

Spectra Inc.

Interim Consolidated Financial Statements

March 31, 2007

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 Sheet
March 31, 2007
Canadian Dollars

	March 31, 2007	Dec. 31, 2006
Assets		
Current assets:		
Cash	\$ 35,282	\$ 7,884
Accounts receivable	82,636	74,136
Inventory (note 2)	120,547	80,223
Prepaid expenses	<u>10,559</u>	<u>13,222</u>
	<u>249,024</u>	<u>175,465</u>
Capital assets, at cost (note 4)	187,059	177,388
Less: accumulated amortization	<u>106,597</u>	<u>104,861</u>
	<u>80,462</u>	<u>72,527</u>
Other assets, at cost (note 5)	1,025,651	1,021,411
Less: accumulated amortization	<u>811,977</u>	<u>804,874</u>
	<u>213,674</u>	<u>216,537</u>
	<u>\$ 543,160</u>	<u>\$ 464,529</u>

Prepared Without Audit
See the Accompanying Notes

Spectra Inc.
Consolidated Balance Sheet
March 31, 2007
Canadian Dollars

	March 31, 2007	Dec. 31, 2006
Liabilities		
Current liabilities:		
Current portion of loans payable	\$ 100,000	\$ 101,073
Accounts payable and accrued liabilities	<u>1,414,548</u>	<u>1,427,576</u>
	<u>1,514,548</u>	<u>1,528,649</u>
Long term liabilities (notes 6):		
Loans payable, net of current portion	<u>1,081,438</u>	<u>976,838</u>
	<u>2,595,986</u>	<u>2,505,487</u>
Shareholders' Deficiency		
Capital account (note 7)	4,435,888	4,376,888
Stock Based Compensation Equity	24,435	24,435
Deficit	<u>(6,513,149)</u>	<u>(6,442,281)</u>
	<u>(2,052,826)</u>	<u>(2,040,958)</u>
	<u>\$ 543,160</u>	<u>\$ 464,529</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, 2007
Canadian Dollars

	March 31, 2007	March 31, 2006
Revenues	\$ 204,763	\$ 144,339
Cost of revenue	<u>79,364</u>	<u>60,322</u>
Gross profit	<u>125,399</u>	<u>84,017</u>
Selling, general and administrative expenses:		
Advertising	308	270
Management salaries	50,000	-
Royalty debenture	18,750	18,750
Investor relations	10,000	-
Selling expenses	15,367	16,468
Professional fees - Legal	3,349	2,653
- Audit and accounting	3,000	6,000
- Trustee and filing fees	7,133	6,534
Office and general	13,734	12,945
Premises	16,030	15,887
Subcontract labour	16,440	16,440
Interest and bank charges		
long term debt	14,918	14,856
bank charges	680	658
Amortization		
- capital assets	624	766
- other assets	7,103	29,995
Consulting	12,000	9,974
Commission	<u>6,831</u>	<u>4,810</u>
	<u>196,267</u>	<u>157,006</u>
Income (loss) from operations	<u>(70,868)</u>	<u>(72,989)</u>
Net income (loss)	(70,868)	(72,989)
Deficit, beginning of year	<u>(6,442,281)</u>	<u>(5,943,812)</u>
Deficit, end of period	<u>\$(6,513,149)</u>	<u>\$(6,016,801)</u>
Earnings (loss) per share (note 9) - basic	\$ (0.002)	\$ (0.002)
- fully diluted	(0.002)	(0.002)

Prepared Without Audit
See the Accompanying Notes

Spectra Inc.
Consolidated Statement of Cash Flows
For the Three Months Ended March 31, 2007
Canadian Dollars

