

Spectra Inc.

Interim Consolidated Financial Statements

September 30, 2006

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
September 30, 2006
Canadian Dollars

| | Sept. 30, 2006 | Dec. 31, 2005 |
|----------------------------------|---------------------------|--------------------------|
| Assets | | |
| Current assets: | | |
| Bank | \$ 11,624 | \$ 4,443 |
| Accounts receivable | 69,136 | 75,286 |
| Inventory (Note 1,3) | 111,278 | 122,048 |
| Prepaid expenses | <u>5,144</u> | <u>24,767</u> |
| | <u>197,582</u> | <u>226,544</u> |
| Capital assets: | | |
| Capital assets at cost: (Note 4) | 171,888 | 162,564 |
| Less: accumulated amortization | <u>104,206</u> | <u>99,200</u> |
| | <u>67,682</u> | <u>63,364</u> |
| Other assets: | | |
| Other assets at cost (Note 4) | 867,851 | 848,026 |
| Less: accumulated amortization | <u>764,860</u> | <u>674,326</u> |
| | <u>102,991</u> | <u>173,700</u> |
| Total Assets | <u>\$ 367,855</u> | <u>\$ 463,608</u> |

Prepared Without Audit
See The Accompanying Notes

Spectra Inc.
Consolidated Balance Sheet
September 30, 2006
Canadian Dollars

| | Sept. 30, 2006 | Dec. 31, 2005 |
|---|---------------------------------|--------------------------------|
| Liabilities | | |
| Current liabilities: | | |
| Current portion of long term liabilities (Note 6) | \$ 105,232 | \$ 126,536 |
| Accounts payable and accrued liabilities | <u>1,192,750</u> | <u>1,140,122</u> |
| | <u>1,297,982</u> | <u>1,266,658</u> |
| Long-term liabilities, net (Note 6) | <u>1,074,190</u> | <u>1,063,229</u> |
| Total liabilities | <u>2,372,172</u> | <u>2,329,887</u> |

Shareholders' Deficiency

| | | |
|---|--------------------|--------------------|
| Capital account: (Note 7) | | |
| Authorized – unlimited common and preference shares | | |
| Issued – common and preference shares | 4,131,598 | 4,053,098 |
| Stock Based Compensation Equity | 33,794 | 24,435 |
| Deficit | <u>(6,169,709)</u> | <u>(5,943,812)</u> |
| | <u>(2,004,317)</u> | <u>(1,866,279)</u> |
| Total Liabilities and Shareholders' Equity | <u>\$ 367,855</u> | <u>\$ 463,608</u> |

Approved by the Board:

