



***FAB-FORM INDUSTRIES LTD.***

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2002

## **AUDITORS' REPORT**

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### **To the Shareholders of Fab-Form Industries Ltd.**

We have audited the consolidated balance sheet of Fab-Form Industries Ltd. as at 31 December 2002 and the consolidated statements of operations and deficit and cash flows for the year 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 audit.

We conducted our audit 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 31 December 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act of British Columbia, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

The financial statements for the year ended 31 December 2001 were audited by other auditors who expressed an opinion which contained a reservation on those statements concerning opening inventory in their report dated 14 January 2002.

CULVER & CO.  
*Chartered Accountants*  
Vancouver, BC  
17 March, 2003

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**Fab-Form Industries Ltd.****Consolidated Balance Sheet****As at 31 December***Canadian Funds*

| <b>ASSETS</b>                                 | <b>2002</b>       | <b>2001</b> |
|---|-------------------|-------------|
| <b>Current</b>                                |                   |             |
| GST receivable                                | \$ -              | \$ 1,560    |
| Accounts receivable                           | <b>11,275</b>     | 4,911       |
| Prepaid expenses and advances                 | <b>10,941</b>     | 4,053       |
| Inventory                                     | <b>16,705</b>     | 10,660      |
|   | <b>38,921</b>     | 21,184      |
| <b>Property, plant and equipment</b> (Note 5) | <b>53,715</b>     | 37,351      |
| <b>Deferred development costs</b> (Note 6)    | <b>234,012</b>    | 236,152     |
| <b>Patents</b> (Note 7)                       | <b>95,685</b>     | 98,935      |
| <b>Trademarks</b> (Note 8)                    | <b>12,675</b>     | 11,767      |
|   | <b>\$ 435,009</b> | \$ 405,389  |
| <b>LIABILITIES</b>                            |                   |             |
| <b>Current</b>                                |                   |             |
| Bank overdraft (Note 9)                       | \$ <b>11,599</b>  | \$ 7,805    |
| Accounts payable and accrued liabilities      | <b>107,173</b>    | 201,212     |
| Accounts payable - related (Note 14)          | <b>23,511</b>     | 127,932     |
| Loans from related parties (Notes 10 and 14)  | <b>5,153</b>      | 16,749      |
| Current portion of long-term debt (Note 11)   | <b>7,608</b>      | 7,469       |
|   | <b>155,044</b>    | 361,167     |
| <b>Long-Term Debt</b> (Note 11)               | <b>1,980</b>      | 9,587       |
| <b>Obligation to Issue Shares</b> (Note 12)   | <b>63,500</b>     | 63,500      |
| <b>SHAREHOLDERS' EQUITY</b>                   |                   |             |
| <b>Share Capital</b> (Note 13)                | <b>613,674</b>    | 440,682     |
| <b>Deficit</b>                                | <b>(399,189)</b>  | (469,547)   |
|   | <b>214,485</b>    | (28,865)    |
|   | <b>\$ 435,009</b> | \$ 405,389  |

ON BEHALF OF THE BOARD:

