



**INTERNATIONAL HI-TECH INDUSTRIES INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2000**

**(Unaudited - see Notice to Reader)**

## **NOTICE TO READER**

We have compiled the consolidated balance sheet of International Hi-Tech Industries Inc. as at June 30, 2000 and the consolidated statements of operations and deficit, and cash flows for the six month period then ended from information provided by management. We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that these statements may not be appropriate for their purposes.

Vancouver, B.C.

August 29, 2000

“Morgan & Company”

Chartered Accountants

# INTERNATIONAL HI-TECH INDUSTRIES INC.

## CONSOLIDATED BALANCE SHEETS

(Unaudited - see Notice to Reader)

	JUNE 30	
	2000	1999
<b>ASSETS</b>		
<b>Current</b>		
Cash and short term deposits	\$ 2,236,075	\$ 1,335,451
Restricted cash (Note 2)	696,968	-
Accounts receivable	262,017	238,104
Note receivable (Note 3)	1,369,740	1,353,275
Prepaid expense	298,616	72,923
	4,863,416	2,999,753
<b>Restricted Cash</b> (Note 2)	419,032	-
<b>Capital Assets</b> (Note 4)	2,494,975	1,765,369
<b>Real Estate</b> (Note 5)	15,863,674	13,809,937
<b>Deferred Project Development Costs</b>	4,118,048	3,639,694
	\$ 27,759,145	\$ 22,214,753
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 940,166	\$ 880,105
Accrued interest payable	171,775	121,675
Preferred share dividends payable	138,968	-
Loans payable (Note 6)	95,500	495,500
Mortgage payable (Note 7)	1,868,000	1,868,000
Current portion of long term debt (Note 8)	5,369	5,184
	3,219,778	3,370,464
<b>Long Term Debt</b> (Note 8)	689,856	213,658
<b>Share Subscriptions Received</b> (Note 9(f))	330,000	625,101
<b>Minority Interest</b>	1,050,533	1,082,982
	5,290,167	5,292,205
<b>Contingency</b> (Note 12)		
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital</b> (Note 9)	37,204,072	27,814,467
<b>Contributed Surplus</b>	305,000	305,000
<b>Deficit</b>	(15,040,094)	(11,196,919)
	22,468,978	16,922,548
	\$ 27,759,145	\$ 22,214,753

# INTERNATIONAL HI-TECH INDUSTRIES INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(Unaudited - see Notice to Reader)

	SIX MONTHS ENDED JUNE 30	
	2000	1999
<b>Revenue</b>		
License rights	\$ -	\$ 1,187,820
Interest and other income	<b>83,816</b>	64,708
	<b>83,816</b>	1,252,528
<b>Expenses</b>		
Audit and accounting	<b>56,702</b>	68,353
Capital taxes	<b>59,689</b>	-
Consulting fees	<b>67,302</b>	83,805
Depreciation and amortization	<b>91,161</b>	101,055
Directors' and officers' fees	<b>62,629</b>	46,000
Finders' fees and loan guarantee fees	<b>543,952</b>	217,503
General expense	<b>120,129</b>	126,413
Legal	<b>642,618</b>	195,232
Insurance	<b>12,958</b>	52,382
Interest and foreign exchange	<b>184,763</b>	207,051
Investor relations and product representation costs	<b>112,933</b>	83,468
Telephone, fax and cellular	<b>22,422</b>	18,235
Office rent	<b>39,000</b>	39,000
Promotion and presentation	<b>11,612</b>	33,809
Property taxes	<b>87,968</b>	86,304
Repairs and maintenance	<b>34,172</b>	50,291
Travel and business promotion	<b>151,796</b>	112,153
Transfer agent and filing fees	<b>19,575</b>	11,399
Wages and benefits	<b>160,291</b>	282,564
	<b>2,481,672</b>	1,815,017
<b>Loss Before The Following</b>	<b>(2,397,856)</b>	(562,489)
Minority interest in (income) loss of subsidiary	<b>24,216</b>	(67,625)
<b>Loss For The Period</b>	<b>(2,373,640)</b>	(630,114)
<b>Deficit, Beginning Of Period</b>	<b>(12,527,486)</b>	(10,566,805)
	<b>(14,901,126)</b>	(11,196,919)
<b>Preferred Share Dividends</b>	<b>(138,968)</b>	-
<b>Deficit, End Of Period</b>	<b>\$ (15,040,094)</b>	\$ (11,196,919)
<b>Loss Per Share</b>	<b>\$ (0.01)</b>	\$ (0.01)

