Consolidated Financial Statements of

ATI AIRTEST TECHNOLOGIES INC.

Years ended December 31, 2001 and 2000

kpmg

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of ATI Airtest Technologies Inc. as at December 31, 2001 and 2000 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, 2001 and 2000 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 for the change in accounting policy for the calculation of per share amounts, as disclosed in note 3(h).

"KPMG LLP"

Chartered Accountants

Vancouver, Canada

April 11, 2002

KPMG LLP, a Canadian owned limited liability partnership established under the laws of Ontario, is a member firm of KPMG International, a Swiss association.

ATI AIRTEST TECHNOLOGIES INC.

Consolidated Balance Sheets

December 31, 2001 and 2000

		2001		2000
Assets				
Current assets:				
Cash	$	1,007	$	25,034
Accounts receivable		237,786		160,598
Inventory (note 4)		219,737		393,253
Prepaid expenses		10,451		49,516
		468,981		628,401
Furniture and equipment (note 5)		215,858		221,287
	$	684,839	$	849,688
Liabilities and Shareholders' Deficiency				
Current liabilities:				
Cheques issued in excess of funds on deposit	$	47,916	$	46,479
Bank loan (note 6)		985,000		960,000
Accounts payable and accrued liabilities		312,302		370,521
Shareholders loan (note 11)		951,442		375,000
Current portion of long-term debt (note 7)		21,000		36,000
Current portion of capital lease obligations (note 12)		55,983		35,929
		2,373,643		1,823,929
Long term debt (note 7)		-		21,000
Capital lease obligations (note 12)		125,099		144,332
Shareholders’ deficiency:				
Share capital (note 8)		3,776,439		3,699,241
Contributed surplus (note 8(e))		130,682		-
Deficit		(5,721,024)		(4,838,814)
		(1,813,903)		(1,139,573)
	$	684,839	$	849,688

Future operations (note 2)
Commitments and contingencies (note 12)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Allan Bachman" Director "George Graham" Director

ATI AIRTEST TECHNOLOGIES INC.

Consolidated Statements of Operations and Deficit

Years ended December 31, 2001 and 2000

	2001	2000
Revenue:		
Product sales	$ 537,159	$ 471,234
Services	393,056	236,064
	930,215	707,298
Cost of goods sold:		
Product sales	287,338	218,196
Services	284,974	186,935
	572,312	405,131
Gross profit	357,903	302,167
Expenses:		
Amortization	51,012	134,991
Automotive	8,374	6,695
Bad debts	9,738	-
Bank charges and interest	128,508	72,889
Business tax	-	1,823
Financing fees	150,000	100,000
Freight	8,408	3,861
Insurance	25,480	26,153
Maintenance	622	2,730
Office and general	44,628	50,664
Professional and management fees	129,018	238,728
Rent and property tax	33,045	58,485
Research and development	109,243	446,251
Salaries and benefits	247,794	277,357
Sales, marketing and promotion	202,474	528,491
Shop supplies	3,560	11,422
Telephone	13,756	14,743
Write down of capital assets	-	41,361
Write down of goodwill	-	844,123
Write-down of inventory	74,453	158,893
	1,240,113	3,019,660
Loss for the year	882,210	2,717,493
Deficit, beginning of year	4,838,814	2,121,321
Deficit, end of year	$ 5,721,024	$ 4,838,814
Loss per share (note 8(f))	$ (0.09)	$ (0.32)
Weighted average number of common shares outstanding	9,308,160	8,503,336

See accompanying notes to consolidated financial statements.

ATI AIRTEST TECHNOLOGIES INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2001 and 2000

	2001	2000
Cash provided by (used in):		
Operations:		
Loss for the year	$ (882,210)	$ (2,717,493)
Items not involving cash:		
Amortization	51,012	134,991
Write-down of capital assets	-	41,361
Write-down of goodwill	-	844,123
Write-down of inventory	74,453	158,893
Financing fees	150,000	100,000
Loss on disposal of furniture and equipment	872	-
Change in non-cash working capital items:		
Accounts receivable	(77,188)	(50,249)
Inventory	49,064	(95,082)
Prepaid expenses	39,065	(5,435)
Accounts payable and accrued liabilities	49,659	(381,233)
Deferred revenue	-	(36,744)
	(545,273)	(2,006,868)
Investments:		
Purchase of furniture and equipment	(1,349)	(78,993)
Sale of capital assets	-	73,105
	(1,349)	(5,888)
Financing:		
Bank loan	25,000	(15,000)
Shareholder loan	576,443	375,000
Payment of long-term debt	(36,000)	(51,916)
Proceeds from issue of shares	-	1,784,519
Decrease in loan from related party	-	(50,000)
Capital lease obligation payments	(44,285)	(19,366)
	521,158	2,023,237
Increase in cash and cash equivalents	(25,464)	10,481
Cash and cash equivalents, beginning of year	(21,445)	(31,926)
Cash and cash equivalents, end of year	$ (46,909)	$ (21,445)

Supplementary information (note 9)

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 experienced significant losses since its inception and has a working capital deficiency at December 31, 2001 of $1,904,662 (2000 - $1,195,528). In addition, the Company has used a substantial portion of its available lines of credit (notes 6 and 11). 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 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").