 "Michael R. Faye" **Director**

 "Andrew J. Malion" **Director**

Prepared Without Audit
See The Accompanying Notes

Spectra Inc.
Consolidated Statement Of Operations And Deficit
Canadian Dollars

| | Three Months Ended | | Nine Months Ended | |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Sept. 30, | | Sept. 30, | |
| | 2006 | 2005 | 2006 | 2005 |
| Revenues | \$ 207,369 | \$ 146,344 | \$ 623,690 | \$ 527,012 |
| Cost of revenue | <u>81,128</u> | <u>52,940</u> | <u>284,778</u> | <u>212,622</u> |
| Gross profit | <u>126,241</u> | <u>93,404</u> | <u>338,912</u> | <u>314,390</u> |
| Selling, general and administrative expenses: | | | | |
| Advertising | 305 | 1,470 | 1,107 | 2,770 |
| Selling expenses | 12,215 | 15,030 | 52,446 | 49,565 |
| Amortization (Note 4,5) | | | | |
| - capital assets | 2,485 | 2,223 | 5,006 | 6,137 |
| - other assets | 30,318 | 34,125 | 90,533 | 101,900 |
| Professional fees (Note 9) | | | | |
| - legal | (4,345) | (11,350) | 2,494 | (5,097) |
| - audit and accounting | - | 5,545 | 16,214 | 15,545 |
| - trustee and filing fees | 1,309 | 15,770 | 18,754 | 27,528 |
| Office and general | 13,473 | 11,249 | 41,146 | 40,409 |
| Premises | 13,867 | 14,004 | 44,039 | 42,686 |
| Subcontract labour | 16,440 | 15,390 | 52,060 | 50,440 |
| Interest and bank charges | | | | |
| - long term debt | 15,482 | 13,769 | 45,262 | 34,513 |
| - bank charges and other | 676 | 724 | 2,030 | 1,932 |
| Administration | - | - | 75,000 | 75,000 |
| Stock based compensation | - | - | 9,359 | - |
| Consultants | 8,999 | 13,987 | 27,973 | 42,282 |
| Commission | 4,623 | 4,526 | 15,180 | 18,130 |
| Royalty | 20,657 | 22,256 | 64,506 | 59,528 |
| ISO registration | - | - | 1,700 | 3,120 |
| | <u>136,504</u> | <u>158,718</u> | <u>564,809</u> | <u>566,388</u> |
| Net loss from operations | (10,263) | (65,314) | (225,897) | (251,998) |
| Deficit, beginning | <u>(6,159,446)</u> | <u>(5,618,575)</u> | <u>(5,943,812)</u> | <u>(5,431,891)</u> |
| Deficit, ending | <u><u>\$(6,169,709)</u></u> | <u><u>\$(5,683,889)</u></u> | <u><u>\$(6,169,709)</u></u> | <u><u>\$(5,683,889)</u></u> |
| Earnings (loss) per share basic (Note 7,9) | (0.000) | (0.002) | (0.006) | (0.007) |
| Earnings (loss) per share fully diluted | (0.000) | (0.002) | (0.006) | (0.006) |

Prepared Without Audit
See The Accompanying Notes

Spectra Inc.
Consolidated Statement of Cash Flow
Canadian Dollars

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|------------------|--------------------------|------------------|
| | Sept. 30, | | Sept. 30, | |
| | 2006 | 2005 | 2006 | 2005 |
| Operating Activities: | | | | |
| Loss from operations | \$ 5,729 | \$ (50,986) | \$ (179,126) | \$ (216,079) |
| Interest earned | 68 | 47 | 188 | 180 |
| Interest paid | (16,060) | (14,375) | (46,959) | (36,099) |
| Amortization | <u>32,163</u> | <u>36,138</u> | <u>95,539</u> | <u>108,037</u> |
| | 21,900 | (29,176) | (130,358) | (143,961) |
| | | | | |
| Decrease (increase) in accounts receivable | 140,983 | 63,889 | 6,150 | 71,201 |
| Decrease (increase) in Inventory | 1,421 | (13,342) | 10,770 | (17,471) |
| Decrease (increase) in prepaid expenses | 3,917 | 4,113 | 19,623 | 12,239 |
| Increase (decrease) in accounts payable | <u>(157,607)</u> | <u>(9,611)</u> | <u>37,779</u> | <u>134,968</u> |
| Cash from (to) operations | <u>10,614</u> | <u>15,873</u> | <u>(56,036)</u> | <u>56,976</u> |
| | | | | |
| Investment Activities: | | | | |
| Increase in capital assets | (9,325) | - | (9,325) | (2,874) |
| Increase in other assets | <u>(6,773)</u> | <u>(9,235)</u> | <u>(19,823)</u> | <u>(23,687)</u> |
| | <u>(16,098)</u> | <u>(9,235)</u> | <u>(29,148)</u> | <u>(26,561)</u> |
| | | | | |
| Financing Activities: | | | | |
| Increase (decrease) in other loans | 1,841 | (4,007) | 4,506 | (20,055) |
| Stock based compensation | - | - | 9,359 | - |
| Share capital | <u>4,945</u> | <u>-</u> | <u>78,500</u> | <u>-</u> |
| | <u>6,786</u> | <u>(4,007)</u> | <u>92,365</u> | <u>(20,055)</u> |
| | | | | |
| Change in cash resources | 1,302 | 2,631 | 7,181 | 10,360 |
| | | | | |
| Cash resources (deficiency), beginning of period | <u>10,322</u> | <u>15,644</u> | <u>4,443</u> | <u>7,915</u> |
| | | | | |
| Cash resources (deficiency), end of period | <u>\$ 11,624</u> | <u>\$ 18,275</u> | <u>\$ 11,624</u> | <u>\$ 18,275</u> |

Prepared Without Audit
See The Accompanying Notes

Spectra Inc.
Notes to Consolidated Financial Statements
September 30, 2006
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 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 September 30, 2006 has a working capital deficiency of \$ 1,100,400 (December 31, 2005 \$ 1,040,114). 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, 2005. These statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2005. The Company follows accounting policies generally accepted in Canada.

