

Spectra Inc.
Consolidated Financial Statements
March 31, 2005
Canadian Dollars

Revised January 31, 2006

REVIEW ENGAGEMENT REPORT

We have reviewed the Consolidated balance sheet of Spectra Inc. as at March 31, 2005 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.

May 27, 2005
Markham, Ontario

Francis & McKinney, LLP
Chartered Accountants

Spectra Inc.
Consolidated Balance Sheet
March 31, 2005
Canadian Dollars

	March 31, 2005	Dec. 31, 2004
Assets		
Current assets:		
Cash	\$ 17,198	\$ 7,915
Accounts receivable	77,994	124,604
Inventory (note 2)	157,291	147,419
Prepaid expenses	<u>21,325</u>	<u>25,383</u>
	<u>273,808</u>	<u>305,321</u>
Capital assets, at cost (note 4)	167,955	167,237
Less: accumulated amortization	<u>99,634</u>	<u>98,741</u>
	<u>68,321</u>	<u>68,496</u>
Other assets, at cost (note 5)	1,089,795	932,740
Less: accumulated amortization	<u>834,466</u>	<u>650,314</u>
	<u>255,329</u>	<u>282,426</u>
	<u>\$ 597,458</u>	<u>\$ 656,243</u>

Prepared Without Audit
See the Accompanying Notes

Spectra Inc.
Consolidated Balance Sheet
March 31, 2005
Canadian Dollars

	March 31, 2005	Dec. 31, 2004
Liabilities		
Current liabilities:		
Current portion of loans payable	\$ 129,836	\$ 129,836
Accounts payable and accrued liabilities	<u>838,011</u>	<u>821,349</u>
	<u>967,847</u>	<u>951,185</u>
Long term liabilities (notes 6):		
Loans payable, net of current portion	<u>1,076,452</u>	<u>1,083,851</u>
	<u>2,044,299</u>	<u>2,035,036</u>
Shareholders' Deficiency		
Capital account (note 7)	4,053,098	4,053,098
Deficit	<u>(5,499,939)</u>	<u>(5,431,891)</u>
	<u>(1,446,841)</u>	<u>(1,378,793)</u>
	<u>\$ 597,458</u>	<u>\$ 656,243</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, 2005
Canadian Dollars

	March 31, 2005	March 31, 2004
Revenues	\$ 164,355	\$ 112,299
Cost of revenue	<u>76,430</u>	<u>56,387</u>
Gross profit	<u>87,925</u>	<u>55,912</u>
Selling, general and administrative expenses:		
Advertising	1,300	265
Royalty debenture	19,695	-
Selling expenses	14,405	20,623
Legal, accounting and trustee fees	8,683	10,987
Office and general	15,840	6,976
Premises	14,639	15,041
Subcontract labour	15,000	26,590
Interest and bank charges		
long term debt	10,449	13,748
bank charges	473	616
Amortization		
- capital assets	2,160	781
- patents and trademarks	15,027	37,734
Consulting	15,235	9,000
Commission	5,008	6,983
Royalty	<u>18,059</u>	<u>6,355</u>
	<u>155,973</u>	<u>155,699</u>
Income (loss) from operations	(68,048)	(99,787)
Income tax (note 8)	<u>-</u>	<u>-</u>
Net income (loss)	(68,048)	(99,787)
Deficit, beginning of year	<u>(5,431,891)</u>	<u>(4,919,610)</u>
Deficit, end of period	<u>\$(5,499,939)</u>	<u>\$(5,019,397)</u>
Earnings (loss) per share basic (Note 7,9)	(0.002)	(0.003)
Earnings (loss) per share fully diluted	(0.002)	(0.003)

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See the Accompanying Notes

Spectra Inc.
Consolidated Statement of Cash Flows
For the Three Months Ended March 31, 2005
Canadian Dollars

	March 31, 2005	March 31, 2004
Operating activities:		
Net income (loss)	\$ (57,322)	\$ (97,934)
Amortization	35,457	38,515
Interest paid, net	<u>(10,726)</u>	<u>(14,199)</u>
	(32,591)	(73,618)
Changes in non-cash working capital items:		
Decrease (increase) in accounts receivable	46,610	3,779
Decrease (increase) in inventory	(9,872)	18,612
Decrease (increase) in prepaid expenses	4,058	(3,631)
(Decrease) increase in accounts payable	<u>16,662</u>	<u>57,036</u>
	<u>24,867</u>	<u>2,178</u>
Investing activities:		
Capital asset additions	(1,985)	-
Patent, product rights and other	<u>(6,200)</u>	<u>-</u>
	<u>(8,185)</u>	<u>-</u>
Financing activities:		
Loan proceeds (repayments)	(7,399)	1,049
Issuance of shares	<u>-</u>	<u>-</u>
	<u>(7,399)</u>	<u>1,049</u>
Change in cash resources	9,283	3,227
Cash resources, beginning of year	<u>7,915</u>	<u>5,929</u>
Cash resources, end of period	<u>\$ 17,198</u>	<u>\$ 9,156</u>

Prepared Without Audit
See the Accompanying Notes

Spectra Inc.
Notes to Consolidated Financial Statements
March 31, 2005
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1. Nature of Business and Basis of Presentation:

Nature of Business –

Spectra Inc. is a manufacturing and marketing company incorporated under the laws of the Province of Ontario on December 18, 1996. 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.

