SPECTRA INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of **Spectra Inc.**
Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **Spectra Inc.**, which comprise the consolidated statements of financial position at December 31, 2014 and 2013, and the consolidated statements of changes in shareholders' deficiency, comprehensive income and loss and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparations and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Spectra Inc.** as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates the existence of a material uncertainty that may cast substantial doubt about **Spectra Inc.'s** ability to continue as a going concern.

SF Partnership, LLP

LICENSED PUBLIC ACCOUNTANTS

Toronto, Canada
April 10, 2015

SPECTRA INC.

Consolidated Statements of Financial Position
December 31, 2014 and 2013

	2014	2013
ASSETS		
Current		
Cash	$ 47,083	$ 19,923
Accounts receivable	146,757	142,604
Inventories (note 4)	89,240	90,439
Prepaid expenses	25,336	25,601
	308,416	278,567
Equipment (note 5)	28,269	4,836
Intangible Assets (note 6)	5,993	8,493
Total Assets	$ 342,678	$ 291,896
LIABILITIES		
Current		
Accounts payable and accrued charges (notes 7 and 14)	$ 270,933	$ 311,006
Loans payable – current portion (note 8)	-	50,000
	270,933	361,006
Loans Payable (note 8)	350,000	350,000
Royalty Debenture (note 9)	648,454	628,199
Convertible Preferred Shares (note 10)	937,500	937,500
	2,206,887	2,276,705
SHAREHOLDERS' DEFICIENCY		
Share Capital (note 11)	5,341,136	5,341,136
Contributed Surplus (note 11)	196,018	196,018
Accumulated Deficit	(6,868,940)	(7,018,817)
Deficiency Attributable to Shareholders of the Company	(1,331,786)	(1,481,663)
Non-controlling Interest (note 12)	(532,423)	(503,146)
Total Shareholders' Deficiency	(1,864,209)	(1,984,809)
Total liabilities and Shareholders' Deficiency	$ 342,678	$ 291,896

APPROVED ON BEHALF OF THE BOARD

Chairman

Director

(The accompanying notes are an integral part of these consolidated financial statements.)

SPECTRA INC.
Consolidated Statements of Changes in Shareholders' Deficiency
Years ended December 31, 2014 and 2013

	Share Capital	Contributed surplus	Accumulated deficit	Deficiency attributable to shareholders of the Company	Non-controlling interest	Total deficiency
Balance, January 1, 2014	$ 5,341,136	$ 196,018	$ (7,018,817)	$ (1,481,663)	$ (503,146)	$ (1,984,809)
Net income			19,548	19,548	26,052	45,600
Gain on issuance of shares by subsidiary (notes 9 and 11)			75,000	75,000		75,000
Changes in ownership interest in subsidiary that does not result in a loss of control			55,329	55,329	(55,329)	-
Balance, December 31, 2014	$ 5,341,136	$ 196,018	$ (6,868,940)	$ (1,331,786)	$ (532,423)	$ (1,864,209)

	Share Capital	Contributed surplus	Accumulated deficit	Deficiency attributable to shareholders of the Company	Non-controlling interest	Total deficiency
Balance, January 1, 2013	$ 5,341,136	$ 196,018	$ (7,043,731)	$ (1,506,577)	$ (480,111)	$ (1,986,688)
Net loss			(70,422)	(70,422)	(2,699)	(73,121)
Gain on issuance of shares by subsidiary (notes 9 and 11)			75,000	75,000		75,000
Changes in ownership interest in subsidiary that does not result in a loss of control			20,336	20,336	(20,336)	-
Balance, December 31, 2013	$ 5,341,136	$ 196,018	$ (7,018,817)	$ (1,481,663)	$ (503,146)	$ (1,984,809)

(The accompanying notes are an integral part of these consolidated financial statements.)

