



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

CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2003

**UNAUDITED  
PREPARED BY MANAGEMENT**

**Fab-Form Industries Ltd.**

**Consolidated Balance Sheet**

**As at 30 June**

*Canadian Funds*

<b>ASSETS</b>	<b>30-06-03</b>	<b>30-06-02</b>	31-12-02
<b>Current</b>			
Cash and short-term deposits	<b>0</b>	<b>0</b>	0
GST receivable	<b>3,247</b>	<b>11,857</b>	0
Accounts receivable	<b>6,976</b>	<b>26,118</b>	11,275
Prepaid expenses and advances	<b>11,438</b>	<b>8,753</b>	10,941
Inventory	<b>15,192</b>	<b>15,524</b>	16,705
	<b>36,853</b>	<b>62,252</b>	38,921
<b>Capital Assets</b> (Note 5)	<b>85,082</b>	<b>45,805</b>	53,715
<b>Deferred Development Costs</b> (Note 6)	<b>225,309</b>	<b>236,873</b>	234,012
<b>Patents</b> (Note 7)	<b>95,640</b>	<b>101,997</b>	95,685
<b>Trademarks</b> (Note 8)	<b>12,317</b>	<b>12,620</b>	12,675
	<b>455,201</b>	<b>459,546</b>	435,009
<b>LIABILITIES</b>			
<b>Current</b>			
Bank overdraft (Note 9)	<b>15,401</b>	<b>5,383</b>	11,599
Accounts payable and accrued liabilities	<b>99,122</b>	<b>209,199</b>	107,173
Due to related parties (Notes 14b and 18)	<b>23,653</b>	<b>14,153</b>	23,511
Loans from related parties (Notes 10 and 18)	<b>5,153</b>	<b>5,000</b>	5,153
Current portion of long-term debt (Note 10)	<b>11,080</b>	<b>7,500</b>	7,608
	<b>154,409</b>	<b>241,235</b>	155,044
<b>Long-Term Debt</b> (Note 10)	<b>56,988</b>	<b>5,840</b>	1,980
<b>Obligation to Issue Shares</b> (Note 16)	<b>63,500</b>	<b>63,500</b>	63,500
<b>SHAREHOLDERS' EQUITY</b>			
<b>Share Capital</b> (Note 11)	<b>613,674</b>	<b>613,674</b>	613,674
<b>Deficit</b> - Statement 2	<b>(433,369)</b>	<b>(464,702)</b>	(399,189)
	<b>180,305</b>	<b>148,971</b>	214,485
	<b>455,201</b>	<b>459,546</b>	435,009

