convertible preferred shares</b> (note 9)	746,769	722,048
	<u>2,211,957</u>	<u>2,103,993</u>
<b>SHAREHOLDERS' DEFICIENCY</b>		
<b>Share capital</b> (note 10)	4,659,486	4,659,486
<b>Warrants</b> (note 10)	110,846	110,846
<b>Contributed surplus</b> (note 10)	85,172	85,172
<b>Deficit</b>	<u>(6,450,350)</u>	<u>(6,281,453)</u>
	<u>(1,594,846)</u>	<u>(1,425,949)</u>
	<u>\$ 617,111</u>	<u>\$ 678,044</u>

**Approved by the Board**

“Andrew Malion” \_\_\_\_\_ **Director**  
**Andrew Malion**

“Michael Faye” \_\_\_\_\_ **Director**  
**Michael Faye**

Prepared without audit  
See the accompanying notes

**SPECTRA INC.**

Consolidated statements of earnings (loss) and comprehensive income (loss) and deficit  
Three months ended March 31, 2008 and 2007

	2008	2007
<b>Sales</b>	<b>\$ 260,689</b>	\$ 204,763
<b>Cost of sales</b>	<b>123,145</b>	79,364
<b>Gross profit</b>	<b>137,544</b>	125,399
<b>Expenses</b>		
Management fees	61,000	50,000
Amortization	11,507	7,727
Professional fees	27,968	13,482
Royalty debenture expense	19,552	18,750
Labour costs	63,744	16,440
Office and general	20,569	13,734
Consulting	12,000	12,000
Rent	15,799	16,030
Interest on long-term debt	10,216	15,598
Selling expenses	24,563	15,367
Commission	18,222	6,831
Public relations	2,260	10,000
Royalty	2,304	0
Advertising and promotion	4,106	308
Stock-based compensation	0	0
	<b>293,810</b>	196,267
<b>Loss before undernoted</b>	<b>(156,266)</b>	(70,868)
<b>Debt carrying value adjustment</b>	<b>(24,241)</b>	
<b>Debt settlement</b>	<b>11,610</b>	0
<b>Net earnings (loss) and comprehensive income (loss)</b>	<b>(168,897)</b>	(70,868)
<b>Deficit - beginning of period</b>	<b>(6,281,453)</b>	(6,442,281)
<b>Debt carrying value adjustment</b>	<b>0</b>	31,821
<b>Deficit - end of period</b>	<b>\$ (6,450,350)</b>	\$ (6,481,328)
<b>Earnings (loss) per share - basic and diluted</b>	<b>\$ (0.003)</b>	\$ (0.002)
<b>Weighted average number of common shares</b>		
Outstanding during the period - basic and diluted	<b>46,881,837</b>	40,286,837

Prepared without audit  
See the accompanying notes

**SPECTRA INC.**Consolidated Statements of Cash Flows  
Three months ended March 31, 2008 and 2007

	2008	2007
<b>Cash flows from operating activities</b>		
Net earnings (loss)	\$ (168,897)	\$ (55,310)
Adjustments for non-cash items:		
Amortization	11,507	7,727
Loss on disposition of equipment	0	2,257
Interest paid, net		(15,558)
Debt settlement	(11,610)	-
Debt carrying value adjustment	24,241	-
	<u>(144,759)</u>	<u>(63,141)</u>
Changes in working capital:		
Accounts receivable	24,026	(8,019)
Inventories	(53,490)	(40,324)
Prepaid expenses	4,928	2,662
Accounts payable and accrued charges	70,127	(12,397)
	<u>(99,168)</u>	<u>(121,219)</u>
<b>Net cash used in operating activities</b>	<u>(99,168)</u>	<u>(121,219)</u>
<b>Cash flows used in investing activities</b>		
Equipment additions	(6,400)	-
Intangible assets additions		(13,910)
	<u>(6,400)</u>	<u>(13,910)</u>
<b>Net cash used in investing activities</b>	<u>(6,400)</u>	<u>(13,910)</u>
<b>Cash flows from (used in) financing activities</b>		
Issuance of common shares for cash	-	59,000
Loans proceeds (repayments)	(5,420)	103,527
Royalty debenture payments	(6,517)	-
	<u>(11,937)</u>	<u>162,527</u>
<b>Net cash provided by (used in) financing activities</b>	<u>(11,937)</u>	<u>162,527</u>
<b>Net increase (decrease) in cash</b>	<u>(117,505)</u>	<u>27,398</u>
<b>Cash - beginning of period</b>	<u>84,002</u>	<u>7,884</u>
<b>Cash (bank overdraft) - end of period</b>	<u>\$ (33,503)</u>	<u>\$ 35,282</u>
<b>Supplemental Information</b>		
Interest	<u>\$ 10,216</u>	<u>\$ 14,918</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Non-cash items		
Issuance of common shares to settle certain debts	<u>\$ 0</u>	<u>-</u>
Debt carrying value adjustment	<u>\$ 24,241</u>	<u>\$ -</u>
Stock options exercised	<u>\$ 0</u>	<u>\$ -</u>

