

Spectra Inc.
Consolidated Financial Statements
June 30, 2005
Canadian Dollars
(Unaudited - See Review Engagement Report)

Revised January 31, 2006

REVIEW ENGAGEMENT REPORT

We have reviewed the Consolidated balance sheet of Spectra Inc. as at June 30, 2005 and the statement of operations, deficit and cash flows for the six 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.

August 24, 2005
Markham, Ontario

Francis & McKinney, LLP
Chartered Accountants

Spectra Inc.

Consolidated Balance Sheet
June 30, 2005
Canadian Dollars

	June 30, 2005	Dec. 31, 2004
Assets		
Current assets:		
Bank	\$ 15,644	\$ 7,915
Accounts receivable	117,292	124,604
Inventory (Note 1,3)	151,548	147,419
Prepaid expenses	<u>17,257</u>	<u>25,383</u>
	<u>301,741</u>	<u>305,321</u>
Capital assets:		
Capital assets at cost: (Note 4)	168,845	167,237
Less: accumulated amortization	<u>101,388</u>	<u>98,741</u>
	<u>67,457</u>	<u>68,496</u>
Other assets (Note 5):		
Patents, trademarks and product rights	513,633	513,180
Prototypes	103,468	89,468
Deferred charges	111,842	111,842
Royalties and finance fees	<u>218,250</u>	<u>218,250</u>
	947,193	932,740
Less: accumulated amortization	<u>717,550</u>	<u>650,314</u>
	<u>229,643</u>	<u>282,426</u>
Total Assets	<u>\$ 598,841</u>	<u>\$ 656,243</u>

Prepared Without Audit
See The Accompanying Notes
Spectra Inc.

Consolidated Balance Sheet
June 30, 2005
Canadian Dollars

	June 30, 2005	Dec. 31, 2004
Liabilities		
Current liabilities:		
Current portion of long term liabilities (Note 6)	\$ 129,836	\$ 129,836
Accounts payable and accrued liabilities	<u>966,679</u>	<u>821,349</u>
	<u>1,096,515</u>	<u>951,185</u>
Long-term liabilities, net (Note 6)	<u>1,067,803</u>	<u>1,083,851</u>
Total liabilities	<u>2,164,318</u>	<u>2,035,036</u>

Shareholders' Deficiency

Capital account: (Note 7)		
Authorized – unlimited common and preference shares		
Issued – common and preference shares	4,053,098	4,053,098
Deficit	<u>(5,618,575)</u>	<u>(5,431,891)</u>
	<u>(1,565,477)</u>	<u>(1,378,793)</u>
Total Liabilities and Shareholders' Equity	<u>\$ 598,841</u>	<u>\$ 656,243</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
Canadian Dollars

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Revenues	\$ 216,313	\$ 163,813	\$ 380,668	\$ 276,112
Cost of revenue	<u>83,252</u>	<u>77,002</u>	<u>159,682</u>	<u>133,389</u>
Gross profit	<u>133,061</u>	<u>86,811</u>	<u>220,986</u>	<u>142,723</u>
Selling, general and administrative expenses:				
Advertising	-	270	1,300	535
Selling expenses	20,130	17,492	34,535	38,115
Amortization (Note 4,5)				
- capital assets	1,754	780	3,914	1,561
- other assets	15,363	26,644	30,390	64,378
Professional fees (Note 9)				
- legal	5,902	9,630	6,253	11,567
- audit and accounting	6,000	3,000	10,000	7,500
- trustee and filing fees	7,426	10,981	11,758	15,531
Office and general	16,440	16,818	29,160	23,795
Premises	14,043	13,715	28,682	28,756
Subcontract labour	20,050	10,769	35,050	37,359
Interest and bank charges				
- long term debt	10,295	12,940	20,744	26,688
- bank charges and other	735	627	1,208	1,243
Administration	75,000	75,000	75,000	75,000
Consultants	13,060	10,577	28,295	19,577
Commission	8,596	8,526	13,604	15,509
Royalty	19,213	8,457	37,272	14,812
Brake Safe royalty and financing fees	17,690	-	37,385	-
ISO registration	<u>-</u>	<u>-</u>	<u>3,120</u>	<u>-</u>
	<u>251,697</u>	<u>226,226</u>	<u>407,670</u>	<u>381,926</u>
Net loss from operations	(118,636)	(139,415)	(186,684)	(239,203)
Deficit, beginning	<u>(1,749,995)</u>	<u>(1,556,004)</u>	<u>(1,725,150)</u>	<u>(1,507,390)</u>
Deficit, ending	<u>\$(1,868,631)</u>	<u>\$(1,695,419)</u>	<u>\$(1,911,834)</u>	<u>\$(1,746,593)</u>
Earnings per share basic (Note 9)	(0.003)	(0.005)	(0.005)	(0.008)
Earnings per share fully diluted	(0.003)	(0.005)	(0.005)	(0.008)