SPECTRA INC.
Consolidated Statements of Comprehensive Income and Loss
Years ended December 31, 2014 and 2013

	2014	2013
Sales	**$ 1,433,557**	$ 1,275,216
Cost of Sales	**644,106**	580,657
Gross Profit	**789,451**	694,559
Selling costs	**145,707**	146,477
Administrative costs	**447,654**	469,047
Amortization	**9,829**	7,961
Finance costs	**140,661**	144,195
Income (Loss) Before Taxes	**45,600**	(73,121)
Provision for income taxes (note 15)	**-**	-
Net Income (Loss) and Comprehensive Income (Loss)	**$ 45,600**	$ (73,121)
Net Income (Loss) and Comprehensive Income (Loss) Attributable to:		
Shareholders of the Company	**$ 19,548**	$ (70,422)
Non-controlling interest	**26,052**	(2,699)
	$ 45,600	$ (73,121)
Net Income (Loss) per Share - Basic and Diluted	**$ 0.00**	$ (0.00)
Weighted Average Number of Common Shares		
Outstanding During the Year – Basic	**60,514,837**	60,514,837
Outstanding During the Year – Diluted	**61,163,878**	61,164,837

(The accompanying notes are an integral part of these consolidated financial statements.)

SPECTRA INC.

Consolidated Statements of Cash Flows
Years ended December 31, 2014 and 2013

		2014		2013
Cash Flows from Operating Activities				
Net income (loss)	$	**45,600**	$	(73,121)
Adjustments for:				
Finance costs		**140,661**		144,195
Amortization		**9,829**		7,961
		196,090		79,035
Changes in working capital:				
Accounts receivable		**(4,153)**		(23,295)
Inventories		**1,199**		10,081
Prepaid expenses		**265**		(6,268)
Accounts payable and accrued charges		**(40,073)**		(12,888)
		153,328		46,665
Cash used in operating activities:				
Interest paid		**(45,406)**		(49,564)
Net Cash Provided by (Used in) Operating Activities		**107,922**		(2,899)
Cash Flows from Investing Activities				
Purchase of equipment		**(30,762)**		-
Net Cash Used in Investing Activities		**(30,762)**		-
Cash Flows from Financing Activities				
Proceeds from loans payable		**-**		80,000
Repayment of loans payable		**(50,000)**		(70,000)
Net Cash (Used in) Provided by Financing Activities		**(50,000)**		10,000
Net Increase in Cash		**27,160**		7,101
Cash - Beginning of Year		**19,923**		12,822
Cash - End of Year	$	**47,083**	$	19,923
Supplemental Information				
Non-monetary item:				
Issuance of shares in settlement of debts (note 9)	$	**75,000**	$	75,000

(The accompanying notes are an integral part of these consolidated financial statements.)

1. Nature of Business and Basis of Presentation

Nature of Business

Spectra Inc. ("Spectra"), incorporated under the laws of the province of Alberta on October 4, 1994, and its subsidiary Spectra Products Inc. ("SPI") (collectively the "Company") are a manufacturing and marketing company operating in one market segment - bus and truck transportation safety equipment. The Company manufactures and markets brake and wheel-end monitoring equipment as an after market product through transportation dealers, distributors and direct sales to fleet operators. The address of the Company is 41 Horner Avenue, Unit 2, Etobicoke, Ontario M8Z 4X4.

Basis of Presentation

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that are measured at fair values as described in our accounting policies.

Presentation and Functional Currency

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

Going Concern

These consolidated financial statements have been prepared on the assumption that the Company is a going concern which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. As at December 31, 2014, the Company had an accumulated shareholders' deficiency of $1,864,209 of which $1,331,786 was attributable to the Company's shareholders and $532,423 was attributable to the non-controlling interest (2013 - $1,984,809 of which $1,481,663 was attributable to the Company's shareholders and $503,146 was attributable to the non-controlling interest). The Company's ability to meet its obligations and continue as a going concern is dependent upon its ability to obtain additional financing and achievement of profitable operations. Management plans to achieve profitable operations and pursue additional financing, however, there can be no assurance that the Company will be able to secure financing when needed or to obtain such financing on terms satisfactory to the Company, if at all. The Company is seeking additional financing to provide working capital, inventories and equipment necessary to implement its business plan. The Company will continue to seek new financing, joint venture or strategic financial relationships that will permit ongoing operation of the Company.