Prepared without audit  
See the accompanying notes

## **SPECTRA INC.**

Notes to consolidated financial statements  
March 31, 2008 and 2007

### **1. Nature of business and basis of presentation**

#### Nature of business

Spectra Inc. ("Spectra") and its wholly-owned subsidiary Spectra Products Inc. ("SPI") (collectively the "Company") is a manufacturing and marketing company incorporated under the laws of the province of Alberta on October 4, 1994. The Company operates in one market segment - bus and truck transportation safety equipment. The Company manufactures and markets brake monitoring equipment as an after market product through transportation dealers, distributors and direct sales to fleet operators.

#### Going concern

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. As at March 31, 2008, the Company had a deficit of \$6,450,350 (2007 - \$6,481,328). The Company's ability to meet its obligations and continue as a going concern is dependent upon its ability to obtain additional financing and achievement of profitable operations. Management plans to achieve profitable operations and pursue additional financing, however, there can be no assurance that the Company will be able to secure financing when needed or to obtain such financing on terms satisfactory to the Company, if at all. The Company is seeking additional financing to provide working capital, inventory and capital equipment necessary to implement its five year business plan. 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.

The consolidated financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported expenses, and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

### **2. Summary of significant accounting policies**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Outlined below are those policies considered particularly significant:

#### a) Principles of Consolidation

These consolidated financial statements include the accounts of Spectra and SPI. All significant inter-company transactions and balances have been eliminated.

#### b) Change in Accounting Policies:

## **SPECTRA INC.**

Notes to consolidated financial statements  
June 30, 2008

### **2. Summary of significant accounting policies (cont'd)**

#### b) Change in Accounting Policies (cont'd)

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:

#### **As at March 31, 2008**

Current assets	\$ 28,536
Revenue	\$ 6,315
Expenses	\$ 466

## **SPECTRA INC.**

Notes to consolidated financial statements  
June 30, 2008

### **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 March 31, 2008, the Company had \$28,536 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 \$678 decrease or increase, respectively, to the Company's loss before income taxes for the period ended March 31, 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 March 31, 2008, one customer (December 31, 2007-nil) accounted for 21% of the Company's total trade receivables and one customer (December 31, 2007-one, 11%) accounted for 13% of the total trade receivables:

	<b>As at March 31, 2008</b>	<b>As at December 31, 2007</b>
1-30 days	89,402	26,062
31-60 days	43,277	82,808
60+ days	3,417	41,367
Total trade receivables	112,506	150,217
Impairment allowance	nil	nil
Net trade receivables	136,096	150,217
Other receivables	5,297	15,202
Total receivables	141,393	165,419

At March 31, 2008, one customer accounted for 24% 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.

## **SPECTRA INC.**

Notes to consolidated financial statements  
March 31, 2008 and 2007

### **2. Summary of significant accounting policies (cont'd)**

#### b) Change in Accounting Policies (cont'd)

##### **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 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.

#### c) Revenue recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to the customer at the time of delivery of the product to a common carrier. Revenue is recognized upon delivery. The Company considers the receipt of a purchase order, in writing or verbally, as persuasive evidence that an arrangement exists provided the customer is purchasing C.O.D.

#### d) Inventories

Inventories are valued, on a first-in, first-out basis at the lower of cost and net realizable value. The Company writes down estimated obsolete or excess inventory for the difference between

## SPECTRA INC.

Notes to consolidated financial statements

March 31, 2008 and 2007

### 2. Summary of significant accounting policies (cont'd)

the cost of inventory and estimated net realizable value based upon customer forecasts, shrinkage, the aging and future demand of the inventory, past experience with specific customers, and the ability to sell inventory back to customers or suppliers. If these assumptions change, additional write-downs may be required.