# INTERNATIONAL HI-TECH INDUSTRIES INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited - see Notice to Reader)

	SIX MONTHS ENDED JUNE 30	
	2000	1999
<b>Cash Flow From Operating Activities</b>		
Loss for the period	\$ (2,373,640)	\$ (630,114)
Adjustments for:		
Shares issued for loan guarantee and commitment fees	543,952	-
Depreciation and amortization	91,161	101,055
Minority income in income (loss) of subsidiary	(24,216)	67,625
	(1,762,743)	(461,434)
Changes in non-cash working capital		
Increase in restricted cash	(419,032)	-
(Increase) Decrease in receivables	(21,556)	(168,336)
(Increase) Decrease in notes receivable	(34,687)	65,030
(Increase) Decrease in prepaids	(213,531)	(3,864)
Increase in accounts payable and accrued liabilities	295,477	329,455
Increase (Decrease) in advances payable	-	(257,136)
Decrease in long term debt	(1,071,026)	(2,539)
	(1,464,355)	(37,390)
Cash flows from operating activities	(3,227,098)	(498,824)
<b>Cash Flows From Financing Activities</b>		
Issue of preferred shares	4,218,700	-
Issue of common shares	3,222,462	3,061,010
Increase (Decrease) in share subscriptions	330,000	(253,699)
Cash flows from financing activities	7,771,162	2,807,311
<b>Cash Flows From Investing Activities</b>		
Capital assets	(562,999)	(5,810)
Real estate	(1,228,467)	(2,073,802)
Project development costs	(162,756)	(308,688)
Cash flows from investing activities	(1,954,222)	(2,388,300)
<b>Net Increase (Decrease) In Cash And Cash Equivalents</b>	2,589,842	(79,813)
<b>Cash And Cash Equivalents, Beginning Of Period</b>	343,201	1,415,264
<b>Cash And Cash Equivalents, End Of Period</b>	\$ 2,933,043	\$ 1,335,451
<b>Cash And Cash Equivalents Are Comprised Of:</b>		
Cash on hand and balances with banks	\$ 435,816	\$ 439,282
Restricted cash	696,968	-
Short term investments	1,800,259	896,169
	\$ 2,933,043	\$ 1,335,451

# **INTERNATIONAL HI-TECH INDUSTRIES INC.**

## **CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited - see Notice to Reader)

### **SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING AND INVESTING ACTIVITIES:**

During the period ended June 30, 2000, the Company issued 814,571 common shares at an aggregate deemed value of \$543,952 in consideration of a loan guarantee and a loan commitment fee.

# INTERNATIONAL HI-TECH INDUSTRIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**JUNE 30, 2000**

(Unaudited – see Notice to Reader)

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### a) Consolidation

These financial statements include the accounts of the Company and its subsidiaries – Canadian Hi-Tech Manufacturing Ltd. (65% owned), IHI International Holdings Ltd. (72% owned) and IHI Construction Ltd. (100% owned).

#### b) Project Development Costs

The Company is deferring all architectural, design consulting and other costs directly related to the ongoing development and commercialization of its pre-fabrication building product and flexible design program to be amortized against related revenues when production commences.

#### c) Depreciation and amortization of Capital Assets

Automotive	-	30% declining balance method
Office furniture and equipment	-	20% declining balance method
Computer equipment	-	30% declining balance method
Other machinery and equipment	-	20% declining balance method
Patent application costs	-	on a straight line basis over ten years once a patent is secured
License rights	-	on a straight line basis over ten years

#### d) Non-Monetary Transactions

Shares of common stock of the Company issued for non-monetary consideration are valued at the quoted market price per share at the close of trading on the day of completion of the transaction except for those circumstances where, in the opinion of the Company and due to the nature of the transaction, the trading price does not fairly represent the value of the transaction. In such circumstances, the value of the shares is determined based on the estimated fair value of the consideration received.

#### e) Foreign Currency Translation

Transactions recorded in foreign currencies have been translated into Canadian dollars using the Temporal Method as follows:

- i) monetary items at the rate prevailing at the balance sheet date;
- ii) non-monetary items at the historical exchange rate;
- iii) revenue and expense at the average rate in effect during the applicable accounting period.

Gains or losses arising on translation are included in the results of operations.