**"Richard Fearn"**

\_\_\_\_\_, Director

**"Herb Bentz"**

\_\_\_\_\_, Director

- See Accompanying Notes -

**Fab-Form Industries Ltd.**

**Consolidated Statement of Operations and Deficit**

**For the Year Ending 31 December**

*Canadian Funds*

|   | <b>2002</b>         | 2001            |
|---|---------------------|-----------------|
| <b>Sales</b>                                | <b>\$ 260,926</b>   | \$ 188,366      |
| <b>Cost of Sales</b>                        | <b>117,248</b>      | 108,317         |
| <b>Gross Profit</b>                         | <b>143,678</b>      | 80,049          |
| (Percent Gross Profit)                      | (55%)               | (42%)           |
| <b>Expenses</b>                             |                     |                 |
| Administrative expenses                     | <b>12,585</b>       | 22,655          |
| Amortization and depreciation               | <b>32,898</b>       | 24,902          |
| Bad debt expense (recovery)                 | <b>3,371</b>        | (465)           |
| Bank charges and interest                   | <b>5,582</b>        | 2,517           |
| Foreign exchange loss (gain)                | <b>(538)</b>        | 1,548           |
| Investor relations                          | <b>1,210</b>        | 8,796           |
| Management fees                             | <b>17,000</b>       | 26,691          |
| Marketing and advertising                   | <b>15,324</b>       | 31,563          |
| Occupancy                                   | <b>10,163</b>       | 9,974           |
| Patent maintenance                          | <b>2,499</b>        | -               |
| Production                                  | <b>3,015</b>        | -               |
| Professional fees                           | <b>12,142</b>       | 34,818          |
| Public company expenses                     | <b>8,827</b>        | 10,603          |
| Telecommunications                          | <b>4,183</b>        | 4,292           |
| Wages and benefits                          | <b>1,767</b>        | 1,259           |
|   | <b>130,029</b>      | 179,153         |
| <b>Net income (loss) before other items</b> | <b>13,649</b>       | <b>(99,104)</b> |
| <b>Other Items</b>                          |                     |                 |
| Write off of steel inventory                | <b>(4,482)</b>      | -               |
| Recovery of prior years expenses            | <b>61,192</b>       | -               |
| <b>Net Income (Loss) for the Period</b>     | <b>70,358</b>       | (99,104)        |
| Deficit - Beginning of Period               | <b>(469,547)</b>    | (370,443)       |
| <b>Deficit - End of Period</b>              | <b>\$ (399,189)</b> | (469,547)       |
| <b>Earnings per share (loss)</b>            |                     |                 |
| Basic                                       | 0.03                | (0.05)          |
| Diluted                                     | 0.01                | (0.05)          |

- See Accompanying Notes -

**Fab-Form Industries Ltd.****Consolidated Statement of Cash Flows****For the Year Ended 31 December***Canadian Funds*

|  | <b>2002</b>        | 2001              |
|--|--------------------|-------------------|
| <b>Cash provided by (used in):</b>         |                    |                   |
| <b>Operating Activities</b>                |                    |                   |
| Cash receipts from customers               | \$ 251,902         | \$ 209,287        |
| Direct costs                               | (127,775)          | (77,323)          |
| Cash paid to suppliers and employees       | (63,937)           | (79,651)          |
|  | <u>60,190</u>      | <u>52,313</u>     |
| <b>Investing Activities</b>                |                    |                   |
| Purchases of property, plant and equipment | (29,326)           | (69)              |
| Deferred development costs                 | (11,233)           | (52,479)          |
| Patents                                    | (2,345)            | (17,444)          |
| Trademarks                                 | (1,877)            | (2,544)           |
|  | <u>(44,781)</u>    | <u>(72,536)</u>   |
| <b>Financing Activities</b>                |                    |                   |
| Long-term debt                             | (7,607)            | (7,329)           |
| Reclamation deposit received               | -                  | 10,000            |
| Loans from related parties                 | (11,596)           | 16,749            |
|  | <u>(19,203)</u>    | <u>19,420</u>     |
| <b>Net increase (decrease) in cash</b>     | <b>(3,794)</b>     | <b>(803)</b>      |
| <b>Cash position, opening</b>              | <b>(7,805)</b>     | <b>(7,002)</b>    |
| <b>Cash position, ending</b>               | <b>\$ (11,599)</b> | <b>\$ (7,805)</b> |

- See Accompanying Notes -

**Fab-Form Industries Ltd.**

**Notes to Consolidated Financial Statements**

**31 December 2002**

*Canadian Funds*

**1. Future operations**

These financial statements have been prepared on a going concern basis which presumes the recovery of assets and settlement of liabilities at their carrying values in the normal course of business for the foreseeable future. Although the company is meeting its current obligations through product sales, it has a working capital deficiency and an accumulated deficit. Continued operations and the recovery of deferred development, patent and trademark costs are dependent on the company's ability to continue product development, generate net income and positive cash flows on a commercial scale.

If the going concern assumption was not appropriate for these financial statements the adjustments would be necessary to the carrying values of assets and liabilities.

**2. Incorporation and nature of business**

Fab-Form Industries Ltd. (the "company" or "Fab-Form") was incorporated 13 June 1995 under the Company Act of British Columbia as 498620 BC Ltd. On 11 October 1995 the company changed its name to Capital Gold Corporation. On 16 November 1995 the company changed its name to First Gold Corporation. On 25 October 1999 the company changed its name to Fastfoot Industries Ltd. On 14 December 2001 the company changed its name to Fab-Form Industries Ltd.