#### e) Equipment

Equipment is recorded at cost and amortization is provided, over the estimated useful life of the asset, using the undernoted annual rates and methods:

Dies and molds - other		Units of production method
Dies and molds – Brake Inspector	5 years	Straight line
Furniture and fixtures	20%	Declining balance
Computer equipment	30%	Declining balance
Machinery and equipment	20%	Declining balance

#### f) Intangible assets

Intangible assets consist of patents, trademarks, product rights and prototypes. They are recorded at cost and amortization is provided, over the estimated useful life of the asset, using the undernoted annual rates and methods:

Patents and trademarks	4-10 years	Straight line
Product rights	3-10 years	Straight line
Prototypes	3-10 years	Straight line

#### g) Impairment of long-lived assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed based on the carrying amount of a long-lived asset compared to the sum of the future undiscounted cash flows expected to result from the use and the eventual disposal of the asset. An impairment loss is recognized when the carrying amount is not recoverable and exceeds fair value.

#### h) Deferred charges

Deferred financing fees are deferred and amortized on a straight line basis over the term of the royalty agreement and the related amortization is included within amortization expense. In accordance with the CICA's Handbook Section 3855 "Financial Instruments", these deferred financing fees have been reclassified to offset against the royalty debenture in 2008 and the 2007 comparative amounts have not been restated.

## **SPECTRA INC.**

Notes to consolidated financial statements

March 31, 2008 and 2007

### **2. Summary of significant accounting policies (cont'd)**

i) Income taxes

The Company uses the asset and liability method of accounting for future income taxes. Under the asset and liability method, future income tax assets and liabilities are determined based on temporary differences (difference between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the Company's provision for current income taxes and the difference between the opening and ending balances of the future income tax assets and liabilities.

j) Stock-based compensation

The Company uses the fair value-based method to account for stock-based compensation. The grant date fair value of stock options is estimated using the Black-Scholes option-pricing model. Compensation expense is recognized over the stock option vesting period with a corresponding charge to contributed surplus. When the stock options are exercised, the proceeds, together with the amount recorded in contributed surplus, are recorded in share capital.

k) Earning (loss) per share

Basic earnings (loss) per share is computed by dividing the net earnings (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted earnings (loss) per share, using the treasury stock method, assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings (loss) per share. As the exercise price of the warrants and options was higher than the average market share price of the shares during 2008 and 2007 the dilutive effect of outstanding options and warrants and their equivalents is not reflected in diluted earnings (loss) per share because their effect would be anti-dilutive.

l) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of expenses during the reporting periods. Significant estimates include the carrying value of certain accrued liabilities and the value of future income taxes. Actual results could differ from those estimates.

**SPECTRA INC.**

Notes to consolidated financial statements  
 March 31, 2008 and 2007

**3. Inventories**

	<b>2008</b>	2007
Finished goods	\$ <b>63,145</b>	\$ 12,662
Raw materials	<b>254,091</b>	107,885
	<u>\$ <b>317,236</b></u>	<u>\$ 120,547</u>

**4. Equipment**

	<b>2008</b>		2007	
	<b>Cost</b>	<b>Accumulated Amortization</b>	Cost	Accumulated Amortization
Dies and molds - other	\$ <b>98,692</b>	\$ <b>57,686</b>	\$ 98,692	\$ 49,496
Dies and molds - Brake Inspector	<b>21,045</b>	<b>5,261</b>	19,994	-
Furniture and fixtures	<b>24,731</b>	<b>21,839</b>	24,731	21,116
Computer equipment	<b>12,704</b>	<b>10,661</b>	13,069	11,990
Machinery and equipment	<b>33,144</b>	<b>25,438</b>	30,573	23,995
	<u>\$ <b>190,316</b></u>	<u>\$ <b>120,885</b></u>	<u>\$ 187,059</u>	<u>\$ 106,597</u>
Net carrying amount		<u>\$ <b>69,431</b></u>		<u>\$ 80,462</u>

**5. Intangible assets**

	<b>2008</b>		2007	
	<b>Cost</b>	<b>Accumulated Amortization</b>	Cost	Accumulated Amortization
Patents and trademarks	\$ <b>41,341</b>	\$ <b>41,341</b>	\$ 41,341	\$ 39,863
Product rights	<b>43,000</b>	<b>20,132</b>	18,000	16,650
Prototypes	<b>203,076</b>	<b>151,596</b>	141,713	110,049
	<u>\$ <b>287,417</b></u>	<u>\$ <b>213,069</b></u>	<u>\$ 201,054</u>	<u>\$ 166,562</u>
Net carrying amount		<u>\$ <b>74,348</b></u>		<u>\$ 34,492</u>

**6. Loan payable**

The loan payable is due to Dynamic Venture Opportunities Fund Ltd. ("DVOF"), an Ontario labour-sponsored venture capital fund. The loan accrues interest at 12% per annum payable at maturity, is unsecured and matures on the first to occur of June 30, 2008 or the date on which the Company next issues any debt or equity securities or obtains a working capital line of credit.