# INTERNATIONAL HI-TECH INDUSTRIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**JUNE 30, 2000**

(Unaudited – see Notice to Reader)

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### f) Loss per Share

Loss per share is based on the weighted average number of shares outstanding during the period.

### 2. RESTRICTED CASH

As a condition of the Series 2 Preferred Share Offering the Company agreed to deposit with its trust company sufficient funds from the subscription proceeds to fund the dividends payable for a two year period.

### 3. NOTES RECEIVABLE

The notes receivable are repayable on demand with interest at 6.5% per annum.

### 4. CAPITAL ASSETS

	<u>2000</u>	<u>1999</u>
Automotive	\$ 143,226	\$ 143,226
Office furniture and equipment	290,555	264,379
Computer equipment	82,779	76,517
Other machinery and equipment	1,525,620	835,735
Patent application costs	1,637,860	1,438,360
License rights	200,000	200,000
	<u>3,880,040</u>	<u>2,958,217</u>
Accumulated depreciation and amortization	<u>1,385,065</u>	<u>1,192,848</u>
	<u>\$ 2,494,975</u>	<u>\$ 1,765,369</u>

# INTERNATIONAL HI-TECH INDUSTRIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**JUNE 30, 2000**

(Unaudited – see Notice to Reader)

### 5. REAL ESTATE

	<u>2000</u>	<u>1999</u>
Speen Road properties, Surrey		
Land and building	\$ 836,980	\$ 836,980
Hopcott Road property, Delta		
Land	1,356,527	1,356,527
Site preparation	1,404,553	1,404,553
Construction and design costs	11,001,398	8,947,661
Construction financing	857,206	857,206
Construction permits	135,810	135,810
Langley properties		
Land	141,400	141,400
Canadian National Railway properties	129,800	129,800
	<u>\$ 15,863,674</u>	<u>\$ 13,809,937</u>

### 6. LOANS PAYABLE

	<u>2000</u>	<u>1999</u>
Repayable on demand at various interest rates	\$ 95,500	\$ 95,500
Repayable November 5, 1999 with interest at 10% per annum	-	400,000
	<u>\$ 95,500</u>	<u>\$ 495,500</u>

### 7. MORTGAGE PAYABLE

	<u>2000</u>	<u>1999</u>
The Company has arranged a conventional first mortgage financing secured by the land and improvements located at Hopcott Road in Delta, British Columbia. Advances under the mortgage bear interest at the rate of prime plus 5%, which is payable monthly. The mortgage is due on September 1, 2000.	<u>\$ 1,868,000</u>	<u>\$ 1,868,000</u>

# INTERNATIONAL HI-TECH INDUSTRIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2000

(UNAUDITED – SEE NOTICE TO READER)

### 8. LONG TERM DEBT

	<u>2000</u>	<u>1999</u>
CIBC Mortgage Corporation		
Repayable \$1,815 per month including interest at 7.6% per annum, due February 1, 2003, secured by Speen Road real estate	<b>\$ 212,725</b>	\$ 220,078
CIBC Mortgages Inc.		
Advances under this mortgage bear interest at the rate of 13.8% per annum, payable monthly. The balance is due on May 1, 2010	<b>482,500</b>	-
Less: Current portion	<b><u>5,369</u></b>	<u>5,184</u>
	<b><u>\$ 689,856</u></b>	<b><u>\$ 214,894</u></b>

The repayment requirements on the long term debt are as follows:

2000	\$ 5,369
2001	\$ 6,241
2002	\$ 7,325
2003	\$ 193,790

### 9. SHARE CAPITAL

#### a) Authorized

An unlimited number of common shares without par value

An unlimited number of Class A preferred shares without par value, of which 50,000,000 have been designated Series 1 and 5,000,000 have been designated Series 2.

# INTERNATIONAL HI-TECH INDUSTRIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**JUNE 30, 2000**

(Unaudited – see Notice to Reader)

### 9. SHARE CAPITAL (Continued)

#### b) Issued and Outstanding

	Number of Shares	Consideration
Common Shares		
Balance, December 31, 1999	56,796,247	\$ 29,218,958
Issue of common shares	4,596,544	3,928,914
Finder's fee paid	-	(162,500)
	<u>61,392,791</u>	<u>\$ 32,985,372</u>
Balance, June 30, 2000		
Preferred Shares – Series 2		
Balance, December 31, 1999	-	\$ -
Issue of preferred shares	4,650,000	4,650,000
Finder's fee paid	-	(431,300)
	<u>4,650,000</u>	<u>\$ 4,218,700</u>
Balance, June 30, 2000		
Total Share Capital		<u>\$ 37,204,072</u>

The Series 2 Preferred Shares are convertible at the rate of 0.77 of a common share for each Series 2 Preferred Share. The preferred shares are convertible for a period of two years at the option of the holder. The preferred shares are also convertible at the option of the Company if the closing price of the common shares on the CDNX averages at least \$2.50 per Series 2 Preferred Share. On the second anniversary date of the issuance of the Series 2 Preferred Shares, the Series 2 Preferred Shares will be automatically converted into common shares.