	March 31, 2007	March 31, 2006
Operating activities:		
Net income (loss)	\$ (55,310)	\$ (57,639)
Amortization	7,727	30,761
Interest paid, net	<u>(15,558)</u>	<u>(15,350)</u>
	(63,141)	(42,228)
Changes in non-cash working capital items:		
Decrease (increase) in accounts receivable	(8,019)	21,442
Decrease (increase) in inventory	(40,324)	19,472
Decrease (increase) in prepaid expenses	2,662	2,930
(Decrease) increase in accounts payable	<u>(12,397)</u>	<u>11,177</u>
	<u>(121,219)</u>	<u>12,793</u>
Investing activities:		
Capital asset additions	-	-
Patent, product rights and other	<u>(13,910)</u>	<u>(1,150)</u>
	<u>(13,910)</u>	<u>(1,150)</u>
Financing activities:		
Loan proceeds (repayments)	103,527	(3,785)
Issuance of shares	<u>59,000</u>	<u>-</u>
	<u>162,527</u>	<u>(3,785)</u>
Change in cash resources	27,398	7,858
Cash resources, beginning of year	<u>7,884</u>	<u>4,443</u>
Cash resources, end of period	<u>\$ 35,282</u>	<u>\$ 12,201</u>

Prepared Without Audit
See the Accompanying Notes

Spectra Inc.
Notes to Consolidated Financial Statements
March 31, 2007
Canadian Dollars

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of 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.

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 consolidated 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, 2007 has a working capital deficiency of \$ 1,265,524 (December 31, 2006 \$ 1,353,183). 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:

The management of Spectra Inc. has prepared these interim financial statements in accordance with Canadian Generally Accepted Accounting Principles (GAAP). Disclosure of the interim financial statements does not conform in all respects to the requirements of GAAP for annual statements. These statements follow the same accounting policies and methods of application as the annual financial statements for the twelve month period ending December 31, 2006. These statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2006. The Company follows accounting policies generally accepted in Canada.

Spectra Inc.
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The following is a summary of significant accounting policies used in the preparation of these financial statements:

Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Spectra Products Inc. All significant inter-company balances and transactions have been eliminated on consolidation.

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.

Stock-Based Compensation:

Executives and certain senior managers of the Company participate in the stock-based compensation plan, as described in note 8. The Company has adopted the recommendations of CICA Section 3870, "Stock-based Compensation and Other Stock-based Payments". These recommendations require that compensation for all equity based awards made to non-employees and employees be measured and recorded in the consolidated financial statements at fair value. The fair value of stock based compensation is determined using the Black-Scholes option pricing model. The resulting value is charged against income over the vesting periods of the option. The Company values options based on the trading price of the Company's common shares on the date of the grant.

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

Spectra Inc.
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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.

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.

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.

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Earnings per share:

Basic earnings per share is calculated based on the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method based on the weighted average number of shares that would have been outstanding during the year had all the dilutive options been exercised at the beginning of the year, or date of issuance if later, and assuming that option proceeds would be used to purchase common shares at the average market price during the year. As of each year ended there were no dilutive common equivalent shares.

3. Inventory:

Inventory consists of:	March 31, <u>2007</u>	December 31, <u>2006</u>
Product for resale	\$ 12,662	\$ 7,678
Raw materials	<u>107,885</u>	<u>72,545</u>
	<u>\$ 120,547</u>	<u>\$ 80,223</u>

4. Capital Assets:

Capital assets consist of:

	<u>March 31, 2007</u>			<u>Dec. 31 2006</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Net</u>
Dies and molds	\$ 118,686	\$ 49,496	\$ 69,190	\$ 59,519
Furniture & fixtures	24,731	21,116	3,615	3,805
Computer equipment	13,069	11,990	1,079	2,277
Plant & equipment	<u>30,573</u>	<u>23,995</u>	<u>6,578</u>	<u>6,926</u>
	<u>\$ 187,059</u>	<u>\$ 106,597</u>	<u>\$ 80,462</u>	<u>\$ 63,364</u>

Amortization of capital assets consists of:

	March 31, <u>2007</u>	March 31, <u>2006</u>
Office furniture and fixtures	\$ 190	\$ 238
Machinery, plant and equipment	347	304
Computers	87	224
Dies and molds	<u>-</u>	<u>-</u>
	<u>\$ 624</u>	<u>\$ 766</u>

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5. Other Assets:

Other assets consist of:	March 31, 2007			Dec. 31, 2006
	Cost	Accumulated Amortization	Net	Net
Patents and trademarks	\$ 497,688	\$ 496,210	\$ 1,478	\$ 1,612
Product rights	18,000	16,650	1,350	1,800
Prototypes	141,713	110,049	31,664	30,303
Royalty Deb. Finance Fee	68,388	12,538	55,850	56,990
Royalty debenture	150,000	26,668	123,332	125,832
Prepaid Royalty Brake Safe Inc.	149,862	149,862	-	-
	<u>\$1,025,176</u>	<u>\$ 811,977</u>	<u>\$ 213,674</u>	<u>\$ 216,537</u>