The consolidated financial statements do not reflect any adjustments in the carrying values and classifications of the assets and liabilities or the reported expenses that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

2. Summary of Significant Accounting Policies

a) Basis of Consolidation

These consolidated financial statements include the accounts of Spectra and SPI. As of December 31, 2014, Spectra held an interest of 72.09% (2013 – 74.72%) in SPI. All significant inter-company transactions and balances have been eliminated.

b) Non-controlling Interest

Non-controlling interest represents equity interest in a subsidiary owned by an outside party. The share of net assets of the subsidiary attributable to non-controlling interest is presented as a component of equity. Their share of net income and comprehensive income is recognized directly in equity. Changes in the parent company's ownership interest in subsidiary that do not result in loss of control are accounted for as an equity transaction.

c) 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.

d) Inventories

Inventories are valued, on a first-in, first-out basis at the lower of cost and net realizable value. The Company writes down estimated obsolete or excess inventory for the difference between the cost of inventory and estimated net realizable value based upon customer forecasts, shrinkage, the aging and future demand of the inventory, past experience with specific customers, and the ability to sell inventory to customers or back to suppliers. If these assumptions change, additional write-downs may be required.

e) Equipment

Equipment is recorded at cost less accumulated amortization and impairment losses recognized. Amortization is charged to earnings over the estimated useful lives of the assets, using the undernoted method:

Dies and molds – Brake Safe – Short Bracket molds	10 years	Straight line method
Dies and molds – Brake Safe – Other molds		Units of production method

f) Intangible Assets

Intangible assets consist of patents, trademarks, product rights and prototypes. They are recorded at cost and amortization is provided, over the estimated useful life of the assets, using the undernoted annual rate and method:

Product rights and prototypes	3-10 years	Straight line

2. Summary of Significant Accounting Policies (cont'd)

g) Impairment of Tangible and Intangible Long-lived Assets

The Company reviews its long-lived assets for impairment at the end of each reporting period for events indicative of whether changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed based on the carrying amount of a long-lived asset compared to the sum of the future undiscounted cash flows expected to result from the use and the eventual disposal of the asset. An impairment loss is recognized when the carrying amount is not recoverable and exceeds fair value.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would be determined, net of depreciation or amortization, if no impairment loss had been recognized.

h) Income Taxes

The Company uses the asset and liability method of accounting for deferred income taxes. Under the asset and liability method, deferred income tax assets and liabilities are determined based on temporary differences (difference between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any deferred income tax asset if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the Company's provision for current income taxes and the difference between the opening and ending balances of the deferred income tax assets and liabilities.

i) Stock-based Compensation

The Company uses the fair value-based method to account for stock-based compensation. The grant date fair value of stock options is estimated using the Black-Scholes option-pricing model. Compensation expense is recognized over the stock option vesting period with a corresponding charge to contributed surplus. When the stock options are exercised, the proceeds, together with the amount recorded in contributed surplus, are recorded in share capital.

j) Issuance of Shares by Subsidiary

When a subsidiary issues shares to new shareholders, the Company records an adjustment to reflect the increase or decrease in the carrying value of the investment and the resulting gain or loss in the consolidated statement of changes in equity.

k) Income (Loss) per Share

Basic income (loss) per share is computed by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted income (loss) per share, using the treasury stock method, assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on income (loss) per share. As the exercise price of the warrants and options was higher than the average market share price of the shares during 2014 and 2013 the dilutive effect of outstanding options and warrants and their equivalents is not reflected in diluted income (loss) per share because their effect would be anti-dilutive.