Initially, the company was involved in exploration and development of mineral properties. On 28 October 1999 the company acquired 100% of the issued and outstanding shares of Maxito Industries Ltd. ("Maxito"). Maxito develops proprietary technology to construct concrete footings, foundations, and walls for residential and commercial building structures. Maxito's wholly owned subsidiary, Fastfoot Industries (1986) Ltd. ("Fastfoot (1986)") is the operating company for the technology.

**3. Significant accounting policies**

**a) Basis of consolidation**

These consolidated financial statements include the accounts of the company, its wholly owned subsidiary Maxito, and the wholly owned subsidiary of Maxito, Fastfoot (1986). Maxito was incorporated under the Company Act of British Columbia on 28 May 1990. Fastfoot (1986) was incorporated under the Company Act of British Columbia on 18 November 1986.

**b) Inventory**

Inventory is valued at the lower of cost or net realizable value. Cost is determined on the first-in, first-out basis.

**c) Amortization**

The company provides for amortization of property, plant and equipment on the declining balance basis using the following annual rates:

- Manufacturing equipment - 20%
- Office furniture and equipment - 20%
- Computer equipment - 30%
- Vehicle - 30%
- Software - 100%

One-half of the above rate is taken in the year of acquisition.

**d) Patents**

Expenditures relating to patents are recorded at cost and are amortized on a straight-line basis over 17 years, commencing in the year in which the patent certificate is received.

## **Notes to Consolidated Financial Statements**

**31 December 2002**

*Canadian Funds*

### **3. Significant accounting policies (continued)**

#### **e) Deferred development costs**

New product research and development costs are deferred to future periods when the product or process is clearly defined, the costs can be identified, the technical feasibility has been established, management intends to market the product or process, a market exists for the product or process, and adequate resources exist to complete the project. Research, as well as development costs that do not meet the preceding criteria are expensed in the period incurred.

The company provides for amortization using the reversed sum-of-the-years'-digits method, over the estimated useful life of the product or process from the date of completion.

Research and development investment tax credits and government grants are applied against the deferred costs or expense, as applicable, in the period in which the investment tax credits and government grants are received.

Deferred development costs include:

- i) direct costs of materials and services consumed during the development stage,
- ii) remuneration of personnel directly engaged in the development activities,
- iii) a reasonable portion of overhead costs,
- iv) amortization of capital assets used in the development activities.

#### **f) Trademarks**

Trademarks are recorded at cost and are amortized on a straight-line basis over 10 years, commencing in the year in which the trademark certificate is received.

#### **g) Foreign currency translation**

The company's foreign denominated transactions have been translated into Canadian dollars as follows:

- Monetary assets and liabilities at year-end rates,
- All other assets and liabilities at historical rates, and
- Revenue and expense and research and development items at the average rate of exchange prevailing during the year.

Exchange gains and losses arising from these transactions are reflected in income or expense in the year.

#### **h) Income taxes**

Income taxes are accounted for using the asset and liability method. Under this method, future income tax assets and liabilities are determined based on temporary differences between the financial statement carrying amount and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future income tax assets and liabilities from a change in tax rates is included in income in the period that includes the substantive enactment date. Future income tax assets are evaluated periodically and if realization is not considered more likely than not, a valuation allowance is provided.

#### **i) Stock-based compensation**

The company has adopted the recommendations of the Canadian Institute of Chartered Accountants for stock-based compensation. The new recommendations are applicable only to awards granted by the company after the date of adoption. No compensation expense relating to options was recorded during the year. Any consideration paid on the exercise of stock options is credited to share capital.

## **Notes to Consolidated Financial Statements**

**31 December 2002**

*Canadian Funds*

### **3. Significant accounting policies (continued)**

#### **j) Revenue recognition**

Revenue is recorded and related costs are recognized at the time the product is shipped.

#### **k) Earnings per share**

Basic earnings and loss per share are calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method and reflects the potential dilution of securities by including stock options in the weighted average number of shares outstanding, if dilutive.

