Consolidated Financial Statements of

ATI AIRTEST TECHNOLOGIES INC.

Years ended December 31, 2002 and 2001

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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, 2002 and 2001 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, 2002 and 2001 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, after giving effect to the change in accounting policy for stock-based compensation, as disclosed in note 3(f).

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada

May 30, 2003

ATI AIRTEST TECHNOLOGIES INC.
Consolidated Balance Sheets

December 31, 2002 and 2001

		2002		2001
Assets				
Current assets:				
Cash	$	7,055	$	1,007
Accounts receivable		206,658		237,786
Inventory (note 4)		194,913		219,737
Prepaid expenses		12,684		10,451
		421,310		468,981
Furniture and equipment (note 5)		137,867		215,858
	$	559,177	$	684,839
Liabilities and Shareholders' Deficiency				
Current liabilities:				
Cheques issued in excess of funds on deposit	$	17,325	$	47,916
Bank loan (note 6)		1,000,000		985,000
Accounts payable and accrued liabilities		609,400		312,302
Shareholder loans (note 11)		500,000		951,442
Advances from related parties (note 11)		171,778		-
Current portion of long-term debt (note 7)		-		21,000
Current portion of capital lease obligations		35,929		55,983
		2,334,432		2,373,643
Capital lease obligations (note 12)		72,473		125,099
Shareholders' deficiency:				
Share capital (note 8)		4,145,145		3,776,439
Contributed surplus (note 8(e) and 8(g))		550,682		130,682
Deficit		(6,543,555)		(5,721,024)
		(1,847,728)		(1,813,903)
	$	559,177	$	684,839

Future operations (note 2)
Commitments and contingencies (note 12)
Subsequent events (note 8(h))

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, 2002 and 2001

	2002	2001
Revenue (note 14):		
Product sales	$ 718,198	$ 537,159
Services	218,814	393,056
	937,012	930,215
Cost of goods sold:		
Product sales	393,645	287,338
Services	200,323	284,974
	593,968	572,312
Gross profit	343,044	357,903
Expenses:		
Amortization	50,273	51,012
Automotive	7,905	8,374
Bad debts	11,581	9,738
Bank charges and interest	103,594	128,508
Financing fees	-	150,000
Freight	12,770	8,408
Insurance	27,002	25,480
Maintenance	628	622
Office and general	35,470	44,628
Professional and management fees	102,482	129,018
Rent and property tax	35,393	33,045
Research and development	83,501	109,243
Salaries and benefits	265,096	247,794
Sales, marketing and promotion	350,160	202,474
Shop supplies	2,357	3,560
Telephone	12,363	13,756
Write-down of inventory	65,000	74,453
	1,165,575	1,240,113
Loss for the year	(822,531)	(882,210)
Deficit, beginning of year	(5,721,024)	(4,838,814)
Deficit, end of year	$ (6,543,555)	$ (5,721,024)
Basic and diluted loss per share (note 8(f))	$ (0.08)	$ (0.09)
Weighted average number of common shares outstanding	9,761,585	9,308,160

See accompanying notes to consolidated financial statements.

ATI AIRTEST TECHNOLOGIES INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2002 and 2001

	2002	2001
Cash provided by (used in):		
Operations:		
Loss for the year	$ (822,531)	$ (882,210)
Items not involving cash:		
Amortization	50,273	51,012
Write-down of inventory	65,000	74,453
Financing fees	-	150,000
Loss on disposal of furniture and equipment	-	872
Foreign exchange loss	18,450	-
Changes in non-cash working capital items:		
Accounts receivable	31,128	(77,188)
Inventory	(40,176)	49,064
Prepaid expenses	(2,233)	39,065
Accounts payable and accrued liabilities	297,098	49,659
	(402,991)	(545,273)
Investments:		
Purchase of furniture and equipment	(9,033)	(1,349)
Financing:		
Bank loan	15,000	25,000
Shareholder loans	148,558	576,443
Payment of long-term debt	(21,000)	(36,000)
Advances from related parties	171,778	-
Advances on private placement (note 8(h))	170,256	-
Capital lease obligation payments	(35,929)	(44,285)
	448,663	521,158
Increase (decrease) in cash and cash equivalents	36,639	(25,464)
Cash and cash equivalents, beginning of year	(46,909)	(21,445)
Cash and cash equivalents, end of year	$ (10,270)	$ (46,909)

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, 2002 of $1,913,122 (2001 - $1,904,662). 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%

3. Significant accounting policies (continued):

(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 customer's specification.

(e) Research and development:

Research and development costs are expensed as incurred.

(f) Stock-based compensation plans:

The Company has an incentive share option plan which is described in note 8(c). Effective for options granted on or after January 1, 2002, the Company adopted the recommendations of CICA Handbook Section 3870, "*Stock-Based Compensation and Other Stock-Based Payments*", which requires that stock based payments made to non-employees be accounted for using the fair value based method and charged to operations over the service period which normally is the period during which the options vest. For options granted prior to January 1, 2002, no stock-based compensation expense was recorded for any stock options granted to either employees, directors, or non-employees.