2. Summary of Significant Accounting Policies (cont'd)

l) Use of Estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Examples of significant estimates include:

- Estimated useful life of assets;
- Allowance for doubtful accounts;
- Provision for inventories;
- Stock-based compensation; and
- Deferred income taxes

m) Comprehensive Income (Loss)

Certain gains and losses arising from changes in fair value are temporarily recorded outside the statement of income (loss) in accumulated other comprehensive income (loss) as a separate component of share capital. Comprehensive income (loss) is comprised of the Company's net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) may include any unrealized gains and losses on available-for-sale securities, foreign currency translation gains and losses on the net investment in self-sustaining foreign operations and changes in the fair value of derivative instruments designated as cash flow hedges, all net of income taxes. At December 31, 2014, the balance of other comprehensive income (loss) is $nil (2013 – $nil).

n) Financial Instruments

The Company classifies all its financial assets and liabilities into one of the following four categories: financial assets or financial liabilities at fair value through profit and loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. All financial instruments are measured on the balance sheet initially at fair value. Subsequent measurement and recognition of the changes in fair value of financial instruments depends upon their initial classifications:

Cash is classified as financial asset "***fair value through profit and loss***". Cash is measured at fair value with subsequent changes in fair value recognized in current period net income. Transaction costs are expensed in net income (loss). Gains and losses arising from changes in fair value are presented in net income (loss) within other gains and losses in the period in which they arise.

Accounts receivable are classified as ***"loans and receivables".*** Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

2. Summary of Significant Accounting Policies (cont'd)

n) Financial Instruments (cont'd)

Accounts payable and accrued charges, loans payable, royalty debenture and convertible preferred shares are classified as *"**other financial liabilities**"*. Financial liabilities at amortized cost are recognized initially at fair value plus any directly attributable transaction costs. They are subsequently recorded at amortized cost. Subsequent measurements of the royalty debenture and convertible preferred shares are recorded at amortized cost using the effective interest rate method. Debt issue and other transaction costs are netted against the carrying value of the long-term debt and are amortized over the life of the debt using the effective interest rate method.

The Company classifies fair value measurements using a fair value hierarchy that prioritizes the inputs used in measuring fair values as follows:

Level 1 — valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities:

Level 2 — valuation techniques based on inputs that are other than quoted prices included in Level 1 that are observable for the asset or liability either directly (prices) or indirectly (derived from prices); and

Level 3 — valuation techniques with unobservable market inputs (involves assumptions and estimates by management).

The Company's only financial instrument that is at fair value is cash, which is categorized as Level 1.

o) Impairment of Financial Assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss on a fair value through profit or loss financial asset is calculated by reference to its fair value. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in net income. Any cumulative loss in respect of a fair value through profit or loss financial asset recognized previously in equity is transferred to net income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

2. Summary of Significant Accounting Policies (cont'd)

p) Non-monetary Transactions

Transactions with no cash consideration are measured at the fair value of either the asset given up or the asset received, whichever is more reliably determinable.

q) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the year end. Revenues and expenses are translated from foreign currencies at the rate of exchange prevailing on the transaction date. Any resulting gains or losses are included in income for the year.

r) New Accounting Pronouncements

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended December 31, 2014, and have not been applied in preparing these consolidated financial statements. The following standards and interpretations have been issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committees with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

IFRS 9 – Financial Instruments – Effective January 1, 2018

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement, and applies to classification and measurement of financial assets and liabilities. This is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an impact on the classification and measurement of financial assets, but will potentially have no impact on classification and measurement of financial liabilities. The Company will quantify the impact in conjunction with the other phases when issued.

IFRS 15 - Revenue from Contracts with Customers – Effective January 1, 2017

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The Company is in the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt the new requirements.

3. Capital Structure

The capital structure of the Company consists principally of shareholders' deficiency comprised of deficit, contributed surplus and share capital. The Company's strategy is to effectively use debt financing to fund growth and manage its capital structure in light of economic conditions and the risk characteristics of the underlying assets. The Company's primary uses of capital are to finance non-cash working capital requirements and capital expenditures, which are currently funded from both its internally and externally generated cash flows. The Company is not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital. The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth and to deploy capital to provide an appropriate return on investment to its shareholders.