Prepared Without Audit
See The Accompanying Notes

Spectra Products Inc.
Consolidated Statement of Cash Flow
Canadian Dollars

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Operating Activities:				
Loss from operations	\$ (107,771)	\$ (113,691)	\$ (165,093)	\$ (211,625)
Interest earned	46	23	133	23
Interest paid	(10,911)	(13,402)	(21,724)	(27,601)
Amortization	<u>35,692</u>	<u>27,424</u>	<u>71,149</u>	<u>65,939</u>
	<u>(82,944)</u>	<u>(99,646)</u>	<u>(115,535)</u>	<u>(173,264)</u>
Decrease (increase) in accounts receivable	(39,298)	(38,428)	7,312	(34,649)
Decrease (increase) in Inventory	5,743	(23,035)	(4,129)	(4,423)
Decrease (increase) in prepaid expenses	4,068	8,847	8,126	5,216
Increase (decrease) in accounts payable	<u>128,667</u>	<u>146,556</u>	<u>145,329</u>	<u>203,591</u>
Cash from (to) operations	<u>16,236</u>	<u>(5,706)</u>	<u>41,103</u>	<u>(3,529)</u>
Investment Activities:				
Increase in capital assets	(889)	(4,735)	(2,874)	(4,735)
Increase in other assets	<u>(8,252)</u>	<u>-</u>	<u>(14,452)</u>	<u>-</u>
	<u>(9,141)</u>	<u>(4,735)</u>	<u>(17,326)</u>	<u>(4,735)</u>
Financing Activities:				
Increase (decrease) in other loans	(8,649)	1,177	(16,048)	2,226
Share capital	<u>-</u>	<u>5,000</u>	<u>-</u>	<u>5,000</u>
	<u>(8,649)</u>	<u>6,177</u>	<u>(16,048)</u>	<u>7,226</u>
Change in cash resources	(1,554)	(4,264)	7,729	(1,038)
Cash resources (deficiency), beginning of period	<u>17,198</u>	<u>9,156</u>	<u>7,915</u>	<u>5,930</u>
Cash resources (deficiency), end of period	<u>\$ 15,644</u>	<u>\$ 4,892</u>	<u>\$ 15,644</u>	<u>\$ 4,892</u>

Prepared Without Audit
See The Accompanying Notes

Spectra Inc.
Notes to Consolidated Financial Statements
June 30, 2005
Canadian Dollars

1. Nature of Business and Basis of Presentation:

Nature of Business –

Spectra Products 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 June 30, 2005 has a working capital deficiency, excluding the amount due to the parent company, of \$ 794,774. 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.
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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 estimate 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.

Spectra Inc.
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Canadian Dollars 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, inter-company loan payable and loans payable. Unless otherwise stated the fair value of the financial instruments approximates their carrying value.