## SPECTRA INC.

Notes to consolidated financial statements  
March 31, 2008 and 2007

### 7. Related party loans

Related party loans are due to two key executives, each a shareholder and director of Spectra. These loans bear interest at a rate of 9% per annum and are repayable 366 days after demand. These loans are secured by a first charge general security agreement over the assets of Spectra and a fixed charge on the Schandelmeier patent which is fully amortized as at March 31, 2008.

### 8. Royalty debenture

On August 6, 2004 the Company closed a debenture financing arrangement with DVOF whereby DVOF advanced \$ 750,000 to Spectra's wholly-owned subsidiary, SPI. In consideration of the advance of these funds, DVOF is entitled to receive royalty payments equal to the greater of \$100,000 per annum or 10% of the total annual gross revenue generated by SPI. Twenty-five percent of each royalty payment shall be allocated against the principal amount of the debenture. The royalty payments shall continue until the earlier of (i) the date that the royalty debenture has been fully repaid and (ii) 15 years from issue date, at which time any remaining principal amount shall be due. As additional consideration, the Company issued 3,000,000 bonus shares to DVOF at a deemed price of \$0.05 per share. The royalty debenture is secured by all the assets of SPI by way of a floating charge in favour of DVOF.

	2008	2007
Royalty debenture payable	\$ 658,314	\$ 783,696
Add: debt carrying value adjustment	39,813	(24,665)
Add: accretion of discount on debt	11,390	-
	<u>709,517</u>	<u>759,031</u>
Less: deferred financing fees (net of accumulated amortization of \$53,765 – 2007 \$39,206)	<u>(164,623)</u>	<u>(179,182)</u>
	544,894	579,849
Less: current portion	<u>(25,000)</u>	<u>(25,000)</u>
Long-term portion	<u>\$ 519,894</u>	<u>\$ 554,849</u>

The minimum annual principal payments due in each of the next five years and thereafter are as follows:

2008	\$ 25,000
2009	25,000
2010	25,000
2011	25,000
2012	25,000
Thereafter	<u>533,314</u>
	<u>\$ 658,314</u>

## SPECTRA INC.

Notes to consolidated financial statements  
March 31, 2008 and 2007

### 9. Convertible preferred shares

On June 1, 2007, SPI completed a \$750,000 private placement with DVOF where SPI issued 750 convertible preferred shares (the "Preferred Shares") for proceeds of \$667,500 and the Company issued 1,500,000 common shares at a market value of \$0.055 per share for proceeds of \$82,500 (see note 11g). The Preferred Shares will pay a 6 percent cumulative annual dividend, payable quarterly, commencing January 1, 2009; are redeemable; are retractable commencing May 31, 2010 for \$1,250 per share; are non-voting and are convertible into 1,000 common shares of SPI which would represent a 25% ownership interest. DVOF has received 750 warrants to subscribe to an additional 750 preferred shares of SPI at a price of \$1,000 each, exercisable until June 30, 2008. By exercising all of the warrants and converting the Preferred Shares, DVOF could increase its ownership of common shares of SPI by an additional 15% to 40% of the total outstanding shares.

### 10. Share capital

#### Authorized

Unlimited	common shares
Unlimited	first, second, third and fourth preferred shares to be issued in one or more series, redeemable, with rights, privileges, restrictions and conditions to be determined by the Board of Directors upon issuance
540,000	second preferred shares Series 1, non-cumulative dividends of 10% per annum, redeemable at the stated value, non-voting

#### Issued and outstanding

	2008	2007
46,881,837 (2007 – 40,286,837) common shares	\$ 4,632,486	\$ 4,398,939
90,000 (2007 - 90,000) second preferred shares Series 1	27,000	27,000
	<u>\$ 4,659,486</u>	<u>\$ 4,425,939</u>
	<b>Number of Shares</b>	<b>Amount</b>
Common shares		
Balance December 31, 2007	46,881,837	\$ 4,632,486
Balance March 31, 2008	<u>46,881,837</u>	<u>\$ 4,632,486</u>

On May 15, 1995, the Company entered into an escrow agreement. Pursuant to the agreement, escrowed shares totaled 7,142,780 and one common share is released for each \$0.20 of net income, adjusted for amortization, depletion and deferred taxes. As at March 31, 2008, 5,596,260 (2007 - 5,596,260) shares were held in escrow.

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Notes to consolidated financial statements  
March 31, 2008 and 2007

### 10. Share capital (cont'd)

#### Stock options

The Company has a stock option plan for its directors, officers, employees and consultants. The maximum number of shares reserved for issuance under the plan is equal to 10% of the issued and outstanding common shares. Options vest immediately and 350,000 of the outstanding options expire two years from their date of grant and all other outstanding options expire five years from their respective date of grant.