The components of capital are as follows:

	2014	2013
Share capital	**$ 5,341,136**	$ 5,341,136
Contributed surplus	**196,018**	196,018
Accumulated deficit	**(7,401,363)**	(7,521,963)
	$ (1,864,209)	$ (1,984,809)

4. Inventories

	2014	2013
Finished goods	**$ 51,156**	$ 48,796
Raw materials	**38,084**	41,643
	$ 89,240	$ 90,439

As of December 31, 2014 and 2013, inventories are reported net of a provision for decline in value of $124,582 and $130,372 respectively. In 2014, reversal of the provision of $5,790 (2013 - $10,361) was made arising from an increase in net realizable value.

5. Equipment – Dies and Molds – Brake Safe

	2014			2013		
	Short Bracket Molds	**Other Molds**	**Total**	Short Bracket Molds	Other Molds	Total
Cost	**$ 9,210**	**$ 120,244**	**$ 129,454**	$ -	$ 98,692	$ 98,692
Less: Accumulated amortization	**921**	**100,264**	**101,185**	-	93,856	93,856
	$ 8,289	**$ 19,980**	**$ 28,269**	$ -	$ 4,836	$ 4,836

6. Intangible Assets – Product rights

	2014	2013
Cost	**$ 25,000**	$ 25,000
Less: Accumulated amortization	**19,007**	16,507
	$ 5,993	$ 8,493

7. Accounts Payable and Accrued Charges

	2014	2013
Trade and other payables (note 14)	**$ 219,809**	$ 251,006
Accrued expenses	**51,124**	60,000
	$ 270,933	$ 311,006

8. Loans Payable

	2014	2013
Loan 1	**$ 350,000**	$ 350,000
Loan 2	**-**	50,000
	350,000	400,000
Less: current portion – Loan 2	**-**	(50,000)
	$ 350,000	$ 350,000

There are two components to loans payable. Both are due to Dynamic Venture Opportunities Fund Ltd. ("DVOF"), an Ontario labour-sponsored venture capital fund.

Loan 1

This loan bears interest at 12% per annum payable monthly, interest only, and is unsecured. The maturity date of the loan has been extended until January 1, 2016 (extended by mutual agreement previously from January 1, 2014 and January 31, 2015.). As of December 31, 2014, accrued interest amounted to $nil (2013 - $nil).

Loan 2

This loan bore interest at 10% per annum, was payable monthly and was unsecured. The loan was fully repaid during the year.

8. Loans Payable (cont'd)

The annual principal payments due in each of the next two years are as follows:

2015	$ -
2016	350,000
	$ 350,000

9. Royalty Debenture

On August 6, 2004 the Company closed a debenture financing arrangement with DVOF whereby DVOF advanced $750,000 to Spectra's subsidiary, 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 payments shall continue until the earlier of (i) the date that the royalty 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, the Company issued 3,000,000 bonus shares to DVOF at a price of $0.05 per share. The royalty debenture is secured by all the assets of SPI by way of a floating charge in favour of DVOF.

	2014	2013
Royalty debenture	**$ 652,065**	$ 652,065
Less: debt issuance costs	**(168,263)**	(168,263)
	483,802	483,802
Add : accretion of discount on debt	**164,652**	144,397
	648,454	628,199
Less : current portion	**-**	-
	$ 648,454	$ 628,199

The minimum annual principal payments due in each of the next five years and thereafter are as follows:

2015	$ -
2016	25,000
2017	25,000
2018	25,000
2019	577,065
	$ 652,065

By agreement, the quarterly principal payments due by SPI in 2014 and 2015 totaling $25,000 each year have been waived, and the royalty portion of payments for 2014 and 2015 will be settled by way of issuance of 100 common shares of SPI, as and when they become due. In the year ended December 31, 2014 the royalty payment of $75,000 (2013 - $75,000) was paid by way of issuance of 100 common shares of SPI, valued at $750 per share.

10. Convertible Preferred Shares

On June 1, 2007, SPI completed a $750,000 private placement with DVOF where SPI issued 750 convertible preferred shares (the "Preferred Shares") for proceeds of $667,500 and Spectra issued 1,500,000 common shares at a market value of $0.055 per share for proceeds of $82,500.