Spectra Inc.
Notes to Consolidated Financial Statements
September 30, 2006
Canadian Dollars

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.
Notes to Consolidated Financial Statements
September 30, 2006
Canadian Dollars

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.

Spectra Inc.
Notes to Consolidated Financial Statements
September 30, 2006
Canadian Dollars

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:

| | Sept. 30, <u>2006</u> | December 31, <u>2005</u> |
|--------------------|--------------------------|-----------------------------|
| Product for resale | \$ 19,071 | \$ 16,355 |
| Raw materials | <u>92,207</u> | <u>105,693</u> |
| | <u>\$ 111,278</u> | <u>\$ 122,048</u> |

4. Capital Assets:

Capital assets consist of:

| | Sept. 30, <u>2006</u> | | | Dec 31, <u>2005</u> |
|----------------------|--------------------------|-------------------------------------|------------------|------------------------|
| | <u>Cost</u> | <u>Accumulated Amortization</u> | <u>Net</u> | <u>Net</u> |
| Dies and molds | \$ 105,516 | \$ 49,496 | \$ 56,020 | \$ 49,529 |
| Furniture & fixtures | 24,731 | 20,653 | 4,078 | 4,757 |
| Computer equipment | 13,068 | 10,701 | 2,367 | 1,540 |
| Plant & equipment | <u>28,573</u> | <u>23,356</u> | <u>5,217</u> | <u>6,086</u> |
| | <u>\$ 171,888</u> | <u>\$ 104,206</u> | <u>\$ 67,682</u> | <u>\$ 61,912</u> |

Amortization of capital assets consists of:

| | Sept. 30, <u>2006</u> | Sept. 30, <u>2005</u> |
|--------------------------------|--------------------------|--------------------------|
| Office furniture and fixtures | \$ 679 | \$ 832 |
| Machinery, plant and equipment | 868 | 397 |
| Computers | 625 | 1,438 |
| Dies and molds | <u>2,834</u> | <u>3,470</u> |
| | <u>\$ 5,006</u> | <u>\$ 6,137</u> |

Spectra Inc.
Notes to Consolidated Financial Statements
September 30, 2006
Canadian Dollars

5. Other Assets:

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

Other assets consist of:

| | Sept. 30, 2006 | | | Dec. 31, 2005 |
|---------------------------------|-------------------|-----------------------------|-------------------|------------------|
| | Cost | Accumulated Amortization | Net | Net |
| Patent and trademarks | \$ 497,888 | \$ 493,276 | \$ 4,612 | \$ 5,262 |
| Product rights | 18,000 | 15,750 | 2,250 | 3,600 |
| Prototypes | 133,713 | 95,714 | 37,999 | 50,841 |
| Royalty Deb. Finance Fee | 68,388 | 10,258 | 58,130 | 61,549 |
| Prepaid Royalty Brake Safe Inc. | <u>149,862</u> | <u>149,862</u> | <u>-</u> | <u>52,448</u> |
| | <u>\$ 867,851</u> | <u>\$ 764,860</u> | <u>\$ 102,991</u> | <u>\$173,700</u> |

Amortization of other assets consists of:

| | Sept. 30, <u>2006</u> | Sept. 30, <u>2005</u> |
|---------------------------------------|--------------------------|--------------------------|
| Product rights – Brake Safe | \$ 1,350 | 1,350 |
| Patent and trademarks | 1,914 | 18,926 |
| Prototype | 31,404 | 26,013 |
| Prepaid Royalty and Royalty Debenture | <u>55,865</u> | <u>55,611</u> |
| | <u>\$ 90,533</u> | <u>\$ 101,900</u> |

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 \$ 477,994 and bear interest at 9.0% per annum. These loans are secured with a general security agreement including a fixed charge on the Schandelmier patent. The management loans are repayable 366 days after demand.

