

**INTERNATIONAL HI-TECH INDUSTRIES INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 1999 AND 1998**

## AUDITORS' REPORT

To the Shareholders  
International Hi-Tech Industries Inc.

We have audited the consolidated balance sheets of International Hi-Tech Industries Inc. as at December 31, 1999 and 1998 and the consolidated statements of operations and deficit, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with 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, 1999 and 1998 and the results of its operations and cash flows for the years then ended in accordance with generally accepted accounting principles.

Vancouver, Canada

January 27, 2000

"Morgan & Company"

Chartered Accountants

# INTERNATIONAL HI-TECH INDUSTRIES INC.

## CONSOLIDATED BALANCE SHEETS

	DECEMBER 31	
	1999	1998
<b>ASSETS</b>		
<b>Current</b>		
Cash and short term deposits	\$ 343,201	\$ 1,415,264
Accounts receivable	240,461	69,768
Note receivable (Note 2)	1,335,053	1,418,303
Prepaid expense	85,085	69,059
	2,003,800	2,972,394
<b>Capital Assets (Note 3)</b>	<b>2,023,138</b>	<b>1,860,616</b>
<b>Real Estate (Note 4)</b>	<b>14,635,207</b>	<b>11,736,135</b>
<b>Deferred Project Development Costs</b>	<b>3,955,291</b>	<b>3,331,006</b>
	\$ 22,617,436	\$ 19,900,151
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 654,239	\$ 560,200
Accrued interest payable	162,225	112,125
Loans payable (Note 5)	95,500	495,500
Advances payable	-	257,136
Mortgage payable (Note 6)	1,868,000	1,868,000
Current portion of long term debt (Note 7)	5,486	5,184
	2,785,450	3,298,145
<b>Long Term Debt (Note 7)</b>	<b>1,760,765</b>	<b>216,197</b>
<b>Share Subscriptions Received</b>	<b>-</b>	<b>878,800</b>
<b>Minority Interest</b>	<b>1,074,749</b>	<b>1,015,357</b>
	5,620,964	5,408,499
<b>Contingencies (Note 11)</b>		
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital (Note 8)</b>	<b>29,218,958</b>	<b>24,753,457</b>
<b>Contributed Surplus</b>	<b>305,000</b>	<b>305,000</b>
<b>Deficit</b>	<b>(12,527,486)</b>	<b>(10,566,805)</b>
	16,996,472	14,491,652
	\$ 22,617,436	\$ 19,900,151

Approved by the Board of Directors:

(Signed) Roger A. Rached  
 Roger A. Rached  
 President and Director

(Signed) Thomas Po  
 Thomas Po  
 Director

# INTERNATIONAL HI-TECH INDUSTRIES INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

	YEARS ENDED DECEMBER 31	
	1999	1998
<b>Revenue</b>		
Licence rights	\$ 1,187,820	\$ 3,245,132
Interest and other income	123,344	74,082
	<b>1,311,164</b>	<b>3,319,214</b>
<b>Expenses</b>		
Audit and accounting	92,067	120,302
Capital taxes	46,009	36,762
Consulting fees	131,107	376,961
Depreciation and amortization	202,112	231,121
Directors' and officers' fees	118,868	111,260
Finders' fees and loan guarantee, and commitment fees	346,024	929,730
General expense	201,061	142,757
Legal	470,087	596,953
Insurance	16,682	34,487
Interest and foreign exchange	451,072	231,774
Investor relations and product representation costs	130,758	491,464
Telephone, fax and cellular	39,921	79,816
Office rent	78,000	78,000
Promotion and presentation	103,647	3,510
Property taxes	93,758	63,971
Repairs and maintenance	74,401	43,112
Travel and business promotion	210,069	200,912
Transfer agent and filing fees	19,032	17,458
Wages and benefits	387,778	414,941
	<b>3,212,453</b>	<b>4,205,291</b>
<b>Loss Before The Following</b>	<b>(1,901,289)</b>	<b>(886,077)</b>
Minority interest in (income) loss of subsidiary	(59,392)	(567,627)
	<b>(1,960,681)</b>	<b>(1,453,704)</b>
<b>Loss For The Year</b>	<b>(1,960,681)</b>	<b>(1,453,704)</b>
<b>Deficit, Beginning Of Year</b>	<b>(10,566,805)</b>	<b>(9,113,101)</b>
<b>Deficit, End Of Year</b>	<b>\$ (12,527,486)</b>	<b>\$ (10,566,805)</b>
 <b>Loss Per Share</b>	<b>\$ (0.04)</b>	<b>\$ (0.03)</b>