The following table represents all of the Company's stock options granted, exercised, forfeited and expired during the three months ended March 31, 2008 and 2007:

	2008		2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of period	3,025,000	\$ 0.10	2,500,000	\$ 0.13
Granted	-	-	-	-
Expired	(450,000)	0.10	(975,000)	0.25
Balance, end of period	<u>2,575,000</u>	<u>\$ 0.10</u>	<u>1,525,000</u>	<u>\$ 0.10</u>

As at March 31, 2008, the weighted average remaining contractual life of outstanding options was approximately 3 years (2007 - 2 years) and a total of 2,575,000 options (2007 - 1,525,000) were exercisable at a weighted average exercise price of \$0.10 (2007 - \$0.10).

The weighted average estimated fair value at the date of grant for options granted during the period was \$nil (2007 - \$nil). The estimated fair value of options is amortized over the vesting period on a straight-line basis determined on the date of grant using the Black-Scholes option pricing model, based on the following assumptions:

Risk-free interest rate	4.22 %
Expected life	5 years
Expected volatility	89 %
Expected dividends	-

For the period ended March 31, 2008, stock-based compensation expense was \$nil (2007 - \$nil). Stock-based compensation expense is recorded in the statement of earnings and as a charge to contributed surplus.

**SPECTRA INC.**

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**10. Share capital (cont'd)**Warrants

The movements in share purchase warrants were as follows:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>	<b>Fair Value</b>
Balance, January 1, 2007	1,668,910	\$ 0.10	\$9,949
Granted	4,745,000	0.10	100,897
Exercised	-	-	-
Balance, December 31, 2007	6,413,910	0.10	110,846
Granted	-	-	-
Exercised	-	-	-
Balance, March 31, 2008	<b>6,413,910</b>	<b>\$ 0.10</b>	<b>\$ 110,846</b>

The fair value of each warrant was determined on the date of grant using the Black-Scholes option pricing model, based on the following assumptions:

Risk-free interest rate	4.10 %
Expected life	2 years
Expected volatility	88 %
Expected dividends	-

At March 31, 2008, the weighted average remaining contractual term of warrants totalled approximately 0.9 years (2007 – 1.9 years).

Contributed Surplus

The movements in contributed surplus were as follows:

	<b>2008</b>	2007
Balance, beginning of period	\$ <b>85,172</b>	\$ 24,435
Stock-based compensation expense	-	-
Value of stock options exercised	-	-
Balance, end of period	<b>\$ 85,172</b>	<b>\$ 24,435</b>

## SPECTRA INC.

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### 11. Related party transactions

- a) In 2007, the Company entered into a management agreement with a company controlled by a key executive who is a shareholder and director of the Company. Under the terms of the management agreement, that company is entitled to fees of \$180,000 per year until December 31, 2012. For the period ended March 31, 2008, \$45,000 in management fees were expensed. An annual participation fee, calculated as 5% of the annual net income of SPI, is also payable under the terms of the management agreement. No participation fee was due for this period.
- b) A Full and Final Release was signed with a third party in the amount of \$11,610. As this amount is no longer payable, it has been included in other income as debt settlement on the consolidated statement of earnings and comprehensive income and deficit.
- c) During the period, management fees or salaries have been expensed to key executives, who are shareholders and directors of the Company, totaling \$42,804 (2007 - \$50,000). The claim for the 2007 amount was subsequently waived later in the 2007 year.
- d) During the period, royalties of \$2,304 (2007- 0) were paid to a company owned by a director.
- e) During the period, consulting fees of \$12,000 (2007- \$12,000) paid to a company owned by a director.

These transactions were in the normal course of business and recorded at the exchange value established and agreed upon by the related parties.

### 12. Income taxes

The Company has non capital tax losses available in the amount of approximately \$2,818,500 which can be carried forward to be applied against future years' taxable income. These losses, if unused, will expire as follows:

2008	\$ 365,800
2009	401,600
2010	519,900
2014	278,500
2015	338,800
2026	77,400
2027	<u>836,500</u>
	<u>\$ 2,818,500</u>

### 13. Commitments

- a) The Company entered into a management agreement with a company controlled by a key executive who is a shareholder and director of the Company. The management agreement is effective until December 31, 2012 and results in a commitment of \$180,000 per year for management services and an annual participation fee of 5% of the annual net income of SPI.
- b) The Company is obligated under an operating lease for premises until February 28, 2010 as follows:

2008	\$ 30,180
2009	30,180
2010	<u>5,030</u>
	<u>\$ 65,390</u>

#### **14. Comparative figures**

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.