#### **l) Use of estimates**

The preparation of financial statements in conformity with 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 dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

### **4. Financial instruments**

The company's financial instruments consist of accounts receivable, bank overdraft, accounts payable, amounts due to related parties, loans from related parties and long-term debt. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation. As a significant portion of the company's sales is made in U.S. funds, there is significant exposure to the foreign currency fluctuation risk.

### **5. Property, plant and equipment**

|                         | <b>2002</b>       |                      |                  | <b>2001</b> |               |
|-------------------------|-------------------|----------------------|------------------|-------------|---------------|
|                         | <b>Cost</b>       | <b>Accum. Amort.</b> | <b>Net</b>       | <b>Net</b>  | <b>Net</b>    |
| Manufacturing equipment | \$ 51,829         | \$ 17,359            | \$ 34,470        | \$          | 10,096        |
| Office furniture        | 6,272             | 4,950                | 1,322            |             | 1,654         |
| Computers               | 26,199            | 20,517               | 5,682            |             | 8,114         |
| Vehicle                 | 29,391            | 17,150               | 12,241           |             | 17,487        |
| Software                | 1,678             | 1,678                | -                |             | -             |
|                         | <u>\$ 115,369</u> | <u>\$ 61,654</u>     | <u>\$ 53,715</u> | <u>\$</u>   | <u>37,351</u> |

**Fab-Form Industries Ltd.**

**Notes to Consolidated Financial Statements**

**31 December 2002**

*Canadian Funds*

**6. Deferred development costs**

| <b>Fabwall</b>                  | <b>31/12/01</b>   | <b>2002</b>       | <b>31/12/02</b>   |
|---------------------------------|-------------------|-------------------|-------------------|
| Prototype development           | \$ 7,903          | \$ -              | \$ 7,903          |
| Design                          | 40,975            | -                 | 40,975            |
| Testing                         | -                 | -                 | -                 |
| Consulting                      | 52,236            | 6,274             | 58,510            |
| Overhead costs                  | 23,876            | 1,249             | 25,125            |
| Remuneration                    | 20,954            | 3,400             | 24,354            |
| Government grant                | (9,736)           | (11,089)          | (20,825)          |
| SR&D ITC refund                 | (1,674)           | -                 | (1,674)           |
| <b>Net book value</b>           | <b>134,534</b>    | <b>(166)</b>      | <b>134,368</b>    |
| <b>Fastfoot®</b>                |                   |                   |                   |
| Prototype development           | 20,672            | 162               | 20,834            |
| Design                          | 24,021            | -                 | 24,021            |
| Testing                         | 17,090            | -                 | 17,090            |
| Consulting                      | 33,899            | -                 | 33,898            |
| Overhead costs                  | 17,736            | 2,603             | 20,339            |
| Remuneration                    | 2,867             | 7,440             | 10,307            |
| SR&D ITC refund                 | (1,674)           | -                 | (1,673)           |
|                                 | 114,611           | 10,205            | 124,816           |
| <b>Accumulated amortization</b> | 12,993            | 13,373            | 26,366            |
| <b>Net book value</b>           | <b>101,618</b>    | <b>(3,168)</b>    | <b>98,450</b>     |
| <b>Fast-Tube</b>                |                   |                   |                   |
| Prototype development           | -                 | 46                | 46                |
| Overhead costs                  | -                 | 1,148             | 1,148             |
| <b>Net book value</b>           | <b>-</b>          | <b>1,194</b>      | <b>1,194</b>      |
| <b>TOTAL</b>                    |                   |                   |                   |
| Prototype development           | 28,575            | 209               | 28,784            |
| Design                          | 64,995            | -                 | 64,995            |
| Testing                         | 17,090            | -                 | 17,090            |
| Consulting                      | 86,135            | 6,274             | 92,409            |
| Overhead costs                  | 41,613            | 4,999             | 46,612            |
| Remuneration                    | 23,820            | 10,840            | 34,660            |
| Government grant                | (9,736)           | (11,089)          | (20,825)          |
| SR&D ITC refund                 | (3,347)           | -                 | (3,347)           |
|                                 | 249,145           | 11,233            | 260,378           |
| <b>Accumulated amortization</b> | 12,993            | 13,373            | 26,366            |
| <b>Net book value</b>           | <b>\$ 236,152</b> | <b>\$ (2,140)</b> | <b>\$ 234,012</b> |

- (i) The company amortizes the Fastfoot® technology using a reversed sum-of-the-years'-digits method over seven years commencing in fiscal 2000.
- (ii) No amortization of Fabwall™ or Fast-Tube™ has been recorded as these projects are still under development. No material revenue has resulted from this technology.
- (iii) During the current year, the company received a grant of \$11,089 from the provincial government to support development of Fabwall™ technology.