# INTERNATIONAL HI-TECH INDUSTRIES INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31	
	1999	1998
<b>Cash Flow From Operating Activities</b>		
Loss for the period	\$ (1,960,681)	\$ (1,453,704)
Adjustments to recognize loss to net cash used by operating activities:		
Shares issued for loan guarantees	-	829,730
Depreciation and amortization	202,112	231,121
Minority interest in income (loss) of subsidiary	59,392	567,627
	(1,699,177)	174,774
Changes in non-cash working capital		
(Increase) Decrease in receivables	(170,693)	105,078
(Increase) Decrease in notes receivable	83,250	(1,418,303)
(Increase) Decrease in prepaids	(16,026)	71,590
Increase (Decrease) in accounts payable and accrued liabilities	144,139	(714,284)
	40,670	(1,955,919)
Cash flows from operating activities	(1,658,507)	(1,781,145)
<b>Cash Flows From Financing Activities</b>		
Shares issued for cash	4,465,501	4,700,641
Increase (Decrease) in long term debt	1,544,870	(24,307)
Share subscriptions received (net)	(878,800)	698,800
Increase (Decrease) in loans payable	(400,000)	390,000
Increase (Decrease) in advances payable	(257,136)	249,805
Increase (Decrease) in mortgage payable	-	1,868,000
Decrease in project advance payable	-	(2,000,000)
Cash flows from financing activities	4,474,435	6,224,253
<b>Cash Flows From Investing Activities</b>		
Capital assets	(364,634)	(187,587)
Real estate	(2,899,072)	(2,486,470)
Project development costs	(624,285)	(276,933)
Cash flows from investing activities	(3,887,991)	(2,950,990)
<b>Net Increase (Decrease) In Cash And Cash Equivalents</b>	(1,072,063)	1,150,804
<b>Cash And Cash Equivalents, Beginning Of Period</b>	1,415,264	264,460
<b>Cash And Cash Equivalents, End Of Period</b>	\$ 343,201	\$ 1,415,264

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

During the year ended December 31, 1998, the Company issued 1,261,095 common shares at an aggregate deemed value of \$829,730 in consideration of certain loan guarantees.

**INTERNATIONAL HI-TECH INDUSTRIES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 1999 AND 1998**

**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**

**DECEMBER 31, 1999 AND 1998**

**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. NOTES RECEIVABLE**

The note receivable is repayable on demand with interest at 6.5% per annum.

**3. CAPITAL ASSETS**

	1999	1998
Automotive	\$ 143,226	\$ 143,226
Office furniture and equipment	264,379	264,379
Computer equipment	76,517	70,707
Other machinery and equipment	1,057,162	835,735
Patent application costs	1,575,757	1,438,360
License rights	200,000	200,000
	3,317,041	2,952,407
 Accumulated depreciation and amortization	 1,293,903	 1,091,791
	 <b>\$ 2,023,138</b>	 <b>\$ 1,860,616</b>

**4. REAL ESTATE**

	1999	1998
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	9,772,931	6,873,859
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
	 <b>\$ 14,635,207</b>	 <b>\$ 11,736,135</b>

**INTERNATIONAL HI-TECH INDUSTRIES INC.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1999 AND 1998

### 5. LOANS PAYABLE

	<u>1999</u>	<u>1998</u>
Repayable on demand at various interest rates	<b>\$ 95,500</b>	\$ 95,500
Repayable November 5, 1999 with interest at 10% per annum	<u>-</u>	<u>400,000</u>
	<b><u>\$ 95,500</u></b>	<b><u>\$ 495,500</u></b>

### 6. MORTGAGE PAYABLE

	<u>1999</u>	<u>1998</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. In consideration of their guarantees of the mortgage, two private companies controlled by the Company's president, received a total of 726,744 common shares at a deemed value of \$0.688 per share.		
Mortgage advance received	<b><u>\$ 1,868,000</u></b>	<b><u>\$ -</u></b>



**INTERNATIONAL HI-TECH INDUSTRIES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 1999 AND 1998**

**7. LONG TERM DEBT**

	<b>1999</b>	<b>1998</b>
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>\$ 216,251</b>	\$ 221,381
Loan payable		
Repayable on January 2, 2001 with interest at 8.5% per annum	<b>50,000</b>	-
Loan payable		
Repayable on January 5, 2001 with interest at 10% per annum	<b>1,500,000</b>	-
	<b>1,766,251</b>	221,381
Less: current portion	<b>5,486</b>	5,184
	<b>\$ 1,760,765</b>	\$ 216,197

The \$1,500,000 loan payable represents the amount advanced on a \$1,500,000 line of credit. In consideration of providing the line of credit, a company controlled by the family of a director will receive 428,571 common shares at a deemed value of \$0.70 per share.