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 Quarter Ending 30 June

Canadian Funds

	<b>THREE MONTHS</b>		<b>SIX MONTHS</b>	
	<b>2003</b>	2002	<b>2003</b>	2002
<b>Sales</b>	<b>43,109</b>	75,473	<b>71,190</b>	141,023
<b>Cost of Sales</b>	<b>24,135</b>	35,128	<b>36,362</b>	68,357
<b>Gross Profit</b>	<b>18,974</b>	40,345	<b>34,828</b>	72,666
(Percent Gross Profit)	44%	53%	49%	52%
<b>Expenses</b>				
Administrative expenses	<b>6,317</b>	2,778	<b>8,835</b>	5,640
Amortization and depreciation	<b>8,094</b>	6,992	<b>16,184</b>	13,207
Bank charges and interest	<b>2,032</b>	1,284	<b>3,255</b>	2,565
Foreign exchange loss (gain)	<b>1,305</b>	740	<b>1,374</b>	565
Investor relations	-	-	-	1,210
Management fees	<b>700</b>	6,800	<b>1,400</b>	17,000
Marketing and advertising	<b>6,463</b>	(15)	<b>18,582</b>	1,555
Occupancy	<b>2,428</b>	2,405	<b>5,185</b>	5,110
Patent maintenance	<b>240</b>	515	<b>481</b>	1,002
Production	<b>96</b>	1,196	<b>358</b>	2,283
Professional fees	<b>2,833</b>	6,617	<b>4,833</b>	8,009
Public company expenses	<b>3,382</b>	2,540	<b>6,135</b>	7,710
Telecommunications	<b>1,171</b>	824	<b>2,381</b>	1,913
Wages and benefits	-	237	<b>4</b>	1,275
	<b>35,061</b>	32,913	<b>69,008</b>	69,044
<b>Profit (Loss) Before Other Items</b>	<b>(16,087)</b>	<b>7,432</b>	<b>(34,180)</b>	<b>3,622</b>
<b>Other Items</b>				
Tax refund	-	711	-	711
Recovery of bad debt	-	521	-	521
<b>Net Income (Loss) for the Period</b>	<b>(16,087)</b>	8,665	<b>(34,180)</b>	4,855
Deficit - Beginning of Period	<b>798,377</b>	(473,356)	<b>399,189</b>	(469,547)
<b>Deficit - End of Period</b>	<b>782,291</b>	(464,692)	<b>365,009</b>	(464,692)
<b>Common shares outstanding</b>				
Basic	2,898,809	2,418,280	2,898,809	2,418,280
Diluted	6,872,178	5,952,587	6,613,772	5,952,587
<b>Earnings per share (loss)</b>				
Basic	(0.006)	0.004	(0.012)	0.002
Diluted	(0.002)	0.001	(0.005)	0.001

- See Accompanying Notes -

**Fab-Form Industries Ltd.**

**Consolidated Statement of Cash Flows**

**For the Quarter Ended 30 June**

*Canadian Funds*

<b>Cash Resources Provided By (Used In)</b>	<b>THREE MONTHS</b>		<b>SIX MONTHS</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
<b>Operating Activities</b>				
Cash receipts from customers	<b>52,777</b>	79,852	<b>75,489</b>	121,039
Direct costs	<b>(24,036)</b>	(40,010)	<b>(34,849)</b>	(73,221)
Cash paid to suppliers and employees	<b>(21,174)</b>	(29,278)	<b>(61,147)</b>	(20,351)
	<b>7,567</b>	10,564	<b>(20,507)</b>	27,467
<b>Investing Activities</b>				
Capital assets	<b>(17,946)</b>	(13,129)	<b>(35,116)</b>	(14,179)
Research & Development	<b>(64)</b>	(2,505)	<b>(216)</b>	(7,187)
Patents	<b>(457)</b>	0	<b>(2,752)</b>	(3,594)
Purchases of Trademarks	<b>(361)</b>	0	<b>(361)</b>	(1,337)
	<b>(18,828)</b>	(15,634)	<b>(38,445)</b>	(26,297)
<b>Financing Activities</b>				
Long term debt	<b>(1,362)</b>	(1,875)	<b>55,008</b>	(3,747)
Due to related parties	<b>(4,145)</b>	0	<b>142</b>	0
Directors loan	<b>0</b>	5,000	<b>0</b>	5,000
	<b>(5,507)</b>	3,125	<b>55,150</b>	1,253
<b>Net Increase (Decrease) in Cash</b>	<b>(16,768)</b>	(1,946)	<b>(3,802)</b>	2,422
Cash position, opening	<b>1,367</b>	(3,437)	<b>(11,599)</b>	(7,805)
<b>Cash position, ending</b>	<b>(15,401)</b>	(5,383)	<b>(15,401)</b>	(5,383)

- See Accompanying Notes -

## **Notes to Consolidated Financial Statements**

**30 June 2003**

*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. The company 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**

**30 June 2003**

*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

30 June 2003

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

	2003			2002	
	<i>Cost</i>	<i>Accum. Amort.</i>	<i>Net Book Value</i>	<i>Net Book Value</i>	
Manufacturing Equipment	\$ 86,945	-\$ 18,288	\$ 68,658	22,555	
Office furniture	\$ 6,273	-\$ 5,082	\$ 1,190	1,488	
Computers	\$ 26,198	-\$ 21,369	\$ 4,830	6,898	
Vehicle	\$ 29,391	-\$ 18,986	\$ 10,405	14,864	
Software	\$ 1,678	-\$ 1,678	-\$ 0	0	
	\$ 150,485	-\$ 65,403	\$ 85,082	45,805	