Basis of Presentation –

These 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 operating losses and at March 31, 2005 has a working capital deficiency of \$ 694,039 (December 31, 2004 \$ 645,864). 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.

2. Significant Accounting Policies:

Interim financial statements follow the same accounting policies and methods of application as the annual financial statements for the twelve month period ending December 31, 2004. The Company follows accounting policies generally accepted in Canada. The following is a summary of significant accounting policies used in the preparation of these financial statements:

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Spectra Inc.
Notes to Consolidated Financial Statements
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Inventory:

Inventory is valued at the lower of cost, determined on a first-in, first- out basis, and net realizable value. Cost consists of raw material and direct labour.

Capital Assets:

Capital assets are carried at cost. Amortization is provided over the assets estimated useful life as follows:

- Dies and molds - units of production method
- Furniture and fixtures - 20 % declining balance method
- Computer equipment - 30 % declining balance method
- Plant equipment - 20 % declining balance method

Annually, or more frequently as circumstances require, (such as a decrease in sales prices, an increase in operating costs), reviews are undertaken to evaluate

the carrying values of capital assets. Effective January 1, 2004 the Company prospectively adopted the requirements of CICA 3063 "Impairment of Long-lived Assets" to evaluate impairment. If it is determined that the future cash flows from a property are less than its carrying value, a write-down to the estimated fair value is made with a charge to earnings. Adoption of CICA 3063 had no effect on these financial statements.

The Company's estimated of future cash flows are subject to risks and uncertainties.

It is reasonably possible that changes in estimates could occur which may affect the expected recoverability of the Company's investment in capital assets.

Other Assets:

Other assets are carried at cost. Amortization is provided over the assets estimated useful life as follows:

- Patents and Product Rights - Straight line method over the term of the asset.
- Prototypes - Straight line, 3 years.
- Finance fee - Straight line over term of debenture.
- Prepaid Royalty - straight line over original term of royalty agreement.

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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,

provided that fulfillment of acceptance criteria can be demonstrated prior to shipment. The Company considers the receipt of a purchase order in writing or verbally together with a signed packing slip or bill of lading as persuasive evidence that an arrangement exists provided the customer is purchasing C.O.D. or is credit worthy. Based on these circumstances the customer is invoiced and the receivable is booked. The Company permits customer returns subject to a restocking charge and issues a credit to the customer. The returned product is entered into inventory.

Share Options:

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*).

Financial instruments:

The Company's financial instruments consist of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and loans payable. Unless otherwise stated the fair value of the financial instruments approximates their carrying value.

3. Inventory:

Inventory consists of:	March 31, <u>2005</u>	December 31, <u>2004</u>
Product for resale	\$ 35,731	\$ 35,712
Raw materials	<u>121,560</u>	<u>111,707</u>
	<u>\$ 157,291</u>	<u>\$ 147,419</u>

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4. Capital Assets:

Capital assets consist of:

	2005			Dec. 31 2004
	Cost	Accumulated Amortization	Net	Net
Dies and molds	\$ 96,191	\$ 43,379	\$ 52,812	\$ 54,056
Furniture & fixtures	24,731	19,184	5,547	5,839
Computer equipment	19,009	15,583	3,426	1,721
Plant & equipment	<u>28,024</u>	<u>21,488</u>	<u>6,536</u>	<u>6,880</u>
	<u>\$ 167,955</u>	<u>\$ 99,634</u>	<u>\$ 68,321</u>	<u>\$ 68,496</u>

Amortization of capital assets consists of:	March 31, <u>2005</u>	March 31, <u>2004</u>
Office furniture and fixtures	\$ 292	\$ 166
Machinery, plant and equipment	344	430
Computers	280	185
Dies and molds	<u>1,244</u>	<u>-</u>
	<u>\$ 2,160</u>	<u>\$ 781</u>

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5. Other Assets:

Other assets include development costs which have been deferred and will be charged to future operations.

