

Spectra Inc.

Consolidated Financial Statements

September 30, 2004

Canadian Dollars

(Unaudited – See Review Engagement Report)

REVIEW ENGAGEMENT REPORT

We have reviewed the Consolidated balance sheet of Spectra Inc. as at September 30, 2004 and the statement of operations, deficit and cash flows for the nine 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.

November 26, 2004
Markham, Ontario

Francis & McKinney, LLP
Chartered Accountants

Spectra Inc.
Consolidated Balance Sheet
September 30, 2004
Canadian Dollars

	Sept. 30, 2004	Sept. 30, 2003
Assets		
Current assets:		
Cash	\$ 127,047	\$ 11,618
Accounts receivable	124,639	68,317
Inventory (note 2)	126,799	84,890
Prepaid expenses	<u>16,770</u>	<u>36,800</u>
	<u>395,255</u>	<u>201,625</u>
Capital assets, at cost (note 3)	159,284	165,989
Less: accumulated amortization	<u>88,516</u>	<u>96,183</u>
	<u>70,768</u>	<u>69,806</u>
Other assets, at cost (note 4):		
Patent and product rights	512,278	512,358
Development expenses	<u>255,860</u>	<u>262,727</u>
	768,138	775,085
Less: accumulated amortization	<u>587,499</u>	<u>595,875</u>
	<u>180,639</u>	<u>179,210</u>
	<u>\$ 646,662</u>	<u>\$ 450,641</u>

Prepared Without Audit
See the Accompanying Notes

Spectra Inc.
Consolidated Balance Sheet
September 30, 2004
Canadian Dollars

	Sept. 30, 2004	Sept. 30, 2003
Liabilities		
Current liabilities:		
Current portion of loans payable	\$ 54,836	\$ 29,800
Accounts payable and accrued liabilities	<u>589,052</u>	<u>579,323</u>
	<u>643,888</u>	<u>609,123</u>
Long term liabilities (notes 5, 12):		
Loans payable, net of current portion	<u>1,340,627</u>	<u>616,344</u>
	<u>1,984,515</u>	<u>1,225,467</u>
Shareholders' Deficiency		
Capital account (note 6)	3,853,098	3,848,098
Deficit	<u>(5,190,951)</u>	<u>(4,622,924)</u>
	<u>(1,337,853)</u>	<u>(774,826)</u>
	<u>\$ 646,662</u>	<u>\$ 450,641</u>

Approved By The Board:

Andrew Malion Director

Michael Faye Director

Prepared Without Audit
See the Accompanying Notes

Spectra Inc.
Consolidated Statement of Operations and Deficit
For the Nine Months Ended September 30, 2004
Canadian Dollars

	Sept. 30, 2004	Sept. 30, 2003
Revenues	\$ 487,056	\$ 338,350
Cost of revenue	<u>224,981</u>	<u>160,432</u>
Gross profit	<u>262,075</u>	<u>177,918</u>
Selling, general and administrative expenses:		
Advertising	805	675
Royalty debenture	11,413	-
Selling expenses	49,466	62,174
Legal, accounting and professional fees	40,821	23,633
Office and general	35,176	34,197
Premises	42,127	41,597
Subcontract labour	46,640	88,754
Interest and financing fees	61,845	38,983
Amortization		
- capital assets	3,497	6,092
- patents and trademarks	75,987	70,075
- development expenses	19,964	16,776
- internet service provider	-	8,250
Product development	-	1,400
Consulting	31,788	32,193
Commission	21,990	22,503
Royalty	16,897	17,786
Management	<u>75,000</u>	<u>75,000</u>
	<u>533,416</u>	<u>540,088</u>
Income (loss) from operations	(271,341)	(362,170)
Income tax (note 9)	<u>-</u>	<u>-</u>
Net income (loss)	(271,341)	(362,170)
Deficit, beginning of period	<u>(4,919,610)</u>	<u>(4,260,754)</u>
Deficit, end of period	<u>\$(5,190,951)</u>	<u>\$(4,622,924)</u>

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See the Accompanying Notes

Spectra Inc.
Consolidated Statement of Cash Flows
For the Nine Months Ended September 30, 2004
Canadian Dollars