Dividends on Series 2 Preferred Shares are cumulative and will accrue at an annual rate equal to 12%. Dividends will be payable in quarterly instalments on each dividend date, subject to legal limits under Canadian law.

#### c) Escrow Shares

Of the Company's issued and outstanding shares, 21,470,672 are held in escrow to be released in accordance with a formula based on cumulative cash flow of the Company, and 214,286 shares are held in escrow, their release being subject to the approval of the regulatory authorities.

# INTERNATIONAL HI-TECH INDUSTRIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**JUNE 30, 2000**

(Unaudited – see Notice to Reader)

### 9. SHARE CAPITAL (Continued)

- d) As at June 30, 2000, the Company had the following outstanding directors' and employees' stock options:

Number Of Shares	Exercise Price	Expiry Date
250,000	\$2.25	January 20, 2002
22,500	\$2.25	February 10, 2002
300,000	\$2.25	July 21, 2002
100,000	\$2.25	September 4, 2002
25,000	\$2.25	October 21, 2002
2,600,000	\$0.88	October 6, 2003

- e) As at June 30, 2000, the Company had outstanding non-transferable share purchase warrants for the purchase of additional shares as follows:

Number Of Shares	Exercise Price		Expiry Date	
	Year 1	Year 2	Year 1	Year 2
1,000,000		\$ 1.15		July 1, 2000
200,000		\$ 1.15		July 18, 2000
100,000		\$ 1.15		July 23, 2000
277,800		\$ 1.035		August 18, 2000
86,957		\$ 1.32		September 15, 2000
86,957		\$ 1.32		September 21, 2000
100,000		\$ 1.32		December 9, 2000
90,000		\$ 1.32		December 16, 2000
90,000		\$ 1.32		December 16, 2000
90,000		\$ 1.132		December 12, 2000
142,000		\$ 1.132		December 19, 2000
346,200		\$ 1.50		March 24, 2001
80,000		\$ 1.44		March 10, 2001
80,000		\$ 1.44		March 10, 2001
1,123,077		\$ 1.50		May 19, 2001
75,000		\$ 1.50		April 3, 2001
75,000		\$ 1.50		April 3, 2001
207,770		\$ 1.50		May 27, 2001
50,000		\$ 1.50		June 1, 2001
221,154	\$ 1.30	\$ 1.50	September 14, 2000	September 14, 2001
75,000	\$ 1.30	\$ 1.50	November 13, 2000	November 13, 2000
660,000	\$ 1.30	\$ 1.30	March 11, 2001	March 11, 2002
363,000	\$ 1.30	\$ 1.30	May 1, 2001	May 1, 2002
2,250,000	\$ 0.80	\$ 0.92	June 22, 2001	June 22, 2002

# INTERNATIONAL HI-TECH INDUSTRIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**JUNE 30, 2000**

(Unaudited – see Notice to Reader)

### 9. SHARE CAPITAL (Continued)

- f) The Company has received \$330,000 from the subscription for 300,000 Series 2 Preferred Shares which have not been issued at June 30, 2000.
- g) As at June 30, 2000, the Company's 65% owned subsidiary, Canadian Hi-Tech Manufacturing Ltd. (Canadian Hi-Tech), has 11,000 class B preferred shares outstanding, which are redeemable at \$100 per share at the option of Canadian Hi-Tech, or after March 1, 1996 at the option of the preferred shareholder who has agreed not to request Canadian Hi-Tech to redeem its shares until all of the performance and escrow shares, referred to in Note 8(c), have been earned out of escrow.

### 10. INCOME TAXES

At June 30, 2000, the Company and its subsidiaries had approximately \$16,750,000 in net operating loss carryforwards available to offset future taxable income. The changes in ownership of the Company during 1993, and future changes in ownership, will significantly restrict the utilization of these carryforwards. These carryforwards, if available and unused, will expire from 2000 to 2006. Due to net losses, the Company did not record a provision for income taxes in 1999 or 1998.