**Fab-Form Industries Ltd.**

**Notes to Consolidated Financial Statements**

**31 December 2002**

*Canadian Funds*

**7. Patents**

The company has an exclusive license agreement with its majority shareholder for use of proprietary technology protected by a number of current and pending patents for the life of the patents. No license fees are payable under the agreement except for the costs to register and maintain the patents.

Pending patents are for (1) Reusable Building Foundation Form and Method; (2) Fabric Wall Form and Method, (3) Fast-Tube™ and (4) Fast-Ring™.

Costs and amortization of held patents are as follows:

|                                      | <b>31/12/01</b>         | <b>2002</b>              | <b>31/12/02</b>         |
|--------------------------------------|-------------------------|--------------------------|-------------------------|
| <b>Foundation &amp; Floor System</b> |                         |                          |                         |
| Total cost                           | \$ 11,105               | \$ -                     | \$ 11,105               |
| Accumulated amortization             | <u>(5,879)</u>          | <u>(653)</u>             | <u>(6,532)</u>          |
| Net book value                       | <u>5,226</u>            | <u>(653)</u>             | <u>4,573</u>            |
| <b>Concrete Foundation Wall</b>      |                         |                          |                         |
| Cost                                 | 6,957                   | -                        | 6,957                   |
| Accumulated amortization             | <u>(1,636)</u>          | <u>(409)</u>             | <u>(2,045)</u>          |
| Net book value                       | <u>5,321</u>            | <u>(409)</u>             | <u>4,912</u>            |
| <b>Reusable Building Foundation</b>  |                         |                          |                         |
| Total cost                           | 76,861                  | 190                      | 77,051                  |
| Accumulated amortization             | <u>-</u>                | <u>(4,533)</u>           | <u>(4,533)</u>          |
| Net book value                       | <u>76,861</u>           | <u>(4,341)</u>           | <u>72,518</u>           |
| <b>Fabwall</b>                       |                         |                          |                         |
| Cost                                 | 11,527                  | 2,155                    | 13,682                  |
| Accumulated amortization             | <u>-</u>                | <u>-</u>                 | <u>-</u>                |
| Net book value                       | <u>11,527</u>           | <u>2,155</u>             | <u>13,682</u>           |
| <b>TOTAL</b>                         |                         |                          |                         |
| <b>Cost</b>                          | <b>106,450</b>          | <b>2,345</b>             | <b>108,795</b>          |
| <b>Accumulated amortization</b>      | <b><u>(7,515)</u></b>   | <b><u>(5,595)</u></b>    | <b><u>(13,110)</u></b>  |
| <b>Net book value</b>                | <b><u>\$ 98,935</u></b> | <b><u>\$ (3,250)</u></b> | <b><u>\$ 95,685</u></b> |

**8. Trademarks**

The company has three registered trademarks (Fastfoot®, Fastfabric® and Fastbag®).