The Preferred Shares pay a 6% cumulative annual dividend, payable quarterly, commencing January 1, 2009; are redeemable; are retractable commencing May 31, 2016 (extended by mutual agreement previously from May 31, 2015 and originally from May 31, 2010) for $1,250 per share; are non-voting and are convertible into 1,000 common shares of SPI which would represent a 14.43% ownership interest, bringing their interest at that time to 42.34%. DVOF received 750 warrants to subscribe to an additional 750 preferred shares of SPI at a price of $1,000 each, exercisable until December 31, 2013. These warrants have now expired. At December 31, 2014, the convertible preferred shares have accreted to $937,500 (2013 - $937,500). By agreement, the dividends due by SPI in 2013, 2014 and 2015 amounting to $45,000 each year, have been waived.

11. Share Capital

Authorized

Unlimited	common shares
Unlimited	first, second, third and fourth preferred shares to be issued in one or more series, redeemable, with rights, privileges, restrictions and conditions to be determined by the Board of Directors upon issuance
540,000	second preferred shares Series 1, non-cumulative dividends of 10% per annum, redeemable at the stated value, non-voting

Issued and outstanding

		2014	2013
60,514,837	(December 31, 2013 – 60,514,837) common shares	**$ 5,314,136**	$ 5,314,136
90,000	(December 31, 2013 - 90,000) second preferred shares Series 1	**27,000**	27,000
		$ 5,341,136	$ 5,341,136

On May 15, 1995, the Company entered into an escrow agreement. Pursuant to the agreement, escrowed common shares totaled 7,142,780 and one common share is released for each $0.20 of net income, adjusted for amortization, depletion and deferred taxes. As at December 31, 2014, 4,661,365 shares were held in escrow (2013 – 4,661,365 shares).

11. **Share Capital** (cont'd)

Stock Options

The Company has a stock option plan for its directors, officers, employees and consultants. The maximum number of shares reserved for issuance under the plan is equal to 10% of the issued and outstanding common shares.

The following table represents all of the Company's stock options granted, exercised, forfeited and expired during the years ended December 30, 2014 and 2013:

	2014		2013	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	**650,000**	**$ 0.10**	650,000	$ 0.10
Granted	**-**	**-**	-	-
Expired	**(350,000)**	**0.10**	-	-
Balance, end of year	**300,000**	**$ 0.10**	650,000	$ 0.10

No options were granted in the years ended December 31, 2014 and 2013.

For the year ended December 31, 2014, stock-based compensation expense was $nil (2013 - $nil). Stock-based compensation expense is recorded in the statement of comprehensive income (loss) as a charge to contributed surplus.

As at December 31, 2014, the weighted average remaining contractual life of outstanding options was approximately 1.2 years (2013 - 1.6 years) and a total of 300,000 options (2013 - 650,000) were exercisable at a weighted average exercise price of $0.10 (2013- $0.10).

Contributed Surplus

There was no movement in contributed surplus in either the year ended December 31, 2014, or the year ended December 31, 2013. The balance as at December 31, 2014 and 2013 remained unchanged at $196,018.

Contributed surplus consists of accumulated share-based compensation expense less the fair value of options at the grant date that were exercised and credited to common shares and share purchase warrants that expired.

Issuance and Cancellation of Shares by Subsidiary

As discussed in note 9, SPI issued 100 (2013 – 100) common shares to DVOF. The Company recorded a $75,000 gain on the issuance of SPI's common shares in 2014 (2013 - $75,000), recognized in equity.

On December 15, 2014, SPI purchased from Spectra and cancelled 120 of the 3,000 common shares owned by Spectra in SPI.

These transactions resulted in a reduction of Spectra's ownership interest in SPI from 74.72% to 72.09%.