Spectra Inc.
Notes to Consolidated Financial Statements
September 30, 2006
Canadian Dollars

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

| | |
|------|-----------------|
| 2006 | \$ 1,650 |
| | <u>\$ 1,650</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 September 30, 2006 is \$ 3,582. The amount due in each of the following next three years is as follows:

| | |
|------|-----------------|
| 2006 | \$ 2,510 |
| 2007 | <u>1,072</u> |
| | <u>\$ 3,582</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 September 30, 2006 is \$ 696,196.

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

| | |
|------------|------------|
| 2006 | \$ 100,000 |
| 2007 | 100,000 |
| 2008 | 100,000 |
| 2009 | 100,000 |
| 2010 | 100,000 |
| Thereafter | 196,196 |

Spectra Inc.
Notes to Consolidated Financial Statements
September 30, 2006
Canadian Dollars

| | Sept. 30, <u>2006</u> | December 31, <u>2005</u> |
|-------------------------------------|--------------------------|-----------------------------|
| Business Development Bank of Canada | \$ 1,650 | \$ 16,500 |
| Management loan | 477,994 | 447,210 |
| TD Canada Trust | 3,582 | 11,109 |
| Dynamic Venture Opportunities Fund | <u>696,196</u> | <u>714,946</u> |
| | 1,179,422 | 1,189,765 |
| Less current portion | <u>105,232</u> | <u>126,536</u> |
| | <u>\$ 1,074,190</u> | <u>\$ 1,063,229</u> |

7. Capital Account:

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

Issued share capital:

| | 09/30/06 | 12/31/05 |
|---|--------------------|---------------------|
| 37,536,837(2005 – 35,966,837) common shares for | \$4,104,598 | \$4,026,098 |
| 90,000 (2005- 90,000) Spectra preference shares for | 27,000 | 27,000 |
| Stock Based Compensation Equity | <u>33,794</u> | <u>24,435</u> |
| | <u>\$4,165,392</u> | <u>\$4,077,533</u> |
| | <u>#</u> | <u>\$</u> |
| Common shares issued 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 | <u>-</u> | <u>-</u> |
| Balance, December 31, 2005 | 35,966,837 | 4,026,098 |
| Issued during 2006 | <u>1,570,000</u> | <u>78,500</u> |
| Balance, September 30, 2006 | <u>37,536,837</u> | <u>\$ 4,104,598</u> |

Spectra Inc.
Notes to Consolidated Financial Statements
September 30, 2006
Canadian Dollars

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, 2005. There were no Options granted in the first nine months of 2006.

| Expiry Date | Number of Options | Exercise Price |
|-----------------------------------|-------------------|----------------|
| 10/01/06 | 250,000 | \$0.25 |
| 01/15/07 | 375,000 | \$0.20 |
| 03/02/08 | 800,000 | \$0.10 |
| 08/31/10 | 950,000 | \$0.10 |
| 10/11/10 | 125,000 | \$0.10 |
| Total Options | 2,500,000 | \$0.13* |
| * Weighted average exercise price | | |

Warrants

On June 29, 2006, the Company closed a private placement of 1,570,000 units consisting of one common share at a deemed price of \$0.05 per share and one warrant redeemable until June 29, 2008 for one common share of the Company at a price of \$0.10 per share. The Company has 1,570,000 warrants outstanding as at September 30, 2006.

8. Income Taxes:

The Company has income tax losses available for carry forward of \$ 3,129,557. Losses expire as follows:

| | |
|------|----------------|
| 2006 | 107,479 |
| 2007 | 373,125 |
| 2008 | 583,363 |
| 2009 | 526,948 |
| 2010 | 643,521 |
| 2011 | 452,556 |
| 2012 | <u>442,565</u> |
| | 3,129,557 |

The potential benefit of these losses have not been recognized in the accounts.

Spectra Inc.
Notes to Consolidated Financial Statements
September 30, 2006
Canadian Dollars

9. Earnings per share:

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

| | 2005 |
|---|------------|
| Earnings (loss) per share basic | \$ (.0133) |
| Earnings (loss) per share (fully diluted) | \$ (.0124) |

10. Commitments:

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

| | |
|------|------------------|
| 2006 | \$ 50,892 |
| 2007 | <u>8,482</u> |
| | <u>\$ 59,374</u> |