As permitted by CICA Handbook Section 3870, the Company has elected to use the intrinsic value method for stock options issued to employees and directors. Under the intrinsic value method, stock based compensation is recognized to the extent that the market price of the underlying common shares exceeds the exercise price on the date of grant. As the Company only issues options with exercise prices equal to the market price of common shares, no compensation has been recorded related to stock options granted to employees and directors. The Company discloses the pro-forma effect of accounting for stock options granted to employees and directors under the fair value method in note 8(c).

(g) 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.

(h) Foreign currency:

Monetary items denominated in foreign currency are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in results from operations.

3. Significant accounting policies (continued):

(i) Loss per share:

Basic loss per share is calculated using the weighted average number of shares outstanding during the period. Diluted loss per share is computed similarly to basic loss per share, except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, warrants, and performance share units, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options, warrants, and performance share units were exercised and that the proceeds from such exercise were used to repurchase shares of common stock at the average market price during the period.

(j) 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.

(k) Comparative figures:

Certain comparative amounts have been reclassified to conform with the presentation adopted in the current year.

4. Inventory:

	2002	2001
Finished goods	$ 87,711	$ 35,328
Work-in-progress	4,473	4,367
Raw materials	102,729	180,042
	$ 194,913	$ 219,737

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:

2002	Cost	Accumulated amortization	Net book value
Mobile equipment	$ 199,627	$ 91,225	$ 108,402
Computer hardware	65,007	46,380	18,627
Office furniture and fixtures	24,239	16,617	7,622
Assembly equipment	5,087	3,770	1,317
Testing equipment	5,245	3,346	1,899
	$ 299,205	$ 161,338	$ 137,867

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

As at December 31, 2002, furniture and equipment includes mobile equipment under capital lease with a cost of $199,627 (2001 - $244,733) and a net book value of $108,402 (2001 - $185,678).

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:

	2002	2001
Bank loan, repayable by monthly instalments of $3,000 plus interest at prime plus 4%	$ -	$ 21,000
Current portion	-	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, 2000	8,670,003	$ 3,699,741
Shares issued as finance fee to loan providers (notes 9(b) and 11)	1,263,157	250,000
Shares returned and cancelled	(405,000)	(173,302)
Balance, December 31, 2001	9,528,160	3,776,439
Shares issued for settlement of shareholder loans (note 8(g))	1,200,000	198,450
Advance on private placement (net) (note 8(h))	-	170,256
Balance, December 31, 2002	10,728,160	$ 4,145,145

(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, 2002		December 31, 2001	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	761,700	$ 0.24	511,700	$ 1.00
Granted	200,000	0.20	761,700	0.24
Expired	-	-	(100,000)	1.00
Cancelled	-	-	(411,700)	1.00
Outstanding, end of year	961,700	$ 0.23	761,700	$ 0.24

As at December 31, 2002 all options are exercisable by the holders. The following table summarizes information about share options outstanding at December 31, 2002:

Number of outstanding shares	Exercise price	Weighted average contractual life
200,000	$ 0.20	4.2 years
761,700	0.24	2.4 years
961,700	$ 0.23	2.7 years

8. Share capital (continued):

(c) Stock options (continued):

Had compensation expense for the stock options granted to employees in the year ended December 31, 2002 been determined based on their fair value at the grant dates, calculated using the Black-Scholes option pricing model, the Company's net loss and loss per share for the year ended December 31, 2002 would have been adjusted to the pro forma amounts indicated below:

Net loss - as reported	$	(822,531)
Net loss - pro forma		(842,474)
Basic and fully diluted loss per common share- as reported		(0.08)
Basic and fully diluted loss per common share- pro forma		(0.07)
Stock-based compensation - as reported		-
Stock-based compensation - pro forma		19,943

The pro forma amounts exclude the effects of options granted prior to January 1, 2002. The fair value of the options was determined using the Black-Scholes option pricing model using the following weighted average assumptions: expected dividend yield - nil%; expected stock price volatility - 274%; risk free interest rate - 4.00%; expected life of options - nil. The weighted average grant date fair value was $0.10 for options granted during the year ended December 31, 2002.

(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 were not exercised and expired during the year ended December 31, 2002.

(e) Contributed surplus:

During the year ended December 31, 2001, 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. The 405,000 shares returned to the Company were cancelled during the year ended December 31, 2002.

(f) Loss per share:

Diluted loss per share amounts do not differ from basic loss per share as the impact of convertible securities including stock options and share purchase warrants is anti-dilutive.

