Consolidated Financial Statements of

ATI AIRTEST TECHNOLOGIES INC.

Years ended December 31, 2000 and 1999

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of ATI Airtest Technologies Inc. as at December 31, 2000 and 1999 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act (British Columbia), we report that, in our opinion, these principles have been applied on a consistent basis, except as disclosed in note 3(k).

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada

March 16, 2001

ATI AIRTEST TECHNOLOGIES INC.

Consolidated Balance Sheets

December 31, 2000 and 1999

	2000	1999
Assets		
Current assets:		
Cash	$ 25,034	$ 2,230
Accounts receivable	160,598	110,349
Inventory (note 5)	393,253	457,064
Prepaid expenses	49,516	44,081
	628,401	613,724
Property, plant and equipment (note 6)	221,032	87,442
Deferred financing costs	–	149,975
Goodwill, net of amortization of $1,044,174 (1999 - $95,624) (note 7)	–	948,550
Other assets	255	255
	$ 849,688	$ 1,799,946
Liabilities and Shareholders' Deficiency		
Current liabilities:		
Cheques issued in excess of funds on deposit	$ 46,479	$ 34,156
Bank loan (note 8)	960,000	975,000
Accounts payable and accrued liabilities (note 13)	370,521	651,754
Shareholder loan (note 13)	375,000	–
Loan from related party (note 13)	–	50,000
Deferred revenue	–	36,744
Current portion of long-term debt (note 9)	36,000	51,916
Current portion of capital lease obligations (note 14(a))	35,929	–
	1,823,929	1,799,570
Long term debt (note 9)	21,000	57,000
Capital lease obligations (note 14(a))	144,332	–
Shareholders' deficiency:		
Share capital (note 10)	3,699,241	2,064,697
Deficit	(4,838,814)	(2,121,321)
	(1,139,573)	(56,624)
	$ 849,688	$ 1,799,946

Future operations (note 2)
Commitments and contingencies (note 14)
Subsequent events (note 17)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"George Graham" Director **"Allan Backman"** Director

ATI AIRTEST TECHNOLOGIES INC.

Consolidated Statements of Operations and Deficit

Years ended December 31, 2000 and 1999

	2000	1999
Revenue:		
Product sales	$ 471,234	$ 286,327
Services	236,064	83,039
Sub-contract fees	–	8,796
	707,298	378,162
Cost of goods sold:		
Product sales	218,196	137,203
Services	186,935	61,403
	405,131	198,606
Gross profit	302,167	179,556
Expenses:		
Automotive	6,695	16,165
Bad debts	–	2,287
Bank charges and interest	72,889	61,118
Business tax	1,823	1,770
Depreciation and amortization	134,991	105,279
Financing fees (note 13)	100,000	–
Freight	3,861	2,448
Insurance	26,153	11,066
Maintenance	2,730	3,073
Office and general	50,664	55,297
Professional and management fees	238,728	172,515
Rent and property tax	58,485	53,169
Research and development	446,251	276,976
Salaries and benefits	277,357	278,017
Sales, marketing and promotion	528,491	534,769
Shop supplies	11,422	9,685
Telephone	14,743	19,122
Write down of capital assets	41,361	–
Write down of goodwill	844,123	–
Write-down of inventory	158,893	28,132
	3,019,660	1,630,888
Loss for the year	2,717,493	1,451,332
Deficit, beginning of year	2,121,321	669,989
Deficit, end of year	$ 4,838,814	$ 2,121,321
Loss per share	$ (0.32)	$ (0.22)

See accompanying notes to consolidated financial statements.

ATI AIRTEST TECHNOLOGIES INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2000 and 1999

	2000	1999
Cash flows from operating activities:		
Cash receipts from customers	$ 620,305	$ 339,075
Cash paid to suppliers and employees	(2,557,842)	(1,408,563)
Interest paid on long-term and other debt	(69,331)	(36,869)
Cash flows used in operations	(2,006,868)	(1,106,357)
Cash flows from investing activities:		
Acquisition of subsidiary Airwave, net of cash acquired (note 4)	–	(296,576)
Purchase of capital assets	(78,993)	(61,644)
Sale of capital assets	73,105	–
Cash flows used in investing activities	(5,888)	(358,220)
Cash flows from financing activities:		
Bank loan	(15,000)	975,000
Shareholder loan	375,000	–
Payment of long-term debt	(51,916)	(68,250)
Proceeds from issue of shares	1,784,519	470,000
Increase (decrease) in loan from related party	(50,000)	50,000
Decrease (increase) in deferred financing costs	–	(149,975)
Capital lease obligation payments	(19,366)	–
Cash flows provided by financing activities	2,023,237	1,276,775
Net increase in cash and cash equivalents	10,481	(187,802)
Cash and cash equivalents, beginning of period	(31,926)	155,876
Cash and cash equivalents, end of period	$ (21,445)	$ (31,926)

Supplementary information (note 11)

See accompanying notes to consolidated financial statements.