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

2000	\$	5,486
2001	\$	1,555,966
2002	\$	6,435
2003	\$	198,364

**8. SHARE CAPITAL**

a) Authorized

December 31, 1999 and 1998

200,000,000 common shares without par value

December 31, 1999 and 1998

10,000,000 Class A preferred shares without par value

**INTERNATIONAL HI-TECH INDUSTRIES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 1999 AND 1998**

**8. SHARE CAPITAL (Continued)**

b) Issued and Outstanding

	Number of Shares	Consideration
Common Shares		
Balance, December 31, 1998	52,791,133	\$ 24,753,457
Shares issued for cash	4,005,114	4,762,661
Finders' fees paid	56,796,247	29,516,118
	-	(297,160)
Balance, December 31, 1999	56,796,247	\$ 29,218,958

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.

d) As at December 31, 1999, 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 7, 2002
300,000	\$2.25	July 21, 2002
150,000	\$2.25	August 28, 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 December 31, 1999, the Company had outstanding non-transferable share purchase warrants for the purchase of additional shares as follows:

Number Of Shares	Exercise Price Year 1	Year 2	Expiry Date Year 1	Year 2
176,500	\$ 0.98		January 1, 2000	
150,000	\$ 0.75		January 1, 2000	
450,000	\$ 0.75		January 1, 2000	

# INTERNATIONAL HI-TECH INDUSTRIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**DECEMBER 31, 1999 AND 1998**

### 8. SHARE CAPITAL (Continued)

Number Of Shares	Exercise Price		Expiry Date	
	Year 1	Year 2	Year 1	Year 2
150,000		\$ 0.75		January 1, 2000
300,000		\$ 0.97		January 1, 2000
125,000		\$ 1.06		January 8, 2000
125,000		\$ 1.06		January 31, 2000
277,800		\$ 1.035		February 20, 2000
156,250		\$ 0.74		March 7, 2000
234,375		\$ 0.74		March 6, 2000
108,000		\$ 1.035		March 28, 2000
108,000		\$ 1.035		March 10, 2000
108,000		\$ 1.035		March 20, 2000
108,000		\$ 1.035		April 8, 2000
300,000		\$ 1.15		April 16, 2000
100,000		\$ 1.15		May 6, 2000
200,000		\$ 1.15		May 21, 2000
300,000		\$ 1.15		June 6, 2000
100,000		\$ 1.15		June 30, 2000
1,000,000		\$ 1.15		July 1, 2000
200,000		\$ 1.15		July 17, 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
84,348		\$ 1.32		September 18, 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	\$ 1.30	\$ 1.50	March 24, 2000	March 24, 2001
80,000	\$ 1.25	\$ 1.44	March 10, 2000	March 10, 2001
80,000	\$ 1.25	\$ 1.44	March 10, 2000	March 10, 2001
1,123,077	\$ 1.30	\$ 1.50	May 19, 2000	May 19, 2001
75,000	\$ 1.30	\$ 1.50	April 3, 2000	April 3, 2001
75,000	\$ 1.30	\$ 1.50	April 3, 2000	April 3, 2001
207,770	\$ 1.30	\$ 1.50	April 3, 2000	April 3, 2001
50,000	\$ 1.30	\$ 1.50	April 3, 2000	April 3, 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

**INTERNATIONAL HI-TECH INDUSTRIES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 1999 AND 1998**

**8. SHARE CAPITAL (Continued)**

- f) As at December 31, 1999, 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.

**9. INCOME TAXES**

At December 31, 1999, the Company and its subsidiaries had approximately \$14,625,000 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.

**10. RELATED PARTY TRANSACTIONS**

- a) During the year, a company controlled by a director was paid project management fees of \$72,000 (1998 - \$72,000). In addition, a second company controlled by the same director was paid rent of \$78,000 (1998 - \$78,000).
- b) During the year, the Company paid directors' and officers' fees of \$46,868 (1998 - \$39,260).
- 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.

**INTERNATIONAL HI-TECH INDUSTRIES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 1999 AND 1998**

**10. RELATED PARTY TRANSACTIONS (Continued)**

- d) 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.
- e) The \$1,500,000 loan payable described in Note 7 is owing to a company controlled by the family of a director.

**11. 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 has commenced an action claiming that approximately \$590,000 is owing as a result of the alleged non-payment of amounts due under his contract. The Company has commenced legal action against this contractor claiming damages related to breach his contractual obligations. This contractor has also filed a builder's lien against the Company's Hopcott Road Property and in order to discharge this lien, the Company will need to pay approximately \$415,000 into court.

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.

**12. COMMITMENT**

The Company has entered into an agreement to acquire a concrete batching plant for the Hopcott Road factory. The agreement provides for a down payment of \$221,427 (paid) with 53 payments of approximately \$20,000 (which includes interest at approximately 9%) commencing upon delivery of the plant.

**INTERNATIONAL HI-TECH INDUSTRIES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 1999 AND 1998**

**13. 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. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

**14. SUBSEQUENT EVENTS**

- a) Subsequent to December 31, 1999, the Company issued 428,571 common shares at \$0.70 per share in consideration of providing the \$1,500,000 loan facility described in Note 7.
- b) Subsequent to December, the Company issued 386,000 common shares at \$0.632 per share to a company controlled by a relative of a director in consideration of providing the guarantee for \$1,220,000 in construction financing to be provided by CIBC Mortgage Inc.