12. Non-controlling Interest

The Company's subsidiary, Spectra Products Inc. has common shares issued to a shareholder other than its' parent company, Spectra Inc. The interest of this shareholder is referred to as the non-controlling interest. The portion of the common share equity and deficit of Spectra Products Inc. attributed to the non-controlling interest is calculated based on their share ownership at the end of each reporting period. This attribution does not impact the Statement of Comprehensive Income (Loss), but is only a Statement of Financial Position reclassification. Details of this non-controlling interest are as follows:

	2014	2013
Common shares issued by Spectra Products Inc.		
Total issued	**3,995**	4,015
Total issued to non-controlling interest	**1,115**	1,015
Percentage ownership of non-controlling interest	**27.91**	25.28
Common share equity and deficit of Spectra Products Inc.		
Common share equity	**$ 4,179,950**	$ 4,194,950
Deficit	**(6,087,599)**	(6,185,228)
Combined common share equity and deficit	**$ (1,907,649)**	$ (1,990,278)
Allocation of combined common share equity and deficit to non-controlling interest based on percentage ownership at end of year		
Common share equity	**$ 1,166,619**	$ 1,060,492
Deficit	**(1,699,042)**	(1,563,638)
Combined common share equity and deficit	**$ (532,423)**	$ (503,146)

13. Financial Instruments

a) Fair Value

The carrying value of the Company's financial instruments consisting of cash, accounts receivable, and accounts payable and accrued charges approximates their fair value due to their immediate or short-term maturity. The carrying value of loans payable approximates fair value as the loans bear interest at a rate which approximates market rate. The fair value of royalty debenture is approximately $607,000 (2013 - $580,000). The fair value of the convertible preferred shares is approximately $918,000 (2013 - $918,000).

13. Financial Instruments (cont'd)

b) Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and accounts receivable.

Cash is maintained at a major financial institution. Deposits held with a bank may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with a financial institution of reputable credit and therefore bear minimal credit risk.

Credit risk from accounts receivable encompasses the default risk of customers. Credit risk on accounts receivable is minimized as a result of the constant review and evaluation of customer account balances. The Company does not believe that there is significant credit risk arising from customers, as it does not rely on any one major customer. The Company also maintains an allowance for doubtful accounts at an estimated amount, allocating sufficient protection against losses resulting from collecting less than full payments from its receivables.

The Company's maximum credit exposure is represented by the carrying amount of accounts receivable.

c) Foreign Currency Risk

The Company is exposed to currency risk due to a certain portion of the Company's sales and purchases being in U.S. currency, resulting in U.S. dollar denominated accounts receivable and accounts payable and certain U.S dollar denominated cash balances. These activities result in exposure to fluctuations in foreign currency rates between the U.S. dollar and the Canadian dollar. The Company's sensitivity to these foreign currency fluctuations is such that a 10% strengthening or weakening of the U.S. dollar would result in a respective $6,960 decrease or increase to the Company's income before taxes for the year ended December 31, 2014. At December 31, 2014, the Company had net assets denominated in U.S. currency of USD69,605 (2013 - USD42,766) translated into Canadian dollars as shown below, and a foreign exchange gain from operations of $46,307 (2013 – $6,797). The Company does not utilize any financial instruments or cash management policies to mitigate the risks arising from changes in foreign currency rates.

		2014		2013
Cash	**$**	**21,725**	$	548
Accounts receivable		**59,645**		46,097
Accounts payable		**-**		(1,145)
	$	**81,370**	$	45,500

d) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages liquidity risk through regular monitoring of cash requirements by preparing short-term cash flow forecasts. The financing requirements are addressed through a combination of credit facilities and private placements. The Company's ability to meet its obligations and continue as a going concern is dependent upon its ability to obtain additional financing and achievement of profitable operations. Management plans to achieve profitable operations and pursue additional financing, however, there can be no assurance that the Company will be able to secure financing when needed or to obtain such financing on terms satisfactory to the Company (see note 1).

13. Financial Instruments (cont'd)

d) Liquidity Risk (cont'd)

The following are the contractual maturities of the Company's financial liabilities as at December 31, 2014:

	Due within 1 year	Due between 1 and 2 years	2 and 3 years	3 and 4 years	4 and 5 years	Total
Accounts payable and accrued charges	$ 270,933	$ -	$ -	$ -	$ -	$ 270,933
Loans payable		350,000				350,000
Royalty debenture		25,000	25,000	25,000	577,065	652,065
Convertible preferred shares*		937,500				937,500
Total	$ 270,933	$1,312,500	$ 25,000	$ 25,000	$ 577,065	$ 2,210,498

* Based on first possible retractable date (if not converted). See note 10.

e) Interest Rate Risk

The Company is not exposed to any interest rate risk.