## Notes to Consolidated Financial Statements

30 June 2003

Canadian Funds

### 6. Deferred development costs

<b>Fabwall</b>	<b>Opening</b>	<b>Current</b>	<b>Closing</b>
Prototype Dev	7,903	-	7,903
Design	40,975	-	40,975
Consulting	58,510	-	58,510
Overhead costs	25,126	-	25,126
Wages	24,354	-	24,354
Gov't grant	(20,825)	-	(20,825)
SR&D ITC refund	(1,674)	-	(1,674)
	<u>134,368</u>	-	<u>134,368</u>

**Accum Amort** - - -

**Net Book Value** **134,368** - **134,368**

<b>Fastfoot®</b>	<b>Opening</b>	<b>Current</b>	<b>Closing</b>
Prototype Dev	20,835	-	20,835
Design	24,021	-	24,021
Testing	17,090	-	17,090
Consulting	33,899	-	33,899
Overhead costs	20,339	42	20,382
Wages	10,306	-	10,306
SR&D ITC refund	(1,674)	-	(1,674)
	<u>124,815</u>	<u>42</u>	<u>124,858</u>

**Accum Amort** (26,366) (8,919) (35,285)

**Net Book Value** **151,181** **8,961** **160,142**

<b>Fast-Tube</b>	<b>Opening</b>	<b>Current</b>	<b>Closing</b>
Prototype Dev	46	152	198
Overhead costs	1,148	21	1,169
	<u>1,194</u>	<u>174</u>	<u>1,368</u>

**Accum Amort** - - -

**Net Book Value** **1,194** **174** **1,368**

<b>TOTAL</b>	<b>Opening</b>	<b>Current</b>	<b>Closing</b>
Prototype Dev	28,784	152	28,936
Design	64,995	-	64,995
Testing	17,090	-	17,090
Consulting	92,409	-	92,409
Overhead costs	46,612	64	46,676
Wages	34,660	-	34,660
Gov't grant	(20,825)	-	(20,825)
SR&D ITC refund	(3,347)	-	(3,347)
	<u>260,378</u>	<u>216</u>	<u>260,594</u>

**Accum Amort** (26,366) (8,919) (35,285)

**Net Book Value** **234,012** **(8,703)** **225,309**

- (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.

**Fab-Form Industries Ltd.**

**Notes to Consolidated Financial Statements**

**30 June 2003**

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. Costs and amortization of held patents are as follows:

