Consolidated Financial Statements of

ATI AIRTEST TECHNOLOGIES INC.

Year ended December 31, 1999
Three months ended December 31, 1998
Year ended September 30, 1998

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of ATI Airtest Technologies Inc. as at December 31, 1999 and 1998 and the consolidated statements of operations and deficit and cash flows for the year ended December 31, 1999, the three month period ended December 31, 1998 and the year ended September 30, 1998. 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, 1999 and 1998 and the results of its operations and its cash flows for the year ended December 31, 1999, the three month period ended December 31, 1998 and the year ended September 30, 1998 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.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada

April 28, 2000

ATI AIRTEST TECHNOLOGIES INC.

Consolidated Balance Sheets

December 31, 1999 and 1998

	1999	1998
Assets		
Current assets:		
Cash	$ 2,230	$ 155,876
Accounts receivable	110,349	6,562
Inventory (note 4)	457,064	301,339
Prepaid expenses	44,081	32,924
Funds in trust	-	300,000
	613,724	796,701
Property, plant and equipment (note 5)	87,442	30,801
Deferred financing costs	149,975	-
Goodwill, net of amortization of $95,624	948,550	-
Other assets	255	255
	$ 1,799,946	$ 827,757
Liabilities and Shareholders' Equity (Deficiency)		
Current liabilities:		
Cheques issued in excess of funds on deposit	$ 34,156	$ -
Bank loan (note 6)	975,000	-
Accounts payable and accrued liabilities	651,754	203,049
Loan from related party (note 11)	50,000	-
Deferred revenue	36,744	-
Current portion of long-term debt (note 7)	51,916	-
	1,799,570	203,049
Long term debt (note 7)	57,000	-
Shareholders' equity (deficiency):		
Share capital (note 8)	2,064,697	1,294,697
Deficit	(2,121,321)	(669,989)
	(56,624)	624,708
Future operations (note 1)		
Commitments and contingencies (note 12)		
Subsequent events (note 14)		
	$ 1,799,946	$ 827,757

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Georg Graham (signed) Director **Colin Minty (signed)** Director

ATI AIRTEST TECHNOLOGIES INC.

Consolidated Statements of Operations and Deficit

	Year ended December 31, 1999	Three months ended December 31, 1998	Year ended September 30, 1998
Revenue:			
Sales	$ 369,366	$ 60,353	$ 51,639
Sub-contract fees	8,796	-	-
	378,162	60,353	51,639
Cost of goods sold	198,606	38,533	28,153
	179,556	21,820	23,486
Expenses:			
Sales, marketing and promotion	534,769	33,392	154,333
Amortization of goodwill	95,624	-	-
Automotive	16,165	1,692	8,965
Bad debts	2,287	-	-
Bank charges and interest	61,118	143	572
Business tax	1,770	141	1,300
Depreciation	9,655	2,128	11,671
Freight	2,448	498	2,058
Insurance	11,066	137	13,593
Maintenance	3,073	250	1,281
Office and general	55,297	7,102	7,701
Professional and management fees	172,515	58,000	9,483
Rent and property tax	53,169	6,556	26,224
Research and development	276,976	11,227	46,920
Salaries and benefits	278,017	27,486	107,679
Shop supplies	9,685	150	421
Telephone	19,122	2,812	8,222
Write-down of inventory	28,132	-	20,000
	1,630,888	151,714	420,423
Loss for the period	1,451,332	129,894	396,937
Deficit, beginning of period	669,989	540,095	143,158
Deficit, end of period	$ 2,121,321	$ 669,989	$ 540,095
Loss per share	$ (0.22)	$ (0.14)	$ (39.69)

See accompanying notes to consolidated financial statements.

ATI AIRTEST TECHNOLOGIES INC.

Consolidated Statements of Cash Flows

	Year ended December 31, 1999	Three months ended December 31, 1998	Year ended September 30, 1998
Cash flows from operating activities:			
Cash receipts from customers	$ 339,075	$ 57,980	$ 63,221
Cash paid to suppliers and employees	(1,408,563)	(35,555)	(343,943)
Interest paid on long-term and other debt	(36,869)	-	-
Cash flows from (applied to) operations	(1,106,357)	22,425	(280,722)
Cash flows from investing activities:			
Acquisition of subsidiary Airwave, net of cash acquired (note 3)	(296,576)	(300,000)	-
Purchase of capital assets	(61,644)	-	-
Cash flows used in investing activities	(358,220)	(300,000)	-
Cash flows from financing activities:			
Bank loan	975,000	-	-
Payment of long-term debt	(68,250)	-	-
Net proceeds from issue of shares	470,000	412,400	285,000
Increase in loan from related party	50,000	-	-
Increase in deferred financing costs	(149,975)	-	-
Cash flows from financing activities	1,276,775	412,400	285,000
Net increase in cash and cash equivalents	(187,802)	134,825	4,278
Cash and cash equivalents, beginning of period	155,876	21,051	16,773
Cash and cash equivalents, end of period	$ (31,926)	$ 155,876	$ 21,051

Supplementary information (note 9)

See accompanying notes to consolidated financial statements.