14. Related Party Transactions

a) During 2014, royalties of $1,444 (2013 - $597) were paid to a company owned by a director.

b) During 2014, interest of $475 (2013 - $247) was paid to a company of a key executive who is a shareholder and, at the time, was a director of the Company.

Included in accounts payable and accrued charges is $4,435 (2013 - $4,581) payable to directors and $93,225 (2013 - $93,910) payable to companies controlled by directors and a shareholder.

These transactions were in the normal course of business and recorded at the exchange value established and agreed upon by the related parties.

15. Income Taxes

In assessing the realization of the Company's deferred income tax assets, management considers whether it is probable that some portion or all of the deferred income tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of deferred income tax assets considered realizable could change materially in the near term based on future taxable income generated during the carry-forward period.

Income tax expense varies from the amount that would be computed by applying the combined Federal and Provincial statutory income taxes rate as a result of the following:

	2014	2013
Expected income tax expense (recovery) at the combined Federal and provincial rate of 26.50% (2013- 26.50%)	$ **12,084**	$ (19,377)
Increase (decrease) in income taxes resulting from:		
Non-deductible permanent differences	**383**	778
Temporary difference for which no deferred tax asset was recognized	**7,971**	7,312
(Tax loss utilized) Tax loss for which no deferred tax asset was recognized	**(20,438)**	11,287
Provision for income taxes	$ **-**	$ -

No deferred tax asset has been recognized as the Company is reflecting uncertainties associated with realization of all deferred income tax assets. The significant components of the Company's deferred tax assets are as follows:

	2014	2013
Net operating losses carried forward	$ **767,850**	$ 788,431
Equipment	**80,521**	78,579
Intangible assets	**90,828**	90,166
Royalty debenture	**(957)**	(6,324)
Deferred tax asset	$ **938,242**	$ 950,852

The Company has non-capital tax losses available in the amount of approximately $2,896,800 (2013 – $2,974,400), which can be carried forward to be applied against future years' taxable income. These losses, if unused, will expire as follows:

2015	$ 19,600
2026	70,400
2027	786,400
2028	638,100
2029	384,500
2030	362,600
2031	239,900
2032	281,700
2033	62,100
2034	51,500
	$ 2,896,800

16. Commitments

a) In 2007, the Company entered into a consulting services agreement with a company controlled by a key executive who is a shareholder and director of the Company. Under the terms of the consulting services agreement, that company is entitled to fees of $180,000 per year until December 31, 2012. In 2011, the consulting services agreement was amended to $90,000 for the years ended December 31, 2010 and 2011 and to $108,000 for 2012. Under an extension of this agreement, fees for 2013 and 2014 have been waived. An annual participation fee, calculated as 5% of the annual net income of SPI, is also payable under the terms of the consulting services agreement. No participation fee was payable for the year ended December 31, 2013 and the fee due for the year ended December 31, 2014 was waived.

b) The Company entered into an extension of its operating lease for its premises. This extension commences on January 1, 2013 and continues for five years until December 31, 2017. Under this lease extension the Company is obligated for base rental payments as follows:

2015	$	25,150
2016		26,408
2017		26,408
	$	77,966

17. Segmented Information

Sales are attributed to countries based on location of customer.

		2014		2013
Canada	**$**	**821,882**	$	821,178
United States		**611,675**		454,038
	$	**1,433,557**	$	1,275,216

In 2014, the Company derived 43% (2013 – 36%) of its revenue from sales to the United States. The Company's equipment is located in Canada.

In 2014, the Company derived sales from three customers amounting to 33% of the total revenue (2013 – two customers amounting to 15%).

18. Comparative Information

Certain figures for the year ended December 31, 2013 have been reclassified to conform with the current year's financial statement presentation.