|                                 | <b>31/12/01</b>         | <b>2002</b>          | <b>31/12/02</b>         |
|---------------------------------|-------------------------|----------------------|-------------------------|
| <b>Fastfoot®</b>                |                         |                      |                         |
| Costs                           | \$ 6,212                | \$ -                 | \$ 6,212                |
| Accumulated amortization        | <u>1,160</u>            | <u>580</u>           | <u>1,740</u>            |
| <b>Net book value</b>           | <u>5,052</u>            | <u>(580)</u>         | <u>4,472</u>            |
| <b>Fastfabric®</b>              |                         |                      |                         |
| Costs                           | 3,883                   | -                    | 3,883                   |
| Accumulated amortization        | <u>-</u>                | <u>388</u>           | <u>388</u>              |
| <b>Net book value</b>           | <u>3,883</u>            | <u>(388)</u>         | <u>3,495</u>            |
| <b>Fastbag®</b>                 |                         |                      |                         |
| Costs                           | 2,832                   | 1,876                | 4,708                   |
| Accumulated amortization        | <u>-</u>                | <u>-</u>             | <u>-</u>                |
| <b>Net book value</b>           | <u>2,832</u>            | <u>1,876</u>         | <u>4,708</u>            |
| <b>TOTAL</b>                    |                         |                      |                         |
| <b>Costs</b>                    | <b>12,927</b>           | <b>1,876</b>         | <b>14,803</b>           |
| <b>Accumulated amortization</b> | <b><u>1,160</u></b>     | <b><u>968</u></b>    | <b><u>2,128</u></b>     |
| <b>Net book value</b>           | <b><u>\$ 11,767</u></b> | <b><u>\$ 908</u></b> | <b><u>\$ 12,675</u></b> |

## Notes to Consolidated Financial Statements

31 December 2002

Canadian Funds

### 9. Bank overdraft

The company has two bank overdraft positions: one to a maximum of \$10,000 with an interest rate of prime plus 5% per annum, secured by a general security agreement; the second to a maximum of \$30,000 with an interest rate of prime plus 4% per annum, secured by a general security agreement.

### 10. Loans from related parties

The loans are due from a director and officer, are due on demand and bear interest at prime compounded monthly.

### 11. Long-term debt

|  | 2002     | 2001      |
|--|----------|-----------|
| General Motors Acceptance Corporation of Canada, vehicle loan bearing interest at 1.9% per annum, repayable in blended monthly principal and interest payments of \$644, maturing 6 March 2004, secured by vehicle | \$ 9,588 | \$ 17,056 |
| Less current portion   | (7,608)  | (7,469)   |
| Long-term portion  | \$ 1,980 | \$ 9,587  |

Principal repayments required in the next two years are as follows:

|       |          |
|-------|----------|
| 2003  | \$ 7,608 |
| 2004  | 1,980    |
| Total | \$ 9,588 |

### 12. Obligation to issue shares / contingent liability

During the 2000 fiscal year, a former director and officer of the parent company ("the plaintiff") initiated legal action against the company. The plaintiff alleges that during the 2000 fiscal year he made \$64,500 in loans to the company, and that the company owes him this money plus accrued interest. The company's current management believes that only \$63,500 was advanced to the company and that these funds were advanced for the exercise of warrants. No further legal action has been undertaken by the plaintiff or the company since fiscal 2000. The outcome of the dispute is still unknown.

### 13. Share capital

#### a) Basis of presentation

These consolidated financial statements are prepared using reverse takeover accounting, under which the capital structure of the consolidated entity is that of the legal parent (the company), but the dollar amount at the date of the reverse takeover of the issued share capital is that of the legal subsidiary (Maxito).

## Notes to Consolidated Financial Statements

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### 13. Share capital (continued)

#### b) Details of share capital

i) Authorized: 100,000,000 common shares without par value and 100,000,000 class A preferred shares without par value

ii) Issued:

|   | <i>Common shares</i> | <i>\$ Amount</i> |
|---|----------------------|------------------|
| Issued and outstanding:   |                      |                  |
| Balance - 31 December 1999  | 15,971,200           | \$ 401,182       |
| Exercise of warrants  | 100,000              | 39,500           |
| Balance - 31 December 2000 and 14 December 2001 - pre-consolidated  | 16,071,200           | 440,682          |
| Balance - 14 December 2001 and 31 December 2001 - post-consolidated | 5,357,058            | 440,682          |
| Debt settlement – 2 April 2002                                      | 961,058              | 172,992          |
| <b>Balance – 31 December 2002</b>                                   | <b>6,318,116</b>     | <b>\$613,674</b> |

As at 31 December 2002, 56.0% (2001 – 55.6%) of the issued and outstanding voting common shares of the company were owned by a director and officer of the company and a relative of the director and officer.

#### c) Escrow shares

As at 31 December 2002, 3,419,307 (2001 - 3,419,307) shares were held in escrow to be released with the consent of the governing regulatory bodies. One escrow share will be released for every \$1.014 of cumulative positive cash flow before tax.