3. Inventory:

Inventory consists of:

	June 30, <u>2005</u>	December 31, <u>2004</u>
Product for resale	\$ 21,827	\$ 35,712
Raw materials	<u>129,721</u>	<u>111,707</u>
	<u>\$ 151,548</u>	<u>\$ 147,419</u>

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4. Capital Assets:

Capital assets consist of:

	2005			2004
	Cost	Accumulated Amortization	Net	Net
Dies and molds	\$ 96,192	\$ 44,245	\$ 51,947	\$ 54,056
Furniture & fixtures	24,731	19,461	5,270	5,839
Computer equipment	19,349	15,853	3,496	1,721
Plant & equipment	28,573	21,829	6,744	6,880
	\$ 168,845	\$ 101,388	\$ 67,457	\$ 68,496

Amortization of capital assets consists of:

	June 30, <u>2005</u>	June 30, <u>2004</u>
Office furniture and fixtures	\$ 569	\$ 332
Machinery, plant and equipment	685	860
Computers	550	369
Dies and molds	2,110	-
	\$ 3,914	\$ 1,561

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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:

	2005			2004
	Cost	Accumulated Amortization	Net	Net
Patent and trademarks	\$ 495,633	\$ 479,394	\$ 16,239	\$ 29,006
Product rights	18,000	13,500	4,500	5,400
Deferred Charges	111,842	111,842	-	-
Prototypes	103,468	46,093	57,375	59,646
Royalty Deb. Finance Fee	68,388	4,559	63,829	66,108
Prepaid Royalty Brake Safe Inc.	<u>149,862</u>	<u>62,162</u>	<u>87,700</u>	<u>122,266</u>
	<u>\$ 947,193</u>	<u>\$ 717,550</u>	<u>\$ 229,643</u>	<u>\$282,426</u>

Amortization of other assets consists of:

	June 30, <u>2005</u>	June 30, <u>2004</u>
Deferred charges	\$ -	\$ 9,301
Product rights – Brake Safe	900	900
Patent and trademarks	13,220	3,883
Prototype	16,271	10,850
Prepaid Royalty and Royalty Debenture	<u>36,844</u>	<u>-</u>
	<u>\$ 67,235</u>	<u>\$ 24,934</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 \$ 427,667 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	\$ 19,800
2006	<u>16,500</u>
	<u>\$ 36,300</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 a general security agreement. The balance at June 30, 2005 is \$ 16,127. The amount due in each of the following next three years is as follows:

2005	\$ 5,019
2006	10,036
2007	<u>1,072</u>
	<u>\$ 16,127</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 June 30, 2005 is \$ 727,445.

Spectra Inc.
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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

	<u>2005</u>	<u>2004</u>
Business Development Bank of Canada	\$ 26,400	\$ 36,300
Management loan	427,667	416,297
TD Canada Trust	16,127	21,144
Dynamic Venture Opportunities Fund	<u>727,445</u>	<u>739,946</u>
	1,197,639	1,213,687
Less current portion	<u>129,836</u>	<u>129,836</u>
	<u>\$ 1,067,803</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:

	12/31/04	12/31/03
35,966,837(2003 - 28,916,837) common shares for	\$4,026,098	\$3,821,098
90,000 (2003 - 90,000) Spectra preference shares for	<u>27,000</u>	<u>27,000</u>
	<u>\$4,053,098</u>	<u>\$3,848,098</u>
	#	\$
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	700,000	78,750
Balance, December 31, 2003	28,916,837	3,821,098
Issued during 2004	7,050,000	205,000
Balance, December 31, 2004	<u>35,966,837</u>	<u>\$ 4,026,098</u>

Spectra Inc.
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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 six month period ending June 30, 2005.

Expiry Date	Number of Options	Exercise Price
10/11/05	125,000	\$0.16
10/01/06	250,000	\$0.25
01/15/07	375,000	\$0.20
03/02/08	800,000	\$0.10
Total Options	1,550,00	\$0.15*
*Weighted average exercise price		

8. Income Taxes:

The Company 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.

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>