	Sept. 30, 2004	Sept. 30, 2003
Operating activities:		
Net income (loss)	\$ (271,341)	\$ (362,170)
Amortization	<u>99,448</u>	<u>101,193</u>
	(171,893)	(260,977)
Changes in non-cash working capital items:		
Decrease (increase) in accounts receivable	(75,200)	(23,992)
Decrease (increase) in inventory	(40,148)	27,540
Decrease (increase) in prepaid expenses	8,369	5,511
(Decrease) increase in accounts payable	<u>(252,878)</u>	<u>166,462</u>
	<u>(531,750)</u>	<u>(85,456)</u>
Investment activities:		
Capital asset additions	(22,033)	(2,795)
Patent and product rights	<u>(1,535)</u>	<u>(3,373)</u>
	<u>(23,568)</u>	<u>(6,168)</u>
Financing activities:		
Loan proceeds	739,824	19,362
Issuance of shares	5,000	78,750
Deferred financing charges	<u>(68,388)</u>	<u>-</u>
	<u>676,436</u>	<u>98,112</u>
Change in cash resources	121,118	6,488
Cash resources, beginning of year	<u>5,929</u>	<u>5,130</u>
Cash resources, end of period	<u>\$ 127,047</u>	<u>\$ 11,618</u>

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Spectra Inc.
Notes to Consolidated Financial Statements
September 30, 2004
Canadian Dollars

1. 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 and other 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 and product rights - straight line over the life of the patent

Development expenses - 5 year straight line

Deferred financing charges – straight line over the term of the related debenture financing

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

2. Inventory:

Inventory consists of:

	Sept. 30, 2004	Sept. 30, 2003
Finished product	\$ 112,948	\$ 25,123
Raw materials	<u>13,851</u>	<u>56,412</u>
	<u>\$ 126,799</u>	<u>\$ 81,535</u>

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Spectra Inc.
Notes to Consolidated Financial Statements
September 30, 2004
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3. Capital Assets:

Capital assets consist of:

	September 30, 2004			2003
	Cost	Accumulated Amortization	Net	Net
Dies and molds	\$ 95,785	\$ 40,323	\$ 55,462	\$ 51,832
Furniture & fixtures	24,731	18,637	6,094	3,529
Computer equipment	10,744	8,838	1,906	2,723
Plant & equipment	28,024	20,718	7,306	11,722
	\$ 159,284	\$ 88,516	\$ 70,768	\$ 69,806

4. Other Assets:

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

	September 30, 2004			2003
	Cost	Accumulated Amortization	Net	Net
Product rights	\$ 18,000	\$ 12,150	\$ 5,850	\$ 7,650
Patents and trademarks	494,278	443,542	50,736	131,916
Development expenses	187,472	130,667	56,805	39,644
Deferred financing fees	68,388	1,140	67,248	-
	\$ 768,138	\$ 587,499	\$ 180,639	\$ 179,210

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Notes to Consolidated Financial Statements
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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 Schandelmeier patent.

Balances at September 30 are:	2004	2003
Royalty debenture	\$ 746,196	\$ -
TD Canada Trust	23,653	33,689
Business Development Bank of Canada	41,250	61,050
Management loans (see Note 13)	<u>584,364</u>	<u>551,405</u>
	1,395,463	646,144
Less current portion	<u>54,836</u>	<u>29,800</u>
	<u>\$1,340,627</u>	<u>\$ 616,344</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 fiscal years are:

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

The debenture is repayable at a minimum of \$ 6,250 per quarter (\$ 25,000 per year).

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Notes to Consolidated Financial Statements
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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:	9/30/04	9/30/03
31,966,837(2003 - 28,416,837) common shares for	\$3,826,098	\$3,821,098
90,000 (2003 - 90,000) Spectra preference shares for	<u>27,000</u>	<u>27,000</u>
	<u>\$3,853,098</u>	<u>\$3,848,098</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>3,050,000</u>	<u>5,000</u>
Balance September 30, 2004	<u>31,966,837</u>	<u>\$ 3,826,098</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 an obligation to pay minimum royalties of \$ 75,000 per annum under the terms of the Royalty Debenture (refer to Note 12) until the earlier of

2019 or full repayment thereof.

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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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12. Royalty Debenture:

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.

13. Subsequent Event:

On October 5, 2004 the shareholders approved the issuance of 4,000,000 common shares of the company at a deemed value of \$0.05 per share to retire \$200,000 of management loans. The company issued the shares on November 19, 2004.

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