(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) Furniture and equipment:

Furniture and equipment are stated at cost. Amortization 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) Revenue recognition:

Product revenue is recognized when title and the risk of ownership passes to the customer which, for the Company, is when products are shipped to the customer.

Service revenue is recognized when the service has been completed to the customers specification.

3. Significant accounting policies (continued):

(e) Research and development:

Research and development costs are expensed as incurred.

(f) Stock-based compensation:

The Company grants stock options from time to time as described in note 8(c). No compensation expense is recognized when stock or stock options are granted. 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.

(g) 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 amortization and the impact of any uncertainty relating to future operations. Actual results could differ from estimates.

(h) Loss per share:

Effective January 1, 2001, the Company adopted the new Canadian Institute of Chartered Accountants' handbook section 3500, "*Earnings per Share*". Under this new accounting standard, the calculation of basic per share amounts for the Company has not been affected. Under the new standard, the treasury stock method is used for the calculation of diluted per share amounts for options and warrants issued. The treasury stock method assumes that the proceeds to be received on the exercise of stock options are applied to repurchase common shares at the average market price for the period for purposes of determining the weighted average number of common shares outstanding for the calculation of diluted per share amounts. The new recommendations have been applied retroactively but had no material effect on the previously reported amounts for basic and diluted per share amounts.

(i) Future income tax:

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.

(l) Comparative figures:

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

4. Inventory:

	2001	2000
Finished goods	$ 35,328	$ 103,011
Work-in-progress	4,367	23,368
Raw materials	180,042	266,874
	$ 219,737	$ 393,253

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.

5. Furniture and equipment:

2001	Cost	Accumulated amortization	Net book value
Mobile equipment	$ 244,733	$ 59,055	$ 185,678
Computer hardware	56,548	40,210	16,338
Office furniture and fixtures	24,238	14,775	9,463
Assembly equipment	5,087	2,723	2,364
Testing equipment	4,670	2,655	2,015
	$ 335,276	$ 119,418	$ 215,858

2000	Cost	Accumulated amortization	Net book value
Mobile equipment	$ 200,499	$ 19,366	$ 181,133
Computer hardware	56,326	33,256	23,070
Office furniture and fixtures	24,238	12,473	11,765
Assembly equipment	3,961	1,520	2,441
Testing equipment	4,670	1,792	2,878
	$ 289,694	$ 68,407	$ 221,287

As at December 31, 2001, furniture and equipment includes mobile equipment under capital lease with a cost of $244,733 (2000 - 199,627) and a net book value of $185,678 (2000 - $180,261).

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 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.

7. Long-term debt:

	2001	2000
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 Airwave's intellectual property	$ 21,000	$ 57,000
Current portion	21,000	36,000
	$ -	$ 21,000

8. Share capital:

(a) Authorized:

100,000,000 common shares without par value

(b) Issued and outstanding:

	Number of shares	Amount
Balance, December 31, 1999	6,670,003	$ 2,064,697
For cash in connection with private placement (net of issue costs $365,456)	2,000,000	1,634,544
Balance, December 31, 2000	8,670,003	3,699,241
Shares issued as financing fee to loan providers (notes 9 and 11)	1,263,157	250,000
Shares returned and cancelled (note 8(e))	(202,500)	(86,901)
Issued and outstanding at December 31, 2001	9,730,660	3,862,840
Shares returned subject to escrow (note 8(e))	(202,500)	(86,401)
Balance, December 31, 2001	9,528,160	$ 3,776,439

8. Share capital (continued):

(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, 2001		December 31, 2000	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	511,700	$ 1.00	560,000	$ 1.00
Granted	761,700	0.24	86,700	1.00
Expired	(100,000)	1.00	(135,000)	1.00
Cancelled	(411,700)	1.00	-	-
Outstanding, end of year	761,700	$ 0.24	511,700	$ 1.00

As at December 31, 2001 all options are exercisable by the holders and have a weighted average remaining contractual life of 3.7 years (2000 - 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. These warrants expired subsequent to year end.