Amortization of other assets consists of:	March 31, 2007	March 31, 2006
Product rights – Brake Safe	\$ 450	\$ 450
Patent and trademarks	134	1,076
Prototype	2,879	9,703
Royalty debenture	3,640	1,140
Prepaid royalty and royalty debenture	-	17,626
	<u>\$ 7,103</u>	<u>\$ 29,995</u>

6. Loans Payable:

A working capital loan had been secured with the Business Development Bank of Canada repayable over a five year period, bearing interest at a floating rate. The balance at March 31, 2007 is \$ 0. This loan is secured by a general security agreement and personal guarantees from Management (Andrew Malion and Michael Faye). Loans from management total \$ 397,142 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 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, 2007 is \$ 0.

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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, 2007 is \$ 683,696. The minimum amount due in each of the next five years is as follows:

2007	100,000
2008	100,000
2009	100,000
2010	100,000
2011	100,000
Thereafter	<u>183,696</u>
	<u>683,696</u>

On March 9, 2007 the Company received an additional advance of \$100,000 from Dynamic Venture Opportunities Fund Ltd. The demand note is interest bearing at a rate of 12% per annum, compounded monthly, and payable at maturity. Maturity shall occur the earlier of June 30, 2007 or the closing date of the issuance of debt or equity securities or any other form of debt financing.

	March 31, <u>2007</u>	December 31, <u>2006</u>
Management Loans	\$ 397,742	\$ 386,892
TD Canada Trust	-	1,073
Dynamic Venture Opportunities Fund	<u>783,696</u>	<u>689,946</u>
	1,181,438	1,077,911
Less current portion	<u>100,000</u>	<u>101,073</u>
	<u>\$ 1,081,438</u>	<u>\$ 976,838</u>

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7. Capital Account:

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

Issued share capital:

	03/31/07	12/31/06
40,286,837(2006 - 39,536,837) common shares for	\$4,248,939	\$4,189,939
90,000 (2006 - 90,000) Spectra preference shares for	<u>27,000</u>	<u>27,000</u>
	<u>\$4,275,939</u>	<u>\$4,216,939</u>
	#	\$
Balance, December 31, 2005	35,966,837	4,026,098
Issued during 2006	<u>3,570,000</u>	<u>163,841</u>
Balance, December 31, 2006	39,536,837	\$ 4,189,939
Issued during 2007	<u>750,000</u>	<u>59,000.</u>
Balance, March 31, 2007	<u>40,286,837</u>	<u>\$ 4,248,939</u>

Stock 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 table below lists Options granted for the twelve month period ended December 31, 2006. There were no Options granted in the first quarter of 2007.

Expiry Date	Number of Options	Exercise Price
03/02/08	450,000	\$0.10
08/31/10	950,000	\$0.10
10/11/10	125,000	\$0.10
Total Options	1,525,000	\$0.10*
* Weighted average exercise price		

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8. Income Taxes:

The consolidated group of companies has income tax losses available for carry forward of \$ 3,473,429. Losses expire as follows:

2007	373,125
2008	583,363
2009	526,948
2010	643,521
2011	452,556
2012	407,861
2013	<u>486,055</u>
	<u>\$3,473,429</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.

9. Earnings per share:

Earnings per share for the last full fiscal year is as follows:

	2006
Earnings (loss) per share	<u>\$ (0.01)</u>

10. Commitments:

The company is obligated under an operating lease for premises until February 28, 2010 as follows:

2007	50,825
2008	53,699
2009	53,857
2010	<u>53,857</u>
	<u>\$ 212,238</u>

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11. Subsequent Events:

On May 28, 2007, the Company closed a non-brokered private placement of 4,745,000 units at a price of 5 cents per unit for gross proceeds of \$ 237,250. Each unit is comprised of one share in the capital of Spectra and one non-transferable share. Each share purchase warrant entitles the holder to purchase one additional common share of Spectra for a period of 24 months from closing at an exercise price of 10 cents per share. The Company has issued 4,745,000 common shares regarding this transaction.