

Spectra Inc.

Consolidated Financial Statements

March 31, 2004

Canadian Dollars

REVIEW ENGAGEMENT REPORT

We have reviewed the Consolidated balance sheet of Spectra Inc. as at March 31, 2004 and the statement of operations, deficit and cash flows for the three months then ended. Our review was made in accordance with Canadian generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the company.

A review does not constitute an audit and consequently, we do not express an audit opinion on these financial statements. Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian generally accepted accounting principles.

June 8, 2004
Markham, Ontario

Francis & McKinney, LLP
Chartered Accountants

Spectra Inc.
Consolidated Balance Sheet
March 31, 2004
Canadian Dollars

	March 31, 2004	March 31, 2003
Assets		
Current assets:		
Cash	\$ 9,156	\$ 14,441
Accounts receivable	45,660	32,988
Inventory (note 2)	68,039	80,299
Prepaid expenses	<u>28,770</u>	<u>39,520</u>
	<u>151,625</u>	<u>167,248</u>
Capital assets, at cost (note 3)	149,367	165,989
Less: accumulated amortization	<u>85,799</u>	<u>91,989</u>
	<u>63,568</u>	<u>74,000</u>
Other assets, at cost (note 4):		
Patent and product rights	510,116	508,985
Development expenses	<u>174,842</u>	<u>262,727</u>
	684,958	771,712
Less: accumulated amortization	<u>529,283</u>	<u>533,654</u>
	<u>155,675</u>	<u>238,058</u>
	<u>\$ 370,868</u>	<u>\$ 479,306</u>

Prepared Without Audit
See the Accompanying Notes

Spectra Inc.
Consolidated Balance Sheet
March 31, 2004
Canadian Dollars

	March 31, 2004	March 31, 2003
Liabilities		
Current liabilities:		
Current portion of loans payable	\$ 29,836	\$ 29,800
Accounts payable and accrued liabilities	<u>886,618</u>	<u>380,721</u>
	<u>916,454</u>	<u>410,521</u>
Long term liabilities (note 5):		
Loans payable, net of current portion	<u>625,713</u>	<u>614,863</u>
	<u>1,542,167</u>	<u>1,025,384</u>
Shareholders' Deficiency		
Capital account (note 6)	3,848,098	3,798,098
Deficit	<u>(5,019,397)</u>	<u>(4,344,176)</u>
	<u>(1,171,299)</u>	<u>(546,078)</u>
	<u>\$ 370,868</u>	<u>\$ 479,306</u>

Approved By The Board:

Andrew Malion Director

Michael Faye Director

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Spectra Inc.
Consolidated Statement of Operations and Deficit
For the Three Months Ended March 31, 2004
Canadian Dollars

	March 31, 2004	March 31, 2003
Revenues	\$ 112,299	\$ 101,676
Cost of revenue	<u>56,387</u>	<u>40,939</u>
Gross profit	<u>55,912</u>	<u>60,737</u>
Selling, general and administrative expenses:		
Advertising	265	225
Selling expenses	20,623	13,529
Legal, accounting and professional fees	10,987	9,202
Office and general	6,976	13,257
Premises	15,041	15,056
Subcontract labour	26,590	28,150
Interest and financing fees	14,364	13,216
Amortization		
- capital assets	781	2,918
- patents and trademarks	26,892	23,018
- deferred charges	10,842	5,592
- internet service provider	-	2,750
Consulting	9,000	5,704
Commission	6,983	6,402
Royalty	<u>6,355</u>	<u>5,140</u>
	<u>155,699</u>	<u>144,159</u>
Income (loss) from operations	(99,787)	(83,422)
Income tax (note 9)	<u>-</u>	<u>-</u>
Net income (loss)	(99,787)	(83,422)
Deficit, beginning of year	<u>(4,919,610)</u>	<u>(4,260,754)</u>
Deficit, end of year	<u><u>\$(5,019,397)</u></u>	<u><u>\$(4,344,176)</u></u>

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See the Accompanying Notes

Spectra Inc.
Consolidated Statement of Cash Flows
For the Three Months Ended March 31, 2004
Canadian Dollars

	March 31, 2004	March 31, 2003
Operating activities:		
Net income (loss)	\$ (99,787)	\$ (83,422)
Amortization	<u>38,515</u>	<u>34,278</u>
	(61,272)	(49,144)
Changes in non-cash working capital items:		
Decrease (increase) in accounts receivable	3,779	11,337
Decrease (increase) in inventory	18,612	32,131
Decrease (increase) in prepaid expenses	(3,631)	2,791
(Decrease) increase in accounts payable	<u>44,690</u>	<u>(31,639)</u>
	<u>2,178</u>	<u>(34,524)</u>
Investment activities:		
Capital asset additions	<u>-</u>	<u>(2,796)</u>
Financing activities:		
Loan proceeds	1,049	17,881
Issuance of shares	<u>-</u>	<u>28,750</u>
	<u>1,049</u>	<u>46,631</u>
Change in cash resources	3,227	9,311
Cash resources, beginning of year	<u>5,929</u>	<u>5,130</u>
Cash resources, end of year	<u>\$ 9,156</u>	<u>\$ 14,441</u>

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Spectra Inc.
Notes to Consolidated Financial Statements
March 31, 2004
Canadian Dollars

1. Accounting Policies and Going Concern:

Accounting policies:

The company incorporated under the Laws of the Province of Alberta, follows accounting policies generally accepted in Canada.

Inventory is stated at the lower of cost and net realizable value with cost determined on the first- in, first out method.