#### d) Options and warrants

Details of stock options outstanding at 31 December 2002 are as follows:

|         | <i>Number</i> | <i>Price per Share</i> | <i>Expiry Date</i> |
|---------|---------------|------------------------|--------------------|
| Options | 115,000       | \$ 0.45                | 1 November 2003    |

There were no warrants outstanding at 31 December 2002. See also note 18.

### 14. Related party transactions

The following accounts were affected by related party transactions during 2002 and 2001.

| <i>Category</i> | <i>Description</i>   | <i>Year</i> | <i>Director &amp; Officer</i> | <i>Relative of a Director &amp; Officer</i> | <i>Director or Company Controlled by Director</i> |
|-----------------|--|-------------|-------------------------------|---|---|
| Asset           | Deferred development costs                                   | <b>2002</b> | <b>\$ 17,330</b>              | <b>\$ -</b>                                 | <b>\$ -</b>                                       |
|                 |  | 2001        | 33,309                        | -   | 16,468  |
| Asset           | Capital assets   | <b>2002</b> | <b>6,080</b>                  | <b>6,080</b>                                | -   |
|                 |  | 2001        | -                             | -   | -   |
| Liability       | Amounts due to related parties incurred in ordinary business | <b>2002</b> | <b>9,305</b>                  | <b>53</b>                                   | -   |
|                 |  | 2001        | 63,054                        | 26,575                                      | 29,150  |
| Expenses        | Management fees  | <b>2002</b> | <b>8,500</b>                  | <b>8,500</b>                                | -   |
|                 |  | 2001        | 26,691                        | -   | -   |
| Expenses        | Administrative fees  | <b>2002</b> | -                             | -   | -   |
|                 |  | 2001        | -                             | 6,000                                       | -   |

## **Notes to Consolidated Financial Statements**

**31 December 2002**

*Canadian Funds*

### **15. Income taxes**

There are no income taxes payable on the current year's income as a result of the application of prior years losses. The company and its subsidiaries have available non-capital losses for tax purposes of approximately \$376,000 which may be carried forward and used to reduce taxable income of future years. These losses expire as follows:

|       |    |                |
|-------|----|----------------|
| 2006  | \$ | 167,000        |
| 2007  |    | 130,000        |
| 2008  |    | 76,000         |
| 2009  |    | 3,000          |
| Total | \$ | <u>376,000</u> |

Timing differences between accounting and tax values of property and intangible assets of \$78,000 will be offset against these losses in future years.

The company claims tax credits under the Scientific Research and Experimental Development investment tax credit program ("SR&D ITC"). SR&D ITC credits of \$36,000 are available to offset future income taxes.

Due to the uncertainty of future recovery, the potential tax benefit of these items has not been recognized in these consolidated financial statements.

### **16. Concentration of customers**

In 2002, 42.5% (2001 - 27%) of the company's sales were made to one customer.

### **17. Segmental information**

Details are as follows:

|                      |        | <b>2002</b>    |          | <b>2001</b>    |          |
|----------------------|--------|----------------|----------|----------------|----------|
|                      |        | <b>\$</b>      | <b>%</b> | <b>\$</b>      | <b>%</b> |
| Gross sales          | Canada | 54,004         | 20.4     | 41,777         | 22.2     |
|                      | U.S.   | 210,703        | 79.6     | 146,589        | 77.8     |
|                      | Total  | <u>264,707</u> | 100.0    | <u>188,366</u> | 100.0    |
| Total assets         | Canada | 443,999        | 100.0    | 405,379        | 100.0    |
|                      | U.S.   | -              | 0.0      | -              | 0.0      |
|                      | Total  | <u>443,999</u> | 100.0    | <u>405,379</u> | 100.0    |
| Capital expenditures | Canada | 29,325         | 100.0    | 89,205         | 100.0    |
|                      | U.S.   | -              | 0.0      | -              | 0.0      |
|                      | Total  | <u>29,325</u>  | 100.0    | <u>89,205</u>  | 100.0    |

### **18. Subsequent events**

On January 29th, 2003, the Company announced, subject to regulatory approval, the grant of 631,812 options to certain directors, officers, consultants and associates, exercisable at \$0.10 each until February 2006.