		<i>Opening</i>	<i>Current</i>	<i>Ending</i>
<b>Foundation &amp; Floor System</b>	<i>Cost</i>	\$ 977	\$ -	\$ 977
	<i>Cost</i>	\$ 10,129	\$ -	\$ 10,129
	<i>Total Cost</i>	\$ 11,105	\$ -	\$ 11,105
	<i>Accum Amortization</i>	\$ (6,533)	\$ (327)	\$ (6,859)
	<i>Net Book Value</i>	\$ 4,573	\$ (327)	\$ 4,246
<b>Concrete Foundation Wall (GT)</b>	<i>Cost</i>	\$ 6,957	\$ -	\$ 6,957
	<i>Accum Amortization</i>	\$ (2,045)	\$ (205)	\$ (2,250)
	<i>Net Book Value</i>	\$ 4,912	\$ (205)	\$ 4,707
<b>Reusable Bldng Fndtn (Fastfoot®)</b>	<i>PCT Application</i>	\$ 2,000	\$ -	\$ 2,000
	<i>Canada</i>	\$ 777	\$ -	\$ 777
	<i>Japan</i>	\$ 20,976	\$ -	\$ 20,976
	<i>Europe</i>	\$ 13,915	\$ -	\$ 13,915
	<i>USA</i>	\$ 39,238	\$ -	\$ 39,238
	<i>Fast-Float</i>	\$ 144	\$ -	\$ 144
	<i>Total Cost</i>	\$ 77,051	\$ -	\$ 77,051
	<i>Accum Amortization</i>	\$ (4,532)	\$ (2,266)	\$ (6,798)
	<i>Net Book Value</i>	\$ 72,519	\$ (2,266)	\$ 70,253
<b>Fabwall™</b>	<i>Cost</i>	\$ 13,554	\$ -	\$ 13,554
	<i>Cost</i>	\$ -	\$ 2,752	\$ 2,752
	<i>Total Cost</i>	\$ 13,554	\$ 2,752	\$ 16,306
	<i>Accum Amortization</i>	\$ -	\$ -	\$ -
	<i>Net Book Value</i>	\$ 13,554	\$ 2,752	\$ 16,306
<b>Fast-Tube™</b>	<i>Cost</i>	\$ 128	\$ -	\$ 128
	<i>Accum Amortization</i>	\$ -	\$ -	\$ -
	<i>Net Book Value</i>	\$ 128	\$ -	\$ 128
<b>TOTAL</b>	<b><i>Cost</i></b>	<b>\$ 138,471</b>	<b>\$ 2,752</b>	<b>\$ 141,223</b>
	<b><i>Accum Amortization</i></b>	<b>\$ (42,786)</b>	<b>\$ (2,797)</b>	<b>\$ (45,583)</b>
	<b><i>Net Book Value</i></b>	<b>\$ 95,685</b>	<b>\$ (45)</b>	<b>\$ 95,640</b>

**8. Trademarks**

	<i>Opening</i>	<i>Current</i>	<i>Closing</i>
<b>Fastfoot®</b>			
Costs	\$ 6,212.45	\$ -	\$ 6,212.45
Accumulated Amortization	\$ (1,740.00)	\$ (290.00)	\$ (2,030.00)
<b>Net Book Value</b>	<b>\$ 4,472.45</b>	<b>\$ (290.00)</b>	<b>\$ 4,182.45</b>
<b>Fastfabric®</b>			
Costs	\$ 3,882.86	\$ -	\$ 3,882.86
Accumulated Amortization	\$ (388.29)	\$ (194.14)	\$ (582.43)
<b>Net Book Value</b>	<b>\$ 3,494.57</b>	<b>\$ (194.14)</b>	<b>\$ 3,300.43</b>
<b>Fastbag®</b>			
Costs	\$ 4,708.43	\$ 361.22	\$ 5,069.65
Accumulated Amortization	\$ -	\$ (235.42)	\$ (235.42)
<b>Net Book Value</b>	<b>\$ 4,708.43</b>	<b>\$ 125.80</b>	<b>\$ 4,834.23</b>
<b>TOTAL</b>			
Costs	\$ 14,803.74	\$ 361.22	\$ 15,164.96
Accumulated Amortization	\$ (2,128.29)	\$ (719.56)	\$ (2,847.85)
<b>Net Book Value</b>	<b>\$ 12,675.45</b>	<b>\$ (358.34)</b>	<b>\$ 12,317.11</b>

## **Notes to Consolidated Financial Statements**

**30 June 2003**

*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**

<i>Description</i>	<i>2003</i>	<i>2002</i>
1 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	\$ 5,800	\$ 13,340
Less current portion	-\$ 5,800	-\$ 7,500
Long-term portion	-\$ 0	\$ 5,840
2 Loan from the Program for Export Market Development. This money has been advanced to the company for allowable marketing expenditures, up to a maximum of \$39,854. No interest is charged on this loan. The loan is paid back on the basis of 4% of the increment	\$ 12,707	\$ -
Less current portion	\$ -	\$ -
Long-term portion	\$ 12,707	\$ -
3 Loan from the Business Development Bank for \$50,000 at a floating rate of 7% plus 1.75%. Interest is payable monthly, with principal repaid monthly (beginning June 2003) in instalments of \$440, with the final payment on May 18 <sup>th</sup> , 2008.	\$ 49,560	\$ -
Less current portion	-\$ 5,280	\$ -
Long-term portion	\$ 45,600	\$ -
<b>Total Long Term Loans</b>	<b>\$ 68,067</b>	<b>\$ 13,340</b>
<b>Less current portion</b>	<b>-\$ 11,080</b>	<b>-\$ 7,500</b>
<b>Long-term portion</b>	<b>\$ 56,987</b>	<b>\$ 5,840</b>