1. Business activities:

ATI Airtest Technologies Inc. (the "Company") was incorporated under the Company Act of British Columbia on March 13, 1996 and its primary business activity is the manufacture and sale of airtesting equipment and related services in Canada and the United States.

2. Future operations:

These financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business, and do not include adjustments relating to either the realization of assets or the settlement of liabilities that might be required should the Company be unable to continue as a going concern. The Company has financed its operations through equity and shareholder loans and future operations are dependent upon the Company's ability to obtain additional financing and to attain profitable operations. The ultimate realization of amounts shown as inventory and goodwill is dependent upon market acceptance of the Company's products and services and generation of future profitable operations.

3. Significant accounting policies:

(a) Principles of consolidation:

The consolidated financial statements include the accounts of ATI Airtest Technologies Inc. and its wholly-owned subsidiary Airwave Environmental Technologies Inc. ("Airwave") from January 15, 1999, being the date of acquisition for accounting purposes (note 4).

(b) Inventories:

Raw materials inventory is stated at cost. Finished goods inventory is stated at the lower of cost and net realizable value. Cost of sales includes the cost of raw materials and labour.

(c) Property, plant and equipment:

Property, plant and equipment are stated at cost. Depreciation is provided using the following methods and annual rates:

Asset	Basis	Rate
Mobile equipment	straight-line	20%
Office furniture and fixtures	declining-balance	20%
Assembly equipment	declining-balance	20%
Testing equipment	declining-balance	30%
Computer hardware	declining-balance	30%

(d) Deferred financing costs:

Costs associated with the Company's Initial Public Offering were capitalized. These costs were offset against the proceeds from the Initial Public Offering.

3. Significant accounting policies (continued):

(e) Goodwill:

Goodwill is calculated as the excess of the purchase price over the fair value of net assets acquired on business combinations and is being amortized on a straight-line basis over 10 years. The goodwill specifically relates to the future benefit of technology developed and acquired from Airwave.

On an ongoing basis, management reviews the valuation and amortization, taking into consideration any events or circumstances which might have impaired the fair value. Goodwill is written down to net recoverable value when declines in value are considered to be other than temporary. The write-down is determined by reference to future undiscounted cash flows of the business acquired.

(f) Revenue recognition:

Product revenue is recognized when products are shipped to the customer and no significant vendor obligations remain.

Service revenue is recognized when the service has been completed to the customers specification and no significant vendor obligations remain.

(g) Research and development:

Research and development costs are expensed as incurred.

(h) Stock-based compensation:

The Company issues stock options from time to time as described in note 10(c). No compensation expense is recognized for these plans when stock or stock options are issued. Any consideration received on exercise of stock options or purchase of stock is credited to share capital. If stock or stock options are repurchased by the Company, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled is charged to retained earnings.

(i) Use of estimates:

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses for the reporting period. Significant areas requiring the use of management estimates relate to the valuation of inventory, useful lives of long-lived assets for depreciation and amortization, the period of amortization of goodwill and the impact of any uncertainty relating to future operations. Actual results could differ from estimates.

(j) Loss per share:

Loss per share is calculated using the weighted average number of shares outstanding during the fiscal period. This average includes as outstanding common shares issued in a reporting period from the date of their issuance. Fully diluted per share amounts are not presented as the effect of outstanding stock options and warrants are anti-dilutive.

3. Significant accounting policies (continued):

(k) Future income tax:

Effective January 1, 2000, the Canadian Institute of Chartered Accountants changed the accounting standards related to accounting for income taxes. Under the new standard, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that the enactment or substantive enactment occurs. A valuation allowance is recognized against any future income tax assets if it is more likely than not that the assets will not be realized. The Company has adopted the CICA's new standards effective January 1, 2000 without restatement of prior year financial statements. Management has determined that there is no cumulative effect on prior year results of the adoption of the new standards as the Company's net future tax assets are fully offset by a valuation allowance.

(l) Comparative figures:

Certain comparative figures have been reclassified to conform with the current year presentation.