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 in Canada and the United States.

1. 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 their products and generation of future profitable sales.

2. 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 3).

(b) Inventories:

Raw materials inventory is stated at cost. Finished goods inventory is stated at the lower of cost and net realizable value.

(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 are capitalized. These costs will be offset against the proceeds from the Initial Public Offering.

1. Significant accounting policies (continued):

(e) Goodwill:

Goodwill is calculated as the excess of the purchase price over the fair value of net assets acquired 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 will be written down to fair value when declines in value are considered to be other than temporary.

(f) Revenue recognition:

Revenue is recognized when products are shipped to the customer 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 7(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 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 is anti-dilutive.

(k) Comparative figures:

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

3. 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

4. Inventory:

	1999	1998
Finished goods	$ 88,228	$ 32,388
Work-in-progress	22,551	1,396
Raw materials	346,285	267,555
	$ 457,064	$ 301,339

As referred to in note 1, 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.

5. Property, plant and equipment:

December 31, 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

December 31, 1998	Cost	Accumulated depreciation	Net book value
Computer hardware	$ 36,633	$ 19,747	$ 16,886
Office furniture and fixtures	18,105	6,780	11,325
Assembly equipment	2,432	769	1,663
Testing equipment	1,818	891	927
	$ 58,988	$ 28,187	$ 30,801

6. 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 General Security Agreement providing a first charge over the assets of the Company and guarantees from companies owned by directors and officers of the Company.

7. Long-term debt:

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	$ 93,000
Bank loan, repayable monthly by payment of $1,750 including principal and interest at 7.27%, maturing November 1, 2000	15,916
	108,916
Less current portion	(51,916)
	$ 57,000

7. Long-term debt (continued):

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

2000	$ 51,916
2001	36,000
2002	21,000
2003	-
2004	-

8. Share capital:

(a) Authorized:

100,000,000 common shares without par value

(b) Issued and outstanding:

	Number of shares	Amount
Balance, September 30, 1998 and 1997	10,000	$ 199
Conversion of preference shares	502,433	155
Conversion of shareholder loans	2,037,570	881,943
For cash on exercise of options	220,000	4,400
For cash (net of issue costs $92,000)	1,000,000	408,000
Balance, December 31, 1998	3,770,003	1,294,697
For acquisition of subsidiary Airwave Environmental Technologies Inc. (note 3)	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

8. Share capital (continued):

(c) Stock options:

The Company's Board of Directors may, from time to time, grant stock options to employees, officers, directors and consultants at exercise prices, vesting dates and expiry dates as determined by the Board of Directors on the date of grant. The following summarizes the status and changes in the Company's stock options:

	December 31, 1999		December 31, 1998		September 30, 1998	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of period	-	$ -	220,000	$ 0.02	220,000	$ 0.02
Granted	560,000	1.00	-	-	-	-
Exercised	-	-	(220,000)	(0.02)	-	-
Outstanding, end of period	560,000	$ 1.00	-	$ -	220,000	$ 0.02

As at December 31, 1999 all options are exercisable by the holders and have a weighted average remaining contractual life of 4.3 years except for 35,000 which are exercisable commencing on January 31, 2000 and have a weighted average remaining contractual life of 2.1 years.

9. Statement of cash flows:

(a) Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

Period ended	December 31, 1999	December 31, 1998	September 30, 1998
Cash on hand and balances in bank	$ 2,230	$ 155,876	$ 21,051
Cheques issued in excess of funds on deposit	(34,156)	-	-
	$ (31,926)	$ 155,876	$ 21,051

9. Statement of cash flows (continued):

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

Period ended	December 31, 1999	December 31, 1998	September 30, 1998
Loss for the period	$ (1,451,332)	$ (129,894)	$ (396,937)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property, plant and equipment	9,655	2,127	11,671
Amortization of goodwill	95,624	-	-
Write-down of inventory	25,000	-	-
Changes in non-cash operating working capital	214,696	150,192	104,544
Cash flow from (provided to) operations	$ (1,106,357)	$ 22,425	$ (280,722)

For the year ended December 31, 1999, the Company paid interest totaling $36,869 (December 31, 1998 - $nil; September 30, 1998 - $nil). No income taxes have been paid to date.