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

	<i>2003</i>	<i>2004</i>	<i>2005</i>
1 GMAC Vehicle Loan	\$ 2,493	\$ 1,335	\$ -
2 PEMD	\$ -	\$ -	\$ -
3 BDC Loan	\$ 2,640	\$ 5,280	\$ 5,280
TOTAL	\$ 5,133	\$ 6,615	\$ 5,280

### **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.

## Notes to Consolidated Financial Statements

30 June 2003

Canadian Funds

### 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).

#### 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 - 30 June 2003</b>	<b>6,318,116</b>	<b>\$613,674</b>

As at 30 June 2003, 55.9% (2002 - 50.2%) 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 30 June 2003, 3,419,307 (2002 - 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 30 June 2003 are as follows:

	<i>Number</i>	<i>Price per Share</i>	<i>Expiry Date</i>
Options	476,312	\$ 0.10	1 February 2006

There were no warrants outstanding at 30 June 2003. See also note 18.

### 14. Related party transactions

The following accounts were affected by related party transactions during 2003 and 2002.

<i>Category</i>	<i>Description</i>	<i>Year</i>	<i>Director or Relative of a Company Controlled by</i>			
			<i>Director &amp; Officer</i>	<i>Director &amp; Officer</i>	<i>Director</i>	<i>Former Director</i>
Asset	Deferred Development Costs (incurred this quarter)	2003	\$ -	\$ -	\$ -	\$ -
		2002	\$ 4,420	\$ 4,420	\$ -	\$ -
Asset	Capital Asset (incurred this quarter)	2003	\$ -	\$ -	\$ -	\$ -
		2002	\$ 4,080	\$ 4,080	\$ -	\$ -
Liability	Balance due to Related Parties incurred in the ordinary course of business	2003	\$ <b>4,698</b>	\$ <b>4,807</b>	\$ -	\$ <b>14,153</b>
		2002	\$ 20,890	\$ 10,589	\$ 5,000	\$ 14,153
Expenses	Management Fees (incurred this quarter)	2003	\$ -	\$ <b>700</b>	\$ -	\$ -
		2002	\$ 8,500	\$ 8,500	\$ -	\$ -

## **Notes to Consolidated Financial Statements**

**30 June 2003**

*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	<u>3,000</u>
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 2003, 34.9% (2002 - 56%) of the company's sales were made to one customer.

### **17. Segmental information**

Details are as follows:

		<i>2003</i>		<i>2002</i>	
		\$	%	\$	%
Gross sales	Canada	<b>\$18,075</b>	<b>41.6%</b>	\$8,329	5.9%
	U.S.	<b>\$25,339</b>	<b>58.4%</b>	\$133,198	94.1%
	Total	<b>\$43,414</b>	<b>100.0%</b>	\$141,527	100.0%
Total assets	Canada	<b>\$455,201</b>	<b>100.0%</b>	\$459,546	100.0%
	U.S.	<b>\$0</b>	<b>0.0%</b>	\$0	0.0%
	Total	<b>\$455,201</b>	<b>100.0%</b>	\$459,546	100.0%
Capital expenditures	Canada	<b>\$17,946</b>	<b>100.0%</b>	\$15,634	100.0%
	U.S.	<b>\$0</b>	<b>0.0%</b>	\$0	0.0%
	Total	<b>\$17,946</b>	<b>100.0%</b>	\$15,634	100.0%

### **18. Subsequent events**

None.