4. Business acquisition:

On January 15, 1999, the Company acquired all the issued and outstanding shares of Airwave. The acquisition was accounted for using the purchase method. The fair value of assets acquired and liabilities assumed were as follows:

Cash	$ 3,424
Accounts receivable	27,956
Inventory	81,955
Prepaid expenses	4,928
Property, plant and equipment	4,652
Accounts payable	(89,923)
Long-term debt	(177,166)
Excess of liabilities over assets	(144,174)
Goodwill arising on acquisition	1,044,174
	$ 900,000
Total purchase price:	
Cash consideration	$ 600,000
Value assigned to common shares issued	300,000
	$ 900,000

5. Inventory:

	2000	1999
Finished goods	$ 103,011	$ 88,228
Work-in-progress	23,368	22,551
Raw materials	266,874	346,285
	$ 393,253	$ 457,064

As referred to in note 2, the Company's continuance as a going concern is based on achieving profitable operations and additional financing. If the Company cannot continue as a going concern, there is substantial doubt that it will realize the book value of its inventory.

6. Property, plant and equipment:

2000	Cost	Accumulated depreciation	Net book value
Mobile equipment	$ 200,499	$ 19,366	$ 181,133
Computer hardware	56,325	33,256	23,069
Office furniture and fixtures	23,984	12,473	11,511
Assembly equipment	3,961	1,520	2,441
Testing equipment	4,670	1,792	2,878
	$ 289,439	$ 68,407	$ 221,032

1999	Cost	Accumulated depreciation	Net book value
Mobile equipment	$ 55,670	$ 2,706	$ 52,964
Computer hardware	44,254	25,956	18,298
Office furniture and fixtures	23,817	9,616	14,201
Assembly equipment	2,432	1,101	1,331
Testing equipment	1,818	1,170	648
	$ 127,991	$ 40,549	$ 87,442

As at December 31, 2000, property, plant and equipment includes mobile equipment under capital lease with a cost of $199,627 (1999 – nil) and a net book value of $180,261 (1999 – nil).

7. Goodwill

Management have assessed that the products and intellectual property that generated the goodwill has become impaired as a result of a further review of the economic feasibility of further developing these products for commercial production. As a result, goodwill has been fully written off.

8. Bank loan:

The Company has a $1,000,000 operating line of credit. Outstanding amounts under the line of credit bear interest at prime plus 1% and are secured by a Collateral Security Agreement providing a first charge over the assets of the Company and guarantees from companies owned by directors and officers of the Company.

9. Long-term debt:

	2000	1999
Bank loan, repayable by monthly instalments of $3,000 plus interest at prime plus 4%, secured by General Security Agreements providing a first secured interest in all of Airwave's property after acquiring personal property including intellectual property, subject only to chartered bank charge on accounts receivable and a guarantee of a director for $75,000 supported by an assignment of Airwaves intellectual property	$ 57,000	$ 93,000
Bank loan, repayable monthly by payment of $1,750 including principal and interest at 7.27%, maturing November 1, 2000	–	15,916
	57,000	108,916
Current portion	36,000	51,916
	$ 21,000	$ 57,000

Principal portion of long-term debt due within each of the next five years are as follows:

2001	$ 36,000
2002	21,000

10. Share capital:

(a) Authorized:

100,000,000 common shares without par value

(b) Issued and outstanding:

	Number of shares	Amount
Balance, December 31, 1998	3,770,003	$ 1,294,697
For acquisition of subsidiary Airwave Environmental Technologies Inc. (note 4)	1,200,000	300,000
For cash in connection with a private placement (net of issue costs $82,000)	1,700,000	470,000
Balance, December 31, 1999	6,670,003	2,064,697
For cash in connection with a private placement (net of issue costs $365,456)	2,000,000	1,634,544
Balance, December 31, 2000	8,670,003	$ 3,699,241

(c) Stock options:

The Company's Board of Directors may, from time to time, grant stock options, subject to regulatory terms and approval, to employees, officers, directors and consultants. The exercise price of each option can be set at no less than the closing market price of the common shares on the Canadian Venture Exchange. Options terminate 30 days following the termination of the optionee's employment. Vesting and the term is set at the discretion of the Board at the time the options are granted. The following summarizes the status and changes in the Company's stock option plan:

	December 31, 2000		December 31, 1999	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	560,000	$ 1.00	–	$ –
Granted	86,700	1.00	560,000	1.00
Expired	(135,000)	1.00	–	–
Outstanding, end of year	511,700	$ 1.00	560,000	$ 1.00

As at December 31, 2000 all options are exercisable by the holders and have a weighted average remaining contractual life of 3.5 years.

