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**Spectra Inc.**  
**Consolidated Financial Statements**  
**December 31, 2003**  
**Canadian Dollars**

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**Spectra Inc.**  
**Consolidated Balance Sheet**  
**December 31, 2003**  
**Canadian Dollars**

	2003	2002
<b>Assets</b>		
Current assets:		
Cash	\$ 5,929	\$ 5,130
Accounts receivable	49,439	44,325
Inventory (note 2)	86,651	112,430
Prepaid expenses	<u>25,139</u>	<u>42,311</u>
	<u>167,158</u>	<u>204,196</u>
Capital assets, at cost (note 3)	163,194	163,194
Less: accumulated amortization	<u>98,845</u>	<u>89,071</u>
	<u>64,349</u>	<u>74,123</u>
Other assets, at cost (note 4):		
Patent and product rights	510,116	508,985
Development expenses	<u>325,727</u>	<u>262,727</u>
	835,843	771,712
Less: accumulated amortization	<u>642,434</u>	<u>502,295</u>
	<u>193,409</u>	<u>269,417</u>
	<u>\$ 424,916</u>	<u>\$ 547,736</u>

**See the Accompanying Notes**

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**Spectra Inc.**  
**Consolidated Balance Sheet**  
**December 31, 2003**  
**Canadian Dollars**

	2003	2002
<b>Liabilities</b>		
Current liabilities:		
Current portion of loans payable	\$ 29,836	\$ 29,800
Accounts payable and accrued liabilities	<u>879,628</u>	<u>415,060</u>
	<u>909,464</u>	<u>444,860</u>
Long term liabilities (note 5):		
Loans payable, net of current portion	<u>624,664</u>	<u>596,982</u>
	<u>1,534,128</u>	<u>1,041,842</u>
<b>Shareholders' Deficiency</b>		
Capital account (note 6)	3,848,098	3,769,348
Deficit	<u>(4,957,310)</u>	<u>(4,263,454)</u>
	<u>(1,109,212)</u>	<u>(494,106)</u>
	<u>\$ 424,916</u>	<u>\$ 547,736</u>

**Approved By The Board:**

\_\_\_\_\_ Director

\_\_\_\_\_ Director

**See the Accompanying Notes**

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**Spectra Inc.**  
**Consolidated Statement of Operations and Deficit**  
**For the Year Ended December 31, 2003**  
**Canadian Dollars**

	<b>2003</b>	<b>2002</b>
Revenues	\$ 445,052	\$ 434,884
Cost of revenue	<u>201,222</u>	<u>155,970</u>
Gross profit	<u>243,830</u>	<u>278,914</u>
Selling, general and administrative expenses:		
Advertising	1,160	9,980
Selling expenses	81,420	64,699
Legal, accounting and professional fees	57,074	56,875
Office and general	42,601	59,851
Premises	55,424	54,015
Subcontract labour	108,250	115,000
Interest and financing fees	68,114	39,037
Amortization		
- capital assets	41,710	39,730
- patents and trademarks	81,014	78,582
- deferred charges	-	20,845
- internet service provider	33,000	11,000
Product development	1,400	22,761
Public relations	1,125	1,318
Consulting	20,936	110,960
Management	200,000	200,000
Commission	31,900	28,729
Royalty	<u>112,558</u>	<u>42,637</u>
	<u>937,686</u>	<u>956,019</u>
Income (loss) from operations	(693,856)	(677,105)
Income tax (note 9)	<u>-</u>	<u>-</u>
Net income (loss)	(693,856)	(677,105)
Deficit, beginning of year	<u>(4,263,454)</u>	<u>(3,586,349)</u>
Deficit, end of year	<u>\$(4,957,310)</u>	<u>\$(4,263,454)</u>

**See the Accompanying Notes**

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**Spectra Inc.**  
**Consolidated Statement of Cash Flows**  
**For the Year Ended December 31, 2003**  
**Canadian Dollars**

	<b>2003</b>	<b>2002</b>
Operating activities:		
Net income (loss)	\$ (693,856)	\$ (677,105)
Amortization	<u>155,724</u>	<u>150,157</u>
	(538,132)	(526,948)
Changes in non-cash working capital items:		
Decrease (increase) in accounts receivable	(5,114)	(4,234)
Decrease (increase) in inventory	25,779	22,655
Decrease (increase) in prepaid expenses	17,172	(25,193)
(Decrease) increase in accounts payable	<u>461,868</u>	<u>55,311</u>
	<u>(38,427)</u>	<u>(478,409)</u>
Investment activities:		
Capital asset additions	-	(2,305)
Patent and product rights	<u>(64,131)</u>	<u>(52,471)</u>
	<u>(64,131)</u>	<u>(54,776)</u>
Financing activities:		
Loan proceeds	24,607	232,914
Issuance of shares	<u>78,750</u>	<u>17,500</u>
	<u>103,357</u>	<u>250,414</u>
Change in cash resources	799	(282,771)
Cash resources, beginning of year	<u>5,130</u>	<u>287,901</u>
Cash resources, end of year	<u>\$ 5,929</u>	<u>\$ 5,130</u>

**See the Accompanying Notes**

**Spectra Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2003**  
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**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  
Leasehold improvements - 5 years straight line  
Dies and molds - units of production  
Patents - straight line over the life of the patent  
Deferred charges - 5 year straight line  
Internet service provider - 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 required 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.

**Spectra Inc.**  
**Notes to Consolidated Financial Statements**  
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**2. Inventory:**

Inventory consists of:

	<b>2003</b>	<b>2002</b>
Product for resale	\$ 14,170	\$ 29,243
Raw materials	<u>72,481</u>	<u>83,187</u>
	<u>\$ 86,651</u>	<u>\$ 112,430</u>

**3. Capital Assets:**

Capital assets consist of:

	<u>December 31, 2003</u>			<u>2002</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Net</u>
Dies and molds	\$ 89,405	\$ 39,433	\$ 49,972	\$ 55,713
Furniture & fixtures	21,194	17,874	3,320	4,150
Computer equipment	17,024	14,565	2,459	3,512
Plant & equipment	28,024	19,426	8,598	10,748
Leasehold improvements	<u>7,547</u>	<u>7,547</u>	<u>-</u>	<u>-</u>
	<u>\$ 163,194</u>	<u>\$ 98,845</u>	<u>\$ 64,349</u>	<u>\$ 74,123</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.

	<u>December 31, 2003</u>			<u>2002</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Net</u>
Product rights	\$ 18,000	\$ 10,800	\$ 7,200	\$ 9,000
Patents	492,116	378,208	113,908	195,748
Development expenses	<u>325,727</u>	<u>253,426</u>	<u>72,301</u>	<u>64,669</u>
	<u>\$ 835,843</u>	<u>\$ 642,434</u>	<u>\$ 193,409</u>	<u>\$ 269,417</u>

**Spectra Inc.**  
**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 Schandelmeir patent.

Balances at December 31, 2003 are:

TD Canada Trust	\$ 31,180
Business Development Bank	56,100
Management loans	<u>567,220</u>
	654,500
Less current portion	<u>29,836</u>
	<u>\$ 624,664</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 -	\$ 29,836
2005 -	29,836
2006 -	26,536
2007 -	<u>1,072</u>
	<u>\$ 87,280</u>



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**9. Income Tax Losses:**

The consolidated group of companies has tax losses available for carry forward totaling \$3,538,240. 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>693,856</u>
	<u>\$3,563,869</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:

	<b>2003</b>	<b>2002</b>
Earnings (loss) per share	\$ (.0231)	\$ (.0240)
Earnings (loss) per share fully diluted	\$ (.0219)	\$ (.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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