### 11. RELATED PARTY TRANSACTIONS

- a) During the period, a company controlled by a director was paid management fees of \$36,000 (1999 - \$36,000). In addition, a second company controlled by the same director was paid rent of \$39,000 (1999 - \$39,000).
- b) During the period, the Company paid directors' and officers' fees of \$26,629 (1999 - \$10,000).
- c) The Company is party to a consulting fee agreement under which a company controlled by a director, and a second company controlled by this same director's family, will provide all building engineering designs for the Company's projects for an initial fee of 4% of the factory cost of the initial design, and 1% of the factory cost for subsequent use of the same design.
- d) During the period, the Company issued 814,571 common shares at an aggregate deemed value of \$543,952 in consideration of a loan guarantee, and a commitment fee provided by companies controlled by the family of a director.

# INTERNATIONAL HI-TECH INDUSTRIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**JUNE 30, 2000**

(Unaudited – see Notice to Reader)

### 11. RELATED PARTY TRANSACTIONS (Continued)

- e) IHI International Holdings Ltd. ("IHI-International"), a Bermuda company and a 72%

owned subsidiary of the Company, holds the right to use the building technology in all countries in the world other than Canada. The Company has agreed to use its best efforts to offer, to its shareholders, shares of IHI-International. As a result, shareholders of the Company will have an opportunity to acquire a direct interest in IHI-International which will hold the right to use the technology in all parts of the world other than Canada.

### 12. CONTINGENCIES

- a) The Company has been named as the defendant in an action commenced by a former director claiming damages for the value of 150,000 common shares of the Company. The Company believes that the claim is without merit and intends to vigorously defend the action.
- b) A contractor engaged by the Company filed a builder's lien against the Company's Hopcott Road Property, after having abandoned the site, and without completing his contractual obligations. The contractor's lien action was dismissed by the British Columbia Supreme Court as a result of his failure to comply with discovery requirements and his lien and certificate of pending litigation have been discharged from the title to the Hopcott Road Property. Immediately following the initial filing of the lien, the Company commenced a legal action against this contractor claiming damages related to breach of his contractual obligations. The Company has paid approximately \$275,000 on account of this contract, which contemplated a total payment of approximately \$410,000. As a result of the contractor's failure to comply with discovery requirements, the Company's action against the contractor will proceed as if no defence was filed.

In addition, a number of builders' liens have been registered against the Company's Hopcott Road Property by the sub-contractors of a contractor engaged by the Company during construction of the Hopcott Road facility. In order to discharge these liens, the Company may need to pay approximately \$82,000 into court.

### 13. COMMITMENT

- a) The Company has entered into an agreement to acquire a concrete batching plant for the Hopcott Road factory. The Company is required to make a down payment of \$703,132 (\$291,426 paid to date), and will be required to make 46 payments of \$9,950 (which includes interest) commencing in September 2000.

# INTERNATIONAL HI-TECH INDUSTRIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**JUNE 30, 2000**

(Unaudited – see Notice to Reader)

### 13. COMMITMENT (Continued)

- b) The Company has entered into an agreement to acquire a robotic panel welding system for the Hopcott Road factory. The Company is required to make a down payment of \$817,117 (\$393,600 paid to date), and will be required to make 35 payments of \$45,333 (which includes interest) commencing upon completion of installation of the equipment.
- c) The Company has entered into a contract for the purchase of equipment at a cost of approximately \$480,000. Contract terms require a 25% down payment (paid) with the balance payable over two years, with interest at prime plus 2%, commencing on installation of the equipment.

### 14. CORRECTION OF ERROR IN PRIOR PERIOD FINANCIAL STATEMENTS

The June 30, 1999 accounts have been restated to record property tax expense not previously accrued. The adjustment results in an increase in accounts payable and accrued liabilities of \$81,939 at June 30, 1999, and an increase in loss for the six months ended June 30, 1999 of \$81,939.

### 15. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

### 16. SUBSEQUENT EVENTS

- a) Subsequent to June 30, 2000, the Company issued 100,000 common shares for cash consideration of \$115,000 on the exercise of share purchase warrants.
- b) The Company has received an offer to extend the repayment date of the mortgage detailed in Note 7 to September 1, 2001 at the same interest rate.