(d) Share purchase warrants:

During the year ended December 31, 2000, the Company issued 500,000 warrants in connection with its Initial Public Offering exercisable into common shares at $1.15 per share until February 3, 2002.

11. Statement of cash flows:

(a) Cash and cash equivalents:

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	2000	1999
Cash on hand and balances in bank	$ 25,034	$ 2,230
Cheques issued in excess of funds on deposit	(46,479)	(34,156)
	$ (21,445)	$ (31,926)

(b) Reconciliation of losses to cash flow from (provided to) operations:

	2000	1999
Loss for the year	$ (2,717,493)	$ (1,451,332)
Adjustments to reconcile net income		
to net cash provided by operating activities:		
Depreciation and amortization	134,991	105,279
Write-down of goodwill	844,123	–
Write-down of inventory	158,893	28,132
Deferred revenue	(36,744)	36,744
Write-down of capital assets	41,361	–
Changes in non-cash operating working capital	(431,999)	174,820
Cash flow used in operations	$ (2,006,868)	$ (1,106,357)

(c) Non-cash transactions:

The Company issued common shares with an assigned value of $300,000 on the acquisition of Airwave on January 15, 1999 (note 4). The Company acquired mobile equipment under capital leases for $199,627 during the year ended December 31, 2000.

12. Income taxes:

As at December 31, 2000, significant components of the Company's future tax assets are as follows:

Losses carried forward	$ 1,385,000
Capital assets	110,000
Total tax assets	1,495,000
Valuation allowance	(1,495,000)
Net tax assets	$ –

The Company has cumulative income tax loss carry forwards at December 31, 2000 of approximately $3,644,000 which are available to offset taxable income to 2007.

13. Related party transactions:

During the year, a loan from Cormudan Enterprises Ltd., a company controlled by a shareholder of the Company in the amount of $50,000 was repaid.

During the year ended December 31, 2000, the Company rented and purchased equipment from certain directors or companies controlled by them and recorded the transactions at the exchange amount of $58,115 (1999 - $50,976). As at December 31, 2000, nil (1999 - $36,745) payable to directors or companies controlled by them is included in trade accounts payable.

The Company has a $500,000 line of credit available through a shareholder which is repayable on demand and bears interest at prime plus 1%. As at December 31, 2000, $375,000 has been drawn on this line of credit which is reflected as a shareholder loan. Interest of $4,331 is reflected in the statement of operations. As part of the financing arrangement, the Company has agreed to issue to the shareholder common shares with a value of $100,000 as a financing fee. The fee has been included in accounts payable and accrued liabilities.

14. Commitments and contingencies:

Lease commitments:

During the year, the Company entered into leases for mobile equipment under capital leases which expire in various months in 2005.

Future minimum payments, by year and in aggregate, for mobile equipment under capital lease are as follows:

2001	$ 53,675
2002	50,732
2003	47,785
2004	44,832
2005	40,020
Total minimum lease payments	237,044
Amounts representing interest	(56,783)
Net minimum lease payments	180,261
Current portion	35,929
	$ 144,332

In addition, the Company leases other equipment, office premises and storage under operating leases expiring in various months to 2003. Annual lease payments are $76,850, $39,529 and $4,705 for 2001, 2002 and 2003, respectively.

15. Financial instruments:

The fair value of cash, cheques issued in excess of funds on deposit, accounts receivable, accounts payable and accrued liabilities and bank loan is equal to their carrying values due to their short terms to maturity. The fair value of long-term debt and capital lease obligations is not believed to be materially different from their carrying values used on market rates of interest. The fair value of the shareholder loan and loan from related party is not determinable with sufficient reliability due to the related party nature of the amount and the lack of a readily available market for such instruments. Details of the shareholder loan is disclosed in note 12.

16. Segmented information:

The Company operates in one reportable segment being the manufacture and sale of gas detection equipment and related services. Substantially all of the Company's assets are located in Canada. The Company sells its products primarily in Canada and the U.S.A. Geographic information with respect to sales, based on the domicile of the customer, is as follows:

	2000	1999
Canada	$ 580,834	$ 306,087
U.S.A.	125,212	55,437
Other	1,252	16,638
	$ 707,298	$ 378,162

17. Subsequent events:

On January 10, 2001, the Company issued 263,157 common shares with a value of $100,000 as a financing fee in connection with the line of credit arranged with a shareholder (note 13).

On February 1, 2001, a director of the Company resigned. Severance negotiations are in progress between the former director and the Company.