(e) Contributed surplus:

During the year, the Company entered into an agreement with a former director for the return of shares held by the former director with a book value of $172,802 for consideration of $42,120. The excess of the book value over the consideration paid of $130,682 has been charged to contributed surplus. Of the 405,000 shares returned to the Company, 202,500 were cancelled and 202,500 remain in escrow. The shares held in escrow will be cancelled when released from escrow on November 5, 2002.

(f) Loss per share:

Fully diluted per share amounts have not been presented as the effect of stock options and share purchase warrants is anti-dilutive. For the year ended December 31, 2001, 761,700 (2000 - 511,700) stock options and 500,000 (2000 - 500,000) warrants were excluded from the calculation of weighted average common shares outstanding for purposes of diluted per share amounts as their exercise prices exceeded the average market price of the common shares for the year.

9. 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:

	2001	2000
Cash on hand and balances in bank	$ 1,007	$ 25,034
Cheques issued in excess of funds on deposit	(47,916)	(46,479)
	$ (46,909)	$ (21,445)

(b) Non-cash transactions:

During the year ended December 31, 2001, the Company acquired mobile equipment under capital leases for $45,106 (2000 - $199,627). The Company issued shares with a value of $150,000 as a financing fee during the year ended December 31, 2001 (2000 - $100,000). In addition, as part of the consideration for the purchase of shares from a former director (note 8(e)), the Company transferred inventory with a value of $50,000 and settled severance of $7,880 accrued for in accounts payable and accrued liabilities.

(c) Supplemental information:

	2001	2000
Interest paid	$ 122,813	$ 69,331
Income taxes paid	-	-

10. Income taxes:

Income tax recovery attributable to net loss before income tax recovery differs from the amounts computed by applying the combined Canadian federal and provincial income tax rate of 44.62% (2000 - 45.62%) to income before income taxes as follows:

	2001	2000
Loss before income taxes	$ 882,210	$ 2,717,493
Expected income tax recovery	$ 393,642	$ 1,239,720
Tax effect on:		
Change in valuation allowance	(204,599)	(508,412)
Change in substantively-enacted tax rates	(74,313)	(292,867)
Amortization and write-down of goodwill	-	(432,728)
Other non-deductible expenses	(114,730)	(5,713)
	(393,642)	(1,239,720)
	$ -	$ -

10. Income taxes (continued):

As at December 31, 2001, significant components of the Company's future tax assets are as follows:

	2001	2000
Losses carried forward	$ 1,574,420	$ 1,385,000
Capital assets	41,174	25,995
Total tax assets	1,615,594	1,410,995
Valuation allowance	(1,615,594)	(1,410,995)
Net tax assets	$ -	$ -

The Company has cumulative income tax loss carry forwards at December 31, 2001 of approximately $4,423,000 which are available to offset taxable income to 2008.

11. Related party transactions:

During the year ended December 31, 2000, 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, 2001, the Company rented and purchased equipment from certain directors or companies controlled by them and recorded the transactions at the exchange amount of $32,284 (2000 - $58,115).

The Company has lines of credit available through shareholders totalling $875,000 (2000 - $500,000) and U.S. $250,000 (2000 - nil) which are repayable on demand and bear interest at prime plus 1%. As at December 31, 2001, $951,442 (2000 - $375,000) has been drawn on these lines of credit which are reflected as shareholders loan. Interest of $47,000 is reflected in the statement of operations. As part of the financing arrangement during the year ended December 31, 2001, the Company issued common shares with a value of $150,000 (2000 - $100,000) as a financing fee, to the shareholders.

12. Commitments and contingencies:

Lease commitments:

The Company has entered into capital leases for mobile equipment which expire during 2005.

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

2002	$ 75,452
2003	67,205
2004	44,832
2005	40,020
Total minimum lease payments	227,509
Amounts representing interest	46,427
Net minimum lease payments	181,082
Current portion	55,983
	$ 125,099

In addition, the Company leases other equipment, office premises and storage under operating leases expiring during 2003. Annual lease payments are $39,596 and $4,705 for 2002 and 2003, respectively.

13. Financial instruments:

(a) Concentration of credit risk:

As at December 31, 2001, 4 customers (2000 - 1 customer) represents approximately 51% (2000 - 26%) of accounts receivable. The Company performs periodic assessment of the credit worthiness of its customers.

(b) Fair value:

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 based on market rates of interest. The fair value of the shareholder loan 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 shareholders loan is disclosed in note 11.

14. 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:

	2001	2000
Canada	$ 639,939	$ 580,834
U.S.A.	285,402	125,212
Other	4,874	1,252
	$ 930,215	$ 707,298

For the year ended December 31, 2001, 1 customer (2000 - 1 customer) represents 17% (2000 - 17%) of total sales.