Capital assets are stated at and amortized over the estimated useful life of the asset at the following annual rates:

Furniture and fixtures - 20% declining balance
Computer equipment - 30% declining balance
Equipment - 20% declining balance
Dies and molds - units of production
Patents - straight line over the life of the patent
Deferred charges - 5 year straight line

In the year of acquisition, one-half of the above rates are charged.

Going Concern:

These consolidated financial statements have been prepared on the going concern basis which assumes that adequate sources of financing will be obtained as required and that the Company's assets will be realized and liabilities settled in the ordinary course of business. Accordingly, these consolidated financial statements do not include any adjustments related to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

In order to continue as a going concern, the Company requires additional financing. There can be no assurance that additional financing will be available to the Company when needed or, if available, that it can be obtained on commercially reasonable terms. If the Company is not able to continue as a going concern, it would likely be unable to realize the carrying value of its assets reflected in the balances set out in the preparation of the consolidated financial statements.

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Spectra Inc.
Notes to Consolidated Financial Statements
March 31, 2004
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2. Inventory:

Inventory consists of:

	2004	2003
Finished product	\$ 6,384	\$ 8,395
Raw materials	<u>61,685</u>	<u>71,904</u>
	<u>\$ 68,069</u>	<u>\$ 80,299</u>

3. Capital Assets:

Capital assets consist of:

	March 31, 2004			2003
	Cost	Accumulated Amortization	Net	Net
Dies and molds	\$ 89,405	\$ 39,433	\$ 49,972	\$ 53,872
Furniture & fixtures	21,194	18,040	3,154	3,943
Computer equipment	10,744	8,470	2,274	3,249
Plant & equipment	<u>28,024</u>	<u>19,856</u>	<u>8,168</u>	<u>12,936</u>
	<u>\$ 149,367</u>	<u>\$ 85,799</u>	<u>\$ 63,568</u>	<u>\$ 74,000</u>

4. Other Assets:

Other assets consist of development expenses, product rights and patents which have been deferred and will be charged to future operations.

	March 31, 2004			2003
	Cost	Accumulated Amortization	Net	Net
Product rights	\$ 18,000	\$ 11,250	\$ 6,750	\$ 8,550
Patents	492,116	404,650	87,466	173,179
Development expenses	<u>174,842</u>	<u>113,383</u>	<u>61,459</u>	<u>56,329</u>
	<u>\$ 684,958</u>	<u>\$ 529,283</u>	<u>\$ 155,675</u>	<u>\$ 238,058</u>

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5. Loans Payable:

The company has a demand loan with TD Canada Trust bearing interest at prime plus one percent repayable over a five year term. A working capital loan has been secured with the Business Development Bank of Canada over a five year period, bearing interest at a floating rate currently 11.5 percent, both loans are secured with a general security agreement and personal guarantees from Management (Andrew Malion and Michael Faye). Loans from Management bear interest at 6.0% per annum. These loans are secured with a general security agreement including a fixed charge on the Schandelmeir patent.

Balances at March 31 are:	2004	2003
TD Canada Trust	\$ 28,671	\$ 38,707
Business Development Bank	51,150	62,700
Management loans	<u>575,728</u>	<u>543,256</u>
	655,549	644,663
Less current portion	<u>29,836</u>	<u>29,800</u>
	<u>\$ 625,713</u>	<u>\$ 614,863</u>

The aggregate amount of payments required to repay the Business Development Bank Of Canada and TD Canada Trust in each of the next five years are:

2004 -	\$ 22,377
2005 -	29,836
2006 -	26,536
2007 -	<u>1,072</u>
	<u>\$ 79,821</u>

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6. Capital Account:

Authorized share capital - unlimited number of common voting shares, first, second, third and fourth preference shares.

Issued share capital:	3/31/04	3/31/03
28,916,837(2003 - 28,416,837) common shares for	\$3,821,098	\$3,771,098
90,000 (2003 - 90,000) Spectra preference shares for	<u>27,000</u>	<u>27,000</u>
	<u>\$3,848,098</u>	<u>\$3,798,098</u>

	Common Shares	
	#	\$
Common shares issued December 31, 2001	27,951,837	\$ 3,724,848
Issued during 2002	<u>265,000</u>	<u>17,500</u>
Balance, December 31, 2002	28,216,837	3,742,348
Issued during 2003	<u>700,000</u>	<u>78,750</u>
Balance, December 31, 2003	28,916,837	3,821,098
Issued during 2004	<u>-</u>	<u>-</u>
Balance March 31, 2004	<u>28,916,837</u>	<u>\$ 3,821,098</u>

7. Rent Commitment:

The company is obligated under an operating lease for premises until February 28, 2007 as follows:

2004	\$ 50,726
2005	50,892
2006	50,892
2007	<u>8,482</u>
	<u>\$ 160,992</u>

8. Royalties:

Spectra Products Inc. has obligations to pay minimum royalties of \$ 80,000 per annum until 2006 for the Brake Safe product.

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9. Income Tax Losses:

The consolidated group of companies has tax losses available for carry forward totaling \$3,538,869. These losses expire as follows:

2004	\$ 944,235
2005	166,241
2006	16,680
2007	338,375
2008	727,377
2009	677,105
2010	<u>658,856</u>
	<u>\$3,528,869</u>

The potential benefit of these losses have not been recognized in the accounts. There are no significant timing differences between accounting and taxable income.

10. Earnings Per Share:

Earnings per share for the last full fiscal years are as follows:

	2003	2002
Earnings (loss) per share	\$ (.0228)	\$ (.0240)
Earnings (loss) per share fully diluted	\$ (.0216)	\$ (.0227)

11. Segment Information:

The company operates in one market segment – bus and truck transportation safety equipment. Spectra Products Inc. manufactures and markets brake monitoring equipment as an after market product through transportation dealers, distributors, and direct sales to fleet operators.

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