Other assets consist of:	March 31,			Dec. 31,
	<u>2005</u>			<u>2004</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Net</u>
Patents and trademarks	\$ 495,180	\$ 472,778	\$ 22,402	\$ 29,006
Product rights	18,000	13,050	4,950	5,400
Deferred charges	207,697	207,697	-	-
Prototypes	95,668	37,796	57,872	59,646
Royalty Deb. Finance Fee	68,388	3,420	64,968	66,108
Prepaid Royalty Brake Safe Inc.	149,862	44,725	105,137	122,266
Internet service provider	<u>55,000</u>	<u>55,000</u>	<u>-</u>	<u>-</u>
	<u>\$1,089,795</u>	<u>\$ 834,466</u>	<u>\$ 255,329</u>	<u>\$ 282,426</u>

Amortization of other assets consists of:	March 31,	March 31,
	<u>2005</u>	<u>2004</u>
Deferred charges	\$ -	\$ 5,592
Product rights – Brake Safe	450	450
Patent and trademarks	6,604	26,442
Prototype	7,974	5,250
Prepaid royalty and royalty debenture	<u>18,269</u>	<u>-</u>
	<u>\$ 33,297</u>	<u>\$ 37,734</u>

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6. Loans Payable:

A working capital loan has been secured with the Business Development Bank of Canada repayable over a five year period, bearing interest at a floating rate currently 11.5%. This loan is secured by a general security agreement and personal guarantees from Management (Andrew Malion and Michael Faye). Loans from management total \$ 422,542 and bear interest at 9.0% per annum. These loans are secured with a general security agreement including a fixed charge on the Schandelmeier patent. The management loans are repayable 366 days after demand.

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

2005	\$ 14,850
2006	<u>16,500</u>
	<u>\$ 31,350</u>

The Company's operating line with the TD Canada Trust for \$ 50,000 was converted into a demand loan payable over 60 months beginning February 28, 2002 bearing interest at prime plus one percent. This loan is secured with general security agreement. The balance at March 31, 2005 is \$ 18,635. The amount due in each of the following next three years is as follows:

2005	\$ 7,527
2006	10,036
2007	<u>1,072</u>
	<u>\$ 18,635</u>

On August 6, 2004 Spectra Inc. closed a debenture financing arrangement with Dynamic Venture Opportunities Fund Ltd. ("DVOF"), an Ontario labour-sponsored venture capital fund, whereby DVOF advanced \$ 750,000 to Spectra Inc.'s wholly-owned subsidiary, Spectra Products Inc. ("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 payment shall continue at 10% of SPI's gross revenue until the earlier of (i) the date that the Royal 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, Spectra Inc. issued 3,000,000 bonus shares to DVOF at a deemed price of \$0.05 per share, representing a deemed value equal to 20% of the \$ 750,000 invested. The balance at March 31, 2005 is \$ 733,761.

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The minimum amount due in each of the next five years is as follows:

2005	100,000
2006	100,000
2007	100,000
2008	100,000
2009	100,000

	March 31, <u>2005</u>	December 31, <u>2004</u>
Business Development Bank of Canada	\$ 31,350	\$ 36,300
Management loans	422,542	416,297
TD Canada Trust	18,635	21,144
Dynamic Venture Opportunities Fund	<u>733,761</u>	<u>739,946</u>
	1,206,288	1,213,687
Less current portion	<u>129,836</u>	<u>129,836</u>
	<u>\$ 1,076,452</u>	<u>\$ 1,083,851</u>

7. Capital Account:

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

Issued share capital:

	03/31/05	12/31/04
35,966,837(2004 - 35,966,837) common shares for	\$4,026,098	\$4,026,098
90,000 (2004 - 90,000) Spectra preference shares for	<u>27,000</u>	<u>27,000</u>
	<u>\$4,053,098</u>	<u>\$4,053,098</u>
	#	\$
Balance, December 31, 2003	28,916,837	3,821,098
Issued during 2004	<u>7,050,000</u>	<u>205,000</u>

Balance, December 31, 2004	35,966,837	\$ 4,026,098
Issued during 2005	-	-
Balance, March 31, 2005	<u>35,966,837</u>	<u>\$ 4,026,098</u>

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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 maximum term of five years, fully vested at 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. The table below lists Options granted for the three month period ending March 31, 2005.

Expiry Date	Number of Options	Exercise Price
10/11/05	125,000	\$0.16
01/10/06	250,000	\$0.25
01/07/07	25000	\$0.20
01/15/07	350,000	\$0.20
03/02/08	800,000	\$0.10
Total Options	1,550,000	\$0.15*
* Weighted average exercise price		

8. Income Taxes:

The consolidated group of companies has income tax losses available for carry forward of \$ 2,643,001. Losses expire as follows:

2005	22,262
2006	107,479
2007	373,125
2008	583,363
2009	526,948
2010	643,521
2011	<u>386,303</u>
	<u>\$2,643,001</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.

Spectra Inc.
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9. Earnings per share:

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

	2004	2003
Earnings (loss) per share	\$ (.0142)	\$ (.0228)
Earnings (loss) per share fully diluted	\$ (.0137)	\$ (.0211)

10. Commitments:

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

2005	\$ 50,892
2006	50,892
2007	<u>8,482</u>
	<u>\$ 110,266</u>