(c) Non-cash transactions:

The Company issued shares for conversion of preference shares ($155) and conversion of shareholder loans ($881,943) in the three month period ended December 31, 1998 and issued common shares ($300,000) on the acquisition of Airwave on January 15, 1999 (note 3).

10. Income taxes:

The Company has cumulative income tax loss carry forwards at December 31, 1999 of approximately $1,916,000 which are available to offset taxable income generated in future years. The benefit of these tax loss carry forwards has not been reflected in these financial statements.

11. Related party transactions:

During the year, Cormudan Enterprises Ltd., a company controlled by a shareholder of the Company, advanced $50,000 to the Company. The loan is payable on demand and is non-interest bearing.

During the year ended December 31, 1999, the Company rented equipment from certain directors or companies controlled by them for the amount of $50,976. As at December 31, 1999, $36,745 payable to directors or companies controlled by them is included in trade accounts payable.

12. Commitments and contingencies:

(a) Lease commitments:

The Company has a lease commitment for office premises expiring on July 31, 2002. The agreement requires annual rent of approximately $30,485 until January 31, 2000 and $38,244 thereafter.

(b) Contingent contract:

The Company has entered into a contract to pay a fee of $75,000 in connection with the acquisition of Airwave to an individual who is a former director of the Company. The payment is contingent on the successful completion of the acquisition and placement of an Initial Public Offering. The fee has been accrued for in accounts payable and accrued liabilities and was paid subsequent to December 31, 1999.

13. Financial instruments:

Financial instruments to the Company are comprised of cash, cheques issued in excess of funds on deposit, accounts receivable, accounts payable and accrued liabilities, bank loan, long-term and loan from related party. The carrying value of the financial instruments are not believed to be materially different from their fair values.

14. Subsequent events:

(a) On November 2, 1999, the Company filed a final prospectus for an Initial Public Offering of 2,000,000 common shares of the Company at an issue price of $1. On February 4, 2000, the Company issued 2,000,000 common shares pursuant to this prospectus. In addition to the common shares, the Company also issued 500,000 warrants to the Agents in connection with the Initial Public Offering. The warrants are exercisable at $1.00 per share until February 4, 2001 and at $1.15 per share thereafter until expiry on February 4, 2002.

(b) Effective February 1, 2000, the Company issued 177,400 share purchase options exercisable at $1. These options vest in equal quarterly amounts over the next year.

(c) On March 16, 2000, the Company entered into a Share Purchase Agreement to purchase all of the outstanding shares of Optigas Limited (“Optigas”), a private company incorporated in the United Kingdom, which is in the business of developing gas detection systems using a unique gas cloud imaging system. The Company will also assume the shareholder loans of Optigas. The purchase price will be $2,500,000 in cash payable in five equal instalments of $500,000 commencing on the closing date, 200,000 shares of the Company and, to the extend that, on the second anniversary of the closing date, the market value of the 200,000 shares is less than $2,500,000, the amount of such difference will be an Earn-out Amount. The Earn-out Amount is payable in annual instalments at a rate of $1,500 per units sold using the technology currently under development by Optigas. The payments of the Earn-out Amount will continue until the earlier of the date when the full amount has been paid or five years from the second anniversary of the closing date.

14. Subsequent events (continued):

(c) Continued:

The Company has the option to elect to pay the purchase price in cash in which case the purchase price will be $4,000,000 payable at the closing date. The closing date of the transaction is subject to certain conditions including a satisfactory due diligence review by the Company, regulatory approval, establishment of commercial feasibility of the technology being developed by Optigas and the Company obtaining sufficient financing to complete the transaction but will be no later than October 21, 2000.

Upon execution of the agreement, the Company was required to advance $1,000,000 to Optigas to be used by Optigas to complete the development and commercialisation of its technology between the execution of the agreement and the closing date of the transaction. Should the Company elect not to proceed with closing, any amounts advanced by the Company and not yet spend by Optigas will be returned to the Company. The obligation of the Company to fund this amount was conditional upon the Company obtaining financing to fund the payment. As the Company has not yet obtained such financing, no amounts have been advanced to Optigas.