(g) Shares issued for debt conversion:

During the year ended December 31, 2002, a number of private investors who loaned the Company $618,450 agreed to convert their unsecured shareholder loans to equity. The conversion resulted in the issuance of 1,200,000 shares. The excess of the conversion price over the fair market value of the shares issued of $420,000 has been charged to contributed surplus.

8. Share capital (continued):

(h) Advance on private placement:

During the year ended December 31, 2002, the Company announced a private placement of 1,700,000 units, priced at $0.15 per unit. Each unit consists of one share and one non-transferable share purchase warrant. Each warrant will entitle the holder to purchase one additional common share for a term of 180 days from the date the shares are issued. Prior to December 31, 2002, the Company received cash proceeds of $194,935 and incurred $24,679 of financing fees in advance of the completion of the private placement. Subsequent to December 31, 2002, 1,700,000 units were issued.

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:

	2002	2001
Cash on hand and balances in bank	$ 7,055	$ 1,007
Cheques issued in excess of funds on deposit	(17,325)	(47,916)
	$ (10,270)	$ (46,909)

(b) Non-cash transactions:

During the year ended December 31, 2002, the Company issued 1,200,000 common shares on conversion of $618,450 shareholder loans. The Company issued shares with a value of $250,000 as a financing fee during the year ended December 31, 2001 of which $100,000 was accrued for in the year ended December 31, 2000. In addition, as part of the consideration for the purchase of shares from a former director (note 8(e)), during the year ended December 31, 2001, the Company transferred inventory with a value of $50,000 and settled severance of $7,880 accrued for in accounts payable and accrued liabilities.

During the year ended December 31, 2001, the Company acquired mobile equipment under capital leases for $45,106. The Company disposed of the mobile equipment and settled the related capital lease obligation for $36,751 during the year ended December 2002.

(c) Supplemental information:

	2002	2001
Interest paid	$ 99,537	$ 122,813
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 39.62% (2001 - 44.62%) to income before income taxes as follows:

	2002	2001
Loss before income taxes	$ (822,531)	$ (882,210)
Expected income tax recovery	$ (325,887)	$ (393,642)
Tax effect on:		
Change in valuation allowance	156,904	204,599
Change in substantively-enacted tax rates	-	74,313
Change in loss carry forwards	149,604	-
Other	19,379	114,730
	325,887	393,642
	$ -	$ -

As at December 31, 2002, significant components of the Company's future tax assets are as follows:

	2002	2001
Future tax assets:		
Losses carried forward	$ 1,687,153	$ 1,522,944
Financing fees	60,463	71,240
Capital assets	24,883	21,410
Total tax assets	1,772,499	1,615,594
Valuation allowance	(1,772,499)	(1,615,594)
Net tax assets	$ -	$ -

The Company has cumulative income tax loss carry forwards at December 31, 2002 of approximately $4,736,500 which are available to offset taxable income to 2009.

11. Related party transactions:

During the year ended December 31, 2002, the Company rented equipment from certain directors or companies controlled by them and recorded the transactions at the exchange amount of $50,805 (2001 - $32,284).

The Company has lines of credit available through shareholders totalling $500,000 (2001 - $875,000) and US nil (2001 - $250,000) which are repayable on demand and bear interest at prime plus 1%. As at December 31, 2002, $500,000 (2001 - $951,442) 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 $250,000 as a financing fee to the shareholders of which $100,000 was accrued in the year ended December 31, 2000.

During the year ended December 31, 2002, advances of $171,778 (2001 - nil) were received from a company controlled by a director which are non-interest bearing and repayable on demand.

12. Commitments and contingencies:

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

2003	$ 47,785
2004	44,832
2005	40,020
Total minimum lease payments	132,637
Amounts representing interest	24,235
Net minimum lease payments	108,402
Current portion	35,929
	$ 72,473

In addition, the Company leases other equipment, office premises and storage under operating leases expiring during 2007. Annual lease payments are as follows:

2003	$ 69,921
2004	62,637
2005	32,437
2006	33,532
2007	19,561
	$ 218,088

13. Financial instruments:

(a) Concentration of credit risk:

As at December 31, 2002, 4 customers (2001 - 4 customers) represents approximately 45% (2001 - 51%) of accounts receivable. The Company performs periodic assessment of the credit worthiness of its customers.

(b) Fair value:

The fair values of cash, cheques issued in excess of funds on deposit, accounts receivable, accounts payable and accrued liabilities and bank loan approximate 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 loans and advances from related parties is not determinable with sufficient reliability due to the related party nature of the amounts and the lack of a readily available market for such instruments. Details of the shareholders loan and advances from related parties 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:

	2002	2001
Canada	$ 488,438	$ 639,939
U.S.A.	443,412	285,402
Other	5,162	4,874
	$ 937,012	$ 930,215

For the year ended December 31, 2002, 1 customer (2001 - 1 customer) represents 14% (2001 - 17%) of total sales.